

CRESUD INC  
Form 20-F  
December 29, 2004  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 20-F**

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

OR

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

For the fiscal year ended: June 30, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-29190

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# **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)

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**Republic of Argentina**

(Jurisdiction of incorporation or organization)

**Moreno 877, 23 Floor,**

**(C1091AAQ) Buenos Aires, Argentina**

(Address of principal executive offices)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>American Depositary Shares, each representing</b>	<b>Nasdaq National Market of the</b>
<b>ten shares of Common Stock</b>	<b>Nasdaq Stock Market</b>
<b>Common Stock, par value one Peso per share</b>	<b>Nasdaq National Market of the</b>
	<b>Nasdaq Stock Market*</b>

\* Not for trading, but only in connection with the registration of American 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**

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

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The number of outstanding shares of Common Stock of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria as of June 30, 2004 was:

**Shares of Common Stock 150,772,819**

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  No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

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**Table of Contents**

**TABLE OF CONTENTS**

**CRESUD SOCIEDAD ANÓNIMA COMERCIAL  
INMOBILIARIA FINANCIERA Y AGROPECUARIA**

<b><u>Disclosure regarding forward-looking information</u></b>	<b>4</b>
<b><u>Certain Measures and Terms</u></b>	<b>4</b>
<b><u>Presentation of financial and certain other information</u></b>	<b>5</b>
<b><u>Market Data</u></b>	<b>7</b>
<b><u>PART I</u></b>	
<b><u>Item 1. Identity of directors, Senior Management and Advisers</u></b>	<b>8</b>
<b><u>Item 2. Offer statistics and expected timetable</u></b>	<b>8</b>
<b><u>Item 3. Key information</u></b>	<b>8</b>
<u>A. Selected consolidated financial data</u>	8
<u>B. Capitalization and Indebtedness</u>	13
<u>C. Reasons for the offer and use of proceeds</u>	13
<u>D. Risk factors</u>	13
<b><u>Item 4. Information on the Company</u></b>	<b>43</b>
<u>A. History and development of Cresud</u>	43
<u>B. Business overview</u>	46
<u>C. Organizational structure</u>	57
<u>D. Property, plant and equipment</u>	60
<b><u>Item 5. Operating financial review and prospects</u></b>	<b>63</b>
<u>A. Consolidated operating results</u>	63
<u>B. Liquidity and capital resources</u>	74
<u>C. Research and developments, patents and licenses</u>	104
<u>D. Trend information</u>	104
<u>E. Off-balance sheet arrangement</u>	109
<u>F. Tabular disclosure of contractual obligations</u>	110
<u>G. Safe harbor</u>	110
<b><u>Item 6. Directors, Senior Management and employees</u></b>	<b>110</b>
<u>A. Directors and Senior Management</u>	110
<u>B. Compensation</u>	115
<u>C. Board Practices</u>	116
<u>D. Employees</u>	117
<u>E. Share Ownership</u>	117
<b><u>Item 7. Major shareholders and related party transactions</u></b>	<b>119</b>
<u>A. Major shareholders</u>	119
<u>B. Related Party Transactions</u>	121
<u>C. Interests of experts and counsel</u>	124

**Table of Contents**

<b><u>Item 8. Financial information</u></b>	<b>125</b>
<u>A. Consolidated statements and other financial information</u>	125
<u>B. Significant changes</u>	126
<b><u>Item 9. The offer and the listing</u></b>	<b>126</b>
<u>A. Information on the listing of our stock</u>	126
<u>B. Plan of distribution</u>	128
<u>C. Markets</u>	128
<u>D. Selling shareholders</u>	132
<u>E. Dilution</u>	132
<u>F. Expenses of the issue</u>	132
<b><u>Item 10. Additional information</u></b>	<b>132</b>
<u>A. Share capital</u>	132
<u>B. Memorandum and articles of association</u>	133
<u>C. Material contracts</u>	136
<u>D. Exchange controls</u>	136
<u>E. Taxation</u>	139
<u>F. Dividends and paying agents</u>	146
<u>G. Statement by experts</u>	146
<u>H. Documents on display</u>	146
<u>I. Subsidiary information</u>	146
<b><u>Item 11. Quantitative and qualitative disclosures about market risk</u></b>	<b>146</b>
<b><u>Item 12. Description of securities other than equity securities</u></b>	<b>150</b>
<b><u>PART II</u></b>	
<b><u>Item 13. Defaults, dividend arrearages and delinquencies</u></b>	<b>151</b>
<b><u>Item 14. Material modifications to the rights of security holders and use of proceeds</u></b>	<b>151</b>
<b><u>Item 15. Controls and procedures</u></b>	<b>151</b>
<b><u>Item 16</u></b>	<b>151</b>
<u>A. Audit committee financial expert</u>	151
<u>B. Code of ethics</u>	152
<u>C. Principal accountant fees and services</u>	152
<u>D. Exemption from the listing standards for audit committees</u>	152
<u>E. Purchasers of equity securities by the issuer and affiliated purchasers</u>	152
<b><u>PART III</u></b>	
<b><u>Item 17. Financial Statements</u></b>	<b>153</b>
<b><u>Item 18. Financial Statements</u></b>	<b>153</b>
<b><u>Item 19. Exhibits</u></b>	<b>153</b>

---

**Table of Contents**

**DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION**

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

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

changes in general economic, business or political or other conditions in Argentina or changes in general economic or business conditions in Latin America;

changes in capital markets in general that may affect policies or attitudes toward lending to Argentina or Argentine companies;

changes in exchange rates or regulations applicable to currency exchanges or transfers;

unexpected developments in certain existing litigation;

increased costs;

unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms; and

the factors discussed under Risk Factors beginning on page 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 MEASURES AND TERMS**

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As used throughout this Form 20-F, the terms Cresud , Company , we , us , and our refer to Cresud Sociedad Anónima Comercial, Inmobiliaria Financiera y Agropecuaria, together with our consolidated subsidiaries, except where we make clear that such terms refer only to the parent company.

In this Form 20-F, references to Tons , tons or Tns. are to metric tons, to kgs are to

## Table of Contents

kilograms, to ltrs are to liters and Hct are to hectares. A metric ton is equal to 1,000 kilograms. A kilogram is equal to approximately 2.2 pounds. A metric ton of wheat is equal to approximately 36.74 bushels. A metric ton of corn is equal to approximately 39.37 bushels. A metric ton of soybean is equal to approximately 36.74 bushels. One gallon is equal to 3.7854 liter. One hectare is equal to approximately 2.47 acres. One kilogram of live weight beef cattle is equal to approximately 0.5 to 0.6 kilogram of carcass (meat and bones).

## **PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION**

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

This annual report contains our audited consolidated financial statements as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002. Our consolidated financial statements have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. Except as discussed in the following paragraph, we prepare our consolidated financial statements in Pesos and in conformity with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* ( CNV ), which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in our financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 15 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 a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

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

Additionally, as discussed in Note 2.c) to our consolidated financial statements, contained elsewhere in this annual report, after having considered inflation levels for the first months of 2003, on March 25, 2003, the Argentine government has repealed the provisions of the previous decree related to the inflation adjustment and has instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV has issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. We have complied with the CNV resolution and we have accordingly recorded the effects of inflation until February 28, 2003. Comparative figures have been also restated until that date, using a conversion factor of 1.1232.

Since Argentine GAAP required companies to discontinue inflation adjustments as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the accompanying consolidated financial statements.

Until February 28, 2003 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 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:



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

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**Table of Contents**

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.

Also contained in this annual report are the consolidated financial statements of IRSA Inversiones y Representaciones Sociedad Anónima ( IRSA ), an unconsolidated equity investment, as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002, which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. The independent auditors' report on IRSA's consolidated financial statements includes an explanatory paragraph describing uncertainties which might affect the value of its equity interest in Banco Hipotecario S.A. ( BHSA ). As of June 30, 2004, IRSA's equity investment in BHSA accounts for approximately 7% of IRSA's total consolidated assets.

IRSA's auditors' report on IRSA's Consolidated Financial Statements as of June 30, 2004 and 2003 and for three years ended June 30, 2004 includes an explanatory paragraph describing that the quality of BHSA's financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine government's actions to address such crisis have had a significant adverse effect on BHSA's business activity. Currently, BHSA is significantly dependent on the Argentine Government's ability to perform on its obligations to BHSA and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to approve and deliver government securities under various laws and regulations. The future outcome of the uncertainties described before could have an adverse effect in the valuation of IRSA's investments in BHSA.

As mentioned in Note 4.b) to our consolidated financial statements, as of June 30, 2004 we owned a 25.4% equity interest in IRSA.

Except as discussed in the following paragraph, IRSA prepares its financial statements in Pesos and in conformity with Argentine GAAP and the regulation of the CNV, which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 20 to IRSA'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 IRSA, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

As discussed in Note 3.n. to IRSA's financial statements, contained elsewhere in this annual report, in order to comply with CNV regulations, IRSA 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 2.c. to IRSA's financial statements, contained in this annual report, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the



**Table of Contents**

inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. IRSA complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were restated until that date, using a conversion factor of 1.1237.

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

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

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

**MARKET DATA**

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

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**Table of Contents**

**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 CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data has been derived from our consolidated financial statements as of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements and the discussion in Operating and Financial Review and Prospects included elsewhere in this annual report. The selected consolidated statement of income data for the years ended June 30, 2004, 2003 and 2002 and the selected consolidated balance sheet data as of June 30, 2004 and 2003 have been derived from our consolidated financial statements included in this annual report which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, Buenos Aires, Argentina, independent auditors. The consolidated statements of income data for the years ended June 30, 2001 and 2000 and the selected consolidated balance sheet data as of June 30, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements that are not included herein.

As discussed in Note 3 to our financial statements, contained elsewhere in this annual report, on January 14, 2003, the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* ( CPCECABA ) and the CNV approved, with certain amendments, Technical Resolutions No. 16, 17, 18, 19 and 20 issued by the *Federación Argentina de Consejos Profesional en Ciencias Económicas* ( FACPCE ), which establish new accounting and disclosure principles under Argentine GAAP. We adopted such standards on July 1, 2002, except for Technical Resolution No. 20, that we adopted on July 1, 2003. As required by Argentine GAAP, when issuing the 2003 Consolidated Financial Statements, we restate our prior year financial statements to give retroactive effect to the newly adopted accounting standards

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

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

Additionally, as discussed in Note 2.c) to our consolidated financial statements, contained

**Table of Contents**

elsewhere in this annual report, after having considered inflation levels for the first months of 2003, on March 25, 2003, the Argentine government has repealed the provisions of the previous decree related to the inflation adjustment and has instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV has issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. We have complied with the CNV resolution and we have accordingly recorded the effects of inflation until February 28, 2003. Comparative figures have also been restated until that date, using a conversion factor of 1.1232.

Since Argentine GAAP required companies to discontinue inflation adjustments as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the accompanying consolidated financial statements.

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 in the 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.

We have used a conversion factor of 1.1232 to restate our financial statements in constant Pesos as of February 28, 2003.

	As of the year ended June 30 (1)					
	2004 (2)	2004	2003	2002	2001	2000
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
<b>INCOME STATEMENT DATA</b>						
<i>Argentine GAAP</i>						
Sales:						
Crops	9,095,166	26,921,690	50,167,010	47,196,604	41,201,769	40,478,462
Beef cattle	9,246,763	27,370,418	17,311,212	27,609,516	29,332,417	29,378,834
Milk	1,078,361	3,191,948	2,414,992	2,258,210	2,614,583	3,741,621
Other	1,617,206	4,786,930	2,056,625	3,189,850	3,747,545	4,077,779
Net sales	21,037,496	62,270,986	71,949,839	80,254,180	76,896,314	77,676,696

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Cost of sales:						
Crops	(5,204,524)	(15,405,391)	(39,425,551)	(13,817,006)	(32,078,174)	(30,238,138)
Beef cattle	(7,141,938)	(21,140,135)	(8,746,014)	(22,778,110)	(24,389,078)	(26,177,743)
Milk	(441,879)	(1,307,963)	(1,483,172)	(3,561,830)	(2,266,888)	(5,594,519)
Other	(379,408)	(1,123,049)	(1,387,410)	(2,122,473)	(2,380,039)	(2,747,053)
Total	(13,167,749)	(38,976,538)	(51,042,147)	(42,279,419)	(61,114,179)	(64,757,453)
Gross profit	7,869,746	23,294,448	20,907,692	37,974,761	15,782,135	12,919,243
Selling expenses	(1,656,441)	(4,903,065)	(6,045,309)	(10,248,016)	(11,103,948)	(10,509,886)
Administrative expenses	(1,789,876)	(5,298,032)	(4,309,119)	(8,368,493)	(8,436,876)	(8,697,485)
Net gain on sale of farms	563,767	1,668,751	4,869,484	16,573,853	5,729,612	
Inventory holdings gain (loss)	753,490	2,230,329	12,224,813	(19,603,010)	(1,489,269)	157,346
Operating income (loss)	5,740,686	16,992,431	27,647,561	16,329,095	481,654	(6,130,782)
Financial results, net	69,442	205,548	(10,940,327)	1,506,805	12,246,539	9,694,517



**Table of Contents**

	As of the year ended June 30 (1)					
	2004 (2)	2004	2003	2002	2001	2000
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
Equity gain (loss) from related companies	9,145,684	27,071,225	68,008,820	(41,217,930)	(378,329)	(36,428)
Other (expense) income, net	(160,319)	(474,545)	(2,091,888)	165,073	(339,917)	(256,692)
Management fee	(1,205,069)	(3,567,003)	(7,224,996)		(935,742)	(330,540)
Income (Loss) before income tax and minority interest	13,590,425	40,227,656	75,399,170	(23,216,957)	11,074,205	2,940,075
Income tax expense	(2,792,532)	(8,265,895)	(10,598,255)	(18,824,012)	(4,255,985)	(1,125,949)
Minority interest	47,723	141,261	224,046	348,884	397,526	83,916
Net income (loss) for the year	10,845,616	32,103,022	65,024,961	(41,692,085)	7,215,746	1,898,042
Basic earnings per share (3)	0.08	0.23	0.54	(0.35)	0.06	0.02
Diluted earnings per share (3)	0.05	0.13	0.19	(0.35)	0.06	0.02
Basic earnings per ADS (3)	0.78	2.30	5.40	(3.50)	0.60	0.16
Diluted earnings per ADS (3)	0.47	1.30	1.90	(3.50)	0.60	0.16
Weighted - average number of shares outstanding	137,137,783	137,137,783	121,388,429	119,748,872	119,669,749	119,669,749
Weighted - average number of shares outstanding plus assumed conversion	320,857,163	320,857,163	246,526,666	119,748,872	119,669,749	119,669,749
<b>US GAAP</b>						
Net sales	20,826,879	61,647,561	71,949,839	80,254,180	76,896,314	77,676,696
Net income (loss)	1,110,575	3,287,302	46,378,004	(156,089,770)	4,661,586	(3,745,124)
Basic earnings per share (3)	0.01	0.02	0.38	(1.30)	0.04	(0.03)
Diluted earnings per share (3)	0.01	0.02	0.19	(1.30)	0.04	(0.03)
Basic earnings per ADS (3)	0.08	0.24	3.80	(13.00)	0.40	(0.31)
Diluted earnings per ADS (3)	0.08	0.24	1.90	(13.00)	0.40	(0.31)
Weighted - average number of shares outstanding	137,137,783	137,137,783	121,388,429	119,748,872	119,669,749	119,669,749
Weighted - average number of shares outstanding plus assumed conversion	137,137,783	137,137,783	194,235,230	119,748,872	119,669,749	119,669,749
<b>BALANCE SHEET DATA</b>						
<b>Argentine GAAP</b>						
<b>Current assets:</b>						
Cash and banks and Investments	4,803,871	14,219,457	22,455,638	44,430,915	129,491,943	60,372,197
Inventories	11,770,358	34,840,259	22,841,977	38,202,209	29,294,307	36,822,844
Trade and other receivables, net	8,121,274	24,038,972	13,131,611	27,868,728	38,791,627	29,823,062
<b>Non-current assets:</b>						
Other receivables	20,681	61,215	542,193	2,473,397	4,068,438	10,988,916
Inventories	15,114,875	44,740,030	37,796,987	29,414,567	54,741,471	61,081,508
Investments	134,007,193	396,661,291	341,481,798	121,785,625	17,829,518	17,267,244
Negative goodwill, net	(8,739,644)	(25,869,346)	(19,347,598)	(13,370,988)	2,638,819	3,298,523
Property and equipment, net	53,171,329	157,387,134	148,510,846	128,232,309	169,493,842	182,772,267
Intangible assets, net			369,637	841,653	1,311,662	373,513
<b>Total assets</b>	<b>218,269,936</b>	<b>646,079,012</b>	<b>567,783,089</b>	<b>379,878,415</b>	<b>447,661,627</b>	<b>402,800,074</b>
<b>Current liabilities:</b>						
Trade accounts payable	3,779,210	11,186,462	7,326,572	19,471,843	20,971,141	10,809,852
Short-term debt	2,733,196	8,090,261	1,425,499	7,468,233	29,885,919	
Other liabilities	3,200,862	9,474,551	6,324,756	8,856,652	3,060,752	2,807,021
Non-current liabilities	51,383,139	152,094,091	160,700,428	21,033,814	21,516,571	21,748,776
<b>Total liabilities</b>	<b>61,096,407</b>	<b>180,845,365</b>	<b>175,777,255</b>	<b>56,830,542</b>	<b>75,434,383</b>	<b>35,365,649</b>
Minority interest	22,112	65,451	206,709	430,755	533,696	130,509

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Shareholders equity	157,151,418	465,168,196	391,799,125	322,617,118	371,693,548	367,303,916
<b>US GAAP</b>						
Total assets	170,250,104	503,940,308	448,333,781	242,485,454	421,315,791	382,820,424
Shareholders equity	108,956,472	322,511,158	272,349,817	185,224,157	345,347,712	347,324,266
<b>CASH FLOW DATA</b>						
<b>Argentine GAAP</b>						
Net cash (used in) provided by operating activities	(112,371)	(332,618)	11,429,473	27,857,421	17,311,636	18,848,628
Net cash (used in) provided by investing activities	(8,288,726)	(24,534,630)	(200,483,159)	33,791,076	(64,245,555)	(8,787,854)
Net cash provided by (used in) financing activities	5,631,840	16,670,247	165,644,376	(21,543,906)	26,595,742	(26,060,179)
<b>U.S. GAAP</b>						
Net cash (used in) provided by operating activities	(112,371)	(332,618)	11,429,473	27,857,421	17,311,636	18,848,628
Net cash (used in) provided by investing activities	(8,288,726)	(24,534,630)	(200,483,159)	33,791,076	(64,245,555)	(8,787,854)
Net cash provided by (used in) financing activities	5,631,840	16,670,247	165,644,376	(21,543,906)	26,595,742	(26,060,179)
<b>OTHER FINANCIAL DATA</b>						
<b>Argentine GAAP</b>						
Depreciation and amortization	1,213,195	3,591,056	3,553,867	3,971,571	3,706,947	3,711,680
Capital expenditures (4)	4,925,673	14,579,991	30,998,217	933,548	3,154,260	5,874,511

- (1) We have complied with CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were restated until that date. In addition, as required by Argentine GAAP we have restated the prior year financial statements 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. See notes 2.c and 3 to our consolidated financial statements.

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**Table of Contents**

- (2) Solely for the convenience of the reader, we have translated Argentine Peso amounts into U.S. Dollars at the exchange rate quoted by Banco de la Nación Argentina for June 30, 2004 which was Ps. 2.96 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 U.S. Dollars at the rates indicated, at any particular rate or at all. See Exchange Rates .
- (3) Basic net income (loss) per share is computed by dividing the net income (loss) available to common shareholders for the period by the weighted average shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive potential common shares then outstanding during the period. See notes 13 and 15.II.f) to our consolidated financial statements for details in the computation of earnings per share under Argentine GAAP and US GAAP, respectively.
- (4) Includes the purchase of farms and other property and equipment.

**Exchange Rates**

In April 1991, Convertibility Law No. 23,928 and its regulatory decree No. 529/91 (together the Convertibility Law ) established a fixed exchange rate under which the Banco Central de la República Argentina ( BCRA ) was legally obligated to sell U.S. Dollars to any person at a fixed rate of one Peso per U.S. Dollar.

On January 6, 2002, the Argentine Congress enacted the Public Emergency Law No. 25,561 pursuant to which the executive branch was granted the power to determine the new exchange rate between the Peso and foreign currencies and to approve the corresponding monetary regulations. Subsequently, the executive branch announced the devaluation of the Peso and established a temporary dual exchange rate system pursuant to which certain limited transactions occurred at a fixed rate of Ps. 1.40 per US\$ 1.00 and all other transactions were settled at a floating rate freely determined by the market. See Risk Factors Risks Related to Argentina .

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

the repeal of the Ps. 1.00 to US\$ 1.00 fixed exchange rate which was established in 1991;

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**Table of Contents**

the elimination of the obligation of the BCRA to sell foreign currency for conversion transactions at the rate Ps. 1.00 = US\$ 1.00;

the elimination of the requirement that the BCRA'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 BCRA'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 BCRA ended a bank holiday that it had observed since December 21, 2001. The exchange rate began to float freely for the first time in eleven years at Ps. 1.40 per US\$ 1.00. The shortage of U.S. Dollars and the desperation of the people to convert their Pesos caused the exchange rate to rise 25%, closing at Ps. 1.75 per US\$ 1.00. Since then, the exchange rate has continued to grow, forcing the BCRA 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 BCRA to do so;

transfers of funds abroad by the private non-financial sector, the financial sector and government-owned companies which do not depend on the government's budget for principal servicing of financial loans or profit or dividend remittances generally require prior approval from the BCRA, regardless of their method of payment. This requirement does not apply to certain transfers. Please see Exchange Controls Export of capital including the availability of cash or cash equivalents for a more detailed information related to exchange controls restrictions and prior approval required from the BCRA.

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 November 30, 2004, the applicable Peso/U.S. Dollar exchange rate was Ps. 2.945 = US\$ 1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Pesos.

**Table of Contents****Nominal Exchange Rates**

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

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

Source: BCRA; Banco de la Nación Argentina, Bloomberg

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

**B. CAPITALIZATION AND INDEBTEDNESS**

This section is not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

This section is not applicable.

**D. RISK FACTORS**

You should consider the following risks associated with our business taking into account the instability of countrys 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 consolidating markets such as companies which operate in the United States.

**Risks related to Argentina**

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

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

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**Table of Contents**

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

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

Beginning in December 2001, the Argentine government implemented an unexpected number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad without prior approval by the BCRA, some of which are still in effect. See Exchange Controls. On December 6, 2001, the Argentine government suspended payment on certain of Argentina's foreign debt. On December 21, 2001, the BCRA decided to close the foreign exchange market which amounted to a *de facto* devaluation of the Peso. On January 6, 2002, the Argentine Congress enacted Law 25,561, known as the Public Emergency Law, which introduced dramatic changes to Argentina's economic model and amended the currency board that had pegged, statutorily, the Peso at parity with the U.S. Dollar since the enactment of the Convertibility Law in 1991. The Public Emergency Law empowered the Argentine government to implement, among other things, additional monetary, financial and foreign exchange measures to overcome the economic crisis in the short term, such as setting the exchange rate between the Peso and foreign currencies. Since the appointment on January 1, 2002 of a new administration by the Argentine Congress, the Argentine government has implemented measures, whether by executive order, BCRA regulation or legislation passed by the Argentine Congress, attempting to address the effects of amending the Convertibility Law, recover access to financial markets, reduce government spending, restore liquidity to the financial system, reduce unemployment and generally stimulate the economy.

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

**Table of Contents**

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

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

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

- (1) ratifying the suspension of payment of certain of Argentina's sovereign debt which had been previously declared suspended by interim President Rodriguez Saá;
- (2) amending the Convertibility Law to introduce a new foreign exchange rate system, resulting in volatility and further devaluation of the Peso;
- (3) converting certain U.S. Dollar-denominated loans by financial institutions in the Argentine financial system into Peso-denominated loans ( pesification ) at a one-to-one exchange rate plus an adjustment for variations in consumer prices ( *Coeficiente de Estabilización de Referencia* or CER ) or in salaries ( *Coeficiente de Variación de Salarios* or CVS ), as the case may be;
- (4) converting U.S. Dollar-denominated bank deposits in financial institutions in the Argentine financial system into Peso-denominated bank deposits at an exchange rate of Ps.1.40 per US\$1.00 plus an adjustment pursuant to CER;
- (5) requiring the obligatory sale, currently suspended, by all banks of all their foreign currency held in Argentina to the BCRA at an exchange rate of Ps.1.40 per US\$1.00 (in the case of U.S. Dollars) or at an equivalent rate (in the case of other currencies);
- (6) converting most foreign currency-denominated obligations of entities in Argentina to non-financial institutions in Argentina into Peso-denominated obligations at a one-to-one



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**Table of Contents**

exchange rate (in the case of obligations denominated in U.S. Dollars) or at a comparable rate (in the case of obligations denominated in another foreign currency), plus an adjustment pursuant to the CER or the CVS, as the case may be, plus an equitable adjustment in certain cases;

- (7) restructuring the maturity of, and interest rates on, domestic bank deposits and maintaining restrictions on withdrawals of those deposits;
- (8) enacting an amendment to the charter of the BCRA to allow it to (1) print currency in excess of the amount of foreign reserves it holds, (2) make short-term advances to the Argentine government and (3) provide financial assistance to financial institutions in the Argentine financial system with liquidity constraints or solvency problems;
- (9) converting or pesifying public service tariffs, originally calculated in U.S. Dollars, into Pesos at a one-to-one exchange rate;
- (10) freezing public service tariffs without permitting indexation of any kind in contracts executed after the effective date of the Public Emergency Law;
- (11) authorizing the Argentine government to renegotiate public utility contracts service tariffs;
- (12) imposing restrictions on transfers of funds abroad subject to certain exceptions; and
- (13) requiring the deposit into the Argentine financial system of foreign currency earned from exports, subject to certain exceptions.

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

The deepening recession, including a 10.9% decrease in GDP in 2002, high unemployment and underemployment that preceded and that followed the devaluation of the Peso and high inflation led to a reduction of wages in real terms and of disposable income and resulted in changes in consumer behavior across all sectors of the Argentine population adversely affecting domestic demand for our agricultural products and IRSA Inversiones y Representaciones S.A. (IRSA) real estate business in which we have a significant investment of Ps. 351.8 million as of June 30, 2004. .

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

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

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achieve these goals, the Kirchner Administration has presented a medium-term program for the period through 2006. The main goals of the Administration's program are to:

increase growth and solidify price stability through macroeconomic policy;

**Table of Contents**

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

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

implement reforms designed to deter widespread tax evasion;

reform the social security system;

reach a sustainable revenue-sharing agreement with the provinces;

increase lending activity by strengthening the stability of the financial system, phasing out certain bank regulations implemented during the economic crisis and conducting audits and strategic reviews of the leading public banks to ensure their independence from the government;

implement an inflation-targeting monetary system; and

attract private sector investment by creating a predictable and efficient legal framework to restructure corporate debts.

In 2003 and 2004, the Argentine economy began to recover with a 8.7% and nearly 8.0% increase in GDP, respectively. This recovery, at first based almost exclusively on import substitution, broadened as the level of consumption and investment increased. In 2003, the Peso appreciated against the U.S. Dollar. As of December 31, 2002, December 31, 2003 and November 30, 2004, the exchange rates were Ps. 3.37 = US\$1.00, Ps.2.93 = US\$1.00 and Ps. 2.945 = US\$1.00, respectively. Moreover, the exchange rate stability allowed for a significant recovery of consumer confidence that translated into higher consumption levels. After reaching a peak of 41% in 2002, the inflation rate fell to 3.7% in 2003 and to nearly 6.0% in 2004.

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

Although the agribusiness sector has been less affected than other businesses by the current crises, because many of its commodities are exported and have internationally fixed prices, a prolonged crisis will continue to affect the production sold in the Argentine market, such as milk and cattle.

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**Table of Contents**

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

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

The Public Emergency Law put a legal end to ten years of U.S. Dollar-Peso parity and authorized the Argentine government to set the exchange rate between the Peso and other currencies. The Argentine government initially established a dual exchange rate of Ps.1.40 per US\$1.00 for certain transactions and a free-floating rate for all other transactions. This dual system was later eliminated in favor of a single free-floating exchange rate for all transactions. Since the floating of the Peso, the Peso has fluctuated significantly, causing the BCRA to intervene in the market to limit changes in the value of the Peso by selling U.S. Dollars and, lately, by buying U.S. Dollars. As of December 20, 2004, the exchange rate was Ps.2.944 per US\$1.00. See "Exchange Rates" for additional information regarding Peso/U.S. Dollar exchange rates.

We cannot assure you that future policies adopted by the Argentine government will be able to limit the volatility of the value of the Peso and, therefore, the Peso could be subject to significant fluctuations which could materially and adversely affect our financial conditions and results of operations. Further depreciation of the Peso would have particular impact on:

revenues collected for services provided in Argentina, such as lease agreements;

our assets valuation; and

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

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

*The Argentine economy may continue to experience significant inflation.*

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



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**Table of Contents**

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

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

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

***The stability of the Argentine banking system is uncertain.***

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

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

On February 4, 2002, pursuant to Emergency Decree No. 214, the Argentine government required the conversion of all U.S. Dollar or other foreign currency-denominated indebtedness to financial institutions into Pesos at a rate of Ps.1.00 per US\$ 1.00. After a six-month grace period, debts were adjusted pursuant to an index based on consumer price variations (CER) in the preceding month. Said decree also provided for the conversion of all foreign currency-denominated deposits at an exchange rate of Ps1.40 per U.S. Dollar plus CER, and the issuance by the government of U.S. Dollar-denominated bonds intended to compensate banks for the losses incurred as a result of the asymmetric conversion of loans and deposits into Pesos. The different exchange rates applied to the conversion of foreign currency-denominated deposits and loans had a material and adverse effect on the Argentine financial system. Despite these restrictions, on April 25, 2002, pursuant to Law 25,587, the Argentine government announced another banking moratorium in order to prevent further withdrawals from the financial system.



**Table of Contents**

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

While the restriction on bank withdrawals and the mandatory conversion of U.S. Dollar deposits to Pesos have shielded banks from a further massive withdrawal of deposits, they have also led to a significant decrease in commercial and financial activities, diminished spending and greatly increased social unrest resulting in widespread public protests. In a decision of March 2003, the Supreme Court of Argentina struck down on constitutional grounds the mandatory conversion of U.S. Dollar deposits held by the Province of San Luis with Banco de la Nación Argentina pursuant to Emergency Decree No. 214/02. In July 2004, in *Cabrera, Gerónimo Rafael, et al. vs. National Executive Power*, the Argentine Supreme Court ruled that whenever a depositor accepts payment in Pesos for its Dollar-denominated deposit, at the exchange rate provided for in the pesification regulations (Ps.1.40 per US\$1.00 plus CER), without reserving the right to challenge such payment in the future on the grounds of partial payment, he would not be entitled to claim the difference between the amount actually received and the amount of Pesos he would have received had the free market exchange rate been applied. On October 26, 2004, in *Bustos, Alberto Roque et al. v. National Government et al.*, the Argentine Supreme Court confirmed the constitutionality of the laws and regulations that provided for the conversion of U.S. Dollar bank deposits into Pesos and the restrictions imposed on deposit withdrawals. Under Argentine law, Supreme Court rulings are limited to the particular facts and defendant in the case; however, lower courts tend to follow the precedents set by the Supreme Court.

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

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

The Argentine government is currently insolvent and has defaulted on a significant part of its public debt in recent years, although it has recently reached an agreement to postpone the maturity date of some of its debt owed to the International Monetary Fund and other international credit organizations. Due to a sustained lack of investor confidence in Argentina's ability to make payments due on its sovereign debt and in the Argentine economy generally, Argentina's opportunities to effectively raise capital in the international markets have been severely limited. Uncertainties regarding the Argentine



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**Table of Contents**

government's debt restructuring and the adoption of certain measures adversely affecting key sectors of the economy, such as the utilities and the financial system, have had a significant impact on the private sector's long-term productivity and growth. If the Argentine government and its creditors fail to reach a debt agreement restructuring, the fiscal situation of Argentina could be severely affected, undermining the ability of the Argentine government to implement adequate economic policies and structural reforms. If economic growth fails to materialize in the medium and long term, political and economic volatility are likely to recur. This would most likely adversely and materially impact our business, financial condition and results of operations.

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

changes in laws and policies of Argentina affecting foreign trade, taxation and investment;

taxation policies, including royalty and tax increases and retroactive tax claims;

restrictions on repatriation of investments and transfer of funds abroad;

expropriation, nationalization and forced renegotiation or modification of existing contracts; and

civil unrest, rioting, looting, nation-wide protests, road blockades, widespread social unrest and strikes.

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

***Argentina's economy remains vulnerable to external shocks that could be caused by significant economic difficulties of its major regional trading partners or by more general contagion effects, which could have a material adverse effect on Argentina's economic growth.***

A significant decline in the economic growth of any of Argentina's major trading partners, such as Brazil, could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economic growth. Brazil is Argentina's largest export market. A decline in Brazilian demand for imports could have a material adverse effect on Argentine exports and Argentina's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a contagion effect, in which an entire region or class of investment is disfavored by international investors, Argentina could be adversely affected by negative economic or financial developments in other emerging market countries. In the past, Argentina has been adversely affected by such contagion effects on a number of occasions, including the 1994 Mexican financial crisis, the 1997 Asian financial crisis, the 1998 Russian financial crisis, the 1999 devaluation of the Brazilian real and the 2001 collapse of Turkey's fixed exchange rate regime. Moreover, similar developments can be expected to affect the Argentine economy in the future. Argentina may also be affected by conditions in countries with developed economies, such as the United States, that are significant trade partners or have influence over world economic cycles. We cannot assure you that events affecting other markets will not have a material adverse effect on Argentina's growth.

## **Table of Contents**

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

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

On June 2, 2003, the Congress passed a law reinstating the suspension on mortgage foreclosures for a term of ninety days. However, the creditors voluntarily agreed, together with banks and other financial institutions, to extend such suspension until a new law solves this situation.

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

## **Risks Related to Our Business**

### ***Fluctuation in market prices for our agriculture products could adversely affect our financial condition and results of operations.***

Prices for cereals, oilseeds and by-products, like those of other commodities, can be expected to fluctuate significantly. The prices that we are able to obtain for our agriculture products from time to time depend on many factors beyond our control including:

prevailing world prices which historically have been subject to significant fluctuations over relatively short periods of time, depending on worldwide demand and supply;

changes in the agriculture subsidies levels of certain important producers (mainly the USA and the European Economic Community) and the adoption of other government policies affecting industry market conditions and prices; and

demand for and supply of competing commodities and substitutes.

From June 2003, to June 2004, prices in U.S. Dollars for soybean and corn increased 10% and for wheat decreased 14%.

Our financial condition and results of operations could be materially and adversely affected if the prices of grains and by-products were to decline below current levels.

*Our business is seasonal and our revenues may fluctuate significantly depending on the growing cycle.*

As with any agribusiness enterprise, our business operations are predominantly seasonal in nature. The harvest and sale of crops (corn, soybean and sunflower) generally occurs from February to June. Wheat is harvested from December to January. Our operations and sales are affected by the growing cycle of the crops we process and by decreases during the summer in the price of the cattle we fatten. Therefore, our results of operations have varied significantly from period to period, and are likely to continue to vary, due to seasonal factors.

## **Table of Contents**

### ***Unpredictable weather conditions may adversely impact crop and beef-cattle production.***

The occurrence of severe adverse weather conditions, especially droughts or floods, is unpredictable and may have a potentially devastating impact upon crop production and, to a lesser extent, beef-cattle production. The effect of severe adverse weather conditions may reduce yields in our farms or require higher levels of investment to maintain yields. As a result, we cannot assure you that severe future adverse weather conditions will not adversely affect our operating results and financial condition.

### ***Disease may strike our crops without warning potentially destroying some or all of our yield.***

The occurrence and effect of crop disease and pestilence can be unpredictable and devastating on crops, potentially rendering all or a substantial portion of the affected harvests. Even when only a portion of the crop is damaged, our results of operation could be adversely affected because all or a substantial portion of the production costs for the entire crop have been incurred. Although some crop diseases are treatable, the cost of treatment is high, and we cannot assure that such events in the future will not adversely affect our operating results and financial condition.

### ***Our cattle is subject to diseases.***

Diseases among our cattle herds, such as tuberculosis, brucellosis and foot-and-mouth disease, can have an adverse effect on milk production and fattening, rendering cows unable to produce milk or meat for human consumption. Outbreaks of cattle diseases may also result in the closure of certain important markets such as the United States to Argentine cattle products. Although we abide by national veterinary health guidelines, which include laboratory analyses and vaccination, to control diseases among the herds, especially foot-and-mouth disease, we cannot assure that future outbreaks of cattle diseases will not occur or that future outbreaks will not adversely affect our beef-cattle and milk sales, operating results and financial condition.

### ***Worldwide competition in the markets for our products could adversely affect our business and results of operations.***

We experience substantial worldwide competition in each of our markets and in many of our product lines. The market for cereals, oil seeds and by-products is highly competitive and also sensitive to changes in industry capacity, producer inventories and cyclical changes in the world's economies, any of which may significantly affect the selling prices of our products and thereby our profitability. Argentina is more competitive in the oil seed than in the cereal market. Due to the fact that many of our products are agricultural commodities, they compete in the international markets almost exclusively on the basis of price. Many other producers of these products are larger than us and have greater financial and other resources. Moreover, many other producers receive subsidies from their respective countries that do not exist in Argentina. These subsidies may allow them to produce at lower costs than us and/or endure periods of low prices and operating losses for longer periods than we can. Any increased competitive pressure with respect to our products could materially and adversely affect our financial condition and results of operations.

***If we are unable to maintain our relationship with our customers, particularly with the single customer who purchases our entire raw milk production each month, our business may be adversely affected.***

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Though our cattle sales are diversified, we are and will continue to be significantly dependent on a number of third party relationships, mainly with our customers for crop and milk sales.

We currently sell our entire raw milk production to one customer in Argentina. For fiscal year 2004, these sales represented 5.2% of our total revenues. There can be no assurance that this customer will continue to purchase our entire raw milk production or that, if it fails to do so, we could enter into satisfactory sale arrangements with new purchasers in the future.

## **Table of Contents**

We sell our crop production mainly to exporters and manufacturers that process the raw materials to produce meal and oil, products that are then sent to the export markets. The Argentine crop market is characterized by a few number of purchasers and a large number of sellers. Although most of the purchasers are international companies with strong financial conditions, we cannot assure you that this situation will remain the same in the future or that this market will not get more concentrated in the future.

We may not be able to maintain or form new relationships with customers or others who provide products and services that are important to our business. Accordingly, we cannot assure you that our existing or prospective relationships will result in sustained business or the generation of significant revenues.

*We do not maintain insurance on our crop storage facilities; therefore, if a fire or other disaster damages some or all of our harvest we will not receive any compensation.*

We store a significant portion of our grain production during harvest due to the seasonal drop in prices that normally occurs at that time. Currently, we have approximately 20,001 tons of storage capacity at various farms and plan to further increase our storage capacity. We do not maintain insurance on our storage facilities. Although our storage capacity is in several different locations, and it is unlikely that a natural disaster would affect all of our silos simultaneously, a fire or other natural disaster which damages the stored grain, particularly if such an event occurs shortly after harvesting, could have an adverse effect on our operating results and financial condition.

*We may be exposed to material losses since we do not have full price coverage over our crop production.*

Due to the fact that we do not have 100% of our crops price covered, we are unable to have minimum price guarantees for all of our production and are exposed to significant risks associated with the level and volatility of crop prices. We are subject to fluctuations in crop prices which could result in us receiving a lower price for our crops than our production cost. We are also subject to exchange rate risk related to our covered crops, because an important part of our portfolio in futures and options positions are valued in U.S. Dollars.

If severe weather or any other disaster generates a lower crop production than the position already sold in the market, we may suffer material losses in the repurchase of the sold contracts.

*We may increase our crop price risk since we could have a long position in crop derivatives.*

We may have a long position in crops, in addition to our own production, in order to improve the use of land and capital allocation. This strategy increases our crop price risk, generating material losses in a downward market.

It is not our intention to be exposed in a long derivative position in excess of 50% of our real production.

*We may not be able to sell our land at its appraised value in U.S. Dollars and this may adversely affect our ability to pay our U.S. Dollar-denominated debt.*

As a result of devaluation, and the consequent increase in agricultural exports, the price of our properties increased its U.S. Dollar-value to the record levels of 1998, being 40% above of the last decade values. However, we cannot assure you that these values could be maintained. Therefore, if we are forced to sell one or more of our properties to satisfy U.S. Dollar-denominated debt service obligations, the proceeds from such sales may decrease in the future, due to devaluations, and this could have an adverse effect on our ability to satisfy such debt obligations.

**Table of Contents**

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

As of November 30, 2004 our largest shareholder, Mr. Eduardo S. Elsztain, was the beneficial owner of approximately 27.5% of our common shares. As of November 30, 2004, such beneficial ownership consists of 41,713,084 of our common shares owned by Inversiones Financieras del Sur S.A., an Uruguayan holding company, for which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control Inversiones Financieras del Sur S.A..

Pursuant to a consulting agreement with Dolphin Fund Management S.A., we pay a management fee equal to 10% of our annual net income for certain agricultural advice and other administrative services.

Dolphin Fund Management S.A spun off into two companies on November 25, 2003: Consultores Asset Management S.A. and Dolphin Fund Management S.A. Eduardo Elsztain is the owner of 85% of the capital stock of Consultores Asset Management S.A., while our First Vice Chairman of the board, Saúl Zang, holds the other 15% of the capital stock.

During the spin off, the consulting agreement was assigned to Consultores Asset Management S.A.

Eduardo Elsztain (formerly the Chairman of Dolphin Fund Management) is currently the Chairman of Consultores Asset Management S.A.

Conflicts of interest between our management, our affiliates and ourselves may arise in the performance of our respective business activities. Mr. Eduardo S. Elsztain is also the beneficial owner of approximately 27.5% of the common shares of IRSA, an Argentine company that currently owns approximately 62.6% of the common shares of its subsidiary Alto Palermo S.A. ( APSA ) whose CEO is Mr. Alejandro G. Elsztain, the CEO of Cresud. We cannot assure you that our principal shareholders will not limit or cause us to forego business opportunities that their affiliates may pursue or that their pursuit of other opportunities will be in our interest.

*We depend on our Chairman and senior management.*

Our success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, our president and chairman of the board of directors, and Alejandro G. Elsztain, our Chief Executive Officer. The loss of their services for any reason could have a material adverse effect on our business.

Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

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



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We currently have and in the past have had certain investments in Argentine government debt, corporate debt, and equity securities. In particular, we hold a significant interest in IRSA, an Argentine company that has suffered material losses, particularly during fiscal years 2001 and 2002. Although our holding of these investments, with the exception of IRSA, tends to be short term, investments in such securities involve certain risks, including:

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

loss of principal.

## **Table of Contents**

Some of the issuers in which we have invested and may invest, including the Argentine government, have in the past experienced substantial difficulties in servicing their debt obligations, which have led to the restructuring of certain indebtedness. We cannot assure that the issuers in which we have invested or may invest will not be subject to similar or other difficulties in the future which may adversely affect the value of our investments in such issuers. In addition, such issuers and, therefore, such investments, are generally subject to many of the risks that are described in this section, with respect to us, and, thus, could have little or no value.

*We could be adversely affected by our investment in IRSA if IRSA's value decreases.*

As of June 30, 2004, we owned a 25.4% equity interest in IRSA representing an investment of Ps. 162.93 million through the purchase of shares and the conversion of Convertible Notes. In addition, as of such date, we owned IRSA's Convertible Notes for a total amount of US\$ 44.9 million. Consequently, as of June 30, 2004, our investment in IRSA amounted to Ps. 351.8 million representing 54.45% of our consolidated assets.

Our investment in IRSA is subject to risks common to investments in commercial and residential properties in general, many of which are not within IRSA's control. Any one or more of these risks might materially and adversely affect IRSA's business, financial condition or results of operations. The yields available from equity investments in real estate depend on the level of sales or rental income generated and expenses incurred. In addition, other factors may affect the performance and value of a property adversely, including local economic conditions where the properties are located, macroeconomic conditions in Argentina and the rest of the world, competition from other real estate developers, IRSA's ability to find tenants, tenant default or rescission of leases, changes in laws and governmental regulations (including those governing usage, zoning and real property taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in the residential development properties) and the availability of financing. IRSA may also be unable to respond effectively to adverse market conditions or may be forced to sell one or more of its properties at a loss because the real estate market is relatively illiquid. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, generally are not reduced in circumstances resulting in a reduction in income from the investment.

It is possible that these or other factors or events will impair IRSA's ability to respond to adverse changes in the performance of its investments, causing a material decline in IRSA's financial condition or results of operations. During the fiscal year ended June 30, 2004 IRSA's share price decreased by 12% from Ps. 2.5, on June 30, 2003 to Ps. 2.2 on June 30, 2004. From fiscal year 2002 to fiscal year 2003 the price increased 67% from Ps. 1.5 to Ps. 2.5. Given the relative size of our investment in IRSA, any decline could continue to give us a material adverse effect on our financial condition and results of operations.

*The creation of new export taxes may have an adverse impact on our sales.*

In order to prevent inflation and variations in the exchange rate from adversely affecting prices of primary and manufactured products (including agricultural products), and to increase tax collections and reduce Argentina's fiscal deficit, the Argentine government has recently imposed new taxes on exports. Pursuant to Resolution No. 11/02 of the Ministry of Economy, as amended by Resolution 35/02, 160/2002, 307/2002 and 530/2002, effective as of March 5, 2002, the Argentine government imposed a 20%, 10% and 5% export tax on primary and manufactured products. Export taxes might have a material and adverse effect on our sales. We produce exportable goods, and, therefore, an increase in export taxes is likely to result in a decrease in our products' price, and, therefore, may result in a decrease to our sales. We cannot guarantee what the impact of these measures will be, or any other future measures that might be adopted by the Argentine government, on our financial condition and result of operations.



## **Table of Contents**

### ***Government intervention in our markets may have a direct impact on our prices.***

The Argentine government has set certain industry market conditions and prices in the past. In order to prevent a substantial increase in the price of basic products as a result of inflation, the Argentine government is adopting an interventionist policy. In March 2002, the Argentine government fixed the price for milk after a conflict among producers and the government. There can be no assurance that the Argentine government will not interfere in other areas by setting prices or regulating other market conditions. Accordingly, we cannot assure you that we will be able to freely negotiate all our products' prices in the future or that the prices or other market conditions that the Argentine government might impose will allow us to freely negotiate the price of our products.

### ***The Investment Company Act may limit our future activities.***

Under Section 3(a)(3) of the Investment Company Act of 1940, as amended, an investment company is defined in relevant part to include any company that owns or proposes to acquire investment securities that have a value exceeding 40% of such company's unconsolidated total assets (exclusive of U.S. government securities and cash items). Investments in minority interests of related entities as well as majority interests in consolidated subsidiaries which themselves are investment companies are included within the definition of investment securities for purposes of the 40% limit under the Investment Company Act.

Companies that are investment companies within the meaning of the Investment Company Act and that do not qualify for an exemption from the provisions of such Act, are required to register with the Securities and Exchange Commission and are subject to substantial regulations with respect to capital structure, operations, transactions with affiliates and other matters. In the event such companies do not register under the Investment Company Act, they may not, among other things, conduct public offerings of their securities in the United States or engage in interstate commerce in the United States. Moreover, even if we desired to register with the Commission as an investment company, we could not do so without an order of the Commission because we are a non-U.S. corporation, and it is unlikely that the Commission would issue such an order.

In recent years we have made a significant minority investment in the capital stock of IRSA, an Argentina company engaged in a range of real estate activities. As of June 30, 2004, we owned approximately 25.4% of IRSA's outstanding shares, and our total investment in IRSA represented approximately 54.5% of our total assets.

Although we believe we are not an investment company for purposes of the Investment Company Act, our belief is subject to substantial uncertainty, and we cannot give you any assurance that we would not be determined to be an investment company under the Investment Company Act.

We believe that we may be exempt from registration as an investment company under the Investment Company Act so long as we do not offer or sell securities in the United States or to U.S. persons while our status under the Investment Company Act remains uncertain. Accordingly, due to the uncertainty regarding our status under the Investment Company Act, we may not be able to offer and sell securities in the United States or to U.S. persons. The United States capital markets have historically been an important source of funding for us, and our future financing ability may be adversely affected by a lack of access to the United States capital markets. If an exception under the Investment Company Act is unavailable to us in the future and we desire to access the U.S. capital markets, our only recourse would be to file an application to the SEC for an exemption from the provisions of the Investment Company Act, which is a lengthy and highly uncertain process.

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Moreover, if we offer and sell securities in the United States or to U.S. persons and we were deemed to be an investment company and not exempted from the application of the Investment Company Act, contracts we enter into in violation of, or whose performance entails a violation of, the Investment Company Act, including any such securities, may not be enforceable against us.

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**Table of Contents**

***If we are considered to be a Passive Foreign Investment Company for United States federal income tax purposes, United States Holders of our securities would suffer negative consequences.***

Based on the current and projected composition of our income and the valuation of our assets we do not believe we were a Passive Foreign Investment Company ( PFIC ) for United States federal income tax purposes for the tax year ending June 30, 2004, and we do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition or if our projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. If we become a PFIC, United States Holders of our shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for United States Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our shares or GDSs at a gain, as well as reporting requirements. Please see "Taxation-United States Taxation" for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

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

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

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

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

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

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**Table of Contents**

**Risks Related to IRSA's Business**

*IRSA's high level of debt may adversely affect its operations and its ability to pay its debt as it becomes due.*

IRSA has, and expects to have, adequate liquidity and capital resources to finance its business. As of June 30, 2004, IRSA's consolidated financial debt amounted to Ps. 603.9 million (including accrued and unpaid interests and deferred financing costs).

The fact that IRSA is highly leveraged may affect its ability to refinance existing debt or to borrow additional funds to finance working capital, acquisitions and capital expenditures. This would require IRSA to dedicate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. IRSA's leverage could place them at a disadvantage against its competitors who are less leveraged, and limit its ability to react to changes in market conditions, changes in the real estate industry and economic downturns. Although, IRSA has successfully restructured its debt, we cannot assure you that IRSA will not relapse and become unable to pay its obligations.

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

*IRSA may face potential conflicts of interest relating to its principal shareholders.*

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

1,000 of IRSA's common shares owned by Inversiones Financieras del Sur S.A. ( IFISA ), a company where Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control that company; and

71,225,786 of IRSA's common shares owned by Cresud, for which Mr. Eduardo S. Elsztain by reason of his position with Cresud, may be deemed to own all of its common shares held for the account of Cresud.

Conflicts of interest between IRSA's management, IRSA and IRSA's affiliates may arise in the performance of IRSA's respective business activities. Mr. Elsztain also beneficially owns approximately 27.5% of Cresud's common shares. Additionally, we own approximately 27.5% of IRSA's common shares and IRSA owns approximately 62.6% of the common shares of its subsidiary APSA. We cannot assure you that IRSA's principal shareholders and their affiliates will not limit or cause IRSA to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in its interest.





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**Table of Contents**

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

When the Convertibility Law was in effect, IRSA had no exchange rate risk relating to its Peso-denominated revenues and its U.S. Dollar-denominated liabilities. However, with the repeal of the Convertibility Law on February 4, 2002, all U.S. Dollar-denominated obligations, which were within the Argentine banking sector and subject to Argentine Law, were mandatorily converted into Peso-denominated liabilities at an exchange rate of one Peso to one U.S. Dollar. The majority of its liabilities (the Unsecured Loan Agreement, the Class 3 Floating Rate Notes and the Hoteles Argentinos Loan) were subject to New York law and therefore were not converted into Pesos. Furthermore, as of February 4, 2002, APISA was under a swap agreement in which it converted its Peso-denominated fixed rate debt to U.S. Dollar denominated floating rate debt for a total amount of US\$ 69.1 million with maturities through March 2005, which is also subject to New York law and thus has not been converted into Pesos.

IRSA realizes a substantial portion of its revenues in Pesos (such as rental contracts and seller financing) and, as a result, the devaluation of the Peso has adversely affected the U.S. Dollar value of its earnings and, thus, impaired IRSA's financial condition. Moreover, its Peso-denominated assets (which represent 93% of its total assets as of June 30, 2004) have depreciated against its indebtedness denominated in foreign currency. As of June 30, 2004, IRSA had outstanding debt amounting to Ps. 603.9 million, of which, 86% was denominated in U.S. Dollars. Any further depreciation of the Peso against the U.S. Dollar will correspondingly increase the amount of its debt in Pesos, with further adverse effects on its results of operation and financial condition, and may increase the collection risk of its leases and other receivables from its tenants and mortgage debtors, most of whom have Peso-denominated revenues.

***The mandatory pesification of contracts originally denominated in U.S. Dollars will adversely affect IRSA's profitability.***

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

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

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



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**Table of Contents**

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

*IRSA holds Argentine securities which are more volatile than United States securities, and carry a greater risk of default.*

IRSA currently holds certain investments in Argentine government debt, corporate debt and equity securities. In particular, IRSA holds a significant interest in BHSA, an Argentine bank that has recently suffered material losses. Although the holding of these investments, with the exception of Banco Hipotecario, tend to be short term, investments in such securities involve certain risks, including:

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

loss of principal.

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

*Real estate investments are subject to many risks.*

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

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

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

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

changes in IRSA's ability or its tenants' ability to provide for adequate maintenance and insurance, possibly decreasing the life of and revenue from a property;



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**Table of Contents**

increases in operating expenses which could lower IRSA's profitability;

the inability to collect rents due to bankruptcy or insolvency of tenants or otherwise;

the need to periodically renovate, repair and release space, the higher costs thereof and the ability of IRSA's tenants to provide adequate maintenance and insurance, possibly decreasing the life of and revenue from a property; and

the exercise by IRSA's tenants of their legal right to early termination of their leases.

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

***Real estate market illiquidity and declining property values in U.S. Dollars terms may adversely affect IRSA's financial condition.***

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

***IRSA's business is subject to extensive regulation.***

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

## **Table of Contents**

### ***Argentine lease law imposes lease restrictions that limit IRSA's flexibility.***

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

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

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

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

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

### ***Eviction proceedings in Argentina are difficult and time consuming.***

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

### ***IRSA's assets are concentrated in the Buenos Aires area.***

Its principal properties are located in the City of Buenos Aires and the greater Buenos Aires area and a substantial portion of its revenues are derived from such properties.

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



**Table of Contents**

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

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

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

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

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

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

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

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

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

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





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**Table of Contents**

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

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

***IRSA's real estate activities through subsidiaries and joint ventures are subject to additional risks.***

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

become bankrupt or insolvent;

develop business objectives or goals which are different from IRSA's; or

take actions that are contrary to IRSA's instructions or requests or that are otherwise contrary to its interests.

***Development and construction activities are inherently risky.***

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

abandonment of development opportunities and renovation proposals;

construction costs of a project may exceed its original estimates, making a project unprofitable;

occupancy rates and rents of a newly completed project may be insufficient to make such project profitable;

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

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

**Table of Contents**

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

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

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

*IRSA is subject to shopping center operating risks that may affect its profitability.*

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

the accessibility and the attractiveness of the area where the shopping center is located;

the intrinsic attractiveness of the shopping center;

the flow of people and the level of sales of each shopping center rental unit;

the amount of rent collected from each shopping center rental unit; and

the fluctuations in occupancy levels in the shopping centers.

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

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

*The shift of consumers to purchasing goods over the Internet may negatively affect sales in IRSA's shopping centers.*

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

prospects.

*IRSA's future acquisitions may be unprofitable.*

IRSA intends to acquire additional properties to the extent such properties meet its investment criteria. Acquisitions of commercial properties entail general investment risks associated with any real estate investment, including:

investments may fail to perform as expected; or

**Table of Contents**

estimates of the cost of improvements needed to bring the property up to established standards for the market might prove to be inaccurate.

***IRSA's shopping center business is subject to competitive pressure.***

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

***IRSA is subject to the risk of payment defaults due to its investments in credit card businesses through its subsidiary APSA.***

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

adverse changes in the Argentine economy;

adverse changes in the regional economies;

political instability;

increase of unemployment; and

loss of value of actual salaries.

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

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

***IRSA may not be able to recover the mortgage loans it has provided to purchasers of units in its residential development properties.***

In recent years, IRSA has provided mortgage financing to purchasers of units in its residential development properties. Before January 2002, its mortgage loans were U.S. Dollar-denominated and accrued interest at a fixed interest rate ranging generally from 10% to 15% per year and for terms ranging generally from 1 to 15 years. However, on March 13, 2002, the BCRA converted all U.S. Dollar

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**Table of Contents**

denominated debts into Pesos at the exchange rate of Ps. 1.0 to U.S. Dollars 1.0 and imposed maximum interest rate on mortgage loans of 3.0% for residential mortgage loans granted to individuals and 6% for mortgage loans granted to business organizations. These modifications adversely affected the U.S. Dollar value of its outstanding mortgage loans which at June 30, 2004, aggregated approximately Ps. 1.4 million.

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

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

*IRSA's subordinated participations in securitized mortgage loans may have no value.*

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

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

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

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

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





## **Table of Contents**

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

### ***IRSA is subject to risks affecting the hotel industry.***

The full-service segment of the lodging industry in which IRSA operates its hotels is highly competitive. The success of its hotels will depend, in large part, upon its ability to compete in areas such as access, location, quality of accommodations, room rate structure, quality and scope of food and beverage facilities and other services and amenities. IRSA's hotels may face additional competition if other companies decide to build new hotels or improve their existing hotels to increase their attractiveness.

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

IRSA's ability to form successful relationships with international operators to run its hotels;

changes in travel patterns, including seasonal changes; and

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

### ***IRSA's investment in BHSA subjects IRSA to risks affecting the banking sector.***

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

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

On February 3, 2002, the Argentine government converted its entire US Dollar-denominated mortgage loans into Peso-denominated loans, while only a small percentage of its liabilities denominated in foreign currencies were converted into Pesos. These pesified loans were indexed for

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inflation pursuant to CER or the CVS. Furthermore, its mortgage loans that were originally denominated in Pesos have not been adjusted for inflation despite the end of the Peso-US Dollar parity. BHSA's pesified mortgage loans have been capped to bear interest at an annual rate of (i) between 3.5% and 5% for loans to individuals that are adjusted for inflation pursuant to CER, (ii) 12.38% for loans to individuals that are adjusted pursuant to the CVS and (iii) between 6% and 8% for construction project loans.

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**Table of Contents**

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

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

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

Once this system is operating, BHSA will be entitled to receive bonds from the trustee: (i) notes due on November 1<sup>st</sup>, 2006 for 60% of the unpaid amounts; and (ii) for the remaining 40%, bonds due on November 1<sup>st</sup>, 2014.

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

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

In light of the economic conditions in Argentina and the likely unavailability of long-term financing to BHSA for the foreseeable future, it can no longer continue as a financial institution that relies solely on mortgage lending and related services. Accordingly, it is seeking to adapt its business strategy to confront the challenges of these new market conditions. Its ability to operate as a going

## **Table of Contents**

concern will depend on how successfully it transforms into a diversified financial institution that no longer depends on mortgage lending. It must overcome significant challenges to achieve this goal including, among others, its precarious financial condition, lack of experience and client relationships outside the mortgage sector, the existence of large, well-capitalized competitors, its extremely limited ability to invest in new businesses and significant political, regulatory and economic uncertainties in Argentina. As a result, BHSA cannot give us any assurance that it will be successful in doing so in the foreseeable future, if at all.

### ***Uncertainties affecting the Banco Hipotecario business could negatively affect the value of IRSA's investment.***

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

### ***IRSA is dependent on its senior manager and Chairman Eduardo Elsztain.***

IRSA's success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, its Chief Executive Officer, president and chairman of the board of directors. The loss of his services for any reason could have a material adverse effect on its business.

IRSA's future success also depends in part upon their ability to attract and retain other highly qualified personnel. We cannot assure you that they will be successful in hiring or retaining qualified personnel, or that any of its personnel will remain employed by them.

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

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

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

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

## **Table of Contents**

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

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

## **Risks Related to the Global Depositary Shares and the Shares**

*IRSA is subject to certain different corporate disclosure and accounting standards than domestic issuers of listed securities in the United States.*

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

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

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

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

*If IRSA is considered to be a Passive Foreign Investment Company for United States federal income tax purposes, United States Holders of its securities would suffer negative consequences.*

Based on the current and projected composition of its income and valuation of its assets IRSA does not believe IRSA was a PFIC for United States federal income tax purposes for the tax year ending June 30, 2004, and IRSA does not currently expect to become a Passive Foreign

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Investment Company ( PFIC ), although there can be no assurance in this regard. The determination of whether IRSA is a PFIC is made annually. Accordingly, it is possible that IRSA may be a PFIC in the current or any future taxable year due to changes in its asset or income composition or if its projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of its income and assets and the accuracy of IRSA's projections. If IRSA becomes a PFIC, United States Holders of its shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for United States Holders such as additional tax and an interest charge upon certain distributions by IRSA or upon a sale or other disposition of its shares or GDSs at a



## **Table of Contents**

gain, as well as reporting requirements. Please see *Taxation-United States Taxation* for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **A. HISTORY AND DEVELOPMENT OF CRESUD**

#### **General Information**

Our legal name is Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria. We were incorporated and organized on December 31, 1936 under Argentine law as a stock corporation (sociedad anónima) and were registered with the Public Registry of Commerce of the City of Buenos Aires (*Inspección General de Justicia*) on February 19, 1937 under number 26, on page 2, book 45 of National Bylaws Volume. Pursuant to our Bylaws, our term of duration expires on July 6, 2082. Our headquarters are located at Moreno 877, (C1091AAQ), Buenos Aires, Argentina. Our telephone is +54 (11) 4814-7800, and our website is [www.cresud.com.ar](http://www.cresud.com.ar).

#### **History**

We were incorporated and organized on December 31, 1936 under Argentine law as a stock corporation (sociedad anónima), and were registered with the Public Registry of Commerce of the City of Buenos Aires (*Inspección General de Justicia*) on February 19, 1937. We were incorporated in 1936 as a subsidiary of Credit Foncier, a Belgian company engaged in, among other things, the business of providing rural and urban loans in Argentina. We were incorporated to, among other things, administer real estate holdings foreclosed by Credit Foncier. Credit Foncier was liquidated in 1959, and as a part of such liquidation, our shares were distributed to Credit Foncier's shareholders and, on December 12, 1960, were listed on the *Bolsa de Comercio de Buenos Aires*. From 1960s to 1970s, our business shifted to exclusively agricultural activities.

During a period of approximately two years and ending in September 1994, Dolphin Fund Management S.A. acquired on behalf of certain investors an aggregate of 22% of our outstanding shares on the *Bolsa de Comercio de Buenos Aires*. In September 1994, an investor group led by Dolphin Fund Management S.A. and including Dolphin Fund plc. (formerly Quantum Dolphin plc.) acquired the control by purchasing an additional 51.4% of our outstanding shares. In November 1994, the investor group acquired an additional 13.6% of our outstanding shares. On May 29, 1995, we completed a rights offering in Argentina which was fully subscribed and added paid-in capital of Ps. 144.9 million (including prior capital contributions of the investor group of Ps. 61.8 million). On December 31, 1996, Dolphin Fund plc., owned 39.0% of our shares.

From June 30, 1994 (approximately two months prior to the change of control) to June 30, 1996, our net worth increased from approximately Ps. 37.6 million to Ps. 196.3 million, our total assets have increased from Ps. 40.5 million to Ps. 210.8 million, the number of our farms increased from seven to sixteen, the number of our hectares from approximately 20,263 to 345,410, the number of our leased hectares from 5,350 to 16,381, the number of our hectares sown from 4,719 to 15,839, the number of our leased hectares sown from 736 to 6,227 hectares, the number of beef-cattle heads from 20,177 to 58,346 and the number of our cattle head involved in milk production from approximately 1,669 to approximately 4,262.

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From December 2000 to June 2004, we invested approximately Ps. 162.93 million to acquire approximately 25.4% of the outstanding shares of IRSA. In addition, we owned IRSA's Convertible Notes for a total amount of US\$ 44.9 million. Consequently, as of June 30, 2004, our investment in IRSA amounted to Ps. 351.8 million representing 54.45% of our consolidated assets. IRSA is one of Argentina's largest real estate companies. As of June 30, 2004, IRSA had total assets of Ps. 2,202.9 million, and its net gain for the fiscal year ended June 30, 2004, was Ps. 87.9 million.

## **Table of Contents**

On September 29, 2000, our board of directors, pursuant to the provisions set forth in Section 83, subsection 1° of Law 19.550, decided the merger of the companies Agro Riego San Luis S.A. and Colonizadora Argentina S.A. in our Company, effective as from July 1st, 2000; and on August 30, 2002 approved the signing of a final merger agreement with Agroriego San Luis S.A. and Colonizadora Argentina S.A, the acquired companies.

As of June 30, 2004, our net worth was Ps. 465.2 million and total assets were Ps. 646.1 million. As of June 30, 2004, we owned 18 farms together with our subsidiaries and 424,447 hectares, including 35.723% of the 8,299 hectares owned by Agro-Uranga S.A. and 50% of the 170 hectares owned by Cactus Argentina S.A. As of June 30, 2004, 27,358 hectares were sown (including 35.723% of the 11,873 hectares sown by Agro-Uranga S.A.), 9,766 leased hectares were sown, we had 98,139 beef-cattle heads (including 35.723% of the 645 owned by Agro-Uranga S.A.) and 1,262 cows were involved in milk production (including 35.723% of the 734 cows owned by Agro-Uranga S.A.). For fiscal year ended June 30, 2004, our total sales totalled Ps. 62.3 million.

### **Business acquisitions**

#### ***Year Ended June 30, 2004***

On November 11, 2003, Feria Jovita S.R.L. repaid the commercial loan due to Cresud S.A. by executing a deed to formalize the delivery in lieu of payment of a 9-hectare farm located in the Lavalle Department in the Province of Mendoza. The value of the property is Ps. 25,600.

#### ***Year Ended June 30, 2003***

On April 30, 2003 a title deed was signed for the purchase of *El Tigre* farm, with a surface area of 8,360 hectares, located in Trenel Department, Province of La Pampa for the amount of US\$ 9.2 million.

#### ***Year Ended June 30, 2000***

In May 2000, we acquired a 70% equity interest in *Futuros y Opciones.Com S.A.*, a private owned Argentine corporation for Ps. 3.5 million, of which Ps. 1.8 million was paid in cash in May 2000 and Ps. 1.3 million within a six-month period as from acquisition date. The remaining Ps. 0.4 million was placed into an escrow account that was released in April 2002.

The acquisition was accounted for using the purchase method. The purchase price was allocated to the net assets acquired, based upon their respective fair market values. The excess of the purchase price over the fair market value of the assets acquired of Ps. 3.3 million has been allocated to goodwill and is being amortized over 5 years using the straight-line method.

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Under the shareholders agreement, we would provide short term funding to *Futuros y Opciones.Com S.A.* in the amount of approximately Ps. 3.0 million for future development. On April 16, 2002 an agreement was signed whereas Cresud completed the abovementioned contribution.

## **Table of Contents**

### **Farm Sales**

#### ***Year Ended June 30, 2004***

On July 29, 2003, Inversiones Ganaderas S.A. sold three properties, which were part of the farm *El Recreo*, located in the Santo Domingo district, department of La Paz, Province of Catamarca with a total surface area of 5,997 hectares for US\$ 0.43 million. This sale yielded a profit of Ps. 0.58 million.

On November 26, 2003, we executed the deed for the sale of *El 41 y El 42* farm, 6,478 hectares, located in the department of Tapenagá, Province of Chaco. The price was US\$ 0.97 million. This sale generated a Ps. 1.08 million profit.

On June 30, 2004 a preliminary purchase and sale agreement was signed for the San Enrique farm. The purchase price will be US\$ 5 million. This sale will generate a profit of approximately US\$ 4.3 million when consummated. We expect to close the transaction during fiscal year 2005.

#### ***Year Ended June 30, 2003***

On April 21, 2003 a title deed was signed for the sale of *San Luis* farm, with a surface area of 706 hectares and located in Junín, in the Province of Buenos Aires. The sales price was fixed in US\$ 2.2 million. This sale generated Ps. 0.6 million in profits, stated in period-end currency.

On April 30, 2003 a title deed was signed for the sale of *Los Maizales* farm, with a surface area of 618 hectares, located in the Villa Cañas district, in the Province of Santa Fé. The sales price was fixed in US\$ 1.8 million. This sale generated Ps. 4.3 million stated in period-end currency.

#### ***Year Ended June 30, 2002***

On August 30, 2002 the Company's Board of Directors approved the signing of a final merger agreement with *Agro Riego San Luis S.A.* and *Colonizadora Argentina S.A.*, the acquired companies.

During May 2002, we sold a 3,240-hectare plot of *El Coro* farm, for Ps. 2.6 million and in a subsequent sale a 1,432-hectare plot for Ps. 1.1 million. The total sale of *El Coro* generated a profit of Ps. 3.4 million.

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On May 8, 2002, we signed the deeds of sale for two plots of the 6,149-hectare *La Sofía* farm. The two plots of the farm were purchased in 1997, and since then, they had undergone an extensive transformation due to the implementation of the no tillage system. At the date of sale, 100% of the farm's surface was devoted to agriculture. The sale price was US\$ 10 million which was paid at the date of the signing of the deeds and the taking possession of the plots. Crops for the 2001/2002 season, which will be harvested during May and June, will remain our property. We believe that the sale of *La Sofía* was an attractive opportunity for us, because the sale price was higher than the farm's book value, and the sale generated a Ps. 12.9 million profit.

On August 3, 2001, a preliminary purchase and sale agreement was signed for the farm El Silencio, of 397 hectares, located in the district of Rojas, the Province of Buenos Aires. The price for the sale of the farm was of US\$ 1.03 million. This sale generated a profit of Ps. 0.2 million.

In December 2001, we sold a 5,649-hectare plot of *El Coro* farm, in the district of Río Seco, Province of Córdoba, for US\$ 4.5 million.

### ***Year Ended June 30, 2001***

On September 11, 2000 we signed a preliminary purchase and sale agreement for *El Bañadito*, covering 1,789 hectares in the district of Inés Indart, Salto, Province of Buenos Aires. The price arranged for this sale was US\$ 6.2 million and included the sale of the dairy farm, silo plants and other chattels. This transaction represented a profit of roughly Ps. 6.2 million.

On December 4, 2000 a preliminary purchase and sale agreement was signed for the farm *Tourné*, of 19,614 hectares, in the district of Vera, Province of Santa Fe. The sale price amounted to US\$ 2.8 million, and included the sale of the farm and other real estates. This sale generated an approximate loss of Ps. 0.4 million.

**Table of Contents****B. BUSINESS OVERVIEW****General**

We are a leading Argentine producer of basic agricultural products and the only such company with shares listed on the *Bolsa de Comercio de Buenos Aires* and on the Nasdaq. We are currently involved in various operations and activities including crop production, cattle raising and fattening, milk production and certain forestry activities. We are not directly engaged in the real estate development business but from time to time sell properties to profit from real estate appreciation opportunities which supplement our primary operations.

Most of our farms are located in Argentina's pampas, one of the largest temperate prairie zones in the world and one of the richest areas of the world for agricultural production, covering portions of the provinces of Buenos Aires, Santa Fé, Córdoba, Chaco, San Luis, Catamarca, Salta and La Pampa. At June 30, 2004, we, together with our subsidiaries, owned 18 farms. Approximately 13,351 hectares of the land we own are productive and suitable for crop production, approximately 125,513 hectares are best suitable for beef-cattle production, and 820 hectares are used for milk production. The remaining 266,916 hectares are primarily natural woodlands. In addition, during fiscal year 2003, we leased farms on an aggregate total area of 13,628 hectares and during fiscal year 2004 we leased farms for crop production on an aggregate total area of 9,766 hectares on 19 farms. This decrease compared to the prior harvest was mainly due to the high prices of land leases. The demand for farmland at high prices led to our decision to lease our own farmlands to third parties.

The following table sets forth, for the periods indicated below, the amount of land used for each production activity (including total owned and leased land):

	Year Ended June 30,				
	2000 <sup>(1)</sup>	2001 <sup>(1)(6)</sup>	2002 <sup>(1)(7)</sup>	2003 <sup>(1)(8)</sup>	2004 <sup>(1)(9)</sup>
	<i>(in hectares)</i>				
Crops <sup>(2)</sup>	47,204	40,208	48,437	27,255	27,358
Beef-Cattle <sup>(3)</sup>	177,267	170,392	147,566	135,798	125,669
Milk	2,926	2,492	1,390	977	1,001
Natural woodlands <sup>(4)</sup>	275,995	275,889	275,928	272,318	266,916
Own farmlands leased to third parties					13,996
<b>Total<sup>(5)</sup></b>	<b>503,392</b>	<b>488,981</b>	<b>473,321</b>	<b>436,348</b>	<b>434,940</b>

(1) Includes 35.723% of approximately 8,299 hectares owned by *Agro-Uranga S.A.*

(2) Includes wheat, corn, sunflower, soybean and sorghum.

(3) Raising and fattening.

(4) We use portions of our natural woodlands to produce charcoal and fence posts and rods. See Operations and Principal Activities - Other Production.

(5) 31,114 hectares and 1,500 hectares were leased during fiscal year 2000 for crop and beef-cattle production, respectively. During fiscal year 2001, 19,601 hectares were leased for crop production. As of June 30, 2002, 28,913 hectares were leased for crop production and 2,500 for beef-cattle production. 13,628 hectares and 9,766 hectares were leased for crop production during fiscal year 2003 and 2004, respectively.

(6) Includes 19,614 hectares of *Tourné*. This farm was sold in Ps. 6.2 million on December 4, 2000.

(7) Includes 6,149 hectares of *La Sofía* and the plot sold from *El Coro*.

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- (8) Includes 618 hectares of *Los Maizales* and 706 hectares of *El Silencio/San Luis*.
- (9) Includes 8,360 hectares of *El Tigre*, purchased on April 30, 2003, and does not include 6,478 hectares of *El 41-42* in relation to which a deed was executed on November 26, 2003.



**Table of Contents****Operations and Principal Activities**

In fiscal year 2003, our operations were conducted on 19 owned farms and 26 leased farms. In fiscal year 2004, our operations were conducted on 18 owned farms and 19 leased farms. Some of the farms we own are engaged in more than one productive activity at a time. The following table sets forth, for the periods indicated below, the volumes of our production by principal product line:

	Year ended June 30,				
	2000 <sup>(1)</sup>	2001 <sup>(1)</sup>	2002 <sup>(1)</sup>	2003 <sup>(1)</sup>	2004 <sup>(1)</sup>
Crops <sup>(2)</sup>	159,992	104,974	142,478	70,369	74,612
Beef-Cattle <sup>(3)</sup>	12,903	12,725	10,493	9,121	11,343
Milk <sup>(4)</sup>	10,933	7,057	6,783	6,024	6,731

(1) Does not include production from *Agro-Uranga S.A.*

(2) Production measured in tons.

(3) Production measured in tons of live weight. Production is the sum of the net increases (or decreases) during a given period in live weight of each head of beef-cattle owned by us.

(4) Production measured in thousands of liters.

**Land**

*Land Acquisition.* We believe that due to the lack of liquidity and low productivity in the Argentine agricultural sector resulting from high levels of indebtedness, lack of investment and outdated technology, farmland prices in Argentina are low compared to those in the United States and Europe. The low prices and large supply of land, combined with our financial position relative to other Argentine producers in this sector, provide us with an opportunity to increase our landholdings at attractive prices, increase our scale of production and obtain capital appreciation.

Several major brokers with whom we work on a regular basis generally bring farms available for sale to our attention. The decision to purchase land is based on an evaluation of a number of factors. In addition to the location of the land, we normally review soil and water analyses, including the quality of the soil and its suitability for our intended use (whether for the production of crops, beef-cattle or milk), a classification of the various sections of the parcel, the past uses of the land, a description of improvements on the land, applicable easements, rights of way or other variances of title and satellite photographs of the farm (which are useful to reveal drainage characteristics of the soil during different cycles of precipitation) and detailed comparative data regarding neighboring farms (generally within a 50-kilometer radius). Based on the foregoing factors, we evaluate a farm in terms of the asking price as compared to the potential productivity of the land and the potential for capital appreciation. We believe that competition for the acquisition of land is generally limited to small producers (between Ps. 1.5 and Ps. 2.9 million or less in annual sales) for the purchase of smaller lots and that there is little competition for the purchase of larger lots.

In addition, we may consider purchasing marginal land and improving such land through clearing, irrigation and the installation of watering facilities in order to achieve attractive production yields and provide for potential capital appreciation.

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*Land Sales.* We do from time to time sell properties to profit from the appreciation in value of real estate. We consider the sales of land based upon a number of factors, including the expected future return from the farmland upon continual agricultural production, availability of other investment opportunities and cyclical factors affecting global agricultural land values.

**Table of Contents**

The following table sets forth, for the periods indicated below, certain information concerning sales of land by us during each of the last five fiscal years ending June 30, 2004:

Fiscal Year	Sales of Land			
	No. of Farms	Gross Proceeds from Sales	Book Value of Properties Sold	Gain/(Loss) <sup>(1)</sup>
	<i>(in millions of Pesos)</i>			
2000				
2001	2	19.8	13.9	5.9
2002	3	53.2	36.6	16.6
2003	2	12.0	7.1	4.9
2004	2	4.1	2.4	1.7

(1) Including all taxes and commissions

On June 30, 2004 a preliminary purchase and sale agreement was signed for the farm *San Enrique*, 977 hectares located in the department of General López, Province of Santa Fe. The price for the sale of the farm was of US\$ 5.0 million. This sale will generate a profit of approximately US\$ 4.3 million when consummated. We expect to close the transaction during fiscal year 2005.

On November 26, 2003, we executed the deed for the sale of *El 41 y El 42* farm covering 6,478 hectares, located in the department of Tapenagá, Province of Chaco for a total consideration of US\$ 1.0 million, resulting in a gain of Ps. 1.1 million.

On July 29, 2003, our subsidiary Inversiones Ganaderas S.A. sold three properties which were part of the farm *El Recreo*, located in the Santo Domingo district, department of La Paz, Province of Catamarca, with a total surface area of 5,997 hectares for a total consideration of US\$ 0.43 million, resulting in a gain of Ps. 0.58 million.

During fiscal year 2003 we sold *Los Maizales* and *San Luis* establishments, of 618 and 706 hectares respectively, at very good prices averaging US\$ 3,100 per hectare, generating a profit of Ps. 4.9 million, 69% above book value.

On August 30, 2002 our Company Board of Directors approved the signing of a final merger agreement with Agro Riego San Luis S.A. and Colonizadora Argentina S.A., the acquired companies.

During May 2002, we sold a 3,240-hectare plot of *El Coro* farm, for Ps. 2.6 million and in a subsequent sale a 1,432-hectare plot for Ps. 1.1 million. The total sale of *El Coro* generated a profit of Ps. 3.5 million.

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On May 8, 2002, we signed the deeds of sale for two plots of the 6,149-hectare *La Sofía* farm. The two plots of the farm were purchased in 1997, and since then, they had undergone an extensive transformation due to the implementation of the no tillage system. At the date of sale, 100% of the farm's surface was devoted to agriculture. The sale price was US\$ 10 million which was paid at the date of the signing of the deeds and the taking possession of the plots. Crops for the 2001/2002 season, which were harvested during May and June, remained our property. We believe that the sale of *La Sofía* was an attractive opportunity for us, because the sale price was higher than the farm's book value, and the sale generated a Ps. 12.9 million profit.

On August 3, 2001, a preliminary purchase and sale agreement was signed for the farm *El Silencio*, of 397 hectares, located in the district of Rojas, Province of Buenos Aires. The price for the sale of the farm was of US\$ 1.03 million. This sale generated a profit of Ps. 0.2 million.

In December 2001, we sold a 5,649-hectare plot of *El Coro* farm, in the district of Río Seco, Province of Córdoba, for US\$ 4.5 million.

**Table of Contents**

During the fiscal year 2001, we sold *El Bañadito* for US\$ 6.2 million and *Tourné* for US\$ 2.8 million. *El Bañadito* was part of the original purchase in September 1994 and the sale resulted in a gain of Ps. 6.2 million taking into account acquisitions expenses, improvements, depreciation, taxes and commissions. *Tourné* was acquired in June 1998 and was sold at a loss of Ps. 0.5 million.

*Land Leasing.* Decisions to enter into a lease involve similar criteria of quality and expected return, although our analysis of such criteria is adjusted to meet our production and yield goals in the short- or medium-term. We usually learn of land available for lease directly through owners. Generally, land leases have initial terms of one season or less. Leases of land for crop production consist of rental contracts with payments based upon a fixed amount of Pesos per hectare or crop sharing agreements with payments in kind based upon a percentage of the crops harvested or a fixed amount of tons of crop harvested or its equivalent value in Pesos. Leases of land for beef-cattle raising consist of lease contracts with fixed payments based upon a fixed amount of Pesos per hectare or per the number of head of cattle, or capitalization contracts with payments in kind or in cash based upon the number of kilograms fattened.

*Land Management.* Unlike traditional Argentine family-held farms, we centralize policymaking in an Executive Committee, which meets on a weekly basis in Buenos Aires. Management of individual farms is delegated to farm managers who are responsible for operating their assigned farms. The Executive Committee, taking into consideration sales and market expectations and risk allocation, establishes production and commercial guidelines.

We rotate the use of our pastures between crop production and grazing with a frequency that depends on the location and characteristics of the land. Land use is typically rotated between four years of grazing and four to twelve years of crop production, depending on the region. The use of conservation techniques (including no-till farming) often permits us to extend crop production periods.

After acquiring land we invest in technology to improve the productivity and increase the land value. At the time of acquisition, a given tract of land could be under-utilized or the infrastructure may need improvements. We have invested in traditional and electric fencing, watering troughs for cattle herds, irrigation equipment and machinery among others things.

***Crop Production***

Our crop production consists primarily of the sowing and harvesting of fine and coarse grains and oilseeds. Principal crops include wheat, corn, soybean and sunflower. Other crops, such as sorghum, are occasionally sowed and represent a small percentage of total sown land.

The following table sets forth, for the periods indicated below, our production of principal crops:

<b>Crop Production</b>				
<b>Year ended June 30,</b>				
<b>2000<sup>(1)</sup></b>	<b>2001<sup>(1)</sup></b>	<b>2002<sup>(1)</sup></b>	<b>2003<sup>(1)</sup></b>	<b>2004<sup>(1)</sup></b>
<i>(in tons)</i>				

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Wheat	26,283	9,835	28,051	9,397	16,707
Corn	81,343	46,745	63,175	27,508	31,164
Sunflower Seeds	19,413	5,080	4,122	3,074	3,095
Soybeans	31,704	42,068	43,335	25,056	20,439
Other	1,249	1,246	3,795	5,334	3,207
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	159,992	104,974	142,478	70,369	74,612
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

(1) Does not include production from Agro-Uranga S.A.

**Table of Contents**

The following table sets forth, for the periods indicated below, our owned and leased sown land for crop production:

	Sown Land for Crop Production <sup>(1)</sup>				
	Year ended June 30,				
	2000 <sup>(2)</sup>	2001 <sup>(2)</sup>	2002 <sup>(2)</sup>	2003 <sup>(2)</sup>	2004 <sup>(2)</sup>
	<i>(in hectares)</i>				
Owned	16,090	20,069	19,524	12,677	17,592
Leased	31,114	20,139	28,913	14,578	9,766
<b>Total</b>	<b>47,204</b>	<b>40,208</b>	<b>48,437</b>	<b>27,255</b>	<b>27,358</b>

(1) Sown land may differ from Uses of Land, since some hectares are sown twice and therefore are counted twice.

(2) Includes hectares from Agro-Uranga S.A. See Business Subsidiaries and Affiliated Companies.

As of June 30, 2004, leased land as a percentage of total land sown by us was 42 % of total sown area.

The sowing of wheat occurs from June to September, with harvesting in December and January. Corn, soybean and sunflower are sowed from September through December and harvested from February through June. Crops become available for sale as commodities after harvesting during the period from December to June, and we usually store a portion of our production until prices recover from the drop that normally occurs at harvesting time. A larger portion of production, especially wheat and sunflower seeds, is sold and delivered to purchasers under contracts, in which the price term is set with reference to market price at a specific time determined by us in the future. Remaining production is either sold at prevailing market prices or delivered to cover futures contracts entered into by us.

Our crop inventory at any given time varies according to market conditions. As of June 30, 2004, our crop inventory consisted of 273 tons of wheat, 22,210 tons of corn, 10,924 tons of soybean, 961 tons of sorghum and 56 tons of oats.

**Beef-Cattle Production**

Our beef-cattle production principally involves the raising and fattening of beef-cattle from our own stock. In some cases, if the market conditions are favorable we acquire and fatten beef-cattle for sale to slaughterhouses and supermarkets.

In addition, as part of our strategy to move along the production chain, during the 2003 we began to slaughter some of our own livestock, having obtained the appropriate permits. We also plan to begin to export for the account of third parties. As of June 2004, the cattle stock of the Company was 97,909 heads and a total of 125,513 hectares was used for beef-cattle production.

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Beef-cattle production was 11,343 tons, which represented a 24,4% increase over the previous year mainly due to an increase in the number of head of cattle finished in the feedlot. It is more productive to finish head of cattle in the feedlot than feeding them with natural pastures. During the first five months of the fiscal year, a drought affected cattle raising farms, consequently, a major number of head of cattle had to be finished in the feedlot.

A significant percentage of cattle was finished in the feedlot in Villa Mercedes, in the Province of San Luis. The categories that are generally finished with grain are grass-rebreed steers with a weight not exceeding 300 kg and part of the calves, which are transformed into small ball calves through this process, providing significant profit margins.



**Table of Contents**

The breeding herd reproduction rate, which has improved year after year, recorded satisfactory efficiency levels. The work on genetics and handling of herds is expected to result in further improvements in the coming years.

Within the process of de-commoditization and technological innovation we implemented a self-developed identification and tracing system in compliance with European and Senasa standards.

With a view to distinguishing our production and obtaining higher prices in production sales, we plan to extend the use of the tracing system to our whole herd.

Parcel management of our pastures is aided by electric fences, which may be readily moved to complement our land rotation. The beef-cattle herd is fattened from 160 kilograms to 300 kilograms through grazing in pastures in our northern farms where conditions are suitable for this initial fattening. The cattle are further fattened to reach 430 kilograms at our southern farms and in our San Luis feedlot. The feedlot enables uniform production and higher quality and degree of tenderness in the meat, due to the younger age of the animals slaughtered, resulting in stronger demand from international markets and higher prices.

Brood cows and bulls are used in raising activities, while steers, heifers and calves are used for fattening activities. Brood cows give birth approximately once a year and have a productive life of six to seven years. Six months after birth, calves are moved from suckling to fattening pastures. Purchased cattle go directly into the fattening process. Upon reaching this process the cattle graze for approximately one to one and a half years to fatten for sale. Steers and heifers are sold once they have achieved a weight of between 380-430 kilograms and 280-295 kilograms, respectively, depending upon the breed.

Our beef-cattle stock is organized into raising and fattening activities. The following table indicates, for the periods set forth below, the number of head of beef-cattle for each activity:

	<b>Head of Beef-Cattle<sup>(1)</sup></b>				
	<b>Year ended June 30,</b>				
	<b>2000<sup>(2)</sup></b>	<b>2001<sup>(2)</sup></b>	<b>2002<sup>(2)</sup></b>	<b>2003<sup>(2)</sup></b>	<b>2004<sup>(2)</sup></b>
Raising	41,242	41,419	32,304	31,328	30,327
Fattening	66,560	54,732	44,464	49,177	67,582
<b>Total</b>	<b>107,802</b>	<b>96,151</b>	<b>76,768</b>	<b>80,505</b>	<b>97,909</b>

(1) For classification purposes, upon birth, all calves are considered to be in the fattening process.

(2) Does not include head of beef-cattle from Agro-Uranga S.A. See Business Subsidiaries and Affiliated Companies.

We seek to improve beef-cattle production and quality to obtain a higher price through the use of advanced breeding techniques. We cross breed our stock of Indicus, British (Angus and Hereford) and Continental breeds to obtain characteristics for our herd most suitable for the land on

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which the beef-cattle graze. To further enhance the quality of our herd, we plan to continue to improve our pastures used for grazing. Such improvement is expected from continued investment in superior seeds and fertilizers to improve grasses, an increase in the number of watering troughs available on the pastures and through the acquisition of round bailers to cut and roll hay for storage.

**Table of Contents**

Our emphasis on improving the quality of our herd also includes the use of health-related technologies. We adhere to national veterinary health guidelines, which include laboratory analyses and vaccinations to control and prevent diseases among our herd, particularly foot-and-mouth disease.

Direct costs of beef-cattle production are relatively low, as the main inputs are seeds for pastures (e.g. alfalfa, oats and barley) and purchases of cattle for fattening.

We have invested approximately Ps. 29.6 million in equipment, machinery, pastures, genetic improvements, research and development related to beef-cattle operation.

***Milk Production***

During fiscal year 2004, milk production was 11.7% higher than in the prior fiscal year due to a major drought in the first few months of the year which forced dairy farms to supplement feeding resulting in better yields by heifer in liters produced.

During fiscal year 2003, milk production was 11.2% lower than in the previous year due the shutdown of *La Adela* dairy farm, partially offset by the higher number of milking cows in *La Juanita*.

At present, the only dairy farm owned by us is located in *La Juanita*, which is mostly based on pasture feeding. This lower cost system enables to improve milk margins as compared to grain feeding systems.

The following table sets forth, for the periods indicated below the total number of our milking cows, average daily production per cow and our total milk production:

	<b>Milk Production</b>				
	<b>Year Ended June 30,</b>				
	<b>2000<sup>(1)</sup></b>	<b>2001<sup>(1)</sup></b>	<b>2002<sup>(1)</sup></b>	<b>2003<sup>(1)</sup></b>	<b>2004<sup>(1)</sup></b>
Milking cows	1,519	1,135	1,143	1,002	1,000
Daily production (liters per cow)	19.7	18.5	16.3	16.5	18.4
Total production (thousands of liters)	10,933	7,057	6,783	6,024	6,731

(1) Does not include production from Agro-Uranga S.A. See Business Subsidiaries and Affiliated Companies.

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During fiscal year 2003, we devoted 820 hectares to the production of milk. As of June 30, 2004, we had 3,472 head of cattle on 820 hectares involved in the production of milk.

We produce milk from a herd of high-quality Holstein milking cows obtained through selective breeding using imported frozen semen from American Holstein bulls. Male calves born in the breeding process are normally sold for a nominal amount, while female calves are separated from their mothers after 24 hours, spend approximately 60 days suckling and approximately 100 days being fed with grass, grains and food supplements. The young heifers are then grazed for an additional 12 to 15 months before being artificially inseminated at the age of 18 to 20 months, giving birth nine-months later. The cows are then milked for an average of 300 days. Milking cows are inseminated again during the sixty- to ninety-day period after giving birth. This process is repeated once a year for six or seven years. Our pregnancy rate for our milking cows is 85-90%.

We milk our dairy herd mechanically twice a day. Extracted milk is cooled to less than five degrees centigrade to preserve quality and stored in a cistern for delivery once a day to trucks sent by the purchaser. Milking cows are primarily grass-fed, supplemented as needed with grain, hay and silage. Cornstalks are also used for winter pasturing.

## **Table of Contents**

We have invested in certain technologies centered on breeding, health and feeding to enhance milk production. These investments include the purchase of high-quality imported frozen semen from genetically improved American Holstein bulls, machinery and farming implements such as two feed mixer trucks, the use of feed supplements and the installation of modern milk cooling and heating control facilities. We currently purchase feed supplements for our milking cows and have invested to increase the quantity and quality of forage (pasture, alfalfa and corn silage) to reduce feed costs. Since the change of control, we have invested approximately Ps. 7.10 million in equipment, machinery and research and development with respect to our dairy herd.

### ***Other Production***

Charcoal production was affected by the recessive market conditions that pushed down sales prices, diminishing the gain margin. This situation forced us to look for new commercial agreements. During fiscal year 2002 and fiscal year 2003, we managed to commercialize our production in the external market, mainly in Chile. However, during fiscal year 2003, we had to abandon this agreement due to its small production scale and its high administrative expenses, resulting in the interruption of the activity.

### **Principal Markets**

#### ***Crops***

We sell our crop production entirely in the local market. Prices for our crops are based on market prices quoted on the Argentine grain boards, such as the *Bolsa de Cereales de Buenos Aires*, and the *Bolsa de Cereales de Rosario*, that reference to international grain markets. Most of this production is sold to exporters who bid and ship this production to the international market. Prices are quoted with reference to the month of delivery and the port where the commodity is to be delivered. Conditions other than price, such as storage and shipment terms, are negotiated between the final purchaser and us.

#### ***Beef-Cattle***

We sell our cattle production entirely in the local markets. Main buyers are local slaughterhouses and supermarkets.

The market price for cattle in Argentina is set in *Mercado Concentrador de Liniers* (on the outskirts of the Province of Buenos Aires), where hooved animals are auctioned daily. *Mercado Concentrador de Liniers* prices are set per kilogram of live beef-cattle and are mainly determined by domestic supply and demand. The price tends to be lower than the price of beef in industrialized countries. Some supermarkets and slaughterhouses usually establish their prices per kilogram of processed meat; in these cases the final price is affected by processing yields.

#### ***Milk***

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During fiscal year 2003 and fiscal year 2004, we sold all of our milk production to the largest dairy company in Argentina, Mastellone S.A., which produces a variety of consumer dairy products for sale in Argentina and abroad. We negotiated raw milk prices with this company on a monthly basis based on domestic supply and demand. We believe that other large dairy companies in Argentina would be willing and able to buy all or part of our milk production if we were to elect to diversify our milk sales. The price of the milk sold by us primarily depends on the percentage of fat and protein contained in the milk and the degree to which the milk is cooled. The price we get for our milk also increases or decreases based upon bacteria and somatic cell content.

## **Table of Contents**

### **Customers**

During the fiscal year 2004, we had net sales of Ps. 61 million to approximately 185 customers. Sales to our ten largest customers accounted for approximately 68.8% of our net sales in 2003 and 59.18% during fiscal year ended June 30, 2004. Of these customers, the three largest, Cargill S.A., Arre Beef S.A. and Coto S.A., accounted for an aggregate of approximately 29.37% of our sales in 2004, and the remaining seven customers together accounted for approximately 29.81% of our net sales during such period.

We are party to non-binding, annual letters of understanding with certain of our principal customers. These letters of understanding allow us to estimate demand and plan production accordingly. Individual orders are made on the basis of purchase orders and short-term contracts with a duration of less than one year.

### **Marketing Channels and Sales Methods**

#### ***Crops***

Normally, we use grain brokers and other intermediaries to execute transactions at the exchanges. We usually sell a portion of our production in advance by futures contracts and we buy and sell options to hedge against a drop in prices. Thirty percent of the futures and options contracts are closed through the *Bolsa de Cereales de Buenos Aires* and seventy percent are closed through the Chicago Board of Trade.

Our storage capacity allows us to condition and store crops without using intermediaries and to capitalize on fluctuations in the price of commodities. The largest storage facility owned by us, with a capacity of 12,000 tons, is located at the *Las Vertientes*, near Río Cuarto, Province of Córdoba. Other storage facilities are located at *El Gualicho* farm, with a capacity of 2,000 tons. We intend to further increase our storage capacity by renting facilities from third parties. As of June 30, 2004, we have 5,700 tons of rented storage capacity.

#### ***Beef-Cattle***

We primarily sell directly to local meat processors and supermarkets, including Arre Beef S.A., Coto S.A., Frigorífico Amancay S.A., La Pellegrinense S.A., Frigorífico General Deheza S.A., Bustos y Beltrán S.A., Frigorífico Novara S.A., Supermercados Norte S.A., Col-Car S.A., Frigorífico Paladini S.A., Argentine Breeders and Packers S.A. and Quickfood S.A., at prices based upon the *Mercado Concentrador de Liniers* price.

We pay the freight to market and generally do not pay commission for our transactions.

### **Raw Materials**

Our ongoing direct cost of producing crops varies with respect to each crop and is normally divided among the costs of tillage, seeds, agrochemicals and fertilizers. We purchase in bulk and store seeds, agrochemicals and fertilizers to benefit from off-season discounts. Raw material prices are volatile mainly because they are denominated in U.S. Dollars and also due to the seasonability of our activity.

### **Competition**

The agricultural business is a highly competitive market with many producers. Cresud is one of the leading producers in Argentina, but its overall market share is extremely low. Our leading position increases our power of negotiation with our suppliers and customers, and in the past we have generally been able to obtain discounts of nearly 15% on our input purchases and 15% net above price on crops and beef cattle.



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## **Table of Contents**

Historically, there have been few companies competing in the acquisition and leasing of agricultural properties in order to achieve profit from the capital appreciation of land and optimize yields from the different business activities. However, we anticipate that additional companies, including international companies, may become active in land acquisition and the lease of sown land, bringing new competitors to the market in the next few years.

### **Seasonality**

As with any agribusiness enterprise, our business operations are predominantly seasonal in nature. The harvest and sale of crops (corn, soybean and sunflower) generally occurs from February to June. Wheat is harvested from December to January. Other segments of our business such as our cattle and milk sales, and our forestry activities, tend to be more successive than seasonal in nature. However, beef-cattle and milk production is generally higher during the second quarter when pasture conditions are more favorable. As a result, quarter-to-quarter results may vary significantly.

### **IRSA**

From December 2000 to June 2004 and pursuant to our strategy of diversifying our business activities, we made a significant investment in IRSA shares. In addition, during November and December 2002, we purchased a total amount of US\$ 49.7 million IRSA's Convertible Notes. Moreover, during July and November 2003, we purchased additional 0.25 million Convertible Notes (for a total amount of US\$ 0.4 million) issued by IRSA. As of June 30, 2004, our total investment in IRSA amounted to Ps. 351.8 million. IRSA is one of Argentina's largest real estate companies in terms of total assets, and is engaged in a range of real estate activities in Argentina. Its principal activities consist of:

the acquisition and development of residential properties primarily for sale;

the acquisition, development and operation of office and other non-shopping center retail properties primarily for rental purposes. IRSA has over 84,000 m<sup>2</sup> of office space for rental purposes;

the acquisition, development and operation of shopping center properties through its 53.8% ownership interest in Alto Palermo S.A. (APSA) (Nasdaq: APSA, BCBA: APSA) as of June 30, 2004. APSA is one of the leading companies in the operation of shopping centers in Argentina and it either owns or holds a majority ownership interest in 7 shopping centers with a gross area for rental purposes of 145,207 m<sup>2</sup>;

the acquisition and operation of luxury hotels through an ownership interest in 3 five-star hotels; and

the acquisition of undeveloped land reserves for future development or sale appraised in Ps. 323.1 million.

As of June 30, 2004, IRSA had total assets of Ps. 2,202.9 million and shareholders' equity of Ps. 959.9 million. IRSA's net gain for the fiscal year ended June 30, 2004, was Ps. 87.9 million.

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During fiscal years 2002, 2003 and 2004, we invested in shares of IRSA for a total amount of Ps. 125.4 million, Ps. 8.2 million and Ps. 29.3 million (including Ps. 14.8 resulting from the conversion of US\$ 5.0 million of IRSA's Convertible Notes) respectively. Through these acquisitions during our fiscal year 2003, we increased our shareholding in IRSA from 19.85% to 22.65% of its outstanding shares. As of June 30, 2004 our investment in IRSA had increased to 25.4% of its outstanding shares. Our total investment in IRSA, considering our interest in its common shares and Convertible Notes, amounted to 54.45% of our consolidated assets. A majority of our directors are also directors of IRSA, and we are under common control by the same group of controlling shareholders.

## **Table of Contents**

### **REGULATION AND GOVERNMENT SUPERVISION**

#### ***Farming and Animal Husbandry Agreements***

Agreements relating to farming and animal husbandry activities are regulated by Argentine law, the Argentine Civil Code and local customs.

Pursuant to Argentine law, all lease agreements related to rural properties and land are required to have a minimum term of duration of 3 years. Upon death of the tenant farmer, the agreement may continue with his successors. The land owner may initiate eviction proceeding, upon misuse of the land by the tenant farmer or default on payment of the rent.

Argentine law also regulates agreements for crop sharing pursuant to which one of the parties furnishes the other with farm animals or land with the purpose to share benefits between tenant farmer and land owner. These agreements are required to have a minimum term of duration of 3 years. The tenant farmer himself is obligated to perform the agreement and he may not in any case, assign it. Upon the death, incapacity or impossibility of the tenant farmer, the agreement will be terminated.

#### ***Ownership of Grains and Cattle***

The quality of the grains and the health measures of the cattle are regulated and controlled by the *Servicio Nacional de Sanidad y Calidad Agroalimentaria* ( SENASA ). Senasa is an entity within the Ministry of Economy, which oversees the farming and animal sanitary activities.

Argentine law establishes that the brands should be registered with each provincial registry and that there cannot be brands alike within the same province.

#### ***Sale and Transportation of Cattle***

The sale of cattle is not specifically regulated but, rather, general contract provisions are applicable. Further, every province has its own rural code regulating the sale of cattle.

Argentine law establishes that the transportation of cattle is lawful only when it is done with the respective certificate that specifies the relevant information about the cattle. The required information for the certificate is established by the different provincial regulations, the inter-provinces treaties and the regulations issued by the SENASA.

#### ***Sales and Ownership of Real Estate***

The acquisition and transfer of real estate is governed by provisions of the Argentine Civil Code, as well as municipal zoning ordinances.

***Antitrust Law***

Argentine law provides for antitrust measures and requires administrative authorization for transactions that, according to the Antitrust Law (N°25.156), constitute economic concentrations.

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

## **Table of Contents**

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

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

Currently, we are not involved in any transaction that requires notification to the National Antitrust Commission.

### ***Property and Transfer Taxes***

*Value Added Tax.* Under Argentine law, the sale of cattle and grains are taxable at a rate equal to 10.5% of the sale price. The sale of milk is taxable at a rate equal to 21%. The sale of land is not taxable.

*Gross Sales Tax.* A local transfer tax is imposed on the sale price of cattle, grains and milk at a general rate of 1%. In some provinces the sale of primary goods is not taxable.

*Stamp Tax.* This is a local tax that 23 provinces and the City of Buenos Aires collect based on similar rules regarding subject matter, tax base and rates. In general, this tax is levied on acts validated by documents, (e.g. acts related to the constitution, transmission, or expiration of rights, contracts, contracts for sales of stock and company shares, public deeds relating to real property, etc.).

In the City of Buenos Aires (federal district) the stamp tax only applies to public deeds for the transfer of real estate, or for any other contract whereby the ownership of real property is transferred. The purchase and sale of real estate through public deed is not taxable if the real estate will be used for housing. In the City of Buenos Aires the tax rate is 2.5%. In the Province of Buenos Aires, the tax rate is 4% in the case of public deed of transfer of real property.

## **C. ORGANIZATIONAL STRUCTURE**

### **Subsidiaries and Affiliated Companies**

The following table includes a description of our subsidiaries and affiliated companies, all of which are organized under the laws of Argentina, as of June 30, 2004:

**Subsidiaries**

**Property/Activity**

	<b>Effective Ownership Percentage</b>	
Inversiones Ganaderas S.A.	99.99%	This company owns two farms located in the Province of Catamarca: Tali Sumaj and El Recreo.
Cactus Argentina S.A.	50.00%	This company represents our strategic alliance with Cactus Feeders Inc. for feedlot production. It owns a 170-hectare farm located in the district of Villa Mercedes in the Province of San Luis. It will have the capacity to support 75,000 head of beef-cattle per year, in cycles of approximately 28,000 head each.
Agro-Uranga S.A.	35.72%	An agriculture, dairy and beef-cattle company which owns two farms (Las Playas and San Nicolás) covering 8,299 hectares in the provinces of Santa Fe and Córdoba, and approximately 3,478 beef-cattle head.

**Table of Contents**

<u>Subsidiaries</u>	<u>Effective Ownership Percentage</u>	<u>Property/Activity</u>
Futuros y Opciones.Com S.A.	70.00%	A leading agricultural site which provides information about markets and services of economic and financial consulting through the Internet. The company has begun to expand the range of commercial services offered to the agricultural sector by developing direct sales of supplies, grain brokerage services and beef-cattle operations.
IRSA Inversiones y Representaciones Sociedad Anónima	25.42%	Is a leading Argentine company devoted to the development and management of real estate.

*IRSA.* During the fiscal year ended June 30, 2003, we acquired 6,856,417 shares of IRSA for a total consideration of Ps. 8.2 million. During the fiscal year ended June 30, 2004, we acquired 6,050,983 additional shares, for a total consideration of Ps. 14.6 million. In addition, in May 2004, we have decided to convert 5.0 million aggregate principal amount of IRSA's Convertible Notes in exchange for 9,174,311 shares.

On September 30, 2004, Cresud exercised 5.0 million of its IRSA warrants for 9,174,311 ordinary shares of IRSA's stock at a total cost of US\$ 6.0 million. As of September 30, 2004, holders of warrants issued by Cresud, had exercised 6.7 million warrants (of the 50.0 million issued originally) generating income amounting US\$ 8.1 million for the Company.

Effective March 31, 2002, as a result of a change in our strategy to currently hold such shares as permanent investments, our investment in IRSA is valued using the equity method of accounting. This decision was made as a result of the impact of the recent economic changes on the financial markets, which altered the original budget estimates for these types of investments. The current valuations and present conditions make a permanent investment opportunity less burdensome and increase the possibility of achieving considerable profit in the long term. Although the investment was originally thought of as a short-term investment, it was transformed into a more permanent investment due to the market conditions.

*Futuros y Opciones.Com S.A.* In May 2000, we acquired 70% of shares and an irrevocable purchase option for the remainder of the shares of Futuros y Opciones.Com S.A. for Ps. 3.5 million. We made additional capital contributions for Ps. 3.0 million for prospective developments of which, as of June 30, 2001, we had provided Ps. 2.1 million. On April 16, 2002 an agreement was signed whereas Cresud completed the abovementioned contribution. The site was launched in November 1999 and is aimed at becoming the most important agriculture business community in Latin America. Futuros y Opciones.Com S.A. has launched its e-commerce strategy in March 2001, in order to sell products, buy inputs, ask for loans, and obtain insurance, among other things. The results of Futuros y Opciones.Com S.A. have been included in our consolidated statement of income from the date of acquisition through June 30, 2004.

Those areas with greater potential of growth, inputs commercialization, grain businesses and beef-cattle operations, were organized during fiscal year 2002. On inputs the businesses volume was concentrated in smaller amount of suppliers, the agreements with the suppliers were improved in order to increase the margin of the business, and contracts of direct distribution were achieved. In grains, the brokerage department was created, with the purpose of participating directly in the business by trading

**Table of Contents**

and offering services. In beef-cattle, Futuros y Opciones.Com S.A had created an alliance with a sector leader broker, that will allow them to obtain better uses of their clients info-data and technological knowledge. Also Futuros y Opciones.Com S.A. together with us had created a beef-cattle tracing system according to SENASA's new regulations, which is going to be commercialized throughout the site, allowing that in a future commercialization closed circles of beef-cattle can be developed.

Futuros y Opciones.Com S.A. continues to operate as a leading agricultural website. Currently, Futuros y Opciones.Com S.A. has a database of 40,000 users and over 5,000 agribusiness producers authorized to make deals.

*Cactus Argentina S.A.* is a company owned by us and Cactus Feeders Inc., one of the largest feedlot companies in the United States. The site is located in Villa Mercedes, in the Province of San Luis and covers 170 hectares. The feedlot began to operate in September 1999. This feeding system allows an increase of production in fattening farms, since cattle remain on fattening farms until they reach 300 kilograms, when they are more efficient at converting into beef. When cattle reach such weight, they are taken to the feedlot (grain feeding), where higher grain-beef conversion speeds up the remainder of the fattening process. The homogeneity of animals from feedlots offers buyers a high-quality product. As a result, marketing is easier and the prices obtained in sales are better.

During this fiscal year, the 170-hectare feedlot continued its growth by operating at high occupation levels and thus providing significant cash generation. Given the increase in demand, Cactus Argentina S.A. decided to enhance the capacity of the feedlot by adding 14 new pens with capacities ranging from 2,500 to 4,000 new head. This work was completed in the second quarter of the fiscal year. The average monthly occupation for the fiscal year was 24,000 heads, 33% higher than the average monthly occupation for the prior fiscal year.

Cactus Argentina S.A. obtained major benefits due to increased demand and capacity. Net income for the year was Ps. 0.8 million. The Company currently has high liquidity and no bank debt. As a consequence, it may obtain top quality supplies at highly competitive prices.

On August 30, 2002 our Board of Directors approved the signing of a final merger agreement with the absorbed companies *Agro Riego San Luis S.A.* and *Colonizadora Argentina S.A.*



**Table of Contents****D. PROPERTY, PLANT AND EQUIPMENT****Overview of Properties**

In December 2003, we started to sublease our headquarters from Inversora Bolivar S.A., a subsidiary of IRSA.

The following table sets forth our properties size (in hectares), primary current use and book value. The market value of farmland is generally higher the closer a farm is located to Buenos Aires:

**Owned Farms at June 30, 2004**

					Net carrying value
	Province	Gross Size (in hectares)	Date of Acquisition	Primary Current Use	(Million of Ps.) <sup>(1)</sup>
La Adela	Buenos Aires	982	Original	Crop	7.2
San Enrique	Santa Fe	977	Original	Crop/Beef-Cattle	1.8
La Juanita	Buenos Aires	4,302	Jan. 96	Crop/Milk	11.2
El Gualicho	Córdoba	5,729	Feb. 95	Crop/Beef-Cattle	6.4
Las Vertientes	Cordoba	4		Silo	0.7
La Esmeralda	Santa Fe	11,841	June 98	Crop/Beef-Cattle	11.9
Ñacurutú	Santa Fe	30,350	Aug. 97	Beef-Cattle	8.1
La Suiza	Chaco	41,993	June 98	Beef-Cattle	27.2
Tapenagá	Chaco	20,833	Aug. 97/Sept. 97	Beef-Cattle	6.1
Santa Bárbara/Gramilla	San Luis	7,052	Nov. 97	Crops under irrigation	22.3
Cactus (2)	San Luis	85		Feedlot	3.3 <sup>(3)</sup>
El Recreo(4)	Catamarca	14,274	May 95	Natural Woodlands	0.2
Tali Sumaj(4)	Catamarca	12,700	May 95	Beef-Cattle	5.6
Los Pozos				Beef Cattle/Crop Natural Woodlands	
	Salta	262,000	May 95		19.3
San Nicolás/Las Playas(5)	Sta.Fe/Cba.	2,965	May 97	Crop/Beef-Cattle	16.4 <sup>(6)</sup>
El Tigre	La Pampa	8,360	Apr 03	Crop	28.3
<b>Total</b>		<b>424,447</b>			<b>176.0</b>

(1) Acquisition costs plus improvements less depreciation.

(2) Owned by us through our 50.0% interest in Cactus Argentina S.A.

(3) Book value of our investment in Cactus Argentina S.A.

(4) Owned by us through Inversiones Ganaderas S.A.

(5) Owned by us through our 35.723% interest in Agro-Uranga S.A.

(6) Book value of our investment in Agro-Uranga S.A.

*Farms*

As of June 30, 2004, we, together with our subsidiaries, owned 18 farms with a combined total of 424,447 hectares of land, two of which are located in the Province of Buenos Aires, four in the Province of Santa Fe, three in the Province of Córdoba, two in the Province of Chaco, three in the Province of San Luis, two in the Province of Catamarca, one in the Province of Salta, and one in the Province of La Pampa. None of our properties have any encumbrances or environmental issues.

*La Adela.* *La Adela*, located 60 kilometers northwest of the Province of Buenos Aires, is one of our original farms. During December 2001, the dairy farm at *La Adela* was closed. This farms is dedicated to crop production. In the course of this fiscal year it was leased to a third party.

*San Enrique / Los Maizales.* *San Enrique* and *Los Maizales*, located 340 kilometers northwest of Buenos Aires, are two of our original farms. The farms are adjacent and are primarily dedicated to crop production. The climate is mild and the fertile soil is well suited to high-yield crop harvesting, such as

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**Table of Contents**

corn. As of June 30, 2004, 977 hectares of land were used for crop production and 353 hectares of pasture lands were sown with alfalfa, red and white clover, grass and wild barley. Livestock production is carried out as a supplement to agricultural production and capitalizes on lands which have been temporarily left fallow. As of June 30, 2004, there were approximately 135 head of cattle on 353 hectares dedicated to cattle production. On April 30, 2003, a sales deed was executed for the *Los Maizales* farm, 618 hectares located in the Villa Cañas district in the Province of Santa Fé. The farm was sold for US\$ 1.9 million. This sale generated a profit of Ps. 4.3 million.

On June 30, 2004 a preliminary purchase and sale agreement was signed for the *San Enrique* farm. The sale price will be US\$ 5.0 million. This sale will generate a profit of approximately US\$ 4.3 million when consummated. We expect to close the transaction during fiscal year 2005.

*La Juanita.* *La Juanita*, located 440 kilometers southwest of the Province of Buenos Aires, was acquired in January 1996. As of June 30, 2004, 3,472 head of cattle grazed on 820 hectares of sown and natural pastures and 1,441 hectares of crops were used for crop production. Dairy facilities at this farm produced 6,7 million liters of milk in fiscal year 2004, with an average of 1,000 milking cows and an average production of 18.41 liters per cow per day.

*El Gualicho.* *El Gualicho*, located 600 kilometers northwest of the Province of Buenos Aires, was purchased in February 1995. This farm produces both crops and cattle. As of June 30, 2004, there were approximately 4,362 heads of beef-cattle on 4,318 hectares of land. During the fiscal year ended June 30, 2004, 690 hectares were dedicated to crop production including flint corn and sunflower.

*El Recreo.* The climatic conditions of *El Recreo*, located 970 kilometers northwest of the Province of Buenos Aires and purchased in May 1995, are similar to those of *Tali Sumaj*, having a semi-arid climate with an average annual precipitation not greater than 400 mm. The farm is maintained as a productive reserve. On July 29, 2003, Inversiones Ganaderas S.A. sold to Las Rejas S.A., three properties located in the Santo Domingo district, department of La Paz, Province of Catamarca with a total surface area of 5,997 hectares for US\$ 0.43 million. This sale yielded a profit of Ps. 0.58 million.

*Tali Sumaj.* *Tali Sumaj*, located 1,000 kilometers northwest of the Province of Buenos Aires, was purchased in May 1995 and is located in a semi-arid zone with a predominance of natural woodlands. Due to these characteristics, we are clearing the woodlands to sow subtropical pastures in order to introduce cattle raising. As of June 30, 2004, *Tali Sumaj* had 5,788 head of beef-cattle on approximately 9,500 hectares of pastures. The remaining approximately 3,200 hectares of woodlands are being converted to pasture. The farm is divided into 16 parcels with perimeter fences and drinking troughs with a reserve of 1,000,000 liters of water.

*Los Pozos.* *Los Pozos*, located 1,600 kilometers northwest of the Province of Buenos Aires and purchased in May 1995, is located in a semi-arid zone with an average annual rainfall of 500 mm, predominantly from summer rains. The farm forms part of the Chaquean woods segment. The area is covered with a high proportion of hardwood tree species such as red breakaxe, white breakaxe, vetch and viñal, among others. The area is naturally suited for cattle raising and forestry (poles and charcoal), and offers agricultural potential for summer crops such as cotton, beans, sorghum and corn, among others. We completed the clearing and sowing with tropical pastures of approximately 14,000 hectares of woodlands. As of June 30, 2004, there were 16,518 head of beef-cattle on this farm. This farm has shown major growth through a complete cycle in the production of beef by succeeding in raising, re-raising and fattening steer to be sold at an average weight of 392 kg. In addition, agriculture pilot trials are being run for the second year in a row and yields and surface area were successfully increased.

*San Nicolás.* *San Nicolás* is a 4,005-hectare farm owned by Agro-Uranga S.A., located in the Province of Santa Fe, approximately 45 kilometers from the port of Rosario. As of June 30, 2004, approximately 6,362 hectares were used for crop production, including double crops. The farm also has a silo with a 14,950-ton storage capacity.



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**Table of Contents**

*Las Playas.* *Las Playas* is a 4,294-hectare farm owned by Agro-Uranga S.A., located in the Province of Córdoba, used principally for agricultural production and beef-cattle production. As of June 30, 2004, the farm had 645 head of beef-cattle on approximately 200 hectares of pastures. In addition, 5,511 hectares were used for crop production, including double crops. The farm also has a pre-seed cleaning, drying, seed classification and storage plant with 3,500 ton capacity. Dairy facilities at this farm produced 4,468 million liters of milk in fiscal year 2004, with 734 head of cattle on 508 hectares.

*Ñacurutú.* *Ñacurutú* is a 30,350-hectare property located in Los Amores, in the northern part of the Province of Santa Fe. This farm is situated along the provincial highway N° 3, 160 km north of the City of Reconquista and only 600 km from the City of Rosario. The farm has livestock potential, and its main activity is cattle breeding. This farm has the advantage of producing at very low costs. As of June 30, 2004, the farm had 14,458 head of beef-cattle. On August 25, 2004 a preliminary purchase and sale agreement was entered into for the farm. The price agreed upon was approximately US\$ 5.6 million. This sale will generate a profit of approximately US\$ 2.7 million when consummated. We expect to close the transaction during fiscal year 2005.

*Tapenagá.* This 20,833-hectare property is located in Cotei Lai, in the south of the Province of Chaco. The farm is situated along national highway N° 89, 75 km west of the City of Resistencia and only 120 km from *Ñacurutú* farm. The farm's main activity is cattle breeding. Like *Ñacurutú*, this is a low-cost producing farm. As of June, 2004 the farm contained 9,813 head of cattle.

*El 41-42.* This 6,478-hectare farm is located in the department of Tapenagá, in the Province of Chaco and is next to Tapenagá farm. With its acquisition, the scale of Tapenagá farm was increased to a total of 27,311 hectares. On November 26, 2003 the sales deed for the *El 41-42* was executed at a price of US\$ 0.97 million. This sale generated profits of Ps. 1.09 million.

*La Gramilla and Santa Bárbara.* These farms cover 7,052 hectares in the Valley of Conlara, Province of San Luis. Unlike other areas in the province, this valley has a high-quality and well-replenished underground aqueduct, which makes the farms suitable for agriculture production after making investments in land clearance, wells and irrigation equipment. During the 2004 season, a total of 2,934 hectares were sown, mainly under agreements with seed producers and leases to third parties of 645 hectares. Commodities were also sown. During this cycle an investment was made on approximately 1,100 hectares to develop irrigation and water supply to continue to expand the farm.

*La Suiza.* *La Suiza* is a 41,993-hectare farm located in Villa Angela, Province of Chaco; it has excellent livestock potential and is intended for cattle breeding. *La Suiza* can support more than 30,000 head of beef-cattle. As of June 30, 2004, *La Suiza* had approximately 23,364 head of beef-cattle.

*La Esmeralda.* *La Esmeralda* is a 11,841-hectare farm located in Ceres, Province of Santa Fe. The farm, acquired in June 1998, has potential for both crop and beef-cattle production. During the 2003/2004 season, a total area of 3,295 hectares was leased for crop production. As of June 30, 2004, *La Esmeralda* had approximately 9,413 head of beef-cattle on 10,300 hectares of pasture. As of June 30, 2004 it had 8,362 heads of cattle on 7,798 hectares with the goal of increasing the surface area devoted to agriculture.

*El Tigre.* *El Tigre* was purchased on April 30, 2003, with a surface area of 8,360 hectares, located in Trenel Department, Province of La Pampa for the amount of US\$ 9.2 million. As of June 30, 2004, 3,995 hectares were dedicated to agricultural production and 3,369 hectares were leased to third parties to diversify the risk of producing grain in an area historically devoted to the production of beef.

*Silos*

As of June 30, 2004, we had approximately 20,001 tons of storage capacity (including 35.723% of 14,950 tons from Agro-Uranga S.A.).

**Table of Contents**

The following table sets forth, for the periods indicated, our storage facilities:

	Storage Capacity				
	Year ended June 30,				
	2000	2001	2002	2003	2004
	(in tons)	(in tons)	(in tons)	(in tons)	(in tons)
El Bañadito	7,000				
San Enrique	660	660	660	660	660
El Gualicho	2,000	2,000	2,000	2,000	2,000
Las Vertientes	12,000	12,000	12,000	12,000	12,000
San Nicolás(1)	5,330	5,330	5,330	5,330	5,341
Las Playas(1)	1,247	1,247	1,247	1,247	
<b>Total</b>	<b>28,237</b>	<b>21,237</b>	<b>21,237</b>	<b>21,237</b>	<b>20,001</b>

(1) Owned through *Agro-Uranga S.A.* (representing 35.723% of the capacity).

**ITEM 5. OPERATING FINANCIAL REVIEW AND PROSPECTS****A. CONSOLIDATED OPERATING RESULTS**

The following management's discussion and analysis of our financial condition and results of operations should be read together with Selected Consolidated Financial Data and our consolidated financial statements and related notes appearing elsewhere in this Form 20-F. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include such words as, expects, anticipates, intends, believes and similar language. Our actual results may differ materially and adversely from those anticipated in these forward-looking statements as a result of many factors, including those set forth elsewhere in this Form 20-F.

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

We maintain our financial books and records in Pesos. Except as discussed in the following paragraph, we prepare our financial statements in conformity with Argentine GAAP and the regulations of the CNV. See Note 15 to our financial statements for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income (loss) and total shareholders' equity. 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 Notes 2.c. and 3.k. to our Consolidated Financial Statements, contained elsewhere in this annual report, in order to comply with CNV regulations, we discontinued inflation accounting as of March 1, 2003 as well as recognized deferred income tax assets and liabilities on a

non-discounted basis. These accounting practices represent departures from generally accepted accounting principles in Argentina. However, we believe that such departures have not had a material effect on our financial statements.

**Discussion of Critical Accounting Policies**

In connection with the preparation of the financial statements included in this annual report, we have relied on variables and assumptions derived from historical experience and various other factors



## **Table of Contents**

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

allowance for doubtful accounts;

investments in affiliates;

impairment of long-lived assets; and

deferred income tax.

### ***Allowance for Doubtful Accounts***

We maintain our allowance for bad debts at a level believed adequate by our management to reflect probable losses in our trade receivable due to customer default, insolvency, or bankruptcy. In setting up this allowance, our management applies the following criteria: customer credit history, current customer credit rating, delay in the collection of these receivables, our legal counsel's opinion and other relevant factors. The allowance is revised every three months. We believe that the accounting estimate relating to the allowance for bad debts is a critical accounting estimate, as it is subject to change because it requires estimates by our management and legal counsel. The allowance is determined on a case-by-case basis taking into account the analysis of all the overdue balances of our customers. The likelihood of collection of each of them is calculated on the basis of subsequent collections, agreements reached, customer credit situation, our legal counsel's opinion, and other variables, on the basis of which a bad debt allowance is set up in respect of all or part of the overdue balance.

### ***Investments in related companies***

We use the equity method of accounting for investments in related companies in which we have significant influence. Critical accounting policies of these related companies include revenues recognition, rental property depreciation, provision for allowances and contingencies, impairment of long-lived assets, accounting for debt restructuring and accounting for deferred tax assets. As of June 30, 2004, investments in related companies were Ps. 263.7 million representing 40.8% of our total assets.

### ***Impairment of Long-Lived Assets***

We periodically evaluate the carrying value of our long-lived assets for impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. Future net cash flows are based on management's current estimates and assumptions and are subject to change as it requires estimates made by the Management, mainly with respect to expected production, weather factors and other variables that could be consequential; and the impact of recognizing a depreciation loss could be material. We believe that the accounting estimate concerning the impairment of long-lived assets is a critical accounting policy

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because, when one takes into account that farms are non-depreciable assets of unlimited useful life, their value could be calculated as a perpetuity (i.e., dividing the expected return of each farm by a discount rate representative in the market). As farming is a low-risk business and has betas near to zero or even negative, a 6% discount rate was taken for purposes of the calculation. Even if there is a reduction of 20% in the expected return, it would not have been necessary to recognize any loss for depreciation of the referred assets.

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## **Table of Contents**

### ***Income tax provision***

The Company records income taxes using the deferred tax liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes.

At the end of the fiscal year there are temporary net liabilities (tax liabilities) mainly originated in the beef cattle valuation and the roll-over. The management has made estimations that allow to recognize this deferred tax.

### **Effect of Devaluations and Economic Crisis on us**

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

In the fourth quarter of 1998, the Argentine economy entered into a recession that caused the gross domestic product to decrease in real terms by 3.4% in 1999, 0.8% in 2000 and 4.4% in 2001. During the second half of 2001, Argentina's recession worsened significantly, precipitating a serious political and economic crisis. During 2002, the gross domestic product decreased 10.9% as compared to 2001, and during the first three quarters of 2003, the gross domestic product increased 7.3%. In 2003, the economy began to recover, ending the year with a 11.7% annual growth year over year. Estimates for 2004, indicate a GDP growth of approximately 8%.

On December 23, 2001, President Adolfo Rodríguez Saá declared the suspension of the payment of foreign debt and later Eduardo Duhalde ratified his decision. On January 6, 2002, Argentine Congress enacted the Public Emergency Law which repeals several provisions of the Convertibility Law which prevailed in Argentina for 10 years, and the executive branch announced the devaluation of the Peso the establishment of a dual exchange rate system in which certain limited transactions will occur at a fixed rate of Ps. 1.4 to US\$ 1.0 and all other transactions will be settled at a floating market rate depending on supply and demand. This new legislation had a material adverse impact on our financial position and the results of our operations in fiscal year 2002 mainly through its effects in IRSA, which was partially offset during fiscal year 2003 and 2004.

In order to prevent inflation and variations in the exchange rate from adversely affecting prices of primary and manufactured products (including agricultural products), and to increase tax collections and reduce Argentina's fiscal deficit, the Argentine government has imposed new taxes on exports. Pursuant to Resolution No. 11/02 of the Ministry of Economy, as amended by Resolution 35/02, 160/2002, 307/2002 and 530/2002, the Argentine government imposed a 20%, 10% and 5% export tax on primary and manufactured products.

The economic crisis and the measures adopted by the government, had a positive impact on the different sectors related to the agricultural-livestock business. The business' main competitive advantage was the decrease in labor and administrative expenses and professional fees in U.S. Dollar terms, which only increased as a consequence of inflation, due to the fact that they are Peso-denominated expenses.

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Beef-cattle and milk production improved their margins, as prices increased in U.S. Dollar terms increased while most of their costs were denominated in Pesos. Furthermore, U.S. Dollar prices of crops increased while a substantial part of our costs remained in U.S. Dollar terms. Despite this fact, margins improved.

**Table of Contents**

Following the devaluation of the Argentine Peso and the increase in the profitability of the agricultural-livestock business, the demand for land began to increase, leading to a considerable rise in U.S. Dollar prices, which are currently at levels comparable to those prior to the Argentine crisis. Given this scenario, our Board of Directors is in position to identify and take advantage of market opportunities for the purchase and sale of land.

Since we are producers of exportable goods, export taxes decreased our products prices, and, therefore, had an adverse effect on our sales.

**Effects of inflation**

From 1997 until the end of year 2001, policies adopted by the Argentine government have substantially reduced the level of inflation. Therefore, during that period inflation did not significantly affect our financial

condition and results of operations. The following are annual inflation rates figures published by the Ministry of Economy of Argentina:

<u>Year ended June 30,</u>	<u>Consumer Price Index</u>	<u>Wholesale Price Index</u>
1997	0.9%	0.1%
1998	1.1%	-1.9%
1999	-1.4%	-5.3%
2000	-1.2%	4.4%
2001	-0.3%	-1.6%
2002	30.5%	95.6%
2003	10.2%	8.3%
2004	4.9%	0.1%

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

**Significant Investment in IRSA**

From December 2000 to June 2004, and pursuant to our strategy of diversifying our business activities, we made a significant investment in IRSA, an Argentine real estate company. As of June 30, 2004 our investment in IRSA had increased to 25.4% of its outstanding shares. In addition, during 2002, we purchased a total amount of 49.7 million IRSA's Convertible Notes.

We have decided to convert 5 million principal amount of the Convertible Bonds (Obligaciones Negociables Convertibles - ONC) as part of our long-term strategy to avoid a reduction in our ownership percentage when third parties exercised their rights to convert convertible notes or they

exercised warrants.

As of June 30, 2004 our total investment in IRSA amounted to Ps. 351.8 million and represented 54.45% of our total assets. A majority of our directors are also directors of IRSA, and we are under common control by the same group of controlling shareholders.

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## Table of Contents

As from March 31, 2002, as a result of a change in our strategy whereby we currently hold IRSA's shares as a permanent investment, we changed the accounting method from market value to the equity method of accounting. At June 30, 2002, our investment in IRSA was valued by the equity method of accounting as a result of a change of strategy according to which those shares are carried as a long-term investment. This decision was made as a result of the impact of the recent economic measures on the financial markets, which modified the original budget with respect to these types of investments. Current valuations and economic conditions reduce the risks inherent to long-term investment opportunities and increase the possibility of obtaining significant return in the long term. In view of these circumstances: (i) the value of the investment was set at market value; (ii) the value of the investment was calculated by the equity method of accounting; and (iii) the difference between (i) and (ii) was recognized as negative goodwill to be amortized over 20 years. As a result, at June 30, 2003 the goodwill value is (20.7) million.

## Operating Results

### Year ended June 30, 2004 compared to the year ended June 30, 2003

#### *Sales*

Sales reached Ps. 62.3 million, 13.5% lower than those recorded in the previous year. Higher sales in the rest of the segments partially offset lower agricultural sales.

*Crops.* Crop sales decreased 46.3%, from Ps. 50.2 million in fiscal year 2003 to Ps. 26.9 million in fiscal year 2004. The 47.0% drop in the volume of sales, from 121,426 tons down to 64,398 tons, was partially offset by a 1.2% rise in unit price in fiscal year 2004 compared to the price for fiscal year 2003. The average price per ton sold was Ps. 418 compared to Ps. 413 in the prior fiscal year. Crop production increased 6.03%, from 70,369 tons in fiscal year 2003 to 74,612 tons in fiscal year 2004 (wheat and corn production increased 77.8% and 13.3%, respectively and soybean production decreased 18.4%). Total sowed area decreased from 23,638 hectares in fiscal year 2003 to 23,117 hectares in fiscal year 2004. Sowed area on leased lands decreased from 13,628 hectares in fiscal year 2003 to 9,766 hectares in fiscal year 2004 and sowed area on own lands increased from 10,010 hectares in fiscal year 2003 to 13,351 hectares in fiscal year 2004.

*Beef Cattle.* Beef cattle sales increased 58.1%, from Ps. 17.3 million in fiscal year 2003 to Ps. 27.4 million in fiscal year 2004. The 52.1% increase in the volume of sales was accompanied by a 4.0% increase in the price per ton sold. Sales volume increased from 9,561 tons to 14,540 tons, while sales price increased from Ps. 1.81 per kilogram in fiscal year 2003 to Ps. 1.88 per kilogram in fiscal year 2004. Average cattle stock increased from 86,234 head in fiscal year 2003 to 93,319 in fiscal year 2004, and total beef cattle production increased 24.4%, from 9,121 tons in fiscal year 2003 to 11,343 tons in fiscal year 2004. This increase was a result of an increase in our stock position in this segment and of a higher number of cattle head finished in feedlots. The number of owned hectares under beef-cattle production dropped from 135,257 hectares in fiscal year 2003 to 125,513 hectares in fiscal year 2004. This reduction was mainly due to the sale of *El 41 y 42*, and the conversion of hectares used for cattle raising into hectares used for agriculture in *La Esmeralda*.

*Milk.* Sales of milk increased 32.2%, from Ps. 2.4 million in fiscal year 2003 to Ps. 3.2 million in fiscal year 2004, mainly due to a 18.3% increase in the average sales price, from Ps. 401 per one thousand liters in fiscal year 2003 to Ps. 474 per one thousand liters in fiscal year 2004. The increase in the volume of sales of milk was attributable to a 11.7% increase in production due to the change in the feeding system, from grass feed to natural supplements and grains, caused by the drought. Total production was 6.0 million liters in fiscal year 2003 compared to 6.7 million liters in fiscal year 2004.





## **Table of Contents**

*Others.* Sales increased 132.8% from Ps. 2.1 million in fiscal year 2003 to Ps. 4.8 million in fiscal year 2004 mainly due to an increase of Ps. 2.3 million in income derived from leases. We decided to decrease risks by assigning more hectares through lease contracts to third parties due to the sustained demand of land to be leased at high prices (average of US\$ 200 per hectare of leased land).

### ***Cost of sales***

The cost of sales decreased 23.6% from Ps. 51.0 million in fiscal year 2003 to Ps. 39.0 million in fiscal year 2004. Cost of sales as a percentage of net sales decreased from 70.9% in fiscal year 2003 to 62.6% in fiscal year 2004.

*Crops.* The cost of sales for crops decreased from Ps. 39.4 million in fiscal year 2003 to Ps. 15.4 million in fiscal year 2004. This decrease was mainly attributable to (i) a decrease in the volume of sales from 121,426 tons to 64,398 tons for the fiscal years 2003 and 2004 respectively, (ii) the high stock level at the beginning of fiscal year 2003 and a decrease in the prices of commodities in the same fiscal year which affected the sales costs and (iii) to a lesser extent, the impact of currency exchange rates on the cost of supplies.

*Beef cattle.* Cost of sales for beef cattle increased 141.7% from Ps. 8.7 million in fiscal year 2003 to Ps. 21.1 million in fiscal year 2004. This increase was primarily due to the impact of a higher quantity of beef cattle finished in the feedlot, from 8,400 heads during fiscal year 2003 to 22,200 heads during fiscal year 2004, as a consequence of the drought which prevented part of our beef cattle from being fed by natural pastures. The cost of sales for beef cattle as a percentage of sales of cattle increased from 50.5% in fiscal year 2003 to 77.2% in fiscal year 2004. The cost of each ton sold also increased from Ps. 915 in fiscal year 2003 to Ps. 1,454 in fiscal year 2004.

*Milk.* Cost of sales for milk decreased 11.8% from Ps. 1.5 million in fiscal year 2003 to Ps. 1.3 million in fiscal year 2004. This decrease was due mainly to the positive effect of Ps. 1.0 million of the re-categorization of the beef cattle acquired during the fiscal year, partially offset by the negative impact of Ps. 0.6 million of higher feeding and sanitation costs as a result of the drought. The cost of sales for milk per thousand liters decreased from Ps. 246 in fiscal year 2003 to Ps. 194 in fiscal year 2004.

*Others.* Costs decreased 19.1% from Ps. 1.4 million in fiscal year 2003 to Ps. 1.1 million in fiscal year 2004 mainly due to the discontinuation of the firewood and charcoal business.

### ***Gross Profit***

As a result of the sales and costs described above, gross profit increased to Ps.23.3 million in fiscal year 2004 compared to a Ps. 20.9 million profit recorded in fiscal year 2003.

### ***Selling Expenses***

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Selling expenses decreased from Ps. 6.0 million in fiscal year 2003 to Ps. 4.9 million in fiscal year 2004. Selling expenses from agricultural activities accounted for 63.6% of total selling expenses, selling expenses from livestock activities accounted for 30.5% and other activities accounted for the remaining 5.8%. Selling expenses from crops decreased by 35% mainly due to a decrease in crop sales from 121,426 tons to 64,398 tons for the fiscal years 2003 and 2004, respectively. Selling expenses from crops as a percentage of sales amounted to 11.6% in fiscal year 2004. Selling expenses per ton of crop sold increased compared to those of the previous fiscal year amounting to Ps. 48 per ton in the current fiscal year. Selling expenses as a percentage of beef cattle sales decreased from 7.1% in fiscal year 2003 to 5.5% in fiscal year 2004 due to an improvement in our commercial agreements with our customers.

As milk production is sold directly and milk customers take production from our dairy farm, there are no selling expenses from milk activities.

## **Table of Contents**

### ***Administrative Expenses***

Administrative expenses increased by 22.9% from Ps. 4.3 million in fiscal year 2003 to Ps. 5.3 million in fiscal year 2004, mainly due to the increase in salaries of Ps. 0.6 million and in fees for services of Ps. 0.3 million. Administrative expenses include the Company's general expenses but excluded expenses related to farmland management.

### ***Net Gain on the Sale of Farms***

As of June 30, 2004, the result from the sales of fixed assets amounted to Ps. 1.7 million due to the sale of the *El 41 y 42* farm, with a surface area of 6,478 hectares and 3 properties owned by Inversiones Ganaderas S.A. with a total surface area of 5,997 hectares.

*El 41 y 42* was sold for a price of US\$ 1.0 million and the sale generated a profit of Ps. 1.1 million.

The 3 properties owned by Inversiones Ganaderas S.A. were sold for a price of at US\$ 0.4 million and generated a profit of Ps. 0.6 million.

As of June 30, 2003, sales of fixed assets amounted to Ps. 4.9 million, as a result of the sale of *San Luis* farm, covering 706 hectares in Junín, Province of Buenos Aires and *Los Maizales* farm, covering 618 hectares in Villa Cañás, Province of Santa Fe.

The sale of *San Luis* farm was for a price of US\$ 2.2 million, providing net income of Ps. 0.6 million.

The sale of *Los Maizales* farm was for a price of US\$ 1.8 million, providing a net income of Ps. 4.3 million.

### ***Inventory Holding Gain (Loss)***

The profit from inventory holding amounted to Ps. 2.2 million in fiscal year 2004, compared to Ps. 12.2 million in fiscal year 2003. The profit from cattle stock holding during fiscal year 2004 was lower compared to fiscal year 2003 mainly because the increase in real prices of beef-cattle during fiscal year 2003 was substantially higher than in fiscal year 2003. This decrease reflected the profit from cattle stock holding based on the increase in real prices during fiscal year 2003.

### ***Operating Income***

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Given the factors described above, the operating result amounted to Ps. 17.0 million in fiscal year 2004 compared to a profit of Ps. 27.7 million in fiscal year 2003. The operating margin amounted to 21.0% in fiscal year 2004 and 14.7% in fiscal year 2003.

### *Financial results, Net*

Net financial results provided a profit of Ps. 0.2 million for fiscal year 2004 and a loss of Ps. 10.9 million for fiscal year 2003. This Ps. 11.1 million change was mainly due to variations of the exchange rate of Ps. 12.1 million partially offset by a variation in the inflation effects of Ps. 1.6 million.

Financial results were attributable to (i) a Ps. 0.3 million loss due to restatement factors, (ii) a Ps. 1.6 million profit derived from foreign exchange differences, (iii) a Ps. 1.2 million loss from tax on debits and credits in bank accounts, and (iv) a Ps. 0.1 million profit derived from interest and others.

## **Table of Contents**

### ***Equity Gain (loss) from Related Companies***

Equity gain from related companies decreased from a Ps. 68.0 million in fiscal year 2003 to Ps. 27.1 million in fiscal year 2004 mainly as a result of a lower result from our investment in IRSA.

### ***Other (Expense) Income, Net***

Other expenses, net during fiscal year 2004 was a Ps. 0.5 million loss compared to Ps. 2.1 million loss in fiscal year 2003 primarily due to a decrease in the amount of donations from Ps. 2.0 million to Ps. 0.7 million in the fiscal years 2003 and 2004, respectively.

### ***Management Fee***

Under our agreement with Consultores Asset Management S.A., we pay a fee equal to 10% of our net income for agricultural advisory services and other management services. The fees incurred were Ps. 7.2 million and Ps. 3.6 million in the fiscal years 2003 and 2004, respectively.

### ***Income Tax Expense***

Income tax expense decreased by Ps. 2.3 million from Ps. 10.6 million loss in fiscal year 2003 to Ps. 8.3 million loss in fiscal year 2004. The deferred tax allocation method was used to calculate the income tax corresponding to the two years, therefore recognizing the temporary differences in accounting and tax assets and liabilities. The Ps. 2.3 million gain was mainly due to a decrease of Ps. 0.6 million from deferred tax and a decrease of Ps. 1.7 million from income tax.

### ***Minority Interest***

A third party interest amounting to Ps. 0.1 million was recorded during fiscal year 2004 to account for our minority interest in Futuros y Opciones.com S.A..

### ***Net income (loss) for the year***

Net income decreased from Ps. 65.0 million for fiscal year 2003 to Ps. 32.1 million for fiscal year 2004. The net margin, computed as net results over total sales amounted to 51.6% for fiscal year 2004.

**Year ended June 30, 2003 compared to the year ended June 30, 2002**

***Sales***

Sales reached Ps. 71.9 million, 10.3% lower than those recorded in the previous year. Higher agricultural sales partially offset smaller sales from the other segments.

*Crops.* Crop sales increased 6.3% to Ps. 50.2 million in fiscal year 2003, from Ps. 47.2 million in fiscal year 2002. The 0.7% increase in the volume of sales to 121,426 tons from 120,624 tons was accompanied by a 5.6% higher unit price in fiscal year 2003 as compared to fiscal year 2002. The average price per sold ton was Ps. 413 in fiscal year 2003 as compared to Ps. 391 obtained in the previous year. Crop production decreased 50.6% from 142,478 tons in fiscal year 2002 to 70,369 tons in fiscal year 2003 (wheat, corn and soybean production decreased 66.5%, 54.9%, 42.2%, respectively). Total sowed area decreased to 23,638 hectares in fiscal year 2003 from 43,777 hectares in fiscal year 2002. Sowed area on leased lands decreased to 13,628 hectares during fiscal year 2003 from 25,306 hectares in fiscal year 2002, and sowed area on owned lands was reduced to 10,010 hectares in fiscal year 2003 from 18,471 hectares in fiscal year 2002. This reduction mainly resulted from the high cost of leases that triggered a reduction in leased hectares, and the impact of the sale of *La Sofia* and *El Coro* farmlands during fiscal year 2003.

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**Table of Contents**

*Beef Cattle.* Beef cattle sales decreased 37.3% to Ps. 17.3 million in fiscal year 2003 from Ps. 27.6 million in fiscal year 2002. The 47.5% reduction in the sales volume was partially offset by the 19.3% increase in the price per sold ton. The sales volume decreased to 9,561 tons from 18,201 tons, while the sales price increased to Ps. 1.81 per kilogram in fiscal year 2003 from Ps. 1.52 per kilogram in fiscal year 2002. Average cattle stock decreased to 86,234 heads in fiscal year 2003 from 93,380 heads in fiscal year 2002, and total beef cattle production decreased 13.1% to 9,121 tons in fiscal year 2003 from 10,493 tons in fiscal year 2002. This decrease was due to the reduction of our stock position in this segment and the smaller number of heads finished in the feedlot. The own area devoted to beef cattle production decreased to 135,257 hectares in fiscal year 2003 from 153,435 hectares in fiscal year 2002. This reduction is mainly related to the sale of the El Coro property during the previous fiscal year.

*Milk.* Sales of milk increased 6.9% to Ps. 2.4 million in fiscal year 2003 from Ps. 2.3 million in fiscal year 2002, mainly due to a 20.5% increase in the average sales price to Ps. 401 per thousand liters in fiscal year 2003 as compared to Ps. 333 per thousand liters in fiscal year 2002. Lower milk sales attributable to the 11.2% fall in production, caused by the shutdown of *La Adela* dairy facility during the previous year, was partially offset by a larger number of milking cows in *La Juanita*. Total production was 6.0 million of liters in fiscal year 2003 as compared to 6.8 million of liters in fiscal year 2002.

*Others.* Sales decreased 35.5% to Ps. 2.1 million in fiscal year 2003 from Ps. 3.2 million in fiscal year 2002 mainly due to the recessive market conditions, that pushed down sales prices of firewood and charcoal, partially offset by a higher income from services.

**Cost of sales**

The cost of sales increased 20.7% to Ps. 51.0 million in fiscal year 2003 from Ps. 42.3 million in fiscal year 2002. Cost of sales as a percentage of sales increased to 70.9% in fiscal year 2003 from 52.7% in fiscal year 2002.

*Crops.* The cost of sales for crops increased to Ps. 39.4 million in fiscal year 2003 from Ps. 13.8 million in fiscal year 2002. This increase is mainly attributable to the impact of currency exchange rates on the cost of supplies and to a lesser extent, to the positive effect of the initial stock valuation during fiscal year 2002.

*Beef cattle.* Cost of sales for beef cattle decreased 61.6% to Ps. 8.7 million in fiscal year 2003 from Ps. 22.8 million in fiscal year 2002. Such reduction is mainly attributable to the impact of a smaller number of heads finished in the feedlot from 20,100 heads during fiscal year 2002 to 8,400 heads during fiscal year 2003. The cost of sales for beef cattle as a percentage of beef cattle sales decreased to 50.5% in fiscal year 2003 from 82.5% in fiscal year 2002. The cost per ton sold also decreased to Ps. 915 in fiscal year 2003 from Ps. 1,252 in fiscal year 2002 for the same reason.

*Milk.* Cost of sales for milk decreased 58.4% to Ps. 1.5 million in fiscal year 2003 from Ps. 3.6 million in fiscal year 2002. This reduction is due to the impact of the shutdown of *La Adela* dairy farm and the effect of changes in the feeding system. The cost of sales for milk per thousands of liters decreased to Ps. 246 in fiscal year 2003 from Ps. 525 in fiscal year 2002.

*Others.* Costs decreased 34.6% to Ps. 1.4 million in fiscal year 2003 from Ps. 2.1 million in fiscal year 2002 mainly because of the fact that although the firewood and charcoal business was affected by the recessive market conditions that forced us to lower final sales prices, there was no such reduction in costs. Therefore, the margin on this business decreased.

***Gross Profit***

As a result of the above, the gross profit amounted to Ps. 20.9 million during 2003 as compared to a Ps. 38.0 million profit during 2002.



## **Table of Contents**

### ***Selling Expenses***

Selling expenses decreased from Ps. 10.2 million during 2002 to Ps. 6.0 million during 2003. Selling expenses from agricultural activities accounted for 73.1% of total selling expenses, selling expenses from livestock activities accounted for 20.4% and other activities accounted for the remaining 6.5%. Selling expenses from crops, as a percentage of sales amounted to 8.6% during 2003. Selling expenses per ton of crop sold amounted to Ps. 36 during this year, reflecting a decrease with respect to the previous year. This is mainly due to better commercial agreements with our customers and to lower conditioning costs, as a result of the better quality of cereals produced. Selling expenses as a percentage of beef cattle sales increased from 6.6% during 2002 to 7.1% during 2003.

As milk production is sold directly and milk customers purchase our production from our dairy farm, there are no selling expenses from milk activities.

### ***Administrative Expenses***

Administrative expenses decreased by 48.5% from Ps. 8.4 million during 2002 to Ps. 4.3 million during 2003, mainly due to the reduction in salaries of Ps. 2.2 million, in fees for services of Ps. 0.6 million and in general office expenses of Ps. 1.1 million. Administrative expenses include the Company's general expenses and exclude expenses relating to farmland management.

### ***Net Gain on the Sale of Farms***

As of June 30, 2003, the result from sales of fixed assets amounted to Ps. 4.9 million, as a result of the sale of *San Luis* farm, covering 706 hectares in Junín, Province of Buenos Aires and *Los Maizales* farm, covering 618 hectares in Villa Cañas, Province of Santa Fe.

The sale of *San Luis* farm was agreed at US\$ 2.2 million, providing a net income amounting to Ps. 0.6 million.

The sale of *Los Maizales* farm was agreed at US\$ 1.8 million, providing a net income of Ps. 4.3 million.

As of June 30, 2002, the results for sales of fixed assets were of Ps. 16.6 million, as a consequence of the sale of the farms *El Silencio*, of 397 hectares, located in Rojas, Province of Buenos Aires, *El Coro*, of 10,231 hectares, located in Villa María del Río Seco, Province of Córdoba and *La Sofía*, of 6,149 hectares, located in Río Cuarto, Province of Córdoba.

The sale of *El Silencio*, which was acquired in January 1995, was for a price of US\$ 1.03 million and generated a gain of Ps. 0.22 million.

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*El Coro* farm with 10,231 hectares, was acquired in December 1995 and was sold in four different plots. The price received for such sale was Ps. 13.7 million and generated a Ps. 3.4 million profit.

The sale of *La Sofia*, was for a price of US\$ 10 million and generated a gain of Ps. 12.9 million.

### ***Inventory Holding Gain (Loss)***

The profit from inventory holding amounted to Ps. 12.2 million during 2003, as compared to a Ps. 19.6 million loss during 2002. Most of this result corresponds to a profit from cattle stock holding resulting from the increase in real prices.

## **Table of Contents**

### ***Operating Income***

As a result of the foregoing, the operating income amounted to Ps. 27.7 million during 2003 as compared to a Ps. 16.3 million profit recorded during 2002. The operating margin amounted to 14.7% during 2003 and 24.1% during 2002.

### ***Financial Results, Net***

Net financial results provided Ps. 10.9 million loss and Ps. 1.5 million income for 2003 and 2002, respectively. The change of Ps. 12.4 million was mainly due to a decrease in the exchange rate differences of Ps. 12.1 million and a decrease in the inflation effects of Ps. 12.9 million partially offset by a variation on the result of unrealized and realized holding loss in current investments of Ps. 12.3 million, from a loss of Ps. 12.2 million to a gain of Ps. 0.2 million.

Financial results are attributable to (i) a Ps. 0.2 million profit resulting from shares and securities transactions, (ii) a Ps. 1.2 million profit due to inflation effects, (iii) a Ps. 0.3 million loss from interest, (iv) a Ps. 11.1 million loss from foreign exchange differences and (v) a Ps. 0.9 million loss from tax on debits and credits in bank accounts.

### ***Equity Gain (Loss) from Related Companies***

The result of investments in shares increased from a Ps. 41.2 million loss during 2002 to a Ps. 68.0 million profit during 2003, mainly due to IRSA's net result during the year which amounted to Ps. 64.9 million, the profit obtained from the operation of Cactus Argentina S.A., which amounted to Ps. 0.3 million, Agro-Uranga S.A. operating profit which amounted to 2.4 million and goodwill and intangible assets amortization for an amount of Ps. 0.5 million.

### ***Other (Expense) Income, Net***

Other income and expenses, net during 2003 amounted to a Ps. 2.0 million loss as compared to a Ps. 0.2 million profit during 2002.

During 2003 a gift charge for Ps. 2.0 million was recorded while no charge was recorded during the previous year.

### ***Management Fee***

Under the agreement entered into with Dolphin Fund Management S.A., we pay a fee equal to 10% of our net income for agricultural advisory services and other management services.

Dolphin Fund Management S.A spun off into two companies on November 25, 2003: Consultores Asset Management S.A. and Dolphin Fund Management S.A. Eduardo Elsztain is the owner of 85% of the capital stock of Consultores Asset Management S.A., while our First Vice Chairman of the board, Saúl Zang, holds the other 15% of the capital stock. As a consequence of the spin off, the consulting agreement has been assigned to Consultores Asset Management S.A.

Eduardo Elsztain (formerly the Chairman of Dolphin Fund Management) is currently the Chairman of Consultores Asset Management S.A.

***Income Tax Expense***

Income tax expense decreased by Ps. 8.2 million from Ps. 18.8 million loss during 2002 to Ps. 10.6 million loss during 2003. The deferred tax allocation method was used to calculate the income tax corresponding to the two years, therefore recognizing the temporary differences in accounting and tax assets and liabilities. The Ps. 8.2 million gain was mainly due to a decrease of Ps. 5.3 million from deferred tax and a decrease of Ps. 2.9 million from income tax.

**Table of Contents****Minority Interest**

A third party interest amounting to Ps. 0.2 million was recorded during 2003 to show the minority interest in Futuros y Opciones.Com S.A. results.

**Net Income (Loss) for the year**

As a result of the foregoing, the net result increased from a Ps. 41.7 million loss during 2002 to a Ps. 65.0 million net income during 2003. The net margin, computed as net result over total sales amounted to 90.4% during 2003.

**B. LIQUIDITY AND CAPITAL RESOURCES**

The table below shows, for the periods indicated, our cash flows:

	As of end for the year ended June 30,		
	2004	2003 <sup>(1)</sup>	2002 <sup>(1)</sup>
	<i>(Million of Pesos)</i>		
Net cash (used in) provided by operating activities	(0.3)	11.4	27.9
Net cash provided by (used in) financing activities	16.7	165.6	(21.5)
Net cash (used in) provided by investing activities	(24.5)	(200.5)	33.8
Net (decrease) increase in cash and cash equivalents	(8.2)	(23.4)	40.1

(1) Adjusted for price-level changes and expressed in millions of constant Argentine Pesos of June 30, 2003.

As of June, 2004, we had cash and cash equivalents totaling Ps. 12.7 million, a decrease from the Ps. 20.9 million balance held as of June 30, 2003. This decrease was primarily due to the acquisition and improvement of fixed assets for Ps. 14.6 million, an increase in investments in related companies for Ps. 14.6 million and dividend payments of Ps. 1.5 million partially offset by the proceeds from the exercise of warrants for Ps. 23.1 million. As of June, 2003, we had cash and cash equivalents totaling Ps. 20.9 million, a decrease from the Ps. 44.3 million balance held as of June 30, 2002. This decrease primarily resulted from the collection of receivables related to the sale of fixed assets for Ps. 2.5 million, from the sale of fixed assets for Ps. 12.8 million, cash inflows provided by operating activities for Ps. 11.4 million and exercise of rights offering on treasury stock for Ps. 3.6 million partially offset by an increase in interest in related company for Ps. 8.2 million, acquisition and upgrading of fixed assets for Ps. 31.0 million, a decrease in financial loans for Ps. 13.7 million and other issuance expenses of Convertible Notes for Ps. 1.7 million.

**Net Cash (Used in) Provided by Operating Activities**

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Net cash provided by operations decreased from Ps. 11.4 million in fiscal year 2003 to a net cash outflow of Ps. 0.3 million in fiscal year 2004. The decrease in net cash provided by operations activities was primarily due to the increase in other receivables, in trade accounts receivable and in social security payable, charges, taxes payable and advances to customers for Ps. 15.9 million which were partially offset by a decrease in current investments of Ps. 5.9 million in fiscal year 2004 as compared to fiscal year 2003. Our operating activities resulted in net cash outflows of Ps. 0.3 million for fiscal year 2004

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**Table of Contents**

essentially due to a decrease in current investments and in trade accounts receivable and an increase in trade accounts payable of Ps. 15.3 million offset by an increase in inventories and dividends collected for Ps. 15.5 million.

Net cash provided by operations decreased from Ps. 27.9 million in fiscal year 2002 to Ps. 11.4 million in fiscal year 2003. The decrease in net cash provided by operations activities was primarily due to the increase in other liabilities payable, in trade accounts payable, in social securities, charges, taxes payable and advances to customers which were partially offset by a decrease in inventories, in trade accounts receivable, in current investments in fiscal year 2003 as compared to fiscal year 2002. Our operating activities resulted in net cash inflows for Ps. 11.4 million for fiscal year 2003 essentially due to a decrease in other liabilities, in trade accounts payable, in social securities, charges, taxes payable and interest payable and an operating loss of Ps. 10.0 million totaling Ps. 34.0 million offset by a decrease in current investments, a decrease in trade accounts receivable, other receivables and inventories and dividend collected for Ps. 45.4 million.

***Net Cash (Used in) Provided by Investing Activities***

Net cash used in investing activities decreased from Ps. 200.5 million in fiscal year 2003 to Ps. 24.5 million in fiscal year 2004 mainly due to the decrease in the purchase of Convertible Notes of Ps. 175.4 million. Our investing activities resulted in net cash outflow of Ps. 24.5 million in fiscal year 2004 mainly due to investments in related companies of Ps. 14.6 million and the acquisition and upgrading of fixed assets for Ps. 14.6 million partially offset by the sale of fixed assets for Ps. 4.8 million.

Net cash used in investing activities increased from a net use of Ps. 33.8 million in fiscal year 2002 to a net cash outflows of Ps. 200.5 million in fiscal year 2003 mainly due by the increase in permanent investments, the acquisition and upgrading of fixed assets and the increase in interest in related companies partially compensated for collection of receivables related to the sale of fixed assets. Our investing activities resulted in net cash outflows for Ps. 200.5 million in fiscal year 2003 mainly due by the increase in permanent investments for our purchase of IRSA's convertible notes for Ps. 176.6 million, from the acquisition and upgrading of fixed assets for Ps. 31.0 million and from the interest in related companies for Ps. 8.2 million, partially offset by the collection of receivables related to the sale of fixed assets for Ps. 2.5 million and from the sale of fixed assets for Ps. 12.8 million.

***Net Cash (Used in) Provided by Financing Activities***

Net cash provided from financing activities decreased from Ps. 165.6 million in fiscal year 2003 to Ps. 16.7 million in fiscal year 2004 primarily due to a decrease in proceeds of financial loans for Ps. 170.7 million, partially offset by the exercise of warrants for Ps. 23.1 million. Our financing activities resulted in net cash inflows of Ps. 16.7 million primarily due to the exercise of warrants, stock option and subscription of treasury shares for Ps. 23.4 million partially offset by dividend payments, payments of financial loans and other issuance costs of convertible notes for Ps. 13.5 million.

Net cash inflow from financing activities increased from a net cash outflow of Ps. 21.5 million in fiscal year 2002 to a net cash inflow of Ps. 165.6 million in fiscal year 2003 primarily due to an increase in financial loans for our issuance of convertible notes and the exercise of a rights offering on treasury stock.

In our opinion, our working capital is sufficient for our present requirements. In the event that cash generated from our operations is at any time insufficient to finance our working capital, we would seek to finance such working capital needs through new debt or equity financing or

selective asset sales.

**Our Indebtedness**

On October 15, 2002, we initiated a preemptive rights offering to subscribe for 50.0 million units consisting of US\$ 50.0 million of 8% Convertible Notes due 2007 and non-detachable warrants to



## **Table of Contents**

purchase additional shares of our common stock. The Convertible Notes may be converted at the holder's option into shares of our common stock until maturity on November 14, 2007, at the initial conversion price of US\$ 0.5078 per common share. Each warrant will be exercisable on or after conversion of the convertible note to which it is attached at the same conversion price plus a 20% premium (US\$ 0.6093). The rights offering to holders of our common shares and ADSs expired on November 13, 2002. Existing shareholders have subscribed through the exercise of their preemptive rights for US\$ 20.5 million and they have exercised their accretion rights for US\$ 1.7 million, adding together US\$ 22.2 million. During the allocation of the remainder new investors have subscribed the remaining US\$ 27.8 million units completing the US\$ 50.0 million offering. Proceeds of the offering were applied to subscribe IRSA's Convertible Notes and to finance our working capital.

As of November 30, 2004, certain of our Convertible Notes holders exercised their conversion rights for a total 7,221,986 units with a face value of US\$ 1 each, whereas the ordinary stock delivered in exchange amounted to 14,222,083 with a face value of Ps.1 each. During the same period, 6,714,134 warrants were exercised, resulting in a cash inflow of US\$ 8.1 million and the issuance of 13,221,989 shares with a face value of Ps. 1 each.

As of November 30, 2004, we have US\$ 42,778,014 aggregate principal amount of Convertible Notes outstanding and 151,728,464 common shares outstanding.

Our total outstanding debt as of June 30, 2004 was Ps. 135.7 million, consisting of the Convertible Notes which mature on November 14, 2007 for Ps. 128.9 million and others loans in the amount of Ps. 6.8 million.

Between July and August 2004, we obtained a pre-export financing facility of US\$ 4 million through Río de La Plata SA Bank at a fixed interest rate of 4% per annum, due in January and February, 2005.

In August 2004, we obtained a Ps. 20 million loan from Nación Bank at a fixed interest rate of 7% annual, with Ps. 10 million due in February, 2005 and Ps. 10 million in August 2005.

These loans allowed us to promote new production projects and generate a more efficient capital structure for the Company.

## ***Capital Expenditures***

Capital expenditures totalled Ps. 15.0 million, Ps. 31.2 million and Ps. 0.9 million for the fiscal years ended June 2004, 2003 and 2002, respectively, including property and equipment acquired in business combinations. Our capital expenditures consisted of the acquisition and improvement of productive agricultural assets, as well as purchases of farms.

Our future capital expenditures for fiscal year 2005 will depend on the prevailing prices of land for agriculture and cattle as well as the evolution of commodity prices. For the fiscal year ended June 30, 2004, our main investments consisted of Ps. 2.7 million in the acquisition of real estate, Ps. 0.1 million in improvements, Ps. 0.1 million in furniture and equipment, Ps. 1.6 million in facilities, Ps. 0.4 million in new pastures, Ps. 0.5 million in vehicles, Ps. 0.1 million in construction, Ps. 0.1 million in machinery, Ps. 0.1 million in computer and communication accessories, Ps.

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9.2 million in construction in progress (including Ps. 4.2 million from the development of our *Los Pozos* farm adding more space for agricultural and cattle production and Ps. 3.8 million from the development of hectares to be used in agriculture under irrigation in our *La Gramilla* and *Santa Bárbara* farm) and Ps. 0.1 million in advances.

For the fiscal year ended June 30, 2003, our main investments consisted of Ps. 29.4 million in acquisition of real state, Ps. 0.3 million in improvements, Ps. 0.2 million in furniture and equipment, Ps. 0.3 million in facilities, Ps. 0.4 million in new pastures, Ps. 0.3 million in vehicles and Ps 0.3 million in construction in progress.

**Table of Contents**

For the fiscal year ended June 30, 2002 our main investments consisted of Ps. 0.6 million in improvements, Ps. 0.1 million in furniture and equipment, Ps. 0.1 million in facilities, Ps. 0.1 million in new pastures and Ps. 0.1 million in others.

**Principal differences between Argentine GAAP and U.S. GAAP**

The principal differences, other than inflation accounting, between Argentine GAAP and U.S. GAAP are related to the following:

- a) Restatement of the US GAAP reconciliation
- b) Change to equity method of accounting
- c) Valuation of inventories
- d) Deferred income tax
- e) Accounting for futures and options contracts
- f) Web site development costs
- g) Differences in basis relating to purchase accounting
- h) Amortization expense
- i) Elimination of gain on acquisition of minority interest
- j) Available-for sale securities
- k) Non-current investments in unconsolidated affiliated companies

l) Accounting for stock options

m) Accounting for convertible notes

n) Effect of US GAAP adjustments on management fee

o) Minority interest

In addition, certain other disclosures required under U.S. GAAP have been included in the U.S. GAAP reconciliation. See Note 15 to our consolidated financial statements.

Net income (loss) under Argentine GAAP for the years ended June 30, 2004, 2003 and 2002 was approximately Ps. 32.1 million, Ps.65.0 million and Ps. (41.7) million, respectively, as compared to approximately Ps. 3.3 million, Ps. 46.4 million and Ps. (156.1) million, respectively, under U.S. GAAP. Shareholders' equity under Argentine GAAP as of June 30, 2004 and 2003, was Ps. 465.2 million and Ps. 391.8 million, respectively, as compared to Ps. 322.5 million and Ps. 272.3 million, respectively, under U.S. GAAP.

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## **Table of Contents**

### **IRSA's Results of Operations**

#### **Overview**

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

IRSA maintains its financial books and records in Pesos and prepares its financial statements in conformity with Argentine GAAP and the regulations of the CNV. See note 21 to the consolidated financial statements of IRSA for a description of the principal differences between Argentine GAAP and U.S. GAAP as they relate to IRSA, and a reconciliation to U.S. GAAP of net (loss) income and total shareholders' equity. 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 of the SEC.

#### **Critical Accounting Policies and Estimates**

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

revenue recognition;

rental property depreciation;

provision for allowances and contingencies;

impairment of long-lived assets;

debt restructuring; and

deferred income tax.

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

## **Table of Contents**

### ***Revenue recognition***

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

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

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

IRSA records revenue from the sale of properties when all of the following criteria are met:

the sale has been consummated;

there is sufficient evidence of the buyer's initial capacity and commitment to pay for the property;

its receivable is not subject to future subordination; and

IRSA has transferred to the buyer the risk of ownership, and do not have a continuing involvement in the property.

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

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

Under this method of accounting, revenues for work completed may be recognized in the statement of income prior to the period in which actual cash proceeds from the sale are received. In this situation, a deferred asset is recorded. Alternatively, and as it is more common for us, where

property unit purchasers pay us an advance down-payment and monthly cash installments prior to the commencement of construction, a liability is recorded. This is recorded as a customer advance in the financial statements.

***Rental property depreciation***

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



## **Table of Contents**

### ***Provision for allowances and contingencies***

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

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

### ***Impairment of long-lived assets***

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

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

IRSA believes that the accounting policy related to asset impairment is a critical accounting policy because:

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

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

During the year ended June 30, 2004 as a result of an increase in the fair market value of its parcels of undeveloped land and rental properties (including shopping centers), IRSA reversed impairment losses previously recognized for a total amount of Ps. 15.1 million and Ps. 49.2 million,



## **Table of Contents**

respectively, which have been included within Gain (loss) from operations and holdings of real estate assets, net in the Statement of Income. A reduction in the fair market value of these properties by 5% would have resulted in a less reversion of impairment losses of Ps. 3.6 million and Ps. 14.0 million, respectively.

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

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

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

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

### ***Debt restructuring***

In November 2002 IRSA completed the refinancing of its debt for a total amount of US\$ 103,4 million and IRSA also fulfilled the operation with its lenders to refinance the Syndicate Loan for US\$ 80 million and its Notes for US\$ 37 million.

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

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

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

<u>Interest Rates</u>	<u>Gain in million</u>	<u>Impact on Net Income</u>	<u>Impact on Shareholder's equity</u>
11%	16	5.59%	1.98%
16%	47	16.40%	5.81%
23%	73	25.49%	9.02%

**Table of Contents****Deferred income tax**

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

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

limitations in the use of certain deferred tax assets, primarily tax loss carryforwards;

reversals of existing taxable temporary differences; and

business projections.

As a result of the evaluation of these evidences, IRSA accounted for a valuation allowance of approximately 48% of its deferred tax assets, amounting to Ps. 46.9 million. Net deferred tax assets as of June 30, 2004 amounts to Ps. 97.1 million.

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

Premises fluctuation	Valuation	Additional (loss) /	Impact on Net income	Impact on Shareholder's equity
	allowance in million	gain in million of Ps.		
-10%	53.30	-6.44	-7.33%	-0.67%
-20%	58.40	-11.54	-13.13%	-1.20%
-30%	62.00	-15.14	-17.22%	-1.58%
10%	42.66	4.20	4.78%	0.44%
20%	37.60	9.26	10.53%	0.96%
30%	33.10	13.76	15.65%	1.43%

IRSA believes that the accounting estimate related to deferred income tax is a critical accounting estimate because:

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

**Table of Contents**

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

**IRSA's Results of Operations for the fiscal years ended June 30, 2004 and 2003.****Revenues**

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

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

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

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

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

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**Table of Contents****Costs**

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

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

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

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

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

**Gross Profit**

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



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**Table of Contents****Selling Expenses**

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

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

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

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

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

**Administrative Expenses**

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

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



## **Table of Contents**

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

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

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

### **Gain on Purchasers' Rescissions of Sales Contracts**

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

### **Gain (Loss) in Credit Card Trust**

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

### **Gain from Operations and Holdings of Real Estate Assets, net**

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

### **Operating Income**

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

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

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## **Table of Contents**

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

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

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

## **Amortization of Goodwill**

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

## **Financial Results, net**

Total net gains/losses on the financing of assets showed a variation of Ps. 304.8 million, from a gain of Ps. 315.3 million during the fiscal year ended June 30, 2003 to a gain of Ps. 10.5 million during the fiscal year ended June 30, 2004. These variations were: (i) the Ps. 201.7 million exchange difference loss with regard to the previous year, owing to the depreciation of the Peso against the U.S. Dollar from 2.80 in 2003 to 2.958 in 2004 and (ii) the Ps. 39.1 million loss on the financing of assets compared to the previous year, mainly due to the drop in the results generated by Alto Palermo and as a result of exchange differences and derivatives as caused by the 5.6 % depreciation of the Peso with respect to the U.S. Dollar (in 2003 the value of the currency had a reverse behavior, appreciating by 26%). This depreciation negatively affected the value of the interest rate swap. The drop in the discounts obtained this year, which amounted to Ps. 7.2 million, on the purchase of loans with HSBC abroad, compared with the previous year in which the discounts obtained had amounted to Ps. 36.9 million through the prepayment of the debt to GSEM for approximately Ps. 26.0 million and from the accounting measurement as of June 30, 2004 of the debt to HSBC as compared with the amount settled subsequent to the financial closing date, which generated a discount of Ps. 10.7 million according to Argentine GAAP; (iii) the Ps. 32.1 million gain obtained during fiscal year 2003 as a result of the adjustment made to IRSA's liabilities to fair market value at the established 8% annual market rate, changing the value of these debts which previously had a book value calculated at the rate in force at the time of refinancing; and (iv) a Ps. 5 million decrease in financing expenses resulting from the repurchase of the loans with HSBC banks in Argentina and abroad and the conversions made by holders of IRSA's negotiable obligations.

## **Equity (Loss) Gain from Related Parties**

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



## **Table of Contents**

### **Other Income (Expenses), net**

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

### **Income (Loss) before Minority Interest and Taxes**

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

### **Minority Interest**

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

### **Income Tax and Asset Tax**

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

### **Net income (loss) for the year**

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

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

**Revenues**

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



**Table of Contents**

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

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

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

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

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

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**Table of Contents****Costs**

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

*Development and Sale of Properties.* Costs related to Development and Sale increased 8.4%, from Ps. 43.5 million in the fiscal year ended June 30, 2002 to Ps. 47.1 million for the fiscal year ended June 30, 2003 primarily as a result of the sale during the present fiscal year of non-core properties with a low margin due to the fact that during fiscal year 2002 IRSA sold almost all of their principal properties, specially Alto Palermo Park, with an important sale margin. Costs relating to Development and Sale as a percentage of revenues from the segment increased from 79.9% during the fiscal year ended June 30, 2002 to 99.7% during the fiscal year ended June 30, 2003.

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

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

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

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

**Gross Profit**

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

**Selling Expenses**

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

**Table of Contents**

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

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

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

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

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

**Administrative Expenses**

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

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

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## **Table of Contents**

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

*Shopping Centers.* The fluctuation in administrative expenses under this segment is mainly due to the consolidation with the results of APSA. The expenses generated during fiscal year 2003 amount to Ps. 21.4 million, accounting for 51.3% of overall administrative expenses. The decrease of 28.2% between both fiscal years was basically due to the reduction in salary, bonuses, social security contributions, taxes, rates, contributions and services.

*Hotels.* Administrative expenses of Hotels decreased 18.4%, from Ps. 16.3 million for the fiscal year ended June 30, 2002 to Ps. 13.3 million during the fiscal year ended June 30, 2003, basically due to the decrease during fiscal year 2003 of all the administrative expenses for the Intercontinental and Sheraton Libertador hotels. Administrative expenses of Hotels as a percentage of revenues from hotel operations decreased from 28.5% during the fiscal year ended June 30, 2002 to 23.1% during the fiscal year ended June 30, 2003. The main components of administrative expenses of hotel operation are salaries, fees for services and depreciation and amortization.

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

### **Gain on Purchasers Rescissions of Sales Contracts**

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

### **Loss in Credit Card Trust**

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

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

(Loss) Income from operations and holdings of real estate assets, net, varied from one year to another, showing a gain of Ps. 68.3 million, having recovered from a loss of Ps. 46.8 million for the fiscal year ended June 30, 2002 to a gain of Ps. 21.5 million for the fiscal year ended June 30, 2003. The gain generated during fiscal year 2003 is mainly attributed to (i) the gain of Ps. 10.9 million stemming from the sale of stock in Valle de las Leñas; and (ii) a gain of Ps. 11.4 million attributed to the net recovery of the allowance for the devaluation of real estate. Furthermore, the

loss reported the previous year is mainly attributed to (i) the setting up of the allowance for the devaluation of real estate for Ps. 82.6 million; which was partially offset by (ii) a gain of Ps. 35.8 million from the sale of IRSA's equity interest in Brazil Realty.

### **Operating Income**

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

## **Table of Contents**

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

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

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

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

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

## **Amortization of Goodwill**

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

## **Financial Results, net**

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

## **Equity (Loss) Gain from Related Parties**

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



## **Table of Contents**

### **Other (Expenses) Income, net**

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

### **Income (Loss) before Minority Interest and Taxes**

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

### **Minority Interest**

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

### **Income Tax and Asset Tax**

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

### **Net (loss) Income for the Year**

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

**IRSA's Liquidity and Capital Resources**

IRSA's liquidity and capital resources include its cash and cash equivalents, proceeds from bank borrowing and long-term debt, capital financing and sales of real estate investments.

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## **Table of Contents**

As of June 30, 2004, IRSA had working capital of Ps. 5.6 million. At the same date, IRSA had cash and cash equivalents totalling Ps. 122.9 million, a decrease of 36.35% from Ps. 193.1 million of cash and cash equivalents held as of June 30, 2003.

IRSA's operating activities resulted in net cash inflows of Ps. 73.4 million, Ps. 93.9 million and Ps. 54.3 million for fiscal years 2004, 2003 and 2002, respectively. The operating cash inflows for fiscal year 2004 primarily resulted from operating gains of Ps. 89.4 million, partially offset by an increase in non-current investments for Ps. 10.7 million. Net cash inflows for fiscal year 2003 primarily resulted from operating gains of Ps. 16.4 million and increases in accrued interest and exchange gain of Ps. 56.5 million. The operating cash inflows for fiscal year 2002 primarily resulted from the increase in financial results of Ps. 331.0 million, a decrease in investments for Ps. 18.1 million and in a decrease of receivables for Ps. 41.2 million.

IRSA's investing activities resulted in net cash outflows of Ps. 95.9 million, Ps. 40.6 and Ps. 21.1 million for fiscal years 2004, 2003 and 2002, respectively. In fiscal year 2004 IRSA made investments in its subsidiaries and equity investees of Ps. 70.2 million through the purchase and sale of shares and options of Banco Hipotecario. In fiscal year 2003 IRSA made investments in its subsidiaries and equity investees for Ps. 31.7 million primarily in APSA. In February 2002 IRSA sold its investment in Brazil Realty for US\$ 44.2 million. In fiscal years 2004, 2003 and 2002, IRSA repurchased and/or invested in existing properties for Ps. 25.7 million, Ps. 11.0 million and Ps. 28.4 million, respectively. In fiscal year 2002, IRSA also granted loans to related parties for Ps. 105.7 million.

IRSA's net cash provided by financing activities of Ps. 47.6 million was primarily due to the proceeds from short-term and long-term debt of Ps. 66.4 million and the issuance of common stock of Ps. 24.7 million. IRSA's net cash provided by financing activities of Ps. 109.4 million for fiscal year 2003 was primarily due to the proceeds from short-term and long-term debt of Ps. 397.3 million partially offset by the payment of short-term and long-term debt of Ps. 271.0 million. IRSA's net cash used in financing activities of Ps. 41.4 million for fiscal year 2002 was primarily due to the payment of short-term debt partially offset by the income for new loans for Ps. 170.0 million.

We believe IRSA's assets have potential for growth. Its low level of indebtedness, most of which is long-termed, and the cash proceeds from the exercise of warrants attached to IRSA's convertible debt, place IRSA in a good position to finance new projects and seek expansion opportunities.

### **IRSA's indebtedness**

IRSA's total outstanding debt as of June 30, 2004, amounted to Ps. 603.9 million, as compared to the Ps. 679.5 million as of June 30, 2003. This decrease is attributable to the conversion of IRSA's and APSA's Convertible Notes for US\$ 12.9 million and US\$ 0.9 million respectively and to several debt buybacks and reductions conducted during the year, as described below.

Pursuant to Decree No. 214/02, part of IRSA's indebtedness was pesified, although a large portion, governed by foreign laws continued to be U.S. Dollar-denominated. Pesified indebtedness is to be adjusted by the CER index.

On May 24, 2000, IRSA entered into a US\$ 80.0 million Syndicated Loan Agreement (the Syndicated Loan Agreement) arranged by Bank Boston N.A. Loans under this Syndicated Loan Agreement bear interest at three-month LIBOR plus a margin of 500 basis points.

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Amounts owing under the Syndicated Loan Agreement were payable in U.S. Dollars. Although final maturity on the loan agreement was on August 30, 2002, due to the continuing effects of economic recession, the unavailability of financing sources and the succession of recent governmental measures adversely affecting the normal operations of the banking and payments system, IRSA could not make the scheduled payment on that date. As explained below IRSA renegotiated this Syndicated Loan Agreement under new conditions.

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**Table of Contents**

On December 18, 2000, IRSA issued US\$ 43.5 million unsecured Class 2 Floating Rate Notes due December 24, 2001 (the Class 2 Floating Rate Notes ). Proceeds from this issuance were used to repay certain outstanding short-term indebtedness. IRSA's Class 2 Floating Rate Notes matured in December 2001, and it was unable to pay the principal then due. As a result of such non-payment, in December 2001, IRSA entered into negotiations with the holders of its Class 2 Floating Rate Notes and to date have been able to obtain short-term deferrals of its obligation to pay such matured notes. On February 8, 2002, IRSA agreed with its holders to replace the Class 2 floating interest rate for an annual fixed interest rate of 12%. Pursuant to the most recent deferral, granted on October 31, 2002, the principal of and interest on its Class 2 Floating Rate Notes were due in full on November 14, 2002 and were further renegotiated as explained below. IRSA also agreed with its holders on a capitalization of the interest due on October 31, 2002. On May 15, 2002, IRSA repurchased from Banco Sudameris its participation in the mentioned Class 2 Floating Rate Notes of US\$ 6.8 million.

On November 15, 2002, IRSA signed a Framework Refinancing Agreement (the Framework Refinancing Agreement ) to refinance the Syndicated Loan Agreement of US\$ 80.0 million and the Class 2 Floating Rate Notes amounting, at that time, to US\$ 37.0 million through the following schedule:

US\$ 13.6 million were paid in cash, reducing the principal;

US\$ 15.0 million were swapped for Convertible Notes at a rate of 8% and maturing in the year 2007;

US\$ 37.4 million in Secured Class 3 Floating Rates Notes (the Class 3 Floating Rate Notes ) with a 90-day LIBOR plus 200 base points and maturing in the year 2009. These notes are secured by a first mortgage drawn out on some of IRSA's properties for an amount equivalent to 50% of the debt; and

US\$ 51.0 million Unsecured Loan Agreement (the Unsecured Loan Agreement ) expiring in the year 2009. 69% of this loan accrues interest at a ninety-day LIBOR plus 200 base points, whereas the remainder accrues interest at a phased fixed rate starting at 5.5% and reaching 6.5%.

The offer of Convertible Notes into IRSA's ordinary shares was successfully completed on November 21, 2002, for a total amount of US\$ 100 million. These notes are accompanied by a warrant that offers the option to purchase additional shares. The subscription price was 100% of the face value of the Convertible Notes, which accrue interest at an annual 8% payable semiannually and maturing in November 2007. The conversion price is US\$ 0.5450 per ordinary share, in other words each note may be swapped for 1.8349 ordinary shares. The funds generated by the issue were mainly allocated to the settlement and restructuring of the liabilities existent at the date, and to finance its working capital and for other general corporate purposes.

Due to the distribution of 4,587,285 treasury shares, IRSA has adjusted the conversion price of its Convertible Notes according to the subscription clauses. The conversion price of the Convertible Notes decreased from US\$ 0.5571 to US\$ 0.5450 and the warrants price went from US\$ 0.6686 to US\$ 0.6541. Such adjustment was effective as from December 20, 2002.

As of November 30, 2004, certain holders of IRSA's Convertible Notes exercised their conversion right. The total number of notes converted amounted to 13,468,670 units with a face value of US\$ 1 each, whereas the ordinary stock delivered under this heading amounted to 24,713,137 with a face value of Ps.1 each.

## Table of Contents

During the same period, 12,265,962 warrants were exercised resulting in a cash inflow of US\$ 14.7 million and the issuance of 22,506,341 shares with a face value of Ps. 1 each.

As of November 30, 2004, the number of Convertible Notes outstanding amounted to US\$ 86,531,330 the number of warrants outstanding amounted to 87,734,038, while 259,218,751 of IRSA's shares were outstanding.

On December 4, 2002, IRSA paid off its debt with GSEM/AP Holdings, L.P. (Goldman Sachs) which amounted to US\$ 16.3 million including the principal and accrued interest, with a total payment of US\$ 11.1 million.

On July 19, 2002, APSA issued US\$ 50.0 million Series I Convertible Notes (the Series I Convertible Notes), according to the resolution of the Ordinary and Extraordinary APSA Shareholders Meeting held on December 4, 2001. The terms of the issue included a conversion price that consists of the maximum between the face value of APSA common shares divided by the exchange rate and US\$ 0.0324, which means that each Series I Convertible Note may be converted into approximately 30.8642 shares with a face value of Ps. 0.1 each, accruing an annual 10% interest payable semiannually and with a subscription price of 100% of the principal of the notes. The issue of this instrument enabled APSA to prepay a significant portion of its debt, thus considerably improving its financial structure and schedule of payments.

On August 23, 2002, APSA successfully completed the placement of Series I Convertible Notes for US\$ 50.0 million of which IRSA has subscribed a total of US\$ 27.2 million. In January 2003 IRSA purchased an additional 3.4 million APSA shares, increasing its current equity interest to 54.9%. IRSA also acquired 2.6 million Series I Convertible Notes which, increased its interest to a total of 59.9% of the notes issued by its subsidiary.

On July 23, 2003, IRSA made a prepayment to HSBC Bank Argentina S.A. of US\$ 16 million under the US\$ 51.0 million Unsecured Loan Agreement whose final expiration is in November 2009. This transaction involved a payment of US\$ 10.9 million, representing 68% of the face value of the debt and a discount of US\$ 5.1 million.

On March 17, 2004 IRSA repurchased from HSBC Bank London Plc. US\$ 12 million under the US\$ 51 million Unsecured Loan Agreement, maturing in November 2009. The transaction value totalled US\$ 8.6 million, was at a discount of 28%, and resulted in a US\$ 3.4 million discount.

In January 2001, IRSA's subsidiary Hoteles Argentinos S.A., holder of 100% of the Hotel Sheraton Libertador, obtained a loan of US\$ 12.0 million from BankBoston N.A. Subsequently, Bank Boston sold this loan to Marathon Master Fund Ltd. This loan expires in January 2006 and accrues a quarterly interest at the LIBOR plus a markup ranging between 401 and 476 basis points, according to the value of certain financial indicators. This loan was not converted to Pesos and is stated in U.S. Dollars because it is governed by the laws of the State of New York. There are currently installments of the principal and interest that are overdue and unpaid. This loan is with no recourse to IRSA. On December 16, 2004, Ritelco S.A., a wholly owned subsidiary of IRSA, acquired 100% of the debt Hoteles Argentinos had with Marathon Master Fund, Ltd. Ritelco S.A. paid a total amount of US\$ 8.0 million.

As of June 30, 2004, IRSA had outstanding Collateralized Loans for a total amount of Ps.137.4 million, including accrued interests. The Collateralized Loans include several loans at fixed/variable rates ranging from 3.34% to 6.10%, with different maturities through November 2009. A total amount of Ps. 32.8 million debt is collateralized with a mortgage over the Sheraton Libertador Hotel. A total amount of US\$ 37.4

million, which matures on November 20, 2009 and accrues quarterly interest

**Table of Contents**

payments at three-month LIBOR plus 200 basis points, is secured by several assets. As of June 30, 2004, IRSA recorded a total balance of US\$ 32.9 million, which corresponds to US\$ 37.4 million discounted at a market rate equivalent to 8% p.a., accruing an annual interest rate of 1.12% at LIBOR.



**Table of Contents**

The following table sets forth IRSA's outstanding debt as of June 30, 2004 (excluding APSA):

<b>IRSA Debt</b>	<b>Principal (US\$ MM) (1)</b>	<b>Interest Rate</b>	<b>Maturity</b>
Unsecured Loan Agreement	23.0	LIBOR + 200 bps	November 2009
Class 3 Floating Rate Notes	37.4	LIBOR + 200 bps	November 2009
Hoteles Argentinos Loan	12.0	LIBOR + 500 bps	January 2006
Total Debt	72.4		
Convertible Notes	87.1	8%	November 2007

(1) Accrued interest is not included.

**APSA's indebtedness**

On January 18, 2001, APSA issued US\$ 120.0 million of secured Senior Notes (the "Senior Notes") due on January 13, 2005 in three classes (i) US\$ 40.0 million of Class A-2 notes due January 13, 2005, at a corrected Badlar interest rate plus 395 basis points; (ii) US\$ 5.0 million of Class B-1 notes, which APSA issued together with its wholly-owned subsidiary SAPSA, and which are due on January 13, 2005, at a 90-day LIBOR plus 475 basis points, and (iii) US\$ 75.0 million of Class B-2 notes, which APSA issued together with SAPSA, maturing at various dates through January 13, 2005, at a corrected Badlar rate plus 395 basis points. The proceeds from this issuance were used to repay financial indebtedness, including outstanding mortgage-collateralized borrowings and other short-term debts.

Additionally, during the third quarter of the fiscal year 2001, APSA redeemed US\$ 2.5 million of the Class A-2 notes at 100% of par value. The payment of the total amount of the Senior Notes is guaranteed by a trust agreement pursuant to which all of the shares of SAPSA were transferred to a trust. The Trust Agreement was entered into on January 16, 2001 among APSA and Ritelco, as shareholders of SAPSA and as Trustors, RioTrust S.A., as trustee, and the holders of the Senior Notes as beneficiaries.

Interest on both classes are paid on a quarterly basis as from April 18, 2001.

On April 7, 2000, APSA issued the Ps. 85.0 million Notes (the "Ps. 85.0 million Notes") due April 7, 2005 at a 14.875% annual rate, payable semiannually. Proceeds from this issuance were used to repay certain outstanding syndicated loan and other short-term financial debt. In March 2001, June 2003 and August, 2004, APSA redeemed Ps. 36.6 million historical pesos, at different prices below par. After subtracting APSA's own holding, the aggregate outstanding amount for such notes as of November 23, 2004 was Ps. 48.4 million.

On March 30, 2000, in connection with the issuance of Ps. 85 million Notes, APSA entered into a swap agreement with Morgan Guaranty Trust in order to reduce the related financing cost. This swap agreement initially allowed APSA to reduce the net cost of its debt. However, due to the Argentine economic crisis, the political instability, and the depreciation of the Argentine public debt, there was a substantial negative deviation of the performance of the swap agreement that required the modification of the original terms. Under the terms of the revised agreement, APSA agreed to pay US\$ 69.1 million on March 30, 2005 and receive Ps. 69.1 million on such date. As collateral for its payment obligations under the modified agreement, APSA was required to make a deposit of US\$ 50 million with the counterpart. APSA is not required to make additional deposits until maturity. An additional payment at maturity could be required depending on the prevailing exchange rate between the Peso and the U.S. Dollar. Thus, a continued devaluation of the Peso against the U.S. Dollar and/or an increase in interest rates would increase its loss which could be material. As of June 30, 2004 this modified swap agreement was accounted for at its fair market value resulting in a recognition of a liability of US\$ 45.4 million. The line item "Interest rate swap receivable" included within "Other receivables and prepaid expenses, net" represents

the net amount of the US\$ 50 million deposited as collateral and the US\$ 45.4 million payable under the swap agreement.

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## **Table of Contents**

In order to finance the US\$ 50 million collateral deposit and the subsequent transactions related to the swap, APSA entered into loan agreements with IRSA and Parque Arauco S.A. As of June 30, 2002 its debt with IRSA and Parque Arauco S.A. under those loan agreements amounted to Ps. 45.6 million and Ps. 22.9 million respectively.

In addition, between May and July 2002, IRSA and Parque Arauco S.A. granted to APSA loans for US\$ 10.1 million and US\$ 4.9 million respectively. The annual interest rate for such loans was 10%. The funds obtained under these loans have been used to fully cancel APSA short-term bank debt for the total amount of Ps. 43.8 million plus the accrued CER adjustment.

The amounts APSA owed under the loans which were granted to APSA from IRSA and Parque Arauco, were used by IRSA and Parque Arauco to subscribe APSA offering of US\$ 50.0 million Series I Convertible Notes on August 20, 2002 (the Series I Convertible Notes). IRSA and Parque Arauco subscribed for US\$ 27.2 million and US\$ 15.2 million respectively of APSA's Series I Convertible Notes.

As of September 30, 2001, APSA began to be in non compliance with certain financial covenants with respect to the US\$ 120 million Senior Notes due in 2005 and the Ps. 85.0 million Notes due in 2005. Nevertheless, during fiscal year 2004, APSA complied with all of its financial covenants.

In addition to non complying with certain financial covenants mentioned above, APSA did not make certain payments for an aggregate amount of Ps. 21.7 million under APSA Class A and B-2 Senior Notes which were scheduled to be paid on January 14, 2002. However, on January 16, 2002 and March 15, 2002, the holders of Senior Notes unanimously approved certain waivers and deferrals of accrued interests and scheduled principal payments until July 17, 2002.

On June 24, 2002, APSA agreed with the holders of its Class A and B-2 Senior Notes, the payment of all interest owed and the amortization coupon which originally matured in January 2002, prior to July 17, 2002. Such payment would receive a discount of approximately 20%. As of July 17, 2002, all interest owed and the amortization coupon under APSA Class A and B-2 Senior Notes that matured in January 2002, had been fully paid. The Public Emergency Law, enacted on January 6, 2002 and Decree No. 214/02 of the Executive Branch established the conversion to Pesos of all loans and agreements in effect that had been agreed in U.S. Dollars or any other foreign currency at the exchange rate of Ps. 1.00 = 1.00 U.S. Dollar (US\$ 1.00). The pesification of debts affected APSA's Senior Notes (US\$ 117.5 million), short-term bank debt (US\$ 44.6 million) and the loans with its majority shareholders. Such agreements and loans have been adjusted as from February 3, 2002 by the CER. Thus if there were a severe inflationary process, APSA's debt would be significantly increased.

With respect to interest rates, BCRA Communication A 3507 dated March 13, 2002 established a fixed interest rate between 6% and 8% to debts issued by companies under Argentine law. This resolution affected APSA's Senior Notes (Ps. 132.0 million) and its short-term bank debt (Ps. 50.11 million).

On June 9, 2003 APSA signed a Compensation Agreement with the only holder of Senior Notes, reducing the negative impact that the pesification of contracts had on this holder. APSA extended the original schedule of payments. On January 13, 2004 APSA paid US\$ 1.25 million and on January 13, 2005 APSA will pay US\$ 3.75 million.

On July 19, 2002 APSA issued US\$ 50 million of Series I Convertible Notes which are convertible into shares of common stock at the holder's option. The offer was subscribed in full.



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**Table of Contents**

The terms of these Series I Convertible Notes include (i) a conversion price that consists of the maximum between the face value of APSA common stock (Ps. 0.10) divided by the exchange rate and US\$ 0.0324, which means that every Series I Convertible Note is potentially convertible into approximately 30.8642 shares of APSA's common stock with a face value of Ps. 0.10 each (ii) an accrual of a 10% annual interest rate payable semi-annually and (iii) a subscription price of 100% of the principal amount of the Convertible Notes. The Series I Convertible Notes, mature on July 19, 2006. Raymond James Argentina Sociedad de Bolsa S.A. acted as subscription and placement agent.

In the event that all the bondholders were to convert their Series I Convertible Notes, APSA's share capital would increase from 779,827,330 shares as of November 30, 2004 to approximately 2,239,741,836 shares. Also, as of such date the number of Series I Convertible Notes outstanding amounted to US\$ 47,301,230.

The issuance of APSA's Series I Convertible Notes has allowed APSA to repay an important portion of its existing debt. The proceeds of this offering have been allocated to fully repay (i) loans from its major shareholders for approximately US\$ 33.1 million, and (ii) US\$ 16.8 million (plus the accrued CER adjustment) which APSA owed under its Senior Notes and under which they obtained discounts for up to 25%.

On February 17, 2003, APSA entered into a repurchase agreement (the Repurchase Agreement) with IRSA and Parque Arauco Argentina S.A. in which each company granted to APSA loans for Ps. 4.2 million and Ps. 2.1 million, respectively. According to the Repurchase Agreement, APSA made a collateral deposit of Ps. 5.5 million nominal value of Class A-2 Senior Notes and Ps. 10.0 million nominal value of Class B-2 Notes with us and other of Ps. 2.8 million nominal value of Class A-2 Senior Notes and Ps. 5.0 million nominal value of Class B-2 Senior Notes with Parque Arauco Argentina S.A. As of November 5, 2004, APSA agreed to repurchase on January 7, 2005, the securities at a price of Ps. 5.1 million and Ps. 2.6 million to IRSA and Parque Arauco Argentina S.A., respectively.

In connection with the Ps. 120 million notes, Ps. 1 face value, due January 2005, after the fiscal year-end, on August 6, 2004 APSA and Shopping Alto Palermo S.A. bought back at Ps. 1.51656 per unit, 6,666,667 and 7,083,333 notes, respectively. This transaction allowed APSA to reduce its financial cost, as such notes accrued interest at a rate of 8% plus CER. Retirement resulted in a disbursement of Ps. 10.1 million by APSA and Ps. 10.7 million by Shopping Alto Palermo. This buyback resulted in the full retirement of Class A-2 and B-2 of these notes.

Furthermore, during the year ended June 30, 2004, APSA met all its financial commitments relating to its outstanding notes.

During the year ended June 30, 2004 APSA was in compliance with the financial covenants under the indentures of the APSA Senior Notes and the Ps. 85.0 million Notes.

Due to compliance with its financial covenants, APSA can again raise additional funds without the prior approval of the outstanding bondholders.

**Table of Contents**

The following table shows APSA's outstanding debt as of June 30, 2004 (accrued interest not included):

	Ps. (million)	US\$ (million) <sup>(1)</sup>	Interest Rate	Maturity
Senior Notes Class A-2 and B-2	20.6 <sup>(2)</sup>	7.0	8% + CER	January 2005
Senior Notes Class B-1	11.09	3.75	Libor + 475 Bps.	January 2005
Ps. 85.0 million Notes	49.62	16.78	14.875%	April 2005
Shareholders loans	7.21	2.44	8%	January 2005
Subtotal	88.52	29.97		
Series I Convertible Notes	145.14	49.07	10%	January 2006
<b>Total Debt</b>	<b>233.66</b>	<b>79.04</b>		

- (1) Solely for the convenience of the reader, we have translated Peso amounts into U.S. Dollars at the exchange rate quoted by *Banco de la Nación Argentina* for June 30, 2004 which was Ps. 2.958 per US\$ 1.0. We make no representation that the Peso or U.S. Dollar amounts actually represent, could have been or could be converted into U.S. Dollars at the rates indicated, at any particular rate or at all. See Exchange Rates .
- (2) Fully paid on August 6, 2004.

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

As of June 30, 2004, Pérez Cuesta had a Ps. 40.3 million financial indebtedness (including accrued interests and CER), Ps. 23.1 million were overdue. Although pursuant to Decree No. 214/02, Pérez Cuesta's U.S. Dollar-denominated financial indebtedness has been converted into Pesos, since its indebtedness includes outstanding mortgage loans commercial leases and collateralized contracts borrowings, the default on several overdue payments raises substantial doubt as to its ability to continue as a going concern. Currently, Pérez Cuesta and APSA are negotiating the restructuring of the debt terms with Pérez Cuesta's creditors. However, we cannot assure you that they will achieve a successful restructuring of its financial indebtedness. APSA does not believe that failure to successfully restructuring Pérez Cuesta's debt is likely to cause a material adverse effect on it.

On December 3, 2004, Alto Palermo signed an option agreement, exercisable until March 31, 2005, which entitles the company to purchase the debt that Perez Cuesta S.A.C.I. owes to HSBC Bank Argentina S.A. As of June 30, 2004, such indebtedness amounted to Ps. 9.5 million. As of the date of this filing, such amount is over due and unpaid. Alto Palermo S.A. paid an option premium of Ps. 0.7 million. The loan bears an interest rate of 8% plus CER adjustment.

**IRSA's Capital Expenditures**

During the fiscal year ended June 30, 2004 IRSA had capital expenditures of Ps. 153.0 million. IRSA made investments in its subsidiaries and equity investees of Ps. 127.4 million through the purchase of shares and options of Banco Hipotecario. IRSA also made investments of Ps. 25.1 million in fixed assets primarily in APSA of Ps. 20.4 million and in the Llao Llao Hotel of Ps. 3.3 million. IRSA also invested Ps. 0.6 million in undeveloped parcels of land.

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

## **Table of Contents**

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

We believe IRSA's assets have potential for growth. Its low level of indebtedness, most of which is long-term, and the cash proceeds from the exercise of warrants attached to its convertible debt, place IRSA in a good position to finance new projects and seek expansion opportunities.

## **IRSA's U.S. GAAP Reconciliation**

The accounting principles applied in Argentina vary in certain significant respects from accounting principles applied in the United States. Application of accounting principles generally accepted in the United States (U.S. GAAP) would have affected the determination of amounts shown as net income (loss) for each of the three years in the period ended June 30, 2004, and the amounts of total shareholders' equity as of June 30, 2004 and 2003, to the extent summarized in Note 20 to IRSA's consolidated Financial Statements.

The principal differences, other than inflation accounting, between Argentine GAAP and U.S. GAAP are related to the following:

- (i) the impact of certain U.S. GAAP adjustments on equity investees;
- (ii) the accounting for marketable securities;
- (iii) the accounting for derivatives and hedging activities;
- (iv) the accounting for the non-contributory management stock ownership plan;
- (v) the application of different useful lives for depreciation purposes;
- (vi) the deferral of certain preoperating and organization expenses under Argentine GAAP which are expensed as incurred under U.S. GAAP;
- (vii) the accounting for a mortgage payable with no stated interest;
- (viii) the accounting for securitization programs;
- (ix) the application of certain U.S. GAAP adjustments to the estimation of the fair value of net assets acquired;
- (x) the present-value accounting;



- (xi) the restoration of previously recognized impairment losses;
- (xii) the accounting for convertible notes;
- (xiii) the accounting for troubled debt restructuring;
- (xiv) the accounting for real estate barter transactions;
- (xv) the accounting for the appraisal revaluation of fixed assets;
- (xvi) the accounting for deferred charges;

**Table of Contents**

- (xvii) the amortization of fees related to the Senior Notes;
- (xviii) the accounting for software obtained for internal use;
- (xix) the accounting for changes in interest in consolidated affiliated companies;
- (xx) the capitalization of interest costs;
- (xxi) the differences between the price-level restated amounts of assets and liabilities and their historical basis, that under Argentine GAAP, are treated as permanent differences in accounting for deferred income tax calculation purposes while under US GAAP are treated as temporary differences;
- (xxii) the effects on deferred income tax of the foregoing taxes of the above-mentioned reconciling items, as appropriate; and
- (xxiii) the effect on minority interest of the above-mentioned reconciling items, as appropriate.

In addition, certain other disclosures required under U.S. GAAP have been included in the U.S. GAAP reconciliation. See Note 20 to IRSA's consolidated Financial Statements, included elsewhere in this annual report for details.

Net income (loss) under Argentine GAAP for the years ended June 30, 2004, 2003 and 2002 was Ps. 87.9 million, Ps. 286.4 million, and Ps. (543.7) million, respectively, as compared to Ps. 2.8 million, Ps. 235.1 million and Ps. (901.5) million, respectively, under U.S. GAAP. Shareholders' equity under Argentine GAAP as of June 30, 2004 and 2003, was Ps. 959.9 million and Ps. 809.2 million, respectively, as compared to Ps. 587.7 million and Ps. 502.8 million, respectively, under U.S. GAAP.

**C. RESEARCH AND DEVELOPMENTS, PATENTS AND LICENSES**

Investments in technology amounted to Ps. 7.5 million, Ps. 1.8 million and Ps. 1.4 million for the fiscal years 2004, 2003 and 2002 respectively. Total technology investments aimed at increasing the productivity of purchased land amounted to Ps. 69.7 million from fiscal year 1995.

We do not have any patents or licenses that are material for the conduct of our business.

**D. TREND INFORMATION**

*Factors affecting the future development of the company*

Our future operating results may be affected by variations in some factors, such as adverse changes in the price of commodities or the yield of crops. Accordingly, historical tendencies may not be used to forecast future results. Our past results must not be considered indicative of our future performance. For purposes of minimizing such risks associated with weather and price factors, we apply hedging by means of futures and option agreements in the grain market, and the geographic diversification of production.

*Production and sales*

We conduct our business on owned and leased land. Rental payments increase our production costs, as the amounts paid as rent are accounted for as operating expenses. As a result, production costs per hectare of leased land are higher than for the land owned by us.

**Table of Contents**

The following table shows the breakdown of the amount of hectares owned and leased land used for each of our principal production activities:

	Year ended June 30,					
	2002 <sup>(1)</sup>		2003 <sup>(1)</sup>		2004 <sup>(1)</sup>	
	Owned <sup>(2)</sup>	Leased	Owned <sup>(2)</sup>	Leased	Owned <sup>(2)</sup>	Leased
Crops	19,524	28,913	10,010	13,628	13,351	9,766
Cattle	145,066	2,500	135,257		125,513	
Milk	3,049		820		820	

(1) Does not include the production of *Agro-Uranga S.A.*

(2) The land assigned to crops may differ from sown land, as some hectares are sown twice and therefore are counted twice as sown land.

During fiscal year 2004 a total of 9,766 hectares were leased for agricultural activities, most of them at a fixed price prior to harvest. Only a small percentage of the lease agreements contained prices tied to the percentage of production.

Given the increase in land prices, we decided not to lease lands where projected yields significantly decreased, and only leased lands at prices we deemed appropriate to obtain profitable margins.

Crop sales decreased 46.3%, from Ps. 50.2 million in fiscal year 2003 to Ps. 26.9 million in fiscal year 2004. The 47.0% drop in the volume of sales, from 121,426 tons down to 64,398 tons, was partially offset by a 1.2% rise in unit price in fiscal year 2004 compared to the price in fiscal year 2003. The average price per ton sold was Ps. 418 compared to Ps. 413 in the prior fiscal year. Crop production increased 6.03%, from 70,369 tons in fiscal year 2003 to 74,612 tons in fiscal year 2004 (wheat and corn production increased 77.8% and 13.3%, respectively, and soybean production decreased 18.4%). Total sowed area decreased from 23,638 hectares in fiscal year 2003 to 23,117 hectares in fiscal year 2004. Sowed area on leased lands decreased from 13,628 hectares in fiscal year 2003 to 9,766 hectares in fiscal year 2004 and sowed area on land we own increased from 10,010 hectares in fiscal year 2003 to 13,351 hectares in fiscal year 2004.

The cost of sales for crops decreased from Ps. 39.4 million in fiscal year 2003 to Ps. 15.4 million in fiscal year 2004. This decrease was mainly attributable to (i) a decrease in the volume of sales from 121,426 tons to 64,398 tons for the fiscal years 2003 and 2004, respectively; (ii) the high stock level at the beginning of fiscal year 2003 and a decrease in the prices of commodities in the same fiscal year which affected the sales costs; and (iii) to a lesser extent, the impact of currency exchange rates on the cost of supplies.

Beef cattle sales increased 58.1%, from Ps. 17.3 million in fiscal year 2003 to Ps. 27.4 million in fiscal year 2004. The 52.1% increase in the volume of sales was accompanied by a 4.0% increase in the price per ton sold. The sales volume increased from 9,561 tons to 14,540 tons, while the sales price increased from Ps. 1.81 per kilogram in fiscal year 2003 to Ps. 1.88 per kilogram in fiscal year 2004. Average cattle stock increased from 86,234 head in fiscal year 2003 to 93,319 head in fiscal year 2004, and total beef cattle production increased 24.4%, from 9,121 tons in fiscal year 2003 to 11,343 tons in fiscal year 2004. This increase was due to an increase in our stock position in this segment and an increase in the number of cattle head finished in feedlots. The number of owned hectares used for beef-cattle production dropped from 135,257 hectares in fiscal year 2003 to 125,513 hectares in fiscal year 2004. This reduction was mainly due to the sale of the *El 41 y 42* farm and the conversion of hectares used for raising cattle into hectares used for agriculture at *La Esmeralda*.

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Cost of sales for beef cattle increased 141.7% from Ps. 8.7 million in fiscal year 2003 to Ps. 21.1 million in fiscal year 2004. This increase was mainly due to the impact of a higher quantity of beef cattle finished in the feedlot, which feeding cost was higher, as a result of the drought which prevented part of our beef cattle from being fed by natural pastures. The cost of sales for beef cattle as a percentage of sales of cattle increased from 50.5% in fiscal year 2003 to 77.2% in fiscal year 2004. The cost for each ton sold also increased from Ps. 915 in fiscal year 2003 to Ps. 1,454 in fiscal year 2004 due to the same factors.

**Table of Contents**

Sales of milk increased 32.2%, from Ps. 2.4 million in fiscal year 2003 to Ps. 3.2 million in fiscal year 2004, mainly due to a 18.3% increase in the average sales price, from Ps. 401 per one thousand liters in fiscal year 2003 to Ps. 474 per one thousand liters in fiscal year 2004. This increase in the volume of sales of milk was attributable to a 11.7% increase in production as a result of the change in the feeding system caused by the drought. Total production was 6.0 million liters in fiscal year 2003 compared to 6.7 million liters in fiscal year 2004.

Cost of sales for milk decreased 11.8% from Ps. 1.5 million in fiscal year 2003 to Ps. 1.3 million in fiscal year 2004. This decrease was due to the positive effect of the re-categorization of the beef cattle acquired during the fiscal year, partially offset by the negative impact of higher feeding costs as a result of the drought. The cost of sales for milk per thousand liters decreased from Ps. 246 in fiscal year 2003 to Ps. 194 in fiscal year 2004.

The following table presents data for different business segments:

	Total sales					
	Year ended June 30,					
	2002 <sup>(1)</sup>		2003 <sup>(1)</sup>		2004 <sup>(1)</sup>	
	(Ps. 000)	%	(Ps. 000)	%	(Ps. 000)	%
<b>Crops:</b>						
Wheat	9,399	11.7	5,965	8.3	5,613	9.0
Corn	11,727	14.6	16,368	22.7	6,177	9.9
Sunflower	1,405	1.8	3,139	4.4	1,885	3.0
Soybean	20,794	25.9	21,361	29.7	11,375	18.3
Other	3,872	4.8	3,334	4.6	1,872	3.0
<b>Total crops</b>	<b>47,197</b>	<b>58.8</b>	<b>50,167</b>	<b>69.7</b>	<b>26,922</b>	<b>43.2</b>
Beef-cattle	27,610	34.4	17,311	24.0	27,370	44.0
Milk	2,258	2.8	2,415	3.4	3,192	5.1
Other	3,189	4.0	2,057	2.9	4,787	7.7
<b>Total Salesr</b>	<b>80,254</b>	<b>100.0</b>	<b>71,950</b>	<b>100.0</b>	<b>62,271</b>	<b>100.0</b>

(1) Does not include the production of *Agro-Uranga S.A.*

**Table of Contents**

	Sales volume		
	Year ended June 30,		
	2002 <sup>(1)</sup>	2003 <sup>(1)</sup>	2004 <sup>(1)</sup>
Crops (tons):			
Wheat	26,101	14,362	16,073
Corn	41,139	56,060	23,860
Sunflower	2,156	5,234	3,095
Soybean	47,629	40,659	19,089
Other	3,599	5,111	2,281
Total crops	120,624	121,426	64,398
Beef-cattle (tons)	18,201	9,561	14,540
Milk (thousand liters)	6,785	6,024	6,731

(1) Does not include the production of *Agro-Uranga S.A.*

	Average selling price		
	Year ended June 30,		
	2002 <sup>(1)</sup>	2003 <sup>(1)</sup>	2004 <sup>(1)</sup>
Crops per ton:			
Wheat	360	415	349
Corn	285	292	259
Sunflower	652	600	609
Soybean	437	525	596
Beef-cattle (per ton)	1,517	1,811	1,882
Milk (thousand liters)	333	401	474

	Gross Revenues & Margin(1)					
	Year ended June 30,					
	2002(1)		2003(1)		2004(1)	
	(Ps. 000)	(%)	(Ps. 000)	(%)	(Ps. 000)	(%)
Crops	33,380	70.7	10,741	21.4	11,516	42.8
Beef-cattle	4,831	17.5	8,565	49.5	6,230	22.8
Milk	(1,304)	(57.7)	932	38.6	1,884	59.0
Other	1,067	33.5	670	32.5	3,664	76.5
<b>TOTAL</b>	<b>37,974</b>	<b>47.3</b>	<b>20,908</b>	<b>29.1</b>	<b>23,294</b>	<b>37.4</b>

(1) This table does not contemplate the gross sales tax on the different segments.

**Product Prospects**

Wheat

The USDA's projections for the 2004/2005 harvest anticipate a significant recovery in production, which would show growth for the first time since 1997/98 and is estimated to be 593.4 million tons (43.4 million more than in the current cycle). It is estimated that consumption will exceed production for the fifth year in a row. However, there will be a dramatic reduction in the gap between both indicators, from 38.4 to 2.3 million tons. Equilibrium between global supply and demand is expected to be tighter than in the current cycle and stocks are expected to be at their lowest prices in the past 23 years. The forecasted stock/consumption ratio is 21.2%, a ratio not seen since 1972/73. However, the stock/exports ratio of the main exporters would be rather broad and would exceed the figures for 2003/04.



## **Table of Contents**

The recovery forecasted in production is mainly explained by the increase in production in the European Union (expected to increase by 21 million tons) and in Russia and Ukraine (expected to increase by 19 million tons). If these estimates are correct, the European Union would again become a net exporter.

### Corn

The global market for corn forecasted for 2004/05 would, constitute a favorable scenario for Argentina. The USDA expects a record production of 643.8 million tons (5% in excess of the record posted in the current harvest) and consumption would exceed production for the fifth year in a row, reaching 664.2 million tons. A 20.3 million-ton drop is expected in final stocks, which would then stand at 68.8 million. As a result, the stock/consumption ratio would deteriorate even further in the next harvest and reflect an all-time high scarcity.

The USDA projections predict record production in the USA, based on increases in sown area and yields. However, the strong domestic demand for ethanol, the expected increase in exports and its low initial stocks are expected to lead to a stock/consumption ratio of 8.8, the lowest since 1995/96.

The projections for Argentina include significant increases in production (from 12.5 million tons in 2003/04 to 15.5 million tons in 2004/05) and exports (from 8.5 million in 2003/04 to 11 million in 2004/05). Argentina would again be the second worldwide exporter and would face lower competition from China and Brazil's exports.

### Soybean

For the 2004/05 harvest, the USDA has forecasted a record global soybean production of 225 million tons, a 19% increase (35.8 million tons) compared to the estimates for 2003/04. This record would be even higher than the record initially expected for the current cycle. Worldwide consumption would increase by 7% and would thus stand at 210.8 million tons. There would be a reversal in the excess demand of the current cycle and final stocks would increase by 40%. Both the global stock/consumption ratio and the stock/exports ratio of the main exporters would see a significant increase compared to the current cycle.

The USA, Brazil, Argentina and China would obtain record productions in 2004/05. In the United States, production would increase to 80.7 million tons, a significant recovery compared to the 65.8 million tons recorded in the course of the current harvest. Forecasts for South America indicate a 113 million-ton production, with 25% and 15% increases, respectively, for Brazil (66 million tons) and Argentina (39 million tons). However, these figures will likely be too optimistic given the effect of these projections on the future prices of oilseeds, the permanent expansion of Asian Rust in the region, the good prospects for corn and climatic uncertainties. Despite the projected 17.5 million-ton record production for China, its low initial stocks and the growth in domestic consumption would lead to the need of imports in an amount of 24 million tons (26% in excess of the current cycle).

### Sunflower

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Global sunflower production for the 2004/05 harvest would be lower than in the current cycle (3%), standing at 25.7 million tons. Consumption is expected to increase by 7%. The equilibrium between supply and demand, with a stock/consumption ratio of 3.8%, would appear to be tighter than in the current cycle. The decrease in global production would be explained by the reductions in sown areas in Russia (13%) and Ukraine (16%). These countries' exports of grains would decrease by over 60%, which would specifically favor Argentina, which would increase its production by 25% and recover the leading position in the ranking of global exporters, based on a 250% increase in exports. Both the production (9 million tons) and global consumption (8.8 million) of sunflower oil is expected to decrease slightly compared to 2003/04. The stock/consumption ratio is expected to remain stable, at levels lower than the average for the past years.

## Table of Contents

### Beef Cattle

Beef cattle segment improvement is related to the solution of the foot and mouth disease ( FMD ) issue and the reestablishment of exports to the European Union and other markets.

The control of foot and mouth disease and the devaluation of the Peso have created favorable conditions for beef cattle exports and have allowed a large number of meat packing plants to re-open and to reinstate their personnel. These conditions have affected the market, where the prices of heavy animals for export have risen significantly. The US, Mexican and Canadian markets are expected to re-open in 2005, which would permit an increase in export volumes as an increase in prices.

Cattle prices have increased, both for farmers and consumers, after the low level reached in December 2002 due to the FMD crisis. The rise in the price of cattle has been mainly due to three factors: a decrease in supply, an increase in exports and inflationary effects. Prices went back to the US\$ 0.75 figure existing prior to the devaluation.

The analysts of this segment are optimistic with respect to the evolution of this sector. As a result of the strengthening of the export market, which contributes to improving the integration of the animal and solid domestic market.

In addition, the World organization for animal health (OIE) declared Argentina to be a country free of Bovine Spongiform Encephalopathy (or mad cow disease ). During the first four-month period of 2004, slaughtering increased by 18% and production increased by 13% compared to the same period in 2003. In May 2004, the price of steer reached its highest point since January 2003. Exports during the first five months increased by 44% in volume and by 59% in value.

### Milk

There has been a decrease in the levels of annual milk production in Argentina. In 2003 there was a drop in production due to adverse climatic conditions during the first months of the year, a decrease in diet supplementation due to the price of grains, closures of dairy farms, displaced by agriculture operations. According to estimates prepared by the Livestock Department of the *Secretaría de Agricultura, Pesca y Alimentación* (Secretariat of Agriculture, Livestock, Fishery and Food of the Argentine Republic, SAPYA), the primary production of milk for 2004 will be 20% higher than the levels recorded in 2003. As a consequence of the drop in production that took place in 2003, the price has been increasing and is now Ps. 0.50, equivalent to US\$ 0.17, as it was prior to the devaluation.

In the first five months of 2004, exports increased by 58% in value and by 29% in volume compared to the same period in 2003. The international outlook is favorable.

## **E. OFF-BALANCE SHEET ARRANGEMENT**

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There are no transactions, agreements or other contractual agreements to which an entity unconsolidated with the Company is a party that is not currently reflected on our balance sheet.

**Table of Contents****F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table shows our contractual obligations as of June 30, 2004:

<b>Detail</b>	<b>Payments due by period (In million of Pesos)</b>				<b>Total</b>
	<b>Less than 1 year</b>	<b>1-3 year</b>	<b>3-5 year</b>	<b>More than 5 years</b>	
<b>Long-term debt</b>					
Convertible Notes Principal			125.9		<b>125.9</b>
Convertible Notes accrued interest	1.3				<b>1.3</b>
<b>Total</b>	<b>1.3</b>		<b>125.9</b>		<b>127.2</b>

**G. SAFE HARBOR**

This section is not applicable.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. DIRECTORS AND SENIOR MANAGEMENT****Board of Directors**

We are managed by a board of directors, which consists of nine directors and three alternate directors. Each director and alternate director is elected by our shareholders at an annual regular meeting of shareholders for a three-year term, provided, however, that only one third of the board of directors is elected each year. The directors and alternate directors may be re-elected to serve on the board any number of times. There are no arrangements by which a person is selected as a director or member of our senior management.

**Table of Contents**

Our current board of directors was elected at a shareholders meeting held in October 22, 2004 for terms expiring in the years 2005, 2006 and 2007, as the case may be. Our current directors are as follows:

<u>Directors(1)</u>	<u>Date of Birth</u>	<u>Position in Cresud</u>	<u>Term Expires</u>	<u>Date of Current Appointment</u>	<u>Current Position Held Since</u>
Eduardo S. Elsztain	01/26/1960	Chairman of the Board	06/30/05	11/05/02	1994
Saúl Zang	12/30/1945	First Vice Chairman of the Board	06/30/05	11/05/02	1994
Alejandro G. Elsztain	03/31/1966	Second Vice Chairman of the Board and CEO	06/30/07	10/22/04	1994
Clarisa D. Lifsic	07/28/1962	Director	06/30/07	10/22/04	1994
Gabriel A.G. Reznik	11/18/1958	Director	06/30/06	10/31/03	2003
Jorge Oscar Fernández	01/08/1939	Director	06/30/06	10/31/03	2003
Susan Segal	10/09/1952	Director	06/30/07	10/22/04	2004
Fernando A. Elsztain	01/04/1961	Director	06/30/07	10/22/04	2004
David A. Perednik	11/15/1957	Director and Chief Administrative Officer	06/30/07	10/22/04	2004
Salvador D. Bergel	04/17/1932	Alternate Director	06/30/05	11/05/02	1996
Juan C. Quintana Terán	06/11/1937	Alternate Director	06/30/05	11/05/02	1994
Gastón Armando Lernoud	06/04/1968	Alternate Director	06/30/05	11/05/02	1999

(1) The business address of our management is Cresud S.A.C.I.F.I. y A., Moreno 877, 23<sup>rd</sup> Floor, (C1091AAQ) Buenos Aires, Argentina.

The following is a brief biographical description of each member of our Board of Directors:

**Eduardo S. Elsztain.** Mr. Elsztain studied Economic Sciences at the *Universidad de Buenos Aires*. He has been carrying out activities in the Real Estate sector for more than twenty years. He founded Dolphin Fund Management. He is the Chairman of the Board of IRSA, APSA, Shopping Alto Palermo S.A.. He is Vice-Chairman of the Board of Banco Hipotecario S.A.. Eduardo S. Elsztain is the brother of our Director

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and Chief Executive Officer Alejandro G. Elsztain, and is the cousin of our Director Fernando A. Elsztain.

**Saúl Zang.** Mr. Zang is a lawyer and graduated from the *Universidad de Buenos Aires*. He is a founding member of the law firm Zang, Bergel & Viñes. He is also First Vice-Chairman of the Board of Directors of IRSA and APSA, and Vice-Chairman of Puerto Retiro and Fibesa; and director of Banco Hipotecario S.A., Nuevas Fronteras S.A., Tarshop and Palermo Invest S.A.

**Alejandro G. Elsztain.** Mr. Elsztain is an Agricultural Engineer and graduated from the *Universidad de Buenos Aires*. He is Chairman of Inversiones Ganaderas S.A.. He is also Second Vice-Chairman of IRSA and Executive Vice-Chairman of APSA and Shopping Alto Palermo S.A. Mr. Alejandro G. Elsztain is the brother of our Chairman, Eduardo S. Elsztain.

**Clarisa D. Lifsic.** Mrs. Lifsic is a graduate in Economic Sciences from the *Universidad de Buenos Aires* and she obtained a Masters Degree in Sciences with management expertise at the Massachusetts Institute of Technology. She has also held offices in research and financial analysis areas in the private sector since 1987. She currently is the Chairman of the Board of Directors of Banco Hipotecario S.A..

## **Table of Contents**

**Gabriel A. G. Reznik.** Mr. Reznik holds a degree in Civil Engineering awarded by *Universidad de Buenos Aires*. He is a member of the Board of Directors of IRSA, APSA, Emprendimientos Recoleta, Inversora Bolívar, Puerto Retiro and Nuevas Fronteras S.A. as well as alternate director of Banco Hipotecario S.A., among others.

**Jorge Oscar Fernández.** Mr. Fernández obtained a degree in Economic Sciences from the *Universidad de Buenos Aires*. He has performed professional activities at several banks, financial corporations, brokerage and insurance firms and other companies related to financial services. He is also involved in many industrial, commercial and professional institutions and associations.

**Susan L. Segal.** Ms. Segal is a graduate of Sarah Lawrence College and holds an MBA degree from Columbia University. She was a founding partner of Inspiration Partners. Formerly she was a partner and Latin American group head at JPMorgan Partners/Chase Capital Partners and a senior managing director at Chemical/Chase Banks. Ms. Segal is currently President and Chief Executive Officer of the Council of the Americas/Americas Society.

**Fernando A. Elsztain.** Mr. Elsztain studied architecture at the *Universidad de Buenos Aires*. He has been engaged in the real estate business as a consultant and as managing officer of a real estate company. He is Chairman of the board of directors of Llao Llao Resorts S.A., Palermo Invest S.A. and Nuevas Fronteras S.A. He is also a Director of IRSA, APSA, SAPSA, Hoteles Argentinos and Tarshop and alternate director of Banco Hipotecario and Puerto Retiro. He is the cousin of our Director Chief Executive Officer Alejandro Elsztain and of our Chairman Eduardo S. Elsztain.

**David A. Perednik.** Mr. Perednik obtained a degree in accounting from the *Universidad de Buenos Aires*. He has worked for several companies such as Marifran Internacional S.A., a subsidiary of Louis Dreyfus Amateurs where he worked as Financial Manager from 1986 to 1997. He also worked as a Senior Consultant in the administration and systems department of Deloitte & Touche from 1983 to 1986. He is also an alternate director and Chief Administrative Officer of APSA.

**Salvador D. Bergel.** Mr. Bergel is a Lawyer and graduated from the *Universidad Nacional del Litoral* and obtained a Doctorate in social and legal sciences. He is a founding member of Zang, Bergel & Viñes and legal advisor of Repsol YPF S.A. He is also an alternate director of APSA.

**Juan C. Quintana Terán.** Mr. Quintana Terán is a Lawyer and graduated from the *Universidad de Buenos Aires*. He is also a legal advisor of the law firm Zang, Bergel & Viñes. He has been President and Judge of the Honorable National Court of Appeals in Commercial Matters of the City of Buenos Aires. He is an alternate director of APSA.

**Gastón Armando Lernoud.** Mr. Lernoud is a lawyer and obtained his law degree from the *Universidad de El Salvador*, Buenos Aires, in 1992. He obtained a Masters degree in Corporate Law in 1996 from the *Universidad de Palermo*, Buenos Aires. He was a senior associated member of Zang, Bergel & Viñes until June 2002, when he joined Cresud's team of lawyers.

We do not have employment contracts with our directors.



**Appointment of the Senior Management**

Our board of directors appoints and removes the senior management. Senior management performs its duties in accordance with the instructions of our board of directors. There are no arrangements by which a person is selected as a member of our senior management. The following table

**Table of Contents**

shows information about our current senior management designated by a board of directors meeting held on December 20, 2004:

Name	Date of Birth	Position	Current Position
			Held Since
Eduardo S. Elsztain	01/26/1960	Chairman of the Board	1994
Alejandro G. Elsztain	03/31/1966	Chief Executive Officer	1994
Gabriel Blasi	11/22/1960	Chief Financial Officer	2004
Alejandro Bartolomé	12/09/1954	Chief Production Officer	1996
David A. Perednik	11/15/1957	Chief Administrative Officer	1997
José Luis Rinaldini	08/14/1963	Chief Subsidiaries Supervisor	1995
Alejandro Casaretto	10/15/1952	Chief Real Estate Officer	2000
Carlos Blousson	09/21/1963	Chief Sales Officer	2000

The following is a biographical description of each of our senior managers who are not directors:

**Gabriel Blasi.** Mr. Blasi obtained a degree in business administration and carried out post graduate studies in Finance at the *Universidad del CEMA* (Centro de Estudios Macroeconómicos Argentinos) and in the *IAE (Universidad Austral)*. He formerly worked as a senior securities trader at Citibank. He also performed several management positions related to investment banking and capital markets at Banco Río (BSCH) and was a Financial Director of the Carrefour Group and Goyaique SACIFIA (Grupo Perez Companc). Currently, he also serves as Chief Financial Director of IRSA and APSA.

**Alejandro Bartolomé.** Mr. Bartolomé obtained a degree in agriculture from the *Universidad de Buenos Aires* and a Master of Science degree in Animal Production from the University of Reading in England. He was treasurer of CREA Monte Buey Inrville and coordinator of the Dairy Group Santa Emilia from 1993 until 1996. He also worked as Farm Manager and was associated to a farm management company called Administración Abelenda, Magrane, Anchorena.

**José Luis Rinaldini.** Mr. Rinaldini obtained a degree in agriculture from the *Universidad de Buenos Aires*. He has worked for Inversiones Ganaderas S.A. and for an agriculture and forestry company in the production and marketing areas.

**Alejandro Casaretto.** Mr. Casaretto obtained a degree in agriculture from the *Universidad de Buenos Aires*. He has been working as our Technical Manager, Farm Manager and Technical Coordinator since 1975.

**Carlos Blousson.** Mr. Blousson obtained a degree in agriculture from the *Universidad de Buenos Aires*. He has been working as our Sales Officer since 1996. Prior to joining Cresud, he worked as futures and options operator at Vanexva Bursátil Sociedad de Bolsa-. Previously, he worked as farm manager and technical advisor at Leucon S.A.

**Table of Contents****SUPERVISORY COMMITTEE****Composition of the Supervisory Committee**

Our Supervisory Committee is responsible for reviewing and supervising our administration and affairs, and verifying compliance with the Bylaws and the resolutions adopted at shareholders' meetings. The members of the supervisory committee are appointed at the annual general ordinary shareholders' meeting for a term of one year. The supervisory committee is composed of three members and three alternate members.

**Information about Members of the Supervisory Committee**

The following table shows information about the members of our supervisory committee, who were elected in the annual general ordinary shareholders' meeting which was held on October 22, 2004:

<b>Member</b>	<b>Date of Birth</b>	<b>Position</b>
	<b>(m/d/y)</b>	
Andrés Suarez	01/01/1965	Member
Corina I. Pando	12/26/1952	Member
Carlos A. Rebay	05/06/1949	Member
Carlos H. Rivarola	08/01/1954	Alternate Member
Gabriel Martini	02/21/1963	Alternate Member
Diego Niebuhr	02/10/1953	Alternate Member

Set forth below is a brief biographical description of each member of our supervisory committee:

**Andrés Suarez.** Mr. Suarez obtained a degree in accounting from the *Universidad de Buenos Aires*. He is a partner of Price Waterhouse & Co. S.R.L., a member firm of PricewaterhouseCoopers. He is also a member of the supervisory committee of APSA, Cresud, Metrovías S.A. and Grupo Concesionario del Oeste.

**Corina I. Pando.** Ms. Pando obtained a degree in accounting from the *Universidad de Buenos Aires* and is a partner of Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers. She is also a member of the Supervisory Committees of Ford Credit Holding Argentina S.A. and Frimetal S.A.

**Carlos A. Rebay.** Mr. Rebay obtained a degree in accounting and a degree in administration from the *Universidad Argentina de la Empresa*. He is a partner of Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers. He is also a member of the supervisory committees of Massalín Particulares S.A., Hart S.A., Tapiales S.A. and AT&T Argentina S.A.

**Carlos H. Rivarola.** Mr. Rivarola obtained a degree in accounting from the *Universidad de Buenos Aires* and is a partner of Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers. He is also a member of the Supervisory Committees of Tornquist Asesores de Seguros S.A. and Toyota Argentina S.A.

**Gabriel Martini.** Mr. Martini obtained a degree in accounting from the *Universidad de Buenos Aires* and is a partner of Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers. He is a member of the Professional Council of Economics of the City of Buenos Aires. Mr. Martini is also a member of the Supervisory Committee of Cibie Argentina S.A., and Emelar S.A.

## **Table of Contents**

**Diego Niebuhr.** Mr. Niebuhr obtained a degree in accounting and a degree in administration from the *Universidad de Buenos Aires*. He is a partner of Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers. He is also a member of the Supervisory Committees of Cresud, Commercial Union S.A., Ford Credit Cía Financiera S.A., Nutricia Bagó S.A., Ace Seguros, Epsos Argentina S.A..

## **KEY EMPLOYEES**

There are no key employees.

## **B. COMPENSATION**

### ***Compensation of Directors***

Under Argentine law, if the compensation of the members of the board of directors is not established in the Bylaws of the company, it should be determined by the shareholders' meeting. The maximum amount of total compensation to the members of the board of directors, including compensation for technical or administrative permanent activities, cannot exceed 25% of the earnings of the company. That amount should be limited to 5% when there is no distribution of dividends to shareholders, and will be increased proportionally to the distribution. When one or more directors perform special commissions or technical or administrative activities, and there are no earnings to distribute, or they are reduced, the shareholders' meeting may approve compensation in excess of the above-mentioned limits.

The compensation of our directors for each fiscal year is determined pursuant to Argentine law, and taking into consideration if the directors perform technical or administrative activities and our fiscal year's results. Once the amount is determined, they are considered at the shareholders' meeting.

At our shareholders' meeting held on October 22, 2004 the shareholders approved an aggregate compensation of Ps. 2.4 million for all of our directors for the fiscal year ended June 30, 2004.

### ***Compensation of Supervisory Committee***

The shareholders' meeting held on October 22, 2004, further approved unanimously not to pay any compensation to our Supervisory Committee.

### ***Compensation of Senior Management***

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Our senior management is paid a fixed amount established by taking into consideration their background, capacity and experience and an annual bonus which varies according to their individual performance and our results.

The total and aggregate compensation of our senior management for the fiscal year ended June 30, 2004 was Ps. 2.8 million.

### *Stock Option Plan*

On November 19, 2001, our shareholders, at an extraordinary shareholders meeting, authorized us to enter into a stock option plan relating to the shares remaining after the shareholders exercise of their preemptive rights to acquire treasury shares. Our shareholders decided that two thirds of the options

**Table of Contents**

under this stock option plan would be allocated to Messrs. Alejandro G. Elsztain, Alejandro Cassaretto, Alejandro Bartolomé, José L. Rinaldini, Carlos Blousson and David A. Perednik as beneficiaries, and that one third of the options would be allocated by our board of directors in a period beginning six months after the initial allocation and ending three months before the expiration of the term of the exercise of options.

In accordance with Argentine law, we established a special purpose trust for equal term to the option period, so that the beneficiaries may exercise the option, among any of our employees, officers or senior managers. In accordance to such extraordinary shareholders meeting, on February 13, 2002, we entered into an agreement with Messrs. Alejandro G. Elsztain, Alejandro Cassaretto, Alejandro Bartolomé, José L. Rinaldini, Carlos Blousson and David A. Perednik granting the beneficiaries, a purchase option for the acquisition of an aggregate of 3.1 million book entry common shares of Cresud, for a face value of Ps. 1.0 each. The options were granted to the beneficiaries as follows:

<u>Name</u>	<u>Shares</u>
Alejandro G. Elsztain	2,073,437
Alejandro Cassaretto	200,000
Alejandro Bartolomé	200,000
Carlos Blousson	200,000
José L. Rinaldini	200,000
David A. Perednik	200,000

Pursuant to this agreement, the beneficiaries are entitled to exercise the options by January 15, 2005 and the amount to be paid for the exercise of the option shall be Ps. 1 for each share plus an annual interest calculated on the basis of six-month LIBO rates. According to the trust, dividends distributed on the shares subject to the option shall automatically add to the trust property.

As of November 30, 2004 options to acquire 2,850,437 shares were exercised.

***Benefit Plans***

We do not currently have any plans providing for pension, retirement or other similar benefits, other than those related to our senior management.

**C. BOARD PRACTICES**

**Benefits upon Termination of Employment**

There are no contracts providing for benefits to directors upon termination of employment.

**Audit Committee**

According to the Regime of Transparency in Public Offerings provided for by Decree 677/01, the regulations of the ( CNV ) and Resolutions No. 400 and 402 of the CNV, our Board of Directors decided to establish an Audit Committee which would focus on assisting the Board in exercising its duty of care, compliance with disclosure requirements, the enforcement of accounting policies, management of our business risks, the management of our internal control systems, ethical conduct of the company's businesses, monitoring the sufficiency of our financial statements, the company's compliance with the laws, independence and capacity of independent auditors and performance of our internal audit duties both by our company and our external auditors.



**Table of Contents**

On May 27, 2004, the Board of Directors officially announced the formation and composition of the Audit Committee provided for in Section 15 of the Regime of Transparency in Public Offerings and approved pursuant to Decree No. 677/01 and Section 13 of Resolution No. 400/2002. The Board of Directors appointed Clarisa Diana Lifsic, Jorge Oscar Fernández and Gabriel Adolfo Gregorio Reznik as members of the Audit Committee.

**Remuneration Committee**

There is no Remuneration Committee.

**D. EMPLOYEES**

As of June 30, 2004, we had 248 employees, including the employees of all our subsidiaries but not those of Agro-Uranga S.A. and Cactus Argentina S.A. Our non hierarchical employees are under labor collective agreements, we believe we have good relations with the Union and our employees. We have never experienced a work stoppage or labor unrest. We offer below a breakdown of the number of employees for our three more recent fiscal years ended in June 30 of each year.

<u>Province</u>	<u>At June 30, 2004</u>		<u>At June 30, 2003</u>		<u>At June 30, 2002</u>	
	<u>Regular, salaried</u>	<u>Temporary</u>	<u>Regular, salaried</u>	<u>Temporary</u>	<u>Regular, salaried</u>	<u>Temporary</u>
Buenos Aires	78	13	71	6	63	15
Córdoba	21	1	18	9	38	6
Santa Fe	32	7	47	6	43	10
Chaco	45	5	42	6	38	11
Catamarca	10	2	8	8	10	7
Salta	17	2	15		5	7
La Pampa	2	2	1			
San Luis	8	3	8		3	5
<b>Total employees</b>	<b>213</b>	<b>35</b>	<b>210</b>	<b>35</b>	<b>200</b>	<b>61</b>

**E. SHARE OWNERSHIP**

Share Ownership of Directors, members of the Supervisory Committee and Senior Management as of November 30, 2004.

<u>Name</u>	<u>Position</u>	<u>Number of Shares</u>	<u>Percentage</u>
-------------	-----------------	-------------------------	-------------------

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<b>Directors</b>			
Eduardo S. Elsztain (1)	Chairman	41,713,084	27.49%
Saúl Zang	First Vice Chairman		
Alejandro G. Elsztain	Second Vice		
	Chairman / Chief		
	Executive Officer		
Clarisa Lifsic	Director	150,545	0.10%
Gabriel A. G. Reznik	Director		
Jorge Oscar Fernández	Director	2,700,000	1.78%
Susan Segal	Director		
Fernando A. Elsztain	Director		
David A. Perednik	Director / Chief		
	Administrative Officer		
Juan C. Quintana Terán	Alternate Director		
Salvador D. Bergel	Alternate Director		
Gaston A. Lernoud	Alternate Director		
<b>Senior Management</b>			
Gabriel Blasi	Chief Financial Officer		
Alejandro Bartolomé	Chief Production Officer		
José Luis Rinaldini	Chief Subsidiaries Officer		
Carlos Blousson	Chief Sales Officer		
Alejandro Casaretto	Chief Real Estate Supervisor		
	Officer	6,000	0.00%
<b>Supervisory Committee</b>			
Andrés Suarez	Member		
Corina I. Pando	Member		
Carlos A. Rebay	Member		
Carlos H. Rivarola	Alternate Member		
Gabriel Martini	Alternate Member		
Diego Niebuhr	Alternate Member		

- (1) The number of shares beneficially owned by Mr. Eduardo S. Elsztain is 136,053,474, assuming full conversion of the notes and warrants issued pursuant to the 23,953,025 units owned by Mr. Elsztain through Inversiones Financieras del Sur S.A.

**Table of Contents**

**Employees Participation in our Capital Stock**

On November 19, 2001, our shareholders, at an extraordinary shareholders meeting, authorized us to enter into a stock option plan relating to the shares remaining after the shareholders exercise of their preemptive rights to acquire treasury shares.

In accordance with Argentine law, we established a special purpose trust for equal term to the option period.

Pursuant to this agreement, the beneficiaries are entitled to exercise the option by January 15, 2005 and the amount to be paid for the exercise of the option shall be Ps. 1 for each share plus an annual interest calculated on the basis of six-month LIBO rates. According to the trust, dividends distributed on the shares subject to the option shall automatically add to the trust property.

**Table of Contents**

In accordance to such extraordinary shareholders meeting, on February 13, 2002, options were granted to the beneficiaries as follows:

<u>Name</u>	<u>Shares granted</u>	<u>Outstanding as of November 30, 2004</u>
Alejandro G. Elsztain	2,073,437	
Eduardo S. Elsztain	984,866	
M. Marcelo Mindlin	246,217	
Alejandro Cassaretto	200,000	90,000
Alejandro Bartolomé	200,000	110,000
Carlos Blousson	200,000	23,000
José L. Rinaldini	200,000	
David A. Perednik	200,000	
Saúl Zang	153,885	
Clarisa Lifsic	153,885	

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. MAJOR SHAREHOLDERS****Share Ownership**

The following table sets forth certain information regarding the beneficial ownership of our outstanding common stock as of November 30, 2004 by:

each person known to us to be the beneficial owner of more than 5% of our common stock;

each of our named senior managers;

each director; and

all current directors and senior managers as a group.

<u>Directors</u>	<u>Position</u>	<u>Amount</u>	<u>Percentage</u>
Eduardo S. Elsztain (1)	Chairman	41,713,084	27.49%
Saúl Zang	First Vice Chairman		
Alejandro G. Elsztain	Second Vice		
	Chairman / Chief		

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	Executive Officer		
Clarisa Lifsic	Director	150,545	0.10%
Gabriel A. G. Reznik	Director		
Jorge Oscar Fernández	Director	2,700,000	1.78%
Susan Segal	Director		
Fernando A. Elsztain	Director		
David A. Perednik	Director / Chief		
	Administrative		
	Officer		
Juan C. Quintana Terán	Alternate Director		
Salvador D. Bergel	Alternate Director		
Gaston A. Lernoud	Alternate Director		
<b>Senior Management</b>			
Gabriel Blasi	Chief Financial		
	Officer		
Alejandro Bartolomé	Chief Production		
	Officer		
José Luis Rinaldini	Chief Subsidiaries		
	Supervisor		
Alejandro Casaretto	Chief Real Estate		
	Officer	6,000	0.00%
Carlos Blousson	Chief Sales Officer		
<b>Directors and Senior Management in the aggregate</b>			
		<b>44,569,629</b>	<b>29.37%</b>
<b>Pension funds in the aggregate</b>			
		<b>11,491,383</b>	<b>7.57%</b>

- (1) The number of shares beneficially owned by Mr. Eduardo S. Elsztain is 136,053,474, assuming full conversion of the notes and warrants issued pursuant to the 23,953,025 units owned by Mr. Elsztain through Inversiones Financieras del Sur S.A.

**Table of Contents**

As of November 30, 2004, there were approximately 11,468,515 american depositary shares (representing 114,685,150 of our common shares, or approximately 75.6% of all of our outstanding shares) held in the United States. Additionally, as of such date, there were approximately twenty registered holders represented by american depositary shares in the United States.

Except as set forth in the preceding table, we are not aware of the existence of other shareholders owning more than 5% of our capital stock. Our principal shareholders' voting rights are similar to those of our other shareholders.

**Change in Capital Stock Ownership**

	<u>As of November 30, 2004</u>	<u>As of June 30, 2004</u>	<u>As of June 30, 2003</u>	<u>As of June 30, 2002</u>	<u>As of June 30, 2001</u>
	%	%	%	%	%
Eduardo S. Elsztain (1)	27.5%	28.9%	49.7%	51.1%	35.7%
Pension Funds in the aggregate	7.6%	7.9%	11.7%	19.2%	28.3%
JP Morgan Whitefriars Inc					10.4%
Directors and senior managers in the aggregate	29.4%	31.3%	53.1%	55.3%	40.5%

- (1) The number of shares beneficially owned by Mr. Eduardo S. Elsztain is 136,053,474, assuming full conversion of the notes and warrants issued pursuant to the 23,953,025 units owned by Mr. Elsztain through Inversiones Financieras del Sur S.A.

## **Table of Contents**

On October 15, 2002, we initiated a preemptive rights offering to subscribe for 50,000,000 units consisting of US\$ 50.0 million of 8% Convertible Notes due 2007 and non-detachable warrants to purchase additional shares of our common stock. The Convertible Notes may be converted at the holder's option into shares of our common stock until maturity on November 14, 2007, at the initial conversion price of US\$ 0.5078 per common share. Each warrant will be exercisable on or after conversion of the convertible note to which it is attached at the same conversion price plus a 20% premium (US\$ 0.6093). The rights offering to holders of our common shares and ADSs expired on November 13, 2002. Existing shareholders have subscribed through the exercise of their preemptive rights for US\$ 20.5 million and they have exercised their accretion rights for US\$ 1.7 million, adding together US\$ 22.2 million. During the allocation of the remainder new investors have subscribed the remaining US\$ 27.8 million units completing the US\$ 50 million offering.

As of November 30, 2004 our directors and senior managers controlled, directly or indirectly, approximately 29.5% of our common shares. As a result, these shareholders have, and will continue to have, significant influence on the election of our directors and the outcome of any action requiring shareholder approval. Moreover, certain of our directors and senior managers hold 23,960,625 units of our convertible notes. If our directors and senior managers convert all Convertible Notes and exercise all warrants so acquired and none of our other shareholders convert their notes, they will control, directly or indirectly, 55.4% of our common stock.

## **B. RELATED PARTY TRANSACTIONS**

### **Headquarters**

From December 2001 to December 2003 we subleased our headquarters from APSA. Eduardo S. Elsztain, our Chairman is also the Chairman of the Board of Directors of APSA. We paid a monthly rent of Ps. 2,541.

This subleased agreement were cancelled on February, 2004 and a new lease agreement was signed among us, APSA, IRSA and Isaac Elsztain e Hijos S.C.A. We have leased our executive offices located in Bolivar 108, City of Buenos Aires pursuant of this agreement since March 2004. This lease has a term of 120 months and rent of Ps. 8,490 payable monthly. We, APSA and IRSA each pay one-third of such rent in an amount of Ps. 2,830 each.

In December 2003, we moved our headquarters to the 23rd floor of the Intercontinental Plaza tower, located at Moreno 877, in the City of Buenos Aires. We lease our headquarters and five parking lot attendants from Inversora Bolivar S.A., a subsidiary of IRSA, pursuant to a lease agreement with an initial term of 60 months and an extension option for 36 additional months. We pay monthly rent of US\$ 2,979 and received the first two months free.

Saúl Zang, our first vicepresident is also director of Inversora Bolivar and Alejandro Gustavo Elsztain, our second vice chairman is the vice chairman of Inversora Bolivar. In addition, Fernando Adrián Elsztain who is the president of Inversora Bolivar is also our director.

### **Consulting Agreement**

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Pursuant to the consulting agreement (the Consulting Agreement ) with Dolphin Fund Management S.A., effective as of November 7, 1994, we pay an annual fee equivalent to 10% of our net income for certain agriculture advice and other administration services.

Dolphin Fund Management S.A spun off in two companies on November 25, 2003: Consultores Asset Management S.A. and Dolphin Fund Management S.A. Eduardo Elsztain is the owner of 85% of the capital stock of Consultores Asset Management S.A., while our First Vice Chairman of the board, Saúl Zang, holds the other 15% of the capital stock. As a consequence of the spin off, the consulting agreement has been assigned to Consultores Asset Management S.A.



## **Table of Contents**

Pursuant to the terms of the Consulting Agreement, Consultores Asset Management S.A provides us with the following services:

advises with respect to the investment of its capital in all aspects of agricultural operations, including, among others, sales, marketing, distribution, financing, investments, technology and business proposals;

acts on our behalf in such transactions, negotiating the prices, conditions, and other terms of each operation; and

gives advice regarding securities investments with respect to such operations.

The Consulting Agreement expressly provides that Consultores Asset Management S.A. may not advise us with respect to transactions that are related to real estate.

Under the Consulting Agreement, we pay Consultores Asset Management S.A. for its services, an annual fee equal to 10% of our annual after-tax net income. We also reimburse Consultores Asset Management S.A. the administrative expenses incurred by it in performing its duties under the Consulting Agreement and: (i) remuneration to the directors, trustees and certifying accountants; (ii) remuneration of legal consultants; (iii) remuneration of auditors; (iv) representation costs; and (v) all other costs incurred by it in performing its services.

In fiscal years 2004, 2003 and 2002 Consultores Asset Management S.A. (formerly Dolphin Fund Management) received fees in the amount of Ps. 3.6 million, Ps 7.2 million and none, respectively. During these years, we were not charged for any administrative expenses by Consultores Asset Management S.A. (former Dolphin Fund Management). However, no assurances can be given that Consultores Asset Management (formerly Dolphin Fund Management) will not request reimbursement for such expenses in the future.

The Consulting Agreement is subject to termination by either party upon not less than 60 days prior written notice. If we terminate the Consulting Agreement without cause, we will be liable to Consultores Asset Management S.A for twice the average of the amounts of the management fee paid to Consultores Asset Management S.A for the two fiscal years prior to such termination.

Mr. Eduardo S. Elsztain, our Chairman of the board of directors was the Chairman of the board of Directors of Dolphin Fund Management S.A. and is currently the Chairman of the board of directors of Consultores Asset Management S.A. Additionally, Eduardo S. Elsztain holds 85% of the capital stock of Consultores Asset Management S.A. while our First Vice Chairman of the board Saúl Zang holds the other 15% of the capital stock.

## **Donations to Fundación IRSA**

From time to time, we donate money to Fundación IRSA, a charitable, non-profit organization of which our shareholder and Chairman Eduardo S. Elsztain is the Chairman and his wife is the Secretary. We donated Ps. 1.13 million, Ps. 0.36 million and Ps. 0.02 million for the fiscal years ended June 30, 2004, 2003 and 2002, respectively.

**Agreement for Shared Corporate Services with IRSA and APSA**

In order to reduce administrative expenses and to achieve a more efficient allocation of corporate resources, a program for partial operating integration in the areas of Human Resources, Finance, Institutional Relations, Administration, Systems, Insurance, Purchasing, Contracts and Operations,

## **Table of Contents**

among others, was implemented on June 30, 2003 by the Company, APSA and IRSA (the Parties). This program was implemented to reduce operating costs by optimizing the individual administrative efficiencies of each Party.

On the basis of this program, the Parties entered into the Exchange of Operating Services Agreement on June 30, 2004, a two-year agreement by which tasks are performed by one or more Parties for the benefit of one or more other Parties in exchange for a fee to be paid primarily through the provision of services in other areas. Through this agreement, each party continues to maintain its strategic and commercial independence while increasing operating efficiency. This agreement will not affect the independence of each Party's record and accounting systems or adversely affect internal control systems or external audit tasks. Each party will continue to maintain separation of its assets and liabilities.

Alejandro Gustavo Elsztain is the General Coordinator of the program and Clarisa Diana Lifsic de Estol, a member of our Audit Committee, is responsible for the implementation of the agreement. The main duties for the project for implementation shall consist of (a) monitoring the project's implementation in accordance with the agreement; (b) reviewing the billing report on a monthly basis to analyze and check it against the provisions of the Agreement, and, in the event of discrepancies or deviations, preparing a report to submit for the consideration of the General Coordinator, and by each Party's Boards of Directors and (c) assessing, on a permanent basis the, results derived from the project's implementation and proposing to the General Coordinator changes in the event of a conflict with the agreement or, if appropriate, the possibility of establishing cost or benefit allocation mechanisms or criteria more consistent with the goals of the agreement.

In the future and in order to continue with our policy of achieving a more efficient allocation of corporate resources, we may extend the areas in which we share corporate services with IRSA and APSA.

Our chairman is also chairman of IRSA and APSA and our vice-chairman is also vice-chairman of IRSA and APSA.

We believe that the terms and conditions of these transactions are consistent in all material respects with those prevailing in the market at the relevant time for agreements between unaffiliated parties.

## **Legal services**

During the years ended June 30, 2004, 2003 and 2002, we paid the firm Zang, Bergel & Viñes a total amount of approximately Ps. 0.10 million, Ps. 0.14 million and Ps 0.30 million, respectively, for their legal services. Our First Vice Chairman Saúl Zang and our Director Salvador D. Bergel are partners of such firm.

## **Subscription of our Convertible Notes by Inversiones Financieras del Sur S.A.**

On October 15, 2002, we initiated a preemptive rights offering to subscribe for 50,000,000 units consisting of US\$ 50.0 million of 8% Convertible Notes due 2007 and non-detachable warrants to purchase shares of our common stock.

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Inversiones Financieras del Sur S.A., an Uruguayan holding company, for which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control that company has subscribed US\$ 22.6 million of our Convertible Notes.

In addition, as of November 30, 2004 Inversiones Financieras del Sur S.A. held 27.5% of our common shares. Assuming Inversiones Financieras del Sur S.A. exercises its conversion rights of all of its Convertible Notes and no exercise of such rights by any of our other bondholders, Inversiones

## **Table of Contents**

Financieras del Sur S.A. would own 44.7% of our common shares. In the case all bondholders exercise their conversion rights and Inversiones Financieras del Sur S.A. exercise them as well, Inversiones Financieras del Sur S.A. would own 49.7% of our common stock.

### **Acquisition of IRSA Units**

During November and December 2002, we purchased 49.7 million Convertible Notes and during July and November 2003, we purchased additional 0.25 million Convertible Notes. All of these notes were issued by IRSA. The notes, mature in 2007 and accrue interest semi-annually at 8% interest rate.

IRSA's Convertible Notes are convertible at any time, at the option of the holder, into a fixed number of common shares. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of the warrant.

In May 2004 we decided to exercise our option to convert 5 million aggregate principal amount of IRSA's Convertible Notes as part of our long term strategy, in order to revert the reduction of our ownership percentage, which was diluted by the conversion of notes and the exercise of warrants by third parties. As a result of this conversion, Cresud has received 9.2 million of IRSA common shares.

On September 30, 2004, Cresud exercised 5.0 million of its IRSA Warrants for 9,174,311 ordinary shares at a total cost of US\$ 6 million. As of September 30, 2004, holders of Warrants issued by Cresud, had exercised 6.7 million warrants (of the 50.0 million issued originally) generating income of US\$ 8.1 million for the Company.

Cresud exercised 5.0 million of IRSA warrants, paying a total amount of US\$ 6.0 million for the shares purchased.

As of November 30, 2004 we owned 27.5% of IRSA's common shares. Assuming we exercise our conversion rights of all our IRSA's Convertible Notes and no exercise of such rights by any of other IRSA's bondholders as of that date, we would own 59.5% of IRSA's common shares. In the case all bondholders exercise their conversion rights and we exercise them as well, we would own 36.9% of IRSA's common stock.

Assuming we exercise all of our IRSA's warrants and no exercise of such rights by any other IRSA's Bondholders as of November 30, 2004, we would own 47.3% of IRSA's common shares. In the case all bondholders exercise their warrants and we exercise them as well, we would own 40.9% of IRSA's common stock.

### **C. INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.



**Table of Contents**

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18 for our Consolidated Financial Statements.

**Legal or arbitration proceedings**

We are not engaged in any material litigation or arbitration and no material litigation or claim is known to us to be pending or threatened against us or our subsidiaries.

**Dividend policy**

Pursuant to Argentine law, the distribution and payment of dividends to shareholders is valid only if they result from realized and net earnings of the company pursuant to annual financial statements approved by the shareholders. The approval, amount and payment of dividends are subject to the approval by our shareholders at our annual ordinary shareholders meeting. The approval of dividends requires the affirmative vote of a majority of the shares entitled to vote at the meeting.

In accordance with Argentine law and our Bylaws, net and realized profits for each fiscal year shall be distributed as follows:

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

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

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

In the past, we paid dividends in cash with an average of Ps. 0.0488 per share. At our shareholders meeting held on October 23, 1998, our shareholders approved the distribution of 8.0 million treasury shares to be distributed pro rata among our shareholders indicated in the table below as cash dividends. As the result of the year ended June 30, 2002 was a Ps. 39.6 million loss (stated in historic pesos), the shareholders meeting resolved not to distribute dividends for such year.

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The shareholders meeting held on October 22, 2004 approved, the distribution of a cash dividend of Ps. 3.0 million, or Ps. 0.020 per share (0.20 per ADS), previous deduction of 5% of our legal reserve.

The following table sets forth the dividend payout ratio and the amounts of total dividends paid on each fully paid share of common stock each year since 1995. Amounts in Pesos are presented in historical Pesos as of the respective payment dates. See Exchange Rates .

<u>Year declared</u>	<u>Total per share</u>
	<i>(Pesos)</i>
1995	
1996	
1997	
1998	0.099
1999	0.092
2000	0.011
2001	0.030
2002	
2003	0.012
2004	0.020

- (1) Corresponds to per share payments. To calculate the dividends paid per ADS, the payment per share should be multiplied by ten. Amounts in Pesos are presented in historical Pesos as of the respective payment date. See Exchange Rates . Although we hope to distribute cash dividends in the future, we cannot assure you that we will be able to do it.



**Table of Contents**

**B. SIGNIFICANT CHANGES**

On August 25, 2004, a preliminary sales agreement was signed for the *Ñacurutú* farm, a 30,397-hectare property located in the departments of General Obligado and Vera in the Province of Santa Fe. The price will be approximately US\$ 5.6 million. This sale will provide the Company with a profit of approximately US\$ 2.65 million.

On October 22, 2004, at the Ordinary and Extraordinary Shareholders Meeting, the shareholders approved the distribution of cash dividends for a total amount of Ps. 3 million or Ps. 0.01983007 per common share of nominal value Ps. 1.00 each. The cash dividends were distributed from November 17, 2004.

As of December 20, 2004, 7,760,163 Convertible Notes were converted into 15,281,903 ordinary shares. During the same period, 6,714,134 warrants were exercised, resulting in the issuance of 13,221,989 ordinary shares. As of December 20, 2004 152,788,284 shares were outstanding.

**ITEM 9. THE OFFER AND THE LISTING**

**A. INFORMATION ON THE LISTING OF OUR STOCK**

The following summary provides information concerning our share capital and briefly describes all material provisions of our Bylaws and the Argentine Law of Corporations.

**Stock Exchanges in which our securities are listed**

Our common shares are listed on the *Bolsa de Comercio de Buenos Aires* and NASDAQ.

Our authorized capital stock consists of 151,728,464 shares of common stock, Ps. 1.0 par value per share.

As of November 30, 2004, our outstanding capital stock consisted of 151,728,464 shares of common stock. As of that date (1) we had no other shares of any class or series issued and outstanding and (2) we had 42,778,014 convertible Notes and 43,285,866 warrants outstanding.

The common stock has one vote per share. All outstanding shares of the common stock are validly issued, fully paid and non assessable. As of November 30, 2004, there were approximately 700 holders of all of our common stock.

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The following description of the material terms of our capital stock is subject to our certificate of incorporation and Bylaws, which are included as exhibits to the registration statement of which this Form 20-F forms a part, and the provisions of applicable Argentine law.

**Table of Contents****Price history of our stock on the *Bolsa de Comercio de Buenos Aires***

Our common shares are listed and traded on the *Bolsa de Comercio de Buenos Aires* under the trading symbol CRES . Our shares began trading on the *Bolsa de Comercio de Buenos Aires* on December 12, 1960. The following table shows, for the calendar periods indicated, the high and low closing sales price of our common shares on the *Bolsa de Comercio de Buenos Aires*. On November 30, 2004, the closing price for our common shares on the *Bolsa de Comercio de Buenos Aires* was, approximately, Ps. 4.35 per share.

	Share Price in Pesos	
	High	Low
<b>Fiscal Year</b>		
2004	4.51	2.23
2003	2.80	1.52
2002	2.35	0.64
2001	1.05	0.76
2000	1.14	0.81
1999	1.94	0.95
<b>Fiscal Quarter</b>		
<b>2004</b>		
4 <sup>th</sup> quarter	3.62	2.48
3 <sup>rd</sup> quarter	3.95	2.90
2 <sup>nd</sup> quarter	4.51	2.65
1 <sup>st</sup> quarter	2.79	2.23
<b>2003</b>		
4 <sup>th</sup> quarter	2.74	2.10
3 <sup>rd</sup> quarter	2.80	1.75
2 <sup>nd</sup> quarter	2.42	1.75
1 <sup>st</sup> quarter	2.50	1.52
<b>2002</b>		
4 <sup>th</sup> quarter	2.35	1.88
3 <sup>rd</sup> quarter	1.90	0.75
2 <sup>nd</sup> quarter	0.89	0.64
1 <sup>st</sup> quarter	1.02	0.90
<b>2004</b>		
May	3.45	2.48
June	3.55	2.94
July	3.44	3.01
August	3.57	3.04
September	3.72	3.42
October	4.20	3.40
November	4.45	4.10

Source: *Bloomberg*.

**Price history of our stock on Nasdaq National Market**

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Each of our American depositary shares represents 10 ordinary shares. Our American depositary shares are listed and traded on the Nasdaq National Market under the trading symbol CRESY. Our

**Table of Contents**

ADSs began trading on the Nasdaq in March 1997 and were issued by the Bank of New York Inc., acting as ADS Depository. The following table sets forth, for the calendar periods indicated, the high and low closing sale prices of our ADSs on the Nasdaq. On November 30, 2004, the closing price for our ADSs on the Nasdaq was, approximately US\$ 14.74 per ADS.

	U.S. dollars per ADS	
	High	Low
<b>Fiscal Year</b>		
2004	16.20	7.82
2003	10.00	4.10
2002	10.10	5.18
2001	10.50	7.50
2000	11.38	7.94
1999	17.79	10.00
<b>Fiscal Quarter</b>		
<b>2004</b>		
4 <sup>th</sup> quarter	12.99	8.50
3 <sup>rd</sup> quarter	13.67	9.61
2 <sup>nd</sup> quarter	16.20	8.86
1 <sup>st</sup> quarter	10.12	7.82
<b>2003</b>		
4 <sup>th</sup> quarter	10.00	6.80
3 <sup>rd</sup> quarter	8.63	5.20
2 <sup>nd</sup> quarter	6.25	4.60
1 <sup>st</sup> quarter	6.70	4.10
<b>2002</b>		
4 <sup>th</sup> quarter	6.70	5.18
3 <sup>rd</sup> quarter	6.95	5.75
2 <sup>nd</sup> quarter	9.00	6.15
1 <sup>st</sup> quarter	10.10	9.00
<b>2004</b>		
May	12.14	8.50
June	12.25	9.55
July	11.95	9.90
August	11.97	9.90
September	12.54	11.05
October	14.38	11.21
November	15.30	13.25

**B. PLAN OF DISTRIBUTION**

This item is not applicable.

**C. MARKETS**

**Argentine Securities Markets**

The CNV is a separate governmental entity with jurisdiction covering the territory of the Argentine Republic. Its main purpose is to ensure transparency of Argentina's securities markets, to watch over the market price formation process and to protect investors. The CNV supervises

## Table of Contents

corporations authorized to issue securities to the public, the secondary markets where these securities are traded, and all persons and corporations involved in any capacity in the public offering and trading of these securities. Pension funds and insurance companies are regulated by separate government agencies. The Argentine markets are governed generally by Law No. 17,811, as amended, which created the CNV and regulates stock exchanges, stockbrokers, market operations and the public offerings of securities. There is a relatively low level of regulation of the market for Argentine securities and investors' activities in such market, and enforcement of existing regulatory provisions has been extremely limited. Furthermore, there may be less publicly available information about Argentine companies than is regularly published by or about companies in the United States and certain other countries. However, the Argentine government and the *Comisión Nacional de Valores*, taking into consideration the deeper global awareness of the importance of having adequate corporate governance practices and a legal framework to enforce principles such as full information, and transparency, have recently issued decree No. 677/2001. This decree has the objective of determining the rights of the financial consumer, increasing market transparency and an adequate legal framework to increase the investor's protection within the capital market. Most of its reforms are in line with world trends pertaining to corporate governance practices that have already been adopted by many emerging markets.

In order to offer securities to the public in Argentina, an issuer must meet certain requirements of the CNV regarding assets, operating history, management and other matters, and only securities for which an application for a public offering has been approved by the CNV may be listed on the *Bolsa de Comercio de Buenos Aires*. This approval does not imply any kind of certification or assurance related to the merits or the quality of the securities, or the solvency of the issuer. Issuers of listed securities are required to file unaudited quarterly financial statements and audited annual financial statements, as well as various other periodic reports, with the CNV and the *Bolsa de Comercio de Buenos Aires*.

There are 10 securities exchanges in Argentina, the principal exchange for the Argentine securities market is the *Bolsa de Comercio de Buenos Aires*, which handles approximately 99% of all equity trading in the country.

The *Bolsa de Comercio de Buenos Aires* is a complex, non-profit and self-regulated organization. Various markets require different self-organizations of brokers within the *Bolsa de Comercio de Buenos Aires*, which is one of its particular characteristics. The most important and traditional of such markets is Mercado de Valores S.A. ( Merval ).

The securities that may be listed on the *Bolsa de Comercio de Buenos Aires* are: Stocks, Corporate Bonds, Convertible Corporate Bonds, Close-ended Investment Funds, Financial Trust, Indexes, Derivatives and Public Bonds. The *Bolsa de Comercio de Buenos Aires* is legally qualified for admission, suspension, and delisting of securities according to its own rules approved by the *Comisión Nacional de Valores*. Furthermore, the *Bolsa de Comercio de Buenos Aires* works very closely with the CNV in surveillance activities. Also under a special agreement, registration and listing applications are directly filed with the *Bolsa de Comercio de Buenos Aires* for simultaneous processing.

The Merval is a self-regulated incorporated business organization. The capital stock of such entity is divided into 183 stocks, the holders of which (natural or artificial persons) are thereby entitled to act as individual brokers or brokerage firms; i.e. to execute securities purchase and sale transactions in their own name and on behalf of third parties. Brokers receive a commission for their services.

The primary functions of the Merval are concerned with the settlement, surveillance and guarantee of market trades. This entity is also qualified to take disciplinary actions against individual brokers or brokerage firms who might violate the statutory rules in vigor, and/or the rules and regulations governing the Argentine Stock Market System.

Furthermore, the Merval regulates, coordinates and implements each and every aspect connected with stock exchange trading, types of securities, market mechanisms, terms and conditions of payment, and the like. Jointly with the *Bolsa de Comercio de Buenos Aires* has

implemented stock-watch mechanisms.



## Table of Contents

The Merval counts with a trading mechanism applicable to corporate securities and government bonds called Concurrent Market, where trades are executed screen-based or in the traditional open out-cry mode on the floor of the *Bolsa de Comercio de Buenos Aires* in an automated order-matching system. The Merval guarantees the settlement of all trades executed in the Concurrent Market.

Also trades on government and corporate bonds may be executed on the Continuous Trading Session (with or without Merval's settlement guarantee).

The cash mechanism (standard maturity) in the Concurrent Market admits the following operating forms:

Automated trade execution based on orders entered from *Sistema Integral de Negociación Asistida por Computadora* work-stations or through open out-cry Floor-trade order slips.

Open out-cry Floor-trade executions are subsequently inputted through order slips.

Open out-cry trades are executed pursuant to the rules applicable to traditional floor trading. Automated-execution trades based on the offers are carried out according to the rules of the electronic system. Both executions entail the registration of trades in a unique price-volume structure, and both modes of entering the system feed a unique order structure per issue.

Among the main features of the open out-cry mechanism carried out on the Floor, the following are highlighted:

trades are executed open out-cry;

they are perfected through the preparation of order slips; and

the best-offer rule applies and as in the electronic system, it open out-cry the Merval settlement guarantee.

Block trading is allowed in a minimum amount of Ps. 0.2 million for leader companies which are listed on the leader panel of the *Bolsa de Comercio de Buenos Aires*, and Ps. 0.1 million for the companies listed on the general panel of the *Bolsa de Comercio de Buenos Aires*. Block trading takes place on the floor of the *Bolsa de Comercio de Buenos Aires* and is conducted in Spanish by continuous open outcry. Transaction of more than Ps. 1.0 million are announced on the floor and are put on stand by for approximately 30 minutes. For transactions of more than Ps. 5.0 million, a certificate of the units from *Caja de Valores S.A.* is additionally required.

As to the electronic system, its outstanding characteristics are:

trades are executed based on bids and offers entered in work-stations, i.e. computers linked to the Stock Exchange information network;

trades are executed automatically; and

offers are recorded as per price-time priority, privileging the best of them.

These trades have the Merval guarantee.

## **Table of Contents**

Brokers and brokerage firms may trade in this segment, either by buying or selling government and corporate bonds for their own account, executing trades with another broker or brokerage firm or any other intermediary, by means of direct negotiations. In this system the best-offer rule does not apply and traders' compensations as well as stock market and stock exchange fees are implicit in the price agreed upon.

Trades must be reported in real-time for their dissemination, registration and publication. Counterpart trades are settled by Merval, and may be channelled through the guaranteed or the non-guaranteed segment.

### ***Over the Counter Market, MAE***

The *Mercado Abierto Electronico* ( MAE ) is an exchange organized under the laws of the Argentine Republic, which operates as a self-regulatory organization under the supervision of the *Comisión Nacional de Valores*.

The MAE works as an electronic environment to process Over The Counter transactions. It is an electronic exchange where both government securities and corporate bonds are traded through spot and forward contracts.

MAE has 82 brokers/dealers members, which include national banks, provincial banks, municipal banks, private national banks, foreign banks, cooperative banks, financial institutions, foreign exchange entities and pure brokers/dealers (exclusively engaged in brokerage activities). Both Argentine or foreign capital banks and financial institutions may be MAE's brokers/dealers.

Securities to be traded must be registered with the pertinent supervising authorities and may be traded in MAE, in other exchanges or in both of them concurrently.

### ***Securities Central Depositary, Caja de Valores S.A.***

*Caja de Valores S.A.* is a corporation, totally private, which acts as central depositary of public bonds and private securities. It was established in 1974 by Act 20,643, and it is supervised by the *Comisión Nacional de Valores*.

Those authorized to make deposits of securities with the *Caja de Valores S.A.* are stockbrokers, banking and financial institutions, and mutual funds.

The majority shareholders of the *Caja de Valores S.A.* are the *Bolsa de Comercio de Buenos Aires* and the *Mercado de Valores de Buenos Aires S.A.* (49.98% each).

Certain information regarding the *Bolsa de Comercio de Buenos Aires*

	As of June 30,	As of December 31,		
	2004	2003	2002	2001
Market capitalization (Ps. Billion)	556.3	542.4	348.0	192.5
Average daily trading volume (Ps. Million)	54.6	34.0	17.7	30.9
Number of listed companies	108	110	114	119

Although companies may list all of their capital stock on the *Bolsa de Comercio de Buenos Aires*, in many cases a controlling block is retained by the principal shareholders resulting in only a relatively small percentage of many companies' stock being available for active trading by the public on the *Bolsa de Comercio de Buenos Aires*.

## **Table of Contents**

As of June 30, 2004, approximately 108 companies had equity securities listed on the *Bolsa de Comercio de Buenos Aires*. As of June 30, 2004, approximately 14.46% of the total market capitalization of the *Bolsa de Comercio de Buenos Aires* was represented by the securities of ten national companies.

The Argentine securities markets are substantially more volatile than the securities markets in the United States and certain other developed countries. The Merval experienced a 13% increase in 1995, a 25% increase in 1996, a 6% increase in 1997, a 37% decrease in 1998, a 28% increase in 1999, a 24% decrease in 2000, a 29% decrease in 2001, a 78% increase through September 30, 2002, measured in Pesos, and a 77% increase through October 31, 2003, and a 38% increase through October 29, 2004 also measured in Pesos. To control volatility, the *Bolsa de Comercio de Buenos Aires* operates a system in which trades of an issuer's stock are suspended for one-half hour when such issuer's share price changes by more than 10% from its opening price.

### ***Nasdaq National Market***

Our ADSs are listed and traded in the Nasdaq National Market under the trading symbol CRESY .

## **D. SELLING SHAREHOLDERS**

This section is not applicable.

## **E. DILUTION**

This section is not applicable.

## **F. EXPENSES OF THE ISSUE**

This section is not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. SHARE CAPITAL**

**Our Common Stock**

As of November 30, 2004, our authorized capital stock consisted of 151,728,464 shares of common stock, Ps. 1 par value per share. In addition, we have 42,778,014 registered units consisting of US\$ 42.8 million of 8% Convertible Notes due November 2007 and 43,285,866 warrants to purchase shares of common stock.

In the event that all the bondholders were to convert their Convertible Notes and exercise their warrants, our share capital would increase from 151,728,464 shares as of November 30, 2004, to approximately 321,212,277 shares.

As of July 1, 2003, the number of outstanding, authorized and fully paid shares were 124,965,928 Ps. 1.00 face value each. As of June 30, 2004, such amounts totaled 150,772,819 shares of Ps. 1.00 face value each.

**Table of Contents**

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

**Our Purposes**

Our legal name is Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria. We were incorporated under the laws of Argentina on December 31, 1936 as a sociedad anónima (stock corporation) and were registered with the Inspección General de Justicia (Public Registry of Commerce of the City of Buenos Aires) on February 19, 1937 under number 26, on page 2, book 45 of National Bylaws Volume. Pursuant to our Bylaws, our term of duration expires on July 6, 2082.

Pursuant to article 4 of our Bylaws our purpose is to perform the following activities:

Commercial activities with respect to cattle and products pertaining to farming and animal husbandry;

Real estate activities with respect to urban and rural properties;

Financial activities, except for those regulated by Law 21,526 of financial entities;

Farming and animal husbandry activities, for properties owned by us or by third parties; and

Agency and advice activities for which there is not required a specific qualifying title.

**Board of Directors**

**Voting of proposals in which directors have material interest**

The Argentine Law of Corporations N° 19,550 establishes in Section 271 that directors may contract with the company when the contract is related to the regular activities of the company and its terms and conditions are established on market terms. All other contracts with directors must be approved by the shareholders.

Notwithstanding that, Section 272 of the Law of Corporations N° 19,550 provides that when a director has a conflict of interest with the company, he should notify the board of directors and the supervisory committee and refrain to vote on that matter. The violation of this provision results in the director being jointly and severally unlimitedly liable.

**Approval of compensation of directors and supervisory committee**

Our Bylaws do not establish the compensation to be paid to members of the Board of Directors and the Supervisory Committee. Therefore pursuant to Section 261 of the Law of Corporations N° 19,550, it must be approved by the shareholders. The maximum amount that may be paid as compensation to members of the Board of Directors, may not exceed 25% of the realized and net earnings of the company and 5% when there is no distribution of dividends. If the company does not distribute the total earnings, the amount of the compensation should be proportional to that distribution and within the mentioned limits. These limits may only be surpassed by express approval of the shareholders.



## **Table of Contents**

### **Borrowing powers of directors**

Our Bylaws establish, in Section 18, that the board of directors have full and broad powers to organize, manage and direct Cresud, aimed at fulfilling the corporate purpose.

### **Retirement of directors**

Our Bylaws do not establish any requirements or provisions regarding age limits for directors' retirement.

### **Rights, preferences and restrictions attaching to our shares**

#### **Dividend rights**

The Law of Corporations No. 19,550 establishes that the distribution and payment of dividends to shareholders is valid only if dividends result from realized and net earnings of the company pursuant to the annual financial statements approved by the shareholders. The approval, amount and payment of dividends are subject to the approval of the Annual Ordinary Shareholders' Meeting. That approval requires the affirmative vote of the majority of the shares present at the meeting with right to vote.

Dividends are paid pro rata according to the interests held by shareholders.

Under applicable CNV regulations, cash dividends must be paid to shareholders within 30 days of the decision approving their distribution. In the case of stock dividends, shares are required to be delivered within three months of the shareholders' meeting approving the dividend. The right to collect dividends expires three years after the dividends were made available to shareholders.

To the extent that we declare and pay dividends on our stock, owners of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the common stock underlying the ADSs. Cash dividends will be paid in Pesos and, except in certain circumstances, will be converted by the Depository into U.S. Dollars at the prevailing exchange rate on the date of conversion and paid to the owners of the ADSs net of any applicable dividend distribution fees, costs, and expenses of conversion, taxes and governmental charges.

The shareholders' meeting may authorize payment of dividends on a quarterly basis provided no applicable regulations are violated. In that case, all and each of the members of the Board of Directors and the Supervisory Committee will be jointly and severally unlimitedly liable for the refund of those dividends if, as of the end of the respective fiscal year, the realized and net earnings of the company are not sufficient to allow the payment of dividends.

**Voting rights and Staggered Elections**

Our capital stock is composed of book-entry common shares with par value of Ps. 1 per share and entitled to one vote each.

All directors and alternate directors are elected for a three-year term.

Our Bylaws do not consider staggered elections.

**Rights to share in our profits**

The holders of our common shares have the right to participate in our net and realized profits on a pro rata basis.

Pursuant to the Law of Corporations No. 19,550 and Section 29 of our Bylaws, liquid and realized profits of each fiscal year shall be distributed as follows:

allocate 5% of such net profits to legal reserve, until the amount of such reserve equals 20% of the capital stock;

## **Table of Contents**

the amount established by the shareholders meeting as remuneration of the Board of Directors and the supervisory committee;

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

### **Rights to share in any surplus in the event of liquidation**

Section 30 of our Bylaws determine that, in the event of our liquidation, dissolution or winding-up, the assets (i) will be applied to satisfy liabilities and (ii) will be proportionally distributed among holders of preferred stock if there are any and in accordance with the terms of the preferred stock. If any surplus remains, the holders of common shares are entitled to receive and share on a pro rata basis in all net assets remaining for distribution.

### **Procedure to change the rights of holders of our stock**

The rights of holders of our stock are established in the Law of Corporations No. 19,550 and in our Bylaws. The rights of shareholders provided for by the Law of Corporations No. 19,550 may not be diminished by the Bylaws. Section 235 of the Law of Corporations No. 19,550 establishes that the amendment of the Bylaws should be approved by the shareholders of the company at an Extraordinary Shareholders Meeting.

On October 31, 2003 the Company resolved in the Ordinary and Extraordinary Annual Shareholders Meeting not to adhere to the Régimen Estatutario Optativo de Oferta Pública de Adquisición Obligatoria (Optional Statutory Body of Public Offering of Compulsory Acquisition) provided under Decree No. 677/2001, consequently, shareholders decided to incorporate that provision under section 1 of the Bylaws.

### **Ordinary and extraordinary shareholders meeting**

Our Bylaws establish that any meeting must be called by the Board of Directors or by the Supervisory Committee in the assumptions provided for by law or at the request of the holders of shares representing no less than 5% of the share capital. Any meetings requested by shareholders must be held within 30 days after the request is made. Annual meetings may be called simultaneously for the first and second call as set forth in section 236 of the Law of Corporations No. 19,550, regardless of the provisions contained therein for the case of unanimous meetings. Upon failure to give simultaneous call, the meeting on second call, due to failure to constitute quorum on first call, must be held within 30 days after such meeting, complying with all notices required by applicable regulations.

Any shareholder may appoint any person as his duly authorized representative at whatever meeting, by granting a proxy with duly certified signature. Co-owners of shares must have single representation.

In order to attend a shareholders meeting, shareholders should deposit with the company the share certificate issued by the registrar agent, at least 3 business days prior to the date of the respective shareholders meeting. We will deliver the respective receipt which will be required for admission to the shareholders meeting. On the day of the meeting, the shareholders or their representatives will have to fill in their addresses,

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identity document and number of votes and will sign the Shareholders Meetings Attendance Book.

## **Table of Contents**

The meetings shall be presided over by the Chairman of the Board of Directors.

The first call of the ordinary shareholders meeting requires the attendance of shareholders representing a majority of the shares with voting rights. The first call of the extraordinary shareholders meeting requires the attendance of shareholders representing 60% of the shares with voting rights. In both cases, the second call does not require a minimum of shares with right to vote and resolutions shall be adopted by the absolute majority of the votes that may be cast in the relevant decision.

### **Limitations to own securities by non-resident or foreign shareholders**

There are no legal limitations an ownership of securities or exercise of voting rights, by non-resident or foreign shareholders. However, there are certain requirements to be fulfilled by foreign shareholders with the *Inspección General de Justicia* in order to assure that they will be able to properly exercise their voting rights.

### **Ownership threshold above which ownership should be disclosed**

The CNV regulations require that transactions which cause a person's holdings of capital stock of a registered Argentine company, to be 5% or more of the voting power, must be immediately reported to the CNV. Thereafter, every change in the holdings that represents a multiple of 5% of the voting power must also be reported.

Directors, senior managers, executive officers, members of the supervisory committee, and controlling shareholders of an Argentine company whose securities are publicly offered, must notify the CNV on a monthly basis, their beneficial ownership of shares, debt securities, and call and put options related to securities of such companies and their controlling, controlled or affiliated companies.

Further, the CNV must be immediately notified of transactions which cause a person's holdings of capital stock of an Argentine company whose securities are publicly offered to be 5% or more of the voting power and every change in the holdings that represents a multiple of 5% of the voting power. Holders of more than 50% of the common shares or who otherwise control decision making in shareholders meetings, as well as directors, officers and members of the supervisory committee, must provide the CNV with annual reports of their holdings in the capital stock of such companies and monthly reports of any change in their holdings.

## **C. MATERIAL CONTRACTS**

We do not have any material contract entered into outside the ordinary course of business.

## **D. EXCHANGE CONTROLS**

**Currency exchange regulation**

All foreign currency exchange transactions must be carried out in the free exchange market, in which the BCRA participates by purchasing and selling foreign currency.

**Import and export of capital**

**Import of capital**

At present, there are no laws, executive orders or regulations nor any exchange controls in force in Argentina limiting the import of capital.

## **Table of Contents**

Pursuant to the Argentine Foreign Investment Law No. 21.382, and Decree No. 1853/93, enacted in 1993, the purchase by foreign investors (any natural or legal person domiciled out of Argentina or an Argentine company of foreign capital ) of capital participation in a company existing in Argentina (according to the Foreign Investment Act) shall constitute a foreign investment.

At present there are no restrictions on foreign investment in industries other than public broadcasting media, and no prior authorization is required to make foreign investments.

Therefore, no prior authorization is required for the purpose of purchasing securities of our Company.

See Item 3: Key Information B. Exchange Rates

### **Export of Capital, including the availability of cash or cash equivalents**

From 1989 to December 3, 2001, there were no exchange controls restricting the peso-U.S. Dollar translation or the remittance of U.S. Dollars abroad. In compliance with the economic measures set forth by the Government by means of Decree No. 1570/2001 dated December 1, 2001 and subsequent amendments thereto, aimed at protecting the integrity of the Argentine financial system, money could not be transferred abroad, unless expressly authorized by the BCRA.

Since January 2, 2003, there has been a reduction in the restrictions imposed by the BCRA.

In accordance with BCRA communication A 3973 dated July 1, 2003, as amended by BCRA communication A 4142 dated May 18, 2004, the BCRA's prior approval is no longer required for the following payments:

total or partial payment of principal debts in connection with financial loans, bonds and other securities the payment of which is owed to individuals or entities that are not residents of Argentina, provided that these payments are made within 90 days prior to the date they become due and as long as they are made after 180 days as of the entrance and liquidation of the funds disbursed pursuant to such debt; and

the total or partial payment in advance (with no limitation in time) of principal in connection with financial loans, bonds and other securities the payment of which is owed to individuals or entities that are not residents of Argentina, provided that the following conditions are met:

if the payment is not made as part of a debt restructuring process, the foreign currency amount to be used to prepay debt with individuals or entities that are not residents of Argentina shall not be higher than the present value of the portion of the debt being cancelled; or

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if the payment is made as part of a debt restructuring process with individuals or entities that are not residents of Argentina, the new debt terms and conditions and the cash payment to be made shall not imply an increase in the present value of the debt.

In addition, BCRA communication A 3843, as amended, and BCRA communication A 4142 state that prior authorization from the BCRA is no longer required for payment of accrued interest, at any time, to persons or entities that are not residents of Argentina.



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**Table of Contents**

Pursuant to BCRA communication A 3722, as amended, individuals and legal entities must obtain the BCRA's prior approval for transactions regarding the acquisition of foreign currency for the following purposes: individuals' foreign portfolio investments, residents' other foreign investments, legal entities' foreign investment, and purchases of foreign currency to be kept in custody within Argentina. BCRA communication A 3909 and BCRA communication A 4128, as amended by BCRA communication A 3944, states that this prior authorization will no longer be required by individuals and legal entities with residence in Argentina for the purpose of purchase of foreign currency as long as:

- (i) the purchases do not exceed an aggregate amount of US\$ 2 million per month; or
- (ii) the amount in pesos to be paid for the foreign currency does not exceed the equivalent of the amount paid by that individual or legal entity to the Argentine tax administration in the previous calendar month for the prior month with respect to exportation duties plus three times the amount paid as tax on deposits and withdrawals of bank accounts

BCRA communication A 3998, as amended by BCRA communication A 4066, states that in addition to the maximum amounts set forth in (i) and (ii) above, individuals and legal entities with residence in Argentina will not be required, up to June 30, 2004, to obtain the BCRA's prior approval for the purpose of purchase of foreign currency, provided that:

- (a) the amounts are used before December 31, 2004 to cancel bonds, syndicated financial loans, financial loans granted by foreign banks, debt held by foreign banks or certain other;
- (b) foreign currency purchased pursuant to BCRA communication A 3998 and the related rules and BCRA communication A 3722 (as amended) may not exceed US\$ 40 million per month; and
- (c) the aggregate of foreign currency purchased pursuant to BCRA communication A 3998 plus any foreign currency deposited in trusts pursuant to BCRA communication A 3872 (as amended) plus foreign currency purchased pursuant to specific BCRA authorizations, may not exceed 35% of the total outstanding principal debt subject to restructuring or the aggregate of unmatured or past-due interest and past-due principal subject to restructuring.

Payments abroad for services rendered can be freely made if the service is rendered by a non-resident in Argentina. If the nature of the service to be paid does not have a direct relation to the company's business activity, a copy of the original agreement under which the obligation must be paid shall be filed with the relevant financial entity, together with a written statement as to its existence signed by an external auditor or a public accountant whose signature must be certified by the FACPCE.

Furthermore, payments abroad of profits and dividends can be freely made when such profits and dividends result from audited and closed financial statements.

Additionally, BCRA communication A 3999 allowed non-Argentine residents to access the foreign exchange market in order to purchase foreign currency for subsequent transfer to foreign bank accounts, as repatriation of portfolio investments in Argentina, in connection with payments of principal received in Argentina of foreign-currency denominated Government bonds.

## **Table of Contents**

It shall be noted that the BCRA issued such communications for the purpose of managing the value of the Argentine peso in relation to the U.S. Dollar. It cannot be anticipated whether the BCRA will be able to achieve the referred purpose in the short term. In addition, it cannot be foreseen whether the BCRA will introduce new amendments to exchange control regulations in order to control the quotation of the Argentine peso. Any amendment to the referred BCRA Communication restricting payments in foreign currency abroad may prevent us from meeting our liabilities abroad in foreign currency.

Additionally, while the foreign exchange system has become more flexible under current regulations, no assurance can be given that if the restructuring of the sovereign debt fails or the government fails to comply with the IMF agreement, future restriction will not increase or otherwise change the current foreign exchange system or that one or more of the transactions described in this annual report will not be adversely affected.

## **E. TAXATION**

### **United States taxation**

The following summary describes the material United States federal income tax consequences of the ownership of shares and ADSs as of the date hereof. The discussion set forth below is applicable to U.S. Holders (as defined below). Except where noted, this discussion deals only with U.S. Holders (as defined below) that purchase the shares or ADSs as capital assets and that do not have a permanent establishment in Argentina, are not residents of Argentina, are not domiciled in Argentina, are not organized in Argentina, do not have a local branch in Argentina, do not carry on certain commercial activities, do not fall within the legal presumption for non-Argentine legal entities with respect to the Argentine Personal Assets Tax, do not own an Argentine bank account and are not physically present in Argentina for 183 days or more within a calendar year. This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a bank;

a dealer in securities or currencies;

a financial institution;

a regulated investment company;

a real estate investment trust;

an insurance company;

a tax exempt organization;

a person holding the shares or ADSs as part of a hedging, integrated or conversion transaction, constructive sale or straddle;

a trader in securities that has elected the mark-to-market method of accounting for your securities;

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**Table of Contents**

a person liable for alternative minimum tax;

a person who owns more than 10% of the voting stock of our company;

an investor in a pass-through entity; or

a United States person whose functional currency is not the U.S. Dollar.

Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depositary (the Depositary) to us and assumes that the deposit agreement governing the ADSs, and all other related agreements, will be performed in accordance with their terms. **IF YOU ARE CONSIDERING THE PURCHASE, OWNERSHIP OR DISPOSITION OF SHARES OR ADSs YOU SHOULD CONSULT YOUR OWN TAX ADVISOR CONCERNING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO YOU AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.**

U.S. Holder means a beneficial owner of a share, or ADS that is for United States federal income tax purposes:

a citizen or resident of the United States;

a corporation created or organized in or under the laws of the United States or any political subdivision of the United States;

an estate the income of which is subject to United States federal income taxation regardless of its source;

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons has authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership holds shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding shares or ADSs, you should consult your tax advisors.

***ADSs***

In general, for United States federal income tax purposes, U.S. Holders of ADSs will be treated as the owners of the underlying shares that are represented by the ADSs. However, the United States Treasury has expressed concerns that parties to whom depositary shares are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of ADSs. Accordingly, the analysis of the creditability of Argentine taxes described herein could be affected by future actions that may be taken by the United States Treasury. Deposits or withdrawals of shares by U.S. Holders for ADSs will not be subject to United States federal income tax.



## **Table of Contents**

### ***Distributions on Shares or ADSs***

Subject to the discussion under *Passive Foreign Investment Company Rules* below, distributions on the shares or ADSs, (including net amounts withheld to reflect Argentine withholding taxes, if any) will be taxable as dividends to the extent of our current and accumulated earnings and profits (as determined under United States federal income tax principles). Such income will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of shares, or by the ADS depository, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction.

The amount of any dividend paid in Pesos will equal the U.S. Dollar value of the Pesos received calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by you in the case of shares, or by the ADS depository, in the case of ADSs, regardless of whether the Pesos are converted into U.S. Dollars. If the Pesos received are not converted into U.S. Dollars on the day of receipt, you will have a basis in the Pesos equal to their U.S. Dollar value on the date of receipt. Any gain or loss you realize on a subsequent conversion or other disposition of the Pesos will be treated as United States source ordinary income or loss.

Subject to certain significant conditions and limitations, Argentine tax withheld from dividends, if any, may be treated as foreign income tax eligible for credit or deduction against your United States federal income tax liability. For purposes of the foreign tax credit, dividends paid on the shares will be treated as income from sources outside the United States and will generally constitute *passive income* or, in the case of certain United States Holders, *financial services income*. The rules governing the foreign tax credit are complex. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Taxation of Capital Gains***

Subject to the discussion under *Passive Foreign Investment Company Rules* below, upon the sale, exchange or other disposition of shares or ADSs, you generally will recognize capital gain or loss equal to the difference between the U.S. Dollar value of the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the shares or ADSs, determined in U.S. Dollars. The capital gain or loss will be long-term capital gain or loss if at the time of sale, exchange or other disposition you have held the shares or ADSs for more than one year. Capital gains of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation depending upon the holding period of such capital assets. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize will generally be treated as United States source gain or loss.

### ***Passive Foreign Investment Company Rules***

Although it is an inherently uncertain factual issue, we may be a PFIC for the current or future taxable years.

In general, we will be a PFIC for any taxable year in which, either (i) at least 75% of the gross income of our company for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own at least 25% by value of the stock of another corporation, we will be treated for purposes of the PFIC tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other

corporation's income.

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**Table of Contents**

The determination of whether we are a PFIC is made annually. If we are a PFIC for any taxable year during which you hold shares or ADSs in our company, unless you make the mark-to-market election discussed below, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our shares or ADSs, you will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of such shares or ADSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the equity interests will be treated as excess distributions. Under these special tax rules (i) the excess distribution or gain will be allocated ratably over your holding period for the equity interests, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and (iii) the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election is only available for stock traded on certain designated United States exchanges and foreign exchanges which meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable United States Treasury regulations. Consequently, the mark-to-market election may be available to you with respect to the ADSs because the ADSs will be listed on the Nasdaq, which constitutes a qualified exchange under the regulations, although there can be no assurance that the ADSs will be regularly traded. You should note that only the ADSs and not the shares are listed on the Nasdaq. The shares are listed on the *Bolsa de Comercio de Buenos Aires*. Consequently, the *Bolsa de Comercio de Buenos Aires* would need to meet the trading, listing, financial disclosure and other requirements of the United States Treasury regulations. The ADSs or shares would need to be regularly traded on such exchanges in order for the ADSs or shares to be potentially eligible for the mark-to-market election.

If we are a PFIC in any taxable year in which you hold our shares or ADSs, but you do not make a mark-to-market election until a subsequent taxable year, you will be subject to special rules in the taxable year of the election. You should consult your own tax advisors regarding the application of the mark-to-market election in your particular situation.

If you make an effective mark-to-market election, you will include in income each year as ordinary income, rather than capital gain, the excess, if any, of the fair market value of your PFIC shares or ADSs at the end of the taxable year over your adjusted tax basis in the shares or ADSs and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of such shares or ADSs over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the shares or ADSs will be ordinary income or loss, except that such loss will be ordinary loss only to the extent of the previously included net mark-to-market gain.

If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the shares or ADSs are no longer regularly traded on a qualified securities exchange or the IRS consents to the revocation of the election. Under proposed Treasury regulations, mark-to-market inclusions and deductions will be suspended during taxable years in which are not a PFIC, but would resume if they subsequently become a PFIC. You are urged to consult your own tax advisor about the availability of making such a mark-to-market election.



## **Table of Contents**

Alternatively, a United States Holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a qualified electing fund under section 1295 of the Code. This option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

A United States Holder who owns shares or ADSs during any year that we are a PFIC must file IRS Form 8621.

You should consult your own tax advisors concerning the United States federal income tax consequences of holding the shares or ADSs if we are considered a PFIC in any taxable year.

### ***Argentine Personal Assets Taxes***

Amounts paid on account of the Argentine Personal Assets Taxes, if any, will not be eligible as a credit against your United States federal income tax liability, but may be deductible subject to applicable limitations in the Code.

### ***Information Reporting and Backup Withholding***

In general, information reporting requirements will apply to distributions on shares or ADSs and to the proceeds of sale of a share or ADS paid to United States Holders other than certain exempt recipients (such as corporations). Backup withholding may apply to such payments if you fail to provide a correct taxpayer identification number or certification of foreign or other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided you furnish the required information to the IRS.

### **Argentine Taxation**

The following discussion is a summary of certain Argentine tax considerations associated with an investment in, ownership or disposition of, the shares or the ADSs by an individual holder that is not domiciled or resident in Argentina and a legal entity that is not organized under the laws of Argentina and does not have a permanent establishment in Argentina or is not otherwise doing business in Argentina on a regular basis (a

Foreign Holder ). The discussion is for general information only and is based on current Argentine tax laws. Moreover, while this summary is considered to be a correct interpretation of existing laws in force as of the date of this 20-F Form, no assurance can be given that the courts or administrative authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws or interpretations will not occur. **PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES ARISING UNDER ANY TAXING JURISDICTION.**

*Taxation of Dividends*

Dividends, either in cash, shares or kind approved by our shareholders are currently exempt from Argentine withholding or other taxes.

Notwithstanding the foregoing, according to Argentine law, income tax will be applied to the amount of dividends distributed in excess of a company's net taxable income determined in accordance with general income tax regulations for the fiscal years preceding the date of the distribution of such dividends. The legislation requires that companies withhold 35% of the amount of distributed dividends in excess of the net taxable income of such distribution, as determined in accordance with the income tax

## **Table of Contents**

law. The withholding would not be applied to the payment of future dividends derived out of retained earnings obtained in the fiscal years ended prior to December 30, 1998. Dividends distributed by an Argentine company are not subject to this tax to the extent that those dividends arise from dividend income or other distributions received by such company from other Argentine companies.

### ***Taxation of Capital Gains***

Pursuant to Decree No. 2,284/91 gains on sales or other dispositions of shares or ADSs by non-resident individuals and foreign entities without a permanent establishment in Argentina are currently exempt from income tax. Notwithstanding, if the foreign entity qualifies as an Offshore Taxable Entity and shares or ADSs are not listed, sales or other dispositions of such shares or ADSs are taxable at the rate of 17,5%.

An Offshore Taxable Entity is a foreign entity without permanent establishment in Argentina which (i) pursuant to its Bylaws or to the applicable regulatory framework has its principal investing activity outside the jurisdiction of its incorporation and/or (ii) cannot perform in the jurisdiction of its incorporation certain transactions and/or investments expressly indicated in its Bylaws or in the applicable regulatory framework.

Gains on sales or other dispositions of listed shares or ADSs by resident individuals are currently exempt from taxation. In the case of non listed shares or ADSs its sale or other dispositions are taxable at the rate of 9% up to 15%, but the losses generated by such transactions may only be offset against income from the same type of transactions.

Gains on the sale or other dispositions of shares or ADSs by Argentine entities are subject to Argentine income tax at the fixed rate of 35% but the losses generated by such transaction may only be offset against income from the same type of transactions.

Notwithstanding the foregoing, on July 3, 2003, the Attorney of the Argentine Republic Treasury has passed Judgment No. 351/03 in which interprets that, as from the enactment of Law No. 25,556, the provisions of the income tax law that taxed capital gains arising from unlisted shares obtained by resident individuals or Offshore Taxable Entities are no longer in force because they have been implicitly abrogated. No assurance can be given on the applicable regime, as of today, no official interpretation of this judgment has been completed.

**WE RECOMMEND PROSPECTIVE INVESTORS TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES CONCERNING THE SALE OR OTHER DISPOSITIONS OF THE SHARES OR ADS'S.**

### ***Value Added Tax***

The sale, exchange, disposition, or transfer of shares or ADSs is not subject to Value Added Tax.

### ***Personal Assets Tax***

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Law No. 25,585 issued on April 24, 2002 and published in the Official Gazette on May 15, 2002 (and applicable to personal assets held as of December 31, 2002) introduces amendments to Law No. 23,966 and imposes the personal assets tax on shares and ADSs held by individuals and undivided estates domiciled or located in Argentina or abroad and legal entities not domiciled in Argentina, separately from other assets.

This amendment imposes the obligation to pay the personal assets tax on the Argentine private issuer of the shares and ADSs, and authorizes it to seek recovery of the amount so paid, without

## **Table of Contents**

limitation, by way of withholding or by foreclosing on the assets that gave rise to such payment. The tax is levied on the shares proportional equity value of the shares as reflected in the most recent balance sheet closed as of December 31 of the taxable year, at the rate of 0.5% without any non-taxable minimum being applicable.

At the Shareholder's Ordinary and Extraordinary General Meeting held on October 22, 2004, the shareholders approved taxes on personal assets, and the absorption of such tax by the company for the years 2002 and 2003.

There can be no assurance that in the future this tax will be absorbed by the Company.

### ***Tax on Minimum Notional Income (Impuesto a la Ganancia Minima Presunta, IGMP)***

Companies domiciled in Argentina, partnerships, foundations, sole proprietorships, trusts, certain mutual funds organized in Argentina, and permanent business establishments owned by foreign persons, among other taxpayers, shall apply a 1% rate to the total value of assets held by such persons, above an aggregate nominal amount of Ps. 200,000. Nevertheless, shares and ADSs issued by entities subject to such tax, are exempt from paying the IGMP.

### ***Gross Income Tax***

The gross income tax is local in nature; therefore, the rules of the relevant provincial jurisdiction should be considered, which may levy this tax on the purchase and sale of shares and/or the collection of dividends. In the particular case of the City of Buenos Aires, any transaction involving shares and/or the collection of dividends and revaluations is exempt from this tax.

There is no gross income tax withholding system applicable to the payments made to foreign beneficiaries. Those investors who customarily perform, or who are deemed to perform, transactions in any jurisdiction in which they obtain their income from the sale of shares and/or the collection of dividends are subject to this tax at an average rate of 3%, unless an exemption is applicable to them.

### ***Stamp Tax***

The stamp tax is a local tax that is generally levied on the instrumentation of onerous acts executed within a certain territorial jurisdiction or outside a certain territorial jurisdiction but with effects in such jurisdiction.

In the City of Buenos Aires, the stamp tax has been repealed for all those acts that do not imply an onerous conveyance of real property. However, most provincial tax authorities maintain this tax in effect for all acts in general; therefore, the instruments which implement onerous transactions (including issuance, subscription, placement and transfer) involving the shares or ADSs, executed in other jurisdictions, or with effects in those jurisdictions, could be deemed to be subject to this tax.

*Court and Other Taxes*

In the event that it becomes necessary to institute legal actions in relation to the shares or ADSs in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the City of Buenos Aires.

Argentina imposes neither an estate nor gift tax on a decedent, donor, legatee or donee. No Argentine tax is imposed on the deposit or withdrawal of shares in exchange for ADSs. Other than the taxes discussed above, no other Argentine taxes are applicable to an investment in shares or ADSs. At present, there is no national tax specifically applicable to the transfer of securities.

**Table of Contents**

*Tax Treaties*

Argentina has entered into tax treaties with several countries. There is currently no tax treaty or convention in effect between Argentina and the United States.

**F. DIVIDENDS AND PAYING AGENTS**

This section is not applicable.

**G. STATEMENT BY EXPERTS**

This section is not applicable.

**H. DOCUMENTS ON DISPLAY**

We file annual, quarterly and other information with the SEC. You may read and copy any document that we file at the public reference rooms of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. Our Internet address is <http://www.cresud.com.ar>. It should be noted that nothing on our website should be considered part of this annual report on Form 20-F. You may request a copy of these filings at no cost, by writing or calling the office at +54 (11)-4814-7800.

**I. SUBSIDIARY INFORMATION**

This section is not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the normal course of business, we are exposed to commodity price, interest rate and exchange rates risks, primarily related to our integrated crop production activities and changes in exchanges rates and interest rates. We manage our exposure to these risks through the use of various financial instruments, none of which are entered into for trading purposes. We have established policies and procedures governing the use of financial instruments, specifically as it relates to the type and volume of them. The use of Financial derivatives instruments is oriented to core business and are supervised by internal control policies.

The following discusses our exposure to these risks. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in the risk factors section of this Form 20-F. Uncertainties that are either nonfinancial or nonquantifiable, such as political, economic, tax, other regulatory, or credit risks, are not included in the following assessment of our market risks.

### **Interest Rate Risk**

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including both government and corporate obligations and money market funds. Under U.S. GAAP, these securities are generally classified as available for sale and consequently are recorded on the balance sheet at fair value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of estimated tax.



## **Table of Contents**

Investments in both fixed rate and floating rate interest earning instruments carry varying degrees of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. In general, longer dated securities are subject to greater interest rate risk than shorter dated securities. While floating rate securities are generally subject to less interest rate risk than fixed rate securities, floating rate securities may produce less income than expected if interest rates decrease. Due in part to these factors, our investment income may fall short of expectations or we may suffer losses in principal if securities that have declined in market value due to changes in interest rates are sold. To date, we have not utilized derivative financial instruments to hedge interest rate risk, however, there can be no assurance as to the employment of hedging strategies in the future.

## **Foreign Exchange Exposure**

From April 1, 1991, until the beginning of 2002, Convertibility Law No. 23,928 was applicable to Argentina. This law established a fixed exchange rate, under which the BCRA was obliged to sell U.S. Dollars to any person at a fixed rate of one Peso per U.S. Dollar. Accordingly, the foreign currency fluctuations were reduced to a minimum level, during this period.

The primary economic change implemented by the current Argentine government in January 2002 was the announcement of the devaluation of the Peso. Due to the end of the Convertibility Plan, our foreign exchange exposure has increased considerably.

Foreign currency exchange rate fluctuations could impact our cash flow in Pesos, since some of our products and inputs are payable in U.S. Dollars. Although most of our liabilities are denominated in Pesos, a small percentage are in U.S. Dollars, and fluctuations in the foreign currency exchange rate may affect us.

Foreign currency exchange restrictions imposed by the Argentine government in the future could prevent or restrict our access to U.S. Dollars, thus affecting our ability to service our U.S. Dollar-denominated liabilities. Also, fluctuations in the exchange rate between the Peso and the U.S. Dollar may adversely affect the U.S. Dollar equivalent of the Peso price of our common shares on the *Bolsa de Comercio de Buenos Aires*, and as a result would likely affect the market price of our ADSs in the United States.

## **Derivative Financial Instruments**

The use of derivative instruments is carefully oriented to core business. These instruments consist basically of crop futures contracts and put and call option contracts. Derivatives operations are supported by a conservative criteria and internal control policies.

We usually cover up to 40% of our crop production in order to finance the operating costs. The hedge consists of taking positions on purchased puts or sold futures and calls that assure a fixed exit price.

We have never kept a short position greater than our crop stock.

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Sometimes we may keep an additional long position in derivatives in order to improve the use of land and capital allocation (i.e. the use of land for rent).

It is not our intention to be exposed in a long derivative position in excess of 50% of our real production.

**Table of Contents**

Derivative financial instruments involve, to a varying degree, elements of market and credit risk not recognized in the financial statements. The market risk associated with these instruments resulting from price movements is expected to offset the market risk of the underlying transactions, assets and liabilities, being hedged. The counterparts to the agreements relating to our futures and options contracts consist of a number of major institutions with high credit ratings. We do not believe that there is a significant risk of nonperformance by these counterparts because we continually monitor the credit rating of such counterparts, and limit the financial exposure and the amounts of agreements entered into with any one financial institution. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of our exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparts to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparts' obligations under the contracts exceed our obligations to the counterparts.

At June 30, 2004, we had outstanding futures and options as follows:

Crop	Tons	Deposit/Cost (Ps.)	Premium Paid (Collected) (Ps.)	Option	Market Value
				Market Value as of 06/30/04 (Ps.)	Loss (Gain) as of 06/30/04 (Ps.)
<b>FUTURES</b>					
<b>Purchase</b>					
Corn	400	8,226			(13,221)
Soybean	7,672	17,628			(782,409)
<b>Sale</b>					
Soybean	5,200	102,830			588,035
<b>OPTIONS</b>					
<b>Call Buy</b>					
Corn	10,160		264,406	101,356	(163,050)
Soybean	1,500		26,442	11,018	(15,425)
Wheat	6,800		249,589	33,034	(216,555)
<b>Call sale</b>					
Corn	10,160		(150,418)	(49,943)	100,474
Soybean	4,080		(76,345)	(40,008)	36,337
<b>Put Sale</b>					
Corn	9,525		(130,000)	(154,237)	(24,237)
Soybean	3,520		(83,107)	(168,416)	(85,310)
<b>Total</b>	<b>59,017</b>	<b>128,684</b>	<b>100,569</b>	<b>(267,197)</b>	<b>(575,361)</b>

The deposits/cost on open futures and options as of June 30, 2004 were Ps.128,684, futures generated an unrealized loss of Ps. 207,595. The premiums paid for open options as of June 30, 2004 amounted to Ps. 100,569, the market value of such options was of Ps. (267,197). The options resulted in an unrealized loss of Ps. 367,766. The total unrealized loss on open futures and options was Ps. 575,361 as of June 30, 2004.

**Table of Contents**

Set forth below is the information regarding changes in the fair market value of future and option contracts at June 30, 2004:

Fair market value of contracts outstanding at the beginning of the year	Ps. 389,772
Contracts realized or otherwise settled during the year	(389,772)
Fair value of contracts when entered into during the year	229,253
Other changes in fair value	(575,361)
Fair value of contracts outstanding at the end of the year(a)	(346,108)

(a) As of June 30, 2004, the maturity dates of all futures and option contracts are less than one year.

The fair value of our futures and options contracts is determined calculating the market value of futures contracts, the market value of options acquired and sold and the margin deposits of these contracts. We use valuation models only for internal analysis. Therefore, figures set forth in our tables reflect real market prices used for pricing portfolio.

We use the options operations to combine them with the futures operations, only as a means to reduce the exposure towards the increase of the prices, as the fact of being a producer implies the position of being bought, up to the moment that the grains are harvested and sold.

**Futures and Options**

Crop	Tons	Future Price (Ps.)	Total Amount (Ps.)	Strike Price (Ps.)	Premium Cost (Ps./Ton)	Hypothetical Market Value Increase (Ps.)	Unrealized Loss Earnings (Ps.)
<b>Corn</b>							
<u>Futures</u>							
Buy	400	300.41	120,164			294.09	(2,527)
<u>Options</u>							
Call Buy	10,160			346.99	26.02	339.69	(264,406)
Call Sale	10,160			393.25	(14.80)	339.69	150,418
Put Sale	9,525			300.72	(13.65)	339.69	130,000
<b>Soybean</b>							
<u>Futures</u>							
Buy	7,672	810.36	6,217,064			779.21	(238,944)
Sale	5,200	680.12	(3,536,612)			623.74	293,177
<u>Options</u>							
Call Buy	1,500			643.42	17.63	623.74	(26,442)
Call Sale	4,080			949.99	(18.71)	793.25	76,345
Put Sale	3,520			668.77	(23.61)	793.25	83,107
<b>Wheat</b>							
<u>Options</u>							
Call Buy	6,800			485.79	36.70	423.95	(249,589)
			<b>2,800,616</b>				<b>(48,861)</b>



**Table of Contents**

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

This item is not applicable.

150

**Table of Contents**

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

**Defaults and partial waivers and debt agreements with IRSA's creditors**

IRSA, pursuant to a restructuring and reorganization plan is setting forth the necessary measures to restore its liquidity position. Consequently, it is currently in payment of its outstanding debts.

However, IRSA's subsidiary Hoteles Argentinos, owner of the Hotel Sheraton Libertador, has not paid yet principal installments for a total of US\$ 2.4 million, that were due between July 29, 2002 and October 29, 2003 and interest installments for a total amount of US\$846,000, under the US\$ 12.0 million loan. On December 16, 2004, Ritelco S.A., a wholly owned subsidiary of IRSA, acquired 100% of this debt paying a total amount of US\$ 8.0 million.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) DISCLOSURE, CONTROLS AND PROCEDURES**

As of the end of fiscal year 2004, we carried out an evaluation of the controls and procedures of our company with the participation of our Chief Executive Officer and Chief Financial Officer to determine the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in all material respects to ensure that the information we file and submit under the U.S. Securities and Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

Furthermore, the evaluation found no significant changes in our internal controls that materially affected, or is reasonably likely to materially affect our internal controls

**ITEM 16**

**A. AUDIT COMMITTEE FINANCIAL EXPERT**

In our annual ordinary shareholders meeting held on October 31, 2003, the audit committee plan was unanimously approved. Pursuant to this plan, the Board of Directors had to appoint the members of the audit committee who had to hold expertise in corporate administration, finance and accounting.

Our Board of Directors decided to establish an Audit Committee which would focus on assisting the Board in exercising its duty to care on disclosure requirements, the enforcement of accounting policies, management of our business risks, the management of our internal control systems, ethical conduct of the company's businesses, monitoring the sufficiency of our financial statements, the company's compliance with laws, independence and capacity of independent auditors and performance of our internal audit duties both by our company and our external auditors.



**Table of Contents**

On May 27, 2004, the Board of Directors officially announced the formation and composition of the Audit Committee . The Board appointed Clarisa Diana Lifsic, Jorge Oscar Fernández and Gabriel Adolfo Gregorio Reznik as members of the Audit Committee. The board of directors named Jorge Oscar Fernández as audit committee financial expert in accordance with the rules adopted by the SEC.

**B. CODE OF ETHICS**

We have adopted a code of ethics that applies to our directors, officers and employees. Our code of ethics is filed as Exhibit 11.1. If we make any substantive amendment to the code of ethics or if we grant any waivers, including any implicit waiver, from a provision of the code of ethics, we will disclose the nature of such amendment or waiver in our next Forms 20-F to be filed to the SEC.

**C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

During fiscal years ended June 30, 2004 and 2003, we were billed for a total amount of Ps. 0.27 million and Ps. 0.15 million respectively, for professional services rendered by our principal accountants for the audit of our financial statements and other services normally provided in connection with regulatory filings or engagements.

**Audit-Related Fees**

During fiscal years ended June 30, 2004 and 2003, we were billed for a total amount of Ps. 0.01 million and Ps. 0.18 million respectively, for professional services rendered by our principal accountants mainly including fees related to security issuances and accounting certifications.

**D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

This section is not applicable.

**E. PURCHASERS OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

This section is not applicable.



**Table of Contents****PART III****ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this Item.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to pages F-1 through F-170.

**ITEM 19. EXHIBITS****INDEX OF EXHIBITS**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
3.1*	<i>Estatutos</i> of the registrant, which serve as the registrant's articles of incorporation and Bylaws, and an English translation thereof.
4.1**	Unit Agreement between the registrant and the Bank of New York.
4.2**	Indenture between the registrant and the Bank of New York.
4.2**	Warrant Agreement between the registrant and the Bank of New York, as warrant agent.
4.3*	Consulting Agreement among Cresud S.A.C.I.F. y A. and Dolphin Fund Management S.A. dated October 25, 1994.
4.4***	Agreement for the exchange of Corporate Service
11.1	Code of Ethics of the Company
12.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
21.1**	Subsidiaries of the registrant

\* Incorporated herein by reference to the exhibit to the registrant's registration statement on Form F-1 (File No. 333-06548)

\*\* Incorporated herein by reference to the same-numbered exhibit to the registrant's registration statement on Form F-3 (File No. 333-90476)

\*\*\* Incorporated herein by reference to the the registrant's registration statement on Form 6-K (File No. 333-06548).



**Table of Contents**

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of June 30, 2004 and 2003</u>	F-3
<u>Consolidated Statements of Income for the years ended June 30, 2004, 2003 and 2002</u>	F-4
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2004, 2003 and 2002</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002</u>	F-6
<u>Notes to the Consolidated Financial Statements</u>	F-8

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria and its subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2004 in conformity with accounting principles generally accepted in Argentina. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in Argentina vary in certain significant respects from the accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 15 to the consolidated financial statements.

PRICE WATERHOUSE & Co. S.R.L.

By \_\_\_\_\_ (Partner)

Carlos Martín Barbafina

Buenos Aires, Argentina

September 7, 2004

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Balance Sheets**

**as of June 30, 2004 and 2003**

(In Argentine Pesos, except as otherwise indicated)

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and banks (Notes 4.a) and 16.f))	Ps. 12,672,024	Ps. 16,995,803
Investments (Notes 4.b), 7, 16.c) and 16.f))	1,547,433	5,459,835
Trade accounts receivable, net (Notes 4.c), 7 and 16.f))	4,630,328	6,899,952
Other receivables (Notes 4.d), 7 and 16.f))	19,408,644	6,231,659
Inventories (Note 4.e))	34,840,259	22,841,977
	<u>73,098,688</u>	<u>58,429,226</u>
<b>Non-Current Assets</b>		
Other receivables (Notes 4.d) and 7)	61,215	542,193
Inventories (Note 4.e))	44,740,030	37,796,987
Investments (Notes 4.b), 7 and 16.f))	396,661,291	341,481,798
Property and equipment, net (Note 16.a))	157,387,134	148,510,846
Intangible assets, net (Note 16.b))		369,637
	<u>598,849,670</u>	<u>528,701,461</u>
Subtotal	598,849,670	528,701,461
Negative goodwill, net	(25,869,346)	(19,347,598)
Total Assets	<u>Ps. 646,079,012</u>	<u>Ps. 567,783,089</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable (Notes 4.f), 7 and 16.f))	Ps. 11,186,462	Ps. 7,326,572
Short-term debt (Notes 4.g), 7 and 16.f))	8,090,261	1,425,499
Salaries and social security payable (Notes 4.h) and 7)	1,426,579	1,096,627
Taxes payable (Notes 4.i) and 7)	1,939,818	1,887,453
Other liabilities (Notes 4.j) and 7)	6,108,154	3,340,676
	<u>28,751,274</u>	<u>15,076,827</u>
<b>Non-Current Liabilities</b>		
Long-term debt (Notes 4.g), 7 and 16.f))	125,880,874	137,951,054
Taxes payable (Notes 4.i) and 7)	26,213,217	22,749,374
	<u>152,094,091</u>	<u>160,700,428</u>

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Total Liabilities	180,845,365	175,777,255
Minority interest	65,451	206,709
<b>SHAREHOLDERS EQUITY</b>	465,168,196	391,799,125
Total Liabilities and Shareholders Equity	Ps. 646,079,012	Ps. 567,783,089

The accompanying notes are an integral part of these consolidated financial statements.

F-3



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Statements of Income**

**for the years ended June 30, 2004, 2003 and 2002**

(In Argentine Pesos, except as otherwise indicated)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales			
Crops	Ps. 26,921,690	Ps. 50,167,010	Ps. 47,196,604
Beef cattle	27,370,418	17,311,212	27,609,516
Milk	3,191,948	2,414,992	2,258,210
Others	4,786,930	2,056,625	3,189,850
<b>Total sales</b>	<b>62,270,986</b>	<b>71,949,839</b>	<b>80,254,180</b>
Cost of sales			
Crops	(15,405,391)	(39,425,551)	(13,817,006)
Beef cattle	(21,140,135)	(8,746,014)	(22,778,110)
Milk	(1,307,963)	(1,483,172)	(3,561,830)
Others	(1,123,049)	(1,387,410)	(2,122,473)
<b>Total cost of sales (Note 16.e)</b>	<b>(38,976,538)</b>	<b>(51,042,147)</b>	<b>(42,279,419)</b>
<b>Gross profit</b>	<b>23,294,448</b>	<b>20,907,692</b>	<b>37,974,761</b>
Selling expenses (Note 16.g))	(4,903,065)	(6,045,309)	(10,248,016)
Administrative expenses (Note 16.g))	(5,298,032)	(4,309,119)	(8,368,493)
Net gain on the sale of farms	1,668,751	4,869,484	16,573,853
Inventory holding gain (loss)	2,230,329	12,224,813	(19,603,010)
<b>Operating income</b>	<b>16,992,431</b>	<b>27,647,561</b>	<b>16,329,095</b>
Financial results, net: (Note 4.k))			
Financial income (expense) generated by assets	19,940,562	(51,269,561)	(15,301,181)
Financial (expense) income generated by liabilities	(19,735,014)	40,329,234	16,807,986
<b>Total financial results, net</b>	<b>205,548</b>	<b>(10,940,327)</b>	<b>1,506,805</b>
<b>Equity gain (loss) from related companies</b>	<b>27,071,225</b>	<b>68,008,820</b>	<b>(41,217,930)</b>
Other (expense) income, net:			
Gain on sale of other property and equipment	268,632	32,734	30,422
Others	(36,977)	(124,622)	134,651
Donations	(706,200)	(2,000,000)	
<b>Total other (expense) income, net</b>	<b>(474,545)</b>	<b>(2,091,888)</b>	<b>165,073</b>

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Management fee	(3,567,003)	(7,224,996)	
Income (loss) before income tax and minority interest	40,227,656	75,399,170	(23,216,957)
Income tax expense	(8,265,895)	(10,598,255)	(18,824,012)
Minority interest	141,261	224,046	348,884
Net income (loss) for the year	Ps. 32,103,022	Ps. 65,024,961	Ps. (41,692,085)
<b>Earnings per share (Notes 3.s) and 13):</b>			
Basic net income (loss) per common share	Ps. 0.23	Ps. 0.54	Ps. (0.35)
Diluted net income (loss) per common share	0.13	0.19	(0.35)

The accompanying notes are an integral part of these consolidated financial statements.

F-4

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Statements of Changes in Shareholders' Equity**

**for the years ended June 30, 2004, 2003 and 2002**

(In Argentine Pesos, except as otherwise indicated)

Items	Shareholders' contributions							Total
	Common stock (Note 5)	Treasury stock	Inflation adjustment of common stock and treasury stock	Additional paid-in-capital	Total	Legal reserve	(Accumulated deficit) / Retained earnings	
<b>Balances as of June 30, 2001</b>	Ps . 119,669,749	Ps . 4,614,643	Ps . 166,218,124	Ps . 89,784,877	Ps . 380,287,393	Ps . 5,412,078	Ps . (14,005,923)	Ps . 371,693,548
Appropriation of earnings resolved by the shareholders meeting held on October 19, 2001:								
-Legal reserve						421,085	(421,085)	
-Cash dividends (Ps. 0.06 per share)							(8,000,584)	(8,000,584)
Subscription of treasury stock	2,353	(2,353)					3,916	3,916
Exercise of stock options	480,000	(480,000)					612,323	612,323
Net loss for the year							(41,692,085)	(41,692,085)
<b>Balances as of June 30, 2002</b>	Ps . 120,152,102	Ps . 4,132,290	Ps . 166,218,124	Ps . 89,784,877	Ps . 380,287,393	Ps . 5,833,163	Ps . (63,503,438)	Ps . 322,617,118
Exercise of stock options	3,559,853	(3,559,853)					3,564,008	3,564,008

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Conversion of notes into common stock	386,140		206,898	593,038				593,038
Net income for the year							65,024,961	65,024,961
<b>Balances as of June 30, 2003</b>								
	Ps 124,098,095	Ps 572,437	Ps 166,218,124	Ps 89,991,775	Ps 380,880,431	Ps 5,833,163	Ps 5,085,531	Ps 391,799,125
Exercise of stock options	332,437	(332,437)					332,437	332,437
Conversion of notes into common stock	13,136,577		6,228,397	19,364,974				19,364,974
Exercise of warrants	12,965,710		10,102,928	23,068,638				23,068,638
Appropriation of profits resolved by the shareholders meeting held on October 31, 2003:								
- Legal reserve						254,277	(254,277)	
- Cash dividends (Ps. 0.01 per share)							(1,500,000)	(1,500,000)
Net income for the year							32,103,022	32,103,022
<b>Balances as of June 30, 2004</b>								
	Ps 150,532,819	240,000	166,218,124	106,323,100	423,314,043	6,087,440	35,766,713	465,168,196

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Consolidated Statements of Cash Flows**

**for the years ended June 30, 2004, 2003 and 2002**

(In Argentine Pesos, except as otherwise indicated)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities:</b>			
Net income (loss) for the year	Ps. 32,103,022	Ps. 65,024,961	Ps. (41,692,085)
<b>Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:</b>			
Income tax expense	8,265,895	10,598,255	18,824,012
Depreciation	3,221,419	3,081,851	3,501,449
Amortization of intangible assets	369,637	472,016	470,122
Minority interest	(141,261)	(224,046)	(348,884)
Equity (gain) loss from related companies	(27,071,225)	(68,008,820)	41,217,930
Unrealized gain on equity investments			(63,931)
Inventory holding (gain) loss	(2,230,329)	(12,224,813)	19,603,010
Gain on the sale of farms	(1,668,751)	(4,869,484)	(16,573,853)
Gain on sale and withdrawal from business of other property and equipment	(268,632)	(32,734)	(30,422)
Accrual for management fees	1,537,173	3,204,773	
Allowance for doubtful accounts and accrued expenses	6,634,767	5,728,774	260,946
Financial results	(10,246,273)	(9,513,301)	(4,687,087)
<b>Changes in operating assets and liabilities:</b>			
Decrease in current investments	11,551,129	5,701,035	8,803,665
Decrease (increase) in trade accounts receivable	2,269,624	10,158,710	(9,272,618)
(Increase) decrease in other receivables	(13,724,244)	655,669	1,977,516
(Increase) decrease in inventory	(17,092,786)	18,992,074	(3,697,701)
Increase (decrease) in trade accounts payable	1,490,419	(7,996,890)	(1,584,162)
(Decrease) increase in salaries and social security payable and taxes payable	(4,436,890)	(10,845,802)	1,457,081
Increase in interest payable	10,589,741	8,399,579	3,640,890
Dividends collected	1,549,938	1,478,533	1,708,820
(Decrease) increase in other liabilities	(3,034,991)	(8,350,867)	4,342,723
<b>Net cash (used in) provided by operating activities</b>	<b>(332,618)</b>	<b>11,429,473</b>	<b>27,857,421</b>
<b>Cash flows from investing activities:</b>			
Net proceeds from sale of other property and equipment		736,979	322,060
Net proceeds from sale of farms	4,801,457	12,013,619	55,489,538
Collection of secured receivables from sale of farms	1,008,000	2,543,257	776,176
Acquisition of farms and other property and equipment	(14,579,991)	(30,998,217)	(933,548)
Acquisition of convertible notes	(1,199,671)	(176,627,072)	
Acquisition of investments	(14,564,425)	(8,151,725)	(21,863,150)
<b>Net cash (used in) provided by investing activities</b>	<b>(24,534,630)</b>	<b>(200,483,159)</b>	<b>33,791,076</b>

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<b>Cash flows from financing activities:</b>			
Exercise of warrants	23,068,638		
Capital contributions from minority interests in controlled subsidiaries			245,939
Cash dividends paid	(1,500,000)		(8,000,584)
Proceeds from the exercise of stock options and subscription of treasury shares	332,437	3,564,008	616,239
Proceeds from short-term and long-term debt	6,757,677	177,457,104	39,324,931
Payments of short-term debt	(10,682,655)	(13,659,222)	(53,730,431)
Debt issuance costs	(1,305,850)	(1,717,514)	
	<hr/>	<hr/>	<hr/>
<b>Net cash provided by (used in) financing activities</b>	<b>16,670,247</b>	<b>165,644,376</b>	<b>(21,543,906)</b>
	<hr/>	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(8,197,001)	(23,409,310)	40,104,591
Cash and cash equivalents as of the beginning of the year	20,930,228	44,339,538	4,234,947
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents as of year-end	Ps. 12,733,227	Ps. 20,930,228	Ps. 44,339,538
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

F-6

**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Consolidated Statements of Cash Flows****for the years ended June 30, 2004, 2003 and 2002 (continued)**

(In Argentine Pesos, except as otherwise indicated)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Supplemental cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest	Ps. 10,684,927	Ps. 5,539,589	Ps. 2,872,988
Income tax	Ps. 1,240,371	Ps. 8,859,039	Ps. 175,335
<b>Non-cash transactions:</b>			
Inventory transferred to property and equipment	Ps. 381,790	Ps. 210,551	Ps. 513,692
Conversion of notes into common shares	Ps. 19,364,974	Ps. 593,038	Ps.
Property and equipment donations	Ps.	Ps.	Ps. 2,374
Increase in related companies by decrease in permanent investments	Ps. 14,769,667	Ps.	Ps.

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,**

**Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements**

(In Argentine Pesos, except as otherwise indicated)

**1. Description of business**

Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria ( Cresud and together with its subsidiaries the Company ) was incorporated in 1936 as a subsidiary of Credit Foncier, a Belgian company engaged in, among other things, providing rural and urban loans in Argentina and administering real estate holdings foreclosed by Credit Foncier. Credit Foncier was liquidated in 1959, and as part of such liquidation, the shares of Cresud were distributed to Credit Foncier's shareholders. From the 1960s through the end of the 1970s, the business of the Company shifted exclusively to primary agricultural activities. Currently, the Company is involved in various operations and activities including crop production, cattle raising and fattening, milk production and certain forestry activities. The Company is not in the land sales and development business; however, it does from time to time sell properties to profit from real estate appreciation opportunities and which, in the judgment of management, are surplus to the Company's primary operations.

**2. Preparation of financial statements**

*a) Basis of presentation*

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina ( Argentine GAAP ) and the regulations of the *Comisión Nacional de Valores* ( CNV ), the National Securities Commission in Argentina, which differ in certain significant respects from generally accepted accounting principles in the United States of America ( US GAAP ). Such differences involve methods of measuring the amounts shown in the consolidated financial statements as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ( SEC ). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company are set forth in Note 15 to these consolidated financial statements.

As discussed in Notes 2.c) and 3.k), in order to comply with regulations of the CNV, the Company discontinued inflation accounting as from March 1, 2003 as well as recognized deferred income tax assets and liabilities on a non-discounted basis. The application of these CNV regulations represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on the accompanying consolidated financial statements.



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*b) Basis of consolidation*

The accompanying consolidated financial statements include the accounts of Cresud and its subsidiaries over which Cresud has effective control. Investments in companies in which Cresud exercises significant influence, but not control, are accounted for under the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation.

A description of the subsidiaries over which Cresud has or had effective control, with their respective percentage of capital stock owned, is presented as follows:

<u>Subsidiaries</u>	Percentage of capital stock owned as of June 30, (i)		
	2004	2003	2002
Inversiones Ganaderas S.A	99.99%	99.99%	99.99%
Futuros y Opciones.Com S.A.	70.00%	70.00%	70.00%

(i) Percentage of equity interest owned has been rounded.

*c) Presentation of financial statements in constant Argentine Pesos*

On August 22, 1995, the Argentine government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power as of August 31, 1995. The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

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However, as a result of the inflationary environment in Argentina in 2002, the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* ( CPCECABA ) approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements as from January 1, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be considered stated in currency as of December 31, 2001.

F-9

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*c) Presentation of financial statements in constant Argentine Pesos (continued)*

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency.

However, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date, using a conversion factor of 1.1232.

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

*d) Reclassifications*

Certain reclassifications of prior year information have been made to conform to the current year presentation.

*e) Acquisitions*

Year ended June 30, 2003

On April 30, 2003 the Company acquired El Tigre farm, covering 8,360 hectares, in the district of Trenal, Province of La Pampa, for a total consideration of US\$ 9.3 million.

*f) Dispositions*

Year ended June 30, 2004

On July 29, 2003, the Company sold three properties located in La Paz, Province of Catamarca, covering 5,997 hectares, for a total consideration of US\$ 0.4 million generating a gain of Ps. 0.6 million.

On November 26, 2003 the Company sold El 41 y El 42 farm covering 6,478 hectares, located in the Department of Tapenagá, Province of Chaco, for a total consideration of US\$ 1.0 million, resulting in a gain of Ps. 1.1 million.

On June 30, 2004 a preliminary purchase and sale agreement was signed for the farm San Enrique , covering 977 hectares, located in the Department of General López, Province of Santa Fe, for a total consideration of US\$ 5 million. The Company did not recognize revenue related to this transaction during fiscal year 2004. This sale will generate a profit of approximately US\$ 4.3 million, once consummated.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**2. Preparation of financial statements (continued)**

*f) Dispositions (continued)*

Year ended June 30, 2003

On April 21, 2003 the Company sold San Luis farm, covering 706 hectares, located in Junín, in the Province of Buenos Aires, for a total consideration of US\$ 2.2 million, resulting in a gain of approximately Ps. 0.6 million.

On April 30, 2003 the Company sold Los Maizales farm, covering 618 hectares, in the Villa Cañás district, in the Province of Santa Fe, for a total amount of US\$ 1.8 million, recording a gain of Ps. 4.3 million.

Year ended June 30, 2002

On August 3, 2001 the Company sold El Silencio farm, covering 397 hectares, in the district of Rojas, Province of Buenos Aires, for a total consideration of US\$ 1.03 million, resulting in an approximate gain of Ps. 0.2 million.

Between November 2001 and June 2002, the Company sold El Coro farm, covering 10,321 hectares, in the district of Río Seco, Province of Córdoba, for a total consideration of Ps. 13.7 million, resulting in an approximate gain of Ps. 3.5 million.

On May 8, 2002 the Company sold La Sofía farm, covering 6,149 hectares, in the district of Río Cuarto, Province of Córdoba for the total consideration of US\$ 10 million, resulting in an approximate gain of Ps. 12.9 million.

*g) Use of estimates*

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting years. Significant estimates include but

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is not limited to those required in the accounting for the allowance for doubtful accounts, the depreciation, amortization and impairment of long-lived assets, the provision for contingencies and income taxes. Actual results could differ from those estimates.

F-11

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies**

On January 14, 2003, the CPCECABA and the CNV approved, with certain amendments, Technical Resolutions ( RT ) N° 16, Framework for the Preparation and Presentation of Financial Statements ; RT N° 17, Overall Considerations for the Preparation of Financial Statements ; RT 18, Specific Considerations for the Preparation of Financial Statements ; RT N° 19, Amendments to Technical Resolutions No 4, 5, 6, 8, 9, 11 and 14 ; and RT N° 20, Accounting for Derivative Instruments and Hedging Activities issued by the *Federación Argentina de Consejos Profesionales en Ciencias Económicas* ( FACPCE ), which established new accounting and disclosure principles under Argentine GAAP. The Company adopted such standards on July 1, 2002, except for Technical Resolution N° 20 which was adopted on July 1, 2003. As required by Argentine GAAP, when issuing the 2003 financial statements the Company restated its prior year financial statements to give retroactive effect to the newly adopted accounting standards. These new accounting standards relate to the harmonization of Argentine GAAP with International Financial Reporting Standards.

The following is a summary of significant accounting policies followed by the Company in the preparation of these consolidated financial statements:

**a) Revenue recognition**

The Company primarily derives its revenues from the sale of crops, milk and live beef cattle and to a lesser extent, from the sale of charcoal and fence posts and leases. Revenue is recognized on sales of products when the customer receives title to the goods, generally upon delivery.

The Company is not in the land sales and development business; however, it does from time to time sell properties to profit from real estate appreciation opportunities and which, in the judgment of management, are surplus to the Company's primary operations. Farmland sales are recorded under the accrual method of accounting. Farmland sales are not recognized until (i) the sale is consummated, (ii) the Company has determined that the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property, (iii) the Company's receivable is not subject to future subordination, and (iv) the Company has transferred to the buyer the risk of ownership, and does not have a continuing involvement in the property.

**b) Cash and cash equivalents**

The Company considers all highly liquid investments with original maturities of three months or less, to be cash equivalents.

**c) Trade accounts receivable and payable**

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Trade accounts receivable and payable are stated at their cash price estimated at the time of the transaction, plus interest and implied financial components accrued on the basis of the internal rate of return determined at such time, provided if they are significant. The Company provides for losses relating to trade accounts receivable. The allowance for losses is based on management's evaluation of various factors, including the credit risk of customers, historical trends and other information. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the evaluations. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimation, and the consolidated financial statements reflect that consideration.

F-12



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies**

*d) Financial receivables and payables*

Financial receivables and payables have been valued at the amount deposited or collected, respectively, net of transaction costs, plus accrued interest based on the interest rate estimated at the time of the transaction.

*e) Investments*

*Current*

Current investments include mutual funds and government bonds. The mutual funds invest in time deposits with original maturities of less than three months at purchase. These investments are carried at market value as of year-end. Unrealized gains and losses on these investments are included within Financial results, net , in the consolidated statements of income, and are calculated using the specific-identification method.

*Investments in affiliates*

Investments in affiliates in which the Company has significant influence (generally representing an equity interest between 20% and 50%) have been accounted for under the equity method. Management periodically evaluates the carrying value of its equity investments for impairment. The carrying value of equity investments is considered impaired when an other-than-temporary decrease in the value of the investments has occurred.

*Investment in IRSA Convertible Notes*

The Company's investment in IRSA Convertible Notes is carried at amortized cost at year-end.

*f) Negative goodwill, net*

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Negative goodwill, net includes (a) the excess of cost over the fair value of net identifiable assets acquired related to the acquisitions of certain subsidiaries (Goodwill) and (b) the excess of the fair value of the assets acquired over the consideration paid for the acquisition of additional ownership interest in IRSA (Negative goodwill). Goodwill and negative goodwill are stated at cost adjusted for inflation (as described in Note 2.c)) less accumulated amortization. Goodwill is being amortized under the straight-line method over 5 years. Amortization of negative goodwill is calculated on a straight-line basis over the weighted-average remaining useful lives of the assets acquired, calculated as 20 years. As required by new accounting standards, goodwill and negative goodwill are shown in a separately caption in the accompanying consolidated balance sheet.

F-13

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*g) Inventories*

Livestock for raising and fattening are stated at their net realizable value. Livestock for dairy production and other purposes, which is not going to be sold within the next twelve months, is stated at its replacement cost as determined by agricultural appraisers. Inventory holding gains and losses are segregated in a separate line to determine operating income (loss).

Inventories of harvested crops are stated at current sales price less cost of disposal. Unharvested crop-growing costs are included as part of inventory and represent costs incurred to plant and maintain seed crops which will be harvested during the subsequent fiscal year. Inventories are periodically reviewed and reserves established for deteriorated, excess and obsolete items.

*h) Property and equipment*

Property and equipment are stated at cost, adjusted for the inflation (as described in Note 2.c)), less accumulated depreciation.

Depreciation expense has been determined using the straight-line method over the estimated useful lives of the related assets as specified below:

<u>Asset</u>	<u>Estimated useful life (years)</u>
Buildings and constructions	50
Alfalfa fields and meadow	Between 2 and 8
Vehicles	5
Machinery	10
Furniture and equipment	10
Others	Between 4 and 10

The cost of maintenance and repairs is expensed as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset.

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When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of income.

*i) Intangible assets*

*(i) Web site development costs*

The Company capitalizes certain costs incurred in the development of the Company's web site. Such costs are amortized under the straight-line method over a period of 3 years.

*(ii) Other intangible assets*

Other intangible assets are stated at cost, adjusted for inflation (as described in Note 2.c)), and are being amortized over 3 years on a straight-line basis.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*j) Foreign currency assets and liabilities*

Assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rates as of year-end. Transactions denominated in foreign currencies are translated into pesos at the prevailing exchange rates on the date of transaction settlement. Foreign currency transaction gains and losses are recorded within Financial results, net in the accompanying consolidated statements of income.

*k) Income tax provision*

The subsidiaries of the Company calculate their income taxes on a separate basis. The Company did not either calculate or pay income taxes on a consolidated basis for any of the periods presented. The statutory income tax rate was 35% for all years presented.

The Company records income taxes using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable.

The Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes in accordance with Resolution MD No.11/2003 issued by the CPCECABA.

In accordance with CNV regulations, deferred tax assets and liabilities have not been discounted. Since Argentine GAAP requires the accounting for deferred tax assets and liabilities on a discounted basis, the application of the CNV resolution represents a departure from generally accepted accounting principles in Argentina. However, such a departure has not had a material effect on the accompanying consolidated financial statements.

*l) Asset tax provision*

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The Company is subject to the asset tax. Pursuant to this tax regime, the Company is required to pay the greater of the income tax or the asset tax. Any excess of the asset tax over the income tax may be carried forward and recognized as a tax credit against future income taxes payable over a 10-year period. The asset tax provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based upon the taxable assets of each company as of the end of the year, as defined by Argentine law.

F-15

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*m) Provisions for contingencies*

The Company has certain contingent liabilities with respect to material existing or potential claims, lawsuits and other proceedings arising in the ordinary course of business. The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and its experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there will be changes in the estimates of future costs, which could have a material effect on the Company's future results of operations and financial condition or liquidity.

*n) Pension information*

The Company does not maintain any pension plans. Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or private fund managed plans to which employees may elect to contribute.

*o) Impairment of long-lived assets*

The Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows, undiscounted and without interest, from such asset is separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or based on independent appraisals.

RT 17 establishes that a previously recognized impairment loss should only be reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying amount of the asset should be the lower of its fair market value or the net carrying amount the asset would have had if no impairment had been recognized.

*p) Vacation expenses*

Vacation expenses are fully accrued in the year the employee renders services to earn such vacation.





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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**3. Significant accounting policies (continued)**

*q) Commodity contracts*

The Company utilizes a variety of commodity-based derivative instruments, as hedges to manage its exposure to price volatility stemming from its integrated crop production activities. These instruments consist mainly of crop futures contracts and put and call option contracts designed to reduce exposure to changes in market prices. The Company does not engage in trading or other speculative use of these financial instruments. Realized gains and losses associated with futures contracts are recorded in cost of products sold at the fair market value. Deposits and premiums paid are recorded as other receivables on the consolidated balance sheet.

*r) Advertising expenses*

The Company expenses advertising costs as incurred. Advertising expenses for the years ended June 30, 2004, 2003 and 2002 were Ps. 0.06 million, Ps. 0.08 million and Ps. 0.03 million, respectively.

*s) Earnings per share*

The Company is required to disclose earnings per share information for all periods presented. Basic earnings per share ( basic EPS ) are computed by dividing the net income (loss) available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per share ( diluted EPS ) are computed by dividing the adjusted net income (loss) for the period by the weighted-average number of common shares and potential common shares outstanding during the period.

In computing diluted EPS, income available to common shareholders used in the basic EPS calculation is adjusted to add back the after-tax amount of interest recognized in the period with respect to any debt convertible to common stock. Additional adjustments are made for any other income or loss items that would result from the assumed conversion of potential common shares. The weighted-average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Diluted EPS is based on the most advantageous conversion rate or exercise price over the entire term of the instrument from the standpoint of the security holder. The calculation of diluted EPS excludes potential common shares if their effect is anti-dilutive. The Company has considered the dilutive effect of outstanding stock options, warrants and convertible debt in calculating diluted EPS.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts:**

*a) Cash and banks*

	As of June 30,	
	2004	2003
Cash	Ps. 122,226	Ps. 3,283,821
Cash in banks	12,100,915	13,270,718
Collections to be deposited	448,883	441,264
	Ps. 12,672,024	Ps. 16,995,803

*b) Investments*

	As of June 30,	
	2004	2003
<b>Current</b>		
Mutual funds	Ps. 61,203	Ps. 3,934,425
Interest of IRSA Convertible Notes	1,388,504	1,422,315
Government bonds	97,726	103,095
	Ps. 1,547,433	Ps. 5,459,835
<b>Non-Current</b>		
Equity investments (i)	Ps. 263,698,683	Ps. 202,321,555
IRSA Convertible Notes (ii)	132,941,891	139,139,526
Others	20,717	20,717
	Ps. 396,661,291	Ps. 341,481,798



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts (continued)**

*b) Investments (continued)*

(i) As of June 30, 2004, the Company had a 35.7%, 50.0% and 25.4% equity interest in Agro-Uranga S.A., Cactus Argentina S.A. and IRSA Inversiones y Representaciones S.A. ( IRSA ) amounting to Ps. 16,417,046, Ps. 3,279,115, Ps. 244,002,522, respectively. Effective March 31, 2002, as a result of a change in the Company's strategy to hold IRSA's shares (representing a 19.85 % of ownership interest) as permanent investments, the Company changed the accounting method for its investment in IRSA's shares from market value to the equity method of accounting. As a result, at March 31, 2002 the Company recognized a negative goodwill of Ps. 15.4 million, representing the excess of equity value over market value at that date. During the year ended June 30, 2004 the Company acquired an additional 2.8% equity interest in IRSA for a total consideration of Ps. 29.3 million, (including the conversion option of US\$ 5,000,000 of IRSA Convertible Notes into 9,174,311 common shares for Ps. 14.8 million (as described in Note 4 b) (ii))), resulting in an increase in negative goodwill for a total consideration of Ps. 5.8 million. Negative goodwill is being amortized under the straight-line method over a period of 20 years. Net book value of negative goodwill amounts to Ps. 26.5 million and Ps. 20.7 million as of June 30, 2004 and 2003, respectively.

(ii) In November 2002, IRSA issued US\$ 100 million of 8% convertible notes due 2007 with non-detachable warrants to acquire additional shares of common stock ( IRSA Convertible Notes ). During November and December of 2002, the Company acquired US\$ 49,692,688 of IRSA convertible notes and during July and November 2003 the Company acquired US\$ 250,500 of IRSA Convertible Notes. In accordance with the terms and conditions of the agreement, IRSA Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares. The agreement provides for an original conversion price of US\$ 0.55713, which only can be adjusted as a result of anti-dilution provisions. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of US\$ 0.66856 per share. The exercise price of the warrants is also adjusted as a result of anti-dilution provisions. As a result of the distribution of treasury shares approved by IRSA's shareholders in November 2002, effective December 20, 2002 the conversion price was decreased to US\$ 0.54505 and the warrants exercise price was decreased to US\$ 0.65406.

*c) Trade accounts receivable, net*

	As of June 30,	
	2004	2003
Trade accounts receivable	Ps. 4,851,451	Ps. 7,365,368
Related parties (Note 8)	190,944	13,709
Less:		
Allowance for doubtful accounts (Note 16.d))	(412,067)	(479,125)
	Ps. 4,630,328	Ps. 6,899,952



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts (continued)**

*d) Other receivables*

	As of June 30,	
	2004	2003
<b>Current</b>		
Receivables from the sale of farms (i)	Ps. 1,033,997	Ps. 531,602
Asset tax credit (ii)	7,578,689	201,559
Margin deposits receivable from brokers	146,483	78,570
Premiums collected/paid in connection with derivative instruments	(265,378)	326,409
Other deposits	2,307,893	277,048
Prepaid leases	4,465,136	1,894,560
Related parties (Note 8)	1,347,038	1,334,692
Prepaid expenses, excluding leases	897,192	864,244
Others	1,897,594	722,975
	Ps. 19,408,644	Ps. 6,231,659
<b>Non-Current</b>		
Receivables from the sale of farms	Ps.	Ps. 504,192
Asset tax credit (ii)	56,450	26,574
Other	4,765	11,427
	Ps. 61,215	Ps. 542,193

- (i) At June 30, 2004, receivables from the sale of farms include US\$ 0.3 million from the sale of the Tourné farm, which accrues interest at an annual fixed rate of 8% and is being collected in four equal annual installments commencing January 15, 2002. The Company agreed with the purchaser the payment in installments. As guarantee for the payment, the Company and the purchasers signed a mortgage affecting these newly sold properties stating that any termination of payment would imply the Company taking over on the properties.
- (ii) The Company recorded the asset tax as a tax receivable since in the opinion of its management it is more likely than not that the Company will utilize such credits against future income tax charges.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts (continued)**

*e) Inventories*

	As of June 30,	
	2004	2003
<b>Current</b>		
Livestock	Ps. 18,829,580	Ps. 13,116,997
Crops	8,639,910	6,301,776
Unharvested crops	1,603,897	1,112,230
Seeds and fodder	241,516	171,486
Materials and others	4,085,023	1,501,686
Advances to suppliers	1,440,333	637,802
	Ps. 34,840,259	Ps. 22,841,977
<b>Non-Current</b>		
Livestock	Ps. 44,740,030	Ps. 37,796,987
	Ps. 44,740,030	Ps. 37,796,987

*f) Trade accounts payable*

	As of June 30,	
	2004	2003
Suppliers	Ps. 5,760,856	Ps. 4,195,988
Related parties (Note 8)	3,067,075	1,811,473
Accruals	2,358,531	1,319,111
	Ps. 11,186,462	Ps. 7,326,572

*g) Short-term and long-term debt*

As of June 30,

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	<u>2004</u>	<u>2003</u>
<b>Short-term debt:</b>		
Local financial loans (i)	Ps. 6,757,677	Ps.
Accrued interest on Convertible Notes (ii)	1,332,584	1,425,499
	<u>Ps. 8,090,261</u>	<u>Ps. 1,425,499</u>

As of June 30,

	<u>2004</u>	<u>2003</u>
<b>Long-term debt:</b>		
Convertible Notes (ii)	Ps. 127,587,867	Ps. 139,450,965
Deferred financing costs	(1,706,993)	(1,499,911)
	<u>Ps. 125,880,874</u>	<u>Ps. 137,951,054</u>

- (i) At June 30, 2004, the outstanding balance of local financial loans represents bank-overdrafts.  
(ii) See Note 10 for details.



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts (continued)**

*h) Salaries and social security payable*

	As of June 30,	
	2004	2003
Social security payable	Ps. 189,067	Ps. 139,607
Salaries payable	192,632	94,607
Provision for vacation and bonuses	1,031,906	859,519
Other	12,974	2,894
	Ps. 1,426,579	Ps. 1,096,627

*i) Taxes payable*

	As of June 30,	
	2004	2003
<b>Current</b>		
Income tax	Ps. 1,610,401	Ps. 1,634,978
Asset tax payable, net	24,135	(124,503)
Value added tax		45,164
Property tax payable	103,284	179,614
Gross sales tax payable	10,578	(48,573)
Income tax withholdings	188,125	45,494
Personal assets tax		148,824
Other	3,295	6,455
	Ps. 1,939,818	Ps. 1,887,453
<b>Non-Current</b>		
Deferred income taxes (Note 12)	26,213,217	22,749,374
	Ps. 26,213,217	Ps. 22,749,374

**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**4. Details of balance sheet and income statement accounts (continued)***j) Other liabilities*

	As of June 30,	
	2004	2003
<b>Current</b>		
Advance to customers	Ps. 4,432,500	Ps.
Management fee payable (Note 8)	1,537,173	3,204,773
Others	138,481	135,903
	<u>Ps. 6,108,154</u>	<u>Ps. 3,340,676</u>

*k) Financial results, net*

	As of June 30,		
	2004	2003	2002
<b>Generated by assets:</b>			
Exchange income (loss), discounts and bank expenses	Ps. 9,650,353	Ps. (54,222,792)	Ps. 6,617,504
Interest income	242,505	886,510	2,186,717
Allowance for doubtful accounts	67,058	(50,000)	(260,946)
CER on receivable balances	(302,116)	507,772	739,856
Tax on bank debits and credits	(1,242,966)	(904,829)	(868,392)
Holding results from secured receivables and other		(2,640,590)	(3,414,145)
Loss on exposure to inflation		(2,092,148)	(8,146,264)
Interest income on IRSA Convertible Notes	11,517,318	7,080,857	
Unrealized and realized holding gain (loss) on current investments	8,410	165,659	(12,155,511)
	<u>Ps. 19,940,562</u>	<u>Ps. (51,269,561)</u>	<u>Ps. (15,301,181)</u>
<b>Generated by liabilities:</b>			
Holding results	Ps.	Ps. 1,286,969	Ps. 13,725,917
Gain on exposure to inflation		4,698,515	13,026,051

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Interest expense on Convertible Notes	(10,589,742)	(6,965,029)	
Related parties (Note 8)			(460,695)
Others	(1,108,573)	(1,276,683)	(2,149,416)
CER on liabilities		(531,789)	(1,772,124)
Interest expense	(5,144)	(11,175)	(804)
Exchange (loss) income and discounts	(8,031,555)	43,128,426	(5,560,943)
	<u>Ps. (19,735,014)</u>	<u>Ps. 40,329,234</u>	<u>Ps. 16,807,986</u>

F-23

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**5. Shareholders equity***a) Common stock*

As of June 30, 2004, the Company had 150,532,819 outstanding shares of common stock, having a par value of Ps. 1 per share. Holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Following is a summary of the activity in the Company's shares during the years presented:

	Common stock			Approved by	
	Shares issued	Par value	Additional paid-in-capital	Body	Date
<b>Balances as of June 30, 2001</b>	119,669,749	Ps. 119,669,749	Ps. 89,784,877		
Subscription of treasury stock	2,353	2,353		Ordinary and Extraordinary Shareholders Meeting	March 8, 2002
Exercise of stock options	480,000	480,000		Ordinary and Extraordinary Shareholders Meeting and Board of Directors	March 8, 2002 and February 12, 2002, respectively
<b>Balance as of June 30, 2002</b>	120,152,102	120,152,102	89,784,877		
Exercise of stock options	3,559,853	3,559,853			
Conversion of Convertible Notes into common shares	386,140	386,140	206,898		
<b>Balances as of June 30, 2003</b>	124,098,095	124,098,095	89,991,775		
Exercise of stock options	332,437	332,437			
Exercise of warrants	12,965,710	12,965,710	10,102,928		
Conversion of Convertible Notes into common shares	13,136,577	13,136,577	6,228,397		
<b>Balance as of June 30, 2004</b>	150,532,819	Ps. 150,532,819	Ps. 106,323,100		

b) Treasury stock

From time to time, the Company repurchases outstanding shares of common stock when it believes that its stock is undervalued in the marketplace.

At June 30, 2001 treasury shares totaled 4,614,643. The Company recorded the acquisitions of treasury shares as a reduction in retained earnings. In January 2002, the shareholders exercised their pre-emptive rights and acquired 2,353 shares of treasury stock at a price of Ps. 1 per share. As discussed in Note 9, the shareholders approved a stock option plan relating to the remaining 4,612,290 treasury shares. During fiscal years 2002, 2003 and 2004, beneficiaries of the stock option plan exercised their rights and subscribed 480,000, 3,559,853 and 332,437 shares, respectively.

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**5. Shareholders equity (continued)**

- c) Inflation adjustment of common stock

As discussed in Note 2.c), the Company's financial statements were prepared on the basis of general price-level accounting which reflects changes in the purchasing power of the Argentine peso in the historical financial statements until February 28, 2003. Accordingly, the inflation adjustment related to common stock was appropriated to an inflation adjustment reserve, which forms part of shareholders' equity. According to Argentine rules and regulations, the balance of the inflation adjustment reserves may be applied only towards the issuance of common stock to shareholders of the Company.

- d) *Restrictions on distribution of profits*

In accordance with the Argentine Corporations Law and the Company's by-laws, 5% of the net and realized profit for the year calculated in accordance with Argentine GAAP plus (less) prior year adjustments must be appropriated by resolution of shareholders to a legal reserve until such reserve equals 20% of the Company's outstanding capital. This legal reserve may be used only to absorb losses.

**6. Commodities futures and option contracts**

The Company utilizes a variety of commodity-based derivative instruments, as hedges to manage its exposure to price volatility stemming from its integrated crop production activities. These instruments consist mainly of crop futures contracts and put and call option contracts. Contract positions are designed to ensure that the Company will receive a defined minimum price for certain quantities of its production. The counterparties to these instruments generally are major financial institutions. The Company does not hold or issue derivative instruments for trading purposes and is not a party to any instruments with leverage or prepayment features. In entering into these contracts, the Company has assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. As described in Note 3, derivatives financial instruments are recognized at fair value as either assets or liabilities in the consolidated balance sheet. Changes in the fair market value of the derivative instruments are reported in earnings. Margin deposits and premiums paid related to outstanding future and option contracts are recorded as other receivables on the consolidated balance sheet.

As of June 30, 2004 and 2003, the Company had open commodity futures contracts amounting to US\$ 1.0 million and US\$ (0.05) million, respectively. At June 30, 2004 and 2003, these contracts covered a notional volume of 13,272 and 3,000 tons, respectively, of various crops, including soybean, wheat and corn. Futures contracts are used in combination with put and call option contracts principally to take advantage of market fluctuations, which provide more favorable pricing opportunities. At June 30, 2004 and 2003, the Company had open call and put options that strike at weighted average prices per ton of US\$ 155.4 and US\$ 157.9 covering notional amounts of 45,745 and 66,470 tons of various crops, including soybean, wheat and corn, respectively. The open options at June 30, 2004 mature at various dates, through December 2004. The Company recognized net gains from commodity-based contract activity of Ps. 0.05 million, Ps. 0.3 million and Ps. 3.9 million for the years

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ended June 30, 2004, 2003 and 2002, respectively. The Company recognizes such gains as subtractions to cost of sales.

F-25

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**6. Commodities futures and option contracts (continued)**

Derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from price movements is expected to offset the market risk of the underlying transactions, assets and liabilities, being hedged. The counterparties to the agreements relating to the Company's futures and options contracts consist of a number of major institutions with high credit ratings. The Company does not believe that there is a significant risk of nonperformance by these counterparties because the Company continually monitors the credit rating of such counterparties, and limits the financial exposure and the amounts of agreements entered into with any one financial institution. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties.

**7. Additional information on assets and liabilities**

The breakdown of main assets and liabilities as of June 30, 2004 is as follows:

	To mature in 1 <sup>st</sup> Quarter	To mature in 2 <sup>nd</sup> Quarter	To mature in 3 <sup>rd</sup> Quarter	To mature in 4 <sup>th</sup> Quarter	To mature in greater than 1 year	Past due	No fixed term	Total
<b>Assets</b>								
Investments	Ps.	Ps. 1,388,504	Ps.	Ps.	Ps. 132,941,891	Ps.	Ps. 179,646	Ps. 134,510,041
Trade accounts receivables, net	4,465,509						164,819	4,630,328
Other receivables	3,266,874	28,575	1,035,689	307,543	21,919		14,809,259	19,469,859
	<u>Ps. 7,732,383</u>	<u>Ps. 1,417,079</u>	<u>Ps. 1,035,689</u>	<u>Ps. 307,543</u>	<u>Ps. 132,963,810</u>	<u>Ps.</u>	<u>Ps. 15,153,724</u>	<u>Ps. 158,610,228</u>
<b>Liabilities</b>								
Trade accounts payable	Ps. 11,152,701	Ps. 3,471	Ps.	Ps.	Ps.	Ps.	Ps. 30,290	Ps. 11,186,462
Short-term and long-term debt	6,757,677	1,332,584			125,880,874			133,971,135
Salaries and social security payable	1,395,974	30,605						1,426,579
Taxes payable	305,282	1,634,536					26,213,217	28,153,035
Other liabilities	1,541,458			4,432,500			134,196	6,108,154



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Ps. 21,153,092 Ps. 3,001,196 Ps. Ps. 4,432,500 Ps. 125,880,874 Ps. Ps. 26,377,703 Ps. 180,845,365

	Accruing interest at a fixed rate		Accruing interest at a variable rate		Not accruing interest		Total
	Current	Non-Current	Current	Non-Current	Current	Non-Current	
<b>Assets</b>							
Investments	Ps.	Ps. 132,941,891	Ps. 158,929	Ps.	Ps. 1,388,504	Ps. 20,717	Ps. 134,510,041
Trade accounts receivable, net					4,630,328		4,630,328
Other receivables	3,535,277		2,307,893		13,565,474	61,215	19,469,859
	<u>Ps. 3,535,277</u>	<u>Ps. 132,941,891</u>	<u>Ps. 2,466,822</u>	<u>Ps.</u>	<u>Ps. 19,584,306</u>	<u>Ps. 81,932</u>	<u>Ps. 158,610,228</u>
<b>Liabilities</b>							
Trade accounts payable	Ps.	Ps.	Ps.	Ps.	Ps. 11,186,462	Ps.	Ps. 11,186,462
Short-term and long-term debt	6,757,677	125,880,874			1,332,584		133,971,135
Salaries and social security payable					1,426,579		1,426,579
Taxes payable					1,939,818	26,213,217	28,153,035
Other liabilities	2,196,666				3,911,488		6,108,154
	<u>Ps. 8,954,343</u>	<u>Ps. 125,880,874</u>	<u>Ps.</u>	<u>Ps.</u>	<u>Ps. 19,796,931</u>	<u>Ps. 26,213,217</u>	<u>Ps. 180,845,365</u>

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**8. Balances and transactions with related parties**

In November 1994, the Company entered into an agreement (the Consulting Agreement) with Dolphin Fund Management S.A., pursuant to which Dolphin Fund Management S.A. provides agricultural advisory services and certain other administration services. A shareholder and director of the Company is the President of the Board of Directors of Dolphin Fund Management S.A. In addition, certain executives, employees, shareholders and/or directors of Dolphin Fund Management S.A. are also executives, employees, shareholders and or directors of the Company. The Consulting Agreement has no preestablished expiration date; however, either party upon not less than 60 days written notice may terminate it. Nevertheless, if the Company terminates the agreement without cause, the Company is liable to Dolphin Fund Management S.A. for twice the average of the fees paid to Dolphin Fund Management S.A. for the two fiscal years preceding the termination.

As of November 25, 2003 Dolphin Fund Management S.A. has spun off in two companies. One of them is Consultores Asset Management S.A. and the other remains as of Dolphin Fund Management S.A. As a consequence of the spin off, the Consulting Agreement has been assigned to Consultores Asset Management S.A. In respect of Consultores Asset Management S.A., A shareholder and director of the Company is the owner of 85% of its capital stock, while Cresud's First vice Chairman of the Board holds the other 15% of the capital stock.

Pursuant to the terms of the Consulting Agreement, Consultores Asset Management S.A. provides the Company advisory services on matters related to capital investments in all aspects of the agriculture business. The Company pays Consultores Asset Management S.A. an annual fee equivalent to 10% of the after-tax net income for these services. Fees totaled Ps. 3.6 million, Ps. 7.2 million and Ps. nil for the years ended June 30, 2004, 2003 and 2002, respectively. Fees are fully paid subsequent to year-end.

During the years ended June 30, 2004 and 2003 the Company invested in shares and convertible notes of IRSA. IRSA is one of the leading Argentine real estate companies engaged directly or indirectly through subsidiaries and joint ventures in real estate activities in Argentina. Certain shareholders and/or directors of the Company are also directors as well as shareholders of IRSA.

In order to reduce administrative expenses, and to achieve a more efficient allocation of corporate resources, during the years ended June 30, 2004, 2003 and 2002 IRSA and its subsidiaries provided the Company corporate services in the areas of institutional relations, finance and human resources, amounting to Ps. 0.4, Ps. 0.4 million and Ps. 0.1 million, respectively. In the same way, the Company provided corporate services to IRSA and its subsidiaries for Ps. 0.2 during the fiscal year 2004.

Since November 2001, the Company leased office space under a cancelable operating lease from IRSA and its subsidiaries. Rent expense was recognized ratably over the lease term. Rent expense for the years ended June 30, 2004, 2003 and 2002 amounted to Ps. 0.07 million, Ps. 0.03 million and Ps. 0.17 million, respectively.

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From time to time, the Company donates money to *Fundación IRSA*, a charitable, not-for-profit organization of which a shareholder and director of the Company is a director and his wife is the President. The Company paid Ps. 1,130,150, Ps. 361,650 and Ps. 16,848 during the years ended June 30, 2004, 2003 and 2002, respectively. In addition, at June 30, 2004 the Company has recognized a liability for the unconditional promise to give cash to *Fundación IRSA* for Ps. 1,177,988, which is included within trade accounts payable .

F-27

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**8. Balances and transactions with related parties (continued)**

During the years ended June 30, 2004, 2003 and 2002, the law firm Zang, Bergel & Viñes provided the Company legal services amounting Ps. 0.1 million, Ps. 0.1 million and Ps. 0.3 million, respectively. Certain directors of the Company are partners of the law firm.

During October and November 2002, Inversiones Financieras del Sur S.A. ( IFISA ) subscribed US\$ 22.6 million of the Company's Convertible Notes. IFISA is a Uruguayan holding company, which holds approximately 28.9% of the common stock at June 30, 2004, and for which a shareholder and director of the Company may be deemed beneficial owner by virtue of his voting power.

Assuming IFISA exercises its conversion rights of all of the Convertible Notes and warrants of the Company and no exercise of such rights by any of the other bondholders, IFISA would own 56.2 % of the common shares of the Company. In the case all bondholders exercise their conversion rights and warrants and IFISA exercises them as well, IFISA would own 42.9 % of the common stock of the Company.

**9. Stock option plan**

On November 19, 2001, the shareholders approved a Stock Option Plan (the Plan ) relating to the shares that would remain after the shareholders exercised their pre-emptive rights to acquire treasury stock (the Shares ) covering 4,614,643 shares. The Shares could be acquired at an exercise price of Ps. 1 plus interest accrued at an annual rate of LIBO for deposits at 180 days. The option could be exercised at any time within a period of 3 years since the expiration of the pre-emptive rights. Two thirds of the options corresponding to the Shares would be allocated by the Board of Directors among certain executives members of the management of the Company (the Initial Beneficiaries ). The remaining one third of the options would be allocated by the Board of Directors in a period of time beginning six months after the initial allocation and ending three months before the expiration of the term of the exercise of the options, among any of the Company's employees or executive officers. After the exercise of the pre-emptive rights by the shareholders that subscribed 2,353 shares during the third quarter of fiscal year 2002, 4,612,290 shares of treasury stock have been reserved for the Plan.

On February 12, 2002, the Board of Directors approved the subscription of the stock option agreement between the Company and the Initial Beneficiaries (the Agreement ), pursuant to which the Company granted the Initial Beneficiaries the option to acquire 3,073,437 shares at an exercise price of Ps. 1 per share plus accrued interest at an annual rate of LIBO for deposits at 180 days. The option can be exercised at any time until January 15, 2005. Dividends distributed on such shares, if any, will be accumulated and paid to the beneficiaries on the date of exercise. The exercise price should be paid in cash and the Company is precluded to provide financing. The beneficiaries will not lose the right to exercise the option in the case of resignation or involuntary termination in their charges. Pursuant to an agreement dated February 13, 2002, the shares were transferred to a trust. In April and June 2002, the beneficiaries acquired 480,000 shares for a total consideration of Ps. 482,716 (Ps. 612,323 in constant Argentine pesos).



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**9. Stock option plan (continued)**

On December 30, 2002, the Company entered into a stock option agreement pursuant to which the remaining one third of the options, to acquire 1,538,853 shares, were allocated among certain of the Company's executive officers. These options were granted at the same conditions as mentioned above.

During fiscal years 2003 and 2004 the beneficiaries acquired 3,559,853 and 332,437 shares for a total consideration of Ps. 3.6 million and Ps. 0.3 respectively. At June 30, 2004 treasury stock, representing exercisable options, is comprised of 240,000 shares.

**10. Issuance of Convertible Notes**

In October, 2002, the Company issued US\$ 50 million of 8% convertible notes due 2007 ( Convertible Notes ) with non-detachable warrants to acquire additional shares of common stock (the Warrants ) in exchange for US\$ 50 million in cash. In accordance with the agreement, the Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares. The agreement provides for an original conversion price of US\$ 0.5078, which only can be adjusted as a result of anti-dilution provisions. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of US\$ 0.6093 per share. The exercise price of the Warrants is also adjusted as a result of anti-dilution provisions. In accounting for this issuance, no proceeds were allocated to the conversion feature and warrants. Proceeds from the issuance of the Convertible Notes were partially used to the subscription of IRSA Convertible Notes (See Note 4.b (ii)).

The shareholders approved the issuance of the Company's Convertible Notes on March 8, 2002. The CNV and the Buenos Aires Stock Exchange approved the issuance on October 1, 2002.

From February 2003 through June 2003, holders of approximately US\$ 0.2 million of the Company's Convertible Notes exercised their conversion rights and, as a result, the Company issued 386,140 shares of common stock. During the fiscal year 2004, holders of approximately US\$ 6.7 million of the Company's Convertible Notes exercised their conversion rights and, as a result, the Company issued 13,136,577 additional shares of common stock. In addition, 6,583,985 of warrants were exercised during the fiscal year 2004, resulting in the issuance of 12,965,710 common shares, for a total consideration of Ps. 23.1 million. At June 30, 2004 the outstanding balance of the Company's Convertible Notes amounted to US\$ 43.1 million.

**11. Segment information**

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The Company is required to disclose segment information in accordance with RT 18. RT 18 establishes standards for reporting information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. The statement also establishes standards for related disclosures about a company's products and services, geographical areas and major customers.

The Company is primarily engaged in agricultural operations, which are subject to risk, including market prices, weather conditions and environmental concerns. The Company is not in the land sales and development business; however, it does from time to time sell properties to profit from real estate appreciation opportunities and which, in the judgment of management, are surplus to the Company's primary operations. Gain on the sale of properties is presented in a separate line within operating income in the statement of income.

F-29

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**11. Segment information (continued)**

The Company conducts business in four business segments, organized primarily on a product line basis, with each segment offering a variety of different but related products. The Crops segment includes the planting and harvesting and sale of fine and coarse grains and oilseeds, including wheat, corn, soybeans and sunflowers. The Beef Cattle segment consists of the raising and fattening of beef cattle from its own stock and the acquisition and fattening of beef cattle for sale to meat processors. The Company only sells live beef cattle and the Company is not engaged in any slaughtering activities. The Milk segment consists of the production of milk for sale to dairy companies. Others segment consists of forest-related production activities encompassing the production of charcoal and fence posts. The Company evaluates the performance of its business segments based on gross profit less selling expenses. Accounting policies of the four reportable segments are the same as those described in the summary of significant accounting policies. Intercompany transactions between segments, if any, are eliminated. The Company's principal operations and markets are located in Argentina, the country of domicile. See Note 15.II.d, for a discussion of significant customers. Financial information for each segment follows:

Year ended June 30, 2004:

	<u>Crops</u>	<u>Beef Cattle</u>	<u>Milk</u>	<u>Others (i)</u>	<u>Total</u>
Sales.	Ps. 26,921,690	Ps. 27,370,418	Ps. 3,191,948	Ps. 4,786,930	Ps. 62,270,986
Cost of sales	(15,405,391)	(21,140,135)	(1,307,963)	(1,123,049)	(38,976,538)
Inventory holding gain		1,842,021	388,308		2,230,329
Selling expenses	(2,892,622)	(1,256,640)		(753,803)	(4,903,065)
<b>Segment gain</b>	<b>8,623,677</b>	<b>6,815,664</b>	<b>2,272,293</b>	<b>2,910,078</b>	<b>20,621,712</b>
<b>Depreciation</b>	<b>(1,508,431)</b>	<b>(1,020,808)</b>	<b>(178,341)</b>	<b>(513,839)</b>	<b>(3,221,419)</b>
Operating assets (ii)	105,450,881	127,083,455	8,584,104	28,757,975	269,876,415
Non operating assets (ii)					376,202,597
<b>Total assets</b>					<b>646,079,012</b>

Year ended June 30, 2003:

Sales.	Ps. 50,167,010	Ps. 17,311,212	Ps. 2,414,992	Ps. 2,056,625	Ps. 71,949,839
Cost of sales	(39,425,551)	(8,746,014)	(1,483,172)	(1,387,410)	(51,042,147)
Inventory holding gain		11,240,614	984,199		12,224,813
Selling expenses	(4,417,099)	(1,234,975)	(13,313)	(379,922)	(6,045,309)
<b>Segment gain</b>	<b>6,324,360</b>	<b>18,570,837</b>	<b>1,902,706</b>	<b>289,293</b>	<b>27,087,196</b>
<b>Depreciation</b>	<b>(1,373,437)</b>	<b>(1,266,970)</b>	<b>(186,021)</b>	<b>(255,423)</b>	<b>(3,081,851)</b>
Operating assets (ii)	87,229,900	137,093,488	9,352,966	5,460,091	239,136,445
Non operating assets (ii)					328,646,644
<b>Total assets</b>					<b>567,783,089</b>





**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**11. Segment information (continued)**Year ended June 30, 2002:

	<u>Crops</u>	<u>Beef Cattle</u>	<u>Milk</u>	<u>Others (i)</u>	<u>Total</u>
Sales	Ps.47,196,604	Ps.27,609,516	Ps.2,258,210	Ps.3,189,850	Ps.80,254,180
Cost of sales	(13,817,006)	(22,778,110)	(3,561,830)	(2,122,473)	(42,279,419)
Inventory holding gain (loss)	754,325	(18,201,807)	(2,090,656)	(64,872)	(19,603,010)
Selling expenses	(7,442,039)	(1,811,262)	(9,994)	(984,721)	(10,248,016)
<b>Segment gain (loss)</b>	<b>26,691,884</b>	<b>(15,181,663)</b>	<b>(3,404,270)</b>	<b>17,784</b>	<b>8,123,735</b>
<b>Depreciation</b>	<b>(1,488,188)</b>	<b>(1,442,665)</b>	<b>(300,806)</b>	<b>(269,790)</b>	<b>(3,501,449)</b>
Operating assets (ii)	80,191,037	118,051,928	12,956,560	5,530,319	216,729,844
Non operating assets (ii)					163,148,571
<b>Total assets</b>					<b>379,878,415</b>

- (i) Others segment consists of forest-related production activities encompassing the production of charcoal and fence posts and leases. For the years ended June 30, 2004, 2003 and 2002, others also include certain developing stage activities primarily consisting of the Company's online investment initiatives related to www.fyo.com web site.
- (ii) Identifiable operating assets represent assets on hand at year-end which are allocable to a particular segment either by their direct use or by allocation when used jointly by two or more segments. General corporate assets, included as non-operating assets, consist principally of cash and cash equivalents, temporary investments, certain other receivables and property and equipment used in general corporate business.

**12. Income tax**

As described in Note 3.k) the Company accounts for income tax using the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

Income tax expense for the years ended June 30, 2004, 2003 and 2002 consists of the following:

<u>2004</u>	<u>2003</u>	<u>2002</u>
-------------	-------------	-------------

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Current income tax expense	Ps. 4,802,052	Ps. 6,575,567	Ps. 8,513,728
Deferred income tax expense	3,463,843	4,022,688	10,310,284
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Income tax expense</b>	<b>Ps. 8,265,895</b>	<b>Ps. 10,598,255</b>	<b>Ps. 18,824,012</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>

F-31

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**12. Income tax (continued)**

Income tax expense for the years ended June 30, 2004, 2003 and 2002 differed from the amounts computed by applying the Company's statutory income tax rate to pre-tax income (loss) as a result of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Income tax expense (benefit) at statutory tax rate on pretax income (loss)	Ps. 14,079,680	Ps. 26,389,710	Ps. (8,125,935)
Donations	(30,674)	573,423	15,853
Inflation adjustment	(6,987,075)	(18,300,166)	28,688,009
Gain (loss) from related companies	765,083	1,894,655	(1,066,842)
Other	438,881	40,633	(687,073)
<b>Income tax expense</b>	<b>Ps. 8,265,895</b>	<b>Ps. 10,598,255</b>	<b>Ps. 18,824,012</b>

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at June 30, 2004 and 2003 are presented below:

	<u>2004</u>	<u>2003</u>
Other receivables	Ps. 9,941	Ps. (503,983)
Property and equipment	(13,522,640)	(13,020,300)
Inventories	(12,634,376)	(11,234,907)
Tax loss carryforwards	2,224,649	2,257,115
Unrealized/realized holding gain on current investments	(1,220,989)	(2,706)
Deferred financing costs		(497,810)
Exchange rate differences on cash and banks		249,611
Provisions and others	(1,069,802)	3,606
<b>Net deferred tax liability</b>	<b>Ps. (26,213,217)</b>	<b>Ps. (22,749,374)</b>

In assessing the recoverability of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Based on the current expiration period of tax loss carryforwards (5 years), the ultimate realization of a portion of deferred income tax assets for income tax purposes is considered more likely than not.

As of June 30, 2004 the Company and its subsidiaries had accumulated income tax loss carryforwards of approximately Ps. 2.2 million, which, on an individual entity basis, may be offset against future years' taxable income in accordance with income tax law. Such tax loss carryforwards expire at various dates through 2008.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**13. Earnings per share**

The following tables set forth the computation of basic and diluted net income (loss) per common share under Argentine GAAP for all periods presented:

	Year ended June 30,		
	2004	2003	2002
<b>Numerator:</b>			
Net income (loss) available to common shareholders	Ps. 32,103,022	Ps. 65,024,961	Ps. (41,692,085)
Plus (less): income (loss) impact of assumed conversions:			
Interest expense on Convertible Notes	10,589,741	6,965,029	
Foreign currency exchange gain	7,501,875	(36,195,969)	
Income tax effects	(5,905,554)	9,541,706	
Management fee	(1,218,606)	1,968,923	
Net income (loss) available to common shareholders plus assumed conversions	Ps. 43,070,478	Ps. 47,304,650	Ps. (41,692,085)
<b>Denominator:</b>			
Weighted-average number of shares outstanding	137,137,783	121,388,429	119,748,872
Plus: incremental shares of assumed conversions:			
Stock options (i)	357,229	2,245,704	
Warrants	92,571,672	61,506,904	
Convertible Notes	91,147,708	61,385,629	
Adjusted weighted-average number of shares	321,214,392	246,526,666	119,748,872
<b>Basic and diluted EPS:</b>			
Basic net income (loss) per common share	Ps. 0.23	Ps. 0.54	Ps. (0.35)
Diluted net income (loss) per common share	0.13	0.19	(0.35)

- (i) The calculation of diluted net loss per common share for the years ended June 30, 2002 excludes potential common shares related to the stock option plan because the effect of their inclusion would be anti-dilutive, or would decrease the reported loss per share.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**14. Supplementary cash flow information**

The following table reconciles the balances included as cash and banks and current investments in the consolidated balance sheet to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the consolidated statements of cash flows:

	As of June 30,		
	2004	2003	2002
Cash and banks	Ps. 12,672,024	Ps. 16,995,803	Ps. 44,336,454
Current investments	1,547,433	5,459,835	94,461
<b>Total cash and banks and current investments as per balance sheet</b>	<b>14,219,457</b>	<b>22,455,638</b>	<b>44,430,915</b>
Less: Items not considered cash and cash equivalents			
- Government bonds	(97,726)	(103,095)	(86,857)
- Mutual funds			(4,520)
- Interest of IRSA Convertible Notes	(1,388,504)	(1,422,315)	
<b>Cash and cash equivalents as shown in the statement of cash flows</b>	<b>Ps. 12,733,227</b>	<b>Ps. 20,930,228</b>	<b>Ps. 44,339,538</b>

**15. Differences between Argentine GAAP and US GAAP**

The consolidated financial statements of the company have been prepared in accordance with Argentine GAAP and the regulations of the CNV, which differ in certain significant respects from US GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and the regulations of the SEC.

As discussed in Notes 2.c) and 3.k), in order to comply with regulations of the CNV, the Company discontinued inflation accounting as from March 1, 2003 as well as recognized deferred income tax assets and liabilities on a non-discounted basis. The application of these CNV regulations represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on the accompanying consolidated financial statements.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****I. Differences in measurement methods**

The following reconciliation to US GAAP does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation through February 28, 2003, because the application of this standard represents a comprehensive measure of the effects of price level changes in the Argentine economy.

The principal differences, other than inflation accounting, between Argentine GAAP and US GAAP are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

	Year ended June 30,		
	2004	2003 (Restated)	2002 (Restated)
<b>Reconciliation of net income (loss):</b>			
<b>Net income (loss) under Argentine GAAP</b>	<b>Ps. 32,103,022</b>	<b>Ps. 65,024,961</b>	<b>Ps. (41,692,085)</b>
<b>US GAAP adjustments:</b>			
Change to equity method of accounting (Note 15.I.b))	(23,766,285)	(814,539)	(102,794,594)
Valuation of inventories (Note 15.I.c))	(3,730,519)	(11,902,809)	15,440,005
Deferred income tax (Note 15.I.d))	4,319,955	7,951,304	(36,049,617)
Website development costs (Note 15.I.f))	352,593	470,122	470,122
Amortization expense (Note 15.I.h))	(33,229)	(33,229)	(33,229)
Elimination of gain on acquisition of minority interest (Note 15.I.i))	32,369	32,369	32,369
Available-for-sale securities (Note 15.I.j))	9,992	(21,034)	250,735
Non-current investments in unconsolidated affiliated companies (Note 15.I.k))	117,788	115,460	84,896
Accounting for stock options (Note 15.I.l))	(560,205)	(2,508,565)	(4,064,010)
Accounting for convertible notes (Note 15.I.m))	(8,654,148)	(13,866,884)	
Effect of US GAAP adjustments on management fee (Note 15.I.n))	3,201,747	2,071,885	12,406,678
Minority interest (Note 15.I.o))	(105,778)	(141,037)	(141,040)
<b>Net income (loss) under US GAAP</b>	<b>Ps. 3,287,302</b>	<b>Ps. 46,378,004</b>	<b>Ps. (156,089,770)</b>
<b>Earnings per share under US GAAP (Note 15.II.f):</b>			
Basic net income (loss) per common share	Ps. 0.02	Ps. 0.38	Ps. (1.30)
Diluted net income (loss) per common share	Ps. 0.02	Ps. 0.19	Ps. (1.30)





**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****I. Differences in measurement methods (continued)**

	As of June 30,	
	2004	2003 (Restated)
<b>Reconciliation of shareholders equity:</b>		
<b>Total shareholders equity under Argentine GAAP</b>	<b>Ps. 465,168,196</b>	<b>Ps. 391,799,125</b>
<b>US GAAP adjustments:</b>		
Change to equity method of accounting (Note 15.I.b))	(132,013,524)	(113,301,881)
Valuation of inventories (Note 15.I.c))	(30,368,537)	(26,638,018)
Deferred income tax (Note 15.I.d))	(27,595,911)	(31,919,361)
Web site development costs (Note 15.I.f))		(352,593)
Differences in basis relating to purchase accounting (Note 15.I.g))	166,150	166,150
Amortization expense (Note 15.I.h))	(225,305)	(192,076)
Elimination of gain on acquisition of minority interest (Note 15.I.i))	(1,202,899)	(1,235,268)
Non-current investments in unconsolidated affiliated companies (Note 15.I.k))	(989,402)	(1,107,190)
Accounting for convertible notes (Note 15.I.m))	27,077,937	35,732,085
Effect of US GAAP adjustments on management fee (Note 15.I.n))	22,494,813	19,293,066
Minority interest (Note 15.I.o))		105,778
<b>Shareholders equity under US GAAP</b>	<b>Ps. 322,511,518</b>	<b>Ps. 272,349,817</b>
	Year ended June 30,	
	2004	2003 (Restated)
<b>Description of changes in shareholders equity under US GAAP:</b>		
<b>Shareholders equity at the beginning of the year</b>	<b>Ps. 272,349,817</b>	<b>Ps. 185,224,157</b>
Distribution of cash dividends	(1,500,000)	
Exercise of warrants par value	12,965,710	
Conversion of notes into common shares par value	13,136,577	386,140
Additional paid-in-capital-common shares	16,229,499	57,414
Additional paid-in-capital-warrants	101,826	149,484
Additional paid-in-capital-stock options	560,205	2,508,565
Additional paid-in-capital-beneficial conversion feature		32,318,817

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Exercise of stock options – par value	332,437	3,564,008
Change in other comprehensive income of equity investees	5,054,642	1,749,556
Change in unrealized holding gain on available-for-sale securities outstanding at the end of the year	(6,497)	13,672
Net income under US GAAP	3,287,302	46,378,004
<b>Shareholders' equity as of the end of the year</b>	<b>Ps. 322,511,518</b>	<b>Ps. 272,349,817</b>

F-36

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****I. Differences in measurement methods (continued)****Description of reconciling items:***a) Restatement of the US GAAP reconciliation*

During the year ended June 30, 2004 IRSA, an equity investee of the Company, restated its US GAAP reconciliation footnote as a result of the change in the accounting method for its investment in Banco Hipotecario S.A. shares, from market value to the equity method of accounting. Under Argentine GAAP, the Company recognized the cumulative effect of the change in earnings during fiscal year 2004. Under US GAAP, the financial statements of prior years were retroactively adjusted as required by APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock ( APB No. 18 ), to reflect the investment under the equity method of accounting in a manner consistent with the accounting for a step acquisition of a subsidiary.

The impact of the restatement on previously reported US GAAP amounts of consolidated net income (loss) for the years ended June 30, 2003 and 2002 and of consolidated shareholders' equity as of June 30, 2003 is presented in the following table:

	2003		2002
	Shareholders Equity	Net income	Net loss
Amounts as previously reported	Ps. 294,261,998	Ps. 37,373,222	Ps. (124,646,942)
Change to equity method of accounting	(23,516,943)	9,655,127	(33,713,699)
Effect of US GAAP adjustments on management fee	2,468,864	(1,000,531)	3,493,648
Deferred income tax	(864,102)	350,186	(1,222,777)
Amounts as restated	Ps. 272,349,817	Ps. 46,378,004	Ps. (156,089,770)

The effect of this restatement on previously reported US GAAP amounts of comprehensive income (loss) for the years ended June 30, 2003 and 2002 and of accumulated other comprehensive income at June 30, 2003 is as follows:

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	<u>2003</u>		<u>2002</u>
	<u>Accumulated other comprehensive income</u>	<u>Comprehensive Income</u>	<u>Comprehensive loss</u>
Amounts as previously reported	Ps. 907,239	Ps. 38,828,855	Ps. (125,360,392)
Amounts as restated	1,214,834	48,141,232	(156,803,220)

F-37

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****I. Differences in measurement methods (continued)***a) Restatement of the US GAAP reconciliation (continued)*

The effect of this restatement on the amounts of basic and diluted net income (loss) per share reported under US GAAP for the year ended June 30, 2003 and 2002 is as follows:

	<u>As previously reported</u>	<u>As restated</u>
Basic net income per share for the year ended June 30, 2003	Ps. 0.31	Ps. 0.38
Diluted net income per share for the year ended June 30, 2003	0.14	0.19
Basic net loss per share for the year ended June 30, 2002	(1.04)	(1.30)
Diluted net loss per share for the year ended June 30, 2002	(1.04)	(1.30)

*b) Change to equity method of accounting*

As stated in Note 4.b(i), until March 31, 2002, under Argentine GAAP the Company recognized its investments in IRSA's shares at market value, with unrealized gains and losses recorded in income. Under US GAAP, these investments were originally classified as available-for-sale securities in accordance with Statements of Financial Accounting Standards N° 115 ( SFAS 115 ), Accounting for Certain Investments in Debt and Equity Securities , and accordingly unrealized gains and losses were excluded from income and reported as a separate component of shareholders' equity.

Effective March 31, 2002, as a result of a change in the Company's strategy to hold such shares as permanent investments, under Argentine GAAP the Company changed the accounting method for its investment in IRSA's shares from market value to the equity method of accounting. As a result, at March 31, 2002 the Company recognized a negative goodwill of Ps. 15.4 million, representing the excess of fair value of net assets acquired over market value of the shares at that date. Negative goodwill is being amortized under the straight-line method over a period of 20 years. Under US GAAP, the financial statements of prior periods would be retroactively adjusted as required by APB 18 (APB Opinion N° 18 ( APB 18 ), The Equity Method of Accounting for Investments in Common Stock ), to reflect the investment under the equity method of accounting in a manner consistent with the accounting for a step acquisition of a subsidiary. The amounts previously reported in accordance with SFAS No. 115 in other comprehensive income would be reversed. As a result, as the sum of the amounts assigned to the assets acquired and liabilities assumed exceeded the cost of the acquired entity, the Company reduced the amounts that otherwise would have been assigned to the acquired long-lived assets on a pro-rata basis and therefore no negative goodwill exists under US GAAP. This adjustment also considers the impact of US GAAP adjustments on the Company's equity investment in IRSA.

As described in Note 4.b)(i), during the year ended June 30, 2004 the Company acquired an additional 2.8% equity interest in IRSA, resulting in an increase of negative goodwill for a total consideration of Ps. 5.8 million. Under US GAAP, the acquisition was recorded as a step acquisition of a subsidiary. Since the fair value of the net assets acquired exceeded the consideration paid, the Company reduced the amounts that otherwise would have been assigned to the acquired long-lived assets on a pro-rata basis. The difference primarily relates to the effect of US GAAP adjustments in estimating the fair value of the net assets acquired at the acquisition date.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*c) Valuation of inventories*

Under Argentine GAAP, livestock is recorded at market value, net of expenses, or replacement cost as determined by agricultural appraisers.

Under US GAAP, the Company records breeding and developing livestock at the lower of cost or market, with costs removed from inventory on a first-in/ first-out basis. All direct and indirect costs of developing livestock, such as the purchase price, labor costs, feed, vaccines and veterinary fees are accumulated until the livestock reaches maturity and is either sold or transferred to a productive function. Breeding herd is depreciated using the straight-line method over the estimated useful life of five years.

Under Argentine GAAP, the Company has classified the livestock for dairy production and other purposes not related to its sale as non-current inventory. Under US GAAP, this amount would be recorded as property and equipment on the consolidated balance sheet.

Under Argentine GAAP and US GAAP, inventories of harvested crops are stated at current sales price less cost of disposal. Unharvested crop-growing costs are included as part of inventory and represent costs incurred to plant and maintain seed crops which will be harvested during the subsequent fiscal year. However, under Argentine GAAP, gains or losses on holding inventories are segregated and shown in a separate line within operating income. Under US GAAP, these amounts would be included as part of cost of sales.

*d) Deferred income tax*

As discussed in Note 3.k), the Company records income tax using the liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable. This standard is similar to the principles of US GAAP set forth in Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes .



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However, under Argentine GAAP, the Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes in accordance with Resolution MD No.11/2003 issued by the CPCECABA. Under US GAAP, the Company applies EITF 93-9, Application of FASB Statement No.109 in Foreign Financial Statements Restated for General Price-Level Changes , which requires such differences to be treated as temporary differences in calculating deferred income taxes. In addition, the adjustment includes the effect on deferred income taxes of the foregoing reconciling items, as appropriate.

F-39

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*e) Accounting for futures and options contracts*

As discussed in Note 6, the Company utilizes a variety of commodity-based derivative instruments, as hedges to manage its exposure to price volatility stemming from its integrated crop production activities. These instruments consist mainly of crop futures contracts and put and call option contracts. Contract positions are designated to ensure that the Company will receive a defined minimum price for certain quantities of its production.

As discussed in Note 3.q), under Argentine GAAP the Company's derivative financial instruments are carried at their fair market value on the consolidated balance sheet. Changes in the derivative's fair market value are reported in earnings.

Under US GAAP, the Company applies Statement of Financial Accounting Standards No.133 Accounting for Derivative Instruments and Hedging Activities and subsequent amendments ( SFAS No. 133 ). SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. Under US GAAP, the Company's derivative instruments do not qualify for hedge accounting treatment under SFAS No.133. While management believes each of their instruments manage various market risks, these instruments are not designated and accounted for as hedges under SFAS 133 as a result of the extensive record keeping requirements of the provision. Accordingly, these derivatives are marked to market on a current basis with gains and losses recognized in earnings.

As a result, no differences exist in accounting for derivatives and hedging activities between Argentine GAAP and US GAAP.

*f) Web site development costs*

Under Argentine GAAP, the Company capitalizes certain costs incurred in the development of the Company's web sites. Such costs are amortized under the straight-line method over a period of 3 years.

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Under US GAAP, the Company applies EITF No. 00-02, Accounting for Web Site Development Costs, pursuant to which certain costs incurred during the planning stage as well as costs related to training, administration and other maintenance activities are expensed as incurred. During the years ended June 30, 2004, 2003 and 2002 the Company reversed amortization charges recognized under Argentine GAAP of Ps. 0.4 million, Ps. 0.5 million and 0.5 million, respectively, related to costs that were capitalized under Argentine GAAP and expensed under US GAAP in prior years.

F-40

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*g) Differences in basis relating to purchase accounting*

Under Argentine GAAP and US GAAP, the Company applies the purchase method of accounting to its business acquisitions. During the year ended June 30, 2000, Cresud acquired a 70% equity interest in Futuros y Opciones.Com S.A. ( FYO.Com ), a web-based provider of comprehensive, real-time, financial instrument news and analytic tools. The purchase price was allocated to the net assets acquired, based upon their respective fair market values. Under Argentine GAAP, the excess of the purchase price over the fair value was considered goodwill and is being amortized over 5 years. Under US GAAP, such excess was allocated to the non-compete agreement entered into with the previous owners, which is being amortized over 5 years, the term of the agreement. The US GAAP adjustment for Differences in basis relating to purchase accounting reflects the application of certain US GAAP adjustments when estimating the fair value of such assets and liabilities.

*h) Amortization expense*

The differences in the carrying amount of intangible assets between Argentine GAAP and US GAAP as described in Note 15.I.g) give rise to differences in amortization expense. In addition, there is a difference associated with the timing in recognizing amortization expense between Argentine GAAP and US GAAP.

*i) Elimination of gain on acquisition of minority interest*

Under Argentine GAAP, the Company recorded, during fiscal year 1999, a gain on the acquisition of the minority interest of Agro Riego, representing the excess of book value over the purchase price. Under US GAAP, such excess was recorded as a reduction in the values of the underlying non-current assets of Agro Riego and is being amortized over the estimated useful lives of such assets.

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*j) Available-for-sale securities*

Under Argentine GAAP, investments in mutual funds and government bonds are carried at market value, with unrealized gains and losses recorded in income. Under US GAAP, pursuant to Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ), these investments are classified as available-for-sale securities and, accordingly, unrealized gains and losses are excluded from income and reported as a separate component of shareholders' equity. SFAS No. 115 also states that for individual available-for-sale securities, an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income. As such, during the year ended June 30, 2002 the Company recognized in earnings the accumulated balance of unrealized holding losses on government bonds amounting to Ps.11,042.

Specific identification was used to determine cost in computing realized gain or loss. The Company's investments are considered available-for-sale as these securities could potentially be sold in response to needs for liquidity, changes in the availability of and the yield on alternative instruments or changes in funding sources or terms. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date.

*k) Non-current investments in unconsolidated affiliated companies*

The Company has assessed the impact of US GAAP adjustments for its equity investees. As a consequence of this assessment, the Company has recognized a net gain of Ps. 117,788, Ps. 115,460 and Ps. 84,896 for the years ended June 30, 2004, 2003 and 2002, respectively. The principal US GAAP adjustment affecting the Company's equity investees is related to valuation of inventories.

This adjustment does not include the impact of US GAAP adjustments on IRSA, which is included in the line item Change to equity method of accounting .

*l) Accounting for stock options*

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As discussed in Note 9, on November 19, 2001 the shareholders approved a Stock Option Plan relating to the shares that would remain after the shareholders exercised their pre-emptive rights to acquire treasury stock (the Shares ) covering 4,614,643 shares. The Board of Directors would allocate (i) two thirds of the options among the Initial Beneficiaries, and (ii) the remaining one third of the options among any of the Company's employees or executive officers during a specific period of time. After the exercise of the pre-emptive rights by the shareholders that subscribed 2,353 shares during the third quarter of fiscal year 2002, 4,612,290 shares of treasury stock have been reserved for the Plan.

F-42

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*l) Accounting for stock options (continued)*

On February 12, 2002, the Board of Directors approved the subscription of the Stock Option Agreement between the Company and the Initial Beneficiaries (the Agreement), pursuant to which the Company granted the Initial Beneficiaries the option to acquire 3,073,437 shares at an exercise price of Ps. 1 per share plus accrued interest at an annual rate of LIBO for deposits at 180 days. The option can be exercised at any time until January 15, 2005. Dividends distributed on such shares, if any, are accumulated and paid to the beneficiaries on the date of exercise. The exercise price should be paid in cash and the Company is precluded to provide financing. The beneficiaries will not lose the right to exercise the option in the case of resignation or involuntary termination in their charges. Pursuant to an agreement dated February 13, 2002, the shares were transferred to a trust. In April and June 2002, the beneficiaries acquired 480,000 shares for a total consideration of Ps. 482,716 (Ps. 612,323 in constant Argentine pesos as described in Note 2.c). On December 30, 2002, the Company entered into a stock option agreement pursuant to which the remaining one third of the options, to acquire 1,538,853 shares, were allocated among certain of the Company's executive officers. These options were granted at the same conditions as mentioned above. During fiscal years 2004, 2003 and 2002, the beneficiaries acquired 332,437, 3,559,853 and 480,000 shares for a total consideration of Ps. 332,437, Ps. 3,564,008 and Ps. 612,323 respectively. At June 30, 2004 treasury stock is comprised of 240,000 shares.

Under Argentine GAAP, the Company has not recognized any compensation expense related to the Stock Option Plan. The Company recorded the transfer of treasury shares to common stock at their par value and recognized an increase in retained earnings for the proceeds received from the exercise of the options.

Under US GAAP, the Company applies SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123) and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148). These Statements give the Company the option of either (1) continuing to account for stock-based employee compensation plans in accordance with the guidelines established by Accounting Principles Board No. 25, Accounting for Stock Issued to Employees and related interpretations (APB No.25) while providing the disclosures required under SFAS No. 123, or (2) adopting SFAS No. 123 and SFAS No. 148 accounting for all employee and non-employee stock compensation arrangements. The Company opted to continue to account for its stock-based awards using the intrinsic value method in accordance with APB No. 25. As such, compensation expense for compensatory plans is measured as the quoted market price of the stock on the measurement date less the amount, if any; the employee is required to pay. The measurement date is the first date at which both (a) the number of shares the employee is entitled to receive and (b) the option or purchase price, if any, are known.

The Company has determined that the stock options were granted, in substance, to compensate the management of the Company. As the exercise price increases for a fixed amount (i.e. interest) and dividends distributed on such shares, if any, will be accumulated and paid in cash to the beneficiaries, the ultimate option price is not known until the date of exercise. Therefore, the stock option plan is considered to be a variable plan and the final measurement date is the date of the exercise of the option.





**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*l) Accounting for stock options (continued)*

FASB Interpretation No.28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans states that compensation shall be accrued as a charge to expense over the period or periods the employee performs the related services. If stock appreciation rights or other variable plans are granted for past services, compensation should be accrued as a charge to expense of the period in which the rights or awards are granted. When it is not clear that the award is for current or future services and/or in situations where the shares or rights vest immediately, it should be presumed that the rights represent compensation for the current period or for prior periods. Accordingly, any compensation expense measured as of the grant date should be expensed in the period such rights are granted. Compensation accrued during the service period shall be adjusted in subsequent periods up to the final measurement date for changes in the quoted market value of the shares but shall not be adjusted below zero.

As the options vested immediately at the grant date, the Company charged to expense the total amount of compensation in the periods the rights were granted. Compensation expense recognized during fiscal years 2002, 2003 and 2004 (including subsequent adjustments up to the final measurement date) amounted to Ps. 4,064,010, Ps. 2,508,565 and Ps. 560,205 respectively. Quoted market prices of the Company's shares traded in the Buenos Aires Stock Exchange were used in measuring compensation.

Following is a summary of the stock option activity during fiscal years 2002, 2003 and 2004:

	<u>Shares</u>	<u>Weighted- average exercise price</u>
Outstanding as of June 30, 2001		Ps.
Granted	3,073,437	1.16
Exercised	(480,000)	1.28
Terminated / forfeited		
	<u>2,593,437</u>	<u>Ps. 1.13</u>
Outstanding as of June 30, 2002		
Granted	1,538,853	1.01
Exercised	(3,559,853)	1.02
Terminated / forfeited		

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Outstanding as of June 30, 2003	572,437	Ps. 1.02
Granted		
Exercised	(332,437)	1.04
Terminated / forfeited		
Outstanding as of June 30, 2004	240,000	Ps. 1.05

The weighted-average fair value of options granted during fiscal years 2002 and 2003 was Ps.1.45 and Ps. 1.70, respectively.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**  
**Notes to the Consolidated Financial Statements (continued)**  
(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****I. Differences in measurement methods (continued)**l) *Accounting for stock options (continued)*

The following table summarizes information concerning currently outstanding and exercisable stock options:

Exercise Price	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Number outstanding	Weighted-average Remaining Contractual life	Weighted-average exercise price	Number Exercisable	Weighted-average exercise price
Ps. 1.05	240,000	0.5 years	Ps. 1.05	240,000	Ps. 1.05

Had compensation cost for the awards under the Agreement been determined based on the grant date fair values consistent with the method required under SFAS No 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts indicated below:

	Year ended June 30, 2004	Year ended June 30, 2003 (Restated)	Year ended June 30, 2002 (Restated)
Basic net income (loss):			
As reported	Ps. 3,287,302	Ps. 46,378,004	Ps. (156,089,770)
Pro forma	3,835,722	46,276,675	(156,495,952)
Basic net income (loss) per share:			
As reported	Ps. 0.02	Ps. 0.38	Ps. (1.30)
Pro forma	0.03	0.38	(1.31)
Diluted net income (loss):			
As reported	Ps. 3,287,302	Ps. 37,064,043	Ps. (156,089,770)
Pro forma	3,835,722	39,962,714	(156,495,952)

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Diluted net income per share:

As reported	Ps.	0.02	Ps.	0.19	Ps.	(1.30)
Pro forma		0.03		0.19		(1.31)

The fair value of each option grant was estimated on the date of grant using the minimum value model with the following weighted average assumptions used: no dividend yield; volatility of 40.0% and 58.7% for the years 2002 and 2003, respectively, and risk free interest rates of 1.11% and 2.06% for the years 2002 and 2003, respectively.

*m) Accounting for convertible notes*

As discussed in Note 10, in October 2002 the Company issued US\$ 50 million of Convertible Notes with non-detachable warrants to acquire additional shares of common stock. In accordance with the agreement, the Convertible Notes are convertible at any time, at the option of the holder, into a fixed number of common shares. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of the warrant. For Argentine GAAP purposes, no proceeds were allocated to the conversion feature and non-detachable warrants.

F-45

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**I. Differences in measurement methods (continued)**

*m) Accounting for convertible notes (continued)*

Under US GAAP, the Company applied EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF No. 00-27), which address how a beneficial conversion amount should be measured when an entity issues a convertible instrument that, if converted, will result in the holder receiving common stock and other equity instruments of the issuer, such as warrants to acquire common stock of the issuer. In EITF No. 00-27, the Task Force reached a tentative conclusion that the intrinsic value of the conversion option should be computed based on a comparison of (a) the proceeds of the convertible instrument allocated to the common stock portion of the conversion option and (b) the fair value at the commitment date of the common stock to be received by the holder upon conversion. The excess of (b) over (a) is the intrinsic value of the embedded conversion option that should be recognized by the issuer at the issuance date for the convertible instrument. In EITF No. 00-27 the Task Force also reached a consensus that the Issue 98-5 model should be modified for convertible instruments that have a stated redemption date to require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs. EITF 00-27 also states that the entire unamortized discount, if any, remaining at the date of conversion should be immediately recognized as interest expense. As a result of applying EITF 00-27, under US GAAP the Company allocated Ps. 49.4 million of the proceeds received, representing the intrinsic value of the embedded beneficial conversion feature at the commitment date, to additional paid-in capital (Ps. 32.3 million net of income tax). The resulting debt discount is being recognized as expense over the term of the Convertible Notes. Upon conversion, warrants are recognized as additional paid-in capital and any unamortized discount is immediately recognized as interest expense. Discount amortization recognized during the years ended June 30, 2003 and 2004 totaled Ps. 3.5 million and Ps. 9.8 million, respectively. These amounts include Ps. 0.2 million and Ps. 4.8 million of accelerated amortization recognized as a result of conversions made during those years, respectively. As the Company's Convertible Notes are denominated in U.S. Dollars, the US GAAP adjustment also includes the elimination of exchange rate differences between the Argentine peso and the U.S. Dollar related to the debt discount. Foreign exchange gains (losses) reversed under US GAAP totaled Ps. 10.2 million and Ps. (1.2) million during the years ended June 30, 2003 and 2004, respectively. The Company also recognized a loss of 0.2 million during the year ended June 30, 2003 related to inflation adjustment.

During the years ended June 30, 2003 and 2004 certain holders of the Company's Convertible Notes for a total amount of US\$ 6.9 million, exercised its conversion rights and, as a result, the Company issued 386,140 and 13,136,577 shares of common stock, respectively. Upon conversion, the Company issued US\$ 6.9 million of warrants, of which 6.6 million had been exercised at June 30, 2004. As a result of the conversions and exercises of warrants, under US GAAP the Company has reclassified a net amount of Ps. 251,310 million from additional paid-in capital to additional paid-in capital of warrants.

*n) Effect of US GAAP adjustments on management fee*

As discussed in Note 8, the Company entered into a Management Agreement with Dolphin Fund Management S.A, pursuant to which Dolphin Fund Management S.A provides agricultural advisory services and certain other administration services to the Company. The Company pays

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Dolphin Fund Management S.A an annual fee equivalent to 10% of the after-tax net income of the Company for these services. The reconciliation to US GAAP includes the effects of the US GAAP adjustments on management fee.

*o) Minority interest*

This adjustment represents the effect on minority interest of certain of the foregoing reconciling items.

F-46

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements**

*a) Statement of income classification differences*

*Gross profit*

Under Argentine GAAP, gains or losses on holding inventories are segregated and shown in a separate line within operating income. Under US GAAP, these amounts would be included as part of cost of sales. Gross profit under US GAAP would have been Ps. 24.9 million, Ps. 33.1 million and Ps. 18.4 million for the years ended June 30, 2004, 2003 and 2002, respectively.

*Gross revenue tax*

Under Argentine GAAP, only returns and other allowances should be deducted from net sales, while direct taxes and other costs directly associated with sales should be presented as operating costs, i.e. gross revenue taxes.

Under US GAAP, direct taxes and other costs directly associated with sales should be deducted from revenues. Net sales under US GAAP would have been Ps. 61.6 million, Ps. 71.9 million and Ps. 80.2 million for the years ended June 30, 2004, 2003 and 2002, respectively.

*Operating income (loss)*

Under Argentine GAAP, the Company reflected gains on the sale of farms as a separate line within operating income; under US GAAP, such gains would be included as other income. Operating income (loss) under US GAAP would have been Ps. 14.7 million, Ps. 22.8 million and Ps. (0.2) million for the years ended June 30, 2004, 2003 and 2002, respectively.

*b) Statement of changes in shareholders' equity classification differences*

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During the year ended June 30, 1999, the Company acquired 12,612,220 treasury shares for a total consideration of Ps. 33.1 million, of which 7,997,577 were subsequently distributed to the Company's shareholders on a pro-rata basis. As discussed in Note 9, during the year ended June 30, 2002, the shareholders subscribed 2,353 treasury shares for a total consideration of Ps. 3,916. In addition, during fiscal years 2002, 2003 and 2004 certain beneficiaries of the Stock Option Plan exercised their stock option rights and acquired 480,000, 3,559,853 and 332,437 treasury shares for a total consideration of Ps. 0.6 million, Ps. 3.6 million and Ps. 0.3 million, respectively.

Under Argentine GAAP, the Company recorded the acquisition of treasury stock as a reduction in retained earnings and recognized increases in retained earnings for the subsequent re-issuances. Under US GAAP, treasury stock transactions would be accounted for under the cost method.

F-47



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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*c) Disclosure about fair value of financial instruments*

Under Argentine GAAP, there are no specific rules regarding disclosure of fair value of financial instruments.

Under US GAAP Statement of Financial Accounting Standards No. 105, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of credit risk ( SFAS No. 105 ), requires reporting entities to disclose certain information about financial instruments with off-balance sheet risk of accounting loss. Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments , ( SFAS No. 107 ), requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Financial instruments include such items as to cash and cash equivalents, investments in debt and equity securities, accounts receivable and other instruments. Statement of Financial Accounting Standards No. 119, Disclosure about Derivative Financial Instruments and fair value of Financial Instruments ( SFAS 119 ), requires reporting entities to disclose certain information for derivative financial instruments. SFAS No.133 superseded SFAS No. 105 and SFAS No. 119 and amended SFAS No. 107 to include in SFAS No. 107 the disclosure requirements of credit risk concentrations from SFAS No. 105. See Note 15.II.d), for details of concentration of credit risk.

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgements made regarding risk characteristics of various financial instruments, prepayments, discount rates, estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company's fair values should not be compared to those of other companies.

Under this statement, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amount presented does not represent the underlying value of the Company. For certain assets and liabilities, the information required under this statement is supplemental with additional information relevant to an understanding of the fair value.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,**

**Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*c) Disclosure about fair value of financial instruments (continued)*

The methods and assumptions used to estimate the fair values of each class of financial instruments as of June 30, 2004 and 2003 are as follows:

The fair value of certain financial assets carried at cost, including cash, accounts receivable, deposits and other short-term receivables is considered to approximate their respective carrying values due to their short-term nature.

The fair value of trade accounts payable and other short-term liabilities is considered to approximate their carrying values due to their short-term nature.

The Company carries available for-sale-securities, consisting of investments in mutual funds and government bonds at fair value. The fair value of these instruments was determined using quoted market prices.

Derivates financial instruments are reported at their fair values on the consolidated balance sheets. The fair values are based upon quoted market prices or estimated future prices including estimated carrying costs corresponding with the future delivery period, if any.

The fair value of short-term debt is considered to approximate its carrying value due to its short-term nature.

The fair value of the long-term note receivables is considered to approximate its carrying value due to its variable interest rate.

The fair value of the Company's Convertible Notes was Ps. 9.5 million and Ps. 6.9 million at June 30, 2004 and 2003, respectively. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end plus the estimated fair value of the warrants that should be issued by the Company upon conversion.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*d) Concentration of credit risk*

Financial instruments that potentially expose the Company to concentrations of credit risk consist mainly of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents principally in domestic financial institutions and investments of high credit rating. The Company's policy is designed to limit exposure to any one institution. As of June 30, 2004 and 2003, approximately Ps. 12.1 million and Ps. 13.3 million included in the cash balances were held with 20 and 18 institutions, respectively. The Company has not experienced any significant losses in such accounts.

The Company's accounts receivable are derived primarily from sales of crops to independent purchasers, live beef cattle to local meat processing companies and milk products to domestic dairy companies. The Company performs credit evaluations of its customers and generally does not require collateral. The Company does not believe that significant credit risk exists at June 30, 2004 and 2003 due to the diversity of its customer base. No customer accounted for greater than 10% of sales for the years ended June 30, 2004, 2003 and 2002.

Mastellone S.A. ( Mastellone ) is the only customer of milk production of the Company. Mastellone is the largest dairy company in Argentina. Sales to Mastellone totaled approximately 5.3%, 3.4% and 2.8% of total net sales and amounted to approximately Ps. 3.2 million, Ps. 2.4 million and Ps. 2.3 million for the years ended June 30, 2004, 2003 and 2002, respectively. Although management believes that the Company will be able to continue to sell its milk production to Mastellone on favorable terms, there can be no assurance that the Company would be able to maintain this relationship. Although management believes that other large dairy producers would be willing and able to purchase the Company's milk production, there can be no assurance that the Company could timely locate alternative customers to sell its products at prices comparable to those paid by its current major customers.

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****II. Additional disclosure requirements (continued)***e) Statements of cash flows*

Under Argentine GAAP, the Company is required to present the statements of cash flows in the primary financial statements in accordance with RT 9, as amended. Guidance set forth in RT 9 (as amended) is similar to the guidelines set forth in SFAS No. 95.

As described in Note 3.b), the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. As a result, no differences exist between cash flows reported in the primary financial statements and cash flows that would be reported in a statement of cash flows prepared using US GAAP numbers. However, as discussed further below, certain differences do exist between cash flows from operating, investing and financing activities reported in the primary financial statements and cash flows from operating, investing and financing activities that would be reported in a statement of cash flows prepared using US GAAP numbers.

Under US GAAP, the total amounts of cash and cash equivalents at the end of the years shown in the consolidated statements of cash flows are required to be the same amounts as similarly titled line items shown in the consolidated balance sheets, as of those dates. Note 14 to the consolidated financial statements includes a reconciliation between the balances included as cash and banks in the consolidated balance sheets to the total amounts of cash and cash equivalents at the end of the years shown in the consolidated statements of cash flows.

Under Argentine GAAP, the effect of exchange rate changes and the effect of inflation on cash and cash equivalents were not disclosed by presenting additional cash flow statement categories as required by US GAAP. As a result, differences exist between cash flows reported in the primary financial statements and cash flows that would be reported in a statement of cash flows prepared using US GAAP numbers. The following table presents the cash flows from operating, investing and financing activities as well as the effects of exchange rate changes and inflation accounting on cash and cash equivalents that would be reported in the statement of cash flows under US GAAP.

	<b>Year ended June 30,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net cash (used in) provided by operating activities	Ps. (1,604,898)	Ps. 20,222,339	Ps. 25,533,892
Net cash (used in) provided by investing activities	(24,534,630)	(200,483,159)	33,791,076
Net cash provided by (used in) financing activities	16,670,247	165,644,376	(21,543,906)
Effects of exchange rate changes	1,272,280	(13,656,319)	254,352



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*f) Earnings per share*

As described in Note 3.s), under Argentine GAAP the Company is required to disclose earnings per share information in accordance with RT 18 for all periods presented. Note 13 to the consolidated financial statements disclose the computation of basic and diluted net income (loss) per common share under Argentine GAAP Guidance set forth in RT 18 is similar to the basic principles set forth in SFAS No. 128 Earnings per Share (SFAS No.128).

Under US GAAP, basic and diluted earnings per share are presented in conformity with SFAS No. 128 and SEC Staff Accounting Bulletin No. 98 ( SAB No. 98 ) for all years presented. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 98, ordinary shares and convertible preferred shares issued or granted for nominal consideration prior to the anticipated effective date of an initial public offering must be included in the calculation of basic and diluted earnings per share as if they had been outstanding for all periods presented. To date, the Company has not had any issuance or grants for nominal consideration.

As disclosed in Note 13, in calculating diluted net income per common share under Argentine GAAP for the year ended June 30, 2003 and 2004, the Company has considered the dilutive effects of outstanding stock options and warrants, but not using the treasury-stock method as required by US GAAP. Using the treasury-stock method, the weighted-average number of potential common stock during the years ended June 30, 2003 and 2004 would have been 72,846,801 shares and 133,537,636 shares, respectively. Diluted net income per common share under Argentine GAAP for the years ended June 30, 2003 and 2004, using the treasury-stock method, would have been Ps. 0.24 and Ps. 0.16, respectively. The calculation of diluted net loss per common share for the year ended June 30, 2002 excludes potential common shares because the effect of their inclusion would be anti-dilutive, or would decrease the reported loss per share. Using the treasury-stock method, the weighted-average potential common shares for the year ended June 30, 2002 totaled 1,150,481.

The following tables set forth the computation of basic and diluted net income (loss) per common share under US GAAP for all periods presented:

Year ended June 30,		
2004	2003	2002
	(Restated)	(Restated)

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<b>Numerator:</b>			
Net income (loss) available to common shareholders	Ps.3,287,302	Ps. 46,378,004	Ps. (156,089,770)
Plus (less): income (loss) impact of assumed conversions:			
Interest expense on convertible debt		10,430,929	
Foreign currency exchange gain		(25,794,985)	
Income tax effects		5,015,210	
Management fee		1,034,885	
Net income (loss) available to common shareholders plus assumed conversions	Ps.3,287,302	Ps. 37,064,043	Ps. (156,089,770)

F-52

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****II. Additional disclosure requirements (continued)***f) Earnings per share (continued)*

	Year ended June 30,		
	2004	2003	2002 As restated
<b>Denominator:</b>			
Weighted-average number of shares outstanding	137,137,783	121,388,429	119,748,872
Plus: incremental shares of assumed conversions:			
Stock options (i)		1,200,395	
Warrants (i)		10,260,777	
Convertible Notes		61,385,629	
	137,137,783	194,235,230	119,748,872
<b>Basic and diluted EPS:</b>			
Basic net income (loss) per common share	Ps. 0.02	Ps. 0.38	Ps. (1.30)
Diluted net income (loss) per common share (ii)	0.02	0.19	(1.30)

- (i) Potential common shares related to the stock options and warrants have been calculated using the treasury-stock method as required by US GAAP.
- (ii) The calculation of diluted net income (loss) per common share under US GAAP for the years ended June 30, 2004 and 2002 excludes potential common shares because the effect of their inclusion would be anti-dilutive.

*g) Segment information*

As described in Note 11, the Company is required to disclose segment information in accordance with RT 18. Guidance set forth in RT 18 is similar to the guidelines set forth in SFAS No. 131 Disclosures About Segments of an Enterprise and Related Information. As a result, no additional information is presented in this reconciliation footnote.

*h) Risks and uncertainties*



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Fresh produce is vulnerable to adverse weather conditions including windstorms, floods, drought and temperature extremes, which are quite common but difficult to predict. Fresh produce is also vulnerable to crop and beef cattle diseases and pests. These factors may result in lower sales volume and increased costs, but may also restrict supplies and lead to an increase in prices for fresh produce.

The Company's earnings are sensitive to fluctuations in the volatile market prices for its products. Sales prices for crops are based on the market prices quoted in the Argentine grain exchanges, which largely reflect world commodity prices. Beef cattle prices are based on the major Argentine auction markets for cattle and are primarily determined by domestic supply and demand. Milk prices are also determined on the basis of domestic supply and demand.

As with any agribusiness enterprise, the Company's business operations are predominantly seasonal in nature. The harvest and sale of crop (corn, soybean and sunflower) generally occurs from February to June. The harvest of wheat generally occurs from December to January. Other segments of the Company's business, such as its cattle and milk sales, and its forestry activities, tend to be more successive than seasonal in nature.

F-53

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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*h) Risks and uncertainties (continued)*

The Company's investment in IRSA is subject to risks common to investments in commercial and residential properties in general, many of which are not within IRSA's control. Any one or more of these risks might materially and adversely affect IRSA's business, financial condition or results of operations. The yields available from equity investments in real estate depend on the level of sales or rental income generated and expenses incurred. In addition, other factors may affect the performance and value of a property adversely, including local economic conditions where the properties are located, macroeconomic conditions in Argentina and the rest of the world, competition from other real estate developers, IRSA's ability to find tenants, tenant default or rescission of leases, changes in laws and governmental regulations (including those governing usage, zoning and real property taxes), changes in interest rates (including the risk that increased interest rates may result in decreased sales of lots in the residential development properties) and the availability of financing. IRSA may also be unable to respond effectively to adverse market conditions or may be forced to sell one or more of its properties at a loss because the real estate market could be relatively illiquid. Certain significant expenditures, such as debt service, real estate taxes, and operating and maintenance costs, generally are not reduced in circumstances resulting in a reduction in income from the investment. It is possible that these or other factors or events will impede IRSA's ability to respond to adverse changes in the performance of its investments, causing a material decline in IRSA's financial condition or results of operations. Given the relative size of the investment in IRSA, any such declines could have a material adverse effect on the Company's financial condition and results of operations.

*i) Lease commitments*

The Company has obligations under cancelable operating leases, primarily for farmland as well as its office facilities. Generally, land leases have initial terms of one year or less. Certain agricultural land leases provide for contingent increases in minimum rentals based on production targets. Lease payments under a portion of the Company's operating leases are based on crop-sharing agreements. Under crop-sharing agreements, leases are paid in kind based upon an agreed-upon percentage of the crops harvested. Land leases expense forms part of the total cost of production of the Company. Substantially all of the leases provide that the Company pays taxes, maintenance, insurance and certain other operating expenses applicable to the leased assets.

Total rent expense, including rents related to land leases, was Ps. 3.5 million, Ps. 4.0 million and Ps. 5.7 million for the years ended June 30, 2004, 2003 and 2002, respectively.

*j) Equity investments*

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The investments in Agro-Uranga S.A., Cactus Argentina S.A. and IRSA are accounted for using the equity method, wherein the investment is recorded at the amount of the underlying equity in the net assets of the investments and adjusted to recognize the Company's share of the undistributed earnings or losses.

As discussed in Note 4.b)(i), the Company changed the accounting for its investment in IRSA from market value to the equity method of accounting effective March 31, 2002. Therefore the consolidated statement of income for the year ended June 30, 2002 only includes the equity results for this investment for the three-month period ended June 30, 2002.

F-54

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****II. Additional disclosure requirements (continued)***j) Equity investments (continued)*

The Company's share of the income (loss) of these affiliates was Ps. 27.1 million, Ps. 68.0 million and Ps. (41.2) million for the years ended June 30, 2004, 2003 and 2002, respectively, and its investment in these companies totaled Ps. 263.7 million at June 30, 2004 and Ps. 202.3 million at June 30, 2003. The Company's share of undistributed earnings of these affiliates totaled Ps. 1.91 million at June 30, 2004 and Ps. 1.1 million at June 30, 2003. Summarized financial information of these affiliates is as follows:

<b>Agro-Uranga S.A.</b>	<b>2004</b>	<b>2003</b>
Current assets	Ps. 13,678,530	Ps. 13,801,938
Non-current assets	4,616,195	4,797,465
<b>Total assets</b>	<b>Ps. 18,294,725</b>	<b>Ps. 18,599,403</b>
Current liabilities	Ps. 2,932,178	Ps. 4,309,878
Non-current liabilities	348,412	
<b>Total liabilities</b>	<b>Ps. 3,280,590</b>	<b>Ps. 4,309,878</b>
<b>Shareholders' equity</b>	<b>Ps. 15,014,135</b>	<b>Ps. 14,289,525</b>
Sales	Ps. 20,610,539	Ps. 22,854,926
Gross profit	Ps. 11,753,472	Ps. 12,973,407
<b>Net income</b>	<b>Ps. 5,340,205</b>	<b>Ps. 6,658,452</b>
<b>Cactus Argentina S.A.</b>	<b>2004</b>	<b>2003</b>
Current assets	Ps. 5,803,705	Ps. 5,055,144
Non-current assets	5,359,766	5,104,489
<b>Total assets</b>	<b>Ps. 11,163,471</b>	<b>Ps. 10,159,633</b>

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Current Liabilities	Ps. 4,526,587	Ps. 4,314,978
Non-Current Liabilities	78,654	89,108
<b>Total liabilities</b>	<b>Ps. 4,605,241</b>	<b>Ps. 4,404,086</b>
Shareholders' equity	Ps. 6,558,230	Ps. 5,755,547
Sales	Ps. 22,826,043	Ps. 17,546,025
Gross profit	Ps. 2,609,425	Ps. 630,346
Net income	Ps. 802,683	Ps. 605,357

<b>IRSA</b>	<b>2004</b>	<b>2003</b>
	Ps. (000)	Ps. (000)
Current assets	Ps. 261,651	Ps. 297,476
Non-current assets	1,941,293	1,784,480
<b>Total assets</b>	<b>Ps. 2,202,944</b>	<b>Ps. 2,081,956</b>
Current Liabilities	Ps. 256,022	Ps. 188,738
Non-Current Liabilities	516,831	629,988
<b>Total liabilities</b>	<b>Ps. 772,853</b>	<b>Ps. 818,726</b>
Shareholders' equity	Ps. 959,854	Ps. 809,186
Sales	Ps. 260,805	Ps. 236,495
Gross profit	Ps. 113,389	Ps. 81,828
Net income	Ps. 87,862	Ps. 286,445

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)****II. Additional disclosure requirements (continued)***k) Investments in debt and equity securities*

In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Company has classified mutual funds as well as its investments in government bonds as available-for-sale securities. The following are additional disclosure requirements in accordance with SFAS No. 115:

*Available-for-sale securities*

The amortized cost, gross unrealized holding gains or losses and fair value of the available-for-sale securities by major security type at June 30, 2004 and 2003 were as follows:

<b>Instrument</b>	<b>2004</b>			<b>2003</b>		
	<b>Cost</b>	<b>Unrealized gain</b>	<b>Market value</b>	<b>Cost</b>	<b>Unrealized gain</b>	<b>Market value</b>
Mutual Funds	61,030	173	61,203	3,929,629	4,796	3,934,425
Government bonds	86,857	10,869	97,726	86,857	16,238	103,095
<b>Total</b>	<b>147,887</b>	<b>11,042</b>	<b>158,929</b>	<b>4,016,486</b>	<b>21,034</b>	<b>4,037,520</b>

*l) Comprehensive income (loss)*

On July 1, 1998, the Company adopted SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 establishes guidelines for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Accumulated other comprehensive income is presented below, net of income tax benefit/expense:







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**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**15. Differences between Argentine GAAP and US GAAP (continued)**

**II. Additional disclosure requirements (continued)**

*m) Recently issued accounting standards (continued)*

In August, 2001, FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. The Company adopted the provisions of SFAS No. 143 effective July 1, 2003. The provisions of SFAS No. 143 did not have any impact on the Company's consolidated financial statements.

On May 1, 2002, the FASB issued SFAS No. 145 Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections as of April 2002 (SFAS No. 145), which, among other things, eliminates the exception of applying APB Opinion No. 30 (APB 30) to all gains and losses related to extinguishments of debt (other than extinguishments of debt to satisfy sinking-fund requirements). The provision of SFAS No. 145 did not have any impact on the Company's consolidated financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standard No. 149 ( SFAS 149 ), Amendment of Statement 133 on Derivative Instruments and Hedging Activities . SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133. SFAS 149 is generally effective for derivative instruments, including derivative instruments embedded in certain contracts, entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. As derivative financial instruments were not designated and accounted for as hedges under SFAS No. 133, the adoption of SFAS 149 did not have any impact on the Company's consolidated financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150 ( SFAS 150 ), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . SFAS 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities on the balance sheet. Previously, many of those financial instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of SFAS No. 150 effective July 1, 2003. As the Company does not have any issued financial instrument within the scope of SFAS No. 150 (the Company's Convertible Notes are out of the scope), the provisions of SFAS No. 150 did not have any impact on the Company's consolidated financial statements.

During December 2003, the SEC issued Statement of Accounting Bulletin No. 104, Revenue Recognition ( SAB 104 ), which revised and rescinded portions of SAB 101. The issuance of SAB 104 did not impact the Company's revenue recognition policies.



**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,**

**Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statements (continued)**

(In Argentine Pesos, except as otherwise indicated)

**16. Other financial statement information**

The accompanying tables present additional statement disclosures required under Argentine GAAP. This information is not a required part of the financial statements under US GAAP; however, these tables include information necessary to comply with the valuation and qualifying accounts schedule requirements of the Securities and Exchange Commission.

- a. Property and equipment
- b. Intangible assets
- c. Investments
- d. Allowances and provisions
- e. Cost of sales
- f. Foreign currency assets and liabilities
- g. Other expenses

F-59

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)**

*a) Property and equipment*

Principal Account	Additions		Value at the		Rate	Accumulated		Depreciation		Accumulated	Net	Net	
	Value at the beginning of year	and/or transfers	Deductions	end of year		at the beginning of year	Decrease for the year	Amount	at the end of year				Net carrying value as of June 30, 2004
	year			end of year	%	of year	year	Amount	year	as of June 30, 2004	As restated		
Buildings	Ps. 124,332,894	Ps. 2,685,430	Ps. 2,397,568	Ps. 124,620,756		Ps.	Ps.	Ps.	Ps.	Ps. 124,620,756	Ps. 124,332,894		
Fences	5,487,465	1,365	235,285	5,253,545	3	1,290,600	235,285	172,688	1,228,003	4,025,542	4,190,000		
Feeding troughs	3,677,240	35,374		3,712,614	5	852,156		180,731	1,032,887	2,679,727	2,820,000		
For fields and pastures													
Trucks	3,358,824	391,786	1,581,013	2,169,597	12-25-50	2,368,752	1,393,201	468,377	1,443,928	725,669	990,000		
Plantings and seedlings													
Planting and seedlings	5,573,995	102,314		5,676,309	2	1,881,588		98,554	1,980,142	3,696,167	3,690,000		
Planting machinery	9,136,628	50,696	754,988	8,432,336	10	5,547,697	616,216	791,201	5,722,682	2,709,654	3,580,000		
Planting tools	1,160,475	510,791	326,148	1,345,118	20	732,760	282,196	244,501	695,065	650,053	420,000		
Planting vehicles	192,157	10,788	9,584	193,361	10	120,938	5,453	14,555	130,040	63,321	70,000		
Planting equipment and machinery	1,099,079	98,856	149,816	1,048,119	10	701,722	123,245	91,187	669,664	378,455	390,000		
Planting livestock	385,598		385,598		20	385,598	385,598						
Planting tools and leading	624,985	27,946		652,931	3	109,968		21,197	131,165	521,766	510,000		
Planting vehicles	1,364,949	23	173,717	1,191,255	10	717,322	173,717	124,926	668,531	522,724	640,000		
Planting facilities	6,022,694	1,580,895	118,394	7,485,195	10-20-33	2,848,525	59,167	799,700	3,589,058	3,896,137	3,170,000		
Planting computer equipment	1,290,810	110,034	7,371	1,393,473	20	966,549	7,108	150,728	1,110,169	283,304	320,000		
Planting vehicles	10,444		10,444		10	10,444	10,444						
Planting plants	1,166,150	2,964		1,169,114	5	252,571		63,074	315,645	853,469	910,000		
Planting constructions in progress	2,331,204	9,260,138	5,778	11,585,564						11,585,564	2,330,000		
Planting expenses to date	82,445	92,381		174,826						174,826	80,000		
<b>Total</b>	<b>Ps. 167,298,036</b>	<b>Ps. 14,961,781</b>	<b>Ps. 6,155,704</b>	<b>Ps. 176,104,113</b>		<b>Ps. 18,787,190</b>	<b>Ps. 3,291,630</b>	<b>Ps. 3,221,419</b>	<b>Ps. 18,716,979</b>	<b>Ps. 157,387,134</b>	<b>Ps. 157,387,134</b>		

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as of June 30,										
	Ps. 145,825,463	Ps. 31,208,768	Ps. 9,736,195	Ps. 167,298,036	Ps. 17,593,154	Ps. 1,887,815	Ps. 3,081,851	Ps. 18,787,190	Ps.	Ps. 148,510

F-60

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)***b) Intangible assets*

Principal Account	Value at the beginning of year	Additions and/or transfers	Value at the end of year	Rate %	Amortization		Accumulated at the end of year	Net	Net
					Accumulated at the beginning of year	Amount		carrying value as of June 30, 2004	Carrying value as of June 30, 2003
Development costs	1,410,368		1,410,368	33.33	1,057,775	352,593	1,410,368		352,593
Patents and trademarks	18,938		18,938		1,894	17,044	18,938		17,044
Total as of June 30, 2004	Ps. 1,429,306	Ps.	Ps. 1,429,306		Ps. 1,059,669	Ps. 369,637	Ps. 1,429,306	Ps.	Ps.
Total as of June 30, 2003	Ps. 1,429,306	Ps.	Ps. 1,429,306		Ps. 587,653	Ps. 472,016	Ps. 1,059,669	Ps.	Ps. 369,637

F-61

**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)***c) Investments*

Type and characteristics of the securities	Carrying value as of June 30, 2004	Carrying value as of June 30, 2003
<b>Current investments</b>		
Mutual funds		
ABN AMRO in pesos	Ps. 2,888,061	Ps.2,888,061
Fondo especial Banco Río in pesos	57,122	1,042,426
Fondo plazo fijo Banco Río in dollars	4,081	3,938
	<u>Ps.61,203</u>	<u>Ps.3,934,425</u>
Notes and Convertible Notes		
Convertible Notes IRSA	Ps. 1,388,504	Ps.1,422,315
Bonos Global 2010	97,726	103,095
	<u>Ps. 1,486,230</u>	<u>Ps.1,525,410</u>
<b>Total current investments</b>	<u>Ps. 1,547,433</u>	<u>Ps.5,459,835</u>

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)***d) Allowances and provisions*

<b>Items</b>	<b>Opening Balances</b>	<b>Increases for the year</b>	<b>Deductions for the year</b>	<b>Adjusted inflation</b>	<b>Closing Balances</b>
<b><u>2004</u></b>					
Deducted from assets					
Allowance for doubtful accounts	Ps. 479,125	Ps.	Ps. (67,058)	Ps.	Ps. 412,067
Total deducted from assets	Ps. 479,125	Ps.	Ps. (67,058)	Ps.	Ps. 412,067
<b><u>2003</u></b>					
Deducted from assets					
Allowance for doubtful accounts	Ps. 802,934	Ps. 50,000	Ps. (286,146)	Ps. (87,663)	Ps. 479,125
Total deducted from assets	Ps. 802,934	Ps. 50,000	Ps. (286,146)	Ps. (87,663)	Ps. 479,125
<b><u>2002 As restated</u></b>					
Deducted from assets					
Allowance for doubtful accounts	Ps. 1,185,704	Ps. 260,946	Ps.	Ps. (643,716)	Ps. 802,934
Total deducted from assets	Ps. 1,185,704	Ps. 260,946	Ps.	Ps. (643,716)	Ps. 802,934



**Table of Contents****Cresud Sociedad Anónima Comercial, Inmobiliaria,****Financiera y Agropecuaria and Subsidiaries****Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)***e) Cost of sales*

	For the year ended June 30,		
	2004	2003	2002 As restated
Inventories at the beginning of the year	Ps.60,001,162	Ps.66,501,830	Ps.83,946,729
Holding results	2,230,329	12,224,813	(19,603,010)
Transfer of inventory to property and equipment	(381,790)	(210,551)	(513,692)
(Gain) loss from operations in the commodity markets	(50,674)	(290,717)	(3,879,793)
Transfer of inventory to expenses	(215,085)	(160,274)	(153,082)
Transfer of unharvested crops to expenses	(15,868,619)	(14,827,414)	(23,070,232)
Purchases	32,821,984	17,800,798	23,762,657
Operating expenses (Note 16.g)	38,579,187	30,004,824	48,291,672
Stock at the end of the year	(78,139,956)	(60,001,162)	(66,501,830)
<b>Cost of Sales</b>	<b>Ps.38,976,538</b>	<b>Ps.51,042,147</b>	<b>Ps.42,279,419</b>

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)***f) Foreign currency assets and liabilities*

Item	June 30, 2004			June 30, 2003	
	Type and amount of foreign Currency	Current exchange rate	Amount in local currency	Type and amount of foreign currency	Amount of local currency
		\$	Pesos		Pesos
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and banks	US\$ 2,472,934	2.92	Ps. 7,216,021	US\$ 5,781,624	Ps. 15,610,384
Investments					
Mutual funds	US\$ 1,399	2.92	4,081	US\$ 1,459	3,938
IRSA Convertible Notes	US\$ 469,406	2.96	1,388,504	507,970	1,422,315
Trade accounts receivable	US\$ 1,365	2.92	3,983	US\$ 748,238	2,020,242
Other receivables					
Collateralized	US\$ 354,351	2.92	1,033,997	US\$	
Guarantee deposits	US\$ 750,171	2.92	2,188,998	US\$ 252,603	682,027
<b>Non-Current Assets</b>					
Investments					
IRSA Convertible Notes	US\$ 44,943,168	2.96	132,941,891	49,692,688	139,139,526
<b>Total Assets</b>	<b>US\$ 48,992,794</b>		<b>Ps. 144,777,475</b>	<b>US\$ 56,984,582</b>	<b>Ps. 158,878,432</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade accounts payables					
Suppliers			Ps.		
	US\$ 378,218	2.96	1,118,770	US\$ 155,871	Ps. 436,439
Accruals	US\$ 499,662	2.96	1,477,683	US\$ 168,608	472,102
Short and long term debt					
Accrued interest Convertible Notes	US\$ 450,502	2.96	1,332,584	509,107	1,425,499
Other debts					
Advances to customers	US\$ 1,500,000	2.96	4,432,500		
<b>Non-Current Liabilities</b>					
Short and long term debt					
Convertible Notes	US\$ 43,133,153	2.96	127,587,867	US\$ 49,803,916	139,450,965

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<b>Total Liabilities</b>	US\$ 45,961,535	Ps. 135,949,404	US\$ 50,637,502	Ps. 141,785,005
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F-65

**Table of Contents**

**Cresud Sociedad Anónima Comercial, Inmobiliaria,  
Financiera y Agropecuaria and Subsidiaries**

**Notes to the Consolidated Financial Statement (continued)**

(In Argentine Pesos, except as otherwise indicate)

**16. Other financial statement information (continued)***g) Other expenses*

Items	Expenses						
				Total		Total	
				for the year ended		for the year ended	
				June 30, 2004		June 30, 2003	
	Operating	Selling	Administrative	June 30, 2004		As restated	
	Ps.	Ps.	Ps.	Ps.		Ps.	
Directors fees			9,917	9,917	41,718	678,734	
Fees and payments for services	820,936		957,194	1,778,130	1,304,235	3,882,998	
Salaries and wages and social security contributions	3,585,962	58,892	3,180,594	6,825,448	5,161,230	9,998,580	
Taxes, rates and contributions	433,081		68,719	501,800	509,367	712,622	
Gross sales tax		623,425		623,425	735,630	730,702	
Office and administrative expenses	116,701		290,547	407,248	346,529	146,254	
Bank commissions and expenses	13,084			13,084	49,740	48,516	
Depreciation	2,974,687		246,732	3,221,419	3,081,851	3,501,449	
Vehicle and travelling expenses	375,682	9,057	180,086	564,825	474,475	488,572	
Spare parts and repairs	1,146,429			1,146,429	793,849	977,484	
Insurance	44,807		275,744	320,551	346,733	222,810	
Employees maintenance	151,896		47,953	199,849	158,171	304,993	
Amortization of intangible assets	369,637			369,637	472,016	470,122	
Advertising expense	8,389	50,704		59,093	84,810	27,682	
Livestock expenses	11,017,933	1,256,640		12,274,573	5,355,588	7,698,660	
Dairy farm expenses	1,530,085			1,530,085	993,744	1,368,345	
Agricultural expenses	15,110,581	2,892,622		18,003,203	19,911,110	30,157,620	
Silo expenses	389,016			389,016	45,750	497,320	
Coal expenses	1,746	11,018		12,764	39,293	744,341	
Firewood expenses		707		707	11,932	155,870	
Services	6,219			6,219			
General expenses	482,316		40,546	522,862	441,481	4,094,507	

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Total for the year ended June 30, 2004	Ps. 38,579,187	Ps. 4,903,065	Ps. 5,298,032	Ps. 48,780,284		
Total for the year ended June 30, 2003	Ps. 30,004,824	Ps. 6,045,309	Ps. 4,309,119		Ps. 40,359,252	
Total for the year ended June 30, 2002	Ps. 48,291,672	Ps. 10,248,016	Ps. 8,368,493			Ps. 66,908,181

F-66

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**Table of Contents**

**Index to Consolidated Financial Statements**

	<b>Page</b>
<b><u>IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries</u></b>	
<u>Report of Independent Registered Public Accounting Firm</u>	F 68
<u>Consolidated Balance Sheets as of June 30, 2004 and 2003</u>	F 69
<u>Consolidated Statements of Income for the years ended June 30, 2004, 2003 and 2002</u>	F 70
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2004, 2003 and 2002</u>	F 71
<u>Consolidated Statements of Cash Flows for the years ended June 30, 2004, 2003 and 2002</u>	F 72
<u>Notes to the Consolidated Financial Statements</u>	F 74

F-67

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

IRSA Inversiones y Representaciones Sociedad Anónima:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of IRSA Inversiones y Representaciones Sociedad Anónima and its subsidiaries at June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2004 in conformity with accounting principles generally accepted in Argentina. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 3.c. to the consolidated financial statements, as a result of the Company's purchase of additional shares and the exercise of warrants of Banco Hipotecario S.A. (BHSA) (as further discussed in Note 2.f. to the consolidated financial statements), the Company changed its method of accounting for its investment in BHSA. Under the new accounting method, adopted as of June 30, 2004, the investment in BHSA is accounted for under the equity method of accounting. The auditors' report on the consolidated financial statements of BHSA as of June 30, 2004, dated September 6, 2004, includes an explanatory paragraph describing that the quality of BHSA's financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine government's actions to address such crisis have had a significant adverse effect on BHSA's business activity. Currently, BHSA is significantly dependent on the Argentine Government's ability to perform on its obligations to BHSA and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to approve and deliver government securities under various laws and regulations. As of June 30, 2004, the investment in BHSA accounts for approximately 7% of the total consolidated assets of IRSA Inversiones y Representaciones Sociedad Anónima. The future outcome of the uncertainties described before could have an adverse effect in the valuation of this investment.

Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 20 to the consolidated financial statements.

PRICE WATERHOUSE & Co. S.R.L.

By (Partner)

\_\_\_\_\_  
Carlos Martín Barbafina

Buenos Aires, Argentina

September 7, 2004





**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Balance Sheets****as of June 30, 2004 and 2003**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	<b>2004</b>	<b>2003</b> <b>(As restated)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and banks (Notes 4.a. and 21.e.)	Ps. 93,096	Ps. 89,883
Investments (Notes 4.b. and 21.e.)	70,804	142,118
Mortgages and leases receivable, net (Notes 4.c. and 21.e.)	34,431	36,404
Other receivables and prepaid expenses (Notes 4.d. and 21.e.)	52,748	13,984
Inventories (Note 4.e.)	10,572	15,087
<b>Total current assets</b>	<b>261,651</b>	<b>297,476</b>
<b>Non-Current Assets</b>		
Mortgages and leases receivable, net (Note 4.c.)	2,836	2,777
Other receivables and prepaid expenses (Notes 4.d. and 21.e.)	125,794	127,314
Inventories (Note 4.e.)	19,962	8,767
Investments (Note 4.b.)	524,434	420,373
Fixed assets, net (Note 21.a.)	1,265,666	1,227,639
Intangible assets, net (Note 21.b.)	2,427	3,239
<b>Subtotal</b>	<b>1,941,119</b>	<b>1,790,109</b>
Goodwill, net	174	(5,629)
<b>Total non-current assets</b>	<b>1,941,293</b>	<b>1,784,480</b>
<b>Total Assets</b>	<b>Ps.2,202,944</b>	<b>Ps.2,081,956</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable (Notes 4.f. and 21.e.)	Ps. 43,008	Ps. 27,822
Mortgages payable (Note 21.e.)	2,218	2,100
Customer advances (Notes 4.g. and 21.e.)	25,454	15,522
Short-term debt (Notes 4.i. and 21.e.)	135,127	87,434
Salaries and social security payables (Note 4.h.)	7,981	6,151
Taxes payable (Notes 4.j. and 21.e.)	11,641	10,033
Other liabilities (Notes 4.k. and 21.e.)	30,593	39,676
<b>Total current liabilities</b>	<b>256,022</b>	<b>188,738</b>
<b>Non-Current Liabilities</b>		
Trade accounts payable (Notes 4.f. and 21.e.)	2,865	3,609

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Customer advances (Note 4.g.)	28,802	25,260
Long-term debt (Notes 4.i. and 21.e.)	468,807	592,104
Taxes payable (Note 4.j.)	6,207	1,684
Other liabilities (Note 4.k. and 21.e.)	10,150	7,331
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>516,831</b>	<b>629,988</b>
	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>772,853</b>	<b>818,726</b>
	<hr/>	<hr/>
Minority interest	470,237	454,044
	<hr/>	<hr/>
<b>SHAREHOLDERS EQUITY</b>	<b>959,854</b>	<b>809,186</b>
	<hr/>	<hr/>
<b>Total Liabilities and Shareholders Equity</b>	<b>Ps.2,202,944</b>	<b>Ps.2,081,956</b>
	<hr/>	<hr/>

The accompanying notes are an integral part of these consolidated financial statements.

F-69

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Income****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>2004</b>	<b>(As restated)</b>	<b>(As restated)</b>
Revenues	Ps. 260,805	Ps. 236,495	Ps. 156,244
Costs (Note 21.d)	(147,416)	(154,667)	(96,962)
<b>Gross profit</b>	<b>113,389</b>	<b>81,828</b>	<b>59,282</b>
Selling expenses	(23,033)	(28,555)	(14,246)
Administrative expenses	(50,240)	(45,194)	(36,258)
<b>Subtotal</b>	<b>(73,273)</b>	<b>(73,749)</b>	<b>(50,504)</b>
Gain on purchasers rescissions of sales contracts		9	
Gain (loss) in credit card trust	261	(4,077)	
Gain (loss) from operations and holdings of real estate assets, net (Note 7)	64,343	21,507	(46,840)
<b>Operating income (loss)</b>	<b>104,720</b>	<b>25,518</b>	<b>(38,062)</b>
Amortization of goodwill	(2,904)	(6,631)	
Equity gain (loss) from related parties	26,653	(14,701)	(4,571)
Financial results, net (Note 8)	10,546	315,301	(496,498)
Other expenses, net (Note 9)	(12,591)	(859)	(4,483)
<b>Income (loss) before taxes and minority interest</b>	<b>126,424</b>	<b>318,628</b>	<b>(543,614)</b>
Income and asset tax (expense) benefit	(25,720)	3,529	(1,086)
Minority interest	(12,842)	(35,712)	977
<b>Net income (loss)</b>	<b>Ps. 87,862</b>	<b>Ps. 286,445</b>	<b>Ps. (543,723)</b>
<b>Earnings per share (Note 18):</b>			
Basic net income (loss) per share	Ps. 0.39	Ps. 1.37	Ps. (2.62)
Diluted net income (loss) per share	Ps. 0.23	Ps. 0.57	Ps. (2.62)

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Changes in Shareholders' Equity****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	Shareholders' contributions								
	Common stock (Note 5.a.)	Treasury Stock	Inflation adjustment common stock (Note 5.c.)	Inflation adjustment of treasury stock (Note 5.c.)	Additional paid-in-capital (Note 5.a.)	Total	Legal reserve (Note 5.d.)	Retained earnings/ (accumulated deficit)	Shareholders' Equity
<b>Balances as of June 30, 2001</b>	Ps. 207,412	Ps. 4,588	Ps. 268,524	Ps. 5,863	Ps. 569,481	Ps. 1,055,868	Ps. 19,447	Ps. (8,872)	Ps. 1,066,443
Net loss for the year								(543,723)	(543,723)
<b>Balances as of June 30, 2002</b>	Ps. 207,412	Ps. 4,588	Ps. 268,524	Ps. 5,863	Ps. 569,481	Ps. 1,055,868	Ps. 19,447	Ps. (552,595)	Ps. 522,720
Conversion of debt into common shares	13				8	21			21
Distribution of treasury stock	4,588	(4,588)	5,863	(5,863)					
Net income for the year								286,445	286,445
<b>Balances as of June 30, 2003</b>	Ps. 212,013	Ps.	Ps. 274,387	Ps.	Ps. 569,489	Ps. 1,055,889	Ps. 19,447	Ps. (266,150)	Ps. 809,186
Conversion of debt into common shares	23,734				14,313	38,047			38,047
Exercise of warrants	13,056				11,703	24,759			24,759
Net income for the year								87,862	87,862
<b>Balances as of June 30, 2004</b>	Ps. 248,803	Ps.	Ps. 274,387	Ps.	Ps. 595,505	Ps. 1,118,695	Ps. 19,447	Ps. (178,288)	Ps. 959,854

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Cash Flows****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>2004</b>	<b>(As restated)</b>	<b>(As restated)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) for the year	Ps. 87,862	Ps. 286,445	Ps. (543,723)
Plus (less) income and asset tax expense (benefit) accrued for the year	25,720	(3,529)	1,086
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization	68,519	80,547	26,297
Minority interest	12,842	35,712	(977)
Allowances and provisions	8,447	5,406	1,638
Sundry provisions	12,414	11,543	
Gain from the sale of intangible assets		(2,132)	
Equity (gain) loss from related parties	(26,653)	14,701	4,571
(Gain) loss from operations and holdings of real estate assets, net	(64,343)	(11,386)	46,840
Gain on early repurchase of debt		(25,192)	
Financial results	(35,451)	(375,673)	330,894
Changes in certain assets and liabilities, net of non-cash transactions and the effects of acquisitions:			
Decrease (increase) in current investments	4,418	(4,604)	(18,095)
(Increase) decrease in non-current investments	(10,729)	(2,362)	1,103
(Increase) decrease in mortgages and leases receivables	(9,415)	(9,235)	41,228
(Increase) decrease in other receivables	(1,256)	12,382	(13,653)
Decrease in inventories	6,894	35,293	59,050
Increase in intangible assets	(603)	(580)	
Increase (decrease) in trade accounts payable	14,442	(154)	8,392
Increase (decrease) in customer advances, salaries and social security payable and taxes payable	2,765	(8,307)	1,904
Cash dividends received		608	2,805
(Decrease) increase in other liabilities	(24,648)	(2,053)	23,796
Increase in accrued interest	2,189	56,515	81,157
<b>Net cash provided by operating activities</b>	<b>73,414</b>	<b>93,945</b>	<b>54,313</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net proceeds from the sale of interests in joint controlled companies			134,769
Payment for acquisition of subsidiary companies and equity investees, net of cash acquired		(31,744)	(21,712)
Loans granted to related parties			(105,714)
Purchase of shares and options of Banco Hipotecario S.A.	(127,348)		
Sale of shares of Banco Hipotecario S.A.	57,070		
Payment for acquisition of undeveloped parcels of land	(558)	(208)	(3,317)
Purchase and improvements of fixed assets	(25,073)	(10,783)	(25,110)
Net proceeds from the sale of intangible assets		2,132	

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<b>Net cash used in investing activities</b>	<b>(95,909)</b>	<b>(40,603)</b>	<b>(21,084)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Financing costs		(6,265)	(3,408)
Contributions received by subsidiaries from minority shareholders		142	4,561
Proceeds from short-term and long-term debt	300	397,310	170,045
Payment of short-term and long-term debt	(66,698)	(270,962)	(210,641)
Payment of seller financing	(1,150)	(1,182)	(1,984)
Exercise of warrants	24,759		
Dividends paid by subsidiaries to minority shareholders	(4,860)		
Decrease in mortgages payable		(9,604)	
<b>Net cash (used in) provided by financing activities</b>	<b>(47,649)</b>	<b>109,439</b>	<b>(41,427)</b>
Net (decrease) increase in cash and cash equivalents	(70,144)	162,781	(8,198)
Cash and cash equivalents as of the beginning of the year	193,057	30,276	38,474
Cash and cash equivalents as of the end of the year	Ps. 122,913	Ps. 193,057	Ps. 30,276

The accompanying notes are an integral part of these consolidated financial statements.

F-72



**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Cash Flows****for the years ended June 30, 2004, 2003 and 2002 (continued)**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	<u>2004</u>	<u>2003</u> (As restated)	<u>2002</u> (As restated)
<b>Supplemental cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest	Ps. 58,921	Ps. 31,249	Ps. 29,391
Income tax	1,002	1,044	394
<b>Non-cash activities:</b>			
Increase in fixed assets through a decrease in undeveloped parcels of land	Ps. 51,501	Ps.	Ps.
Conversion of debt into common shares	38,047		
Increase in inventory through a decrease in fixed assets	18,189	19,851	41,420
Increase in other receivables through a decrease in non-current investments	14,878		
Issuance of credit card receivables	12,513		
Increase in inventory through a decrease in undeveloped parcels of land	10,748		
Increase in other receivables through a decrease in inventory	8,755		
Increase in non-current other receivables through a decrease in inventory	5,890		
Increase in other receivables through an increase in taxes payable	2,854		
Liquidation of interest in credit card receivables	210		
Increase in fixed assets through a decrease in inventory	40	1,212	
Increase in fixed assets through a decrease in intangible assets	31		
Increase in undeveloped parcels of land through a decrease in inventory		39,529	
Increase in short and long term-debt through a decrease in other liabilities		35,341	
Increase in customer advances through a decrease in other liabilities		2,856	
Increase in inventory through a decrease in mortgages receivable		2,757	
Increase in inventory through an increase in mortgages payable		2,078	
Decrease in investments through an increase in mortgages and leases receivable		1,966	
Decrease in short and long term-debt through a decrease in intangible assets		966	
Increase in fixed asset through an increase in mortgages payable		928	
Increase in investments through a decrease in mortgages and leases receivable		760	22,699
Increase in non-current investments through a decrease in other receivables		117	
Decrease in non-current investments through a decrease in other liabilities			38,115
Decrease in mortgages receivables through an increase in investments			23,368
Decrease in short and long term-debt through a decrease in investments			6,315
Increase in other receivables through a decrease in mortgages receivable			2,809
	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Acquisition of equity investees:</b>			
Investments, net of cash acquired, when applicable	Ps.	Ps. 31,744	Ps. 21,712

The accompanying notes are an integral part of these consolidated financial statements.



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**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**1. Organization and description of business**

IRSA Inversiones y Representaciones Sociedad Anónima ( IRSA ), is an Argentine real estate company incorporated under the laws of Argentina which, through its investments in subsidiaries and joint ventures (IRSA and subsidiaries is collectively referred hereinafter as IRSA or the Company ), is primarily involved in (i) the acquisition and development of residential properties primarily for sale, (ii) the acquisition, development and operation of office and other non-retail buildings primarily for rental purposes, (iii) the development and operation of shopping center properties, (iv) the acquisition and operation of luxury hotels, (v) the acquisition of undeveloped land reserves either for future development or sale, (vi) e-commerce activities and, (vii) other non-core activities. The Company is the only Argentine real estate company whose shares are listed and traded on both the Buenos Aires Stock Exchange ( BASE ) and the New York Stock Exchange ( NYSE ).

**2. Preparation of financial statements**

**a. Basis of presentation**

The Consolidated Financial Statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina ( Argentine GAAP ), and the regulations of the *Comisión Nacional de Valores* ( CNV ), the National Securities Commission in Argentina, which differ in certain respects from generally accepted accounting principles in the United States of America ( US GAAP ). Such differences involve methods of measuring the amounts shown in the Consolidated Financial Statements, as well as additional disclosures required by US GAAP and Regulations of the Securities and Exchange Commission ( SEC ). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company are set forth in Note 20 to these Consolidated Financial Statements.

As discussed in Notes 2.c. and 3.n., in order to comply with regulations of the CNV, the Company discontinued inflation accounting as from March 1, 2003 as well as recognized deferred income tax assets and liabilities on a non-discounted basis. The application of these CNV regulations represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on the accompanying Consolidated Financial Statements.

Amounts included in the notes to the Consolidated Financial Statements are expressed in thousands of Argentine Pesos, except as otherwise indicated.

**b. Principles of consolidation**

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries over which the Company has effective control. Investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

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In accordance with Argentine GAAP, the presentation of the parent company's individual financial statements is mandatory. Consolidated Financial Statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes.

F-74

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

A description of the subsidiaries over which the Company has or had effective control, with their respective percentage of capital stock owned, is presented as follows:

**2. Preparation of financial statements (continued)****b. Principles of consolidation (continued)**

	Percentage of capital stock owned as of June 30, (i)		
	2004	2003	2002
<b>Controlled companies</b>			
Ritelco S.A. ( Ritelco )	100.00%	100.00%	100.00%
Palermo Invest S.A. ( Palermo Invest )	66.67%	66.67%	66.67%
Abril S.A. ( Abril )	83.33%	83.33%	83.33%
Pereiraola S.A.I.C.I.F. y A. ( Pereiraola )	83.33%	83.33%	83.33%
Baldovinos S.A. ( Baldovinos )	83.33%	83.33%	83.33%
Hoteles Argentinos S.A. ( Hoteles Argentinos )	80.00%	80.00%	80.00%
Buenos Aires Trade & Finance Center S.A. ( BAT&FCSA )(ii)	100.00%	100.00%	
Alto Palermo S.A. ( APSA ) (iii)	53,81%	54,79%	
Llao Llao Resorts S.A. ( LLR ) (iv)	50.00%	50.00%	50.00%

- (i) Percentage of equity interest owned has been rounded and does not contemplate the effects of the potential conversion of irrevocable contributions into common shares.
- (ii) As a result of a share exchange, the Company's ownership interest in BAT&FCSA increased from 50% to 100% in August 2002. See footnote (iii) to the jointly controlled companies chart for further details.
- (iii) During the year ended June 30, 2003 the Company obtained a controlling interest in APSA, through the acquisition of 5.8 million additional shares and convertible notes issued by APSA. The amount paid by the Company for the acquisition of such additional shares totaled US\$ 2.5 million. The consolidated statements of income for the year ended June 30, 2003 includes the results of operations of APSA on a consolidated basis as from July 1, 2002.
- (iv) As discussed in Note 2.d. the Company adopted RT No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions during the year ended June 30, 2004. As a result of such an adoption, the Company started to consolidate LLR. The Consolidated Financial Statements presented for comparative purposes were restated accordingly.

A description of the jointly-controlled investments accounted for under the equity method is presented as follows:

Percentage of capital stock

	owned as of June 30, (i)		
	2004	2003	2002
<b>Jointly controlled companies</b>			
Puerto Retiro S.A. ( Puerto Retiro )	33.33%	33.33%	33.33%
Alto Palermo S.A. ( APSA ) (ii)			49.69%
Argentine Realty S.A. ( ARSA ) (iii)			50.00%
Buenos Aires Realty S.A. ( BARSAS ) (iii)			50.00%
Buenos Aires Trade & Finance Center S.A. ( BAT&FCSA ) (iii)			50.00%

(i) Percentage of equity interest owned has been rounded.

(ii) See footnote (iii) to the controlled companies chart.

(iii) During the year ended June 30, 2000, the Company, together with RAGHSA S.A. ( RAGHSA ), formed BARSAS to acquire 20,947 square meters of undeveloped land in Puerto Madero, Buenos Aires, for a total consideration of Ps. 61 million. Subsequent to this acquisition, the Company and RAGHSA formed two additional companies, BAT&FCSA and ARSA, for the sole purpose of holding an interest in a portion of the undeveloped land. In this connection, the land was subdivided into three separate lots, and each lot transferred to a separate company. In August 2002, the Company and RAGHSA agreed the redistribution of the interest in the land and certain assumed commitments between those companies and also exchanged the ownership interests in ARSA, BARSAS and BAT&FCSA. As a result of the share exchange, the Company holds a 100% ownership interest in BAT&FCSA, while RAGHSA holds the 100% ownership interest in ARSA and BARSAS. The Company's interest in the land and related commitments remained unchanged as a result of the whole transaction.

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**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**b. Principles of consolidation (continued)**

As a result of the increase in the ownership interest and the consolidation of APSA, during fiscal year 2003 the Company discontinued the application of the proportional consolidation method that had been used for reporting the results of the Company's jointly controlled subsidiaries in prior years. Therefore, the Company restated its prior years' financial statements to reflect such investments under the equity method of accounting.

**c. Presentation of financial statements in constant Argentine pesos**

On August 22, 1995, the Argentine government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power as of August 31, 1995. The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

However, as a result of the inflationary environment in Argentina in 2002, the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA), approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements as from January 1, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be considered stated in currency as of December 31, 2001.

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency.

However, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date, using a conversion factor of 1.1237.

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

**d. New accounting and disclosure standards**

On January 14, 2003, the CPCECABA and the CNV approved, with certain amendments, Technical Resolution (RT) No. 16, Framework for the Preparation and Presentation of Financial Statements ; RT No. 17, Overall Considerations for the Preparation of Financial Statements ; RT No. 18, Specific Considerations for the Preparation of Financial Statements ; RT No. 19, Amendments to Technical Resolutions No. 4, 5, 6, 8, 9, 11 and 14 ; and RT No. 20, Accounting for Derivative Instruments and Hedging Activities issued by the *Federación Argentina de Consejos Profesionales en Ciencias Económicas* ( *FACPCE* ), which establish new accounting and disclosure principles under Argentine GAAP. The Company adopted such standards on July 1, 2002, except for RT No. 20, which was adopted on July 1, 2003. As required by Argentine GAAP, when issuing the 2003 financial statements, the Company restated its prior year financial statements to give retroactive effect to the newly adopted accounting standards. These new accounting and disclosure standards relate to the harmonization of Argentine GAAP with International Financial Reporting Standards.



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**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**d. New accounting and disclosure standards (continued)**

In addition, during 2003 the CPCECABA approved and the CNV adopted with certain amendments RT No. 21, Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions, which became effective to the Company for the fiscal year ended June 30, 2004. As a result of the adoption of RT No. 21, the Company started to consolidate LLR during fiscal year 2004. As required by the transition provision of this standard, the Company's prior year's financial statements were restated accordingly.

**e. Reclassifications**

Certain reclassifications of prior year information have been made to conform to the current year presentation.

**f. Acquisition of businesses**

In the preparation of these Consolidated Financial Statements, unless otherwise indicated, the operating results of all acquired businesses have been included in the Company's Consolidated Financial Statements since the date of the respective acquisition.

**Year ended June 30, 2004**

**Purchase of additional shares and exercise of warrants of Banco Hipotecario S.A. (BHSA)**

On December 30, 2003, the Company purchased 4,116,267 shares of BHSA at US\$ 2.3868 per share and 37,537 warrants at US\$ 33.86 each, granting the warrants the right to purchase 3,753,700 additional shares. This transaction implied a total disbursement of US\$ 11.1 million. Furthermore, on February 2, 2004, the Company exercised a substantial portion of the warrants acquired during fiscal year 2004 as well as warrants the Company had acquired in the past. As a result, the Company acquired 4,774,000 shares of BHSA for a total consideration of Ps. 33.4 million. During the last quarter of fiscal year 2004, the Company sold 2,487,571 shares of BHSA to IFIS S.A. (indirect shareholders) for a total consideration of US\$ 6.1 million (market value equivalent to Ps. 7.0 per share). The Company recognized a loss in connection with the sale amounting to Ps. 1.6 million. See Note 3.c. (ii) a) for details on the accounting for this investment.

Year ended June 30, 2003

Valle de Las Leñas S.A.

In September 2002, the Company acquired a 30.955% ownership interest in the capital stock and US\$ 3.7 million convertible negotiable bonds issued by Valle de Las Leñas S.A. for approximately US\$ 2.4 million. On March 4, 2003, the Company sold these ownership interests in Valle de Las Leñas S.A. for US\$ 6.5 million.

**g. Disposition of businesses**

Year ended June 30, 2002

(i) Latin American Econetworks N.V.

On November 7, 2001, the Company sold its interest in Latin American Econetworks N.V. for a total consideration of US\$ 5.2 million. The price was fully collected on that date.

(ii) Brazil Realty Empreendimentos e Participacoes ( Brazil Realty )

On February 28, 2002 the Company sold its 49.27% ownership interest in Brazil Realty, a Brazilian real estate company, for a total consideration of US\$ 44.2 million. The Company recognized a net gain of Ps. 35.4 million in this connection, which was recorded as a component of operating income within Gain (loss) from operations and holdings of real estate assets, net .

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**2. Preparation of financial statements (continued)**

**h. Use of estimates**

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include those required in the accounting for sales of development properties, the allowance for doubtful accounts, the depreciation, amortization and impairment of long-lived assets, the provision for contingencies and income taxes. Actual results could differ from those estimates.

**3. Significant accounting policies**

The following is a summary of significant accounting policies followed by the Company in the preparation of these Consolidated Financial Statements.

**a. Revenue recognition**

The Company primarily derives its revenues from domestic office and shopping center leases and services operations, the development and sale of properties, hotel operations and to a lesser extent, from e-commerce activities. See Note 6 for details on the Company's business segments.

Development and sale of properties

The Company records revenue from the sale of properties when all of the following criteria are met:

- (i) the sale has been consummated;
- (ii) the Company has determined that the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
- (iii) the Company's receivable is not subject to future subordination; and

(iv) the Company has transferred to the buyer the risk of ownership, and does not have a continuing involvement in the property.

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

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

#### Leases and services from office and other buildings

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

#### Leases and services from shopping center operations

Leases with tenants are accounted for as operating leases. Tenants are generally charged a rent which consists of the higher of (i) a monthly base rent (the Base Rent ) and (ii) a specified percentage of the tenant's monthly gross retail sales (the Percentage Rent ) (which generally ranges between 4% and 8% of tenant's gross sales). Furthermore, pursuant to the rent escalation clause in most leases, a tenant's Base Rent generally increases between 4% and 7% each year during the term of the lease. Minimum rental income is recognized on a straight-line basis over the term of the lease and unpaid rents are included in accounts receivable in the accompanying consolidated balance sheets.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**a. Revenue recognition (continued)**

Leases and services from shopping center operations (continued)

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

Generally, the Company's lease agreements vary from 36 to 120 months. Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months, upon not less than 60 days' written notice, subject to penalties which vary from one to one and a half months rent if the tenant rescinds during the first year of its lease, and one month of rent if the tenant rescinds after the first year of its lease.

The Company also charges its tenants a monthly administration fee, prorated among the tenants according to their leases, which varies from shopping center to shopping center, relating to the administration and maintenance of the common area and the administration of contributions made by tenants to finance promotional efforts for the overall shopping centers operations. Administration fees are recognized monthly when earned.

In addition to rent, tenants are generally charged Admission rights, a non-refundable admission fee that tenants may be required to pay upon entering into a lease and upon lease renewal. An admission right is normally paid in one lump sum or in a small number of monthly installments. Admission rights are recognized using the straight-line method over the life of the respective lease agreements. Furthermore, the lease agreements generally provide for the reimbursement of real estate taxes, insurance, advertising and certain common area maintenance costs. These additional rents and tenant reimbursements are accounted for on the accrual basis.

Credit card operations

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

Hotel operations

The Company recognizes revenues from its rooms, catering, and restaurant facilities as earned on the close of business each day.

**b. Cash and cash equivalents**

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalent consist of time deposits and mutual funds which invest in time deposits with original maturities of less than three months at purchase.

**c. Investments**

(i) Current

Current investments primarily include time deposits which are valued at their cost plus accrued interest and mutual funds which are carried at market value. Time deposits have original maturities of three months or less. Unrealized gains and losses on time deposits and mutual funds are included within Financial results, net in the accompanying Consolidated Statements of Income.

Current investments also include the current portion of the retained interests in transferred receivables pursuant to the securitization programs (See Notes 15 and 16) and government bonds. Government bonds are carried at their fair market value with unrealized gains and losses recorded in earnings within Financial results, net in the accompanying Consolidated Statements of Income.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**c. Investments (continued)**

(ii) Non-current

a) Equity investments

Equity investments in unconsolidated affiliated companies where the Company exercises significant influence, generally representing between 20% and 50% of the capital stock in such companies, have been accounted for under the equity method.

Equity investments in less than 20% of the capital stock in companies in which the Company does not exercise significant influence are generally carried at market value, recognizing realized and unrealized gains and losses in earnings.

As a result of the purchase of additional shares and the exercise of warrants of BHSA mentioned in Note 2.f. and considering the exercise of significant influence and the intention to maintain the current participation as a long-term investment, during fiscal year 2004 the Company changed the method of accounting for its investments in BHSA and Banco de Crédito y Securitización S.A. ( BACSA , a subsidiary of BHSA) from fair market value and cost, respectively, to the equity method of accounting. As permitted by Argentine GAAP, the Company recognized the cumulative effect of the change amounting to Ps. 27.7 million within Equity gain (loss) from related parties in the accompanying consolidated statement of income. In accordance with regulations of the *Banco Central de la República Argentina* and also as imposed by the agreements signed by BHSA as a result of its financial debt restructuring process, there are certain restrictions on the distribution of profits by BHSA.

b) Retained interest in securitization programs

Current and non-current investments also include the Company's retained interests in transferred credit card and mortgages receivables pursuant to the securitization programs entered into by the Company (see Notes 15 and 16 for details).

c) Parcels of undeveloped land

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The Company acquires undeveloped land in order to provide an adequate and well-located supply for its residential and office building operations. The Company's strategy for land acquisition and development is dictated by specific market conditions where the Company conducts its operations.

Land held for development and sale and improvements are stated at cost adjusted for inflation (as described in Note 2.c. or estimated net realizable value, whichever is lower. Land and land improvements are transferred to inventories when construction commences.

During the year ended June 30, 2002, the Company recognized an impairment loss amounting to Ps. 9,328 in connection with certain parcels of undeveloped land (identified as Santa Maria del Plata and Torres Jardín IV). In addition, the Company recognized an equity loss amounting to Ps. 10,769 related to the impairment loss recognized by APSA totaling Ps. 21,671 (Caballito Project, Alcorta Plaza, Coto air space and Neuquén). As a result of an increase in their fair market values, during the year ended June 30, 2003, the Company partially reversed such impairment losses, recognizing a gain of Ps. 9,851 (Santa Maria del Plata, Caballito Project, Alcorta Plaza, Coto air space and Neuquén). During that year the Company also recognized an impairment loss totaling Ps. 9,628 in connection with other parcels of undeveloped land (mainly Padilla 902, Pilar, Constitución 1111, Benavidez and Rosario Project). As a result of an increase in their fair market values, during fiscal year 2004 the Company partially reversed previously recognized impairment losses, recognizing a gain of Ps. 15,146 (Caballito Project, Alcorta Plaza, Coto air space, Neuquén, Terrenos de Caballito, Pilar, Torres Jardín IV and Constitución 1111). The impairment losses and gains associated with the reversion of previously recognized impairment charges have been included within Gain (loss) from operations and holdings of real estate assets, net in the Consolidated Statements of Income.

F-80



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**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**d. Inventories**

Inventories are comprised primarily of properties held for development and sale and to a lesser extent other minor inventories from hotel operations. A property is classified as held for sale upon determination by the Board of Directors that the property is to be marketed for sale in the normal course of business.

Residential, office and other non-retail properties completed or under construction are stated at cost adjusted for inflation (as described in Note 2.c.) or estimated net realizable value, whichever is lower. Costs include land and land improvements, direct construction costs, construction overhead costs, interest on indebtedness and real estate taxes. Selling costs are deferred and charged to expense in the period in which the related revenue is earned, as determined under the percentage-of-completion method. Total contract costs are charged to expense in the period in which the related revenue is earned, as determined under the percentage-of-completion method. No interest costs were capitalized during the years ended June 30, 2004, 2003 and 2002.

Properties held for sale are classified as current or non-current based on the estimated date of sale and the time at which the related receivable is expected to be collected by the Company.

During the years ended June 30, 2002 and 2003, the Company recognized impairment losses amounting to Ps. 12,621 and Ps. 844, respectively, in connection with certain properties classified as inventories (identified as Av. Madero 1020, Rivadavia 2768, Minetti D, Torres Jardin, Sarmiento 517, parking lots in Dock 13, Constitución 1111, Terrenos de Caballito and Padilla 902). As a result of an increase in fair market values, during the year ended June 30, 2004 the Company partially reversed previously recognized impairment losses, recognizing a gain of Ps. 6 (Rivadavia 2768). The impairment losses and gains associated with the reversion of previously recognized impairment charges have been included within Gain (loss) from operations and holdings of real estate assets, net in the Consolidated Statements of Income.

**e. Fixed assets, net**

Fixed assets, net are comprised primarily of rental properties (including shopping centers) and other property and equipment held for use by the Company.

Rental properties (including Shopping Centers)

Rental properties are carried at cost adjusted for inflation (as described in Note 2.c.), less accumulated depreciation. Costs incurred for the acquisition of the properties are capitalized. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, which generally are estimated to be 50 years for office buildings and related improvements and between 19 and 31 years for shopping centers. Expenditures for ordinary maintenance and repairs are charged to operations in the period incurred. Significant renovations and improvements which improve or extend the useful life of the asset are capitalized and depreciated over its estimated remaining useful life. At the time depreciable assets are retired or otherwise disposed of, the cost and the accumulated depreciation of the assets are eliminated from the accounts and any profit or loss is recognized. The Company capitalizes interest on long-term construction projects. The Company capitalizes interest on real estate development projects. No real estate projects were developed during the years ended June 30, 2002 and 2003. Even though the Company resumed the Rosario project during the year ended June 30, 2004, no interests were capitalized since the Company had recognized an impairment charge in prior years and during 2004 the Company partially reversed such impairment up to the limit of its fair value.

During the year ended June 30, 2002, the Company recognized an impairment loss amounting to Ps. 55,896 in connection with certain properties (identified as Libertador 498, Maipú 1300, Avda. Madero 1020, Suipacha 652, Laminar Plaza, Reconquista 823, Constitución 1111, Dique 2 M10- Edificio C-, Libertador 602, Dock 2 M10 -Building A-, Avda. Madero 942, Avda. De Mayo 595, Costeros Dique IV and Sarmiento 517, Intercontinental Plaza, Alto Palermo Park, Alto Palermo Plaza, Thames and Hotel Intercontinental). In addition, the Company recognized an equity loss amounting to Ps. 20,422 related to the impairment loss recognized by APSA totaling Ps. 41,100 related to Alto Avellaneda, Alto Noa, Abasto and other properties. During the year ended June 30, 2003 the Company also recognized an impairment loss totaling Ps. 1,892 in connection with certain properties (identified as Avda. Madero 1020, Reconquista 823, Avda. Madero 942, and Sarmiento 517). As a result of increases in their fair market values, during the years ended June 30, 2003 and 2004 APSA partially reversed the 2002 impairment loss, recognizing a gain of Ps. 15,532 and Ps. 18,760, respectively. During the year ended June 30, 2004 and as a result of an increase in the fair market values of the properties, the Company also reversed a portion of the 2002 impairment loss, recognizing a gain of Ps. 30,397. The impairment losses and gains associated with the reversion of previously recognized impairments have been included within Gain (loss) from operations and holdings of real estate assets, net in the Consolidated Statements of Income.

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)****e. Fixed assets, net (Continued)**

Other property and equipment

Other property and equipment are carried at cost adjusted for inflation (as described in Note 2.c.), less accumulated depreciation. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, as specified below:

<u>Asset</u>	<u>Estimated useful life (years)</u>
Leasehold improvements	On contract basis
Facilities	Between 10 and 20
Machinery and equipment	10
Vehicles	Between 3 and 5
Software	Between 3 and 5
Computer equipment	Between 3 and 4
Furniture and fixtures	Between 5 and 10
Other	10

The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements are added to the carrying amount of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of income.

**f. Software obtained or developed for internal use**

The Company capitalizes certain costs associated with the development of computer software for internal use. Costs capitalized during the years ended June 30, 2004, 2003 and 2002 were not significant. These costs are being amortized on a straight-line basis over a period of 3 years.

**g. Intangible assets, net**

Intangible assets are carried at cost, adjusted for inflation (as described in Note 2.c.), less accumulated amortization.

Preoperating and organization expenses

This item includes:

- Expenses incurred by APSA relating to pre-opening activities of certain shopping centers. These expenses are amortized on a straight-line basis over a three-year period commencing upon the opening of the shopping center.

- Expenses incurred by IRSA relating to pre-opening activities and/or organization of subsidiaries, which are amortized on a straight-line basis over a 5-year period commencing upon the launching of the project.

Selling and advertising expenses

Expenses incurred relating to the marketing of developing properties, including advertising, commissions and other expenses, are charged to expense in the period in which the related revenue is earned, as determined under the percentage-of-completion method.

Trademarks

Fees and expenses related to the registration of trademarks are amortized on a straight-line basis over 10 years.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**g. Intangible assets, net (continued)**

Expenses related to the securitization of receivables

Expenses related to the securitization of receivables represent expenses related to the on-going securitization program of credit card receivables. These expenses are amortized on a straight-line basis over a two-year period.

Advertising expenses

Advertising expenses relate to APSA. These expenses were fully amortized during fiscal year 2004 as permitted by the transition provisions of RT No.17.

Tenants list-Patio Bullrich and others

This item primarily represents the acquired tenant list of the Patio Bullrich shopping mall, which is being amortized using the straight-line method over a five-year period.

**h. Goodwill, net**

Goodwill, net includes (a) the excess of cost over the fair value of net identifiable assets acquired related to the acquisitions of certain subsidiaries (Goodwill) and (b) the excess of the fair value of the assets acquired over the consideration paid for the acquisition of additional ownership interest in APSA (Negative goodwill). Goodwill and Negative goodwill are stated at cost adjusted for inflation (as described in Note 2.c) less accumulated amortization. Goodwill is being amortized under the straight-line method over its estimated economic life, not exceeding 10 years. Amortization of negative goodwill is calculated on a straight-line basis over the weighted-average remaining useful lives of the assets acquired, calculated as 18 years.

As required by new accounting standards, goodwill and negative goodwill are shown in a separate caption in the accompanying consolidated balance sheets.

**i. Foreign currency assets and liabilities**

Assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rates as of year-end. Transactions denominated in foreign currencies are translated into pesos at the prevailing exchange rates on the date of transaction settlement. Foreign currency transaction gains and losses are recorded within Financial results, net in the accompanying Consolidated Statements of Income.

**j. Other receivables and liabilities**

Other receivables and liabilities (asset tax credit, related parties, guarantee deposits, trust accounts receivables and customer advances) have been measured based on the best estimate of the amount receivable and payable, respectively, discounted at the interest rate applicable to freely available savings accounts published by the Argentine Central Bank in effect at the time of incorporation to the balance sheet.

**k. Financial receivables and payables**

Financial receivables and payables have been valued at the amount deposited and collected, respectively, net of operating costs, plus accrued interests based on the interest rate estimated at the time of the transaction.

As discussed in Note 4.i., in July 2003 the Company redeemed certain loans before their maturity. Therefore, at June 30, 2003 such loans had been valued at their settlement cost.

**l. Mortgages, leases and other receivables and trade accounts payable and other liabilities**

Mortgages, leases and other receivables and trade accounts payable and other liabilities have been valued at the price applicable to spot operations at the time of the transaction plus accrued interest based on the internal rate of return.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**m. Related parties balances and other transactions**

Receivables and payables with related parties generated by financial transactions and other sundry transactions have been valued in accordance with the terms agreed by the parties.

**n. Income tax provision**

The subsidiaries of the Company calculate their income taxes on a separate basis. The Company did not either calculate or pay income taxes on a consolidated basis for any of the periods presented. The statutory income tax rate was 35% for all the periods presented.

The Company records income taxes using the liabilities method required by RT No. 17. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable.

The Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes, as prescribed by Resolution MD No.11/2003 issued by the CPCECABA.

In accordance with CNV regulations, deferred tax assets and liabilities have not been discounted. Since Argentine GAAP requires the accounting for deferred tax assets and liabilities on a discounted basis, the application of the CNV resolution represents a departure from generally accepted accounting principles. However, such a departure has not had a material effect on the accompanying Consolidated Financial Statements.

**o. Asset tax provision**

The Company is subject to the asset tax. Pursuant to this tax regime, the Company is required to pay the greater of the income tax or the asset tax. Any excess of the asset tax over the income tax may be carried forward and recognized as a tax credit against future income taxes payable

over a 10-year period. The asset tax provision is calculated on an individual entity basis at the statutory asset tax rate of 1% and is based upon the taxable assets of each company as of the end of the year, as defined by Argentine law.

**p. Customer advances**

Customer advances represent payments received in advance in connection with the sale and lease of properties.

**q. Provisions for allowances and contingencies**

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



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**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**q. Provisions for allowances and contingencies (continued)**

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

**r. Advertising expenses**

The Company generally expenses advertising and promotion costs as incurred with the exception of advertising and promotion expenses incurred to market real estate projects. Advertising and promotion expenses were approximately Ps. 5.9 million, Ps. 4.0 million and Ps. 3.8 million for the years ended June 30, 2004, 2003 and 2002, respectively.

**s. Pension information**

The Company does not maintain any pension plans. Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or privately managed funds plan to which employees may elect to contribute.

**t. Impairment of long-lived assets**

The Company periodically evaluates the carrying value of its long-lived assets for impairment. The carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows, undiscounted and without interest, from such asset is separately identifiable and less than its carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or based on independent appraisals.

RT No. 17 establishes that a previously recognized impairment loss should only be reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying amount of the asset should be the lower of its fair market value or the net carrying amount the asset would have had if no impairment had been recognized.

See Notes 3.c., 3.d., and 3.e. for details of (i) the impairment loss charges recognized during the years ended June 30, 2003 and 2002, and (ii) the impairment loss reversals recognized during the years ended June 30, 2004 and 2003 as a result of changes in estimates.

**u. Vacation expenses**

Vacation expenses are fully accrued in the period the employee renders services to earn such vacation.

**v. Derivative financial instruments**

From time to time, the Company utilizes certain financial instruments to manage its foreign currency and interest rate exposures, and as a supplement to reduce its overall financing costs. The Company also engages in trading of certain financial instruments. The Company has not utilized financial instruments to hedge anticipated transactions. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counter parties to meet the terms of their contracts. The Company does not expect any losses as a result of counterpart defaults. For details on the Company's derivative instruments activity, see Note 14..

- Foreign currency forward-exchange contracts

Premiums on foreign currency forward-exchange contracts are amortized over the life of the respective contracts. The foreign currency forward-exchange contracts are recognized in the consolidated balance sheet at their fair market value with changes reported in earnings.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**3. Significant accounting policies (continued)**

**v. Derivative financial instruments**

- Interest rate swaps

Interest rate swap agreements are recognized in the consolidated balance sheet at their fair market values with changes reported in earnings.

- Futures

Premiums on future contracts are amortized over the life of the respective contracts. Futures contracts are recognized in the consolidated balance sheet at their fair market values, with changes reported in earnings.

**w. Monetary assets and liabilities**

Monetary assets and liabilities are disclosed at their par value, adding or deducting the corresponding financial results.

**x. Earnings per share**

The Company is required to disclose earnings per share information for all periods presented. Basic earnings per share ( basic EPS ) are computed by dividing the net income (loss) available to common shareholders for the period by the weighted-average number of common shares outstanding during the period. Diluted earnings per share ( diluted EPS ) are computed by dividing the adjusted net income (loss) for the period by the weighted-average number of common shares and potential common shares outstanding during the period.

In computing diluted EPS, income available to common shareholders used in the basic EPS calculation is adjusted to add back the after-tax amount of interest recognized in the period with respect to any debt convertible to common stock. Additional adjustments are made for any other income or loss items that would result from the assumed conversion of potential common shares. The weighted-average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Diluted EPS is based on the most advantageous conversion rate or exercise price over the entire term of the

instrument from the standpoint of the security holder. The calculation of diluted EPS excludes potential common shares if their effect is anti-dilutive. The Company has considered the dilutive effect of outstanding warrants and convertible debt in calculating diluted EPS.

**4. Details of balance sheet accounts**

**a. Cash and banks:**

	<u>As of June 30,</u>	
	<b>2003</b>	
	<u>2004</u>	<u>(As restated)</u>
Bank accounts	Ps. 87,502	Ps. 83,780
Cash	4,646	5,046
Checks to be deposited	948	1,057
	<u>Ps. 93,096</u>	<u>Ps. 89,883</u>

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****b. Investments:**

	<b>As of June 30,</b>	
	<b>2003</b>	
	<b>2004</b>	<b>(As restated)</b>
<b>Current</b>		
Mutual funds	Ps.37,627	Ps.102,396
Time deposits	25,837	30,518
Retained interest in transferred credit card receivables (i)	6,677	4,719
Retained interest in transferred mortgages receivables (i)	252	1,324
Government bonds	365	3,123
Other investments	46	38
	<b>Ps.70,804</b>	<b>Ps.142,118</b>
<b>Non-Current</b>		
<b>Equity investments:</b>		
Banco Hipotecario S.A. ( BHSA ) (v)	Ps.158,069	Ps. 23,677
Pérez Cuesta S.A.C.I. (iv)	5,763	5,628
Banco de Crédito y Securitización S.A.	4,590	7,007
E-Commerce Latina S.A	1,435	2,899
<b>Retained interests in securitization programs:</b>		
Retained interest in transferred credit card receivables (i)	12,001	2,567
Retained interest in transferred mortgages receivables (i)	5,675	8,777
Trust debt securities (ii)	1,410	
<b>Parcels of undeveloped land (iii):</b>		
Ciudad Deportiva de la Boca (SMP)	124,783	124,594
Puerto Retiro	46,424	46,257
Caballito	29,717	26,000
Buenos Aires Trade and Finance Center S.A.	25,979	25,973
Pereiraola	21,875	21,875
Caballito plots of land	19,898	13,616
Alcorta Plaza	17,545	15,950
Air space Supermercado Coto	10,442	9,080
Neuquén	9,983	8,539
Dique IV	6,160	6,160
Pilar	3,408	3,109
Torre Jardín IV	2,568	2,231

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Constitución 1111	1,261	1,146
Padilla 902	71	71
Benavídez		10,748
Rosario		51,501
Other parcels of undeveloped land	2,936	2,931
<b>Others:</b>		
Other investments.	12,441	37
	<u>Ps.524,434</u>	<u>Ps.420,373</u>

- 
- (i) Represents retained interests in the Company's securitization programs described in Notes 15. and 16.
  - (ii) Represents debt certificates issued by the trust in connection with the Company's securitization program described in Note 16..
  - (iii) The book value of parcels of undeveloped land at June 30, 2004 and 2003 is presented net of the impairment loss mentioned in Note 3.c.(ii)c..
  - (iv) The Company owns an 18.9% interest in Pérez Cuesta.
  - (v) See Note 3.c.(ii) a).

F-87

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****c. Mortgages and leases receivable, net:**

	<b>As of June 30,</b>	
	<b>2003</b>	
	<b>2004</b>	<b>(As restated)</b>
<b>Current</b>		
Credit card receivable	Ps. 13,722	Ps. 19,657
Leases and services receivable	10,203	20,894
Checks to be deposited	9,810	6,177
Pass-through expenses receivable (i)	4,498	5,422
Hotel receivables	4,299	2,761
Debtors under legal proceedings (ii)	26,360	24,392
Mortgage receivable (iii)	388	972
Receivable from the sale of properties	371	2,766
Related parties (Note 11)	79	137
Less:		
Allowance for doubtful accounts (Note 21.c.)	(35,299)	(46,774)
	<b>Ps. 34,431</b>	<b>Ps. 36,404</b>
<b>Non-Current</b>		
Credit card receivable	Ps. 1,834	Ps. 1,236
Mortgage receivable (iii)	1,047	1,595
Less:		
Allowance for doubtful accounts (Note 21.c.)	(45)	(54)
	<b>Ps. 2,836</b>	<b>Ps. 2,777</b>

- (i) Pass-through expenses receivable primarily represent maintenance and other operating costs relating to the common area of shopping centers paid by APSA on behalf of tenants.
- (ii) Comprised of Ps. 2.5 million and Ps. 2.3 million related to mortgage receivable and Ps. 23.9 million and Ps. 22.1 million related to leases receivable, at June 30, 2004 and 2003, respectively.
- (iii) Mortgage receivable consists of fixed-rate mortgages. At June 30, 2004, the remaining principal balance consists of mortgage receivable from several borrowers. The amount due from the largest individual borrower was Ps. 216 at a contractual interest rate of 12%. At June 30, 2004, principal payments on mortgage receivable become due as follows: 2005 - Ps. 388; 2006 - Ps. 147; 2007 - Ps. 158; 2008 - Ps. 124; 2009- Ps. 130; thereafter - Ps. 488.





**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****d. Other receivables and prepaid expenses:**

	<b>As of June 30,</b>	
	<b>2003</b>	
	<b>2004</b>	<b>(As restated)</b>
<b>Current</b>		
Related parties (Note 11)	Ps. 20,377	Ps. 1,069
Interest rate swap receivable (i)	13,816	307
Prepaid expenses	7,143	3,475
Tax on personal assets to be recovered	4,856	1,066
Less:		
Allowance for uncollectibility of tax on personal assets	(3,887)	
Income tax advances	2,860	1,086
Miscellaneous debtors	2,551	2,770
Value Added Tax ( VAT ) receivable	1,010	310
Asset tax credits	1,009	95
Trust accounts receivable	870	
Tax credit certificates	563	2,265
Guarantee deposits (ii)	500	901
Prepaid gross sales tax	407	257
Future contracts receivable (iii)	474	40
Debtors under legal proceedings	119	
Other	80	343
	<b>Ps.52,748</b>	<b>Ps.13,984</b>
<b>Non-Current</b>		
Asset tax credits	Ps.56,522	Ps.48,924
Deferred income tax (Note 17)	53,339	69,276
Mortgage receivable (iv)	2,208	2,208
Less:		
Allowance for doubtful mortgage receivable (Note 21.c.)	(2,208)	(2,208)
Interest rate swap receivable (i)		8,172
Other	17,317	4,052
Less:		
Present value other receivables	(1,384)	(3,110)
	<b>Ps.125,794</b>	<b>Ps.127,314</b>

- 
- (i) Represents the net amount of US\$ 50.0 million deposited as collateral and US\$ 45.4 million payable for the swap agreement (US\$ 47.1 million at June 30, 2003). See Note 14 for details.
  - (ii) Includes primarily Ps. 0.3 million related to a deposit required as collateral for certain labor lawsuits of the Company.
  - (iii) The Company maintains a deposit of Ps. 694 as collateral for the future contracts (Ps. 474 net of the fair value of the future contracts). See Note 14 for details.
  - (iv) Corresponds to a loan granted to an unaffiliated third party, which is collateralized by a mortgage on certain properties. During fiscal year 2001, this debtor filed for bankruptcy. As a result, the Company has recognized an allowance for the entire balance based on the opinion of its legal counsel.

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****e. Inventories:**

	<b>As of June 30,</b>	
	<b>2003</b>	
	<b>2004</b>	<b>(As restated)</b>
<b>Current</b>		
Salguero 3331	Ps. 4,744	Ps.
Abril/Baldovinos	3,239	5,397
Torres de Abasto	555	555
Torres Jardín	245	245
Resale merchandise	138	99
Rivadavia 2768	124	116
Bonus merchandise	87	105
Villa Celina	43	53
Dock 13 Puerto Madero	37	37
Mínetti D	33	42
Dock II Puerto Madero		5,648
Madero 1020		1,373
Sarmiento 517		245
Other inventories	1,327	1,172
	<b>Ps. 10,572</b>	<b>Ps. 15,087</b>
<b>Non-Current</b>		
Torres Rosario	Ps. 15,414	Ps.
Abril/Baldovinos	4,548	5,822
Salguero 3331		2,945
	<b>Ps. 19,962</b>	<b>Ps. 8,767</b>

**f. Trade accounts payable:****As of June 30,**

	2003	
	2004	(As restated)
<b>Current</b>		
Suppliers	Ps.30,771	Ps.19,340
Accruals	10,916	7,249
Imports payable	1,008	964
Related parties (Note 11)	251	173
Other	62	96
	<u>Ps.43,008</u>	<u>Ps.27,822</u>
<b>Non-Current</b>		
Imports payable	Ps. 2,865	Ps. 3,609
	<u>Ps. 2,865</u>	<u>Ps. 3,609</u>

## g. Customer advances:

	As of June 30,	
	2003	
	2004	(As restated)
<b>Current</b>		
Admission rights (i)	Ps.11,495	Ps.7,442
Advance payments from customers	8,508	3,897
Lease advances (ii)	5,451	4,183
	<u>Ps.25,454</u>	<u>Ps.15,522</u>
<b>Non-Current</b>		
Admission rights (i)	Ps.17,444	Ps.14,044
Lease advances (ii)	11,358	11,216
	<u>Ps.28,802</u>	<u>Ps.25,260</u>

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****g. Customer advances (continued):**

- (i) Admission rights represent mainly non-refundable fees received from tenants upon entering into lease agreements with the Company. These amounts are deferred and amortized to income under the straight-line basis over the respective terms of the agreements. Also, the current and non-current balance includes an advance of Ps. 0.1 million and Ps. 4.4 million, respectively, from NAI in connection with the Rosario Project, which will be settled by offsetting it against the admission rights related to the lease space of the movie theater complex to be constructed by the Company.
- (ii) Lease advances include current and non-current balances of Ps. 1.2 million and Ps. 7.2 million as of June 30, 2004, respectively, and Ps. 1.2 million and Ps. 8.2 million as of June 30, 2003, respectively, related to advances received from Hoyts Cinemas ( Hoyts ) for the construction of the movie theater complexes at the Abasto and Alto Noa Shopping Centers. These advances accrue interest at the six-month London Inter-Bank Offered Rate ( LIBOR ) plus 2-2.25%. As of June 30, 2004 the six-month LIBOR was 1.94%. Based on the agreement between the Company and Hoyts, the Company settles the advances by offsetting them against lease expense owed by Hoyts for the space it rents.

**h. Salaries and social security payables:**

	As of June 30,	
	2003	
	2004	(As restated)
Provision for vacation and bonuses	Ps. 4,721	Ps. 3,756
Social security payable	2,526	2,042
Other	734	353
	<b>Ps. 7,981</b>	<b>Ps. 6,151</b>

**i. Short-term and long-term debt:**

	As of June 30,	
	2004	2003

	_____	(As restated) _____
<b>Short-term debt</b>		
IRSA Convertible Notes (i)	Ps. 2,632	Ps. 2,765
APSA Convertible Notes (ii)	2,310	2,418
Collateralized Notes (iii)	5,930	2,677
Uncollateralized Loan Agreement (iv)	3,630	32,973
APSA Senior Notes (v)	31,469	5,882
APSA Notes (vi)	50,793	1,066
Collateralized loans (vii)	37,356	33,503
Uncollateralized loans (viii)	1,007	6,150
	_____	_____
	Ps. 135,127	Ps. 87,434
	_____	_____
<b>Long-term debt</b>		
IRSA Convertible Notes (i)	Ps. 255,922	Ps. 279,235
APSA Convertible Notes (ii)	53,578	55,550
Collateralized Notes (iii)	98,643	92,238
Uncollateralized Loan Agreement (iv)	60,664	86,365
APSA Senior Notes (v)		29,625
APSA Notes (vi)		49,091
	_____	_____
	Ps. 468,807	Ps. 592,104
	_____	_____

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****i. Short-term and long-term debt (continued):**

In November 2002 the Company completed the refinancing of the financial debts for US\$ 117 million. According to the agreements, the lenders agreed to receive (i) a cash settlement of US\$ 13.6 million, and (ii) new debt instruments in exchange for the balance. As a result, the Company issued US\$ 37.4 million Collateralized Notes, a US\$ 51 million Uncollateralized Loan Agreement and US\$ 15 million of IRSA Convertible Notes. See footnotes below for a description of the terms and conditions of each issuance. The Company accounted for the refinancing in accordance with RT 17. Since the conditions of the new debt instruments were substantially different from the original conditions (as defined by RT 17), the Company removed the original loans from the consolidated balance sheet and recognized the new debt instruments at their present value discounted at an 8% market interest rate. As a result of the debt restructuring, the Company recognized a Ps. 36.5 million gain in 2003 (Ps. 31.7 million net of expenses incurred in the restructuring), which represents the difference between the present value of the new debt instruments and the carrying value of the old debts.

(i) See Note 10 for details of the issuance of IRSA Convertible Notes.

(ii) On August 20, 2002 APSA issued US\$ 50 million of uncollateralized convertible notes (the APSA Convertible Notes) in exchange for cash and the settlement of certain liabilities. Proceeds from the issuance of APSA Convertible Notes were used to repay short-term bank loans for Ps. 27.3 million and for the redemption of the APSA Senior Notes for a principal amount of Ps. 52.8 million. The APSA Convertible Notes matures on July 19, 2006, accrues interest (payable semiannually) at a fixed annual interest rate of 10% and are convertible, at any time, at the option of the holder into APSA common shares of Ps. 0.10 par value per share. The conversion rate per U.S. dollar is the lesser amount of 30.8642 and the result obtained from dividing the exchange rate in effect at the conversion date by the par value of APSA's common shares (Ps. 0.10). The issuance of the APSA Convertible Notes was approved by its shareholders on December 4, 2001 and by the National Securities Commission on March 15, 2002, and authorized for listing on the Buenos Aires Stock Exchange on July 8, 2002. As June 30, 2004 the outstanding balance of Convertible Notes amounted to US\$ 49.1 million. In August 20, 2002 and January and November 2003, the Company subscribed US\$ 27.3, US\$ 2.6 and US\$ 1.0 million of APSA Convertible Notes, respectively. The Company has eliminated in consolidation the intercompany balances associated with this transaction and, as a result, the balance of APSA Convertible Notes with third parties shown in the consolidated balance sheets at June 30, 2004 and 2003 amounts to US\$ 18.1 million and US\$ 20.9 million, respectively.

(iii) In connection with the debt restructuring mentioned above, on November 20, 2002 the Company issued US\$ 37.4 million collateralized notes due November 20, 2009 (the Collateralized Notes). The Collateralized Notes bear interest at 3-month LIBOR plus 200 basis points. Interest is payable quarterly, commencing February 2003. In accordance with RT 17, the Company has recorded the debt on a discounted basis considering an 8% market interest rate. As of June 30, 2004, the carrying value of the debt amounts to US\$ 32.9 million. The Collateralized Notes require the Company to meet certain financial ratios and to comply with certain other covenants, including restrictions on distributions of dividends, incurrence of debt and liens, mergers, acquisitions, asset dispositions and certain payments, as well as, contain limitations on investments and capital expenditures. As collateral, the Company has mortgaged certain real estate properties (13 functional units at Libertador 498, 71 complementary units in Laminar Plaza and 19 complementary units in Dique IV) with a net book value totaling Ps. 83.9 million at June 30, 2004.

(iv) In connection with the debt restructuring, on November 20, 2002 the Company also issued a US\$ 51 million uncollateralized loan agreement due November 20, 2009 (the Uncollateralized Loan Agreement ). The principal amount will be amortized in 20 quarterly equal installments beginning in February 2005. The Uncollateralized Loan Agreement accrues interest as follows: US\$ 35 million accrue interest at 3-month LIBOR plus 200 basis points, and US\$ 16 million accrue a fixed interest rate. Interest is payable quarterly, commencing February 2003. The Uncollateralized Loan Agreement requires the Company to meet certain financial ratios and to comply with certain other covenants, including restrictions on distributions of dividends, incurrence of debt and liens, mergers, acquisitions, asset dispositions and certain payments, as well as, contain limitations on investments and capital expenditures. As required by RT 17 for an exchange of debt with substantially different terms, the Company originally recorded the issuance on a discounted basis considering an 8% market interest rate. On July 25, 2003 the Company repurchased the abovementioned US\$ 16 million portion of the Uncollateralized Loan Agreement for US\$ 10.9 million in cash. In addition, on March 17, 2004 the Company repurchased US\$ 12 million of the US\$ 35 million portion of the Uncollateralized Loan Agreement for US\$ 8.6 million in cash. Consequently, at June 30, 2004 the outstanding balance amounts to US\$ 20.3 million.



**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****i. Short-term and long-term debt (continued):**

(v) On January 18, 2001, APSA together with its wholly owned subsidiary, SAPSA, issued US\$ 120.0 million of Senior Notes due January 13, 2005 (the APSA Senior Notes). The APSA Senior Notes were issued in three classes: US\$ 40.0 million of Class A-2 Senior Notes; US\$ 5.0 million of Class B-1 Senior Notes; and US\$ 75.0 million of Class B-2 Senior Notes. Class A-2, Class B-1 and Class B-2 Senior Notes accrue interest at a Badlar rate (as defined below) plus 395 basis points, 90-day Libor plus 475 basis points and Badlar rate plus 395 basis points, respectively (30-day Badlar represents a referenced average interest rate payable by several private banks in Argentina to US dollar-denominated time deposits of US\$ 1 million or more, as adjusted in accordance with a specified formula). Pursuant to Decree N° 214, debts in U.S. dollars or other foreign currencies in the Argentine financial system were converted to pesos at the rate of exchange of Ps. 1 per US\$ 1 or its equivalent in another currency. As from February 3, 2002 an adjusting index (CER) is being applied to the balance. During the year ended June 30, 2003, APSA repurchase its Senior Notes for Ps. 80.8 million. Proceeds received from the issuance of Convertible Notes to finance the repurchase of Senior Notes for Ps. 52.8 million. At June 30, 2003 the outstanding principal balance amounted to Ps. 20.8 million. During the year ended June 30, 2004 the Company made principal payments at maturity for Ps. 3.3 million. As of June 30, 2004 the outstanding principal balance was Ps. 17.5 million and the rate applied to this debt was 8% per annum. In August 2004 APSA repurchased Ps. 13.7 million of its Senior Notes. The Senior Notes are collateralized by a pledge on the shares of SAPSA. The Senior Notes include various restrictive covenants, which among other things require the Company to maintain certain financial ratios.

(vi) On April 7, 2000, APSA issued Ps. 85.0 million 14.875% unsecured Notes due April 7, 2005 (the APSA Notes). Interest on the APSA Notes are payable semiannually on April 7 and October 7 of each year, commencing October 7, 2000. Proceeds from this issuance were used to repay certain outstanding bridge financing obtained by APSA. The APSA Notes include various restrictive covenants, which among other things require APSA to maintain certain financial ratios. During the years ended June 30, 2003, 2002 and 2001, APSA redeemed Ps. 1.8 million, Ps. 15.5 million and Ps. 18.1 million of the Notes, respectively, at different prices below par plus accrued interest. At June 30, 2004 the balance was comprised of Ps. 49.6 million of principal, Ps. 1.7 million of accrued interest and Ps. (0,5) million of deferred financing cost. Subsequent to June 30, 2004 APSA redeemed an additional Ps. 1.2 million of the Notes.

(vii) At June 30, 2004, collateralized loans primarily include the outstanding balance of a US\$ 12 million collateralized loan obtained by Hoteles Argentinos S.A. (a subsidiary of the Company) from Bank Boston N.A due January 2005. Principal is payable in 19 quarterly installments of US\$ 0.3 million beginning April 2001 plus US\$ 6.3 million payable at maturity. This loan accrues interest at a variable rate, which is also paid quarterly (interest rate ranged between 5.8700% and 6.0713% during 2004). The loan is collateralized by real estate properties with a net book value of Ps. 31.3 at June 30, 2004. At the date of issuance of these consolidated financial statements, the Company had not paid 11 principal and 9 interest installments already matured as a result of the financial crisis and lack of credit in the bank system. Management of Hoteles Argentinos is currently carrying out negotiations with its creditor. Since the creditor has the right to request the acceleration of principal and interest maturities, the entire loan balance has been classified as a current liability. On March 5, 2004, Bank Boston N.A. formally notified Hoteles Argentinos S.A. that as from March 10, 2004 it assigned to Marathon Master Fund Ltd., domiciled at 461 Fifth Avenue, 10th floor, New York, NY 10017, USA, all the rights and obligations arising from this loan agreement together with all related amendments, guarantees and insurance policies. Consequently, the outstanding obligation of Hoteles Argentinos S.A. must be fulfilled in favor of the assignee, Marathon Master Fund Ltd.

(viii) Represent short-term borrowings, which are in the form of overdraft facilities and/or bank loans with an original maturity of less than one year. The weighted average interest rates on short-term debt were 9.0% and 9.6% as of June 30, 2004 and 2003, respectively. APSA generally used the proceeds from these borrowings for working capital needs and other general corporate purposes. APSA had unused lines of credit under the short-term bank lines of Ps. 115.8 million at June 30, 2004.

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****j. Taxes payable:**

	<u>As of June 30,</u>	
	<b>2003</b>	
	<u>2004</u>	<u>(As restated)</u>
<b>Current</b>		
Asset tax payable, net	Ps. 4,565	Ps. 5,110
VAT payable	2,483	2,292
Income tax provision, net	2,008	411
Income tax withholdings	1,401	1,106
Gross sales tax payable	956	924
Value added tax withholdings	62	42
Other	166	148
	<u>Ps. 11,641</u>	<u>Ps. 10,033</u>
<b>Non-Current</b>		
Gross sales tax payable	Ps. 3,120	Ps. 77
Deferred income tax (Note 17)	3,087	1,607
	<u>Ps. 6,207</u>	<u>Ps. 1,684</u>

**k. Other liabilities:**

	<u>As of June 30,</u>	
	<b>2003</b>	
	<u>2004</u>	<u>(As restated)</u>
<b>Current</b>		
Director s fees (Note 11)	Ps. 6,862	Ps. 7,840
Provision for contingencies (Note 21.c.) (ii)	6,439	12,402
Seller financing (i)	5,781	6,625

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Related parties (Note 11)	3,150	2,858
Donations payable (Note 11)	3,029	4,827
Dividends payable (Note 11)	2,379	1,521
Accruals	690	444
Guarantee deposits	503	732
Trust account payable	282	
Contributed leasehold improvements (iii)	212	212
Pending settlements for sales of plots	149	113
Payable from hotel operations	65	113
Other	1,052	1,989
	<u>Ps. 30,593</u>	<u>Ps. 39,676</u>
<b>Non-Current</b>		
Provision for contingencies (Note 21.c.) (ii)	Ps. 6,549	Ps. 4,682
Guarantee deposits	3,030	977
Contributed leasehold improvements (iii)	690	902
Dividends payable		1,182
Other	20	21
Less:		
Present value other liabilities	(139)	(433)
	<u>Ps. 10,150</u>	<u>Ps. 7,331</u>

- (i) As of June 30, 2004 this balance included a principal amount of Ps. 3.3 million relating to the seller financing obtained in the acquisition of Shopping Neuquén, plus Ps. 1.8 million related to the CER. Such seller financing accrues interest at six-month LIBOR. As of June 30, 2004, the six-month LIBOR was 1.94%. As of June 30, 2003 the balance also included a principal amount of Ps. 1.0 million plus accrued interest of Ps. 0.5 million relating to the seller financing obtained in the acquisition of SMP. The shares of SMP were pledged as collateral for this seller financing. Such seller financing accrued interest at one-year LIBOR. As of June 30, 2003, the one-year LIBOR was 8%.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)**

**k. Other liabilities (continued):**

(ii) This reserve relates to: (a) labor lawsuits filed against the Company, (b) tax matters related to differences in basis in the computation of certain tax contributions, and, (c) other sundry claims. In the opinion of management and based on consultation with external legal counsel, the Company has established provisions for amounts which are probable of adverse occurrence and which, according to estimates developed by the Company's legal counsel, would meet all related contingencies and corresponding fees relating to these claims. The classification of contingency reserves as non-current liabilities was based on a review of the current facts and circumstances and consultation with external legal counsel. Management reassesses these matters as new facts are brought into management's attention.

(iii) Contributed leasehold improvements relate to improvements made by a tenant in the general area of the Abasto Shopping Center. The Company has recorded the improvements as fixed asset based on construction costs incurred with a corresponding deferred liability. Contributed leasehold improvements are amortized to income over the term of lease. Such amortization, net of the related depreciation of the leasehold improvement, was immaterial for the years ended June 30, 2004 and 2003.

**5. Shareholders' equity**

**a. Common stock**

As of June 30, 2004, the Company had 248,802,993 authorized and outstanding shares of common stock, having a par value of Ps. 1.0 per share. Holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders.

There was no share activity during the year ended June 30, 2002. Following is a detail of the activity during the years ended June 30, 2003 and 2004:

Common Stock			Approved by		Date of registration
Shares	Par value	Additional	Body	Date	
issued		paid-in-capital			

<b>Balances as of June 30, 2002</b>	<b>Ps. 207,411,988</b>	<b>Ps. 207,412</b>	<b>Ps. 569,481</b>			
Distribution of treasury stock	4,587,285	4,588		Ordinary and Extraordinary Shareholders Meeting	November 5 and 27, 2002	November 5, 2002
Conversion of debt into common shares (Note 10)	12,531	13	8	Board of Directors Meeting	August 22, 2003	August 22, 2003
<b>Balances as of June 30, 2003</b>	<b>Ps. 212,011,804</b>	<b>Ps. 212,013</b>	<b>Ps. 569,489</b>			
Conversion of debt into common shares and exercise of warrants (Note 10)	36,791,189	36,790	26,016	Board of Directors Meeting	August 22, December 31, 2003; March 31, June 30, 2004	Pending
<b>Balances as of June 30, 2004</b>	<b>Ps. 248,802,993</b>	<b>Ps. 248,803</b>	<b>Ps. 595,505</b>			

**b. Capital nature transactions**

From time to time, the Company repurchases outstanding shares of common stock when it believes that its stock price is undervalued in the marketplace. At June 30, 2002 the Company held 4,587,285 shares in treasury. These shares were distributed during fiscal year 2003 to the Company's shareholders on a pro-rata basis.

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**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**5. Shareholders equity (continued)**

**c. Inflation adjustment of common stock**

As mentioned in Note 2.c. the Company's Consolidated Financial Statements were prepared on the basis of general price-level accounting which reflected changes in the purchase price of the peso in the historical financial statements until February 28, 2003. The inflation adjustments related to common stock and treasury stock were appropriated to inflation adjustment reserves that form part of shareholders' equity. According to Argentine GAAP, the balances of the inflation adjustment reserves may be applied only towards the issuance of common stock to shareholders of the Company.

**d. Restriction on the distribution of profits**

In accordance with the Argentine Corporations Law and the Company's By-laws, 5% of the net and realized profit for the year calculated in accordance with Argentine GAAP plus (less) prior year adjustments must be appropriated by resolution of the shareholders to a legal reserve until such reserve equals 20% of the Company's outstanding capital. This legal reserve may be used only to absorb losses.

In addition, certain of the Company's financial debts contain covenants, which restrict the company's ability to pay dividends.

**e. Noncontributory Management Stock Ownership Plan**

On October 30, 1997, the shareholders authorized the Company to enter into a Noncontributory Management Stock Ownership Plan ( NMSOP ) with eight executive officers of the Company (the Beneficiaries ), pursuant to which the Beneficiaries were granted the right to purchase up to 24 million shares of common stock (the Participation Shares ), at a purchase price equal to Ps. 1.0 per share, subject to the implementation of an Equity Participation Agreement ( EPA ). Under Argentine law, the Company established a special purpose trust in this connection (the Trust ).

The Beneficiaries were required to purchase the Participation Shares available, if any, within 24 months of any capital increase. The Trust has an original term of six years. According to the terms of the NMSOP and the Trust, Beneficiaries are not entitled to receive any distributions (either in the form of shares, cash or other) from the Trust during its term, although, Beneficiaries are allowed to cause the Trust to sell their designated shares of common stock held by the Trust in certain cases. In addition, the Company was not allowed to grant any loans or otherwise assist the Beneficiaries in financing the purchase of the Participation Shares.

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On April 7, 1998, the Company's shareholders, at an extraordinary shareholders' meeting, approved a capital increase of 24 million shares to permit the Beneficiaries to purchase all of the Participation Shares to which they were entitled under the EPA. The BASE and the CNV approved the capital increase on June 4, 1999, and on August 31, 1999 the Beneficiaries acquired 21,090,024 shares at Ps. 1.0 per share.

At June 30, 2003, all the shares held by the trust were sold in accordance with the terms of the contract and, therefore, no shares in trust are recorded.

### 6. Segment information

The Company is required to disclose segment information in accordance with RT 18. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. Accordingly, the Company has five reportable segments. These segments are Development and sales of properties, Office and other non-shopping center rental properties, Shopping centers, Hotel operations and Others.

A general description of each segment follows:

Development and sale of properties

This segment includes the operating results of the Company's construction and ultimate sale of residential buildings business.

F-96



**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**6. Segment information (continued)**

Office and other non-shopping center rental properties

This segment includes the operating results of the Company's lease and service revenues of office space and other non-retail building properties from tenants.

Shopping centers

This segment includes the operating results of the Company's shopping centers principally comprised of lease and service revenues from tenants. This segment also includes revenues derived from credit card transactions that consist of commissions and financing income.

Hotel operations

This segment includes the operating results of the Company's hotels principally comprised of room, catering and restaurant revenues.

Others

This segment primarily includes revenues and associated costs generated from the sale of equity securities, other securities-related transactions and other non-core activities of the Company. This segment also includes the results in equity investees of the Company relating to internet, telecommunications and other technology-related activities of the Company.

The Company measures its reportable segments based on net income. Inter-segment transactions, if any, are accounted for at current market prices. The Company evaluates performance of its segments and allocates resources to them based on net income. The Company is not dependent on any single customer.

The accounting policies of the segments are the same as those described in Note 3.



**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**6. Segment information (continued)**As of and for the year ended June 30, 2004:

	<b>Development and sale of properties</b>	<b>Office and other non- shopping center rental properties</b>	<b>Shopping centers</b>	<b>Hotel operations</b>	<b>Others</b>	<b>Total</b>
Revenues	Ps. 31,116	Ps. 15,144	Ps. 143,250	Ps. 71,295	Ps.	Ps. 260,805
Costs	(26,647)	(8,273)	(72,447)	(40,049)		(147,416)
<b>Gross profit</b>	<b>4,469</b>	<b>6,871</b>	<b>70,803</b>	<b>31,246</b>		<b>113,389</b>
Selling expenses	(3,957)	(54)	(10,872)	(8,150)		(23,033)
Administrative expenses	(6,689)	(4,331)	(23,607)	(15,613)		(50,240)
Gain in credit card trust			261			261
Gain from operations and holdings of real estate assets, net	7,037	27,743	26,908	2,655		64,343
<b>Operating income</b>	<b>860</b>	<b>30,229</b>	<b>63,493</b>	<b>10,138</b>		<b>104,720</b>
Amortization of goodwill			(2,904)			(2,904)
Equity (loss) gain from relate parties	(189)		(1,127)		27,969	26,653
Financial results, net	(6,127)	(6,205)	(13,543)	(4,930)	41,351	10,546
Other expenses, net			(4,800)	(2,116)	(5,675)	(12,591)
<b>(Loss) income before taxes and minority interest</b>	<b>(5,456)</b>	<b>24,024</b>	<b>41,119</b>	<b>3,092</b>	<b>63,645</b>	<b>126,424</b>
Income tax expense	(462)	(3,268)	(16,311)	(3,060)	(2,619)	(25,720)
Minority interest	429	(1,279)	(9,275)	(2,717)		(12,842)
<b>Net (loss) income</b>	<b>(5,489)</b>	<b>19,477</b>	<b>15,533</b>	<b>(2,685)</b>	<b>61,026</b>	<b>87,862</b>
Additions of fixed assets	232	54	20,397	4,390		25,073
Depreciation and amortization (a)	(1,217)	5,962	52,612	8,134		65,491
Non current investments in jointly controlled companies			7,198		162,659	169,857
Operating assets	295,869	275,849	992,036	131,478		1,695,232
Non-operating assets	59,335	55,321	59,469	7,019	326,568	507,712
<b>Total assets</b>	<b>Ps. 355,204</b>	<b>Ps. 331,170</b>	<b>Ps. 1,051,505</b>	<b>Ps. 138,497</b>	<b>Ps. 326,568</b>	<b>Ps. 2,202,944</b>

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(a) Included in operating income.

F-98

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**6. Segment information (continued)**As of and for the year ended June 30, 2003 (as restated):

	<u>Development and sale of properties</u>	<u>Office and other non- shopping center rental properties</u>	<u>Shopping centers</u>	<u>Hotel operations</u>	<u>Others</u>	<u>Total</u>
Revenues	Ps. 47,241	Ps. 17,770	Ps. 113,754	Ps. 57,730	Ps.	Ps. 236,495
Costs	(47,113)	(9,093)	(67,088)	(31,373)		(154,667)
<b>Gross profit</b>	<b>128</b>	<b>8,677</b>	<b>46,666</b>	<b>26,357</b>		<b>81,828</b>
Selling expenses	(4,023)	(80)	(17,594)	(6,858)		(28,555)
Administrative expenses	(6,106)	(4,409)	(21,356)	(13,323)		(45,194)
Gain on purchasers rescissions of sales contracts	9					9
Loss in credit card trust			(4,077)			(4,077)
Gain (loss) from operations and holdings of real estate assets, net	12,944	(1,891)	10,454			21,507
<b>Operating income</b>	<b>2,952</b>	<b>2,297</b>	<b>14,093</b>	<b>6,176</b>		<b>25,518</b>
Amortization of goodwill			(6,631)			(6,631)
Equity loss from relate parties	(285)		(12,072)		(2,344)	(14,701)
Financial results, net	(2,132)	(2,095)	83,301	11,056	225,171	315,301
Other income (expenses), net			13,272	(3,734)	(10,397)	(859)
<b>Income before taxes and minority interest</b>	<b>535</b>	<b>202</b>	<b>91,963</b>	<b>13,498</b>	<b>212,430</b>	<b>318,628</b>
Income tax benefit (expense)	663	(1,009)	(46,755)	1,433	49,197	3,529
Minority interest	5,135	(1,386)	(35,212)	(4,249)		(35,712)
<b>Net income (loss)</b>	<b>6,333</b>	<b>(2,193)</b>	<b>9,996</b>	<b>10,682</b>	<b>261,627</b>	<b>286,445</b>
Additions of fixed assets	6,606	5,469	3,449	3,150		18,674
Depreciation and amortization (a)	3,637	5,961	52,641	7,198		69,437
Non current investments in jointly controlled companies			8,527		30,684	39,211
Operating assets	299,024	255,890	994,917	130,534		1,680,365
Non-operating assets	43,835	37,511	49,307	8,255	262,683	401,591

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Total assets	Ps. 342,859	Ps. 293,401	Ps. 1,044,224	Ps. 138,789	Ps. 262,683	Ps. 2,081,956
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(a) Included in operating income.

F-99

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**6. Segment information (continued)**As of and for the year ended June 30, 2002 (as restated):

	Development and sale of properties	Office and other non- shopping center rental properties	Shopping centers	Hotel operations	International (b)	Others	Total
Revenues	Ps. 54,376	Ps. 44,472	Ps.	Ps. 57,396	Ps.	Ps.	Ps. 156,244
Costs	(43,460)	(13,193)		(40,309)			(96,962)
<b>Gross profit</b>	<b>10,916</b>	<b>31,279</b>		<b>17,087</b>			<b>59,282</b>
Selling expenses	(6,753)	(590)		(6,903)			(14,246)
Administrative expenses	(11,197)	(6,060)	(1,393)	(16,347)	(1,261)		(36,258)
(Loss) gain from operations and holdings of real estate assets, net	(26,798)	(49,285)		(6,612)	35,855		(46,840)
<b>Operating (loss) income</b>	<b>(33,832)</b>	<b>(24,656)</b>	<b>(1,393)</b>	<b>(12,775)</b>	<b>34,594</b>		<b>(38,062)</b>
Equity gain (loss) from related parties	1,614		(4,611)	(9)	(3,379)	1,814	(4,571)
Financial results, net	(29,048)	(16,668)		(12,468)		(438,314)	(496,498)
Other expenses, net						(4,483)	(4,483)
<b>(Loss) income before taxes and minority interest</b>	<b>(61,266)</b>	<b>(41,324)</b>	<b>(6,004)</b>	<b>(25,252)</b>	<b>31,215</b>	<b>(440,983)</b>	<b>(543,614)</b>
Income tax benefit (expense)	4,616	(5,236)	(789)	1,769	(1,282)	(164)	(1,086)
Minority interest	(3,962)			4,939			977
<b>Net (loss) income</b>	<b>(60,612)</b>	<b>(46,560)</b>	<b>(6,793)</b>	<b>(18,544)</b>	<b>29,933</b>	<b>(441,147)</b>	<b>(543,723)</b>
Additions of fixed assets	1,639	20,747		2,724			25,110
Depreciation and amortization (a)	(10,342)	9,444		9,658	(212)		8,548
Non-current investments in jointly controlled companies			348,648			2,982	351,630
Operating assets	356,644	276,199	302,670	134,558			1,070,071
Non operating assets	42,616	33,003	36,167	16,079	29,361	88,753	245,979

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Total assets	Ps. 399,260	Ps. 309,202	Ps. 338,837	Ps. 150,637	Ps. 29,361	Ps. 88,753	Ps. 1,316,050
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- (a) Included in operating (loss) income.  
 (b) This segment includes the results of operations of the Company's equity investment in Brazil Realty, which was sold in February 2002.

**7. Gain (loss) from operations and holdings of real estate assets, net:**

	Year ended June 30,		
	2004	2003 (As restated)	2002 (As restated)
Income from transactions related to shares of jointly controlled, affiliated and related companies	Ps. 64,343	Ps. 10,121	Ps. 35,855
Results from holding of investment in real estate		11,386	(82,695)
	<b>Ps. 64,343</b>	<b>Ps. 21,507</b>	<b>Ps. (46,840)</b>



**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**8. Financial results, net:**

	Year ended June 30,		
	2004	2003	2002
	(As restated)	(As restated)	(As restated)
<b>Generated by assets:</b>			
Financial operating net results	Ps. 52,858	Ps. 29,704	Ps. (140,053)
Exchange gain (loss)	16,543	(73,993)	(51,244)
Results from derivative instruments	17,641	79,874	
Interest income	5,261	17,574	3,993
Interest on discounting assets	1,695	(1,697)	
Loss on exposure to inflation		(13,754)	(10,049)
Other			(9)
	<u>Ps. 93,998</u>	<u>Ps. 37,708</u>	<u>Ps. (197,362)</u>
<b>Generated by liabilities:</b>			
Discounts	Ps. 7,235	Ps. 36,868	Ps.
Gain on exposure to inflation		11,847	32,532
Interest on discounting liabilities	(294)	32,063	
Exchange (loss) gain	(29,578)	262,676	(267,177)
Financial expenses	(60,815)	(65,861)	(64,491)
	<u>(83,452)</u>	<u>277,593</u>	<u>(299,136)</u>
<b>Financial results, net</b>	<u>Ps. 10,546</u>	<u>Ps. 315,301</u>	<u>Ps. (496,498)</u>

**9. Other expenses, net:**

	Year ended June 30,		
	2004	2003	2002
	(As restated)	(As restated)	(As restated)
<b>Other income:</b>			
Recovery of allowance for doubtful account, net	Ps. 1,229	Ps.	Ps.

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Gain on early redemption of loans	785		
Gain from the sale of intangible assets	252	2,976	
Gain on repurchase of debt (i)		13,030	
Gain from the sale of fixed assets		768	
Other	1,448	2,372	1,755
	<u>Ps. 3,714</u>	<u>Ps. 19,146</u>	<u>Ps. 1,755</u>
<b>Other expenses:</b>			
Provision for contingencies	Ps. (5,374)	Ps. (7,651)	Ps.
Tax on personal assets	(3,887)		
Donations	(2,685)	(5,944)	(328)
Tax amnesty plan for gross sales tax payable	(2,133)		
Debit and credit tax	(780)	(955)	(2,177)
Unrecoverable VAT	(727)	(1,178)	(1,686)
Other	(719)	(4,277)	(2,047)
	<u>(16,305)</u>	<u>(20,005)</u>	<u>(6,238)</u>
<b>Other expenses, net</b>	<u>Ps. (12,591)</u>	<u>Ps. (859)</u>	<u>Ps. (4,483)</u>

- (i) During the year ended June 30, 2003, APSA repurchased a portion of the Senior Notes and the Notes (Ps. 80.8 million and Ps. 1.8 million, respectively), at different prices below par plus accrued interest. In connection with the repurchase, APSA recorded a gain of Ps. 19.8 million (Ps. 12.9 million after tax). Such gain is net of a charge of Ps. 5.4 million (Ps. 3.5 million after tax) relating to the amortization of deferred financing costs associated with the repurchase obligations.

**Table of Contents**

**IRSA Inversiones y Representaciones Sociedad Anónima**

**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**10. Issuance of IRSA Convertible Notes**

On November 21, 2002, the Company issued US\$ 100 million of 8% convertible notes due 2007 ( IRSA Convertible Notes ) with non-detachable warrants to acquire additional shares of common stock (the Warrants ) in exchange for US\$ 85 million in cash and the settlement of certain liabilities (See Note 4.i.). In accordance with the agreement, IRSA Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares. The agreement provides for an original conversion price of US\$ 0.55713, which only can be adjusted as a result of anti-dilution provisions. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of US\$ 0.66856 per share. The exercise price of the warrants is also adjusted as a result of anti-dilution provisions. In accounting for this issuance, no proceeds were allocated to the conversion feature and warrants. Proceeds from the issuance of IRSA Convertible Notes were mainly allocated to the settlement and restructuring of the debts outstanding at that date and to finance Company's working capital.

As a result of the distribution of treasury shares approved by the shareholders in November 2002, effective December 20, 2002 the conversion price and the warrants exercise price was decreased to US\$ 0.54505 and to US\$ 0.65406, respectively.

During the years ended June 30, 2003 and 2004, certain holders of IRSA Convertible Notes for a total amount of US\$ 12.9 million exercised their conversion rights and, as a result, the Company issued 12,531 shares and 23,734,388 shares of common stock, respectively. During the year ended June 30, 2004, the Company also issued 13,056,801 shares of common stock in exchange for US\$ 8.5 million cash as a result of the exercise of warrants. At June 30, 2004 the outstanding balance of IRSA Convertible Notes amounted to US\$ 87.1 million.

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2004, 2003 and 2002**

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

**11. Balances and transactions with related parties**

The following is a summary of the balances and transactions with related parties:

Company	Relation	Description of Transaction / caption	Income (loss) included in the statement of			Balance receivable	
			income for the year ended			(payable) as of June 30,	
			June 30,			2003	
			2003	2002		2003	
			2004 (As restated)	(As restated)	2004 (As restated)	(As restated)	
Alternativa Gratis S.A.	Subsidiary of IRSA Telecomunicaciones N.V., equity investee of the Company (through Ritelco S.A.).	Mortgages and leases receivables, net (current)	Ps.	Ps.	Ps.	Ps. 16	Ps. 5
		Accrued interest			126		
		Rental income	38				
		Sales and developments					