

IRSA INVESTMENTS & REPRESENTATIONS INC
Form 20-F
October 31, 2018

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended June 30, 2018

OR

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

OR

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

Date of event requiring this shell company report ____

For the transition period from ____ to ____

Commission file number 001-13542

IRSA Inversiones y Representaciones Sociedad Anónima
(Exact name of Registrant as specified in its charter)

IRSA Investments and Representations Inc.
(Translation of Registrant's name into English)

Republic of Argentina
(country of incorporation or organization)

Bolívar 108
(C1066AAD)
Ciudad Autónoma de Buenos Aires, Argentina
(Address of principal executive offices)

Matías Iván Gaivironsky - Chief Financial and Administrative Officer

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Moreno 877 24th Floor (C1091AAQ) - Ciudad Autónoma de Buenos Aires, Argentina

(Name, Telephone, E-mail and/or address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Global Depositary Shares, each representing ten shares of Common Stock	New York Stock Exchange
Common Stock, par value Ps.1.00 per share	New York Stock Exchange*

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the period covered by the annual report: 578,676,460.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:
Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.
Yes No

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 and Exchange Act of 1934 during the preceding 12 months (or of 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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International Financial Reporting Standards as issued by the International Accounting statements
U.S. GAAP included in this filing:

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

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

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 23 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. Yes No

Please send copies of notices and communications from the Securities and Exchange Commission to:

Carolina Zang

David Williams

Jaime Mercado

Zang Vergel & Viñes

Simpson Thacher & Bartlett LLP

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IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA

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DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, principally under “Item 3.D. Risk Factors,” “Item 4. Information on the Company,” and “Item 5. Operating and Financial Review and Prospects.” We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

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

- changes in general economic, financial, business, political, legal, social or other conditions in Argentina or elsewhere in Latin America or in Israel or changes in developed or emerging markets;

- changes in capital markets in general that may affect policies or attitudes toward lending to or investing in Argentina or Argentine companies, including volatility in domestic and international financial markets;

- deterioration in regional, national and international business and economic conditions;

- inflation;

- fluctuations in prevailing interest rates;

- increases in financing costs or our inability to obtain additional financing on attractive terms, which may limit our ability to fund existing operations and to finance new activities;

- current and future government regulation and changes in law or in the interpretation by Argentine courts of the recently adopted Civil and Commercial Code, among others;

- adverse legal or regulatory disputes or proceedings;

- fluctuations and declines in the aggregate principal amount of Argentine public debt outstanding;

- political events, civil strife and armed conflicts;

- government intervention in the private sector and in the economy, including through nationalization, expropriation, regulation or other actions;

- restrictions on transfer of foreign currencies and other exchange controls;

- increased competition in the shopping mall sector, office or other commercial properties and related industries;

- potential loss of significant tenants at our shopping malls, offices and/ or other commercial properties;

- our ability to timely transact in the real estate market in Argentina or Israel;

- our ability to meet our debt obligations;

shifts in consumer purchasing habits and trends;

technological changes and our potential inability to implement new technologies;

deterioration in regional and national businesses and economic conditions in Argentina;

incidents of government corruption that adversely impact on the development of real estate projects;

fluctuations in the exchange rate of the Peso and the NIS against other currencies;

risks related to our investment in Israel; and

the risk factors discussed under “Item 3.D. Risk Factors.”

You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “estimates,” “anticipates,” “could,” “target,” “projects,” “contemplates,” “potential,” “continue” or other expressions. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

As of June 30, 2018, the Company has two operations centers to manage its global business, which we refer to in this annual report as the “Operations Center in Argentina” and the “Operations Center in Israel.”

You should not place undue reliance on such statements which speak only as of the date that they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we might issue in the future.

Available information

We file annual, quarterly and other information with the United States Securities and Exchange Commission or “SEC”. You may read and copy any document that we file with the SEC at the SEC’s public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549; and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and www.sec.gov. 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.irsa.com.ar>. The information contained on this website does not form part of this annual report on form 20-F.

You may request a copy of these filings at no cost, by writing or calling our offices, Bolivar 108, (C1066AAB) City of Buenos Aires, Argentina. Our telephone number is +54-11-4323-7400.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

The terms “Argentine government” and “government” refer to the federal government of Argentina, the term “Central Bank” refers to the Banco Central de la República Argentina (the Argentine Central Bank), the terms “CNV” and “CNV Rules” refers to the Comisión Nacional de Valores (the Argentine National Securities Commission) and the rules issued by the CNV, respectively. In this annual report, when we refer to “Peso,” “Pesos” or “Ps.” we mean Argentine Pesos, the legal currency of Argentina; when we refer to “U.S. dollar,” “U.S. dollars” or “US\$” we mean United States dollars, the legal currency of the United States; when we refer to “NIS” we mean Israeli New Shekel.

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

Financial Statements

This annual report contains our Audited Consolidated Financial Statements as of June 30, 2018 and 2017 for our fiscal years ended June 30, 2018, 2017 and 2016 (our “Audited Consolidated Financial Statements”). Our Audited Consolidated Financial Statements have been audited by Price Waterhouse & Co S.R.L. City of Buenos Aires, Argentina, member of PriceWaterhouseCoopers International Limited, an independent registered public accounting firm whose report is included herein.

IDB Development Corporation Ltd. (“IDBD”) and Discount Investment Corporation (“DIC”) report their quarterly and annual results following the Israeli regulations, whose legal deadlines are after the deadlines in Argentina and since IDBD and DIC fiscal years end differently from IRSA, the results of operations from IDBD and DIC are consolidated with a lag of three months and adjusted for the effects of significant transactions taking place in such period. For these reasons, it is possible to obtain the quarterly results of IDBD and DIC in time so that they can be consolidated by IRSA and reported to the CNV in its Consolidated Financial Statements within the legal deadlines set in Argentina. This way, the consolidated comprehensive income for the year ended June 30, 2018 includes the results of IDBD and DIC for the 12-month period from April 1, 2017 to March 31, 2018, adjusted for the significant transactions that occurred between April 1, 2018 and June 30, 2018. In addition, IDBD’s results of operations for the period beginning

October 11, 2015 (the acquisition of control) through March 31, 2016 are included in the company's consolidated comprehensive income for fiscal year ended June 30, 2016, adjusted by significant transactions occurred between April 1, 2016 and June 30, 2016.

The Company has established two Operations Centers, Argentina and Israel, to manage its global business, mainly through the following companies:

- (i) Corresponds to Company's associates, which are hence excluded from consolidation.
- (ii) The results are included in discontinued operations, due to the loss of control in June 2018.
- (iii) Disclosed as financial assets held for sale.
- (iv) Assets and liabilities are disclosed as held for sale and the results as discontinued operations.
- (v) For more information about the change within the Operations Center in Israel see Note 4 to the Audited Consolidated Financial Statements.

Inflation

We have determined that, as of July 1, 2018, the Argentine economy qualifies as a hyperinflationary economy according to the guidelines to International Accounting Standard 29, Financial Reporting in Hyperinflationary Economies ("IAS 29") since the total cumulative inflation in Argentina in the 36 months prior to July 1, 2018, as measured by the wholesale price index published by the INDEC, exceeded 100%. IAS 29 will be applicable to our financial statements for periods ending after July 1, 2018.

IAS 29 requires that the financial information recorded in a hyperinflationary currency be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the reporting period. Therefore, our audited consolidated financial statements included in this annual report will be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the most recent reporting period. We have not estimated yet the impact of the application of IAS 29 provisions in our audited consolidated financial statements. Our Audited Consolidated Financial Statements included in this annual report were not restated into constant currency.

For more information, see "Risk Factors—Risks Relating to Argentina—The peso qualifies as a currency of a hyperinflationary economy under IAS 29. We cannot assure you whether regulatory agencies of the Argentine national government will require us to not apply IAS 29 to financial statements furnished to such regulators" and "—Continuing inflation may have an adverse effect on the economy and our business, financial condition and results of operations."

Currency translations and rounding

In this annual report where we refer to "Peso," "Pesos," or "Ps." we mean Argentine Pesos, the lawful currency in Argentina; when we refer to "U.S. Dollars," or "US\$" we mean United States Dollars, the lawful currency of the United States of America; when we refer to "Real," "Reals," "Rs." or "R\$" we mean Brazilian Real, the lawful currency in the Federative Republic of Brazil; when we refer to "NIS," we mean New Israeli Shekels, the lawful currency of Israel; and when we refer to "Central Bank" we mean the Banco Central de la República Argentina (Argentine Central Bank).

Our functional and presentation currency is the Peso, and accordingly our Financial Statements included in this annual report are presented in Pesos. We have translated some of the Peso amounts contained in this annual report into U.S. dollars for convenience purposes only. Unless otherwise specified or the context otherwise requires, the rate used to convert Peso amounts to U.S. dollars is the seller exchange rate quoted by Banco de la Nación Argentina of Ps.28.8500 per US\$1.00 for information provided as of June 30, 2018. The average seller exchange rate for the fiscal year 2018, quoted by Banco de la Nación Argentina was Ps.19.4888. The U.S. dollar-equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the Peso amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. The seller exchange rate quoted by Banco de la Nación Argentina was Ps.36.7900 per US\$1.00 as of October 25, 2018. See “Item 3. Key Information—Local Exchange Market and Exchange Rates.” and “Item 3. Risk Factors— Continuing inflation may have an adverse effect on the economy and our business, financial condition and the results of our operations”.

We have also translated certain NIS amounts into U.S. dollars at the offer exchange rate for June 30, 2018 which was NIS 3.6553=U.S.\$1.00. We make no representation that the Peso, NIS or U.S. dollar amounts actually represent or could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate or at all. See “Item 3 – Key information - Local Exchange Market and Exchange Rates.”

Certain numbers and percentages included in this annual report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in various tables or other sections of this annual report may vary slightly, and figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them.

Fiscal years

References to fiscal years 2018, 2017, 2016, 2015 and 2014 are to our fiscal years starting on July 1 and ending on June 30 of each such year.

Certain measurements

In Argentina the standard measure of area in the real estate market is the square meter (m²), while in the United States and certain other jurisdictions the standard measure of area is the square foot (sq. ft.). All units of area shown in this annual report (e.g., gross leasable area of buildings (“GLA” or “gross leasable area”), and size of undeveloped land) are expressed in terms of square meters. One square meter is equal to approximately 10.764 square feet. One hectare is equal to approximately 10,000 square meters and to approximately 2.47 acres.

As used herein, GLA in the case of shopping malls, refers to the total leasable area of the property, regardless of our ownership interest in such property (excluding common areas and parking and space occupied by supermarkets, hypermarkets, gas stations and co-owners, except where specifically stated).

Market share data

Information regarding market share in a specified region or area is based on data compiled by us from internal sources and from publications such as Bloomberg, the International Council of Shopping Centers, or “ICSC,” the Argentine Chamber of Shopping Centers (Cámara Argentina de Shopping Centers), and Colliers International. While we believe that these sources are reliable, we have not independently verified the information prepared by these sources.

PART I

ITEM 1. Identity of Directors, Senior Management, Advisers and Auditors

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 Audited Consolidated Financial Statements as of the dates and for each of the periods indicated below. This information should also be read in conjunction with our Audited Consolidated Financial Statements included under Item 8. “Financial Information”, and the discussion in Item 5. “Operating and Financial Review and Prospects”.

The selected consolidated statement of income and other comprehensive income data for the years ended June 30, 2018, 2017 and 2016, and the selected consolidated statement of financial position data as of June 30, 2018 and 2017 have been derived from our Audited Consolidated Financial Statements, which have been audited by Price Waterhouse & Co. S.R.L., City of Buenos Aires, Argentina, a member firm of PricewaterhouseCoopers International Limited, an independent registered public accounting firm. The summarized consolidated statement of comprehensive income and cash flow data for the fiscal years 2015 and 2014 and the summarized consolidated statement of financial position data as of June 30, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements for the fiscal years ended June 30, 2016, 2015 and 2014 which have been retroactively recast to give effect to the change of measurement basis for our investment properties. These financial statements are not included in this annual report.

We have determined that, as of July 1, 2018, the Argentine economy qualifies as hyperinflationary economy according to IAS 29. IAS 29 requires that the financial statements recorded in the currency of a hyperinflationary economy be adjusted in terms of a measuring unit current at the end of reporting period. We did not apply the restatement criteria to the financial information for the periods reported in this annual report since IAS 29 will be applicable to our financial statements for periods ending after July 1, 2018. For more information on inflation, see “Operating and Financial Review and Prospects— Factors Affecting our Results of Operations—Effects of Inflation.”

On October 11, 2015, we obtained control of IDBD. In conformity with IFRS 3, IDBD’s information is included in our Financial Statements since the acquisition date, without affecting the information from previous years. Therefore, the consolidated financial information for periods after the acquisition date is not comparable to previous periods. For more information see “Item 5. Operating and Financial Review and Prospects—Factors Affecting Comparability of our Results.”

Summarized Consolidated Financial and Other Information

	For the fiscal year ended June 30,					
	2018	2018	2017	2016	2015	2014
	(in million of US\$) (i) (ii)		(in million of Ps. ; except per share data)			
CONSOLIDATED STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME						
Revenues	1,147	33,088	27,004	12,916	3,403	2,845
Costs	(680)	(19,629)	(16,033)	(7,036)	(1,369)	(1,157)
Gross profit	467	13,459	10,971	5,880	2,034	1,688
Net gain from fair value adjustment of investment properties	784	22,605	4,340	17,536	3,958	4,139
General and administrative expenses	(134)	(3,869)	(3,219)	(1,639)	(374)	(297)
Selling expenses	(162)	(4,663)	(4,007)	(1,842)	(194)	(146)
Other operating results, net	20	582	(206)	(32)	33	(59)
Profit from operations	974	28,114	7,879	19,903	5,457	5,325
Share of profit / (loss) of associates and joint ventures	(25)	(721)	109	508	(813)	(328)
Profit from operations before financial results and income tax	949	27,393	7,988	20,411	4,644	4,997
Finance income	61	1,761	937	1,264	137	132
Finance costs	(730)	(21,058)	(8,072)	(5,571)	(1,107)	(1,749)
Other financial results	21	596	3,040	(518)	37	(102)
Financial results, net	(648)	(18,701)	(4,095)	(4,825)	(933)	(1,719)
Profit before income tax	301	8,692	3,893	15,586	3,711	3,278
Income tax	4	124	(2,766)	(6,325)	(1,581)	(1,392)
Profit from continuing operations	306	8,816	1,127	9,261	2,130	1,886
Profit from discontinued operations	433	12,479	4,093	817	-	-
Total profit for the year	738	21,295	5,220	10,078	2,130	1,886
Other comprehensive income / (loss):						
Items that may be subsequently reclassified to profit or loss:						
Currency translation adjustment	440	12,689	1,919	4,531	(214)	460
Share of other comprehensive income / (loss) of associates and joint ventures	32	922	1,920	(178)	106	85
Revaluation reserve	3	99	-	-	-	-
Net change in fair value of hedging instruments	(1)	(19)	124	3	-	-
Items that may not be subsequently reclassified to profit or loss, net of income tax						

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Actuarial loss from defined benefit plans	-	(12)	(10)	(10)	-	-
Other comprehensive income / (loss) from continuing operations	474	13,679	3,953	4,346	(108)	545
Other comprehensive income / (loss) from discontinued operations	15	435	560	(213)	-	-
Total other comprehensive income / (loss) for the year	489	14,114	4,513	4,133	(108)	545
Total comprehensive income for the year	1,227	35,409	9,733	14,211	2,022	2,431
Total comprehensive income from continuing operations	780	22,495	5,080	13,607	2,022	2,431
Total comprehensive income from discontinued operations	448	12,914	4,653	604	-	-
Total comprehensive income for the year	1,227	35,409	9,733	14,211	2,022	2,431
Total profit for the year attributable to:						
Equity holders of the parent	520	15,003	3,030	9,534	1,898	1,762
Non-controlling interest	218	6,292	2,190	544	232	124
Profit from continuing operations attributable to:						
Equity holders of the parent	183	5,278	1,383	9,196	1,898	1,762
Non-controlling interest	123	3,538	(256)	65	232	124
Total comprehensive income for the year attributable to:						
Equity holders of the parent	538	15,532	4,054	9,605	1,773	2,202
Non-controlling interest	689	19,877	5,679	4,606	249	229
Total comprehensive income from continuing operations attributable to:						
Equity holders of the parent	185	5,338	1,977	9,356	1,773	2,202
Non-controlling interest	595	17,157	3,103	4,251	249	229
Total profit for the year per common share attributable to equity holders of the parent:						
Basic (1)	0.90	26.09	5.27	16.58	3.31	3.06
Diluted (2)	0.90	25.91	5.23	16.47	3.28	3.04
Profit per common share from continuing operations attributable to equity holders of the parent:						
Basic (1)	0.32	9.18	2.41	15.99	3.31	3.06
Diluted (2)	0.32	9.12	2.39	15.88	3.28	3.04
CASH FLOW DATA						
Net cash generated by operating activities	497	14,339	9,059	4,126	834	1,022
Net cash (used in) / generated by investing activities	(401)	(11,573)	(2,068)	8,223	261	(917)
Net cash generated by / (used in) financing activities	(134)	(3,867)	1,537	(3,968)	(1,390)	(597)

For the fiscal year ended June 30,

	2018	2018	2017	2016	2015	2014
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	(in million of US\$)(i)(ii)	(in million of Ps.)
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

Non-current assets

Investment properties	5,640	162,726	99,953	82,703	19,217	15,796
Property, plant and equipment	465	13,403	27,113	24,049	237	219
Trading properties	209	6,018	4,532	4,730	141	131
Intangible assets	426	12,297	12,387	11,763	127	124
Other assets	7	189	-	-	-	-
Investment in associates and joint ventures	854	24,650	7,885	16,880	2,970	2,587
Deferred income tax assets	13	380	285	51	57	41
Income tax and MPIT credit	14	415	145	123	109	110
Restricted assets	71	2,044	448	54	-	-
Trade and other receivables	282	8,142	4,974	3,441	115	92
Employee benefits	-	-	-	4	-	-
Investments in financial assets	59	1,703	1,772	2,226	703	275
Financial assets held for sale	270	7,788	6,225	3,346	-	-
Derivative financial instruments	-	-	31	8	206	-
Total non-current assets	8,310	239,755	165,750	149,378	23,882	19,375

Current Assets

Trading properties	112	3,232	1,249	241	3	5
Inventories	22	630	4,260	3,246	23	17
Restricted assets	147	4,245	506	564	9	-
Income tax and MPIT credit	14	399	339	506	19	16
Group of assets held for sale	180	5,192	2,681	-	-	1,649
Trade and other receivables	518	14,947	17,264	13,409	1,143	707
Investments in financial assets	884	25,503	11,951	9,656	295	234
Financial assets held for sale	155	4,466	2,337	1,256	-	-
Derivative financial instruments	3	87	51	19	29	13
Cash and cash equivalents	1,293	37,317	24,854	13,866	375	610
Total Current Assets	3,328	96,018	65,492	42,763	1,896	3,251

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TOTAL ASSETS	11,639	335,773	231,242	192,141	25,778	22,626
SHAREHOLDERS' EQUITY						
Capital and reserves attributable to the equity holders of the parent						
Share capital	20	575	575	575	574	574
Treasury shares	-	4	4	4	5	5
Inflation adjustment of share capital and treasury shares	4	123	123	123	123	123
Share premium	27	793	793	793	793	793
Additional paid-in capital from treasury shares	1	19	17	16	7	-
Legal reserve	5	143	143	117	117	117
Special reserve	95	2,751	2,751	2,755	2,755	3,126
Other reserves	73	2,111	2,165	990	428	931
Retained earnings	1,071	30,902	19,293	16,259	7,235	4,551
Total capital and reserves attributable to equity holders of the parent	1,297	37,421	25,864	21,632	12,037	10,220
Non-controlling interest	1,287	37,120	21,472	14,224	943	998
TOTAL SHAREHOLDERS' EQUITY	2,584	74,541	47,336	35,856	12,980	11,218
LIABILITIES						
Non-current liabilities						
Borrowings	6,275	181,046	109,489	90,680	3,736	3,756
Deferred income tax liabilities	908	26,197	23,024	19,150	5,830	4,546
Trade and other payables	121	3,484	3,040	1,518	255	202
Provisions	123	3,549	943	532	29	29
Employee benefits	4	110	763	689	-	-
Derivative financial instruments	1	24	86	105	265	321
Salaries and social security liabilities	2	66	127	11	2	4
Total non-current liabilities	7,434	214,476	137,472	112,685	10,117	8,858
Current liabilities						
Trade and other payables	507	14,617	20,839	17,874	896	679
Borrowings	887	25,587	19,926	22,252	1,237	737
Provisions	36	1,053	890	1,039	52	18
Group of liabilities held for sale	112	3,243	1,855	-	-	938
Salaries and social security liabilities	54	1,553	2,041	1,707	123	99
Income tax and MPIT liabilities	18	522	797	616	135	65
Derivative financial instruments	6	181	86	112	238	14
Total current liabilities	1,621	46,756	46,434	43,600	2,681	2,550
TOTAL LIABILITIES	9,055	261,232	183,906	156,285	12,798	11,408
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	11,639	335,773	231,242	192,141	25,778	22,626

For the fiscal year ended June 30,

	2018	2018	2017	2016	2015	2014
OTHER FINANCIAL DATA	(in million of US\$)(i)(ii)	(in million of Ps.)				
	(except for number of shares, per share and GDS data and ratios)					
Basic profit from continuing operations per GDS(3)	3.18	91.79	24.05	159.93	33.07	30.59
Diluted profit from continuing operations per GDS(3)	3.16	91.16	23.89	158.83	32.84	30.45
Basic profit for the year per GDS(3)	9.04	260.92	52.70	165.81	33.07	30.59
Diluted profit for the year per GDS(3)	8.98	259.12	52.33	164.66	32.84	30.45
Diluted weighted – average number of common shares outstanding	578,676,417	578,676,471	578,700,307	578,811,837	578,004,721	578,676,470
Depreciation and amortization	130	3,737	3,377	1,531	33	29
Capital expenditures	263	7,597	5,482	47,059	532	318
Working capital	1,708	49,262	19,058	(837)	(785)	701
Ratio of current assets to current liabilities	0.07	2.05	1.41	0.98	0.71	1.27
Ratio of shareholders' equity to total liabilities	0.01	0.29	0.26	0.23	1.01	0.98
Ratio of non-current assets to total assets	0.02	0.71	0.72	0.78	0.93	0.86
Dividends paid(4)	(92)	(2,651)	(2,037)	(106)	(69)	(113)
Dividends per common share	(0.16)	(4.61)	(3.54)	(0.18)	(0.12)	(0.20)
Dividends per GDS	(1.60)	(46.10)	(35.43)	(1.84)	(1.20)	(1.97)
Number of common shares outstanding	575,421,864	575,421,864	575,254,979	575,153,497	574,450,945	573,771,763
Share capital	575	575	575	575	574	574

(i) Totals may not sum due to rounding.

(ii) Solely for the convenience of the reader we have translated Peso amounts into U.S. Dollars at the seller exchange rate quoted by Banco de la Nación Argentina as of June 30, 2018, which was Ps.28.8500 per US\$1.00. The average seller exchange rate for the fiscal year 2018, quoted by Banco de la Nación Argentina was Ps.19.4888. The seller

exchange rate quoted by Banco de la Nación Argentina was Ps.36.7900 per US\$1.00 as of October 25, 2018. 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." Totals may not sum due to rounding.

(1)

Basic net income per share is calculated by dividing the net income available to holders of common shares for the period / year by the weighted average number of shares outstanding during the period / year.

(2)

Diluted net income per share is calculated by dividing the net income for the year by the weighted average number of ordinary shares including treasury shares.

(3)

Determined by multiplying the amounts per share by ten (one GDS is equal to ten common shares).

Dividend amounts, corresponding to fiscal years ending on June 30 of each year, are determined by the Annual Shareholders' Meeting, which takes place in October of each year.

Local Exchange Market and Exchange Rates

Operations Center in Argentina

A.1. Local Exchange Market and Exchange Rates

In the period from 2001 to 2015, the Argentine government established a series of exchange control measures that restricted the free disposition of funds and the transfer of funds abroad. In 2011, these measures had significantly curtailed access to the MULC by both individuals and private sector entities. This made it necessary, among other things, to obtain prior approval from the Central Bank to enter into certain foreign exchange transactions such as payments relating to royalties, services or fees payable to related parties of Argentine companies outside Argentina.

With the change of government and political environment, in December 2015, one of the first measures taken by the Argentine government was to lift the main restrictions that limited access to individuals to the MULC. Through Communication "A" 5,850 and later, as the local economy stabilized, Communication "A" 6,037, the Central Bank lifted the previous limitations and allowed unrestricted access to the foreign exchange market, subject to some requirements, as detailed below.

The following table shows the maximum, minimum, average and closing exchange rates for each applicable period to purchases of U.S. dollars.

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
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Fiscal year ended:

June 30, 2014	8.0830	5.4850	6.9333	8.0830
June 30, 2015	9.0380	8.1630	8.5748	9.0380
June 30, 2016	15.7500	9.1400	12.2769	14.9900
June 30, 2017	16.5800	14.5100	15.4017	16.5800
June 30, 2018	28.8000	16.7500	19.4388	28.8000
Month ended:				
April 30, 2018	20.5000	20.0850	20.1834	20.4900
May 31, 2018	24.9400	21.1500	23.6783	24.9100
June 30, 2018	28.8000	24.8500	26.5665	28.8000
July 31, 2018	28.2500	27.1600	27.5241	27.3600
August 31, 2018	37.5500	27.2400	30.1129	36.7500
September 30, 2018	41.1500	36.8900	38.4341	41.1500
October (through October 25, 2018)	39.5000	35.9000	37.0583	36.6900

Source: Banco de la Nación Argentina

(1) Average between the offer exchange rate and the bid exchange rate according to Banco de la Nación Argentina's foreign currency exchange rate.

(2) The maximum exchange rate appearing in the table was the highest end-of-month exchange rate in the year or shorter period, as indicated.

(3) The minimum exchange rate appearing in the table was the lowest end-of-month exchange rate in the year or shorter period, as indicated.

(4) Average exchange rates at the end of the month.

Exchange controls

Although most exchange control regulations were lifted on August 2016, some remain in place and we cannot give you any assurance that additional exchange control regulations will not be adopted in the future. Please see "Item 3. Key information—d) Risk Factors—Risks Relating to Argentina—Exchange controls, restrictions on transfers abroad and capital inflow restrictions may limit the availability of international credit."

Exchange controls regulations currently in effect in Argentina include the following:

Registration requirements

All incoming and outgoing funds to and from the MULC and any foreign indebtedness (financial and commercial) are subject to registration requirements before the Central Bank for informative purposes, in accordance with Communication "A" 6,401, as amended.

Corporate profits and dividends

Argentine companies may freely access the MULC for remittances abroad to pay earnings and dividends in so far as they arise from closed and fully audited balance sheets and have satisfied applicable certification requirements.

Restrictions on foreign indebtedness

Pursuant to Resolution E 1/2017 of the Ministerio de Hacienda and Communication "A" 6,150 of the Argentine Central Bank, it was deleted the obligation that required non-residents to perform portfolio investments in the country intended for the holding of private sector financial assets to maintain for a period of 120 days of permanence the funds in the country.

As of that resolution and the provisions of Communication "A" 6,244 of the Argentine Central Bank, there are no restrictions on entry and exit in the MULC.

Restrictions on exports, imports and services

Regarding exports, in 2016 the Central Bank relaxed certain rules related to the inflow and outflow of foreign currency collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings, establishing that the deadline to repatriate to Argentina the foreign currency is 10 years. The prior 10-business day period applicable for the transfer of funds collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings to a correspondent bank account of a local financial institution (cuenta de corresponsalía) was eliminated in December 2015. In relation to the export of services, Communication "A" 6,137 the Central Bank eliminated the obligation to repatriate to Argentina the foreign currency obtained.

Regarding imports, access to the foreign exchange market for the payment of imports with customs clearance date as of December 17, 2015 can be paid through the local foreign exchange market without any limit. AFIP Regulation No. 3,252 published on January 5, 2012 which required importers to file affidavits was eliminated in December 2015 and the import monitoring system (Sistema Integral de Monitoreo de Importaciones, or "SIMI") was created, which established an obligation for importers to submit certain information electronically. Importers do not have to repatriate the goods within a specified period (previously this period was 365 calendar days from the date of access to the foreign exchange market).

Regarding the payment of services, access to the foreign exchange market for payments of services rendered as from December 17, 2015 may be carried out without restriction and without the Central Bank's prior authorization.

Direct investments

Communication A 6401 established a new reporting system of direct investments, which replaced the reporting system established by Communications A 3602 and A 4237, applicable since December 31, 2017. As of date, investors who are Argentine residents must comply with the information regime if the value of their investments abroad reaches or exceeds the equivalent of US\$1,000,000 (measured in terms of 1) the sum of the flows of external assets and liabilities during the previous calendar year, and 2) the balance of holdings of external assets and liabilities at the end of the previous calendar year). If the value of investments abroad does not exceed the equivalent of US\$50,000,000, the information regime must be complied on an annual basis (in case it is less than US\$10,000,000, the information regime will be annual but with a simplified form), instead of quarterly. If the value of the investments is less than the equivalent of US\$1,000,000, compliance with said regime is optional.

Future and forward operations

The Central Bank has significantly amended the foreign exchange regulations in derivatives by eliminating the restriction on the execution of cross-border derivative transactions. In August 2016, the Central Bank introduced new foreign exchange regulations on derivative transactions which allowed local residents from entering into derivative transactions with foreign residents. Moreover, the regulations now provide that Argentine residents may access the foreign exchange market to pay premiums, post collateral and make payments related to forwards, futures, options and other derivatives entered into in foreign exchanges or with non-resident counterparties.

The foreign exchange regulations now allow Argentine residents to enter into derivative transaction with foreign counterparties without the need for authorization of the Central Bank. They also allow them to purchase foreign currency to make payments under such derivative transactions.

Law No. 27,440 in its articles 188 to 194 introduces, among others, the following modifications related to derivatives:

The right of the non-bankrupted party and the contracting party of an insurance entity subject to a judicial liquidation process to be resolved in advance the derivatives and passes granted by the Bankruptcy Law No. 24,522 and Law No. 20,091 of the Insurance Entities shall not apply;

The restriction for the exercise of the contractual mechanisms of early termination, termination, settlement, compensation and execution of guarantees contained in the derivatives established by the Financial Entities Law No. 21,526 and the Central Bank regulations shall not apply to.

Operations Center in Israel

The following table shows the maximum, minimum, average and closing exchange rates for each period applicable to purchases of New Israeli Shekels (NIS).

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
Fiscal year ended:				
June 30, 2014	3.6213	3.4320	3.5075	3.4320
June 30, 2015	3.9831	3.4260	3.8064	3.7747
June 30, 2016	3.9604	3.7364	3.8599	3.8596
June 30, 2017	3.8875	3.4882	3.6698	3.4882
June 30, 2018	3.6573	3.3902	3.5276	3.6573
Month ended:				
April 30, 2018	3.5995	3.5020	3.5380	3.5995
May 31, 2018	3.6260	3.5613	3.5881	3.5648
June 30, 2018	3.6573	3.5569	3.6064	3.6573
July 31, 2018	3.6708	3.6234	3.6439	3.6708
August 31, 2018	3.7173	3.6051	3.6606	3.6051
September 30, 2018	3.6373	3.5709	3.5893	3.6373
October 2018 (through October 25, 2018)	3.6982	3.6236	3.6483	3.6982

Source: Bloomberg

(1)

Average between the offer exchange rate and the bid exchange rate of the New Israeli Shekel against the U.S. dollar.

(2)

The maximum exchange rate appearing in the table was the highest end-of-month exchange rate in the year or shorter period, as indicated.

(3)

The minimum exchange rate appearing in the table was the lowest end-of-month exchange rate in the year or shorter period, as indicated.

(4)

Average exchange rates at the end of the month.

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 carefully consider the risks described below, in addition to the other information contained in this annual report, before making an investment decision. We also may face additional risks and uncertainties not currently

known to us, or which as of the date of this annual report we might not consider significant, which may adversely affect our business. In general, you take more risk when you invest in securities of issuers in emerging markets, such as Argentina, than when you invest in securities of issuers in the United States, and certain other markets. You should understand that an investment in our common shares and Global Depository Shares (“GDSs”) involves a high degree of risk, including the possibility of loss of your entire investment.

Risks relating to Argentina

As of the date of this annual report, many of our operations, property and customers are located in Argentina. As a result, the quality of our assets, our financial condition and the results of our operations are dependent upon the macroeconomic, regulatory, social and political conditions prevailing in Argentina from time to time. These conditions include growth rates, inflation rates, exchange rates, taxes, foreign exchange controls, changes to interest rates, changes to government policies, social instability, and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

Economic and political instability in Argentina may adversely and materially affect our business, results of operations and financial condition.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative GDP growth, high and variable levels of inflation and currency depreciation and devaluation. The economy has experienced high inflation and GDP growth has been sluggish in the last few years.

During 2014, the Argentine economy saw a slowdown due to the increase in exchange rates and decreases in commodity prices that adversely impacted exports. The Argentine economy continues to confront high rates of inflation and has an increasing need of capital investment, with many sectors, particularly the energy sector, operating near full capacity.

In March 2014, the Argentine Government announced a new method for calculating GDP recommended by the IMF changing the base year to 2004 from 1993. On June 29, 2016, a recalculation of estimated GDP growth rates based on 2004 prices was undertaken and resulted in calculated rates of 2.4% in 2013, (2.5)% in 2014, 2.7% in 2015, (1.8)% in 2016 and 2.9% in 2017. According to the INDEC, GDP growth in the first and second quarter of 2018 compared with the same quarter in the previous year was 3.9% and (4.2)%, respectively. According to the IMF, the estimated Argentina's real GDP growth will be (2.6)% in 2018 and (1.6)% in 2019. Economic activity in the second quarter of 2018 has been adversely affected by the Central Bank's increase in the reference rate to 60% during that period to curtail the weakening of the Argentine peso. As of August 31, 2018, the depreciation of the peso against the U.S. dollar was 50.1% comparing to the beginning of the year. In the second half of 2017 and the first half of 2018, the percentage of people below the poverty line was 25.7% and 27.3%, respectively. The unemployment rate in the first and second quarter of 2018 was 9.1% and 9.6%, respectively. The June 2018 / May 2018 variation of the Monthly Economic Activity Estimator was (1.3)%. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an unemployment rate of 8.9% in 2018 and 9.4% in 2019.

On February 22, 2017, Minister of the Treasury Nicolas Dujovne announced fiscal targets for the period 2017-2019, ratifying the target set in the 2017 budget which established a primary deficit target of 4.2% of GDP for 2017, 3.2% for 2018 and 2.2% for 2019. On May 4, 2018, Minister Dujovne lowered the primary deficit target for 2018 to 2.7% of GDP in an effort to achieve a balanced budget by 2019. After agreeing to a stand-by arrangement with the IMF in June 2018, the Argentine Government has adjusted its primary fiscal deficit target to 1.0% of GDP for 2019 and intends to balance the budget by the end of 2020. On August 10, 2018, the IMF commenced its first review of the Argentine economy. This review is taking place during a complex period in Argentina as a bribery scandal, which involves many important businessmen, is underway and the Argentine peso is experiencing significant depreciation. On September 3, 2018, the Ministry of Treasury has adjusted its targets to a primary fiscal deficit of 2.6% of GDP in 2018, a balanced budget in 2019 and a primary fiscal surplus of 1.0% of GDP in 2019, through reducing the public primary expenditure, including reducing by half the amount of national ministries, from 20 to 10, but increasing the spending on social benefits, including the strengthening of the fair price of basic products policy and the universal child allowance (asignación universal por hijo) through the one-time granting of an extraordinary subsidy of Ps.1,200 in September 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase in the total amount of the stand by agreement from US\$50 billion to US\$57.1 billion. In this sense, the anticipated disbursements rise from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On September 17, 2018, the Argentine Government submitted to the Argentine Congress the budget law for fiscal year 2019 bill, ratifying the aforementioned budgetary targets. On September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate by adopting the following measures: (i) no increase in the level of the monetary base until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019; (ii) maintenance of the reference rate at 60% until the deceleration of inflation rate is taking place; (iii) implementation of a floating exchange rate with intervention and non-intervention zones for the U.S. dollar exchange rate between Ps.34 and Ps.44, with daily adjustment at a rate of 3% per month until the end of 2018 and its revision at the beginning of 2019, intervening in the purchase or sale of foreign currency for up to US\$150 million per day to the extent that the exchange rate reaches the established upper or lower bound.

Since coming into power in December 2015, the Macri administration has adopted the following key economic and policy reforms.

INDEC reforms. President Macri appointed Mr. Jorge Todesca, previously a director of a private consulting firm, as head of the INDEC, based on its determination that INDEC had failed to produce reliable statistical information, particularly with respect to the consumer price index, or “CPI”, GDP and poverty and foreign trade data. On January 8, 2016, the Argentine government declared a state of administrative emergency relating to the national statistical system and the INDEC, until December 31, 2016. During 2016, the INDEC implemented certain methodological reforms and adjusted certain macroeconomic statistics on the basis of these reforms. Following the declared emergency, the INDEC ceased publishing statistical data until a rearrangement of its technical and administrative structure is finalized. During the course of implementing these reforms, however, INDEC has used official Consumer Price Index, or “CPI,” figures and other statistical information published by the Province of San Luis and the City of Buenos Aires. On June 29, 2016, the INDEC published revised GDP data for the years 2004 through 2015. On August 31, 2016, the IMF Executive Board met to consider the progress made by Argentina in improving the quality of official GDP and CPI data and noted the important progress made in strengthening the accuracy of Argentina’s statistics. On November 10, 2016, the IMF lifted the existing censure on Argentina regarding these data. In June 2017, INDEC began to publish revised CPI figures based on statistical information from 39 cities in Argentina.

Agreement with holdout bondholders. The Argentine government has settled claims with substantially all of the holdout bondholders who had not previously participated in Argentina’s sovereign debt restructurings (in terms of claims) and regained access to the international capital markets, issuing several new series of sovereign bonds since President Macri took office.

Foreign exchange reforms. The Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls, previously in effect. On August 9, 2016, the Central Bank issued Communication “A” 6037 which substantially changed the existing legal framework and eliminated certain restrictions limiting access to the foreign exchange market Mercado Único y Libre de Cambios, or “MULC.” On May 19, 2017, the Central Bank issued Communication “A” 6244, which unified the exchange control regulations and relaxed certain controls on the foreign exchange market. In addition, on December 26, 2017, the Central Bank implemented a new unified regime effective as of December 31, 2017 that requires the filing of an annual return, which is mandatory for any person whose total cash flow or balance of assets and liabilities amounts to US\$1 million or more during the previous calendar year. The principal measures adopted as of the date of this annual report include:

- i.
the reestablishment of Argentine residents’ rights to purchase and remit foreign currency outside of Argentina without limit and without specific allocation (atesoramiento);
- ii.
the elimination of the mandatory, non-transferable and non-interest bearing 30% deposit previously required in connection with certain transactions involving foreign currency inflows;
- iii.
the elimination of the requirement to transfer and settle the proceeds from new foreign financial indebtedness incurred by the foreign financial sector, the non-financial private sector and local governments through the MULC;
- iv.

the elimination of the minimum stay-period that required that proceeds from certain foreign financial indebtedness must be held for a minimum of 365 calendar days; and

v. elimination of the requirement of minimum holding period (of 72 business hours) for purchases and subsequent sales of securities that trade in Argentina and in foreign stock markets (such as the GDSs).

Foreign trade reforms. The Macri administration eliminated export duties on wheat, corn, beef and regional products, and announced a gradual reduction of the duty on soybeans by 5% to 30%. Pursuant to Decree No. 1,343/16, published in the Official Gazette on January 2, 2017, the Argentine Government announced a gradual reduction of the duty on soybeans, beans, flour and soybean oil by 0.5 % per month from January 2018 to December 2019. In addition, the 5% export duty on most industrial exports and export duties on mining was eliminated. With respect to payments for imports of goods and services, the Macri administration announced the gradual elimination of restrictions on access to the MULC for any transactions originated before December 17, 2015. Regarding transactions executed after December 17, 2015, no quantitative limitations apply. However, on September 4, 2018, the Argentine Government issued Decree No. 793/2018 that reimplements an export duty of 12% until December 31, 2020 on export of goods and services, with a cap of Ps.4 for each U.S. dollar for primary goods and services and Ps.3 for the rest of the manufactured goods.

National electricity state of emergency and reforms. Following years of minimal investment in the energy sector, exacerbated by the Argentine Government's failure to implement tariff increases on electricity and natural gas since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, on December 15, 2015, the Macri administration declared a state of emergency, which remained in effect until December 31, 2017. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (Ente Nacional Regulador de la Electricidad), the Macri administration announced the elimination of a portion of energy subsidies then in effect and implemented a substantial increase in electricity tariffs. As a result, average electricity prices increased substantially and could increase further in the future. Certain of Macri's Administration initiatives have been challenged in Argentine courts and resulted in judicial injunctions or determinations that limit such initiatives. On May 31, 2018, the Argentine Congress approved a law seeking to limit the increase in energy tariffs implemented by the Macri administration, which was subsequently vetoed by President Macri.

Tax Amnesty Law. In July 2016, the Régimen de Sinceramiento Fiscal, or "Tax Amnesty Law," was introduced to promote the voluntary disclosure of undeclared assets by Argentine residents. The Tax Amnesty Law allowed Argentine tax residents holding undeclared funds or assets located in Argentina or abroad to (i) declare such property prior to March 31, 2017 without facing prosecution for tax evasion or being required to pay past-due tax liabilities on those assets, if they could provide evidence that the assets were held as of certain specified cut-off dates, and (ii) keep the declared property outside Argentina and not repatriate such property to Argentina. With respect to cash that was not deposited in bank accounts by the specified cut-off dates, such amounts had to be disclosed and deposited by October 31, 2016 in special accounts opened at Argentine financial entities. Depending on the amount declared and how soon it was declared, the election to subscribe for certain investment securities and the payment method used, those who took advantage of the Tax Amnesty Law paid a special tax of between 0% and 15% on the total amount declared. Alternatively, they could invest an equivalent amount in Argentine Government bonds or a fund created to finance, among other things, public infrastructure projects and small- to medium-sized businesses. Taxpayers could elect to subscribe for certain investment securities and reduce the tax rates payable upon disclosure of previously undisclosed assets. On April 4, 2017, the Minister of Finance announced that as a result of the Tax Amnesty Law, assets totaling US\$116,800 million were declared.

Retiree Program. On June 29, 2016, the Argentine Congress enacted the Historical Reparation Program for Retirees and Pensioners (Programa de Reparación Histórica para Jubilados y Pensionados). The main aspects of this Program, designed to reform social security policies to comply with Supreme Court decisions, include (i) payments to more than two million retirees and retroactive compensation of more than 300,000 retirees and (ii) creation of a universal pension for senior citizens, which guarantees a pension for all people over 65 years of age who would not otherwise be eligible to retire with a pension. The Historical Reparation Program for Retirees and Pensioners will provide retroactive compensation to retirees for a total amount of more than Ps.47,000 million and expenses of up to Ps.75,000 million to cover all potential beneficiaries.

Increase in transportation fares. In January 2018, the Macri administration announced an increase in public transport fares in the Greater Buenos Aires area effective as of February 1, 2018.

Correction of monetary imbalances: The Macri administration announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next four years. The interannual inflation targets (comparing the rates as of December of each year) announced in 2016 by the Central Bank, were from

12% to 17% for 2017, from 8% to 12% for 2018, and from 3.5% to 6.5% for 2019. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and increased peso interest rates to offset inflationary pressure. On December 27, 2017, the Argentine Government modified the inflation targets for 2018, 2019 and 2020, increasing them to 15%, 10% and 5%, respectively. In June 2018, the Central Bank further adjusted inflation targets to 27% for 2018, 17% for 2019, 13% for 2020 and 9% for 2021 in light of the Stand-By Agreement with the IMF. In addition, on September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate mainly by adopting a floating exchange rate scheme, maintaining the reference rate at 60% until the deceleration of inflation rate is taking place and stopping the monetary base growth until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an inflation rate of 40.5% in 2018 and 20.2% in 2019.

Pension system reform. On December 19, 2017, the Argentine Congress enacted the Pension Reform Law which, among other amendments, adjusted the values of pensions and social benefits in accordance with inflation and economic growth. Social security payments are subject to quarterly adjustments each year. 70% of the quarterly adjustment will be based on the CPI published by the INDEC and 30% on the variation in the Remuneración Imponible Promedio de los Trabajadores Estables (an index published by the Ministry of Labor that measures the salary increases of state employees). On December 20, 2017, Decree No. 1,058/17 was published and, with the aim of avoiding divergence with the application of the previous formula, established a compensatory bonus for retirees, pensioners and beneficiaries of the universal child allowance (asignación universal por hijo). On September 3, 2018, the Argentine Government announced the strengthening of the universal child allowance through the one-time granting of an extraordinary subsidy of Ps.1,200 in September 2018. The Pension Reform Law also amended the Labor Law to extend the age at which private sector employers may request the retirement of employees to 70 years of age (compared to 65 years under the prior regime). Notwithstanding the foregoing, private sector employees may still request pension benefits from the ages of 65 and 60 for male and female employees, respectively.

Tax reform. On December 27, 2017, the Argentine Congress approved the tax reform law, enacted on December 28, 2017. The reform is intended to eliminate certain inefficiencies in the Argentine tax regime, diminish tax evasion, expand the tax base and encourage investment, with the long-term goal of restoring fiscal balance. The reform is part of a larger policy initiative of the Macri administration intended to increase employment, make the Argentine economy more competitive (by reducing the fiscal deficit, for example) and diminish poverty. The main aspects of the tax reform include the following: (i) capital gains on real estate sales by Argentine tax residents (subject to certain exceptions, including a primary residence exemption) acquired after enactment of the tax reform will be subject to tax of 15%; (ii) gains on currently exempt bank deposits and sales of securities (including sovereign bonds) by Argentine tax residents is subject to tax of (a) 5% in the case of those denominated in pesos, subject to fixed interest rate and not indexed, and (b) 15% for those denominated in a foreign currency or indexed; (iii) gains on sales of shares listed on a stock exchange remain exempt; (iv) corporate income tax will decline to 30% in 2018 and 2019 and to 25% in 2020; (v) social security contributions will be gradually increased to 19.5% starting in 2022, in lieu of the differential scales currently in effect; and (vi) the percentage of tax on debits and credits that can be credited to income tax will be gradually increased over a five-year period, from the current 17% for credits to 100% for credits and debits. The tax reform is to be implemented over a period of one to five years (depending on each modification). For further information, see “Taxation—Argentine Taxation”.

Corporate Criminal Liability Law. On November 8, 2017, the Argentine Congress approved Law No. 27,401, which establishes a system of criminal liability of corporate entities for criminal offenses against public administration and national and cross-border bribery committed by, among others, its shareholders, attorneys-in-fact, directors, managers, employees, or representatives. Convicted legal persons are subject to various sanctions including a fine of between 1% and 20% of its annual gross revenue and the partial or total suspension of its activities for up to ten years. In addition, the law expands the national criminal jurisdiction to all cases of bribery including those committed outside the Argentine territory by citizens or companies with domicile or headquartered in Argentina.

Public-Private Participation Law. On November 16, 2016, the Public-Private Participation Law was passed by the Argentine Congress, and has been regulated by Decree No. 118/2017. This new regime seeks to replace existing regulatory frameworks (Decrees No. 1,299/00 and 967/05) and supports the use of public-private partnerships for a wide variety of purposes including the design, construction, extension, improvement, provision, exploitation and/or operation and financing of infrastructure development, provision of public services, provision of productive services, investments, applied research, technological innovation and other associated services. The Public-Private Participation

Law also includes protection mechanisms in favor of the private sector (contractors and lenders) in order to promote the development of these partnerships.

Productive Financing Law. On May 9, 2018, the Argentine Chamber of Deputies approved Law No. 27,440 called “Ley de Financiamiento Productivo”, which creates a new financing regime for micro-, small- and medium-sized companies (“MiPyMEs”) and modifies Capital Markets Law No. 26,831, Investment Funds Law No. 24,083 and Law No. 23,576, among others, and implements certain tax provisions and regulations for derivative financial instruments.

Labor reform bill. On November 18, 2017, the Executive Branch submitted a draft labor and social security reform bill to the Argentine Chamber of Senators, intended to formalize employment, decrease labor litigation, generate employment, increase productivity, protect vulnerable populations and improve worker training. As of the date of this annual report, the draft bill has not been considered by the Argentine Congress.

Fiscal consensus and fiscal liability. On December 22, 2017, the Argentine Congress enacted the “Fiscal Pact”, also known as the “Fiscal Consensus”. The Fiscal Consensus includes a commitment to lower distortive taxes by 1.5% of GDP over the next five years, a withdrawal of lawsuits by provincial governments against the Argentine Government and a Ps.21,000 million payment to the Province of Buenos Aires for the year 2018 (which amount shall be increased over the next five years) as a partial and progressive solution to a long-standing conflict related to the Buenos Aires Metropolitan Area Fund over the Fondo del Conurbano Bonaerense. The Fiscal Consensus also set the basis for other policy reforms that were implemented by the Macri administration in December 2017, such as the tax reform, the pension system reform and the Fiscal Responsibility Law (Ley de Responsabilidad Fiscal). The fiscal deficit estimated for 2018 is 2.6% of 2018 GDP. The budget law for fiscal year 2019 bill projects a balanced budget in 2019 and a primary fiscal surplus of 1.0% of GDP by 2020.

IMF stand-by arrangement: On June 7, 2018, the Argentine Government entered into a US\$50 billion, 36-month stand-by arrangement with the IMF, which was approved by the IMF’s Executive Board on June 20, 2018. As of July 31, 2018, the Argentine Government had drawn on a first tranche of approximately US\$15 billion, and the additional available funds will be treated as precautionary. This measure was intended to halt the significant depreciation of the peso during the first half of 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase in the total amount of the StandBy agreement from US\$50 billion to US\$57.1 billion. As a result, the anticipated disbursements increased from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On October 26, 2018, the Executive Board of the IMF completed the first review of Argentina’s economic performance under the 36-month stand-by arrangement, allowing to draw the equivalent of US\$5.7 billion, bringing total disbursements since June 2018 to about US\$20.4 billion. The Executive Board also approved an augmentation of the stand-by arrangement to increase access to about US\$56.3 billion.

The impact that these measures, and any future measures taken by a new administration, will have on the Argentine economy as a whole and the financial sector in particular cannot be predicted. Economic liberalization may be disruptive to the economy and may fail to benefit, or may harm, our business, financial condition and results of operations. In particular, we have no control over the implementation of the reforms to the regulatory framework that governs its operations and cannot guarantee that these reforms will be implemented or that they will be implemented in a manner that will benefit our business. The failure of these measures to achieve their intended goals could adversely affect the Argentine economy and our business, financial position and results of operations.

In this context, as the date of this annual report, the Argentine economy remains unstable, among others, for the following reasons:

a persistent high rate of public spending and substantial fiscal deficit;

investments as a percentage of GDP remain low;

public debt as a percentage of GDP remains high;

the inflation rate remains at high levels;

agricultural exports, which fueled the economic recovery, have been affected by the drought and lower prices than in prior years;

rising of international crude oil prices;

the availability of long-term credit to the private sector is scarce;

the current trade deficit is high and could increase;

the effects of a restrictive U.S. monetary policy, which could generate an increase in financial costs for Argentina;

fluctuations in the Central Bank's monetary reserves;

uncertainty with respect to the imposition of exchange and capital controls; and

other political, social and economic events abroad that adversely affect the current growth of the Argentine economy.

A further decline in Argentine economic growth or an increase in economic instability could adversely affect our business, financial condition or results of operations. As of the date of this annual report, the impact of the Macri administration's policies on the Argentine economy as a whole and on the banking sector in particular cannot be predicted. In addition, congressional elections were held on October 22, 2017 and President Macri's governing coalition obtained the largest share of votes at the national level. Although the number of coalition members in Congress increased (holding in the aggregate 108 of a total of 257 seats in the House of Representatives and 24 of 72 seats in the Senate), the coalition still lacks a majority in either chamber and, as a result, some or all of the policy proposals to promote growth of the economy (including reducing the fiscal deficit, controlling inflation and adopting fiscal and labor reforms) may not be implemented, which could adversely affect continued economic growth in Argentina. Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, fluctuations in the rate of exchange of the Peso against other currencies, and a decline in consumer confidence or foreign direct investment, among other factors, may materially and adversely affect the development of the Argentine economy which could adversely affect our business, financial condition or results of operations.

Continuing inflation may have an adverse effect on the economy and our business, financial condition and the results of our operations.

According to the INDEC, the CPI was 10.8% in 2012, 10.9% in 2013 and 23.9% in 2014. In November 2015, the INDEC suspended the publication of the CPI. Hence, there was not an official CPI publication for the year 2015. An alternative CPI report was informed by the INDEC's official website, depicting two alternative CPIs measurements: one published by the City of Buenos Aires and the other by the Province of San Luis, reaching 26.9% and 31.9%, respectively. After implementing certain methodological reforms and adjusting certain macroeconomic statistics based on these reforms, in June 2016, INDEC resumed publishing the CPI. The best available information for 2016 is the annual measurement of the index of consumer prices reported by the City of Buenos Aires of 41%. In 2017, inflation began to decrease in line with the Central Bank's inflation targeting policies. According to the INDEC, the CPI increased 24.8% in 2017 and 1.8%, 2.4%, 2.3%, 2.7%, 2.1%, 3.7%, 3.1%, 3.9% and 6.5% for January, February, March, April, May, June, July, August and September 2018, respectively. At the end of 2017, Minister Dujovne announced that the CPI targets previously set out in the 2017 budget were revised to 15% for 2018, 10% for 2019 and 5% for 2020. After agreeing to a stand-by arrangement with the IMF in June 2018, the Argentine Government has adjusted its CPI targets to 27% for 2018, 17% for 2019, 13% for 2020 and 9% for 2021. In August 2018, the Central Bank adjusted its CPI targets to 40.5% for 2018, 24.5% for 2017 and 18% for 2020. On October 8, 2018, the IMF published the "World Economic Outlook" report, estimating an inflation rate in Argentina of 40.5% in 2018 and 20.2% in 2019. On October 25, 2018, the Argentine Chamber of Deputies gave preliminary approval to the draft budget for fiscal year 2019, estimating a year-on-year inflation rate of 23% for 2019, and it is expected to be treated in the Argentine Chamber of Senators on November 14, 2018.

Historically, high rates of inflation have undermined the Argentine economy and the Argentine Government's ability to foster conditions for stable growth. High rates of inflation may also undermine Argentina's competitiveness in international markets and adversely affect economic activity and employment, as well as our business, financial condition and the results of our operations.

High rates of inflation would also adversely affect economic activity, employment, real salaries, consumption and interest rates. In addition, the dilution of the positive effects of any depreciation of the peso on the export-oriented sectors of the Argentine economy would decrease the level of economic activity in the country. In turn, a portion of the Argentine Government's outstanding debt is adjusted by the Coeficiente de Estabilización de Referencia (or "CER"), a currency index tied to inflation. Therefore, any significant increase in inflation would generate an increase in Argentina's debt measured in pesos and, consequently, its financial obligations.

In recent years, the Argentine Government has taken certain measures to contain inflation, such as implementing a fair price program that requires supermarkets to offer certain products at a government-determined price, and agreements with workers' unions to implement salary increases. Additionally, the Argentine Government enacted Law No. 26,991 (the "Supply Law"), which empowers it to intervene in certain markets when it considers that any market participant is trying to impose prices or supply restrictions. The Supply Law provides among others pecuniary sanctions, suspension, seizure of operations, and confiscation of goods. On September 3, 2018, the Argentine Government further strengthened the fair price program by incorporating more basic consumer goods and places of distribution around the country into the program.

We cannot assure you that inflation rates will not continue to escalate in the future or that the measures adopted or that may be adopted by the Argentine Government to control inflation will be effective or successful. Inflation remains a challenge for Argentina. For example, certain objectives of the Argentine Government, such as the increase in tariffs to incentivize investment in the energy sector, may create inflationary pressures. Significant inflation could have an adverse effect on Argentina's economy and in turn could increase our costs of operation, in particular labor costs, and may negatively affect our business, financial condition and the results of our operations. See “—We depend on macroeconomic and political conditions in Argentina”.

The Peso qualifies as a currency of a hyperinflationary economy under IAS 29. Accordingly, we will apply IAS 29 for periods ending after July 1, 2018 and our historical audited consolidated financial statements and other financial information will need to be restated.

IAS 29 requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy, whether based on the historical cost method or on the current cost method, be stated in terms of the measuring unit current at the end of the reporting period. IAS 29 does not establish a set inflation rate beyond which an economy is deemed to be experiencing hyperinflation. However, hyperinflation is commonly understood to occur when changes in price levels are close to or exceed 100% on a cumulative basis over the prior three years, along with the presence of several other qualitative macroeconomic factors.

During the six-month period ended June 30, 2018, the decreasing trend of inflation in Argentina noted in recent prior periods reversed, with variations in different indexes being higher than in previous months. The total cumulative inflation in Argentina in the 36 months prior to June 30, 2018, as measured by the wholesale price index published by the INDEC, has exceeded 100%. Qualitative macroeconomic factors, including the depreciation of the peso in recent months, also support the conclusion that Argentina is now a hyper-inflationary economy for accounting purposes. Accordingly, IAS 29 will be applicable for financial statements included in any of our filings with the SEC under the Securities Act or the Exchange Act for periods ending after July 1, 2018 and, therefore, our audited consolidated financial statements and any unaudited interim financial statements included in this annual report will need to be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the most recent reporting period.

Pursuant to Decree No. 664/2003, the Argentine Government prohibited regulatory entities of the national government, from receiving financial information from regulated entities that includes adjustments for inflation, changes in costs or other variations in taxes, prices or tariffs. In addition, Law No. 23,928 prohibits Argentine companies from including adjustments for inflation in their financial statements. Given the current state of Argentine law, we cannot assure you whether regulatory agencies of the Argentine national government will require us to not apply IAS 29 to financial statements furnished to such regulators. If regulatory agencies in Argentina require us not to apply IAS 29, or to only apply IAS 29 to certain, but not all, of the periods included in our audited consolidated financial statements and unaudited interim financial statements, the audited consolidated financial statements and any unaudited interim financial statements included in this prospectus may not be comparable to certain of our financial statements furnished to regulators in Argentina.

We have not estimated yet the impact of the application of IAS 29 provisions on our audited consolidated financial statements.

We cannot assure that the accuracy of Argentina's official inflation statistics will comply with international standards.

In January 2007, the INDEC modified its methodology to calculate the CPI. At the time that the INDEC adopted this change in methodology, the Argentine Government replaced several key officers at the INDEC, prompting complaints

of governmental interference from the technical staff at the INDEC. The IMF requested Argentina to clarify the INDEC methodology used to calculate inflation rates.

On November 23, 2010, the Argentine Government began consulting with the IMF for technical assistance in order to prepare new CPI information with the aim of modernizing the current statistical system. During the first quarter of 2011, a team from the IMF started collaborating with the INDEC in order to create such an index. Notwithstanding such efforts, subsequently published reports by the IMF stated that its staff delivered alternative measures of inflation for macroeconomic surveillance, including information produced by private sources, and asserted that such measures resulted in inflation rates considerably higher than those published by the INDEC since 2007. Consequently, the IMF called on Argentina to adopt measures to improve the quality of data used by the INDEC. In a meeting held on February 1, 2013, the Executive Board of the IMF emphasized that the progress in implementing remedial measures since September 2012 had been insufficient. As a result, the IMF issued a declaration of censure against Argentina in connection with the breach of its related obligations and called on Argentina to adopt remedial measures to address the inaccuracy of inflation and GDP data immediately.

In order to address the quality of official data, a new consumer price index (the “IPCNu”), was enacted on February 13, 2014. Inflation as measured by the IPCNu was 23.9% in 2014, 31.6% in 2015 and 31.4% in 2016. The IPCNu represents the first national indicator in Argentina to measure changes in prices of household goods for final consumption. While the previous price index only measured inflation in the Greater Buenos Aires area, the IPCNu is calculated by measuring prices of goods in the main urban centers of the 23 provinces of Argentina and the City of Buenos Aires. On December 15, 2014, the IMF recognized the evolution of Argentine authorities to remedy the provision of data, but delayed the definitive evaluation of the new price index.

On January 8, 2016, based on its determination that the INDEC historically failed to issue reliable statistical information, the Macri administration issued a necessity and urgency decree suspending the publication of statistical information. The INDEC suspended all publications of statistical information until the process of technical reorganization was completed and the administrative structure of the INDEC was recomposed. At the end of this process of reorganization and recovery, the INDEC gradually began to publish official information. The INDEC recalculated historical GDP and the revised measurements showed that the GDP increased 2.4% in 2013, contracted 2.5% in 2014, increased 2.7% in 2015, and contracted 1.8% in 2016.

On November 9, 2016, the IMF, after analyzing the progress made with respect to the accuracy of official statistics regarding the CPI, decided to lift the censorship imposed in 2013, and determined that the Argentine CPI currently complies with international standards. However, we cannot assure you that such inaccuracy regarding official economic indicators will not recur. If despite the changes introduced by the Macri administration these differences between the figures published by the INDEC and those registered by private consultants persist, there could be a significant loss of confidence in the Argentine economy, which could adversely affect our business, financial condition and the results of our operations.

High levels of public spending in Argentina could generate long lasting adverse consequences for the Argentine economy.

During recent years, the Argentine Government has substantially increased public spending. In 2015, government spending increased by 34.4% as compared to 2014, resulting in a primary fiscal deficit of 3.8% of GDP. In 2016, government spending increased by 42.8% as compared to 2015, resulting in a primary fiscal deficit of 4.2% of GDP. In 2017, government spending increased by 25.9% as compared to 2016, resulting in a primary fiscal deficit of 3.8% of GDP. If government spending continues to outpace revenues, the fiscal deficit is likely to increase and past sources of funding to address such deficit, such as the Central Bank and the Administración Nacional de la Seguridad Social (“ANSES”) may be utilized.

Any such increasing deficit could have a negative effect on the Argentine Government’s ability to access the long-term financial markets, and in turn, could limit the access to such markets for Argentine companies, which could adversely affect our business, financial condition and the results of our operations.

Argentina’s ability to obtain financing in the international capital markets is limited, which may impair its ability to implement reforms and public policies and foster economic growth.

Argentina has had limited access to foreign financing in recent years, primarily as a result of a default in December 2001 by Argentina on its debt to foreign bondholders, multilateral financial institutions and other financial institutions. Argentina’s 2001 default and its failure to fully restructure its sovereign debt and negotiate with the holdout creditors has limited and may continue to limit Argentina’s ability to access international capital markets. In 2005, Argentina completed the restructuring of a substantial portion of its defaulted sovereign indebtedness and settled all of its debt with the IMF. Additionally, in June 2010, Argentina completed the renegotiation of approximately 67% of the principal amount of the defaulted bonds outstanding that were not swapped in the 2005

restructuring. As a result of the 2005 and 2010 debt swaps, Argentina has restructured approximately 92.1% of its defaulted debt that was eligible for restructuring (the “Debt Exchanges”). Holdout creditors that had declined to participate in the exchanges commenced numerous lawsuits against Argentina in several countries, including the United States, Italy, Germany, and Japan.

As a result of the litigation filed by holdout bondholders and their related efforts to attach Argentina's sovereign property located in the United States and other jurisdictions, Argentina's ability to access the international capital markets was severely limited. In February 2016, the Argentine Government agreed with a group of Italian bondholders to pay in cash the total principal amount of debt owed to such holders. In mid-2016, the Argentine Government emerged from default and paid US\$900 million to the approximately 50,000 Italian bondholders who owned government securities with defaulted payments part due.

During February 2016, U.S. federal court special master Daniel Pollack ratified an agreement between the Argentine Government and the holdout creditors led by Elliot Management, Aurelius Capital, Davidson Kempner and Bracebridge Capital funds providing for a US\$4.65 billion payment in respect of defaulted sovereign bonds, representing a 25% discount to the total principal amount of principal and interest due on the defaulted bonds, as well as attorney fees and expenses incurred. This agreement stipulated that the terms of the settlement be approved by the Argentine Congress, and that Law No. 26,017 (the "Padlock Law") and the Sovereign Payment Law be repealed.

In March 2016, the Argentine Government submitted a bill to Congress seeking authorization to consummate the settlement, which was approved on April 1, 2016, by enactment of Law No. 27,249 pursuant to which, the Argentine Government was authorized to pay in cash up to US\$11.6 billion to the holdout bondholders. The proceeds for such payment were raised through an issuance of sovereign debt in the international capital markets. Among other provisions, the new law repealed the Padlock Law and Sovereign Payment Law.

At the beginning of April 2016, special master Daniel Pollack announced that the Argentine Government had reached agreements with additional holdout bondholders. As a result, the Argentine Government has reached agreements with nearly 90% of the debt holders that did not participate in the 2005 and 2010 bond exchange transactions. On April 13, 2016, the Court of Appeals lifted the restrictions on Argentina to fulfill its debt obligations. In April 2016, the Argentine Government issued US\$16.4 billion principal amount of bonds. On April 22, 2016, the Argentine Government paid amounts due under the agreement and the U.S. courts removed all previously issued sanctions and injunctions. From December 31, 2015 to December 31, 2017, Argentina's sovereign debt increased by US\$80.3 billion, according to the Ministry of the Treasury.

As of the date of this annual report, proceedings initiated by holdouts and other international creditors that did not accept Argentina's payment offer continue in several jurisdictions, although the size of the claims involved has declined considerably. The potential consequences of final judgments from courts in various jurisdictions are unclear and further adverse rulings could adversely affect the Argentine Government's ability to issue debt securities or obtain favorable terms when the need to access the international capital markets arises, and consequently, our own capacity to access these markets could also be limited.

Foreign shareholders of companies operating in Argentina have initiated investment arbitration proceedings against Argentina that have resulted and could result in arbitral awards and/or injunctions against Argentina and its assets and, in turn, limit its financial resources.

In response to the emergency measures implemented by the Argentine Government during the 2001-2002 economic crisis, a number of claims were filed before the International Centre for Settlement of Investment Disputes ("ICSID"), against Argentina. Claimants allege that the emergency measures were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties by which Argentina was bound at the time.

Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law, or "UNCITRAL," and under the rules of the International Chamber of Commerce (ICC). As of the date of this annual report, it is not certain that Argentina will prevail in having any or all of these cases dismissed,

or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled. Ongoing claims before the ICSID tribunal and other arbitral tribunals could lead to new awards against Argentina, which could have an adverse effect on our capacity to access to the international capital markets.

The amendment of the Central Bank's Charter and the Convertibility Law may adversely affect the Argentine economy.

On March 22, 2012, the Argentine Congress passed Law No. 26,739, which amended the Charter of the Central Bank and Law No. 23,298 (the "Convertibility Law"). This law amends the objectives of the Central Bank (established in its Charter) and includes a mandate focused on promoting social equity programs in addition to developing monetary policy and financial stability.

A key component of the Central Bank Charter amendment relates to the use of international reserves. Pursuant to this amendment, Central Bank reserves may be made available to the Argentine Government for the repayment of debt or to finance public expenditures. During 2013, U.S. dollar reserves held at the Central Bank decreased to US\$30.6 billion from US\$43.3 billion in 2012, while during 2014 reserves increased to US\$31.4 billion. The Central Bank's foreign currency reserves were US\$25.6 billion as of December 31, 2015, US\$39.3 billion as of December 30, 2016, US\$55.1 billion as of December 29, 2017 and US\$52.7 billion as of August 31, 2018.

The Argentine Government's use of Central Bank reserves to repay debt or to finance public expenditures may make the Argentine economy more vulnerable to higher rates of inflation or external shocks, which could adversely affect our business, financial condition and the results of our operations.

Significant fluctuations in the value of the Peso may adversely affect the Argentine economy as well as our financial performance.

Despite the positive effects of the depreciation of the peso in 2002 on the competitiveness of certain sectors of the economy, depreciation has had a negative impact on the ability of Argentine businesses to honor their foreign currency-denominated debt obligations, initially resulting in high rates of inflation and significantly reduced real wages, which has had a negative impact on businesses that depend on domestic demand, such as utilities and the financial industry, and has adversely affected the Argentine Government's ability to honor its foreign currency-denominated debt obligations.

Since the strengthening of foreign exchange controls began in late 2011, and upon introduction of measures that gave private companies and individuals limited access to foreign currency, the implied peso exchange rate, as reflected in the quotations for Argentine securities that trade in foreign markets compared to the corresponding quotations in the local market, increased significantly compared to the official exchange rate.

In 2015, the U.S. dollar to peso exchange rate increased 53% as compared to 2014. In 2016, the U.S. dollar to peso exchange rate increased 22% as compared to 2015. In 2017, the U.S. dollar to peso exchange rate increased 18% as compared to 2016. This trend continued in the first few months of 2018, with an increase of 7% from December 31, 2017 to March 31, 2018. Further, the U.S. dollar to peso exchange rate increased approximately 97.7%, from Ps.20.69 in April 27, 2018 to Ps.40.90 as of September 28, 2018. On October 25, 2018, the Argentine Chamber of Deputies gave preliminary approval to the draft budget for fiscal year 2019, estimating an average exchange rate of Ps.40.10 for US\$1.00 in 2019, Ps.44.30 for US\$1.00 in 2020, Ps.48.20 for US\$1.00 in 2021 and Ps.50.50 for US\$1.00 in 2022, and it is expected to be treated in the Argentine Chamber of Senators on November 14, 2018.

As a result of the significant depreciation of the peso against the U.S. dollar, on October 11, 2018 the Central Bank increased the monetary policy rate to 72.73% aiming to attract investments in this currency. This high interest rate deteriorates the conditions for accessing credit by individuals and legal entities, producing an increase in debt levels paid off, which could adversely affect our business, financial condition and the results of our operations.

In addition, high interest rates in pesos may not be sustainable in the medium term, which could affect the level of economic activity reducing consumption. As a result, a contraction in GDP is expected for 2018.

A significant further depreciation of the peso against the U.S. dollar could have an adverse effect on the ability of Argentine companies to make timely payments on their debts denominated, indexed or otherwise connected to a foreign currency, could generate very high inflation rates, reduce real salaries significantly, and have an adverse effect on companies focused on the domestic market, such as public utilities and the financial industry. Such a potential depreciation could also adversely affect the Argentine Government's capacity to honor its foreign debt, which could affect our capacity to meet obligations denominated in a foreign currency which, in turn, could have an adverse effect on our business, financial condition and the results of our operations. While certain of our office leases are set in U.S. dollars, we are only partially protected against depreciation of the Peso and there can be no assurance we will be able to maintain our U.S. dollar-denominated leases.

In addition, on June 7, 2018, the Argentine Government entered into a US\$50 billion 36-month stand-by arrangement with the IMF, which was approved by the IMF's Executive Board on June 20, 2018. The Argentine Government has drawn on a first tranche of approximately US\$15 billion, and the additional available funds will be treated as precautionary. This measure was intended to halt the significant depreciation of the peso during the first half of 2018. On September 26, 2018, the Argentine Government agreed with the IMF an increase the total amount of the stand-by agreement from US\$50 billion to US\$57.1 billion. Consequently, disbursements are expected to increase from US\$6 billion to US\$13.4 billion in 2018, and from US\$11.4 billion to US\$22.8 billion in 2019. On October 26, 2018, the Executive Board of the IMF completed the first review of Argentina's economic performance under the 36-month stand-by arrangement, allowing to draw the equivalent of US\$5.7 billion, bringing total disbursements since June 2018 to about US\$20.4 billion. The Executive Board also approved an augmentation of the stand-by arrangement to increase access to about US\$56.3 billion.

On September 26, 2018, the Central Bank announced a new monetary policy scheme aiming to lowering the inflation rate by adopting the following measures: (i) no increase in the level of the monetary base until June 2019, when it will be adjusted with the seasonality of December 2018 and June 2019; (ii) maintenance of the monetary policy rate at 60% until the deceleration of inflation rate is taking place; (iii) implementation of a floating exchange rate with intervention and non-intervention zones for the U.S. dollar exchange rate between Ps.34 and Ps.44, with daily adjustment at a rate of 3% per month until the end of 2018 and its revision at the beginning of 2019, intervening in the purchase or sale of foreign currency for up to US\$150 million per day to the extent that the exchange rate reaches the established upper or lower bound.

A substantial appreciation of the peso against the U.S. dollar could negatively impact the financial condition of entities whose foreign currency-denominated assets exceed their foreign currency-denominated liabilities. In addition, in the short-term, a significant real appreciation of the peso would adversely affect exports and could result in a slowdown in economic growth. This could have a negative effect on GDP growth and employment as well as reduce the Argentine public sector's revenues by reducing tax collection in real terms, given its current heavy reliance on taxes on exports. As a result, the appreciation of the peso against the U.S. dollar could also have an adverse effect on the Argentine economy and, in turn, our business, financial condition and the results of our operations.

Certain measures that may be taken by the Argentine Government may adversely affect the Argentine economy and, as a result, our business and the results of our operations.

Prior to December 2015, the Argentine Government accelerated its direct intervention in the economy through the implementation or amendment of laws and regulations, including with respect to nationalizations and/or expropriations; restrictions on production, imports and exports; foreign exchange and/or transfer restrictions; direct and indirect price controls; tax increases, changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; cancellation of contract rights; and delays or denials of governmental approvals, among others.

In November 2008, the Argentine Government enacted Law No. 26,425 which provided for the nationalization of the Administradoras de Fondos de Jubilaciones y Pensiones (the "AFJPs"). In April 2012, the Argentine Government nationalized YPF S.A. and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,714 and Decree No. 1,277/2012. In February 2014, the Argentine Government and Repsol S.A. (the former principal shareholder of YPF S.A.) announced that they had reached an agreement on the compensation payable to Repsol S.A. for the expropriation of YPF S.A. of US\$5 billion payable in Argentine sovereign bonds with various maturities. On April 23, 2014, the agreement with Repsol S.A. was approved by the Argentine Congress and on May 8, 2014, Repsol S.A. received the relevant Argentine Government bonds. On July 10, 2018, the United States Court of Appeals for the Second Circuit affirmed a U.S. federal trial court decision, finding that Burford Capital Ltd's claim for more than US\$3 billion in damages against the Argentine government in

connection with the nationalization of YPF S.A. is subject to the jurisdiction of the U.S. federal courts. The claim by Burford Capital Ltd. has been referred to the trial court for substantive proceedings.

There are other examples of intervention by the Argentine Government. In December 2012 and August 2013, Argentine Congress established new regulations relating to domestic capital markets. The regulations generally provided for increased Argentine Government intervention in the capital markets authorizing, for example, the CNV to appoint observers with the ability to veto the decisions of the board of directors of publicly listed companies under certain circumstances and to suspend the board of directors for a period of up to 180 days. However, on May 9, 2018, the Argentine Congress approved Law No. 27,440, which introduced modifications to the Capital Markets Law, including the removal of the CNV's power to appoint supervisors with powers of veto over resolutions adopted by a company's board of directors.

We cannot assure you that these or similar and other measures to be adopted by the Argentine Government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new tax policies, modification of laws, regulations and policies that affect foreign trade, investment, among others, will not have an adverse effect on the Argentine economy and, as a consequence, adversely affect our business, financial condition and the results of our operations.

The Argentine Government may mandate salary increases for private sector employees, which would increase our operating costs.

In the past, the Argentine Government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor unions to increase wages and provide additional employee benefits. In August 2012, the Argentine Government established a 25% increase in the minimum monthly salary to Ps.2,875, effective as of February 2013. The Argentine Government increased the minimum monthly salary to Ps.3,300 in August 2013, to Ps.3,600 in January 2014, to Ps.4,400 in September 2014, to Ps.4,716 in January 2015, to Ps.5,588 in August 2015 and to Ps.6,060 as of January 2016. In May 2016, the Argentine Government announced a 33% increase in the minimum monthly salary to be implemented in three installments as follows: Ps.8,060 as of July 1, 2017, Ps.9,500 as of January 1, 2018 and Ps.10,000 in July 2018, an increase of 24% compared to the prior minimum. On August 8, 2018, the National Council for Employment, Productivity and Minimum Wage (Consejo Nacional del Empleo, la Productividad y el Salario M'nimo, Vital y M'ovil), summoned by the National Labor Ministry, issued Resolution No. 3/2018 increasing the minimum monthly salary in four installments as follows: Ps.10,700 as of September 1, 2018, Ps.11,300 as of December 1, 2018, Ps.11,900 as of March 1, 2019 and Ps.12,500 as of June 2019, an increase of 25% compared to the prior minimum.

It is possible that the Argentine Government could adopt measures mandating further salary increases and/or the provision of additional employee benefits in the future. Any such measures could have a material and adverse effect on our business, financial condition and the results of our operations. On February 14, 2018, the INDEC published new data regarding the evolution of private and public-sector salaries. The total salaries index registered a growth of 27.5% during 2017, as a result of the 26.5% increase in salaries of the formal private sector and an increase of 31.5% in the informal private sector.

Property values in Argentina could decline significantly.

Property values are influenced by multiple factors that are beyond our control, such as a decrease in the demand for real estate properties due to a deterioration of macroeconomic conditions or an increase in supply of real estate properties that could adversely affect the value of real estate properties. We cannot assure you that property values will increase or that they will not be reduced. Many of the properties we own are located in Argentina. As a result, a reduction in the value of properties in Argentina could materially affect our business and our financial statements due to the valuation of our investment properties at fair market value.

Restrictions on transfers of foreign currency and the repatriation of capital from Argentina may impair our ability to pay dividends and distributions.

According to Argentine practices, the Argentine government may impose restrictions on the exchange of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from investments in Argentina in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine government implemented a 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 Central Bank. With the administration of President Macri, many of the former restrictions were lifted.

On January 7, 2003, the Central Bank issued communication "A" 3859, as amended, which is still in force and pursuant to which there are no limitations on companies' ability to purchase foreign currency and transfer it outside Argentina to pay dividends, provided that those dividends arise from net earnings corresponding to approved and audited financial

statements. The transfer of funds abroad by local companies to pay annual dividends only to foreign shareholders, based on approved and fully audited financial statements, does not require formal approval by the Central Bank.

Notwithstanding the above, for many years, and as a consequence of a decrease in availability of U.S. dollars in Argentina, the previous Argentine government imposed informal restrictions on certain local companies and individuals for purchasing foreign currency. These restrictions on foreign currency purchases started in October 2011 and tightened thereafter. As a result of these informal restrictions, local residents and companies were prevented from purchasing foreign currency through the MULC for the purpose of making payments abroad, such as dividends, capital reductions, and payment for imports of goods and services.

Such restrictions and other foreign exchange control measures were lifted by the new administration, moving towards opening Argentina's foreign exchange market. In this sense, on December 17, 2015, Communication "A" 5850 of the Central Bank reestablished the possibility for non-residents to repatriate their investment capital and, Communication "A" 6037 of the Central Bank defined the new regulations that apply to the acquisition of foreign currency and the elimination of all other restrictions that impair residents and non-residents to have access to the foreign exchange market. However, in the future, the Argentine government or the Central Bank may impose formal restrictions to the payment of dividends abroad, on capital transfers and establish additional requirements. Such measures may negatively affect Argentina's international competitiveness, discouraging foreign investments and lending by foreign investors or increasing foreign capital outflow which could have an adverse effect on economic activity in Argentina, and which in turn could adversely affect our business and results of operations. Furthermore, any restrictions on transferring funds abroad imposed by the government could undermine our ability to pay dividends on our GDSs in U.S. dollars.

Exchange controls and restrictions on transfers abroad and capital inflow restrictions, if re-imposed, could limit the availability of international credit.

Until December 2015, there were many foreign exchange restrictions and controls that limited access to the MULC. However, in December 2015, the Macri administration announced certain reforms to the foreign exchange market with the intention of providing greater flexibility and ease of access to the foreign exchange market for individuals and private sector entities. On December 16, 2015, the Central Bank issued Communication "A" 5850, lifting most of the restrictions then in place. Among these measures, free access to the MULC was granted for the purchase of foreign currency intended for general purposes, without the need for obtaining the Central Bank's or the Administración Federal de Ingresos Públicos (the "AFIP") previous consent, and the requirement to deposit 30% of certain capital inflows into Argentina was eliminated. Towards the end of 2016, the remaining exchange control restrictions were also lifted when the Central Bank issued Communications "A" 6037 and "A" 6150, thereby granting free access to the MULC. Pursuant to Resolution E 1/2017 of the Ministry of Treasury and Communication "A" 6,150 modified by Communication "A" 6,244 of the Central Bank, the obligation requiring non-residents who make portfolio investments in the country aimed at holding private sector financial assets to maintain for a period of 120 days the funds in the country was abolished. Pursuant to this resolution and the Central Bank Communication "A" 6,244, and its amendments, there are no restrictions on entry and exit in the MULC. Accordingly, due to lifting most of the restrictions to access to the MULC, the Central Bank eliminated the obligation to enter and settle funds in foreign currency originated from the export of services to non-residents through the MULC, to the extent that they are not part of the Free On Board ("FOB") value and/or Cost, Insurance and Freight ("CIF") of assets exported, eliminated the requirement of a minimum holding period of 72 business hours in relation to the purchase and sale of public securities authorized to trade on the different local and international stock markets, and eliminated the requirement of compulsory entry and liquidation of flows resulting from external debt, including principal and interests. However, the results of capital inflows in the exchange market must be accredited on an account opened by a local financial institution.

Although the Macri administration eliminated such restrictions, we cannot assure you that foreign exchange regulations will not be amended, or that new regulations will not be enacted in the future imposing greater limitations on funds flowing into and out of the Argentine foreign exchange market. Any such new measures, as well as any

additional controls and/or restrictions, could materially affect our ability to access the international capital markets and, may undermine our ability to make payments of principal and/or interest on our obligations denominated in a foreign currency or transfer funds abroad to make payments on our obligations (which could affect our financial condition and results of operations). Therefore, Argentine resident or non-resident investors should take special notice of these regulations (and their amendments) that limit access to the foreign exchange market. In the future we may be prevented from making payments in U.S. dollars and/or making payments outside of Argentina due to the restrictions in place at that time in the foreign exchange market and/or due to the restrictions on the ability of companies to transfer funds abroad

The Argentine economy could be adversely affected by political and economic developments in other global markets.

Financial and securities markets in Argentina are influenced, to varying degrees, by economic and market conditions in other global markets. The international scenario shows contradictory signals of global growth, as well as high financial and exchange uncertainty. Although such conditions may vary from country to country, investor reactions to events occurring in one country may affect capital flows to issuers in other countries, and consequently affect the trading prices of their securities. Decreased capital inflows and lower prices in the securities market of a country may have an adverse effect on the real economy of those countries in the form of higher interest rates and foreign exchange volatility.

During periods of uncertainty in international markets, investors generally choose to invest in high-quality assets (“flight to quality”) over emerging market assets. This has caused and could continue to cause an adverse impact on the Argentine economy and could continue to adversely affect the country’s economy in the near future. On June 20, 2018, MSCI Inc., a leading provider of indexes and portfolio construction and risk management tools and services for global investors (“MSCI”), reclassified and promoted Argentina to emerging markets status after being dropped to frontier status in May 2009. The MSCI Argentina Index will be included in the MSCI Emerging Markets Index in May 2019. However, MSCI will continue to restrict the inclusion in the index to only foreign listings of Argentinian companies, such as American Depositary Receipts, as the feedback from international institutional investors stated that higher liquidity across the domestic market is needed before considering a shift from offshore to onshore listings. MSCI will reevaluate this decision as liquidity conditions on the BYMA continue to improve.

Most emerging economies have been affected by the change in the U.S. monetary policy, resulting in the sharp unwinding of speculative asset positions, depreciations and increased volatility in the value of their currencies and higher interest rates. The general appreciation of the U.S. dollar resulting from a more restrictive U.S. monetary policy contributed to the fall of the international price of raw materials, increasing the difficulties of emerging countries which are exporters of these products. There is global uncertainty about the degree of economic recovery in the United States, with no substantial positive signals from other developed countries and an increased risk of a general deceleration in developing countries, specifically China, which is the main importer of Argentine commodities. Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had international implications affecting the stability of global financial markets, which has hindered economies worldwide. The Eurozone finance ministers, at a meeting held in August 2015, agreed a third bailout deal for Greece, which required the approval of several countries such as Germany, one of its main creditors.

Although economic conditions vary from country to country, investors’ perception of the events occurring in one country may substantially affect capital flows into other countries. International investors’ reactions to events occurring in one market sometimes 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 countries, which in turn may have an adverse effect on our financial condition and the results of our operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. The Argentine economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including those in Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998 and the Brazilian depreciation in January 1999.

Likewise, the “flight to quality” has also affected Argentina, causing a deterioration of its sovereign spread that reached 783 basis points on September 4, 2018, based on the J.P. Morgan EMBI+ Index, worsening the conditions for accessing new external financing. On October 26, 2018, the Argentine country risk index reached 670 basis points by.

Argentina is affected by economic conditions of its major trade partners, such as Brazil, which devalued its currency in early February 2015, causing the Brazilian real to suffer the steepest depreciation in over a decade.

Brazil, which is Argentina's main trading partner, has experienced GDP contraction in recent years (3.5% in 2015 and 3.5% in 2016). Although Brazil's economic outlook seems to be improving, a further deterioration of economic activity, a delay in Brazil's expected economic recovery or a slower pace of economic improvement in Brazil may have a negative impact on Argentine exports and on the overall level of economic and industrial activity in Argentina, particularly with respect to the automotive industry. In February 2016, Standard & Poor's downgraded Brazil's credit rating to BB. In December 2015 and February 2016, Fitch Ratings and Moody's, respectively, also downgraded Brazil's credit ratings to BB+ and Ba2, respectively. In 2017, Brazil experienced a slight increase in its GDP, increasing by 1.0%. If the Brazilian economy's current recovery stalls or once again deteriorates, the demand for Argentine exports may be adversely impacted. In turn, on October 28, 2018, the presidential elections were held in Brazil, with the conservative candidate Jair Bolsonaro as the winner in the final round with 55.1% of the votes, who will take office on January 1, 2019. We can not predict the impact on the global economy, and particularly in Argentina, of the policies of the Bolsonaro's administration and, consequently, the results of our business, financial condition and the results of our operations.

Moreover, Argentina may be affected by other countries that have influence over world economic cycles, such as the United States or China. In particular, China, which is the main importer of Argentine commodities, saw the yuan depreciate since the end of 2015, which has adversely affected companies with substantial exposure to that country. Depreciation of the yuan continued during 2016, and Chinese economic growth slowed in 2016 and 2017. The slowdown of the Chinese economy and increased volatility of its financial markets could impact financial markets worldwide, which, in turn, could increase the cost and availability of financing both domestically and internationally for Argentine companies. Starting in April 2018, the U.S. imposed tariffs on steel and aluminum imports from China, as well as Canada and countries in the European Union. On July 6, 2018, the United States imposed 25% tariffs on US\$34 billion worth of Chinese goods, which then led China to respond with similarly sized tariffs on United States' products. On July 10, 2018, the Office of the U.S. Trade Representative (USTR) announced a 10% tax on a US\$200 billion list of 5,745 Chinese products, implemented as of September 24, 2018. Also, on September 18, 2018, the Chinese government announced a 5% to 10% tax on a US\$60 billion list of 5,207 American goods, implemented as of September 24, 2018. A new global economic and/or financial crisis or the effects of deterioration in the current international context, could affect the Argentine economy and, consequently, the results of our operations, financial condition and the trading price for our GDSs.

If interest rates rise significantly in developed economies, including the United States, Argentina and other emerging market economies could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. In addition, if these developing countries, which are also Argentina's trade partners, fall into a recession; the Argentine economy would be affected by a decrease in exports. All of these factors could have a negative impact on us, our business, operations, financial condition and prospects.

In a non-binding referendum on the United Kingdom's membership in the European Union on June 23, 2016, a majority of those who voted approved the United Kingdom's withdrawal from the European Union. Any withdrawal by the United Kingdom from the European Union (referred to as "Brexit") would occur after, or possibly concurrently with, a process of negotiation regarding the future terms of the United Kingdom's relationship with the European Union, which could result in the United Kingdom losing access to certain aspects of the single EU market and the global trade deals negotiated by the European Union on behalf of its members. Negotiations for the exit of the United Kingdom began in early 2017 and the probable date for the departure is March 2019. As a result of Brexit, London could cease to be the financial center of Europe and some banks have already announced their intention to transfer many jobs to continental Europe and Ireland and have indicated that Germany could replace London as the financial center of Europe. The possible negative consequences of Brexit include an economic crisis in the United Kingdom, a short-term recession and a decrease of investments in public services and foreign investment. The greatest impact of Brexit would be on the United Kingdom, however the impact may also be significant to the other member states.

As for Argentina, the consequences of Brexit are linked to the weakening of the pound and the euro, which has led to a significant appreciation of the U.S. dollar worldwide. An appreciation of the U.S. dollar and increased risk aversion could lead to a negative effect on the price of raw materials, which would be reflected in the products that Argentina exports to Europe. Another direct consequence of “Brexit” could be a decrease in prices of most commodities, a factor that could affect Argentina if prices stay low in the long term. Bilateral trade could also suffer, but would not be material, as the United Kingdom currently only represents approximately 1% of Argentina’s total imports and exports. In addition, it is possible that Brexit could complicate Argentina’s ability to issue additional debt in the international capital markets, as funding would be more expensive.

Donald Trump was elected president on November 8, 2016 and took office on January 20, 2017. The election of the new administration has generated volatility in the global capital markets. The new administration has implemented a comprehensive tax reform and has begun implementing more protectionist policies. The U.S. Federal Reserve recently increased the U.S. federal funds target rate, which has created additional volatility in the U.S. and the international markets. Changes in social, political, regulatory, and economic conditions in the United States or in laws and policies governing foreign trade could create uncertainty in the international markets and could have a negative impact on emerging market economies, including the Argentine economy, which in turn could adversely affect our business, financial condition and results of operations. The effect of these protectionist policies in the global economy remains uncertain.

Global economic conditions may also result in depreciation of regional currencies and exchange rates, including the Peso, which would likely also cause volatility in Argentina. The effect of global economic conditions on Argentina could reduce exports and foreign direct investment, resulting in a decline in tax revenues and a restriction on access to the international capital markets, which could adversely affect our business, financial condition and results of operations. A new global economic and/or financial crisis or the effects of deterioration in the current international context, could affect the Argentine economy and, consequently, our results of operations, financial condition and the trading price for our GDSs.

A decline in the international prices for Argentina's main commodity exports or appreciation of the peso against the U.S. dollar could affect the Argentine economy and adversely affect the foreign exchange market, and have an adverse effect on our business financial condition and results of operations.

High commodity prices have contributed significantly to the increase in Argentine exports since the third quarter of 2002 as well as in government revenues from export taxes. However, this reliance on the export of commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. For example, the average monthly price of soybeans has decreased from US\$684 per metric ton in August 2012 to US\$404 per metric ton in August in July 2018. If international commodity prices decline, the Argentine Government's revenues would decrease significantly, which could adversely affect Argentina's economic activity.

In addition, adverse weather conditions can affect agricultural production, which accounts for a significant portion of Argentina's export revenues. In 2018, Argentina suffered a severe drought, resulting in a year-on-year contraction of GDP of 4.2% in the second quarter of 2018, mainly as a result of the year-on-year decrease of 31.6% in the agricultural, livestock, hunting and forestry sectors. These circumstances could have a negative impact on the levels of government revenues, available foreign exchange and the Argentine Government's ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the Argentine Government's reaction. Either of these results would adversely impact Argentina's economy growth and, therefore, our business, financial condition and results of operations.

A significant increase in the real appreciation of the peso could affect Argentina's competitiveness, substantially affecting exports, and this in turn could prompt new recessionary pressures on the country's economy and a new imbalance in the foreign exchange market, which could lead to a high degree of volatility in the exchange rate. More importantly, in the short term, a significant appreciation of the real exchange rate could substantially reduce Argentine public sector's tax revenues in real terms, given the strong reliance on taxes on exports (withholdings). The occurrence of the foregoing could lead to higher inflation and potentially materially and adversely affect the Argentine economy, as well as our business, financial condition and results of operations.

Restrictions on the supply of energy could negatively affect Argentina's economy.

As a result of prolonged recession and the forced conversion of energy tariffs into pesos and subsequent freeze of natural gas and electricity tariffs in Argentina, there has been a lack of investment in natural gas and electricity supply and transport capacity in Argentina in recent years. At the same time, demand for natural gas and electricity has increased substantially, driven by a recovery in economic conditions and price constraints, which prompted the Argentine Government to adopt a series of measures that have resulted in industry shortages and/or higher costs. In particular, Argentina has been importing natural gas to compensate for shortages in local production. In order to pay for natural gas imports the Argentine Government has frequently used Central Bank reserves given the absence of foreign direct investment. If the Argentine Government is unable to pay for imports of natural gas, economic activity, business and industries may be adversely affected.

The Argentine Government has taken a number of measures to alleviate the short-term impact of energy shortages on residential and industrial users. If these measures prove to be insufficient, or if the investment required to increase natural gas production and electric energy transportation capacity and generation over the medium- and long-term is not available, economic activity in Argentina could be curtailed, and with it our operations. As a first step of these measures, a series of tariff increases and subsidy reductions (primarily applicable to industries and high-income consumers) were implemented. On December 17, 2015, and after publication of Decree No. 134/2015, the Macri administration declared the National Electricity System Emergency until December 31, 2017 and ordered the Ministry of Energy and Mining to propose measures and guarantee the electrical supply. Ministry of Energy and Mining Resolution No. 06/2016 of January 2016 set new seasonal reference prices for power and energy on the Mercado Eléctrico Mayorista (MEM) for the period from February 1, 2016 to April 30, 2016 and set an objective to adjust the quality and security of electricity supply.

In February 2016, the Argentine Government reviewed the schedule of electricity and gas tariffs and eliminated the subsidies of these public services, which would have resulted in increases of 500% or more in energy costs, except for low-income consumers. By correcting tariffs, modifying the regulatory framework and reducing the Argentine Government's participation in the energy sector, the Argentine Government sought to correct distortions in the energy sector and make the necessary investments. In July 2016, a federal court in the city of La Plata suspended the increase in the gas tariff throughout the Province of Buenos Aires. On August 3, 2016, a federal court in San Mart'n suspended the increase in gas tariffs throughout the country until a public hearing was held to discuss the rate increase. The judgment was appealed to the Supreme Court, and on August 18, 2016, the Supreme Court ruled that the increase in the gas tariff of residential users could not be imposed without a public hearing. On September 16, 2016, the public hearing was held where it was agreed that the gas tariff would increase by approximately 200% in October 2016, with biannual increases through 2019.

As for other services, including electricity, a public hearing was held on October 28, 2016 to consider a proposed 31% tariff increase sought by energy distributors. Subsequently, the Argentine Government announced increases in electricity rates of between 60% and 148%. On March 31, 2017, the Ministry of Energy and Mining published a new tariff schedule with increases of approximately 24% for supply of natural gas by networks that had been partially regulated since April 1, 2017. In addition, on November 17, 2017, a public hearing convened by the Minister of Energy and Mining was held to update the tariff schedule for natural gas and electricity. The new tariff schedule foresees a gradual reduction of subsidies, resulting in an increase, between December 2017 and February 2018, between 34% and 57% (depending on the province) for natural gas and 34% for electricity. In addition, on May 31, 2018, the Argentine Congress approved a law seeking to limit the increase in energy tariffs implemented by the Macri administration, which was subsequently vetoed by President Macri. On August 1, 2018, pursuant Resolution No. 208/2018 of the National Electricity Regulatory Board (ENRE), the Ministry of Energy published a new tariff schedule with increases in electricity rates.

Changes change in energy regulatory framework and the establishment of increased tariffs for the supply of gas and electricity could affect our cost structure and increase operating and public service costs. Moreover, the significant increase in the cost of energy in Argentina, could have an adverse effect on the Argentine economy, and therefore, on our business, financial condition and results of operations.

Failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect the Argentine economy and financial condition, which in turn could adversely affect our business, financial condition and results of operations.

The lack of a solid institutional framework and the notorious incidents of corruption that have been identified as a significant problem for Argentina. In Transparency International's Corruption Perceptions Index survey, Argentina ranked 85 out of 180 in 2017, 95 out of 167 in 2016 and 106 out of 167 countries in 2015. In the World Bank's "Doing Business 2017" report, Argentina ranked 116 out of 190 countries.

Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affect Argentina's international reputation and its ability to attract foreign investment, the Macri administration announced various measures aimed at strengthening Argentina's institutions and reducing corruption. These measures include the signing of collaboration agreements with with the judicial Branch in corruption investigation, greater access to public information, the seizure of assets of officials prosecuted for corruption, the increase of the powers of the Argentine Anti-Corruption Office and the approval of a new public ethics law, among others. The Argentine Government's ability to implement these initiatives remains uncertain since it would require the participation of the judiciary as well as the support of opposition legislators. We cannot guarantee that the implementation of these measures will be successful.

As of the date of this annual report, a large-scale corruption investigation in Argentina has been announced by the Argentine government. The investigation related to a decade's worth of payments to government officials from businessmen who had been awarded large government contracts. Since the scandal became public, Argentine authorities have raided high-profile businesses, and President Macri stated that he hoped the case would be a watershed moment in the fight against corruption in Argentina.

Current corruption investigations in Argentina could have an adverse impact on the development of the economy and investor confidence.

The Argentine Government has announced a large-scale corruption investigation in Argentina. The investigation relates to payments over the past decade to government officials from businessmen and companies who had been awarded large government contracts. As of the date of this annual report, several Argentine businessmen, mainly related to public works, and approximately fifteen former government officials of the Fernández de Kirchner administration are being investigated for bribery to the State. As a result, on September 17, 2018, the former president of Argentina, Cristina Fernandez de Kirchner, and several businessmen were prosecuted for illegal association, and goods for Ps. 4 billion were seized.

Depending on the results of such investigations and the time it takes to conclude them, the companies involved could face, among other consequences, a decrease in their credit rating, be subject to claims by their investors, as well as experiencing restrictions on financing through the capital markets. These adverse effects could hamper the ability of these companies to meet their financial obligations on time. In connection with the aforementioned, the lack of future financing for these companies could affect the realization of the projects or works that are currently in execution.

In addition, the effects of these investigations could affect the investment levels in infrastructure in Argentina, as well as the continuation, development and completion of public works and Public-Private Participation projects, which could ultimately lead to lower growth in the Argentine economy.

As of the date of this annual report, we have not estimated the impact that this investigation could have on the Argentine economy. Likewise, we cannot predict for how long corruption investigations could continue, what other companies might be involved, or how important the effects of these investigations might. In turn, the decrease in investors' confidence, among other factors, could have a significant adverse impact on the development of the Argentine economy, which could adversely affect our business, financial condition and the results of our operations.

If Argentina's implementation of laws relating to anti-money laundering and to combating the financing of terrorism (AML/CFT) are insufficient, Argentina may have difficulties in obtaining international financing and/or attracting foreign direct investments.

In October 2010, the Financial Action Task Force ("FATF") issued a Mutual Evaluation Report (the "Mutual Report") on Anti-Money Laundering and Combating the Financing of Terrorism in Argentina, including the evaluation of Argentina as of the time of the on-site visit which took place in November 2009. This report stated that since the latest evaluation, finalized in June 2004, Argentina had not made adequate progress in addressing a number of deficiencies identified at the time, and the FATF has since placed Argentina on an enhanced monitoring process. Moreover, in February 2011, Argentina, represented by the Minister of Justice and Human Rights, attended the FATF Plenary, in Paris, in order to present a preliminary action plan. FATF granted an extension to implement changes. In June 2011, Argentina made a high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies. In compliance with recommendations made by the FATF on money laundering prevention, on June 1, 2011 the Argentine Congress enacted Law No. 26,683. Under this law, money laundering is now a crime per se, and self-laundering money is also considered a crime. Additionally, in June 2012, the Plenary meeting of the FATF held in Rome highlighted the progress made by Argentina but also urged the country to make further progress regarding its AML/CFT deficiencies. Notwithstanding the improvements that Argentina made, in October 2012 the FATF determined that certain strategic AML/CFT deficiencies continued, and that Argentina would be subject to continued monitoring.

Since October 2013, Argentina has taken steps towards improving its AML/CFT regime, including issuing new regulations to strengthen suspicious transaction reporting requirements and expanding the powers of the financial

sector regulator to apply sanctions for AML/CFT deficiencies. Such progress has been recognized by the FATF. In this regard, the FATF (pursuant to its report dated June 27, 2014) concluded that Argentina had made significant progress in adopting measures to address AML/CFT deficiencies identified in the Mutual Report, and that Argentina had strengthened its legal and regulatory framework, including: (i) reforming and strengthening penalties for money laundering by enhancing the scope of reporting parties covered and transferring AML/CFT supervision to the Financial Information Unit (Unidad de Información Financiera or “UIF”) of the Ministry of Treasury; (ii) enhancing terrorist financing penalties, in particular by criminalizing the financing of terrorist acts, terrorists, and terrorist organizations; (iii) issuing, through the UIF, a series of resolutions concerning customer due diligence (CDD) and record-keeping requirements as well as other AML/CFT measures to be taken by reporting parties; and (iv) creating a framework to comply with United Nations Security Council Resolutions 1,267 and 1,373. As a result of such progress, the FATF Plenary concluded that Argentina had taken sufficient steps toward technical compliance with the core and key recommendations and should thus be removed from the monitoring process. In addition, on October 24, 2014, the FATF acknowledged Argentina’s significant progress in improving its AML/CFT regime and noted that Argentina had established the legal and regulatory framework to meet commitments in its action plan and would no longer be subject to the FATF’s AML/CFT compliance monitoring process, and concluded that Argentina would continue to work with the FATF and the Financial Action Task Force of Latin America (Grupo de Acción Financiera de América del Sur, or “GAFISUD”) to address any other issues identified in its Mutual Report.

In February 2016, the “National Coordination Program for the Prevention of Asset Laundering and the Financing of Terrorism” was created by Executive Decree No. 360/2016 as an instrument of the Ministry of Justice and Human Rights, charged with the duty to reorganize, coordinate and strengthen the national system for the prevention of money laundering and the financing of terrorism, taking into consideration the specific risks that might impact Argentina and the global emphasis on developing more effective compliance with international regulations and the standards of the FATF. In addition, relevant rules were modified to designate the Ministry of Justice and Human Rights as the coordinator at the national level of public and private agencies and entities, while the UIF coordinate activities that relate to financial matters.

Recently, in the context of the voluntary disclosure program under the Argentine tax amnesty, Law No. 27,260 and its regulatory decree No. 895/2016, clarified that the UIF has the power to communicate information to other public agencies that deal with intelligence and investigations if the UIF is in possession of evidence that crimes under the Anti-Money Laundering Law may have been committed. In addition, pursuant to the UIF Resolution No. 92/2016, reporting agents must adopt special risk management system to address the complying with the law as well as to report operations carried out under the tax amnesty.

Although Argentina has made significant improvements in its AML/CFT regulations, and is no longer subject to the FATF’s on-going global AML/CFT monitoring process, no assurance can be given that Argentina will continue to comply with AML/CFT international standards, or that Argentina will not be subject to compliance monitoring in the future, any of which could adversely affect Argentina’s ability to obtain financing from international markets and attract foreign investments.

We are exposed to risks in relation to compliance with anti-corruption and anti-bribery laws and regulations.

Our operations are subject to various anti-corruption and anti-bribery laws and regulations, including the Corporate Criminal Liability Law and the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”). Both the Corporate Criminal Liability Law and the FCPA impose liability against companies who engage in bribery of government officials, either directly or through intermediaries. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of our business, we may deal with entities in which the employees are considered government officials. We have a compliance program that is designed to manage the risks of doing business in light of these new and existing legal and regulatory requirements.

Although we have internal policies and procedures designed to ensure compliance with applicable anti-corruption and anti-bribery laws and regulations, there can be no assurance that such policies and procedures will be sufficient. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on us, limits being placed on our activities, our authorizations and licenses being revoked, damage to our reputation and other consequences that could have a material adverse effect on our business, results of operations and financial condition. Further, litigations or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could be costly.

Risks relating to our business in Argentina

We are subject to risks inherent to the operation of shopping malls that may affect our profitability.

Our shopping malls are subject to various factors that affect their development, administration and profitability, including:

decline in our lease prices or increases in levels of default by our tenants due to economic conditions, increases in interest rates and other factors outside our control;

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

the intrinsic attractiveness of the shopping mall;

the flow of people and the level of sales of rental units in our shopping malls;

the increasing competition from internet sales;

the amount of rent collected from tenant at our shopping mall;

changes in consumer demand and availability of consumer credit (considering the limits imposed by the Central Bank to interest rates charged by financial institutions), both of which are highly sensitive to general macroeconomic conditions; and

fluctuations in occupancy levels in our shopping malls.

An increase in our operating costs, caused by inflation or by other factors, could have a material adverse effect on us if our tenants are unable to pay higher rent as a result of increased expenses. Moreover, the shopping mall business is closely related to consumer spending and affected by prevailing economic conditions. All of our shopping malls and commercial properties, under Operations Center in Argentina, are located in Argentina, and, as a consequence, their business is vulnerable to recession and economic downturns in Argentina. For example, during the economic crisis in Argentina that began in 2001, consumer spending decreased significantly, and higher unemployment, political instability and high rates of inflation significantly reduced consumer spending and resulted in lower sales that led some tenants to shut down. Persistently poor economic conditions in Argentina in the future could result in a decline in discretionary consumer spending which will likely have a material adverse effect on the revenues from shopping mall activity and thus on our business.

Our assets are highly concentrated in certain geographic areas and an economic downturn in such areas could have a material adverse effect on our results of operations and financial condition.

For the fiscal year ended June 30, 2018, 86% of our sales from leases and services provided by the Shopping Malls segment were derived from shopping malls in the City of Buenos Aires and the Greater Buenos Aires. In addition, all of our office buildings are located in the City of Buenos Aires and a substantial portion of our revenues in Argentina are derived from such properties. Although we own properties and may acquire or develop additional properties outside the City of Buenos Aires and the Greater Buenos Aires area, we expect to continue to depend to a large extent on economic conditions affecting those areas. Consequently, an economic downturn in those areas could have a material adverse effect on our financial condition and results of operations by reducing our rental income and adversely affect our ability to meet our debt obligations and fund our operations.

Our performance is subject to risks associated with our properties and with the real estate industry.

Our operating performance and the value of our real estate assets are subject to the risk that our properties may not be able to generate sufficient revenues to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to service our debt and to cover other expenses may be adversely affected.

Events or conditions beyond our control that may adversely affect our operations or the value of our properties include:

- downturns in the national, regional and local economic climate;
- volatility and decline in discretionary consumer spending;
- competition from other shopping malls and office, and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for retail, office, or other commercial space;
- decreases in consumption levels;
- changes in interest rates and availability of financing;
- the exercise by our tenants of their legal right to early termination of their leases;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;
- increased operating costs, including insurance expenses, employee expenses, utilities, real estate taxes and security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs;
- declines in the financial condition of our tenants and our ability to collect rents when due;

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

changes in law or governmental regulations (such as those governing usage, zoning and real property taxes) or government action such as expropriation, confiscation or revocation of concessions; and

judicial interpretation of the Civil and Commercial Code (effect since August 1, 2015) which may be adverse to our interests.

If any one or more of the foregoing conditions were to affect our business, our financial condition and results of operations could be materially and adversely affected.

An adverse economic environment for real estate companies such as a credit crisis may adversely impact our results of operations and business prospects significantly.

The success of our business and profitability of our operations depend on continued investment in real estate and access to capital and debt financing. A prolonged crisis of confidence in real estate investments and lack of credit for acquisitions may constrain our growth. As part of our strategy, we intend to increase our properties portfolio through strategic acquisitions of core properties at favorable prices, where we believe we can bring the necessary expertise to enhance property values. In order to pursue acquisitions, we may need access to equity capital and/or debt financing. Any disruptions in the financial markets may adversely impact our ability to refinance existing debt and the availability and cost of credit in the near future. Any consideration of sales of existing properties or portfolio interests may be offset by lower property values. Our ability to make scheduled payments or to refinance our existing debt obligations depends on our operating and financial performance, which in turn is subject to prevailing economic conditions. If a recurrence of the disruptions in financial markets remains or arises in the future, there can be no assurances that government responses to such disruptions will restore investor confidence, stabilize the markets or increase liquidity and the availability of credit.

Our revenue and net income may be materially and adversely affected by continuing inflation and any economic slowdown in Argentina.

Our business is mainly driven by consumer spending since a portion of our revenue from our shopping mall segment derives directly from the sales of our tenants. In addition, our tenants' revenue relies mainly on the sales to customers. As a result, our revenue and net income are impacted to a significant extent by economic conditions in Argentina, including the development in the textile industry and domestic consumption, which has suffered a significant low in 2018. The Argentine economy and level of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, inflation, political uncertainty, level of employment, interest rates, taxation and currency exchange rates.

Any continuing economic slowdown, whether actual or perceived, could significantly reduce domestic consumer spending in Argentina and therefore adversely affect our business, financial condition and results of operations.

The loss of tenants could adversely affect the operating revenues and value of our properties.

Although no single tenant represents more than 3% of our revenue, if a significant number of tenants at our retail or office properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, or if we failed to retain them, our business could be adversely affected. Further, our shopping malls typically have a significant "anchor" tenant, such as well-known department stores that generate consumer traffic at each mall. A decision by such tenants to cease operations at our shopping malls or our office buildings, as applicable, could have a material adverse effect on our financial condition and the results of our operations. In addition, the closing of one or more stores with high consumer traffic may motivate other tenants to terminate or to not renew their leases, to seek rent relief and/or close their stores or otherwise adversely affect the occupancy rate at the property. Moreover, tenants at one or more properties might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies. The bankruptcy and/or closure of multiple stores, if we are not able to successfully re-lease the affected space, could have a material adverse effect on both the operating revenues and underlying value of the properties involved.

Our revenue and net income may be materially and adversely affected by continuing inflation and any economic slowdown in Argentina.

Our business is mainly driven by consumer spending since a portion of our revenue from our shopping mall segment derives directly from the sales of our tenants. In addition, our tenants' revenue relies mainly on the sales to costumers. As a result, our revenue and net income are impacted to a significant extent by economic conditions in Argentina, including the development in the textile industry and domestic consumption, which has suffered a significant low in 2018. The Argentine economy and level of consumer spending are influenced by many factors beyond our control, including consumer perception of current and future economic conditions, inflation, political uncertainty, level of employment, interest rates, taxation and currency exchange rates.

Any continuing economic slowdown, whether actual or perceived, could significantly reduce domestic consumer spending in Argentina and therefore adversely affect our business, financial condition and results of operations.

We may face risks associated with property acquisitions.

We have in the past acquired, and intend to acquire in the future, properties, including large properties that would increase the size of our company and potentially alter our capital structure. Although we believe that the acquisitions that we have completed in the past and that we expect to undertake in the future have, and will, enhance our future financial performance, the success of such transactions is subject to a number of uncertainties, including the risk that:

- we may not be able to obtain financing for acquisitions on favorable terms or at all;

- acquired properties may fail to perform as expected;

- the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates; and

- acquired properties may be located in new markets where we may have limited knowledge and understanding of the local economy, absence of business relationships in the area or are unfamiliar with local governmental and permitting procedures.

If we acquire new properties, we may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into our organization and to manage new properties in a way that allows us to realize cost savings and synergies, which could impair our results of operations.

Our future acquisitions may not be profitable.

We seek to acquire additional properties to the extent we manage to acquire them on favorable terms and conditions and they meet our investment criteria. Acquisitions of commercial properties entail general investment risks associated with any real estate investment, including:

- our estimates of the cost of improvements needed to bring the property up to established standards for the market may prove to be inaccurate;

- properties we acquire may fail to achieve, within the time frames we project, the occupancy or rental rates we expect to achieve at the time we make the decision to acquire, which may result in the properties' failure to achieve the returns we projected;

our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs, which could significantly increase our total acquisition costs; and

our investigation of a property or building prior to its acquisition, and any representations we may receive from the seller of such building or property, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

If we acquire a business, we will be required to merge and integrate the operations, personnel, accounting and information systems of such acquired business. In addition, acquisitions of or investments in companies may cause disruptions in our operations and divert management's attention away from day-to-day operations, which could impair our relationships with our current tenants and employees.

Properties we acquire may subject us to unknown liabilities.

Properties that we acquire may be subject to unknown liabilities and we generally would have no recourse, or only limited recourse to the former owners of the properties in respect thereof. Thus, if a liability were asserted against us based on ownership of an acquired property, we may be required to pay significant sums to settle it, which could adversely affect our financial results and cash flow. Unknown liabilities relating to acquired properties could include:

- liabilities for clean-up of undisclosed environmental contamination;

- liabilities related to changes in laws or in governmental regulations (such as those governing usage, zoning and real property taxes); and

- liabilities incurred in the ordinary course of business.

Our dependence on rental income may adversely affect our ability to meet our debt obligations.

A substantial part of our income is derived from rental income from real property. As a result, our performance depends on our ability to collect rent from tenants. Our income and funds for distribution would be negatively affected if a significant number of our tenants:

- delay lease commencements;

- decline to extend or renew leases upon expiration;

- fail to make rental payments when due; or

- close stores or declare bankruptcy.

Any of these actions could result in the termination of leases and the loss of related rental income. In addition we cannot assure you that any tenant whose lease expires will renew that lease or that we will be able to re-lease space on economically advantageous terms or at all. The loss of rental revenues from a number of our tenants and our inability to replace such tenants may adversely affect our profitability and our ability to meet debt service and other financial obligations.

It may be difficult to buy and sell real estate quickly and transfer restrictions may apply to part of our portfolio of properties.

Real estate investments are relatively illiquid and this tends to limit our ability to vary our portfolio in response to economic changes or other conditions. In addition, significant expenditures associated with each investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a decrease in income from an investment. If income from a property declines while the related expenses do not decline, our business would be adversely affected. Further, if it becomes necessary or desirable for us to dispose of one or more of our mortgaged properties, we may not be able to obtain a release of the lien on the mortgaged property without payment of the associated debt. The foreclosure of a mortgage on a property or inability to sell a property could adversely affect our business.

Some of the land we have purchased is not zoned for development purposes, and we may be unable to obtain, or may face delays in obtaining, the necessary zoning permits and other authorizations.

We own several plots of land which are not zoned for the type of projects we intend to develop. In addition, we do not yet have the required land-use, building, occupancy and other required governmental permits and authorizations for these properties. We cannot assure you that we will continue to be successful in our attempts to rezone land and to obtain all necessary permits and authorizations, or that rezoning efforts and permit requests will not be unreasonably delayed or rejected. Moreover, we may be affected by building moratorium and anti-growth legislation. If we are unable to obtain all of the governmental permits and authorizations we need to develop our present and future projects as planned, we may be forced to make unwanted modifications to such projects or abandon them altogether.

Our ability to grow will be limited if we cannot obtain additional financing.

We must maintain liquidity to fund our working capital, service our outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, we could be forced to curtail our operations or we may not be able to pursue new business opportunities.

Our growth strategy is focused on the development and redevelopment of properties we already own and the acquisition and development of additional properties. As a result, we are likely to depend on an important degree on the availability of debt or equity capital, which may or may not be available on favorable terms or at all. We cannot assure you that additional financing, refinancing or other capital will be available in the amounts we require or on favorable terms. Our access to debt or equity capital markets depends on a number of factors, including the market's perception of risk in Argentina, of our growth potential, our ability to pay dividends, our financial condition, our credit rating and our current and potential future earnings. Depending on these factors, we could experience delays or difficulties in implementing our growth strategy on satisfactory terms or at all.

The capital and credit markets have been experiencing extreme volatility and disruption since the last credit crisis. If our current resources do not satisfy our liquidity requirements, we may have to seek additional financing. The availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and our credit ratings, as well as the possibility that lenders could develop a negative perception of the prospects of risk in Argentina, of our company or the industry generally. We may not be able to successfully obtain any necessary additional financing on favorable terms, or at all.

Disease outbreaks or other public health concerns could reduce traffic in our shopping malls.

As a result of the outbreak of Swine Flu during the winter of 2009, consumers and tourists dramatically changed their spending and travel habits to avoid contact with crowds. Furthermore, several governments enacted regulations limiting the operation of schools, cinemas and shopping malls. Even though the Argentine government only issued public service recommendations to the population regarding the risks involved in visiting crowded places, such as shopping malls, and did not issue specific regulations limiting access to public places, a significant number of consumers nonetheless changed their habits vis-à-vis shopping malls and shopping malls. Similarly, the zika virus pandemic may result in similar courses and outcomes. We cannot assure you that a new disease outbreak or health hazard (such as the Ebola outbreak in recent years) will not occur in the future, or that such an outbreak or health hazard would not significantly affect consumer and/or tourists activity. The recurrence of such a scenario could adversely affect our businesses and our results of operations.

Adverse incidents that occur in our shopping malls may result in damage to our reputation and a decrease in the number of customers.

Given that shopping malls are open to the public, with ample circulation of people, accidents, theft, robbery and other incidents may occur in our facilities, regardless of the preventative measures we adopt. In the event such an incident or series of incidents occurs, shopping mall customers and visitors may choose to visit other shopping venues that they believe are safer and less violent, which may cause a reduction in the sales volume and operating income of our shopping malls.

Argentine Law governing leases imposes restrictions that limit our flexibility.

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

a prohibition on including automatic price adjustment clauses based on inflation increases in lease agreements; and

the imposition of a two-year minimum lease term for all purposes, except in particular cases such as embassy, consulate or international organization venues, room with furniture for touristic purposes for less than three months, custody and bailment of goods, exhibition or offering of goods in fairs or in cases where due to the circumstances, the subject matter of the lease agreement requires a shorter term.

As a result of the foregoing, we are exposed to the risk of increases of inflation under our leases, and the exercise of rescission rights by our tenants could materially and adversely affect our business. We cannot assure you that our tenants will not exercise such right, especially if rent values stabilize or decline in the future or if economic conditions deteriorate.

In addition, on October 1, 2014, the Argentine Congress adopted a new Civil and Commercial Code which is in force since August 1, 2015. The Civil and Commercial Code requires that lease agreements provide for a minimum term of two years, and a maximum term of 20 years for residential leases and of 50 years for non-residential leases. Furthermore, the Civil and Commercial Code modifies the regime applicable to contractual provisions relating to foreign currency payment obligations by establishing that foreign currency payment obligations may be discharged in Pesos. This amends the prior legal framework, pursuant to which debtors could only discharge their foreign currency payment obligations by making payment in that currency. Although certain judicial decisions have held that this feature of the regulation can be set aside by the parties to an agreement, it is still too early to determine whether or not this is legally enforceable. Moreover, and regarding the new provisions for leases, there are no judicial decisions on the scope of this amendment and, in particular, in connection with the ability of the parties to any contract to set aside the new provision and enforce such agreements before an Argentine court.

We may be liable for certain defects in our buildings.

According to the Civil and Commercial Code, real estate developers (i.e., any person who sells real estate built by either themselves or by a third party contractor), builders, technical project managers and architects are liable in case of property damage—damages that compromise the structural integrity of the structure and/or defects that render the building no longer useful—for a period of three years from the date of possession of the property, including latent defects, even when those defects did not cause significant property damage.

In our real estate developments, we usually act as developers and sellers while construction is carried out by third-party contractors. Absent a specific claim, we cannot quantify the potential cost of any obligation that may arise as a result of a future claim, and we have not recorded provisions associated with them in our financial statements. If we were required to remedy any defects on completed works, our financial condition and results of operations could be adversely affected.

Eviction proceedings in Argentina are difficult and time consuming.

Although Argentine law permits an executive proceeding to collect unpaid rent and a special proceeding to evict tenants, eviction proceedings in Argentina are difficult and time-consuming. Historically, the heavy workloads of the courts and the numerous procedural steps required have generally delayed landlords' efforts to evict tenants. Eviction proceedings generally take between six months and two years from the date of filing of the suit to the time of actual eviction.

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

We are subject to risks inherent to the operation of office buildings that may affect our profitability.

Office buildings are subject to various factors that affect their development, administration and profitability, including:

a decrease in demand for office space;

a deterioration in the financial condition of our tenants may result in defaults under leases due to bankruptcy, lack of liquidity or for other reasons;

difficulties or delays renewing leases or re-leasing space;

decreases in rents as a result of oversupply, particularly of newer buildings;

competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from our tenants; and

maintenance, repair and renovation costs incurred to maintain the competitiveness of our office buildings.

If we are unable to adequately address these factors, any one of them could adversely impact our business, which would have an adverse effect on our financial condition and results of operations.

Our investment in property development and management activities may be less profitable than we anticipate.

We are engaged in the development and management of shopping malls, office buildings and other rental properties, frequently through third-party contractors. Risks associated with our development and management activities include the following, among others:

abandonment of development opportunities and renovation proposals;

construction costs of a project may exceed our original estimates for reasons including raises in interest rates or increases in the costs of materials and labor, making a project unprofitable;

occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, resulting in lower than projected rental rates and a corresponding lower return on our investment;

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

the unavailability of favorable financing alternatives in the private and public debt markets;

aggregate sale prices of 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;

failure or delays in obtaining necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, or building moratoria and anti-growth legislation;

significant time lags between the commencement and completion of projects subjects us to greater risks due to fluctuation in the general economy;

construction may not be completed on schedule because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, or man-made or natural disasters (such as fires, hurricanes, earthquakes or floods), resulting in increased debt service expense and construction costs;

general changes in our tenants' demand for rental properties; and

we may incur capital expenditures that could result in considerable time consuming efforts and which may never be completed due to government restrictions.

In addition, we may face contractors' claims for the enforcement of labor laws in Argentina (sections 30, 31, 32 under Law No. 20,744), which provide for joint and several liability. Many companies in Argentina hire personnel from third-party companies that provide outsourced services, and sign indemnity agreements in the event of labor claims from employees of such third company that may affect the liability of such hiring company. However, in recent years several courts have denied the existence of independence in those labor relationships and declared joint and several liabilities for both companies.

While our policies with respect to expansion, renovation and development activities are intended to limit some of the risks otherwise associated with such activities, we are nevertheless subject to risks associated with the construction of properties, such as cost overruns, design changes and timing delays arising from a lack of availability of materials and labor, weather conditions and other factors outside of our control, as well as financing costs that, may exceed original estimates, possibly making the associated investment unprofitable. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these redevelopment projects and harm our operating results.

Greater than expected increases in construction costs could adversely affect the profitability of our new developments.

Our businesses activities include real estate developments. One of the main risks related to this activity corresponds to increases in constructions costs, which may be driven by higher demand and new development projects in the shopping malls and buildings sectors. Increases higher than those included in the original budget may result in lower profitability than expected.

We face significant competitive pressure.

Our real estate activities are highly concentrated in the Buenos Aires metropolitan area, where the real estate market is highly competitive due to a scarcity of properties in sought-after locations and the increasing number of local and international competitors. Furthermore, the Argentine real estate industry is generally highly competitive and fragmented and does not have high barriers to entry restricting new competitors from entering the market. The main competitive factors in the real estate development business include availability and location of land, price, funding, design, quality, reputation and partnerships with developers. A number of residential and commercial developers and real estate services companies compete with us in seeking land for acquisition, financial resources for development and prospective purchasers and tenants. Other companies, including joint ventures of foreign and local companies, have become increasingly active in the real estate business and shopping mall business in Argentina, further increasing this competition. To the extent that one or more of our competitors are able to acquire and develop desirable properties, as a result of greater financial resources or otherwise, our business could be materially and adversely affected. If we are not able to respond to such pressures as promptly as our competitors, or the level of competition increases, our financial condition and results of our operations could be adversely affected.

Substantially all of our shopping mall and commercial office properties are located in Argentina. There are other shopping malls and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competing properties in a particular area could have a material adverse effect both on our ability to lease retail space in our shopping malls or sell units in our residential complexes and on the amount of rent or the sale price that we are able to charge. We cannot assure you that other shopping mall operators, including international shopping mall operators, will not invest in Argentina in the near future. If additional companies become active in the Argentine shopping mall market in the future, such competition could have a material adverse effect on our results of operations.

Substantially all of our offices and other non-shopping mall rental properties are located in developed urban areas. There are many office buildings, shopping malls, retail and residential premises in the areas where our properties are located. This is a highly fragmented market, and the abundance of comparable properties in our vicinity may adversely affect our ability to rent or sell office space and other real estate and may affect the sale and lease price of our premises. In the future, both national and foreign companies may participate in Argentina's real estate development market, competing with us for business opportunities.

Some potential losses are not covered by insurance and certain kinds of insurance coverage may become prohibitively expensive.

We currently carry insurance policies that cover potential risks such as civil liability, fire, loss profit, floods, including extended coverage and losses from leases on all of our properties. Although we believe the policy specifications and insured limits of these policies are generally customary, there are certain types of losses, such as lease and other contract claims, terrorism and acts of war that generally are not insured under the insurance policies offered in the national market. Should an insured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. If any of our key employees were to die or become incapacitated, we could experience losses caused by a disruption in our operations which will not be covered by insurance, and this could have a material adverse effect on our financial condition and results of operations.

In addition, we cannot assure you that we will be able to renew our insurance coverage in an adequate amount or at reasonable prices. Insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and mold, or, if offered, these types of insurance may be prohibitively expensive.

An uninsured loss or a loss that exceeds policies on our properties could subject us to lost capital or revenue on those properties.

Under the terms and conditions of the leases currently in force on our properties, tenants are required to indemnify and hold us harmless from liabilities resulting from injury to persons, or property, on or off the premises, due to activities conducted on the properties, except for claims arising from our negligence or intentional misconduct or that of our agents. Tenants are generally required, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. In addition, we cannot ensure that our tenants will properly maintain their insurance policies or have the ability to pay the deductibles.

Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our operating results and financial condition.

Demand for our premium properties may not be sufficient.

We have focused on development projects that cater to affluent individuals and have entered into property barter agreements pursuant to which we contribute our undeveloped properties to ventures with developers who will deliver us units at premium locations. At the time the developers return these properties to us, demand for premium residential units could be significantly lower. In such case, we would be unable to sell these residential units at the estimated prices or time frame, which could have an adverse effect on our financial condition and results of operations.

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

We had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2018, our consolidated financial debt amounted to Ps.206,633 million (including IDBD's debt outstanding as of that date plus accrued and unpaid interest on such indebtedness and deferred financing costs). We cannot assure you that we will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not have apply IRSA since such it is not recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict our ability to operate IDBD and implement our business strategy.

The fact that we are highly leveraged may affect our ability to refinance existing debt or borrow additional funds to finance working capital requirements, acquisitions and capital expenditures. In addition, the recent disruptions in the global financial markets, including the bankruptcy and restructuring of major financial institutions, may adversely impact our ability to refinance existing debt and the availability and cost of credit in the future. In such conditions, access to equity and debt financing options may be restricted and it may be uncertain how long these economic circumstances may last. This would require us to allocate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including acquisitions and capital expenditures. Our leverage could also affect our competitiveness and limit our ability to changes in market conditions, changes in the real estate industry and economic downturns.

We may not be able to generate sufficient cash flows from operations to satisfy our debt service requirements or to obtain future financing. If we cannot satisfy our debt service requirements or if we default on any financial or other covenants in our debt arrangements, the lenders and/or holders of our debt will be able to accelerate the maturity of such debt or cause defaults under the other debt arrangements. Our ability to service debt obligations or to refinance them will depend upon our future financial and operating performance, which will, in part, be subject to factors

beyond our control such as macroeconomic conditions and regulatory changes in Argentina. If we cannot obtain future financing, we may have to delay or abandon some or all of our planned capital expenditures, which could adversely affect our ability to generate cash flows and repay our obligations as they become due.

The recurrence of a credit crisis could have a negative impact on our major customers, which in turn could materially adversely affect our results of operations and liquidity.

The global credit crisis that began in 2008 had a significant negative impact on businesses around the world. The impact of a future credit crisis on our major tenants cannot be predicted and may be quite severe. A disruption in the ability of our significant tenants to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of their products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity.

We are subject to risks affecting the hotel industry.

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

In addition, the profitability of our hotels depends on:

- our ability to form successful relationships with international and local operators to run our hotels;

- changes in tourism and travel trends, including seasonal changes and changes due to pandemic outbreaks, such as the A H1N1 and zika viruses, a potential ebola outbreak, among others, or weather phenomena's or other natural events, such as the eruption of the Puyehué and the Calbuco volcano in June 2011 and April 2015, respectively;

- affluence of tourists, which can be affected by a slowdown in global economy; and

- taxes and governmental regulations affecting wages, prices, interest rates, construction procedures and costs.

The shift of consumers to purchasing goods over the Internet, where barriers to entry are low, may negatively affect sales at our shopping malls.

In recent years, internet retail sales have grown significantly in Argentina, even though the market share of such sales is still modest. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the importance of traditional distribution channels such as retail stores and shopping malls. We believe that our target consumers are increasingly using the Internet, from home, work or elsewhere, to shop electronically for retail goods, and this trend is likely to continue. Retailers at our properties face increasing competition from online sales and this could cause the termination or non renewal of their lease agreements or a reduction in their gross sales, affecting our Percentage Rent (as defined below) based revenue. If e commerce and retail sales through the Internet continue to grow, retailers' and consumers' reliance on our shopping malls could be materially diminished, having a material adverse effect on our financial condition, results of operations and business prospects.

Our business is subject to extensive regulation and additional regulations may be imposed in the future.

Our activities are subject to Argentine federal, state and municipal laws, and to regulations, authorizations and licenses required with respect to construction, zoning, use of the soil, environmental protection and historical patrimony, consumer protection, antitrust and other requirements, all of which affect our ability to acquire land, buildings and shopping malls, develop and build projects and negotiate with customers. In addition, companies in this industry are subject to increasing tax rates, the creation of new taxes and changes in the taxation regime. We are required to obtain licenses and authorizations with different governmental authorities in order to carry out our projects. Maintaining our licenses and authorizations can be a costly provision. In the case of non-compliance with such laws, regulations, licenses and authorizations, we may face fines, project shutdowns, and cancellation of licenses and revocation of authorizations.

In addition, public authorities may issue new and stricter standards, or enforce or construe existing laws and regulations in a more restrictive manner, which may force us to make expenditures to comply with such new rules. Development activities are also subject to risks relating to potential delays in obtaining or an inability to obtain all necessary zoning, environmental, land-use, development, building, occupancy and other required governmental

permits and authorizations. Any such delays or failures to obtain such government approvals may have an adverse effect on our business.

In the past, the Argentine government imposed strict and burdensome regulations regarding leases in response to housing shortages, high rates of inflation and difficulties in accessing credit. Such regulations limited or prohibited increases on rental prices and prohibited eviction of tenants, even for failure to pay rent. Most of our leases provide that the tenants pay all costs and taxes related to their respective leased areas. In the event of a significant increase in the amount of such costs and taxes, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting our rental income. We 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, operation or leasing of properties in Argentina could negatively affect the Argentine real estate market and the rental market and materially and adversely affect our operations and profitability.

We are dependent on our Board of Directors and our personnel.

Our success, to a significant extent, depends on the continued employment of Eduardo Sergio Elsztain and certain other members of our board of directors and senior management, who have significant expertise and knowledge of our business and industry. The loss or interruption of their services for any reason could have a material adverse effect on our business and results of operations. 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.

Labor relations may negatively impact us.

As of June 30, 2018, 62.7% of our workforce was represented by unions under two separate collective bargaining agreements. Although we currently enjoy good relations with our employees and their unions, we cannot assure you that labor relations will continue to be positive or that deterioration in labor relations will not materially and adversely affect us.

Our results of operations include unrealized revaluation adjustments on investment properties, which may fluctuate significantly over financial periods and may materially and adversely affect our business, results of operations and financial condition.

As of June 30, 2018, we had fair value gains on investment properties of Ps.22,605 million. Although the upward revaluation adjustments reflect unrealized capital gains on our investment properties during the relevant periods, the adjustments were not actual cash flow or profit generated from the sales or rental of our investment properties. Unless such investment properties are disposed of at similarly revalued amounts, we will not realize the actual cash flow. The amount of revaluation adjustments has been, and will continue to be, significantly affected by the prevailing property markets and will be subject to market fluctuations in those markets.

We cannot guarantee whether changes in market conditions will increase, maintain or decrease the fair value gains on our investment properties at historical levels or at all. In addition, the fair value of our investment properties may materially differ from the amount we receive from any actual sale of an investment property. If there is any material downward adjustment in the revaluation of our investment properties in the future or if our investment properties are disposed of at significantly lower prices than their valuation or appraised value, our business, results of operations and financial condition may be materially and adversely affected.

Due to the currency mismatches between our revenues and liabilities, we have currency exposure.

As of June 30, 2018, the majority of our liabilities in our Operations Center in Argentina, such as our Series II and VIII Notes issued by the us, and the Series II and IV issued by IRSA Commercial Properties (“IRCP”), were denominated in U.S. dollars while our revenues are mainly denominated in Pesos. This currency gap exposes us to a risk of volatility in the rate of exchange between the Peso and the U.S. dollar, and our financial results are adversely affected when the U.S. dollar appreciates against the Peso. Any depreciation of the Peso against the U.S. dollar correspondingly increases the nominal amount of our debt in Pesos, which further adversely effects our results of operation and financial condition and may increase the collection risk of our leases and other receivables from our tenants, most of which generate Peso denominated revenues.

If the bankruptcy of Inversora Dársena Norte S.A. is extended to our subsidiary Puerto Retiro S.A., we will likely lose a significant investment in a unique waterfront land reserve in the City of Buenos Aires.

On April 18, 2000, Puerto Retiro S.A. (“Puerto Retiro”) was served notice of a filing made by the Argentine Government, through the Ministry of Defense, seeking to extend bankruptcy of Inversora Dársena Norte S.A. (“Indarsa”) to the Company. Upon filing of the complaint, the bankruptcy court issued an order restraining the ability of Puerto Retiro to dispose of, in any manner, the real property purchased in 1993 from Tandanor. Indarsa had acquired 90% of the capital stock in Tandanor from the Argentine Government in 1991. Tandanor’s main business involved ship repairs performed in a 19-hectare property located in the vicinities of La Boca neighborhood and where the Syncrolift is installed. As Indarsa failed to comply with its payment obligation for acquisition of the shares of stock in Tandanor, the Ministry of Defense filed a bankruptcy petition against Indarsa, seeking to extend it to us.

The evidentiary stage of the legal proceedings has concluded. We lodged an appeal from the injunction order, and such order was confirmed by the Court of Appeals on December 14, 2000. The parties filed the arguments in due time and proper manner. After the case was set for judgment, the judge ordered the suspension of the judicial order and requested the case records to issue a decision based on the alleged existence of pre-judgmental status in relation to the criminal case against former officials of the Ministry of Defense and our former executive officers. For that reason the case will not be assigned until a final judgment is issued in respect of the criminal case.

It has been made known to the commercial court that the expiration of the statute of limitations has been declared in the criminal action and the criminal defendants have been acquitted. However, this decision was reversed by the Criminal Court (Cámara de Casación Penal). An extraordinary appeal was filed and rejected, therefore an appeal was directly lodged with the Argentine Supreme Court for improper refusal to permit the appeal, and a decision is still pending.

Our Management and external legal counsel believe that there are sufficient legal and technical arguments to consider that the petition for an extension of the bankruptcy will be dismissed by the court. However, in view of the particular features and progress of the case, this assessment cannot be considered to be conclusive.

In turn, Tandanor filed a civil action against Puerto Retiro and the other defendants in the criminal case for violation of Section 174 (5) based on Section 173 (7) of the Criminal Code. Such action seeks -on the basis of the nullity of the decree that approved the bidding process involving the Dársena Norte property- a reimbursement in favor of Tandanor for all such amounts it has allegedly lost as a result of a suspected fraudulent transaction involving the sale of the property disputed in the case.

In July 2013, the answer to the civil action was filed, which contained a number of defenses. Tandanor requested the intervention of the Argentine Government as third party co-litigant in this case, which petition was granted by the Court. In March 2015, both the Argentine Government and the criminal complainant answered the asserted defenses. On July 12, 2016, Puerto Retiro was legally notified of the decision adopted by the Tribunal Oral Federal No. 5 related to the preliminary objections above mentioned. Two of them were rejected -lack of information and lack of legitimacy (passive). We filed an appeal this decision, which was rejected. The other two objections were considered in the verdict.

On September 7, 2018, Court read its verdict, according to which the preliminary objection of limitation filed by Puerto Retiro was successful. However, the deadline for appeals will not begin until The Court publishes the grounds of the ruling, on November 30, 2018. Nevertheless, in the criminal procedure -where Puerto Retiro is not a party- Court ordered the seizure (“decomiso”) of the land known as “Planta 1”. This Court’s verdict is not final, as it is subject to further appeals by any party of the legal proceeding.

Property ownership through joint ventures or minority participation may limit our ability to act exclusively in our interest.

We develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. For example, we currently own 50% of Quality Invest S.A. (“Quality Invest”), a joint venture that holds our investment in the Nobleza Piccardo plant. We could engage in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, our joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, our joint venture partners may have competing

interests in our markets that could create conflicts of interest. If the objectives of our joint venture partners are inconsistent with our own objectives, we will not be able to act exclusively in our interests.

If one or more of the investors in any of our jointly owned properties were to experience financial difficulties, including bankruptcy, insolvency or a general downturn of business, there could be an adverse effect on the relevant property or properties and in turn, on our financial performance. Should a joint venture partner declare bankruptcy, we could be liable for our partner's common share of joint venture liabilities.

Dividend restrictions in our subsidiaries' debt agreements may adversely affect it.

Dividends paid by our subsidiaries are an important source of funds for us as are other permitted payments from subsidiaries. The debt agreements of our subsidiaries contain covenants restricting their ability to pay dividends or make other distributions. If our subsidiaries are unable to make payments to us, or are able to pay only limited amounts, we may be unable to make payments on its indebtedness.

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

Our largest beneficial owner is Mr. Eduardo S. Elsztain, through his indirect shareholding through Cresud S.A.C.I.F.y A. ("Cresud"). As of June 30, 2018, such beneficial ownership consisted of: (i) 366,788,243 common shares held by Cresud. See "Item 7 – Major Shareholders and Related Party Transactions." Conflicts of interest between our management, Cresud and our affiliates may arise in the performance of our business activities. As of June 30, 2018, Mr. Elsztain also beneficially owned (i) approximately 34.74% of Cresud's common shares and (ii) approximately 86.3% of the common shares of our subsidiary IRSA CP. We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that our affiliates may pursue or that the pursuit of other opportunities will be in our interest.

Risks Related to our Investment in Banco Hipotecario

As of June 30, 2018, we owned approximately 29.9% of the outstanding capital stock of Banco Hipotecario S.A. ("Banco Hipotecario"), which represented 0,7% of our consolidated assets from our operations center in Argentina as of such date. All of Banco Hipotecario's operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario's loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina. These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

Risks Relating to the Argentine Financial System and Banco Hipotecario

The short-term structure of the deposit base of the Argentine financial system, including Banco Hipotecario, could lead to a reduction in liquidity levels and limit the long-term expansion of financial intermediation.

Given the short-term structure of the deposit base of the Argentine financial system, credit lines are also predominantly short-term, with the exception of mortgages, which represent a low proportion of the existing credit base. Although liquidity levels are currently reasonable, no assurance can be given that these levels will not be reduced due to a future negative economic scenario. Therefore, there is still a risk of low liquidity levels that could increase funding cost in the event of a withdrawal of a significant amount of the deposit base of the financial system, and limit the long-term expansion of financial intermediation including Banco Hipotecario.

The growth and profitability of Argentina's financial system partially depend on the development of long-term funding.

Since most deposits in the Argentine financial system are short-term, a substantial portion of the loans have the same or similar maturities, and there is a small portion of long-term credit lines. The uncertainty with respect to the level of inflation in future years, is a principal obstacle to a faster recovery of Argentina's private sector long-term lending. This uncertainty has had, and may continue to have a significant impact on both the supply of and demand for long-term loans as borrowers try to hedge against inflation risk by borrowing at fixed rates while lenders hedge against inflation risk by offering loans at floating rates. If longer-term financial intermediation activity does not grow,

the ability of financial institutions, including Banco Hipotecario, to generate profits will be negatively affected.

Banco Hipotecario issues debt in the local and international capital markets as one of its main sources of funding and its capacity to successfully access the local and international markets on favorable terms affects our cost of funding.

The ability of Banco Hipotecario to successfully access the local and international capital markets and on acceptable terms depends largely on capital markets conditions prevailing in Argentina and internationally. Banco Hipotecario have no control over capital markets conditions, which can be volatile and unpredictable. If Banco Hipotecario is unable to issue debt in the local and/or international capital markets and on terms acceptable to us, whether as a result of regulations, a deterioration in capital markets conditions or otherwise, we would likely be compelled to seek alternatives for funding, which may include short-term or more expensive funding sources. If this were to happen, Banco Hipotecario may be unable to fund our liquidity needs at competitive costs and our business results of operations and financial condition may be materially and adversely affected.

The stability of the financial system depends upon the ability of financial institutions, including ours, to maintain and increase the confidence of depositors.

The measures implemented by the Argentine government in late 2001 and early 2002, in particular the restrictions imposed on depositors to withdraw money freely from banks and the “pesification” and restructuring of their deposits, were strongly opposed by depositors due to the losses on their savings and undermined their confidence in the Argentine financial system and in all financial institutions operating in Argentina.

If depositors once again withdraw their money from banks in the future, there may be a substantial negative impact on the manner in which financial institutions, including ours, conduct their business, and on their ability to operate as financial intermediaries. Loss of confidence in the international financial markets may also adversely affect the confidence of Argentine depositors in local banks.

In the future, an adverse economic situation, even if it is not related to the financial system, could trigger a massive withdrawal of capital from local banks by depositors, as an alternative to protect their assets from potential crises. Any massive withdrawal of deposits could cause liquidity issues in the financial sector and, consequently, a contraction in credit supply.

The occurrence of any of the above could have a material and adverse effect on Banco Hipotecario’s expenses and business, results of operations and financial condition.

The asset quality of financial institutions is exposed to the non-financial public sector’s and Central Bank’s indebtedness.

Financial institutions carry significant portfolios of bonds issued by the Argentine government and by provincial governments as well as loans granted to these governments. The exposure of the financial system to the non-financial public sector’s indebtedness had been shrinking steadily, from 49.0% of total assets in 2002 to 10.3% in 2015, 9.2% in 2016, 10.4% in 2017 and 10.5% as of June 30, 2018. To an extent, the value of the assets held by Argentine banks, as well as their capacity to generate income, is dependent on the creditworthiness of the non-financial public sector, which is in turn tied to the government’s ability to foster sustainable long-term growth, generate fiscal revenues and reduce public expenditure.

In addition, financial institutions currently carry securities issued by the Central Bank in their portfolios, which generally are short-term. As of June 30, 2018, such securities issued by the Central Bank represented approximately 9.4% of the total assets of the Argentine financial system. As of June 30, 2018, Banco Hipotecario’s total exposure to the public sector was Ps. 3,856.8 million, which represented 5.9% of its assets as of that date, and the total exposure to securities issued by the Central Bank was Ps.10,660.3 million, which represented 22.2% of its total assets as of June 30, 2018.

The quality of Banco Hipotecario’s assets of banco Hipotecario and that of other financial institutions may deteriorate if the Argentine private sector is affected by economic events in Argentina or international macroeconomic conditions.

The capacity of many Argentine private sector debtors to repay their loans has in the past deteriorated as a result of certain economic events in Argentina or macroeconomic conditions, materially affecting the asset quality of financial institutions, including us. From 2009 to 2011, the ratio of non-performing private sector lending declined, with a record non-performing loan ratio of 1.4% as of December 31, 2011 for the financial system as a whole. The improvement was reflected in both the consumer loan portfolio and the commercial portfolio. From 2012, the ratio of non-performing private sector loans for the financial system as a whole increased, reaching 2.0% as of December 31,

2014. In 2015, the ratio of non-performing private sector lending of the financial system as a whole decreased to 1.7% in 2016 and to 1.8% in 2017. Banco Hipotecario experienced the following non-performing loan rates: 2.3%, 2.0%, 2.7% and 3.8% as of December 31, 2014, 2015, 2016 and 2017, respectively. The quality of its loan portfolio is highly sensitive to economic conditions prevailing from time to time in Argentina, and as a result if Argentina were to experience adverse macroeconomic conditions, the quality of Banco Hipotecario's loan portfolio and the recoverability of our loans would likely be adversely affected. This might affect the creditworthiness of Banco Hipotecario's loan portfolio and the results of operations.

The Consumer Protection Law may limit some of the rights afforded to Banco Hipotecario

Argentine Law N° 24,240 (the “Consumer Protection Law”) sets forth a series of rules and principles designed to protect consumers, which include Banco Hipotecario’s customers. The Consumer Protection Law was amended by Law N° 26,361 on March 12, 2008 to expand its applicability and the penalties associated with violations thereof. Additionally, Law N° 25,065 (as amended by Law N° 26,010 and Law N° 26,361, the “Credit Card Law”) also sets forth public policy regulations designed to protect credit card holders. Recent Central Bank regulations, such as Communication “A” 5388, also protect consumers of financial services.

In addition, the Civil and Commercial Code has a chapter on consumer protection, stressing that the rules governing consumer relations should be applied and interpreted in accordance with the principle of consumer protection and that a consumer contract should be interpreted in the sense most favorable to it.

The application of both the Consumer Protection Law and the Credit Card Law by administrative authorities and courts at the federal, provincial and municipal levels has increased. This trend has increased general consumer protection levels. If Banco Hipotecario is found to be liable for violations of any of the provisions of the Consumer Protection Law or the Credit Card Law, the potential penalties could limit some of Banco Hipotecario’s rights, for example, with respect to its ability to collect payments due from services and financing provided by us, and adversely affect Banco Hipotecario’s financial results of operations. We cannot assure you that court and administrative rulings based on the newly-enacted regulation or measures adopted by the enforcement authorities will not increase the degree of protection given to Banco Hipotecario’s debtors and other customers in the future, or that they will not favor the claims brought by consumer groups or associations. This may prevent or hinder the collection of payments resulting from services rendered and financing granted by us, which may have an adverse effect on Banco Hipotecario’s business and results of operations.

Class actions against financial institutions for unliquidated amounts may adversely affect the financial system’s profitability.

Certain public and private organizations have initiated class actions against financial institutions in Argentina. The National Constitution and the Consumer Protection Law contain certain provisions regarding class actions. However, their guidance with respect to procedural rules for instituting and trying class action cases is limited. Nonetheless, through an ad hoc doctrine, Argentine courts have admitted class actions in some cases, including various lawsuits against financial entities related to “collective interests” such as alleged overcharging on products, interest rates and advice in the sale of public securities, etc. If class action plaintiffs were to prevail against financial institutions, their success could have an adverse effect on the financial industry in general and indirectly on Banco Hipotecario’s business.

Banco Hipotecario operates in a highly regulated environment, and its operations are subject to regulations adopted, and measures taken, by several regulatory agencies.

Financial institutions are subject to a major number of regulations concerning functions historically determined by the Central Bank and other regulatory authorities. The Central Bank may penalize Banco Hipotecario and its directors, members of the Executive Committee, and members of its Supervisory Committee, in the event of any breach the applicable regulation. Potential sanctions, for any breach on the applicable regulations may vary from administrative and/or disciplinary penalties to criminal sanctions. Similarly, the CNV, which authorizes securities offerings and regulates the capital markets in Argentina, has the authority to impose sanctions on us and Banco Hipotecario’s Board of Directors for breaches of corporate governance established in the capital markets laws and the CNV Rules. The Financial Information Unit (Unidad de Información Financiera, or “UIF” as per its acronym in Spanish) regulates matters relating to the prevention of asset laundering and has the ability to monitor compliance with any such

regulations by financial institutions and, eventually, impose sanctions.

We cannot assure you whether such regulatory authorities will commence proceedings against Banco Hipotecario, its shareholders or directors, or its Supervisory Committee, or penalize Banco Hipotecario. This notwithstanding, and in addition to “Know Your Customer” compliance, Banco Hipotecario has implemented other policies and procedures to comply with its duties under currently applicable rules and regulations.

In addition to regulations specific to the banking industry, Banco Hipotecario is subject to a wide range of federal, provincial and municipal regulations and supervision generally applicable to businesses operating in Argentina, including laws and regulations pertaining to labor, social security, public health, consumer protection, the environment, competition and price controls. We cannot assure that existing or future legislation and regulation will not require material expenditures by Banco Hipotecario or otherwise have a material adverse effect on Banco Hipotecario’s consolidated operations.

The effects of legislation that restricts our ability to pursue mortgage foreclosure proceedings could adversely affect us.

The ability to pursue foreclosure proceedings through completion, in order to recover on defaulted mortgage loans, has an impact on financial institutions activities. On December 13, 2006, pursuant to Law No. 26,177, the “Restructuring Unit Law” was created to allow all mortgage loans to be restructured between debtors and the former Banco Hipotecario Nacional, insofar as such mortgages had been granted prior to the effectiveness of the Convertibility Law. Law No. 26,313, the “Pre-convertibility Mortgage Loans Restructuring Law,” was enacted by the Argentine Congress on November 21, 2007 and partially signed into law on December 6, 2007 to establish the procedure to be followed in the restructuring of mortgage loans within the scope of Section 23 of the Mortgage Refinancing System Law in accordance with the guidelines established by the Restructuring Unit Law. To this end, a recalculation was established for certain mortgage loans originated by the former Banco Hipotecario Nacional before April 1, 1991.

Executive Branch Decree No. 2,107/08 issued on December 19, 2008 regulated the Pre-convertibility Mortgage Loans Restructuring Law and established that the recalculation of the debt applies to the individual mortgage loans from global operations in effect on December 31, 2008 and agreed upon prior to April 1, 1991, and in arrears at least since November 2007 and remaining in arrears on December 31, 2008. In turn, the Executive Branch Decree No. 1,366/10, published on September 21, 2010, expanded the universe of Pre-convertibility loans subject to restructuring to include the individual mortgage loans not originating in global operations insofar as they met the other requirements imposed by Executive Branch Decree No. 2,107/08. In addition, Law No. 26,313 and its regulatory decrees also condoned the debts on mortgage loans granted before the Convertibility Law in so far as they had been granted to deal with emergency situations and in so far as they met the arrears requirement imposed on the loans subject to recalculation.

Subject to the Central Bank’s supervision, Banco Hipotecario implemented the recalculation of mortgage loans within the scope of the aforementioned rules by adjusting the value of the new installments to a maximum amount not in excess of 20% of household income. In this respect, we estimate that Banco Hipotecario has sufficient loan loss provisions to face any adverse economic impact on the portfolio involved. We cannot assure that the Argentine Government will not enact additional laws restricting our ability to enforce our rights as a creditor and/or imposing a condition or a reduction of principal on the amounts unpaid in our mortgage loan portfolio. Any such circumstance could have a significant adverse effect on our financial condition and the results of our operations.

Increased competition and M&A activities in the banking industry may adversely affect Banco Hipotecario.

Banco Hipotecario foresees increased competition in the banking sector. If the trend towards decreasing spreads is not offset by an increase in lending volumes, the ensuing losses could lead to mergers in the industry. These mergers could lead to the establishment of larger, stronger banks with more resources than us. Therefore, although the demand for financial products and services in the market continues to grow, competition may adversely affect Banco Hipotecario’s results of operations, resulting in shrinking spreads and commissions.

Future governmental measures may adversely affect the economy and the operations of financial institutions.

The Argentine government has historically exercised significant influence over the economy, and financial institutions, in particular, have operated in a highly regulated environment. We cannot assure you that the laws and regulations currently governing the economy or the banking sector will remain unaltered in the future or that any such changes will not adversely affect Banco Hipotecario’s business, financial condition or results of operations and Banco Hipotecario’s ability to honor its debt obligations in foreign currency.

Several legislative bills to amend the Financial Institutions Law have been sent to the Argentine Congress. If the law currently in force were to be comprehensively modified, the financial system as a whole could be substantially and adversely affected. If any of these legislative bills were to be enacted or if the Financial Institutions Law were amended in any other way, the impact of the subsequent amendments to the regulations on the financial institutions in general, Banco Hipotecario's business, its financial condition and the results of operations is uncertain.

Law N 26,739 was enacted to amend the Central Bank's charter, the principal aspects of which are: (i) to broaden the scope of the Central Bank's mission (by establishing that such institution shall be responsible for financial stability and economic development while pursuing social equity); (ii) to change the obligation to maintain an equivalent ratio between the monetary base and the amount of international reserves; (iii) to establish that the board of directors of the institution will be the authority responsible for determining the level of reserves required to guarantee normal operation of the foreign exchange market based on changes in external accounts; and (iv) to empower the monetary authority to regulate and provide guidance on credit through the financial system institutions, so as to "promote long-term production investment."

In addition, the Civil and Commercial Code, among other things, modifies the applicable regime for contractual provisions relating to foreign currency payment obligations by establishing that foreign currency payment obligations may be discharged in Pesos. This amends the legal framework, pursuant to which debtors may only discharge their foreign currency payment obligations by making payment in the specific foreign currency agreed upon in their agreements; provided however that the option to discharge in Pesos a foreign currency obligation may be waived by the debtor is still under discussion. However, in recent years some court decisions have established the obligation to pay the in foreign currency when it was so freely agreed by the parties. We are not able to ensure that any current or future laws and regulations (including, in particular, the amendment to the Financial Institutions Law and the amendment to the Central Bank's charter) will not result in significant costs to us, or will otherwise have an adverse effect on Banco Hipotecario's operations.

Banco Hipotecario's obligations as trustee of the Programa de Crédito Argentino del Bicentenario para la Vivienda Única Familiar ("PROCREAR") trust are limited.

Banco Hipotecario currently acts as trustee of the PROCREAR Trust, which aims to facilitate access to housing solutions by providing mortgage loans for construction and developing housing complexes across Argentina. Under the terms and conditions of the PROCREAR Trust, all the duties and obligations under the trust have to be settled with the trust estate. Notwithstanding, if the aforementioned is not met, Banco Hipotecario could have its reputation affected. In addition, if the Argentine government decides to terminate the PROCREAR Trust and/or terminate Banco Hipotecario's role as trustee of the PROCREAR Trust, this may adversely affect Banco Hipotecario's results of operations.

The exposure of Banco Hipotecario to individual borrowers could lead to higher levels of past due loans, allowances for loan losses and charge-offs.

A substantial portion of Banco Hipotecario's loan portfolio consists of loans to individual customers in the lower-middle to middle income segments of the Argentine population. The quality of Banco Hipotecario's portfolio of loans to individuals is dependent to a significant extent on economic conditions prevailing from time to time in Argentina. Lower-middle to middle income individuals are more likely to be exposed to and adversely affected by adverse developments in the Argentine economy than corporations and high-income individuals. As a result, lending to these segments represents higher risk than lending to such other market segments. Consequently, Banco Hipotecario may experience higher levels of past due amounts, which could result in higher provisions for loan losses. Therefore, there can be no assurance that the levels of past due amounts and subsequent charge-offs will not be materially higher in the future.

An increase in fraud or transaction errors may adversely affect Banco Hipotecario.

As with other financial institutions, Banco Hipotecario is susceptible to, among other things, fraud by employees or outsiders, unauthorized transactions by employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). Given the high volume of transactions that may occur at a financial institution, errors could be repeated or compounded before they are discovered and remedied. In addition, some of our transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult to detect quickly or at all. Losses from fraud by employees or outsiders, unauthorized transactions by employees and other operational errors might adversely affect Banco Hipotecario's reputation, business, the results of operations and financial condition.

Risks relating to our business in the United States

If we are not able to occupy the vacant lease positions of our buildings we could suffer a negative impact in the cash flows of the property that could adversely affect our business, financial condition and results

On July 2008, IRSA decided to expand internationally into the United States, taking advantage of certain investment opportunities generated after the global financial crisis. IRSA acquired a 49% interest in Metropolitan 885 3rd Ave ("Metropolitan"), whose main asset is a 34-story building with 59,000 sqm of gross leasable area named Lipstick Building, located at 885 Third Avenue, New York. The building is currently 97% occupied and comprises 54,340 sqm of office, 720 sqm of retail and 3,940 sqm of below grade storage and potential amenity space. Latham & Watkins occupies 40,035 sqm of the office and storage space on a lease expiring on June 30, 2021. In April 2018, Latham & Watkins communicated to us its intention to not renew its lease. As a consequence of that, new investments and capital expenditures will be required to upgrade the lobby, amenity spaces and common areas of the building in order to maximize building rents going forward, as well as to market the impending vacancy in the building.

If we are not able to lease the space that Latham & Watkins occupies with other tenants, the cash flows of the property that we receive from this will decrease, which could adversely affect IRSA's business, financial condition and results of operation

Operations Center in Israel

Risks relating to Israel

The implementation of the Law to Promote Competition and Reduce Concentration, 5774-2013 may have implications on IDBD, DIC and their respective subsidiaries.

In December 2013, the Law to Promote Competition and Reduce Concentration, 5774- 2013, was published in the Official Gazette (hereinafter, in this section: the “Reduced Centralization Act”):

1.

According to the provisions of the Reduced Centralization Act, a pyramid structure for the control of “reporting corporations” (in general, corporations whose securities were offered to and are held by the public) is restricted to 2 tiers of reporting corporations (where a first tier company may not include a reporting corporation which does not have a controlling shareholder). In accordance with transitional provisions which were determined in the Reduced Centralization Act, a third tier company or higher tier company is no longer entitled to control reporting corporations, except for corporations as stated above which are under its control as of the publication date of the Law in the Official Gazette (hererin, the “Publication Date”), regarding which it will be required to discontinue control by no later an December 2017 (the “2017 Requirement”). It is noted that so long as a reporting corporation is considered a second tier company in accordance with the law, it is not entitled to control reporting corporations, and insofar as, on the publication date, it holds control of reporting corporations, it must discontinue its control of such corporations by no later than December 2019 (the “2019 Requirement”).

2.

On the date of the Reduced Centralization Act’s publication in the Official Gazette, DIC was considered a third tier company, and the reporting corporations controlled by DIC were considered fourth and fifth tier companies. In May 2014, the control of IDBD changed as part of the completion of the creditors’ settlement in IDB Holding Corporation Ltd. (“IDB Holding”), and subsequently, DIC ceased being considered a third tier company, and is as of that date was considered a second tier company

3.

In August 2014, the Boards of Directors of IDBD and DIC each resolved to appoint (separate) advisory committees to evaluate various alternatives for dealing with the implications of the law, and of its fulfillment of the restrictions specified therein, with respect to the control of companies through a pyramid structure, with the intention to allow the continued control by IDBD and/or DIC of “other tier companies” (which are currently directly held by DIC) also after December 2019. It is noted that the alternatives which were evaluated by the advisory committee of DIC’s Board of Directors included, inter alia, possible structural changes to all tiers (i.e., both on the tier of IDBD, which was DIC’s controlling shareholder at the time, and on the tiers of DIC, PBC and its investee companies), including a preliminary evaluation of several alternatives with respect to the 2017 Requirement.

4.

Further to the above, due to the fact that some of the possible actions and/or structural changes may have included transactions in which DIC’s controlling shareholders may have had a personal interest, and in accordance with the recommendations of the advisory committee, the DIC’s Board of Directors resolved, on March 22, 2017, to authorize the audit committee to evaluate various alternatives for the DIC’s dealing with the requirements of the Reduced Centralization Act with respect to the 2017 Requirement, and also in light of the 2019 requirement and possible structural changes on the first tier (i.e., IDBD and its holdings, at the time, in DIC). DIC was also informed, at that time, by IDBD that IDBD is also evaluating various alternatives for dealing with the requirements of the law with respect to the 2017 requirement, and also in consideration of the 2019 requirement, and accordingly, the Board of Directors of IDBD established an independent committee of the Board, which is comprised of outside and independent directors only (herein, the “Committee”).

5.

With the consent of the DIC's audit committee, as stated above, it held a series of discussions, in which it evaluated several alternatives for the manner by which DIC, and all tiers in the Group, will address the 2017 requirement, including an evaluation of the feasibility of alternatives to which DIC is not directly party, and an evaluation of the feasibility of other alternatives. The committee's work was accompanied by external independent advisors, who were appointed and chosen by the committee.

6.

in parallel, and further to a series of discussions which were held by the independent committee of IDBD, the aforementioned independent committee of IDBD decided that the preferred alternative, from the perspective of IDBD, in terms of IDBD's response to the 2017 requirement, is the alternative in which IDBD sells all of its shares in DIC (as of the date of implementation of the alternative) to a special purpose entity (which will be a private company incorporated in Israel, and a "non-reporting corporation", as this term is defined in the Securities Law, 5728-1968) wholly owned by corporations under the control of the controlling shareholder of IDB Development, Mr. Eduardo Elsztain (the "Preferred Alternative").

7.

Further to the decision of the independent committee of the Board of Directors of IDBD on this matter, on May 25, 2017, the Audit Committee and Board of Directors of IDBD, respectively, adopted the recommendations of the aforementioned committee, and its decision regarding the preferred alternative for IDBD's dealing with the 2017 requirement.

8.

In light of the decisions of the independent committee, the audit committee and the Board of Directors of IDBD, the audit committee of DIC on August 16, 2017, decided that the aforementioned alternative is preferred, from its perspective for the way in which DIC should cope with the provisions of the Reduced Centralization Act in relation to the requirement for 2017, and that it will continue evaluating, if necessary, and insofar as may be required, additional potential alternatives for DIC's dealing with the provisions of the Reduced Centralization Act.

9.

Further to the foregoing, in September 2017, following the negotiations between the committee, with the accompaniment of its independent advisors (legal and economic), and Dolphin Netherlands, as well as additional discussions between the parties, and following the receipt of the committee's approval, IDBD and Dolphin Netherlands signed a memorandum of understanding in connection with the implementation of the transaction (herein, the "Transaction") for the sale of all DIC shares which are held by IDBD to a private company which is incorporate, or which incorporated, in Israel, which is affiliated with Dolphin Netherlands, and controlled by DIC's controlling shareholder, based on the principles which were determined by the committee (herein, the "Memorandum of Understanding"). In October 2017, after discussions had been held with the holders of IDBD's bonds and their representatives, and also after meetings had been held of the holders of all of the series of IDBD's bonds, and after the receipt of the Committee's approval, IDBD and Dolphin Netherlands signed on an amendment to the Memorandum of Understanding.

10.

On November 22, 2017, after the legally required approvals were received, the transaction was completed. Accordingly, inter alia, all of DIC's shares which were held by IDBD (106,780,853 shares) were transferred to Dolphin IL., a private company incorporated in Israel, and which is wholly owned by Dolphin Netherlands (herein: the "Buyer"), the Buyer issued the debenture to IDBD, and additionally, IDBD received a total of NIS 70 million from the buyer, in accordance with the determined terms of the transaction. Additionally, within the framework of the completion of the transaction, as part of the collateral which was provided by the buyer to IDB Development, in connection with the debenture, the buyer deposited 9,636,097 DIC shares with I.B.I. Trust Management, which serves as the trustee for the debenture on behalf of IDBD and the Buyer, in accordance with the debenture's terms.

11.

Beginning from the transaction closing date, DIC ceased being considered a second tier company, and is now considered a first tier company only, as defined in the Reduced Centralization Act, which led to the postponement of the application of the requirements of the Reduced Centralization Act with respect to reporting corporations which constitute other tier companies, and which under his control until December 2019.

12.

As part of the process in IDBD of dealing with the requirements of the provisions of the Reduced Centralization Act, in November 2017, IDBD sold all of the shares of DIC which were held by it to Dolphin IL Investments Ltd. ("Dolphin IL"), a private company incorporated in Israel, which is wholly owned by Dolphin Netherlands B.V. ("Dolphin Netherlands"), a corporation controlled by the Company's controlling shareholder (in this section, the "Transaction"). Accordingly, beginning on the closing date of the transaction, IDBD no longer holds control of any "other tier companies", and therefore, it now complies with the requirements of the Reduced Centralization Act with respect to pyramid structures. For more information, see "Item 4. Business Overview - General regulations applicable to our business in Israel - Reduced Centralization Act."

13.

DIC's Board of Directors appointed an advisory committee in order to evaluate various alternatives for DIC's dealing with the implications of the Reduced Centralization Act, and for its fulfillment of the restrictions specified therein,

with respect to the control of companies through a pyramid structure.

Following the Transaction, DIC became a first tier company, as this term is defined in the Reduced Centralization Act, which led to the postponement of the requirement to apply the provisions of the Reduced Centralization Act with respect to reporting corporations which are other tier companies, and which are under the DIC's control, to December 2019. Bearing that in mind in June 2018, a transaction was completed in which DIC sold 16.6% of the issued share capital of Shufersal, for a total net consideration of NIS 848 million. DIC's stake in the issued share capital of Shufersal decreased to approximately 33.6%, and on the sale date, it ceased holding control of Shufersal. DIC continues to consider various alternatives for dealing with the demand for 2019. These alternatives may include possible structural changes in some of the companies in the DIC Group, that are affected by the demand for 2019 (that is, at the level of DIC's layer or at the level of PBC or companies under its control).

The deterioration of the global economy and changes in capital markets in Israel and around the world may affect IDBD, DIC and their respective subsidiaries.

A recession or deterioration of capital markets around the world and in Israel (including volatility in securities prices, exchange rates and interest rates), are affecting and may have a negative affect IDBD, DIC and their subsidiaries, on the profits of operations due to lower demand for products of the subsidiaries of IDBD or DIC, on the value of the marketable securities or other assets owned by them, liquidity and equity position of IDBD, DIC and their subsidiaries, raise of capital or access the capital markets in Israel and abroad on the financial terms acceptable to IDBD, DIC and their respective subsidiaries, which could limit their ability to or financial covenants under IDBD's credit agreement and other financial agreements, on their ratings, their ability to distribute dividends; Certain subsidiaries import or buy raw materials which are required for their activities, and therefore, their business results may also be affected by changes in the prices of raw materials around the world.

Changes in legislation and regulation may have an impact on IDBD's and DIC's operations.

In recent years, an increase in legislation and regulation had a negative effect in various operating segments in the Israeli economy, including in the segments in which IDBD and DIC operates.

New legislation in various areas in Israel and abroad, such as concentration, promotion of competition and antitrust laws, tax laws, regulation of the communication market, supervision of the insurance business operations, capital investments initiatives, companies and securities laws, laws pertaining to the supervision of prices of products and services, increased competition in the food market, consumer protection laws, environmental laws, planning and construction laws, that have had a negative effect and sometimes a significantly negative effect, on the business operations, on their financial results and on the prices of their securities, and the results of IDBD's, DIC's and of their respective subsidiaries. Additionally, the segments in which IDBD operates are subject to regulation by government agencies and may impose penalties to breach of those regulations. An increase of these penalties, monetary or otherwise may effect in our reports of operations. The Company believes that the foregoing has a significant impact on IDBD, DIC and on their business operations.

Some of IDBD's and DIC's subsidiaries operate of Israel, have securities which are traded on foreign stock exchanges. Changes in legislation and in the regulatory policies of those foreign countries, as well as the characteristics of the business environment in the country of operation, may affect the financial results and the business position of these companies.

In addition, changes in IFRS or in the accounting principles which apply to IDBD and DIC and their subsidiaries may have a negative impact on their financial results of IDBD and its subsidiaries, on their fulfillment of financial covenants, permits and licenses under which we distribute dividends.

IDBD, DIC and their subsidiaries are exposed to fluctuations of the interest rate and the value of the risks.

IDBD and DIC and their subsidiaries are exposed to changes in interest rates and price indexes, and to changes in exchange rates which affect, directly or indirectly, their business results and the value of their assets and liabilities (i.e. due to the scope of their CPI-linked liabilities of IDBD and due to their investments in real estate properties outside Israel). There is also an effect on capital attributable to shareholders of IDBD, with respect to the reserve for adjustments to capital due to the translation of financial statements of subsidiaries in foreign currency, primarily Real Estate Corporations in Las Vegas and foreign subsidiaries of Property & Building ("PBC").

IDBD and DIC hold assets and manages its business affairs in Israel. Therefore, almost all of IDBD's and DIC's assets, liabilities, income and expenses are in NIS. IDBD's and DIC's financing income and expenses are also subject to volatility due to changes in interest rates on loans from banks and deposits which were deposited in banks. IDBD's and DIC's policy regarding the management of market risks, certain subsidiaries used, in 2016, derivative financial instruments with the aim of adjusting, where possible, the linkage basis of its financial assets and liabilities (hedging transactions). However, an increase of the rate at which the company finance our operations or the lack of financing at acceptable terms, may have an adverse effect on IDBD's and DIC's results of operations.

IDBD, DIC and their subsidiaries are exposed to risks associated with foreign operations.

IDBD, DIC and their subsidiaries operate in the real estate segment outside Israel, and primarily in the United States, both in the revenue-generating properties segment and in the residential construction segment. Material adverse changes in the state of the economy in a country in which such properties are located affect the results of operation and the ability to finance those operations under reasonable conditions.

A global economic crisis and a recession in the global economy may adversely affect the various markets in which IDBD, DIC and their subsidiaries operate, especially in the United States. The characteristics of the business environment outside Israel, including the local regulation, the purchasing power of consumers, the financing possibilities (under reasonable conditions, if at all), and the selection of entities (including local entities in Israel) which are engaged in the field on financing with whom the collaboration is done with, and these entities business status, may affect the possibilities for financing, their terms, and the success of the foreign operation, and accordingly, may have an adverse effect on their business operations and the results of operations of IDBD, DIC and their subsidiaries.

Some activities of IDBD, DIC and/or their subsidiaries may be restricted by the terms of certain government grants and benefits and/or budgetary policy.

Some of the subsidiaries of IDBD and DIC receive funds from government entities, such as grants for research and development activities, which are provided in accordance with the Encouragement of Industrial Research and Development Law, 5744-1984, and regulations enacted pursuant thereto, as well as grants and/or various tax benefits which are provided in accordance with the Encouragement of Capital Investments Law, which are granted under

certain conditions. These conditions may restrict the activities of the companies which receive such funds. Non-compliance of such restrictions may lead to the imposition of various penalties, including financial and criminal sanctions. Additionally, a decrease or other changes in the budgets of the aforementioned government entities, in a manner which prevents or reduces the grants and/or benefits which the subsidiaries of IDBD and DIC may receive from them in the future, may adversely affect the operations and results of those companies.

Additionally, investments of foreign entities, and particularly in the technology and communication sectors, receive certain benefits derived from the initiative for foreign investments by regulatory entities in Israel, including certain tax benefits. If the aforementioned benefits are and/or restricted it have a negative effect over the results of the operations and the business results of IDBD and DIC.

Regional conflict may affect IDBD, DIC and their subsidiary's activities, especially Cellcom Israel Ltd. ("Cellcom") activities.

The activities of IDBD, DIC and their subsidiaries are located in Israel, as are some of its suppliers. A significant part of Cellcom's communication network, as well as a significant part of Cellcom's information systems, are located within the range of missile attacks launched from the Gaza Strip and Lebanon. Any damage caused to the communication network and/or to the information systems may adversely affect Cellcom's ability to continue providing services, in whole or in part, and/or may negatively affect Cellcom's operations, which may adversely affect its business results and IDBD's business. Additionally, negative effects of this kind may materialize due to an increase in criticism of Israel by international community (such as the increasing international pressure to boycott Israeli companies, especially when such companies operate in territories held by Israel in Judea and Samaria, as IDBD and other Israeli operators are required to do under our license), and could make it more difficult for us to raise capital. In general, any armed conflict, terror attack or political instability in the region may result in a decrease in Cellcom's income, including from roaming services of incoming tourism, and may thereby adversely affect its business results.

A deterioration in the political security and economical situation in Israel may affect IDBD, DIC or their subsidiaries' activities.

A significant deterioration in the political-security situation in Israel, and in light of the political instability in the Middle East, may result in decreased demand for rental areas and residential units, an exacerbation of the manpower deficit in the construction and agriculture segment, and the increased costs of works. These factors may adversely affect the results of the results of operations of IDBD's operations, especially PBC's operations. Additionally, all of Shufersal Ltd.'s ("Shufersal") income is produced in Israel, and a significant part of the products sold by it are grown, produced or processed in Israel. Therefore, the business results of Shufersal are directly affected by the political, economic and security conditions in Israel. A significant deterioration in the security situation or political situation in Israel may adversely affect Shufersal's business operations, financial position and results of operations, which in turn would have a negatively effect on IDBD's results of operations.

Shufersal's management routinely evaluates the possible impact and implication of the general economic situation in Israel, in particular on the retail food market. Developments and shocks in the Israeli economy, as well as an economic downturn or recession due to an economic crisis, may have negative effects on the food retail market in Israel, and as a result, also on Shufersal's revenues and profitability, due to the intensification of competition and due to changes in the consumption habits of its customers. Likewise, the cost of living issue may affect Shufersal's business results, due to the considerable pressure from consumers which is being applied on Shufersal to reduce the prices of the products which it sells, and the increasing competition from the discount chains, which are expanding their operations. Deceleration in the Israeli economy may negatively impact Clal Insurance Enterprises Holdings' ("Clal")'s business, particularly in the long term savings segment. Additionally, as a result of the aforementioned deceleration, the risk associated with the exposure of Clal to entities in Israel through its investments may increase due to the deterioration of Israel's political and economic situation.

IDBD, DIC and their subsidiaries are exposed to capital market and finance regulations that may affect our ability to finance our operations.

IDBD, DIC and some of their subsidiaries are affected by the "Proper Conduct of Banking Directives" of the Commissioner of Banks in Israel, which include, inter alia, restrictions on the volume of loans that a banking corporation in Israel can provide to a "single borrower", one "group of borrowers", and borrowers and the largest "borrower groups" in the banking corporation (as these terms are defined in the said directives). These restrictions might impose difficulties on the ability of IDBD, DIC and some of their subsidiaries to borrow additional amounts from banks in Israel and/or their ability to refinance its obligations through bank credit and/or on their ability to

perform investments for which bank credit is required, and/or on their ability to invest in companies which have taken out credit in a larger scope than certain banks in Israel, and on their ability to perform certain business activities in collaboration with entities which have taken credit, as aforesaid. However, in recent years the scope of credit used from the banking system in Israel to the group of borrowers which includes IDBD and DIC has decreased, including due to the change in its control.

Furthermore, legislation and regulation which applies to investments by institutional entities, including those relating to the granting of credit to business groups, may have an impact on the possibilities of raising capital from institutional entities, including the terms and the price of such capital raise.

The desire of banking corporations to reduce their credit exposure to corporations controlled by the controlling shareholder of IDBD and DIC, may adversely affect the rating of IDBD's and DIC's bonds and/or make it difficult for DIC to raise capital and/or refinance its obligations, if it wishes to do so (and/or worsen the conditions for carrying out such debt refinancing).

Risks relating to our business in Israel

IDBD, DIC and their subsidiaries are exposed to changes in permits and licenses.

IDBD, DIC and some of their subsidiaries operate under certain approvals, permits or licenses which were granted to them by various authorities in parallel, such as the Commissioner of the Capital Market Insurance and Saving (the "Commissioner"), the Ministry of Communication, the Ministry of Environmental Protection, and the Commissioner of Oil Affairs in the Ministry of National Infrastructures, Energy and Water, the Minister of Transportation (with respect to the granting of licenses for operational and commercial operation of flights). A breach of the terms of these approvals, permits or licenses may lead to the imposition of penalties and other liabilities (including criminal) against IDBD, DIC or the relevant subsidiaries, including fines and/or revocation of such approvals, licenses or permits. Revocation of such approvals, permits or licenses may prevent of finance opportunity certain businesses or retained the way we currently operate, which may adversely affect such subsidiaries (such as companies in the insurance sector). Some licenses are subject to an expiration date, and are subject to renewal from time to time, in accordance with their terms and the provisions of the law. There is no certainty that we will be able to renew such licenses in the future and/or under which conditions. Non-renewal of a permit or license, as stated above, and/or the directives of regulators in sectors in which subsidiaries of IDBD and DIC operates, may have an adverse effect on the business position, capital, cash flows and profitability of our consolidated that operate under such permit or license, and accordingly, our results of operations.

Litigation, including actions on consumer issues and environmental protection issues may have an impact on IDBD, DIC and their respective subsidiaries.

Subsidiaries of IDBD, primarily Clal, and subsidiaries of DIC primarily including Cellcom, Shufersal and Clal, may be subject, from time to time, to litigation, including class actions, related to consumer and environmental issues, which may involve material amounts, which may have an adverse effect on our results of operations. We cannot anticipate the results of such claims, which may have an adverse effect on the our operations, or the cost to.

IDBD, DIC and their respective subsidiaries may face environmental risks.

Some of the subsidiaries which are held by IDBD or by DIC, are subject to various requirements from different authorities which oversee environmental protection. In recent years, there is an ongoing trend of increased regulatory requirements with respect to the environment, health and agriculture, in Israel, which has caused an increase in the amount of costs of operations of IDBD, DIC and their respective subsidiaries. Changes in the policy of those supervising authorities, new regulation or enhanced requirements to comply with these regulations may affect the profitability of the relevant subsidiaries, and in turn, the profitability of IDBD and DIC, respectively.

IDBD, DIC maybe exposed to restrictions by virtue of agreements with financing entities.

The provisions of existing or future financing agreements of IDBD, and DIC and the scope of the debt of IDBD or DIC and its maturity dates have a significant impact on IDBD, DIC and their businesses, with regard to agreements with financing entities.

i.

Loan from a guaranteed creditor of IDBD, dated May 2012, (entities from the Menorah group ("Menorah")), according to which IDBD received from financial entities of the Menorah Group a CPI-

ii.

linked loan bearing CPI-linked interest at an annual rate of 6.9%, secured by a pledge on shares of DIC and of Clal Holdings Insurance Enterprises

iii.

Loan from financial institution, dated December 2016, according to which IDBD signed a loan agreement with a financial institution which had extended a loan to IDBD.

iv.

In March 2017, IDBD signed an agreement with a banking corporation, according to which the (semi-annual and equal) principal payments of the loan will be scheduled for earlier dates, such that, in place of an arrangement whereby the balance of payments will be repaid on a semi-annual basis, until January 2019, they will be repaid in three payments in 2017, such that the first payment was paid on March 8, 2017, and amounted to a total of NIS 26.7 million plus interest until that date; the second payment was paid on June 29, 2017 and amounted to a total of NIS 13.3 million (half of the unpaid balance of the loan as of that date) plus interest until that date; and the third payment was paid on November 22, 2017, and comprised the entire unpaid balance of the loan

v.

In March 2017, IDBD signed an agreement with a banking corporation, according to which the (semi-annual) principal payments of the loans will be scheduled for earlier dates, such that, in place of an arrangement whereby the balance of payments will be repaid on a semi-annual basis, until March 2018, they will be repaid in four payments in 2017, such that the first payment was paid on March 8, 2017, and amounted to a total of NIS 83.3 million plus interest until that date on the paid amount; the second payment was paid on March 13, 2017 and amounted to a total of NIS 83.3 million plus the interest which accrued until that date; the third payment was paid on September 18, 2017 and amounted to a total of NIS 41.7 million plus the interest which accrued until that date; and the fourth payment was paid on November 22, 2017, and comprised the entire unpaid balance of the loan.

IDBD and DIC are exposed to potential steps if such will be taken by its debenture holders.

The taking of legal action against IDBD or DIC by their debenture holders may harm the ability of IDBD or DIC to continue repaying its debts according to their amortization schedules and may lead to a demand to make future liabilities (mainly to the borrowing corporations) for immediate repayment.

IDBD, DIC and some of their subsidiaries may be affected by restrictions on the sale of assets and guarantees.

IDBD, DIC and some of their subsidiaries are subject to legal and contractual restrictions, including those which are included in permits and licenses, which may restrict the possibility of realizing its securities or the possibility of pledging them (including due to restrictions on the realization of such pledges) by IDBD, DIC or by their subsidiaries.

IDBD, DIC and some of its subsidiaries may be affected by changes in legal proceedings in the field of companies laws and securities laws.

In recent years, an increasing trend has taken place in the filing of class actions and derivative claims in the field of companies laws and securities laws. In consideration of the above, and of the financial position of IDBD and DIC and the group's holding structure, claims in material amounts may be filed against IDBD and DIC, including in connection with its financial position and cash flows, issuances which it performs, and transactions which were performed or which were not completed, including in connection with assertions and claims by the IDBD's or DIC's controlling shareholders. For more information, see "Item 8. Financial Information – Legal Proceedings – Operation Center in Israel."

Damage to the business situation of DIC

In view of the amount of the DIC 's bond, and the fact that it is secured by a lien on DIC shares without the right of recourse to Dolphin IL, IDBD is exposed to adverse changes in the business condition of DIC and as a result to DIC's share price, in a manner that the worsening of DIC's business and/or its financial situation (including as a result of the weakening of the business and/or financial situation of any of DIC's subsidiaries) may result in a decrease in the value of DIC and as such harm the value of the guarantee against the bond.

Furthermore, an adverse impact on DIC's business may affect DIC's ability to distribute dividends to its shareholders, including Dolphin IL, which is a holding company, apart from holding DIC shares, and therefore Dolphin IL's repayment ability is affected, inter alia, from the scope of dividends that DIC distributes, if any.

In addition, to the extent that regulatory changes (including legislative amendments and changes in accounting standards) are adopted, which are stringent with the conditions for distribution of dividends, these may harm the ability of DIC to distribute dividends to its shareholders and as a result affect the solvency of Dolphin IL, which may affect the ability of Dolphin IL to repay the debt with IDBD.

The outline for the sale of the shares of Clal

As long as IDBD does not find a buyer for its controlling shares in Clal, which will receive the approvals required by law, including the approval of the Commissioner, the Commissioner is expected to proceed with the realization of the outline set by her, carried out by way of 5% tranches of the share capital of Clal, for the sale of the holdings of IDBD in Clal. The sale of IDBD's holdings in the shares of Clal in accordance with the provisions of the outline may result in a lower consideration than the consideration IDBD would have received if it sold all of its shares of Clal as a bundle (i.e. without the involvement of the Commissioner) including the sale of the controlling interest.

IDBD and DIC may be affected by cash requirements, reliance on cash flows of subsidiaries and liquidity.

The cash flows of IDBD and DIC are used to repay debt (principal and interest payments), to finance general and administrative expenses, to make investments, and, if relevant, to distribute dividends as well. One of the main sources for IDBD's and DIC's current cash flows includes dividends distributed by its subsidiaries (if and insofar as any are distributed). An additional source for IDBD's and DIC's cash flows is the sale of assets, including the sale of equity interests in subsidiaries. Changes in the amount of dividends and/or in the value of asset realizations accordingly affects IDBD's and DIC's cash flows.

Cellcom is exposed to aggressive competition.

The communication market is characterized by significant competition in many of its segments. The current, pr the increase, of competition in most of the markets in which Cellcom operates, may cause any of the following, which may have an adverse impact on Cellcom's profitability:

- (a) An additional decrease in the prices for our services;
- (b) An ineffective wholesale market for landline communication, including due to the effective exclusion of Hot infrastructure, the effective exclusion of telephone services from the wholesale market, the offering of services not in accordance with the criteria of the wholesale market, without implementation of enforcement measures by the Ministry of Communication, or the pricing thereof in a manner which could negatively affect Cellcom's ability to offer competitive services packages, and to compete against Bezeq and Hot (due to their dominant status in the landline communication market), or a change to the current regulation that will be less favorable towards Cellcom, considering Cellcom's dependence on the wholesale landline for supplying landline infrastructure services, the increased competition by Bezeq and Hot, considering their dominance in the landline market, particularly if the structural separation which applies to the Bezeq and Hot groups is canceled before the creation of an effective landline wholesale market;
- (c) Cancellation or easement of the structural separation which applies to the Bezeq and Hot groups;
- (d) The entry of new competitors into markets in which Cellcom is engaged, or the entry of existing competitors into segments in which they were not previously active, or were partially active;
- (e) Non-acquisition or wide independent deployment of a landline infrastructure or entering into a cooperation agreement for the use of such infrastructure with an operator who owns an infrastructure, by Cellcom, taking into consideration the growth of Cellcom's television and internet services, especially if one of the competitors, who currently does not own such an infrastructure, will deploy infrastructure or will enter into such cooperation, and this may limit the bandwidth included in Cellcom's proposals vis-à-vis the competitors, since today it depends on the stationary wholesale market;

- (f) Regulatory changes which facilitate the transition of customers between operators;
- (g) The ability of some of Cellcom's competitors to obtain better access and contractual terms with international suppliers or foreign operators than Cellcom due to their affiliation with international groups;
- (h) Should the transition to other frequencies, adversely affect Cellcom's services or Cellcom will be required to bear the costs of changing frequencies, which will not affect competitors;
- (i) Continued increased competition in the end user equipment market.

Changes in legislation or significant regulatory intervention may have an adverse effect on Cellcom activities.

Cellcom develops its activity in a highly regulated market and relies on a license issued by the Ministry of Communications of Israel to operate its business. Such License has to be renewed every six years and may be amended without Cellcom's consent. See "Item 4. Business – Regulation – Telecommunications." Other changes in legislation and the extent of such regulatory changes may have adverse effects on Cellcom, including:

- (a) cancellation or easement of the structural separation obligation which applies to Bezeq and Hot, particularly if such cancellation or easement is given before the creation of an effective wholesale market in the landline communication market, including high tariffs for services or non-enforcement of market regulation or a mechanism that does not prevent Bezeq and Hot from reducing tariffs, thereby reducing the gap between wholesale and retail tariffs ("margin squeeze") or fail to enforce regulation with respect to the landline wholesale market resulting in our continued inability to use additional wholesale services;
- (b) competition-encouraging tariffs;
- (c) the provision of easements and benefits to competitors, over Cellcom;
- (d) granting permissions for other operators to provide services to Cellcom subscribers which were previously provided only by Cellcom;
- (e) non-renewal of Cellcom's licenses and/or frequencies, or restriction of their use, and non-allocation of additional frequencies, if required;
- (f) the establishment of additional requirements for the provision of easements to competitors with respect to safety or health, including with respect to the construction and operation of base sites;
- (g) the establishment of additional restrictions or requirements regarding the provision of services and products and/or intervention in their terms of marketing, advertising and provision, including regarding existing agreements;
- (h) the establishment of a higher standard of service;
- (i) Setting a timetable for the implementation of new requirements in a license that cannot be met;
- (j) the establishment of a more stringent policy with respect to protection privacy;
- (k) the imposition of regulations on Cellcom's television over internet service, the establishment of non-beneficial conditions for the use of digital terrestrial television (DTT) broadcasts, or the imposition of such non-beneficial conditions on Cellcom and not on other operators of the television over internet service.
- (l) Regulatory developments also affect the risk factors of tariff oversight, licensing of sites and the indemnification obligation, non-ionizing radiation and dependence on licenses.

Cellcom may face difficulties in obtaining approvals related to the construction and operation of certain infrastructure.

Cellcom (and its competitors) encounters difficulties in obtaining some of the required approvals for the construction and operation of base sites, and particularly in obtaining the building permits from the various planning authorities.

As of December 31, 2017, Cellcom operated a small portion of our cell sites without building permits or applicable exemptions and approximately 33% of Cellcom's cell sites without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. Such reliance had been challenged and under an interim order issued by the Supreme Court of Israel in September 2010, Cellcom is unable to rely on the exemption under cellular networks, other than to replace or relocate existing radio access devices under certain conditions. In 2017, new draft regulations setting procedures for making changes in existing radio access devices including replacement thereof and for the construction of a limited number of new radio access devices exempt from building permits, but requiring certain municipal procedures, were deliberated in the Israeli Parliament's Economic Committee.

The difficulties encountered by Cellcom in obtaining the required permits and approvals may adversely affect the currently existing infrastructure, and the continued development of its mobile network. Additionally, the inability to obtain these approvals on time may also prevent Cellcom from achieving the service quality targets set by in Cellcom's mobile license, which may result in loss of customers, which would adversely affect its business results.

Cellcom depends significantly on its licenses

Cellcom provides communication services under licenses granted by the Ministry of Communication, which are subject to changes, including changes that may negatively affect Cellcom's interests and operations. A breach of the terms of the licenses may result in the revocation of the licenses. The inability to function as it currently does or the imposition of fines may adversely affect Cellcom's operation and may result in Cellcom's inability to continue operating in each of the segments in which it operates.

Cellcom depends significantly on technology and technological improvements which require investments in order to maintain competitive.

The communication market is characterized by rapid and significant changes in technology, requiring investment in advanced technologies in order to stay competitive.

In order to meet the increasing demand for data communication, Cellcom is required to upgrade its transmission network, and also to invest in its 4G network. To meet the growing demand for data traffic on the fixed-line network and in order to find more cost-effective alternatives for acquiring capacity from large-scale infrastructure providers, Cellcom has begun deploying its infrastructure to residential areas and promoting further alternatives. The deployment of such infrastructure is expensive and requires managerial attention that can be directed at other activities. In addition, the Ministry of Communications is promoting the replacement of Cellcom's MHz 850 frequencies with other frequencies (some of which are not specifically specified in national outline plan (TAMA) 36) that comply with the international standards for the Israeli region, which, if implemented, will include a complex and sensitive engineering project, which includes substantive investments in Cellcom's network, including replacement of Radio equipment in all the cellular sites, which may, during this project, adversely affect the products and service of Cellcom.

Cellcom depends on certain suppliers.

Cellcom is dependent on a number of suppliers that provide it with network equipment, end-user equipment, content and content management services, information systems and infrastructures. Cellcom's business results may be adversely affected if any of its suppliers will not supply its products and/or services at the required quality or on time, or on terms which are not beneficial to Cellcom, or provide Cellcom's competitors with better conditions or if the suppliers fail to produce successful products/content in the absence of an equivalent alternative. In addition, Cellcom relies on agreements with foreign operators to provide cellular roaming capabilities to its cellular subscribers, cellular services to its cellular and cellular subscribers.

Cellcom may be affected by its debt.

Cellcom has raised a significant amount of debt. This situation increases Cellcom's exposure to market changes, and makes it difficult to respond quickly to changes in the industry and in the competitive market conditions, including by raising additional debt. As of June 30, 2018, Cellcom's debenture balance value in books amounts to approximately NIS 3,037.012 million. In addition, in January 2018, Cellcom issued NIS 400.6 million par value bonds (series 12) for the net consideration of NIS 400 million. In July 1, 2018, after the end of the reporting period, Cellcom's issued NIS 220 million principal amount of additional series K debentures according to its undertaking from June 2017. A change for the worse in Cellcom's results of operations, and any additional reduction of Cellcom's rating and its bonds may adversely affect also the price and terms of Cellcom's current debt, and the raising of additional debt. In addition, as of today, interest rates are very low and an increase in interest rates may increase debt raising costs in the future.

Cellcom is a party to legal proceedings filed against it from time to time, including applications for approval of claims as class actions in material amounts.

In addition, due to the volume and size of Cellcom's activity, including the risk of discrepancies between the tariff plans and the large information processed in Cellcom's information systems, and in view of the frequent changes in Cellcom's activity and its price plans following regulatory changes or changes in the market and the involvement of thousands of sale representatives and customer service representatives in the sale process, and the connection with the customer following after, the risk of discrepancy between the price plans and the information processed in Cellcom's information systems or the provision of insufficient information increases, and despite Cellcom's efforts to prevent this, Cellcom has exposure to a large number of claims, including class actions in material amounts.

The employees' union may limit Cellcom's ongoing activity, including the possibility of Cellcom making organizational and personnel changes, and may demand managerial attention

In addition, disagreements with representatives of the workers' organization, such as disagreements regarding the renewal of the collective agreement, may result in organizational steps and a negative affect on Cellcom's customer services, and other required changes that may in result fail or take place in a manner materially different than planned, resulting in lower savings.

PBC results of operations may be affected by the increase of the supply of rental areas.

A significant decrease in the growth rate in the Israeli economy, and a significant increase in the surplus supply of rental areas, due to the construction of additional office and commercial areas which may cause a decrease in the rental prices, and may affect the income of PBC from revenue-generating properties.

Shufersal may be affected by the competition.

Competitive pressures, including the responses of competitors and of the market to Shufersal's strategy and the manner of its implementation, may result in adverse effects to Shufersal's ability to deal with the foregoing, and may lead to the reduction of prices, lower margins, and the loss of market share in a manner which may have an adverse effect on Shufersal's business affairs, financial position and results of operations.

Shufersal may have risks related to the collective labor agreement.

Most of Shufersal's employees are covered by collective labor agreement, and Shufersal cannot be certain that this agreement will be renewed, from time to time, or renegotiated in the same or familiar terms, or without involving any direct action by the union, such as a strike. If a dispute arises with employees which involves a strike or adverse effect to the activities of Shufersal or such events may have an adverse effect on Shufersal's business affairs, financial position and results of operations. Additionally, any re-negotiation of collective agreements results in additional payroll expenses which may affect our profitability and result of operations.

A defect in a product of Shufersal's brand may imply a fall in reputation.

Shufersal has a wide variety of branded food and beverage products which enjoy many years of reputation, as well as products under the private brand. Negative publicity to this reputation by means of various publications, or by other means, may affect Shufersal's sales and adversely affect Shufersal's profitability, regardless of the correctness of those publications. Additionally, a defect in a certain product may also affect the brand under which Shufersal sells that product, as well as the entire family of products which is marketed under the same brand.

A failure in information processing and IT systems may adversely affect Shufersal's operating activities.

Shufersal makes use of various information and IT systems. Shufersal's central information systems (and their backup systems) are located in and around the logistical center which is used to manage its distribution network. Shufersal takes various steps in order to ensure the functionality and reliability of the various information and IT systems, including by securing and backing up the information. However, a collapse of the information and IT systems may have an adverse effect on Shufersal's operating activities. In addition, Shufersal, like any other company, is exposed to the risk of infiltration and theft by foreign entities of its information and computer systems. Shufersal operates in accordance with internal procedures to reduce its exposure to such hacking activity, and it also has an insurance policy covering cyber risks.

Shufersal growth may be limited by the Anti-trust law in case it pursues any future operations in the food retail segment.

Shufersal achieved a significant part of its past growth by acquiring various retail operations. Future acquisitions of various operations in the food retail segment by Shufersal may require approval of the Antitrust Authority, which may not be granted or under terms favorable to Shufersal. In addition, our ability to grow through acquisitions may be impaired and the restrictions of the Food Law. Due to this limitations Shufersal may not be able to grow or take advantage of certain market opportunities.

The termination of the operating agreement with Leumi Card Ltd may imply a risk for Shufersal.

In August 2017, Shufersal notified Leumi Card that it does not wish to renew the operating agreement with Leumi Card in connection with the issuance of “Shufersal” and “Yesh” credit cards, therefore the agreement terminated on January 18, 2018. Accordingly, as of said date, credit cards are issued to Shufersal's customers by Visa Cal. Following the termination of the operating agreement with Leumi Card, Shufersal is required to reissue the credit cards to its customers, which may impose costs on Shufersal and may affect the volume of credit card activity, including diminish the number of credit-card holders. In addition, Shufersal terminated its cooperation with Paz, pursuant to which benefits were granted to holders of Shufersal credit cards issued by Leumi Card (such benefits will be granted for an additional year from the date of termination of the cooperation). Ending this cooperation may affect the number of credit card holders

Variations in interest rates may affect the value of Clal.

One of the primary exposure of Clal is to interest rate decreases, since the average lifetime of its liabilities is significantly longer than the average lifetime of the assets. A decrease in the interest rate may lead to an impairment in the solvency ratio. In the current interest rate environment, Clal is exposed to losses in certain scenarios involving an interest rate decrease due to the impact of such changes on the discount rates that are used in the calculation of the reserves for pension, and in the liability adequacy test (“LAT”) and in a scope which may exceed the capital gains which will be created in that scenario with respect to interest-sensitive assets. However, Clal may also be exposed to certain scenarios of an increase in interest rates. It should be noted that from a long-term perspective, Clal is also exposed to a continuing low level of interest rates, with an emphasis on the linked interest rate.

Clal may have to face risks related to inflation.

Clal is exposed to an increase in the inflation rate, due to the fact that the majority of insurance liabilities of Clal are adjusted on a quarterly basis in accordance with the inflation rate, while the assets held against them are not necessarily CPI-linked.

In the first half of 2018, inflation increased by 0.9% relative to the CPI, with no change in the corresponding period last year. In summary of the second quarter on 2018, inflation slightly increased relative to the first quarter of 2018. Expectation based on the capital market increased in all ranged. After the balance sheet date, the Central Bureau of Statistics published the price index for June 2018, which rose by approximately, and the index for July, which remained unchanged,

According to the estimate of the Bank of Israel's Research Division from July 2018, in 2018, GDP is expected to grow at a rate of 3.7%, while in 2019, it is expected to grow at a rate of 3.5%. The inflation rate in the coming year is expected to amount to 1.4%. Then monetary interest rate is expected to remain at its current level (0.1%) and to rise to a rate of 0.25% in the last quarter.

Other assets price risk.

Some of the assets of Clal and some of the assets managed for others are invested in alternative investments, which include investments in real estate and in real estate funds, investment funds, non-marketable stocks and additional investment instruments which are exposed changes in their value.

Clal may face credit risks.

Clal is exposed to the possibility of financial loss as a result of the insolvency of borrowers and other debtors (through financial assets in the assets portfolio, through activities involving policies in accordance with the Sales Law, and credit insurance) with respect to its investments in debt instruments. Additionally, an increase in insolvency of businesses in Israel may also increase the amounts of claims of the directors and officers' liability insurance sector in which Clal operates, and the scope of employers' debts with respect to the non-transfer of payments for pension insurance with respect to their employees. In its portfolio of assets, Clal is exposed to the various market sectors, of which the main ones are the banking and financial industries, the real estate in Israel sector, and the infrastructure and energy sector. A decline in activity, slowdowns or crisis in such sectors may have a negative impact on our investments and, thus, on the results of our operations.

Clal may face insurance risks.

Clal is primarily exposed in the insurance activity mainly to risks related to changes in the risk factors which affect the frequency and severity of events compared to the actuarial assumptions and the risk of a single large loss or accumulation of damages in respect of a catastrophic event, that may have an adverse effect on the business results of the Clal.

A decrease on the portfolio level may imply a risk for Clal.

The rates of cancellation, freezing and transfers constitute a significant assumption in the life and health insurance businesses, due to the fact that the profitability in this segment is based on a margin in premiums, and on the collection of management fees throughout the lifetime of the policy. The cancellation of policies also leads to the write-off of deferred acquisition costs with respect to those policies.

Clal may affront claims due to catastrophes.

Clal may be subject to a sudden increase in claims due to a single large impact event (catastrophe) with a large scope of damages, such as an earthquake, which is considered a significant catastrophe event to which Clal is exposed to. With regard to life and health insurance, Clal is mainly exposed to other catastrophic events such as war and terrorism risks in Israel.

Significant operations in Clal are subject to detailed and complex regulation.

The institutional entities in Clal are exposed to the risk of decline below the minimum capital required, which may result in the initiation of regulatory actions against them. In addition, the operations of these institutional entities and agencies in Clal are conditional upon holding the licenses and permits required for activity in the areas of operations of Clal, including withstanding the regulatory capital requirement. In particular, the insurance and long-term savings activities are subject to regulatory directives which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods.

Clal is subject to restrictions and conditions by virtue of control permits for the institutional entities which are under its control, including the capital maintenance requirement.

Clal may face liquidity risks.

Clal may face liquidity challenges due to the uncertainty associated with the date in which Clal will be required to pay claims and other benefits to policyholders and to other beneficiaries, relative to the total amount of reserves which are available for this purpose at that time. Liquidity risk may increase upon the materialization of a significant catastrophic event.

Clal may have to face risks related to model, risk and underwriting risk.

Clal is exposed, in its insurance activities, to the risk of the selection of a wrong model for pricing, for the estimation of insurance liabilities, to risk of the use of incorrect parameters in models, and to risk of the use of incorrect pricing as a result of deficiencies in the underwriting process.

Clal is exposed to operational risks.

Risk of loss due to inadequacy or failure of internal processes, people and systems, or due to external events. In light of the scope of activities of Clal, which manages, as of December 31, 2017, assets totaling approximately NIS 181 billion (of which, a total of approximately NIS 150 billion involve assets managed for others), and despite the actions taken by it to identify the risks and to establish appropriate controls, the scope of its exposure to the operational risks of the type specified above is significant.

Clal depends significantly on technology and technological changes may imply investments in order to maintain competitive.

A significant part of the activities of Clal relies on different information systems. The absence of sufficient infrastructure and/or deficiencies and/or failures in the computerized information systems may cause significant adverse effects to Clal operations. A disruption of operations may have significant operating and financial losses.

The activities of Clal depends of external suppliers, and any change on them may imply a risk for Clal.

As part of its activities, Clal engages in agreements with various suppliers and service providers. Clal is exposed to the risk of harm to its reputation and profitability as a result of harm to the service quality which is provided to it and to its customers, as well as risks associated with difficulty in finding an alternative provider, if necessary.

Risks Related to the GDSs and the Common Shares

Shares eligible for sale could adversely affect the price of our common shares and GDSs.

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

The GDSs are freely transferable under U.S. securities laws, including common shares sold to our affiliates. Cresud, which as of June 30, 2018, owned approximately 63.4% of our common shares (or approximately 366.788.243 common shares which may be exchanged for an aggregate of 36.678.824 GDSs), is free to dispose of any or all of its common shares or GDSs at any time in its discretion. Sales of a large number of our common shares and/or GDSs would likely have an adverse effect on the market price of our common shares and GDSs.

If we issue additional equity securities in the future, you may suffer dilution, and trading prices for our equity securities may decline.

We may issue additional shares of our common stock for financing future acquisitions or new projects or for other general corporate purposes. Any such issuance could result in a dilution of your ownership stake and/or the perception of any such issuances could have an adverse impact on the market price of the GDSs.

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

There is less publicly available information about the issuers of securities listed on the Argentine stock exchanges than information publicly available about domestic issuers of listed securities in the United States and certain other countries.

Although the GDSs are listed on the NYSE, as a foreign private issuer we are able to rely on home country governance requirements rather than relying on the NYSE corporate governance requirements. See “Item 16G. Corporate Governance—Compliance with NYSE listing Standards on Corporate Governance.” Additionally, as a foreign private issuer, we are exempt from certain rules under the Exchange Act including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iii) the rules under the

Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are not required to file their annual report on Form 20-F until four months after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, you may not have the same protections afforded to shareholders companies that are not foreign private issuers.

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

We are a publicly held corporation (sociedad anónima) organized under the laws of Argentina. Most of our directors and our senior managers, are located in Argentina. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce against us or 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, to the same extent and in as timely a manner as a U.S. or foreign court, an action predicated solely upon the civil liability provisions of the United States federal securities laws or other foreign regulations brought against such persons or against us.

If we are considered to be a passive foreign investment company for United States federal income tax purposes, U.S. holders of our common shares or GDSs would suffer negative consequences.

Based on the past and projected composition of our income and assets and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company “PFIC” for United States federal income tax purposes for the taxable year ending June 30, 2018, and 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. In addition, this determination is based on the interpretation of certain U.S. Treasury regulations relating to rental income, which regulations are potentially subject to differing interpretation. If we become a PFIC, U.S. Holders (as defined in “Item 10. Additional Information—Taxation—United States Taxation”) of our common shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for U.S. Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our common shares or GDSs at a gain, as well as reporting requirements. See “Item 10. E—Taxation—United States Taxation—Passive Foreign Investment Company” 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.

Changes in Argentine tax laws may affect the tax treatment of our common shares or GDSs.

On September 12, 2013, Law No. 26,893, which amended Law No. 20,628 (the “Income Tax Law”), was enacted and published in the Official Gazette on September 23, 2013. According to the amendments, the distribution of dividends by an Argentine corporation was subject to income tax at a rate of 10.0%, unless such dividends were distributed to Argentine corporate entities (the “Dividend Tax”).

The Dividend Tax was repealed by Law No. 27,260, enacted on June 29, 2016, and consequently no income tax withholding was applicable on the distribution of dividends in respect of both Argentine and non-Argentine resident shareholders, except when dividends distributed were greater than the income determined according to the application of the Income Tax Law, accumulated at the fiscal year immediately preceding the year in which the distribution is made. In such case, the excess was subject to a rate of 35%, for both Argentine and non-Argentine resident shareholders. This treatment still applies to dividends to be distributed at any time out of retained earnings accumulated until the end of the last fiscal year starting before January 1, 2018.

However, pursuant to Law No. 27,430, dividends to be distributed out of earnings accrued in fiscal years starting on or after January 1, 2018, and other profits paid in cash or in kind —except for stock dividends or quota dividends—by

companies and other entities incorporated in Argentina referred to in the Income Tax Law, to Argentine resident individuals and foreign beneficiaries will be subject to income tax at a 7% rate on profits accrued during fiscal years, resident undivided estates starting January 1, 2018 to December 31, 2019, and at a 13% rate on profits accrued in fiscal years starting January 1, 2020 and onwards. If dividends are distributed to Argentine corporate taxpayers (in general, entities organized or incorporated under Argentine law, certain traders and intermediaries, local branches of foreign entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina), no dividend tax should apply.

In addition, capital gains originated from the disposal of shares and other securities, including securities representing shares and deposit certificates, are subject to capital gains tax. Law No. 27,430 effective as of January 1, 2018, provides that capital gains obtained by Argentine resident individuals from the disposal of shares and GDSs are exempt from capital gains tax in the following cases: (i) when the shares are placed through a public offering authorized by the CNV, (ii) when the shares are traded in stock markets authorized by the CNV, under segments that ensure priority of price-time and interference of offers, or (iii) when the sale, exchange or other disposition of shares is made through an initial public offering and/or exchange of shares authorized by the CNV.

Such law also provides that the capital gains tax applicable to non-residents for transactions entered into until December 30, 2017 is still due, although no taxes will be claimed to non-residents with respect to past sales of Argentine shares or other securities traded in the CNV's authorized markets (such as GDSs) as long as the cause of the non-payment was the absence of regulations stating the mechanism of tax collection at the time the transaction was closed. General Resolution (AFIP) No. 4,227, which came into effect on April 26, 2018, stipulates the procedures through which the income tax should be paid to the AFIP. The payment of capital gains tax applicable for transactions entered into before December 30, 2017 was due on June 11, 2018.

In addition, Law No. 27,430 and Decree 279/2018 maintain the 15% capital gains tax (calculated on the actual net gain or a presumed net gain equal to 90% of the sale price) on the disposal of shares or securities by non-residents. However, non-residents are exempt from the capital gains tax on gains obtained from the sale of (a) Argentine shares in the following cases: (i) when the shares are placed through a public offering authorized by the CNV, (ii) when the shares were traded in stock markets authorized by the CNV, under segments that ensure priority of price-time and interference of offers, or (iii) when the sale, exchange or other disposition of shares is made through an initial public offering and/or exchange of shares authorized by the CNV; and (b) depositary shares or depositary receipts issued abroad, when the underlying securities are shares (i) issued by Argentine companies, and (ii) with authorization of public offering. The exemptions will only apply to the extent the foreign beneficiaries reside in, or the funds used for the investment proceed from, jurisdictions considered as cooperating for purposes of fiscal transparency.

In case the exemption is not applicable and, to the extent foreign beneficiaries do not reside in, or the funds do not arise from, jurisdictions not considered as cooperative for purposes of fiscal transparency, the gain realized from the disposition of shares would be subject to Argentine income tax at a 15% rate on the net capital gain or at a 13.5% effective rate on the gross price. In case such foreign beneficiaries reside in, or the funds arise from, jurisdictions not considered as cooperative for purposes of fiscal transparency, a 35% tax rate on the net capital gain or at a 31.5% effective rate on the gross price should apply.

Therefore, holders of our common shares, including in the form of GDSs, are encouraged to consult their tax advisors as to the particular Argentine income tax consequences under their specific facts.

Holders of the GDS may be unable to exercise voting rights with respect to the common shares underlying their GDSs.

As a holder of GDS, we will not treat you as one of our shareholders and you will not have shareholder rights. The depositary will be the holder of the common shares underlying your GDSs and holders may exercise voting rights with respect to the common shares represented by the GDSs only in accordance with the deposit agreement relating to the GDSs. There are no provisions under Argentine law or under our bylaws that limit the exercise by GDS holders of their voting rights through the depositary with respect to the underlying common shares. However, there are practical limitations on the ability of GDS holders to exercise their voting rights due to the additional procedural steps involved in communicating with these holders. For example, holders of our common shares will receive notice of shareholders' meetings through publication of a notice in the CNV's website, an Official Gazette in Argentina, an Argentine

newspaper of general circulation and the bulletin of the Buenos Aires Stock Exchange, and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. GDS holders, by comparison, will not receive notice directly from us. Instead, in accordance with the deposit agreement, we will provide the notice to the GDS Depository. If we ask the GDS Depository to do so, the GDS Depository will mail to holders of GDSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDS holders must then instruct the GDS Depository as to voting the common shares represented by their GDSs. Under the deposit agreement, the GDS Depository is not required to carry out any voting instructions unless it receives a legal opinion from us that the matters to be voted would not violate our by-laws or Argentine law. We are not required to instruct our legal counsel to give that opinion. Due to these procedural steps involving the GDS Depository, the process for exercising voting rights may take longer for GDS holders than for holders of common shares and common shares represented by GDSs may not be voted as you desire.

Under Argentine law, shareholder rights may be fewer or less well defined than in other jurisdictions.

Our corporate affairs are governed by our by-laws and by Argentine corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the States of Delaware or New York, or in other jurisdictions outside Argentina. In addition, your rights or the rights of holders of our common shares to protect your or their interests in connection with actions by our board of directors may be fewer and less well defined under Argentine corporate law than under the laws of those other jurisdictions. Although insider trading and price manipulation are illegal under Argentine law, the Argentine securities markets are not as highly regulated or supervised as the U.S. securities markets or markets in some other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well defined and enforced in Argentina than in the United States, putting holders of our common shares and GDSs at a potential disadvantage.

Restrictions on the movement of capital out of Argentina may impair your ability to receive dividends and distributions on, and the proceeds of any sale of, the common shares underlying the GDSs.

The Argentine government may impose restrictions on the conversion of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Argentina. Argentine law currently permits the government to impose these kind of restrictions temporarily in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. We cannot assure you that the Argentine government will not take measures in the future. In such a case, the GDS Depository for the GDSs may hold the Pesos it cannot convert for the account of the GDS holders who have not been paid.

The protections afforded to minority shareholders in Argentina are different from and more limited than those in the United States and may be more difficult to enforce.

Under Argentine law, the protections afforded to minority shareholders are different from, and much more limited than, those in the United States and some other Latin American countries. For example, the legal framework with respect to shareholder disputes, such as derivative lawsuits and class actions, is less developed under Argentine law than under U.S. law as a result of Argentina's short history with these types of claims and few successful cases. In addition, there are different procedural requirements for bringing these types of shareholder lawsuits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company.

We may not pay any dividends.

In accordance with Argentine corporate law, we may pay dividends to shareholders out of net and realized profits, if any, as set forth in our Audited Financial Statements prepared in accordance with IFRS. 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 shareholders entitled to vote present at the meeting. As a result, we cannot assure you that we will be able to generate enough net and realized profits so as to pay dividends or that our shareholders will decide that dividends will be paid.

Our ability to pay dividends is limited by law and our by-laws.

In accordance with Argentine corporate law, we may pay dividends in Pesos out of retained earnings, if any, to the extent set forth in our audited financial statements. Our ability to generate retained earnings is subject to the results of our operations. Therefore, our ability to pay dividends is subject to the compliance with the Argentine Corporate Law.

You might be unable to exercise preemptive or accretion rights with respect to the common shares underlying your GDSs.

Under Argentine corporate law, if we issue new common shares as part of a capital increase, our shareholders will generally have the right to subscribe for a proportional number of common shares of the class held by them to maintain their existing ownership percentage, which is known as preemptive rights. In addition, shareholders are entitled to the right to subscribe for the unsubscribed common shares of either the class held by them or other classes which remain unsubscribed at the end of a preemptive rights offering, on a pro rata basis, which is known as accretion rights. Under the deposit agreement, the GDS Depository will not exercise rights on your behalf or make rights available to you unless we instruct it to do so, and we are not required to give that instruction. In addition, you may not be able to exercise the preemptive or accretion rights relating to the common shares underlying your GDSs unless a registration statement under the US Securities Act of 1933 is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common shares relating to these preemptive rights, and we cannot assure you that we will file any such registration statement. Unless we file a registration statement or an exemption from registration is available, you may receive only the net proceeds from the sale of your preemptive rights by the GDS Depository or, if the preemptive rights cannot be sold, they will be allowed to lapse. As a result, US holders of common shares or GDSs may suffer dilution of their interest in our company upon future capital increases.

ITEM 4. Information on the Company

A. History and Development of the Company

General Information

Our legal and commercial name is IRSA Inversiones y Representaciones Sociedad Anónima. We were incorporated and organized on April 30, 1943, under Argentine law as a stock corporation (Sociedad Anónima), and we were registered with the Public Registry of Commerce of the City of Buenos Aires (Inspección General de Justicia or “IGJ”) on June 23, 1943, under number 284, on page 291, book 46 of volume A. Pursuant to our bylaws, our term of duration expires on April 5, 2043.

Our common shares are listed and traded on Bolsas y Mercados Argentinos (“BYMA”) and our GDSs representing our common shares are listed on the New York Stock Exchange (“NYSE”). Our principal executive offices are located at Bolivar 108 1st floor, Ciudad Autónoma de Buenos Aires (C1066AAD), Argentina. Our headquarters are located at Moreno 877, (C1091AAQ), Ciudad Autónoma de Buenos Aires. Our telephone is +54 (11) 4323-7400. Our website is www.irsa.com.ar. Information contained in or accessible through our website is not a part of this annual report. All references in this annual report to this or other internet sites are inactive textual references to these URLs, or “uniform resource locators” and are for your information reference only. We assume no responsibility for the information contained on these sites. Our Depositary Agent for the GDSs in the United States is The Bank of New York whose address is P.O. Box 358516 Pittsburgh, PA 15252-8516, and whose telephones are + 1-888-BNY-ADR for U. S. calls and + 1 - 201-680-6825 for calls outside U.S.

History

As a result certain acquisitions in 2014, we decided to divide our reporting into “Operations Center in Argentina” and an “Operations Center in Israel”. From the Operations Center in Argentina, the Company manages the businesses in Argentina and the international investments in the Lipstick Building in New York and the Condor Hospitality Trust Hotel REIT. From the Operations Center in Israel the Company manages the business related to IDBD and DIC.

Operations Center in Argentina

Shopping Malls (through our subsidiary IRSA CP)

We are engaged in the acquisition, development and management of Shopping Malls through our subsidiary IRSA CP (formerly Alto Palermo S.A. (APSA)) and its subsidiaries.

In 1994 we acquired, an interest in the historical building of Abasto de Buenos Aires, which had been developed by us, giving place to the opening of Abasto Shopping Mall in 1998. Likewise, in December 1994, we acquired an interest of 25% in the Mendoza Shopping Mall and in the subsequent years we increased our interest, reaching 100% during 2008. Subsequently, in March 1995, we acquired an interest of 50% in Alto NOA Shopping Mall (formerly Nuevo NOA), located in the city of Salta. In 1996, we acquired an additional 30% interest and in 2000 we completed the acquisition of the 100% interest over the Alto NOA Shopping Mall.

In 1997 and 1998, we added to our portfolio Paseo Alcorta, Alto Palermo, Alto Avellaneda, Buenos Aires Design and Patio Bullrich. In August 1998, jointly with Coto Centro Integral de Comercialización S.A., and through a public tender, we acquired a plot of land of 213,372 sqm for the development of a property in the City of Rosario, Province of Santa Fe, and on December 17, 1999 we acquired the ownership of our interest of the property and, towards the end of 2003 we started the construction of a shopping mall. On November 9, 2004 we opened such new shopping mall,

called Alto Rosario Shopping.

On July 6, 1999, we acquired 94.623% of the common shares of Shopping Neuquén S.A., which owned a plot of land located in the city of Neuquén. Subsequently, in March 2015, we started the development of a shopping mall called Alto Comahue Shopping Mall over such plot of land. Alto Comahue Shopping Mall was the sixteenth shopping mall of our portfolio.

In December 2006, we started operating Córdoba Shopping, located in Villa Cabrera neighbourhood, in the City of Córdoba.

Likewise, in 2007 we started the construction of one of our more important projects, DOT Baires Shopping, a shopping mall and an office building located in the neighbourhood of Saavedra. In May 2009, we opened the DOT Baires Shopping Mall, which has four levels and three basement levels, consisting of a total area of 173,000 square meters, a hypermarket, a 100 screen multiplex cinema and a parking lot for 2,200 vehicles. Additionally, through IRSA CP, we are currently developing the project called “Polo Dot”, which will consist of three office buildings (one of them may include a hotel) on land reserves we own through IRSA CP and the expansion of Dot Baires Shopping by approximately 15,000 square meters of gross leasable area.

In January 14, 2010, we acquired from Parque Arauco S.A. a 31.6% stake in IRSA CP, for a total purchase price of US\$126 million. Consequently, we increased our shareholding in IRSA CP from 63.4% to 94.9%. On October 27, 2017, we completed the sale in the secondary market of 2,560,000 ADSs of IRSA CP, which represented 8.1% of IRSA CP. As of June 30, 2018, our holding in IRSA CP was 86.3%.

In August 2011, we acquired through our subsidiary IRSA CP, 50% of Nuevo Puerto Santa Fe S.A. (“NPSF”) common shares, a corporation that is tenant of a building in which La Ribera Shopping was built and currently operates, located within Dique I of the port of the city Santa Fe.

In December 2014, we opened a new shopping mall, “Distrito Arcos, Premium Outlet.” Located in Palermo (City of Buenos Aires), this new project was established as an outlet with variety of premium brands in an open-air environment.

Currently, through our subsidiary IRSA CP, we are owners of 16 Shopping Malls in Argentina: Alto Palermo, Abasto Shopping, Alto Avellaneda, Alcorta Shopping, Patio Bullrich, Buenos Aires Design, Dot Baires Shopping, Soleil Premium Outlet, Distrito Arcos, Alto NOA Shopping, Alto Rosario Shopping, Mendoza Plaza Shopping, Córdoba Shopping Villa Cabrera, La Ribera Shopping, Alto Comahue Shopping and Patio Olmos (operated by a third party).

Offices

We own, develop and manage office buildings throughout Argentina, directly and indirectly through our subsidiary IRSA CP.

During 2005, attractive prospects in office business led us to make an important investment in this segment by acquiring Bouchard 710 building in fiscal year 2005, covering 15,014 square meters of rentable premium space.

During 2007, we made several significant acquisitions in the Offices segment. We purchased Bouchard Plaza building, also known as “Edificio La Nación,” located in the downtown of the City of Buenos Aires, and during 2015, we completed the sale of all of the floors in Edificio La Nación, remaining in the portfolio 116 parking spaces for rent. In 2007, we also bought Dock del Plata building with a gross leasable area of 7,921 square meters, located in the exclusive area of Puerto Madero, already sold in its entirety, in December 2015. In addition, we acquired a 50% interest in an office building including current leases with a gross leasable area of 31,670 square meters, known as

Torre BankBoston, which is located in Buenos Aires, and was designed by the recognized architect Cesar Pelli (who also designed the World Financial Center in New York and the Petronas Towers in Kuala Lumpur). We currently have a 47% ownership interest in this building.

In 2007, through Panamerican Mall S.A. (“PAMSA”), subsidiary of IRSA CP, we started the construction of one of our most important projects called “Polo Dot”, a Shopping Mall and an Office Building located in Saavedra neighbourhood, at the intersection of Avenida General Paz and the Panamerican Highway. This Office Building was opened in July 2010, which meant our landing on the growing corridor of rental offices located in the North Zone of Buenos Aires. Likewise, we are currently developing an office building of 11 floors of approximately the entire surface. For more information about this development, please see “Sales and Developments”.

In April 2008, we acquired one of the most emblematic building in the City of Buenos Aires, known as “Edificio República”. This property, also designed by the architect César Pelli, is a premium office building in the downtown area of the City of Buenos Aires, which added approximately 19,885 gross leasable square meters to our portfolio.

In December 2014, we renamed Alto Palermo S.A. into IRSA Commercial Properties S.A., and we transferred 83,789 square meters of five buildings of our premium office portfolio to it. The premium office buildings transferred included Edificio República, Torre Bank Boston, Edificio Intercontinental Plaza, Edificio Bouchard 710 and Edificio Suipacha. We also transferred to IRSA CP the reserve of land known as Intercontinental II, adjoining Edificio Intercontinental Plaza, which has potential for the development of 19,597 m². In this way, we concentrate Real Estate activities in Argentina.

On June 5, 2017, the Company through IRSA CP, reported the acquisition of the historic Philips Building, adjacent to the Dot Baires Shopping Mall, located in Saavedra neighbourhood in the City of Buenos Aires. The building count with a total gross leasable area of approximately 8,007 square meters and with construction capacity (FOT) of additional 18,000 square meters. The acquisition price was US\$ 29 million, which has been entirely been paid.

Sales and developments

Since 1996, we have also expanded our operations to the residential real estate market through the development and construction of apartment tower complexes in the City of Buenos Aires and through the development of private residential communities in the greater Buenos Aires.

We own an important 70-hectare property facing the Río de la Plata in the south of Puerto Madero, 10 minutes from downtown Buenos Aires, called “Solares de Santa María”. We are owners of this property in which we aim to develop an entrepreneurship for mixed purposes, i.e. our development project involves residential complexes as well as offices, stores, hotels, sports and sailing clubs, services areas with schools, supermarkets and parking lots. On October 30, 2012 a new agreement was executed with the Government of the City of Buenos Aires, replacing all those already executed, whereby new obligations were agreed upon between the parties for the consummation of the project. To that end, such Agreement, as well as the previous ones, shall be countersigned and approved by the Legislative Branch of the City of Buenos Aires by enacting a bill that is attached to the project. The docket containing the Bill of Law was reserved and is pending such legislative treatment.

In March 2008, we launched a residential project through a partnership with Cyrela Brazil Realty to develop a new homebuilding concept in Argentina accompanied by an innovative sale and financing policy. The partnership’s first project named “Horizons” is located in the Vicente López neighborhood, Province of Buenos Aires. The project was a commercial success, all the units were sold in record time.

In March 2011, we bought the Nobleza Piccardo warehouse, through a subsidiary in which we have a 50% stake. This property is located in the city of San Martín, Province of Buenos Aires, and due to its size and location represents an excellent venue for the future development of different segments. The total plot area is 160,000 square meters with floor area of 81,786 square meters. We are currently working in a draft project for the development of a thematic Shopping Mall named “Hipercentro para el Hogar” to be constructed in the existing main warehouse. The project will involve 50,000 sqm, divided into 30,000 sqm for a shopping mall and 20,000 sqm for parking. Simultaneously, we are workin jointly a urban development firm in an integral plan to design the remaining areas. Currently, tha construction capacity of the area is of 500,000 square meters, that may have commercial uses or may be used for the construction of residential properties.

We are currently developing the project called “Polo Dot,” through PAMSA, subsdiary of IRSA CP, located in the commercial complex adjoining to Dot Baires Shopping Mall. The project will consist of three office buildings (one of

them may include a hotel) on land reserves we own through IRSA CP and the expansion of Dot Baires Shopping by approximately 15,000 square meters of gross leasable area. In the first phase, we will develop an 11-floor office building expansion with an area of approximately 32,000 square meters, in respect of which we have already executed lease agreements for approximately the entire available leasable area. The second stage of the project consists of two office/ hotel buildings that will add 38,400 square meters of GLA to the complex. We have noticed an important demand for premium office spaces in this new commercial center and we are confident that we will be able to generate a quality enterprise similar to the ones that the company has done in the past with attractive income levels and high occupancy.

Likewise, we are moving forward with the construction of Catalinas Building which is expected to have approximately 35,000 square meters of gross leasable area consisting of 30 office floors and more than 300 parking spaces, and will be located in the “Catalinas” area in the City of Buenos Aires, one of the most sought after neighborhoods for premium office development in Argentina. IRCP acquired from us certain units in the building representing approximately 45% of the value of the development the signing of the deed is pending. On December 4, 2015, we sold to Globant S.A. 4,636 square meters corresponding to four office floors. Construction work started in late 2016, and is currently expected to be completed in approximately three years. As of June 30, 2018, we had completed 16% of the construction work.

On March 22, 2018 we acquired through IRSA CP, directly and indirectly, 100% of a land of approximately 78,000 square meters of surface located in Camino General Belgrano, between 514 street, avenue 19 and 511 street, in La Plata, Province of Buenos Aires. The objective of this acquisition is to develop a mix uses project given that the land offers location and scale adequate characteristics for the commercial development in a place of great potential.

Hotels

In 1997, we entered the hotel market through the acquisition of a 50% interest in the Llao Llao Hotel near Bariloche Province of Rio Negro and 76.3% in the Intercontinental Hotel in the City of Buenos Aires. In 1998, we also acquired Libertador Hotel in the City of Buenos Aires and subsequently sold a 20% interest in it to an affiliate of Sheraton Hotels.

International

In July 2008, we decided to expand internationally into the United States, taking advantage of certain investment opportunities generated after the global financial crisis. We acquired a 49% interest in Metropolitan 885 3rd Ave (“Metropolitan”), whose main asset is a 34-story building with 59,000 sqm of gross leasable area named Lipstick Building, located at 885 Third Avenue, New York.

Since August, 2009, we acquired a 12.8% interest of Hersha Hospitality Trust (“Hersha”) for approximately US\$60.0 million. Hersha is a U.S. Real Estate Investment Trust (“REIT”), listed in NYSE, which owns participations in hotels throughout the United States. By 2014, we had sold all of our interest in that REIT at prices by common share that almost doubled the amount invested, reaching very important gains.

In December 2010, we acquired a 49% interest in the entity that then owned the building located at 183 Madison Avenue, New York, for a purchase price of US\$85.1 million. In November 2012, we increased our participation by an additional 25.5%, to 74.5% of the outstanding share capital. In September 2014, through our subsidiary Rigby 183 LLC, we completed the sale of 183 Madison Avenue, for a sale price of US\$185 million.

In March 2012, we entered into an agreement with Supertel Hospitality Inc. (“Supertel”) whereby we acquired 3,000,000 convertible preferred shares in which we invested approximately US\$20 million. Supertel is a U.S. REIT listed on Nasdaq, which began operations in late 70s and in 1994 completed its initial public offering. During 2015, it appointed a new CEO who is working on the relaunching of the company. It has also changed its name to “Condor Hospitality Trust” (“Condor”) and its symbol on NYSE to “CDOR”. Condor is a REIT listed in Nasdaq focused on medium-class hotels located in various states of the United States of America, managed by various operators and franchises.

Others

In 1999, we acquired 2.9% of the shares of Banco Hipotecario. Over the years, we have acquired additional common shares increasing our interest to 29.9% as of the date of this annual report.

Operations Center in Israel

During Fiscal Year 2014 we invested in the Israeli market, particularly in a company named IDB Development Corporation Ltd. On October 11, 2015, the Company obtained control of the Israeli company IDBD and it began to include it in its Consolidated Financial Statements. In November 2017, Dolphin IL, subsidiary of Dolphin Netherlands B.V., subscribed the definitive documents for the acquisition of the entire share of IDBD in DIC. As of June 30, 2018, our indirect interest in IDBD is of 100% and in DIC is 76.57% (as of the date of this annual report we owned indirectly 77.92% of DIC, for more information see "Recent Developments"). IDBD and DIC participates, through its subsidiaries, associates, joint ventures and other investments, in numerous markets and industry sectors in Israel and other countries, including real estate (PBC), supermarkets (Shufersal), insurance (Clal), and telecommunications (Cellcom), among others. IDBD is registered with the Tel Aviv Stock Exchange ("TASE") as a "Debentures Company" pursuant to Israeli law, as it has publicly listed bonds. DIC is registered in TASE and also has publicly listed bonds.

Significant acquisitions, dispositions and development of business

Operations Center in Argentina

Sale of ADS and shares from IRSA CP

During October 2017 and February 2018, IRSA and its subsidiaries completed the sale in the secondary market of 10,420,075 ordinary shares of IRSA CP, par value Ps.1 per share, represented by American Depositary Shares (“ADSs”), representing four ordinary shares each, which represents nearly 8.2% of IRSA CP capital for a total amount of Ps.2,489 million (US\$ 140 million). After the transaction, IRSA’s direct and indirect interest in IRSA CP amounts to approximately 86.3%. This transaction was accounted in equity as an increase in the equity attributable to the parent for an amount of Ps.272 million, net of taxes.

Acquisition of Philips Building

On June 5, 2017, we acquired, through IRSA CP, the Philips Building located in Saavedra, Autonomous City of Buenos Aires, next to the DOT Shopping Mall. The building has a constructed area of 7,755 square meters and is intended for office development and lease. The acquisition price was US\$ 29 million, which was fully paid up as of June 30, 2017. Furthermore, IRSA CP has signed a bailment contract with the seller for a term of 7 months and 15 days, which has expired automatically on January 19, 2018.

Operations Center in Israel

Purchase of DIC shares by Dolphin

For details regarding the Reduced Centralization Act and its connection with the Purchase of DIC Shares by Dolphin, please see "Operations Center in Israel – Risks relating to Israel".

In November 2017, Dolphin IL, a subsidiary of Dolphin subscribed final documents for the acquisition of the total shares owned by IDBD in DIC. Dolphin is a subsidiary of the Company in which we own a 91.57% equity interest.

Dolphin IL agreed to pay an amount of NIS 1,843 million (equivalent to NIS 17.20 per share of DIC) of which NIS 70 million in cash (were paid equivalent to Ps.348 million as of the date of the transaction) and NIS 1,773 million (equivalent to Ps.8,814 million as of the date of the transaction) to be paid in five years, with the option to extend such maturity for three additional years in tranches of one year each such outstanding balance accrues interests of 6.5% annually, which will increase by 1% annually for each one year extension. Furthermore, Dolphin has guaranteed in favor of IDBD, IDBD bondholders and their creditors, through pledges of different degree of privilege over DIC shares purchase. Moreover, a pledge will be granted in relation to 9,636,097 (equivalent to 6.38%) of the shares of DIC that Dolphin currently holds in the first degree of privilege in favor of IDBD and in second degree of privilege in favor of IDBD's creditors. This transaction has no effect in the Company consolidation structure and has been accounted in equity as a decrease in the equity attributable to the parent for an amount of Ps.114 million.

Purchase of IDBD shares to IFISA

In December 2017, Dolphin, executed a stock purchase agreement for all of the shares of IDBD held IFISA, an affiliate of the Company, which amounted to 31.7% of the capital stock of IDBD. Since that date, Dolphin holds the 100% of IDBD's shares.

The transaction was made at a price of NIS 398 million (equivalent to NIS 1.894 per share and approximately to Ps.1,968 million as of the date of the transaction). As consideration for the transaction all the outstanding receivables from IFISA to Dolphin were canceled plus a payment of US\$ 33.7 million (equivalents to Ps.588 million as of the date of the transaction). This transaction was accounted in equity as a decrease in the equity attributable to the parent for an amount of Ps.2,923 million.

Interest increase in DIC

On September 23, 2016, Tyrus, a subsidiary of the Company, acquired 8,888,888 of DIC's shares from IDBD for a total amount of NIS 100 million (equivalent to Ps.401 million as of that date), which represent 8.8% of the Company's outstanding shares at such date.

During March 2017, IDBD exercised all of DIC's Series 5 and 6 warrants for nearly NIS 210 million (approximately equivalent to Ps.882 million as of that date), thereby increasing its direct interest in DIC to nearly 70% of such company's share capital as of that date and the Group's equity interest to 79.47%. Subsequently, third parties not related to us, exercised their warrants, thus diluting our interest in DIC to 77.25%. This transaction was accounted for as an equity transaction generating a decrease in equity attributable to the controlling shareholder in the amount of Ps.413 million.

Partial sale of Clal

On each of May 1, 2017, August 30, 2017, January 1, 2018 and in May, 2018, pursuant to the instructions given by the Commissioner of Capital Markets, Insurance and Savings of Israel, IDBD transferred 5% of its stake in Clal through a swap transaction. The consideration was set at an aggregate amount of approximately NIS 644.5 million (equivalent to approximately Ps.3,228 million considering exchange date at each date). As a consequence of the completion of these transactions, IDBD's interest in Clal was reduced to 34.8% of its share capital.

Agreement for acquisition of New Pharm Drugstores Ltd. ("New Pharm") acquisition

On April 6, 2017, Shufersal entered into an agreement with Hamashbir 365 Holdings Ltd. for the purchase of the shares of New Pharm, representing 100% of that New Pharm's share capital ("the shares sold").

In September 2017, the Antitrust Commissioner (the "Commissioner") reached a decision, according to which approval was given for Shufersal's merger with New Pharm, subject to certain conditions, which primarily include a requirement for the sale of nine New Pharm stores to one buyer, who will be approved by the Commissioner in advance, and the sale of one Shufersal store to another entity. The Commissioner's decision included the stipulation, inter alia, that the buyer of the drug stores will operate, in each of them, drug stores for a period of no less than eighteen months, and that the buyer of the Shufersal store will operate therein a drug store or a food store for a period of no less than eighteen months. Additionally, Shufersal and New Pharm were forbidden to acquire control of any of the transferred stores within 5 years after the date of the transfer.

On December 20, 2017, the transaction was completed and Shufersal became the sole shareholder of New Pharm prior to the sale of a Shufersal store and approval of the transaction by the antitrust commission. The price paid, net of the respective adjustments to the transaction price, was NIS 126 million (equivalent to Ps.630 million at the date of the transaction).

The following table summarizes the consideration and fair market value of the acquired assets and the liabilities assumed from New Pharm:

December 2017

(in million of Ps.)

Fair value of identifiable assets and assumed liabilities:

Properties, plant and equipment	200
Inventories	380
Trade and other receivables	335
Cash and cash equivalents	25
Borrowings	(260)
Trade and other payables	(930)
Employee benefits	(25)
Provisions	(15)
Total net identifiable assets	(290)
Goodwill (pending allocation)	920
Total	630

If New Pharm had been acquired since the beginning of the year, the Group's consolidated statement of income for the year ended June 30, 2018 would show a net pro-forma discontinued operations result of Ps.12,189 million.

Increase of interest in Cellcom

On June 27, 2018, Cellcom sold shares of its capital for a gross total of NIS 280 million (approximately Ps.2,212 million as of that date). DIC took part in such raise by acquiring 6,314,200 shares for a total amount of NIS 145.9 million (approximately Ps.1,152 million). In addition, on June 26, 2018, DIC engaged in a swap transaction with a bank institution for 1,150,000 shares of Cellcom from third parties. The following are the main characteristics of the transaction:

DIC has the voting rights but not the economic rights over the shares under the swap transaction;

The maturity of the swap is 90 days; and

The impact in results of the swap transaction is the difference of the price per share between the subscription date and the date of its cancellation.

After the abovementioned transactions the equity interest that DIC has on Cellcom rose from 42.0% to 43.1% and the percentage of voting rights rose from 45.4% to 46.1% without considering the swap transaction.

Negotiations between Israil Airlines & Tourism Ltd. ("Israil") and Sun d'Or International Airlines Ltd. ("Sun d'Or")

On July 2, 2017, IDB Tourism enter into an agreement with Sun d'Or, a subsidiary of El Al Israel Airlines Ltd. ("El Al") for the sale of Israil. However following the application for anti-trust approval in Israel, such transaction was rejected by the Antitrust Commission on January 10, 2018. On March 29, 2018, the parties to the agreement filed an appeal against the Anti-trust Authority's decision and on June 20, 2018, the Acquisition Agreement was cancelled and at the parties' request, the Court dismissed the appeal without giving an order regarding expenses.

As a consequence of this process, our audited Financial Statements record the investment in Israil as assets and liabilities held for sale, and a loss of nearly NIS 56 million (approximately equivalent to Ps.231 million as of December 31, 2016 when it was reclassified to discontinued operation), as a result of measuring these net assets at the estimated recoverable value. The Group is evaluating the reasons for the objection and has appealed this decision. The group evaluated that the criteria to continue classifying the investment as discontinued operations as established by IFRS 5 are maintained.

Changes of interest in Shufersal

During the fiscal year ended June 30, 2017, DIC through several transactions increased its interest in Shufersal capital stock by 7.7% upon payment of a net amount of NIS 235 million (equivalent to approximately Ps.935 million) and in March 2017, DIC sold 1.38% of Shufersal for an amount of NIS 50 million (equal to Ps.210 million as of that date). Additionally, on December 24, 2017, DIC sold Shufersal shares, decreasing its stake from 53.30% to 50.12%. The consideration with respect to the sale of the shares amounted to NIS 169.5 million (equivalent to Ps.847 million on the day of the transaction). Both transactions were accounted for as an equity transaction generating an increase in the equity attributable to the controlling shareholder in the amount of Ps.287 million and Ps.385 million respectively.

On June 16, 2018, DIC announced the sale of a percentage of its stake in Shufersal to institutional investors. The same was completed on June 21, 2018. The percentage sold amounted to 16.56% and the net amount charged was approximately NIS 848 million (equivalent to Ps.6,420 million on the day of the transaction), consequently DIC lost control of Shufersal, so we deconsolidated the subsidiary on that date.

Below are the details of the sale:

June 30, 2018

(in million of Ps.)

Cash received	6,420
Remediation of the fair value of the remaining interest	13,164
Total	19,584
Net assets disposed including goodwill	(8,501)
Gain from the sale of a subsidiary, net of taxes (*)	11,083

(*) Includes Ps.2,643 million as a result of the sale and Ps.8,440 million as a result of the remeasurement at the fair value of the new stake.

The following table details the net assets disposed:

June 30, 2018

(in million on Ps.)

Investment properties	4,489
Property, plant and equipment	29,001
Intangible assets	7,108
Investments in associates and joint ventures	401
Restricted assets	91
Trade and other receivables	12,240
Investments in financial assets	2,846
Derivative financial instruments	23
Inventories	6,276
Cash and cash equivalents	5,579
TOTAL ASSETS	68,054
Borrowings	21,310
Deferred income tax liabilities	2,808
Trade and other payables	23,974
Provisions	447
Employee benefits	1,279
Salaries and social security liabilities	2,392
Income tax and MPIT liabilities	8
TOTAL LIABILITIES	52,218
Non-controlling interest	7,335
Net assets disposed including goodwill	8,501

Sale of Adama

On August 2016, Koor and with subsidiary of ChemChina entered into an agreement to sale and transfer 40% of the outstanding shares of Adama owned by Koor. The US\$ 230 million in cash plus the outstanding total repayment of the non-recourse loan and its interests, which had been granted to Koor by a Chinese bank. On November 22, 2016, the sale transaction was closed. As of June 30, 2017, we recorded a gain of Ps.4,216 million pursuant to the sale. Our share in the results of Adama was retrospectively classified as discontinued operations in the Consolidated Statements.

Partial sale of equity interest in PBC

DIC sold 12% of its equity interest in PBC for a total consideration of NIS 217 million (equivalent to approximately

Ps.810 million). As a result, DIC's interest in PBC declined to 64.4%. This transaction was accounted for as an equity transaction generating an increase in equity attributable to the controlling shareholder in the amount of Ps.34 million.

Partial sale of equity interest in Gav Yam

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On December 5, 2016, PBC sold 280,873 shares of its subsidiary Gav-Yam Land Corporation Ltd. for an amount of NIS 391 million (equivalent to Ps.1,616 million as of that date). As a result of this transaction, the equity interest decreased to 55.06%. This transaction was accounted for as an equity transaction generating an increase in equity attributable to the controlling shareholder in the amount of Ps.184 million.

Recent Developments:

Operations Center in Argentina

Shareholders' Meeting

Our 2018 annual meeting of shareholders was held on October 29, 2018 and it was decided, among others:

Allocate Ps. 4,983,567,387 of net income for the fiscal year ended June 30, 2018 to: (i) Payment of a dividend in shares of IRSA CP for up to a total amount of Ps.1,412 million to be distributed to our shareholders pro-rata of their interest in IRSA; and (ii) The constitution of a special reserve that may be used for new projects according to the business development plan of IRSA, to the distribution of dividends, or for the cancellation of other commitments, delegating the Board of directors the ability to apply such reserve to any of such purposes;

Allocate Ps.16,538,338,620 of net income for fiscal year ended June 30, 2017 which hadn't been used, to the constitution of a special reserve that may be used for to new projects according to the business development plan of IRSA, or to the distribution of dividends;

Approve remuneration to the board of directors for the amount of Ps. 140,599,334 for the fiscal year ended June 30, 2018;

Approve remuneration to the Supervisory Committee for the amount of Ps. 900,000 for the fiscal year ended June 30, 2018;

Re-elect regular and alternate directors due to expiration of term;

Amend Section Eighth (in relation to the Issuance of Shares), Ninth (as regards Tender Offers), Eleventh (as regards Negotiable Obligations), and Twenty-Second (as regards the Audit Committee) of the By Laws;

(i) Renew the delegation to the board of directors of the broadest powers to determine all the terms and conditions not expressly approved by the shareholders' meeting as well as the time, amount, term, placement method and further terms and conditions of the various series and/or tranches of notes issued under the Global Note Program for the issuance of simple, non-convertible notes, secured or not, or guaranteed by third parties, for a maximum outstanding amount of up to US\$350,000,000 (three hundred and fifty million US dollars) (or its equivalent in any other currency) approved by the shareholders' meeting held on October 31, 2017 (the "Program"); (ii) authorize for the board of directors to (a) approve, execute, grant and/or deliver any agreement, contract, document, instrument and/or security related to the creation of the program and/or the issuance of the various series and/or tranches of notes thereunder; (b) apply for and secure authorization by the Argentine Securities Commission to carry out the public offering of such notes; (c) as applicable, apply for and secure before any authorized securities market of Argentina and/or abroad the authorization

for listing and trading such notes; and (d) carry out any proceedings, actions, filings and/or applications related to the creation of the program and/or the issuance of the various series and/or tranches of notes under the program; and (iii) authorize for the board of directors to sub-delegate the powers and authorizations referred to in items (i) and (ii) above to one or more of its members;

Approve (i) a budget of up to Ps. 12,184,000 for the hiring of specialists to collaborate with the development of the Compliance and Corporate Governance program; and (ii) approve a budget of up to Ps. 300,000 to apply to certain advisory and consulting tasks that will be required during the next fiscal year for a more exhaustive control of the subsidiaries of IRSA ..

Payment of dividends by IRSA CP

At IRSA CP's shareholders' meeting held on October 29, 2018, IRSA CP's shareholders approved a dividend of up to Ps.545 million.

Acquisition of Maltería Hudson by IRSA CP

In July 2018, IRSA CP announced the acquisition, of a property of 147,895 square meters of surface which includes a building of approximately 40,000 sqm known as "Maltería Hudson", located in the intersection of Route 2 and Buenos Aires - La Plata highway, in the City of Hudson, Province of Buenos Aires. The price of the operation was set at the amount of US\$ 7.0 million.

Moreover, we entered into an agreement to buy the two adjoining properties to “La Maltería” of approximately 49,000 sqm and 57,000 sqm respectively, for a total amount of US\$720,825.

In addition, IRSA CP granted an option to a non-related third party to buy from us between 15% to 30% of the outstanding shares of “La Maltería S.A.” at the acquisition price plus a certain interest for a six month period.

The purpose of this acquisition is the future development of a mixed-use project.

Operations Center in Israel

Extension of Swap Transaction in Connection with Cellcom

In connection to the sale of shares of Cellcom, DIC entered into a swap financial transaction (the “Swap Transaction”) with a banking institution, in connection with 1,150,000 ordinary shares with a par value of NIS 0.01 each of Cellcom. On September 26, 2018, DIC extended such Swap Transaction in connection with 200,000 of additional shares, until December 30, 2018, under identical conditions, and at a price per share which was the closing price of Cellcom stock on the TASE on the last trading day before the extension of the Swap Transaction, in the amount of 24.75 per share. It is noted that the Swap Transaction is a differential transaction only, in which the Swap Shares will be owned by DIC, although it will not be entitled to any returns in respect thereof (if any). In accordance with international accounting standards, the aforementioned transaction will have no impact on DIC’s results, save for the payment of transaction costs in a negligible sum.

IDBD’s Agreement with Bank Hapoalim, with regard to its holdings in Clal Insurance Enterprises Holdings Ltd.

In connection with a shareholders agreement between IDBD and Bank Hapoalim Ltd. (“Bank Hapoalim”), with respect to approximately 9.47% of the shares of Clal held by Bank Hapoalim, in which, inter alia, IDBD was given right of first refusal regarding the sale of the shares of Clal by Bank Hapoalim, IDBD reported on October 16, 2018, that IDBD and Bank Hapoalim signed an agreement pursuant to which IDBD was given a period of time to find several buyers with whom Bank Hapoalim will engage, subject to any applicable law, in transactions for the sale of (all of) the sold shares, at a price of NIS 62 per share, in over the counter transactions which will not be made subject to conditions, and which will be completed on a single date, and no later than November 10, 2018. If the transaction for the sale of shares of Clal has not been completed by November 10, 2018, Bank Hapoalim will be entitled to sell them. It was further determined in the agreement that the shareholders agreement will be canceled on the earlier of either the sale date or November 10, 2018.

It is noted that IDBD is evaluating the possibility of engaging in swap transaction(s) with banking institutions in connection with the sold shares, under the same principles which applied to previous swap transactions which IDBD performed with respect to shares of Clal which were held by it in the months May 2017, August 2017, January 2018, May 2018 and August 2018 (together, approximately 25% of the shares of Clal).

IDBD clarified that there is no certainty regarding the execution of the aforementioned transaction, including regarding the sale of the sold shares in accordance with the agreement, and the performance of swap transactions in connection therewith by IDBD.

As of October 17, 2018, IDBD’s holdings in Clal amounts to approximately 29.8% (of which, approximately 24.8% through the trustee), and in swap transactions with respect to the shares of Clal - a rate of approximately 25%.

Sale of Clal’s shares

On September 4, 2018, the Company informed that pursuant to the instructions given by the Commissioner of Capital Markets, Insurance and Savings of Israel to the Trustee regarding the guidelines related to the sale of Clal shares, on August 30, 2018, IDBD sold 5% of its stake in Clal through a swap transaction, in accordance with the same principles that applied to the swap transaction made and informed to the market on 2017 and 2018. The transaction was set at an amount of approximately NIS 173.0 million. After the completion of the transaction, IDBD's interest in Clal was reduced to 29.8% of its share capital. In addition, IDBD is entitled to a potential result, in the framework of swap transactions, which amounts to 25% of Clal's shares.

Agreement to sell plot of land in USA

In August 2018, a subsidiary of IDBG signed an agreement to sell a plot of land next to the Tivoli project in Las Vegas for a consideration of US\$ 18 million (approximately Ps. 673 millions). As of June 30, 2018 the book value of the plot of land was classified as assets held for sale according to IFRS 5 conditions.

Acquisition of DIC's shares

On July 6, 2018, we acquired, through a subsidiary, 2,062,000 shares of DIC, representing 1.36% of its share capital, for an amount of NIS 20,001,400. Following the completion of the transaction, our direct and indirect stake in DIC increased to to 77.92% of its share capital.

B. Business Overview

Operations and principal activities

Founded in 1943, IRSA Inversiones y Representaciones Sociedad Anónima ("IRSA" or the "Company") is one of Argentina's leading real estate companies and the only Argentine real estate company whose shares are listed both on BYMA and on the NYSE.

We are engaged, directly and indirectly through subsidiaries and joint ventures, in a range of diversified activities, primarily in real estate, including:

- i.
the acquisition, development and operation of shopping malls,
- ii.
the acquisition and development of office buildings and other non-shopping mall properties primarily for rental purposes,
- iii.
the development and sale of residential properties,
- iv.
the acquisition and operation of luxury hotels,
- v.
the acquisition of undeveloped land reserves for future development or sale, and
- vi.
selective investments mostly in Argentina, United States and Israel.

On October 11, 2015, the Company obtained control of the Israeli company IDBD and it began to include it in its Consolidated Financial Statements. In November 2017, Dolphin IL, subsidiary of Dolphin Netherlands B.V., subscribed the definitive documents for the acquisition of the entire participation of IDBD in DIC. As of June 30, 2018, our indirect interest in IDBD is of 100% and in DIC is 76.57% and as of the date of this annual report we owned indirectly 77.92% of DIC, for more information see "Recent Developments."

IDBD and DIC participate, through its subsidiaries, associates, joint ventures and other investments, in numerous markets and industry sectors in Israel and other countries, including real estate (PBC), supermarkets (Shufersal), insurance (Clal), and telecommunications (Cellcom), among others. IDBD is registered with the TASE as a "Debentures Company" pursuant to Israeli law, as it has publicly listed bonds. DIC is registered in TASE and also has publicly listed bonds.

As a result of the consolidation of this investment in the company's financial statements, we decided to break down reporting into an Operations Center in Argentina and an Operations Center in Israel. From the Operations Center in Argentina, the Company manages the businesses in Argentina and the international investments in the Lipstick Building in New York and the Condor Hospitality Trust Hotel REIT. From the Operations Center in Israel the Company manages the business related to IDBD and DIC.

Operations Center in Argentina

We operate our business in Argentina through six reportable segments, namely "Shopping Malls," "Offices" "Sales and Developments," "Hotels," "International" and "Corporate" and "Others" as further described below:

Our "Shopping Malls" segment includes the operating results from our portfolio of shopping malls principally comprised of lease and service revenue from tenants. Our Shopping Malls segment had assets of Ps.40,550 million and Ps.28,878 million as of June 30, 2018 and 2017, respectively, representing 61.0% and 64.3% of our operating assets for the Operations Center in Argentina at such dates, respectively. Our Shopping Malls segment generated operating income of Ps.14,060 million and operating income Ps.4,258 million for the fiscal years ended June 30, 2018 and 2017, respectively, representing 61.4% and 65.8% of our consolidated operating income in Argentina for such years, respectively.

Our "Offices" segment includes the operating results from lease revenues of offices, other rental spaces and other service revenues related to the office activities. Our Offices segment had assets of Ps.13,174 million and Ps.7,499 million as of June 30, 2018 and 2017, respectively, representing 19.8% and 16.7% of our operating assets for the Operations Center in Argentina at such dates, respectively. Our Offices segment generated an operating income of Ps.5,343 million and operating income of Ps.1,636 million for the fiscal years ended June 30, 2018 and 2017, respectively, representing 23.3% and 25.3% of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our "Sales and Developments" segment includes the operating results of the development, maintenance and sales of undeveloped parcels of land and/or trading properties. Real estate sales results are also included. Our Sales and Developments segment had assets of Ps.10,878 million and Ps.5,468 million as of June 30, 2018 and 2017, respectively, representing 16.4% and 12.2% of our operating assets for the Operations Center in Argentina for both years. Our Sales and Developments segment generated an operating income of Ps.4,785 million and Ps.822 million for the financial years ended June 30, 2018 and 2017, respectively, representing 20.9% and 12.7% of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our “Hotels” segment includes the operating results of our hotels mainly comprised of room, catering and restaurant revenues. Our Hotels segment had assets of Ps.172 million and Ps.167 million as of June 30, 2018 and 2017, respectively, representing 0.3% and 0.4% of our operating assets for the Operations Center in Argentina, respectively. Our Hotels segment generated an operating income of Ps.25 million and Ps.6 million for the fiscal years ended June 30, 2018 and 2017, respectively, representing 0.1% and 0.1% of our consolidated operating income for the Operations Center in Argentina for such years.

Our “International” segment includes investments that mainly operate in the United States in relation to the lease of office buildings and hotels in that country. We intend to continue evaluating investment opportunities outside Argentina as long as they are attractive investment and development options. Our International segment had assetsof Ps.(1,651) million and Ps.572 million as of June 30, 2018 and 2017, respectively, representing and (2.5)% and 1.3% of our operating assets for the Operations Center in Argentina for such years. Our International segment generated operating losses of Ps.(1,992) million and operating losses of Ps.(212) million for the fiscal years ended June 30, 2018 and 2017, respectively, representing (8.7)% and (3.3)% of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

“Corporate” .. Since fiscal year 2018, we have decided to disclose certain corporate expenses related to the holding structure in a separate “Corporate” segment. This segment generated a loss of Ps.(151) million and Ps.(132) million during fiscal years 2018 and 2017, respectively.

Our “Others” primarily includes the entertainment activities through La Arena and La Rural S.A. and the financial activities carried out by Banco Hipotecario and Tarshop S.A. (“Tarshop”). As of June 30, 2018, our investment in Banco Hipotecario generated a profit of Ps.619 million. Tarshop is a company specialized in the sale of consumer financing products and cash advances to non-banking customers. Our Others segment had assets of Ps.3,320 million and Ps.2,301 million as of June 30, 2018 and 2017, respectively, representing 5.0% and 5.1% of our operating assets for the Operations Center in Argentina, respectively. Our Others segment generated an operating income of Ps.837 million and operating income of Ps.92 million for the fiscal years ended June 30, 2018 and 2017, respectively, representing 3.7% and 1.4% of our consolidated operating income for the Operations Center in Argentina for such years.

Operations Center in Israel

We operate our business in Israel through six reportable segments, namely “Real Estate,” “Supermarkets,” “Telecommunications,” “Insurance,” “Corporate” and “Others” as further described below:

Our “Real Estate” segment mainly includes assets and operating income derived from business related to the subsidiary PBC. PBC is engaged, independently and through its subsidiaries and associate companies, some of which are public companies, in various areas of the real estate industry in Israel and abroad. The main operating segments of PBC include the revenue-generating properties segment - its core activity - and the residential construction segment. PBC is also engaged in the agriculture segment, through its investment in an associate (Mehadrim). Our Real Estate segment had net operating assets of Ps.29,836 million and Ps.15,327 million as of June 30, 2018 and 2017, representing 58.1% and 64.6% of our net operating assets for the Operations Center in Israel at such years, respectively. Our Real Estate segment generated operating income of Ps.5,344 million and of Ps.2,557 million for the fiscal years ended June 30, 2018 and 2017, respectively, representing 77.3% and 76.8% of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Our “Supermarkets” segment includes assets and operating income derived from the business related to the former subsidiary (due to the loss of control in June 2018. See note 4 to the consolidated financial statements) Shufersal, reclassified to discontinued operations in the current year. Shufersal operates both directly and through its investee corporations, and owns the largest supermarket chain in Israel in terms of sales volume. Our Supermarkets segment had operating assets of Ps.13,304 million (corresponds to the value of the associate) and Ps.9,282 million as of June 30, 2018 and 2017, representing 25.9% and 39.1% of our operating assets for the Operations Center in Israel at such years, respectively. Our Supermarkets segment generated operating income (which is included in discontinued operations) of Ps.2,287 million and an operating income of Ps.1,837 million for the fiscal years ended June 30, 2018 and 2017, respectively.

Our “Telecommunications” segment includes assets and operating income derived from the business related to our subsidiary Cellcom. Cellcom is a provider of communication services, which offers to its customers primarily mobile communication services, landline telephone services, international telephone services, internet connectivity services and associated services, and beginning in December 2014, also television over internet services. Our Telecommunications segment had net operating assets of Ps.10,993 million and 6,616 million as of June 30, 2018 and 2017, representing 21.4% and 27.9% of our net operating assets for the Operations Center in Israel at such years, respectively. Our Telecommunications segment generated operating losses of Ps.(196) million and Ps.(253) million for the fiscal years ended June 30, 2018 and 2017, respectively, representing (2,8)% and (7,6)% of our consolidated

operating income for the Operations Center in Israel for such years, respectively.

Our “Insurance” segment includes the investment in Clal. Clal is a holding company which is primarily engaged in the insurance, pension and provident funds segments, and in the holding of assets and real and other related businesses (such as insurance agencies), and which constitutes one of the largest insurance groups in Israel. Our Insurance segment had operating assets (liabilities), net of Ps.11,040 million and Ps.8,562 million as of June 30, 2018 and 2017, representing 21.5% and 36.1% of our operating assets for the Operations Center in Israel at such years, respectively.

Our “Corporate” segment includes the the assets and operating results providing from the activities vinculated with the holding companies of the Operating Center in Israel, IDBD and DIC. Our Corporate segment had net operating assets of Ps.(47,343) million and (18,971) million as of June 30, 2018 and 2017. Our Corporate segment generated operating income of Ps.60 million and operating losses of Ps.(432) million for the fiscal years ended June 30, 2018 and 2017, respectively, representing 0.9% and (13.0)%, of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Our “Others” segment includes the assets and income derived from other diverse business activities, such as technological developments, oil and gas assets, electronics, and others. Our Others segment had net operating assets of Ps.33,520 million and 2,913 million as of June 30, 2018 and 2017. Our Others segment generated operating losses of Ps.(582) million and operating losses of Ps.(380) million for the fiscal years ended June 30, 2018 and 2017, respectively, representing (8.4)% and (11.4)%, of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Business Strategy

As a leading company in Argentina engaged in acquiring, developing and managing real estate, we seek to (i) generate stable cash flows through the operation of our real estate rental assets (shopping malls, office buildings, hotels), (ii) achieve long-term appreciation of our asset portfolio by taking advantage of development opportunities, (iii) increase the productivity of our land reserves and enhance the margins of our development and sale of properties segment through partnerships with other developers, and (iv) look for opportunities abroad offering capital gain potential.

Operations Center in Argentina

Shopping Malls

Our main purpose is to maximize our shareholders’ profitability. By using our know-how in the shopping mall industry in Argentina as well as our leading position, we seek to generate a sustainable growth of cash flow and to increase the long-term value of our real estate assets. We attempt to take advantage of the unsatisfied demand for purchase in different urban areas of the region, as well as of our customers’ purchase experience. Therefore, we seek to develop new shopping malls in urban areas with attractive prospects for growth, including Buenos Aires’ Metropolitan area, some cities in the provinces of Argentina and possibly, other places abroad. To achieve this strategy, the close business relationship we have had for years with more than 1000 retail companies and trademarks composing our selected group of tenants is of utmost importance, as it allows us to offer an adequate mix of tenants for each particular case.

Offices

Since the Argentine economic crisis in 2001 and 2002, there has been limited investment in high-quality office buildings in Buenos Aires and, as a result, we believe there is currently substantial demand for those desirable office spaces. We seek to purchase and develop premium office buildings in strategically-located business districts in the City of Buenos Aires and other strategic locations that we believe offer return and potential for long-term capital gain. We expect to continue our focus on attracting premium corporate tenants to our office buildings. Furthermore, we intend to consider new opportunities on a selective basis to acquire or construct new rental office buildings.

Hotels

We believe our portfolio of three luxury hotels is positioned to take advantage of future growth in tourism and travel in Argentina. We seek to continue with our strategy to invest in high-quality properties which are operated by leading international hotel companies to capitalize on their operating experience and international reputation.

Sales and Developments

We seek to purchase undeveloped properties in densely-populated areas and build apartment complexes offering green spaces for recreational activities. We also seek to develop residential communities by acquiring undeveloped properties with convenient access to the City of Buenos Aires, developing roads and other basic infrastructure such as electric power and water, and then selling lots for the construction of residential units. After the economic crisis in 2001 and 2002, the scarcity of mortgage financing restricted the growth in middle class home purchases, and as a result, we mainly focused on the development of residential communities for middle and high-income individuals, who do not need to finance their home purchases. Furthermore, we seek to continue to acquire undeveloped land at attractive locations inside and outside Buenos Aires for the purpose of their appreciation for subsequent sale. We believe that holding a portfolio of desirable undeveloped plots of land enhances our ability to make strategic long-term investments and affords us a valuable “pipeline” of new development projects for upcoming years.

International

In this segment, we seek investments that represent an opportunity of capital appreciation potential in the long term. After the international financial crisis in 2008, we took advantage of the price opportunity in the real estate sector in the United States and invested in two office buildings in Manhattan, New York. In 2015, we sold the Madison building and we hold a 49.9% interest in a US company, whose main asset is the so-called “Lipstick” office building located in the City of New York. In addition, through our subsidiaries, we hold 18.9% of Condor’s voting rights. We intend to continue evaluating, on a selective basis, investment opportunities outside Argentina as long as they offer attractive investment and development options.

Corporate

This segment includes the expenses related to the corporate activities of the Operations Center in Argentina.

Others

Primarily includes the financial activities through in Banco Hipotecario and Tarshop, the main mortgage-lending bank in Argentina, as we believe that we are able to reach good synergies in the long term between real estate properties and the development of the mortgage loans market in Argentina with a developed mortgage market.

Operations Center in Israel

We develop our operations in Israel through IDBD and DIC. IDBD and DIC are holding companies, which invests (directly and indirectly) in companies that operate in several different fields, primarily in the communication, real estate, commerce, services and insurance branches. IDBD and DIC strive to promote and maximize the value of their existing investments, and to improve them, and also to sell them in suitable cases we manage their subsidiaries through the appointment of directors corporate officers, or through involvement in the business strategic processes of the subsidiaries.

In parallel with substantiating the control of the control group in IDBD and DIC, in early 2016, the senior management of IDBD was replaced, including the General Manager, CFO, VP Legal Counsel, VP Accounting and Corporate Secretary.

Discount Investments is a holding company that invests in companies which operates in a variety of fields, mainly in communications, real estate, commerce and services. DIC strives to promote and maximize the value of its existing investments until they are sold in appropriate cases.

Real Estate

PBC’s policy is to continue to implement its growth strategy, to develop its yield bearer properties and to increase revenues from this activity, which is its main activity, by building on land, which PBC owns, and locating new investments opportunities. Concurrently, PBC will act to realize assets in which their improvement potential was fully utilized and PBC will also act to maintain a strong financial stability. In addition, on August 2017, PBC’s Board of Directors decided to begin the process of examining the realization of the PBC’s, directly and indirectly, holdings in Ispro Israeli Building Rental Company Ltd., and within this framework, to receive proposals from various parties for the acquisition of the said company. For this purpose, the Board of Directors approved PBC’s agreement with an investment bank, which will assist PBC in assessing the sale of its holding in Ispro, and the receipt and assessment of offers from various parties.

Supermarkets

Shufersal's strategy was relaunched in 2014, the main elements of which are strengthening of Shufersal's competitive position, especially in the discount segment, develop and grow in Shufersal's own brand, which includes the launch of new products in certain leading categories (such as pharma and products for infants) alongside with the improvement of relationships with its suppliers, the growth in sales of Shufersal Online and other digital operations, including Shufersal App, promotion of growth engines and development of specialized areas of activity, which includes, development of "Shufersal for Business" (Wholesale Sales Offers), and further implementation of the streamlining plan and changes in internal procedures while saving costs. In June 2018, a transaction was completed in which DIC sold 16.6% of the issued share capital of Shufersal, for a total net consideration of NIS 848 million, according to which DIC's holdings in Shufersal decreased to approximately 33.6% and therefore ceased to be the controlling shareholder of Shufersal. Thus, after the date of the said sale we ceased to consolidate the financial statements of Shufersal in its financial statements.

Telecommunications

Cellcom's business strategy is divided into the following categories:

Cell site construction and licensing – Cellcom construct cell sites based on its strategy to expand the geographical coverage and improve the quality of its network and as necessary to replace other obsolete cell sites.

Sales and customer care - Cellcom combine their sales and customer care efforts in order to maximize sales opportunities alongside accessible and quality customer service.

Marketing - Cellcom marketing strategy emphasizes their position as a communications group and cellular market leader, its value for money and its provision of a comprehensive solution for their customers' communication needs, by offering services bundles for families and for the office for small and mid-sized businesses. Cellcom aims to provide its customers with a comprehensive quality experience through the various means of communications that they use, including their mobile handset, tablet and laptop. Alongside its focus on packages for a fixed sum, Cellcom has substantially reduced the number of calling plans available to its customers, thus reducing its back office operation.

Insurance

Clal has an advanced research department and an effective trading execution, to ensure a competitive advantage in order to achieve a fair long-term yield for policy holders, maximizing income from investments in accordance with the company's risk appetite and the structure of liabilities in the portfolios.

Corporate

This segment includes the expenses related to the activities of holding companies.

Others

Includes the assets and income from other miscellaneous businesses, such as technological developments, tourism, oil and gas, electronics, and other sundry activities.

Overview

Operations Center in Argentina

Shopping Malls

As of June 30, 2018, we own, through our subsidiary IRSA CP, a majority interest in a portfolio of 16 shopping malls in Argentina, 15 of which are operated by us. Of our 16 shopping malls, seven are located in the City of Buenos Aires, two in the greater Buenos Aires area, and the rest located in different provinces of Argentina (Alto Noa in the City of Salta, Alto Rosario in the City of Rosario, Mendoza Plaza in the City of Mendoza, Córdoba Shopping Villa Cabrera and Patio Olmos, operated by a third party, in the City of Córdoba, La Ribera Shopping in Santa Fe, through a joint venture, and Alto Comahue in the City of Neuquén). On November 2018, we plan to return Buenos Aires Design to the city of Buenos Aires since the concession agreement under which we operate will expire.

The shopping malls we operate comprise, as of June 30, 2018, a total of 344,025 square meters (3,703,054 square feet) of gross leasable area. Total tenant sales in our shopping malls, as reported by retailers, were Ps.43,130 million for the

fiscal year ended June 30, 2018 and Ps.34,426 million for fiscal year ended June 30, 2017, representing an increase of 25.3%. Tenant sales at our shopping malls are relevant to our revenues and profitability because they are one of the factors that determine the amount of rent that we charge our tenants. They also affect the tenants' overall occupancy costs as a percentage of the tenant's sales.

For the fiscal year ended June 30, 2018, our shopping malls welcomed 110 million visitors and compared to 106 million for the fiscal year ended June 30, 2017.

The following graphic illustrates the total number of visitors at our shopping malls for the period from June 30, 2011-2018.

Total Number of Visitors Per Fiscal Year at our Shopping Malls

(in millions)

The following table shows certain information concerning our shopping malls as of June 30, 2018:

Shopping malls	Date of acquisition/development	Location	GLA(sq.m)	Number of stores	Occupancy rate	Ownership interest	Rental revenue
					(%)	(%)	(in thousands of Ps.)
Alto Palermo	Dec-97	City of Buenos Aires	18,648	136	99.5	100.0	612,231
Abasto Shopping(3)	Nov-99	City of Buenos Aires	36,796	170	99.1	100.0	619,216
Alto Avellaneda	Dec-97	Province of Buenos Aires	38,422	132	98.9	100.0	425,835
Alcorta Shopping	Jun-97	City of Buenos Aires	15,746	114	99.8	100.0	295,145
Patio Bullrich	Oct-98	City of Buenos Aires	11,397	86	97.1	100.0	169,028
Buenos Aires Design(4)	Nov-97	City of Buenos Aires	13,735	62	96.1	53.68	63,257
Dot Baires Shopping	May-09	City of Buenos Aires	49,407	157	99.5	80.0	403,324
Soleil Premium Outlet	Jul-10	Buenos Aires Province	15,214	79	97.7	100.0	154,281
Distrito Arcos	Dec-14	City of Buenos Aires	14,169	68	99.7	90.0	158,452

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Alto Noa Shopping	Mar-95	Salta	19,063	88	96.8	100.0	110,981
Alto Rosario Shopping(5)	Nov-04	Santa Fe	33,358	141	99.5	100.0	294,709
Mendoza Plaza Shopping	Dec-94	Mendoza	42,867	141	98.3	100.0	177,865
Córdoba Shopping	Dec-06	Córdoba	15,276	105	100.0	100.0	108,422
La Ribera Shopping(6)	Aug-11	Santa Fe	10,530	68	94.9	50.0	36,197
Alto Comahue Patio	Mar-15	Neuquén	9,397	99	94.4	99.9	75,939
Olmos(7)	Sep-07	Córdoba	—	—	—	—	—
Total			344,025	1,646	98.5		3,704,882

(1) Gross leasable area of each property. Excludes common areas and parking spaces.

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

(3) Excludes Museo de los Niños (3,732 square meters).

(4) Concession agreement is set to expire on November 2018. We plan to return the property to the City of Buenos Aires.

(5) Excludes Museo de los Niños (1,261 square meters).

(6) Owned through our joint venture Nuevo Puerto Santa Fe S.A.

(7) IRSA CP owns the historic building in the province of Cordoba where Patio Olmos shopping is located, which mall is operated by a third party.

The following table sets forth the total retail sales for each of our shopping mall tenants for the fiscal years indicated:

	For the fiscal years ended June 30,		
	2018	2017	2016
	(in millions of Ps.)		
Alto Palermo	5,034	4,169	3,499
Abasto Shopping	5,674	4,604	4,043
Alto Avellaneda	5,459	4,344	3,776
Alcorta Shopping	2,754	2,207	1,899
Patio Bullrich	1,526	1,236	1,061
Buenos Aires Design (1)	701	537	414
Dot Baires Shopping	4,701	3,748	3,254
Soleil Premium Outlet	2,224	1,726	1,282
Distrito Arcos	1,831	1,455	962
Alto Noa Shopping	1,983	1,587	1,325
Alto Rosario Shopping	4,085	3,175	2,627
Mendoza Plaza Shopping	3,441	2,734	2,369
Córdoba Shopping Villa Cabrera	1,405	1,178	991
La Ribera Shopping(2)	1,030	771	634
Alto Comahue	1,282	954	717
Total sales	43,130	34,426	28,854

(1) Concession agreement is set to expire on November 2018. We plan to return the property to the City of Buenos Aires.

(2) Owned by Nuevo Puerto Santa Fé S.A., in which we are a joint venture partner.

Total sales by type of business

The following table sets forth the retail sales of our shopping mall tenants by type of business for the fiscal years indicated:

	For the fiscal years ended June 30,		
	2018	2017	2016
	(in millions of Ps.)		

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Anchor Store	2,477	1,875	1,590
Clothing and footwear	22,499	18,463	15,156
Entertainment	1,332	1,178	1,021
Home	1,210	957	784
Electronic appliances	5,321	4,064	3,861
Restaurant	4,746	3,671	2,723
Miscellaneous	5,089	3,963	3,368
Services	456	255	351
Total	43,130	34,426	28,854

Occupancy rate

The following table sets forth the occupancy rate expressed as a percentage of gross leasable area of each of our shopping malls for the fiscal years indicated:

	As of June 30,		
	2018	2017	2016
	(%)		
Abasto	99.1%	96.8%	99.8%
Alto Palermo	99.5%	99.3%	99.5%
Alto Avellaneda	98.9%	99.3%	100.0%
Alcorta Shopping	99.8%	98.1%	89.1%
Patio Bullrich	97.1%	97.6%	99.1%
Alto Noa	96.8%	99.4%	100.0%
Buenos Aires Design	96.1%	97.2%	95.7%
Mendoza Plaza	98.3%	97.1%	95.2%
Alto Rosario	99.5%	99.6%	100.0%
Córdoba Shopping Villa Cabrera	100.0%	98.1%	99.2%
Dot Baires Shopping	99.5%	99.9%	100.0%
Soleil Premium Outlet	97.7%	100.0%	100.0%
La Ribera Shopping	94.9%	97.6%	99.3%
Distrito Arcos	99.7%	100.0%	97.0%
Alto Comahue	94.4%	96.4%	96.6%
Porcentaje Total	98.5%	98.5%	98.4%
Rental price			

The following table shows the annual average rental price per square meter for the fiscal years indicated:(1)

	For the fiscal years ended June 30,		
	2018	2017	2016
	(in Ps.)		
Abasto Shopping	16,828	14,736	9,964
Alto Palermo	32,831	26,765	21,819
Alto Avellaneda	11,083	9,537	7,801
Alcorta Shopping	18,744	15,267	12,217

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Patio Bullrich	14,831	12,399	10,473
Buenos Aires Design	4,776	4,077	3,403
Dot Baires Shopping	8,385	6,727	5,468
Soleil Premium Outlet	10,141	7,583	6,048
Distrito Arcos	14,585	8,192	7,274
Alto Noa Shopping	5,822	4,644	3,977
Alto Rosario Shopping	8,835	7,772	6,299
Mendoza Plaza Shopping	4,149	3,458	2,952
Córdoba Shopping Villa Cabrera	7,098	5,682	4,512
La Ribera Shopping	3,444	2,814	2,222
Alto Comahue	11,694	5,956	5,017

(1) Corresponds to consolidated annual accumulated rental prices divided by gross leasable square meters. Does not include income from Patio Olmos.

Accumulated rental income

The following table shows the accumulated rental income for the fiscal years indicated:

	For the fiscal years ended June 30, (1)		
	2018	2017	2016
	(in thousands of Ps.)		
Alto Palermo	612,231	507,048	413,815
Abasto Shopping	619,216	542,219	403,231
Alto Avellaneda	425,835	343,930	279,949
Alcorta Shopping	295,145	238,355	193,959
Patio Bullrich	169,028	145,803	123,395
Buenos Aires Design(2)	63,257	55,837	47,160
Dot Baires Shopping	403,324	332,968	271,411
Soleil Premium Outlet	154,281	115,468	84,615
Distrito Arcos	158,452	120,351	81,252
Alto Noa Shopping	110,981	88,515	75,724
Alto Rosario Shopping	294,709	247,190	189,335
Mendoza Plaza Shopping	177,865	148,239	124,118
Córdoba Shopping Villa Cabrera	108,422	87,752	70,302
La Ribera Shopping(3)	36,197	28,293	21,884
Alto Comahue	75,939	58,161	49,611
Total	3,704,882	3,060,134	2,429,763

(1) Includes Base Rent, Percentage Rent, Admission Rights, Fees, Parking, Commissions, Revenues from non-traditional advertising and Others. Does not include Patio Olmos.

(2) Concession agreement is set to expire on November 2018. We plan to return the property to the City of Buenos Aires.

(3) Through our joint venture Nuevo Puerto Santa Fé S.A.

Lease expirations

The following table sets forth the schedule of estimated lease expirations for our shopping malls for leases in effect as of June 30, 2018, assuming that none of our tenants exercise their option to renew or terminate their leases prior to expiration:

As of June 30, 2018

Expiration (1) (2)	Number of agreements/stores(1)	Square meters due to expire	Due to expire(%)	Amount of lease payments(in million of Ps.)(3)	Agreements(%)
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Vacant stores	48	5,255	1.5%		
As of June 30, 2018	498	102,841	29.9%	557.6	28.9%
As of June 30, 2019	404	81,323	23.6%	553.6	28.7%
As of June 30, 2020	454	109,046	31.7%	527.5	27.4%
As of June 30, 2021 and subsequent years	242	45,560	13.2%	289.1	15.0%
Total	1,646	344,025	100.0%	1,927.8	100.0%

(1) Includes vacant stores as of June 30, 2018. A lease may be associated with one or more stores.

(2) Does not reflect our ownership interest in each property.

(3) Reflects the annual Base Rent of agreements due to expire as of June 30, 2018.

Five largest tenants of the portfolio

The five largest tenants of the portfolio (in terms of sales) conforms approximately 16% of their gross leasable area as of June 30, 2018 and represent approximately 9.2% of the annual base rent for the fiscal year ending on that date.

New leases and renewals

The following table shows certain information about our lease agreements as of June 30, 2018:

Type of business	Number of agreements	Annual base rent amount (in millions of Ps.)	Annual admission rights amount (in millions of Ps.)	Average annual base rent per sqm (Ps.)	Number of non-renewed agreements (1)	Non-renewed agreements (1) annual base rent amount (in millions of Ps.)
Clothing and footwear	307	31.3	92.2	9,783.7	645	1,031.1
Restaurant	55	5.2	12.7	11,754.9	155	177.6
Miscellaneous(2)	54	5.2	17.2	8,513.9	173	199.3
Home Services	26	4.2	6.7	2,690.5	116	162.2
Entertainment	14	0.6	1.4	8,496.6	47	46.5
Anchor Store	6	1.3	1.3	1,281.9	22	51.5
Anchor Store	2	0.8	0	1,259.0	4	32.2
Total	464	48.6	131.5	6,463.8	1,162	1,700.5

(1) Includes vacant stores as of June 30, 2018. Gross leasable area with respect to such vacant stores is included under the type of business of the last tenant to occupy such stores.

(2) Miscellaneous includes anchor store.

Principal Terms of our Leases

Under the Argentine Civil and Commercial Code lease terms may not exceed 20 or 50 years, except for leases regulated by Law No. 25,248 which states leases on real property are not subject to term restrictions. Generally, terms of our lease agreements range from three to ten years.

Leasable space in our shopping malls is marketed through an exclusive arrangement with our wholly owned subsidiary and real estate broker Fibesa S.A., or "Fibesa." We use a standard lease agreement for most tenants at our shopping malls, the terms and conditions of which are described below. However, our largest or "anchor" tenants generally negotiate better terms for their respective leases. No assurance can be given that lease terms will be as set forth in the standard lease agreement.

Rent amount specified in our leases generally is the higher of (i) a monthly Base Rent and (ii) a specified percentage of the tenant's monthly gross sales in the store, which generally ranges between 2% and 10% of tenant's gross sales. In addition, pursuant to the rent escalation clause in most of our leases, a tenant's Base Rent generally increases 10% on a semi-annually and cumulative basis from the seventh (7th) month of effectiveness of the lease. Although many of our lease agreements contain price adjustment provisions, these are not based on an official index nor do they reflect the

inflation index. In the event of litigation, there can be no assurance that we may be able to enforce such clauses contained in our lease agreements.

In addition to rent, we charge most of our tenants an admission right, which must be paid upon execution of the lease agreement and upon its renewal. The admission right is normally paid as a lump sum or in a small number of monthly installments. If the tenants pay this fee in installments, the tenants are responsible for paying the balance of any such unpaid amount if they terminate the lease prior to its expiration. In the event of unilateral termination and/or resolution for breach by the tenants, tenants will not be refunded their admission payment without our consent. We lease our stores, kiosks and spaces in our shopping malls through our wholly-owned subsidiary Fibesa. We charge our tenants a fee for the brokerage services, which usually amounts to approximately three months of the Base Rent plus the admission right.

We are responsible for providing each shopping mall rental unit with electricity, a main telephone switchboard, central air conditioning and a connection to a general fire detection system. We also provide the food court tenants with sanitation and with gas systems connections. Each tenant is responsible for completing all necessary installations within its rental unit, in addition to paying direct related expenses, including electricity, water, gas, telephone and air conditioning. Tenants must also pay for a percentage of total expenses and general taxes related to common areas. We determine this percentage based on different factors. The common area expenses include, among others, administration, security, operations, maintenance, cleaning and taxes.

We carry out promotional and marketing activities to draw consumer traffic to our shopping malls. These activities are paid for with the tenants' contributions to the Common Promotional Fund, or "CPF," which is administered by us. Tenants are required to contribute 15% of their rent (Base Rent plus Percentage Rent) to the CPF. We may increase the percentage tenants must contribute to the CPF with up to 25% of the original amount set forth in the corresponding lease agreement for the contributions to the CPF. We may also require tenants to make extraordinary contributions to the CPF to fund special promotional and marketing campaigns or to cover the costs of special promotional events that benefit all tenants. We may require tenants to make these extraordinary contributions up to four times a year provided that each extraordinary contribution may not exceed 25% of the tenant's preceding monthly lease payment.

Each tenant leases its rental unit as a shell without any fixtures and is responsible for the interior design of its rental unit. Any modifications and additions to the rental units must be pre-approved by us. We have the option to charge the tenant for all costs incurred in remodeling the rental units and for removing any additions made to the rental unit when the lease expires. Furthermore, tenants are responsible for obtaining adequate insurance for their rental units, which must cover, among other things, damage caused by fire, glass breakage, theft, flood, civil liability and workers' compensation.

Insurance

We and our subsidiary IRSA CP carry all-risk insurance for the shopping malls and other buildings covering property damage caused by fire, terrorist acts, explosion, gas leak, hail, storms and wind, earthquakes, vandalism, theft and business interruption. In addition, we carry liability insurance covering any potential damage to third parties or property caused by the conduct of our business throughout Argentina. We and our subsidiary IRSA CP are in compliance with all legal requirements related to mandatory insurance, including insurance required by the Occupational Risk Law (*Ley de Riesgos del Trabajo*), life insurance required under collective bargaining agreements and other insurance required by laws and executive orders. IRSA CP's and Our history of damages is limited to one single claim resulting from a fire in Alto Avellaneda Shopping in March 2006, which loss was substantially recovered from our insurers. These insurance policies contain specifications, limits and deductibles which we believe are adequate to the risks to which we are exposed in our daily operations. We and our subsidiary IRSA CP also maintain liability insurance covering the liability of our directors and corporate officers.

Control Systems

IRCP has computer systems equipped to monitor tenants' sales (except stands) in all of its shopping malls. IRCP also conduct regular audits of our tenants' accounting sales records in all of our shopping malls. Almost every store in its shopping malls has a point of sale that is linked to our main server. IRCP uses the information generated from the computer monitoring system to prepare statistical data regarding, among other things, total sales, average sales and peak sale hours for marketing purposes and as a reference for the internal audit. Most of its shopping mall lease agreements require the tenant to have its point of sale system linked to our server.

Competition

We are the most important owner and administrator of Shopping Malls, Offices Buildings and other commercial properties of Argentina in terms of gross leasable area and number of rental properties. Given that most of our shopping malls are located in densely populated areas, there are competing shopping malls within, or in close proximity to, our target areas. The number of shopping malls in a particular area could have a material effect on our ability to lease space in our shopping malls and on the rent that we are able to charge. We believe that due to the limited availability of large plots of land and zoning restrictions in the City of Buenos Aires, it is difficult for other companies to compete with us in areas through the development of new shopping malls. Our principal competitor is

Cencosud S.A. which owns and operates Unicenter Shopping and the Jumbo hypermarket chain, among others.

The following table shows certain information concerning the most significant owners and operators of shopping malls in Argentina, as of June 30, 2018.

Entity	Shopping malls	Location	GLA	Marketshare(1)
				(%)
IRSA CP	Alto Palermo	City of Buenos Aires	18,648	1.43
	Abasto Shopping(3)	City of Buenos Aires	36,796	2.83
	Alto Avellaneda(2)	Buenos Aires Province	38,422	2.96
	Alcorta Shopping(2)	City of Buenos Aires	15,746	1.21
	Patio Bullrich	City of Buenos Aires	11,397	0.88
	Buenos Aires Design(5)	City of Buenos Aires	13,735	1.06
	Dot Baires Shopping(4)	City of Buenos Aires	49,407	3.80
	Soleil Premium Outlet (2)	Buenos Aires Province	15,214	1.17
	Distrito Arcos (6)	City of Buenos Aires	14,169	1.09
	Alto Noa(2)	Salta	19,063	1.47
	Alto Rosario(2) (3)	Santa Fe	33,358	2.57
	Mendoza Plaza(2)	Mendoza	42,867	3.30
	Córdoba Shopping(2)	Córdoba	15,276	1.18
	La Ribera Shopping(7)	Santa Fe	10,530	0.81
	Alto Comahue	Neuquén	9,397	0.72
Subtotal			344,025	26.47
Cencosud S.A.			277,203	21.33
Other operators			678,354	52.20
Total			1,299,582	100.00

(1) Corresponding to gross leaseable area in respect of total gross leaseable area. Market share is calculated dividing square metres over total square meters.

(2) Includes supermarkets.

(3) Includes Museo de los Niños.

(4) IRCP owns 80% of the equity of PAMSA.

(5) IRCP's effective participation in ERSA is 53.6%, which operates the concession related to this property.

(6) IRCP's owns 90% of the equity of Arcos del Gourmet S.A.

(7) IRCP's owns 50% of the equity of Nuevo Puerto Santa Fe S.A.

Source: Argentine Chamber of Shopping Malls.

Seasonality

Our business is directly affected by seasonality, influencing the level of our tenants' sales. During Argentine summer holidays (January and February) our tenants' sales typically reach their lowest level, whereas during winter holidays (July) and in Christmas (December) they reach their maximum level. Clothing retailers generally change their collections in spring and autumn, positively affecting our shopping malls' sales. Discount sales at the end of each season are also one of the main seasonal factors affecting our business.

Offices

According to Colliers International, as of June 30, 2018, the A+ and A office inventory increased as compared to 2017, at 1,899,183 square meters. In terms of rental availability, the vacancy rate maintained without important changes around 7.3% during the second quarter of 2018. These values indicate that the market is healthy in terms of its operations, allowing an optimum level of supply with balanced values.

Compared to the previous quarter, the Premium Offices prices remained the same in the order of US\$ 25.8 per square meter compared to the previous quarter, and showed a 5% increase compared to the same period last year, which was US\$ 24.5 per square meter. There was a decrease in rental prices for A+ properties of US\$ 2.8 per square meter, from US\$ 25.6 per square meter in the first quarter of 2018 to US\$ 28.4 per square meter for the second quarter of 2018. In this context, Catalinas presents as the zone with higher prices per square meter, reaching an average of US\$ 31.3. Likewise, the industry reported a 2% increase in rental prices for A properties compared to the first quarter of 2018, reaching an average of US\$ 23.1 per square meter, in which the North zone of Ciudad de Buenos Aires reach the higher prices, reaching US\$ 29.1 per square meter.

Management of office buildings

We generally act as the manager of the office properties in which we own an interest. We typically own the entire building or a substantial number of floors in the building. The buildings in which we own floors are generally managed pursuant to the terms of a condominium agreement that typically provides for control by a simple majority of the interests based on owned area. As building manager, we handle services such as security, maintenance and housekeeping, which are generally outsourced. The cost of the services is passed through to, and paid for by, the tenants, except in the case of our units that have not been leased, if any, for which we bear the cost. We market our leasable area through commissioned brokers or directly by us.

Leases

We usually lease our offices and other rental properties by using contracts with an average term of three years, with the exception of a few contracts with terms of five years. These contracts are renewable for two or three years at the tenant's option. Contracts for the rental of office buildings and other commercial properties are generally stated in U.S. dollars, and in accordance with Argentine law, they are not subject to inflation adjustment. Rental rates for renewed periods are negotiated at market value.

Properties

The following table shows certain information regarding our office buildings, as of June 30, 2018:

	Date of Acquisition	Gross Leaseable Area (sqm) (1)	Occupancy (2)	IRSA's Effective Interest	Monthly Rental Income (in thousands of Ps.) (3)	Annual accumulated rental income (in thousands of Ps.) (4)		
						2018	2017	2016
Offices								
República Building (5)	4/28/08	19,885	98.4%	100%	16,112	126,318	112,758	75,122
Bankboston Tower (5)	8/27/07	14,873	85.6%	100%	10,875	86,825	79,498	51,690
Bouchard 551	3/15/07	-	-	100%	296	9,486	3,000	3,000
Intercontinental Plaza Building (5)	11/18/97	2,979	100.0%	100%	1,910	20,435	18,810	29,078
Bouchard 710 (5)	6/1/05	15,014	100.0%	100%	14,094	121,129	85,465	67,250
Dique IV	12/2/97	-	-	100%	-	-	-	15,000
Maipú 1300	9/28/95	-	-	100%	75	301	6,000	6,000
Libertador 498	12/20/95	-	-	100%	-	8,289	7,000	6,000
	11/22/91	11,465	86.2%	100%	4,373	33,631	30,007	22,507

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Suipacha 652/64								
(5)								
Madero 1020	12/21/95	-	-	100%	5	57	44	-
Dot Building (5)	11/28/06	11,242	100.0%	80,0%	7,881	63,913	50,172	31,229
Philips Building (5)	6/5/17	7,755	69.8%	100%	3,416	16,313	-	-
Subtotal Offices		83,213	92.3%	N/A	59,037	486,697	392,754	306,876
Other Properties								
Santa María del Plata S.A	10/17/97	116,100	91.4%	100%	1,717	13,790	11,981	12,000
Nobleza Piccardo (6)	05/31/11	109,610	78.0%	50.0%	1,731	6,269	13,217	2,172
Other Properties (7)	N/A	23,240	64.8%	N/A	1,875	19,860	12,838	11,000
Subtotal Other Properties		248,950	83.2%	N/A	5,323	39,919	38,036	25,172
Total Offices and Others		332,163	85.5%	N/A	64,360	526,616	430,790	332,048

(1) Corresponds to the total leaseable surface area of each property as of June 30, 2018. Excludes common areas and parking spaces.

(2) Calculated by dividing occupied square meters by leaseable area as of June 30, 2018.

(3) The lease agreements in effect as of June 30, 2018 were computed for each property.

(4) Corresponds to total consolidated lease agreements.

(5) Through IRSA CP.

(6) Through Quality Invest.

(7) Includes the following properties: Ferro, Dot Adjoining Plot, Anchorena 665, Anchorena 545 (Chanta IV) and Intercontinental plot.

Occupancy rate

The following table shows the occupancy rate of our offices for fiscal years 2018 and 2017:

Occupancy rate (1)

As of June 30,

2018 2017 2016

(%)

Offices:

República Building	98.4	95.2	100.0
Bankboston Tower	85.6	100.0	100.0
Intercontinental Plaza	100.0	100.0	100.0
Bouchard 710	100.0	100.0	100.0
Suipacha 652/64	86.2	86.3	90.7
DOT Building	100.0	100.0	100.0
Philips	69.8	—	—
Total	92.3	96.7	98.6

(1) Leased square meters pursuant to lease agreements in effect as of June 30, 2018, 2017 and 2016 over gross leasable area of offices for the same periods

Annual average income per surface area as of June 30, 2018, 2017 and 2016(1):

Annual average income per square meter(1)

2018(1) 2017(1) 2016(1)

Offices

(Ps./sqm)

Intercontinental Plaza Building	5,970	4,853	4,291
Bouchard 710	8,068	5,692	4,539
Libertador 498	-	9,739	10,464
Suipacha 652/64	2,933	2,617	1,961
Bankboston Tower	5,838	5,345	3,778
República Building	6,353	5,671	3,615
Dot Building	5,685	4,463	2,778
Philips Building	2,104	-	-

(1) Calculated by dividing annual rental income by the gross leaseable area of offices based on our interest in each building as of June 30 for each fiscal year.

New agreements and renewals

The following table sets forth certain information on lease agreements as of June 30, 2018:

Property	Number of Agreements (1)(5)	Annual Rental Income(2)	Rental income per sqm New and Renewed(3)	Previous rental income per sqm(3)	No. of non-renewed agreements	Non-renewed agreements Annual rental income(4)
Intercontinental Plaza Building	-	-	-	-	3	13,197,994
Bouchard 710	5	77,057,758	588	570	-	-
Della Paolera 265	1	8,055,709	538	498	1	1,523,898
Republica Building	6	51,509,863	581	578	-	-
DOT Building	2	15,357,876	553	515	-	-
Suipacha 664	1	7,884,678	332	332	-	-
Philips Building(6)	5	26,373,106	406	-	-	-
Total Offices	20	186,238,990	530	443	4	14,721,892

(1) Includes new and renewed agreements executed in fiscal year 2018.

(2) Agreements stated in US dollars converted into Pesos at the exchange rate prevailing in the initial month of the agreement multiplied by 12 months.

(3) Monthly value.

(4) Agreements stated in US dollars converted into Pesos at the exchange rate prevailing in the last month of the agreement, multiplied by 12 months.

(5) Does not include agreements of parking spaces, antennas or terrace space.

(6) New Building, contracts without previous rate.

Hotels

According to the Hotel Vacancy Survey (EOH) prepared by INDEC, as of July 2018, overnight stays at hotel and parahotel establishments were estimated at 4.6 million, 3.1% lower than the same month the previous year. Overnight stays of resident and nonresident travelers decreased by 3.2% and 1.6%, respectively. Total travelers who stayed at hotels during July 2018 were 1.9 million, which represents a 5.0% decrease compared to the same month the previous year. The number of resident and nonresident travelers decreased by 5.6% and 1.6%, respectively. The 3.7 million resident travelers represented 83.3% of the total number of travelers who stayed at hotels. The Room Occupancy Rate in April was 48.5%, showing a decrease by 3.1% compared to the same month the previous year. Moreover, the Bed Occupancy Rate for the same period was 39.6%, which represents a decrease by 3.1% compared to the same month the previous year.

During fiscal year 2018, we kept our 76.3% interest in Intercontinental hotel, 80.0% interest in Sheraton Libertador hotel and 50.0% interest in Llao Llao.

The following chart shows certain information regarding our luxury hotels:

Hotels	Date of Acquisition	IRSA's Interest	Number of rooms	Occupancy ⁽¹⁾	Average Price per Room Ps. ⁽²⁾	Fiscal Year Sales as of June 30 (in millions)		
						2018	2017	2016
Intercontinental (3)	01/11/1997	76.3%	309	74.9%	2,781	337	271	195
Sheraton Libertador (4)	01/03/1998	80.0%	200	76.1%	2,728	212	151	119
Llao Llao (5)	01/06/1997	50.0%	205	56.9%	6,713	439	301	220
Total	-	-	714	70.1%	3,682	988	723	534

(1) Accumulated average in the twelve-month period.

(2) Accumulated average in the twelve-month period.

(3) Through Nuevas Fronteras S.A.

(4) Through Hoteles Argentinos S.A.

(5) Through Llao Llao Resorts S.A.

Hotel Llao Llao, San Carlos de Bariloche, Province of Rio Negro

In June 1997 we acquired a 50% interest in Hotel Llao Llao from Llao Llao Holding S.A. The remaining 50% is currently owned by the Sutton Group. The Hotel Llao Llao is located on the Llao Llao peninsula, 25 kilometers from the City of San Carlos de Bariloche, and it is one of the most important tourist hotels in Argentina. Surrounded by mountains and lakes, this hotel was designed and built by the famous architect Bustillo in a traditional alpine style and first opened in 1938. The hotel was renovated between 1990 and 1993 and has a total constructed surface area of 15,000 sqm and 158 original rooms. The hotel-resort also includes an 18-hole golf course, tennis courts, fitness facility, spa, game room and swimming pool. The hotel is a member of The Leading Hotels of the World, Ltd., a prestigious luxury hospitality organization representing 430 of the world's finest hotels, resorts and spas. The Hotel Llao Llao is currently being managed by Compañía de Servicios Hoteleros S.A., operator, among others, of the Alvear

Palace Hotel, a luxury hotel located in the Recoleta neighborhood of Buenos Aires. During 2007, the hotel was subject to an expansion and the number of suites in the hotel rose to 205 rooms.

Hotel Intercontinental, City of Buenos Aires

In November 1997, we acquired 76.3% of the Hotel Intercontinental. The Hotel Intercontinental is located in the downtown City of Buenos Aires neighborhood of Montserrat, near the Intercontinental Plaza office building. Intercontinental Hotels Corporation, a United States corporation, currently owns 24% of the Hotel Intercontinental. The hotel's meeting facilities include eight meeting rooms, a convention center and a divisible 588 sqm ballroom. Other amenities include a restaurant, a business center, a sauna and a fitness facility with swimming pool. The hotel was completed in December 1994 and has 309 rooms.

Hotel Sheraton Libertador, City of Buenos Aires

In March 1998 we acquired 100% of the Sheraton Libertador Hotel from Citicorp Equity Investment for an aggregate purchase price of US\$23 million. This hotel is located in downtown Buenos Aires. The hotel contains 193 rooms and 7 suites, eight meeting rooms, a restaurant, a business center, a spa and fitness facilities with a swimming pool. In March 1999, we sold a 20% interest in the Sheraton Libertador Hotel for US\$4.7 million to Hoteles Sheraton de Argentina. The hotel is currently managed by Sheraton Overseas Management Corporation, a United States corporation.

Bariloche Plot, "El Rancho," San Carlos de Bariloche, Province of Río Negro

On December 14, 2006, through our hotel operator subsidiary, Llao Llao Resorts S.A., we acquired a land consisting of 129,533 sqm of surface area in the City of San Carlos de Bariloche in the Province of Río Negro. The total price of the transaction was US\$7. The land is in the border of the Lago Gutiérrez, close to the Llao Llao Hotel in an outstanding natural environment and it has a large cottage covering 1,000 sqm of surface area designed by the architect Ezequiel Bustillo.

Sale and Development of Properties and Land Reserves

Residential Development Properties

The acquisition and development of residential apartment complexes and residential communities for sale is one of our core activities. Our development of residential apartment complexes consists of the new construction of high-rise towers or the conversion and renovation of existing structures such as factories or warehouses. In connection with our development of residential communities, we frequently acquire vacant land, develop infrastructure such as roads, utilities and common areas, and sell plots of land for construction of single-family homes. We may also develop or sell portions of land for others to develop complementary facilities such as shopping areas within residential developments.

In fiscal year ended June 30, 2018, revenues from the development and sale of properties segment amounted to Ps.120 million, compared to Ps.99 million posted in the fiscal year ended June 30, 2017.

Construction and renovation works on our residential development properties are currently performed, under our supervision, by independent Argentine construction companies that are selected through a bidding process. We enter into turnkey contracts with the selected company for the construction of residential development properties pursuant to which the selected company agrees to build and deliver the development for a fixed price and at a fixed date. We are generally not responsible for any additional costs based upon the turnkey contract. All other aspects of the construction, including architectural design, are performed by third parties.

Another modality for the development of residential undertakings is the exchange of land for constructed square meters. In this way, we deliver undeveloped pieces of land and another firm is in charge of building the project. In this case, we receive finished square meters for commercialization, without taking part in the construction works.

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The following table shows information about IRSACP's land reserves as of June 30, 2018:

	IRSACP's Ownership	Date of acquisition	Land surface	Buildable surface	GLA	Saleable surface	Book Value
	(%)		(sqm)	(sqm)	(sqm)	(sqm)	(Ps. millions)
RESIDENTIAL - BARTER AGREEMENTS							
Beruti (Astor Palermo) - BA City	100	Jun-08	—	—	—	—	151
CONIL - Güemes 836 – Mz. 99 & Güemes 902 – Mz. 95 & Commercial stores - Buenos Aires	100	Jul-96	—	—	847	—	46
Total Intangibles (Residential)			—	—	847	—	197
LAND RESERVES							
Polo Dot U building - BA City	80	Jun-06	5,273	32,000	32,000	—	1,098
Total under Development			5,273	32,000	32,000	—	1,098
UOM Luján - Buenos Aires	100	May-08	1,160,000	464,000	—	—	305
San Martin Plot (Ex Nobleza Piccardo) - Buenos Aires (4)	50	May-11	159,995	500,000	—	—	2,812
La Plata - Greater Buenos Aires	100	Mar-18	78,614	116,552	—	—	218
Subtotal Mixed-uses			1,398,609	1,080,552	—	—	3,335
Coto Abasto air space - BA City(2)	100	Sep-97	—	21,536	—	15,831	6
Córdoba Shopping Adjoining plots - Córdoba(2)	100	Jun-15	8,000	13,500	—	2,160	239
Neuquén - Residential plot - Neuquén(2)	100	Jun-99	13,000	18,000	—	18,000	16
Subtotal Residential			21,000	53,036	—	35,991	261
Caballito plot - BA City	100	Jan-99	23,791	68,000	30,000	—	375
Tucumán plot - Tucumán (3)	100	Mar-10	18,620	10,000	10,000	—	—
Paraná plot - Entre Ríos (3)	100	Aug-10	10,022	5,000	5,000	—	—
Subtotal Retail			52,433	83,000	45,000	—	375
Polo Dot - Offices 2 and 3 - BA City	80	Nov-06	12,800	44,957	33,485	—	1,582
Intercontinental Plaza II - BA City	100	Feb-98	6,135	19,598	19,598	—	351

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Córdoba Shopping Adjoining plots - Córdoba(2)	100	Jun-15	2,800	5,000	5,000	—	15
Subtotal Offices			21,735	69,555	58,083	—	1,948
Total Future Developments			1,493,777	1,286,143	103,083	35,991	5,919
Other Land Reserves(1)			1,899	182	7,297	262	182
Total Land Reserves			1,500,949	1,318,325	142,380	36,253	7,199

(1)

Includes Zelaya 3102-3103, Chanta IV, Anchorena 665 and Condominios del Alto II

(2)

These land reserves are classified as Property for Sale, therefore, their value is maintained at historical cost. The rest of the land reserves are classified as Investment Property, valued at market value.

(3)

Sign of the deeds pending subject to certain conditions.

(4)

Through Quality Invest S.A.

The following table shows information about IRSACP's expansions on its current assets as of June 30, 2018:

Expansions	Ownership interest	Surface	Locations
	(%)	(sqm)	
Alto Rosario	100	2,000	Santa Fé
Mendoza Plaza - Sodimac Store + Falabella	100	12,800	Mendoza
Alto Comahue - Movie Theatres	99	2,200	Neuquén
Subtotal Current Expansions		17,000	
Alto Palermo Adjoining Plot	100	4,000	BA City
Dot Adjoining Plot	80	16,765	BA City
Other future Expansions(1)	100	85,290	
Subtotal Future Expansiones		106,055	
Total Shopping Malls		123,055	
Patio Bullrich - Offices / Hotel	100	10,000	BA City
Philips Building	100	20,000	BA City
Subtotal Future Expansions		30,000	
Total Offices		30,000	
Total Expansions		153,055	

(1) Includes Alto Palermo, Paseo Alcorta, Alto Avellaneda, Soleil, Alto Noa, Alto Rosario, Mendoza, Córdoba y La Ribera Shopping

The following chart shows information about IRSA's land reserves as of June 30, 2018:

IRSA's Interest	Date of Acquisition	Surface area(sqm)	Area intended for construction (sqm)	Gross Leasable Area(sqm)	Area intended for sale(sqm)	Book Value
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(million
of Ps.)

INTANGIBLE

ASSETS – BARTER

AGREEMENTS

Pereiraola (Greenville) - Buenos Aires	100%	4/21/10	-	-	-	35,239	7
Zetol - Uruguay	90%	6/1/09	147,060	-	-	92,817	80
Vista al Muelle - Uruguay	90%	6/1/09	130,688	-	-	89,918	127
Total Intangibles (Residential)			277,748	-	-	217,974	214

LAND RESERVES

Catalinas CABA(3)	100%	05/26/10	3,648	58,100	35,313	4,896	1,601
Total in development			3,648	58,100	35,313	4,896	1,601
La Adela - Buenos Aires	100%	8/1/14	9,871,600	3,951,227	-	-	433
Puerto Retiro – CABA (2)	50%	5/18/97	82,051	246,153	-	-	44
Solares Santa María - CABA	100%	7/10/97	716,058	716,058	-	-	6,498
Subtotal Mixed Uses			10,669,709	4,913,438	-	-	6,975
Caballito Block 35 - CABA	100%	10/22/98	9,879	-	-	57,192	99
Subtotal Residential Properties			9,879	-	-	57,192	99
Total Future developments			10,679,588	4,913,438	-	57,192	7,074
Other land reserves(1)			6,932,987	-	-	4,713	687
Total IRSA's Land Reserves			17,616,223	4,971,538	35,313	61,910	9,362

(1) Includes Pilar R8 Km 53, Pontevedra Plot, Mariano Acosta Plot, Merlo Plot, San Luis Plot, Llao Llao Plot and Abril Manor House

Residential Properties (available for sale)

In the residential market, we acquire undeveloped properties strategically located in densely populated areas of the City of Buenos Aires, particularly properties located near shopping malls and hypermarkets or those to be constructed. We then develop multi-building high-rise complexes targeting the middle- and high- income market. These are equipped with modern comforts and services, such as open “green areas,” swimming pools, sports and recreation facilities and 24-hour security.

Condominios del Alto II – City of Rosario, Province of Santa Fe (IRSA CP)

The Condominios del Alto II project will be composed of two opposite building blocks, commercially divided into 10 sub-blocks. The project consists of a total of 189 apartments distributed in 6 stories and 195 parking spaces located in two basements. The amenities include a swimming pool with solarium, a multiple use room, sauna, a gym with dressrooms and a laundry. As of June 30, 2018, the works in parcel H have been completed and all the units (42 apartments and 47 parking spaces) subject to the barter have been received, with 9 parking spaces available for sale.

Barrio Chico – City of Buenos Aires

This is a unique Project located in Barrio Parque, an exclusive residential area in the City of Buenos Aires. During May 2006, the commercialization of the project was launched with successful results. The image of the product was originally developed under the name “Barrio Chico” through advertisements in the most important media. As of June 30, 2018, the project had been completed and 2 parking spaces are yet to be sold.

Horizons, Vicente López, Olivos, Province of Buenos Aires.

The IRSA-CYRELA Project, developed over two adjacent blocks, was launched in March 2008 under the name Horizons. Horizons is one of the most significant developments in Greater Buenos Aires, featuring a new concept in residential complexes given its emphasis on the use of common spaces. This project includes two complexes with a total of six buildings: one complex faces the river and consists of three 14-floor buildings, the “Río” complex, and the other one, facing Libertador Avenue, consists of three 17-floor buildings, it is known as the “Parque” complex, thus totaling 59,000 square meters built of saleable area distributed in 467 units (excluding the units to be delivered as consideration for the purchase of the lands). Horizons is a unique and style-innovating residential complex offering 32 amenities, including a meeting room, work zone, heated swimming pools, mansion with spa, sauna, gym, children room, teen room, thematically landscaped areas, and aerobic trail. The showroom was opened to the public in March 2008 with great success. As of June 30, 2018, all the units were sold and the stock available for sale consisted of 1 parking space and 23 storage spaces.

Intangibles – Units to be received under barter agreements

Beruti Plot – City of Buenos Aires (IRSA CP)

On October 13, 2010, IRSA CP and TGLT entered into an exchange agreement in connection with a plot of land located at Beruti 3351/59 in the City of Buenos Aires for cash and 2,170 square meters in future residential apartments to be constructed by TGLT on the plot. In accordance with the terms of the agreement, TGLT had to deliver to IRSA CP (i) certain units to be determined, representing 17.3% of the aggregate surface of the residential space, (ii) a number of parking spaces to be determined, representing 15.82% of the aggregate surface of the parking spaces, (iii) all the commercial parking spots in the future building and (iv) the sum of US\$10.7 million. To ensure performance of the obligations assumed by TGLT under the deed of sale, a mortgage was granted in IRSA CP's favor.

Finally, on December 30, 2016, IRSA CP and TGLT signed the possession certificate for 36 residential apartments totaling 2,413 square meters, 32 residential parking spaces, and 171 commercial parking spaces. As of June 30, 2018, 3 apartments, 15 residential parking spaces and 171 commercial parking spaces remain available for sale.

Conil – Avellaneda, Province of Buenos Aires (IRSA CP)

These plots of land we own, through IRSA CP, face Alto Avellaneda shopping mall, totaling 2,398 square meters distributed in two opposite corners and, according to urban planning standards, around 6,000 square meters may be built. Its intended use, either through our own development or sale to a third party, is residential with the possibility of a retail space as well. In November 2014, a barter deed was executed to carry out a residential development, in consideration of which IRSA CP will receive 1,389 square meters of retail stores located on the ground floors of blocks 99 and 95 at Güemes 836 and Güemes 902, respectively. The barter was valued at US\$0.7 million. Considerations for block 95 and 99 were stipulated to be delivered in January 2018 and September 2018, respectively. In June 2018 an extension to the barter agreement was signed. In consideration for the delay and as compensation, IRSA CP will receive an additional apartment (55.5 square meters) and one parking lot (14 square meters).

Pereiraola (Greenville), Hudson – Province of Buenos Aires

In April de 2010 we sold Pereiraola S.A., a company owner of certain lands adjacent to Abril Club de Campo that comprised 130 hectares, for US\$11.7 million. The purchaser would develop a project that includes the fractioning into lots, a condo-hotel, two polo fields, and apartment buildings. The delivery to the Company of 39,634 square meters of lots amounting to approximately US\$3 million was included in the sale price. As of June 30, 2018, 10 lots had been transferred and 46 remain available for sale.

Zetol S.A. and Vista al Muelle S.A. – District of Canelones – Uruguay

In the course of fiscal year 2009 we acquired a 100% ownership interest in Liveck S.A., a company organized under the laws of Uruguay. In June 2009, Liveck had acquired a 90% stake in the capital stock of Vista al Muelle S.A. and Zetol S.A., two companies incorporated under the laws of Uruguay, for US\$7.8 million. The remaining 10% ownership interest in both companies is in the hands of Banzey S.A. These companies have undeveloped lands in Canelones, Uruguay, close to the capital city of Uruguay, Montevideo.

We intend to develop in these 13 plots, with a construction capacity of 182,000 sqm, an urban project that consists of the development and comercialization of 1,860 apartments. Such project has the “urban feasibility” status for the construction of approximately 200,000 sqm for a term of 10 years, which was granted by the Mayor’s Office of the Canelones department and by its Local Legislature. Zetol S.A. and Vista al Muelle S.A. agreed to carry out the infrastructure works for US\$8 million as well as minimum amount of sqm of properties. The satisfaction of this commitment under the terms and conditions agreed upon will grant an additional 10-year effective term to the urban feasibility status.

The total purchase price for Zetol S.A. was US\$7 million; of which US\$2 million were paid. Sellers may opt to receive the balance in cash or through the delivery of units in the buildings to be constructed in the land owned by Zetol S.A. equivalent to 12% of the total marketable meters to be constructed.

Besides, Vista al Muelle S.A. owned since September 2008 a plot of land purchased for US\$0.83 million. Then, in February 2010, plots of land were acquired for US\$1 million, the balance of which as of to date amounts to US\$0.28 million plus interest and will be repaid in December 2014. In December 2010, Vista al Muelle S.A. executed the title deed of other plots for a total amount of US\$2.66 million, of which US\$0.3 million were paid. The balance will be repaid by delivering 2,334 sqm of units and/or retail stores to be constructed or in cash.

On June 30, 2009, the Company sold a 50% stake in Liveck S.A. to Cyrela Brazil Realty S.A. for US\$1.3 million. On December 17, 2010, together with Cyrela Brazil Realty S.A. we executed a stock purchase agreement pursuant to which we repurchased from Cyrela Brazil Realty S.A. a 50% shareholding in Liveck S.A. for US\$2.7 million. Accordingly, as of June 30, 2016, our stake, through Tyrus, in Liveck is 100%.

As a result of the plot barter agreements executed in due time between the IMC, Zetol S.A. and Vista al Muelle S.A. in March 2014, the parcel redistribution dealing was concluded. This milestone, as set forth in the amendment to the Master Agreement executed in 2013, initiates the 10-year term for the investment in infrastructure and construction of the buildings mentioned above. At present, the first tower is being developed.

Canteras Natal Crespo, La Calera – Province of Córdoba

On June 26, 2013, we sold 100% of our interest in Canteras Natal Crespo S.A. representing 50% of its capital stock, to Euromayor S.A. de Inversiones for US\$4,215,000 according to the following payment schedule: US\$ 3,815,000 in cash and US\$400,000 through the transfer of almost 40,000 sqm for business purposes within the project to be developed in the site known as Laguna Azul. Delivery of the non-monetary consideration, which consist of 30,000 sqm, is pending.

Projects under Development

Shopping Mall Expansions (IRSA CP)

During the next fiscal year, IRSA CP will add approximately 17,000 sqm from current malls' expansions. We will add soon 6 movie theatres in Alto Comahue of 2,200 sqm, an approximately 12,800 sqm Sodimac store in Mendoza Plaza Shopping while expanding its Falabella store and 2,000 sqm of expansion in Alto Rosario, where we have recently opened a big Zara store.

During the next fiscal year, we expect to launch the works of expansion of Alto Palermo shopping mall, the shopping mall with the highest sales per square meter in our portfolio, that will add a gross leasable area of approximately 4,000 square meters and will consist in moving the food court to a third level by using the area of an adjacent building acquired in 2015.

First Stage of Polo Dot (IRSA CP)

The project called “Polo Dot”, located in the commercial complex adjacent to our shopping mall Dot Baires, has experienced significant growth since our first investments in the area. The total project will consist in 3 office buildings (one of them could include a hotel) in land reserves owned by the Company and the expansion of the shopping mall by approximately 15,000 square meters of GLA. At a first stage, we are developing an 11-floor office building with an area of approximately 32,000 square meters on an existing building. The total estimated investment amounts to Ps.1,360 million and as of June 30, 2018, degree of progress was 74%.

Catalinas building (IRSA & IRSA CP)

The building to be constructed will have approximately 35,000 sqm of GLA consisting of 30 office floors and 316 parking spaces, and will be located in the “Catalinas” area in the City of Buenos Aires, one of the most sought-after spots for Premium office development in Argentina. IRCP acquired from us certain units in the building representing approximately 45% of the value of the development and we maintain the remaining 55%. On December 4, 2015, we sold to Globant S.A. 4,896 square meters corresponding to four office floors. The price for the acquisition of these units was (i) Ps.180.3 million paid at signing of the purchase agreement; (ii) US\$8.6 million is payable in 12 quarterly installments that started in June 2016; and (iii) the US\$3.7 million balance is due when the property deed is transferred. The total estimated investment for the whole project amounts to Ps.2,770 million and as of June 30, 2018, work progress was 16%.

Mixed uses

Ex UOM – Luján, Province of Buenos Aires (IRSA CP)

This 116 hectare plot of land is located at kilometer 62 Km of the West Highway, in the intersection with Route 5 and was originally purchased by Cresud. In May 2012, we acquired the property from Cresud. Our intention is to carry out a mixed use project, taking advantage of the environment consolidation and the strategic location of the plot. At present, negotiations are underway to change the zoning parameters, thus making the project feasible.

Ex Nobleza Piccardo Plant – San Martín, Province of Buenos Aires (IRSA CP)

On May 31, 2011, Quality Invest S.A. executed the title deed pursuant to which we purchased from Nobleza Piccardo S.A.I.C. y F., or “Nobleza Piccardo” a plot of land of 159,996 square meters located in the District of San Martín, Province of Buenos Aires, currently intended for industrial purposes and suitable in terms of characteristics and scale for mixed-use developments. The price for the property was set at US\$33 million, of which 30% was paid upon signing. For the remaining balance a mortgage was constituted in the first degree of privilege over the property in favor of Nobleza Piccardo. Capital plus interest, calculated at an annual rate of 7.5% over the outstanding balance, was paid in full in March 2013.

On May 16, 2012, the Municipality of San Martin granted a pre-feasibility permit for commercial use, entertainment, events, offices, etc., which would enable performance of a mixed-use development thereon.

Pursuant to Municipality Ordinance 11,706 enacted on December 30, 2014, a rezoning permit was obtained for the plot of land to be used mainly for commercial purposes, which considerably expanded the uses and potential buildable square meters through new urban indicators. On January 5, 2016, the Provincial Decree 1,835 was published in the Official Gazette of the Province of Buenos Aires granting its approval, and the new urban and rezoning standards thus became effective.

As approved in the Ordinance, on January 20, 2015, EFESUL S.A. entered into a zoning agreement with the Municipality of San Martin which governs various issues related to applicable regulations and provides for a mandatory assignment of square meters in exchange for monetary contributions subject to fulfillment of certain administrative milestones of the rezoning process, the first of which (for Ps.20,000,000) was paid to the Municipality ten days after the execution of the aforementioned agreement.

Moreover, on June 27, 2016, the plot subdivision plan was filed with the Municipality, completing a significant milestone committed under the zoning agreement.

On June 28, 2017, Quality Invest S.A. signed an agreement with EFESUL S.A. (which owns 50% of Quality Invest S.A.) in order to assume the obligations that the latter had assumed with the Municipality of General San Martin within the framework of the aforementioned Urban Agreement. This agreement contemplates a donation, which will be paid based on the work progress that the Municipality develops on the property initially transferred by EFESUL S.A.

In addition, during July 2017, Quality Invest S.A. subscribed two addendums to the aforementioned Urban Development Agreement, which contemplate the following: 1) a new subdivision plan of the property will be presented within 120 days of the addendum signing and 2) the payment of the twelfth installment in cash was replaced by the sum of Ps.71 million payables in 18 equal and consecutive monthly installments.

On March 8, 2018, it was agreed with the renowned Gehl Firm (Denmark) - Urban Quality Consultant - the elaboration of a Master Plan, generating a modern concept of New Urban District of Mixed Uses. In addition, local consultants were also hired, such as: Guillermo Oliveto (Consultant W) in Market Analysis, Gastón Biggio (GUT) in naming and branding of the District, Colla & Colombo Consultants in Business Analysis and Alejandro Langlois in Vehicular Impact, among others. In this way, the Company has a clear sizing and positioning of the business.

Regarding the status of the project, we are working on the definition of the Master-Plan that includes a mix of uses (Residential, Commercial, etc.) in order to carry out a large-scale urban development contemplating more of 500,000 square meters. The regulations for this Master-Plan are framed in a zoning called the Main Commercial District (Distrito Comercial Principal), which entered into force in 2016 through the publication of the Provincial Decree of the Municipal Ordinance No.11,706.

Córdoba Shopping Mall Project (IRSA CP)

The Company owns a few plots adjacent to Córdoba Shopping Mall with a construction capacity of approximately 17,300 square meters in the center of the City of Córdoba.

In May 2016, a preliminary barter agreement was signed for 13,500 square meters out of the total construction capacity, subject to certain conditions, for a term of one year, at the end of which the deed will be signed. It will be a mixed residential and office project and, as part of the consideration, the Company will receive 2,160 square meters in

apartments, parking spaces, shopping space, plus IRSA CP will assume the management of permits, unifications and subdivisions in 3 plots. The consideration will be delivered by May 2021 for Torre I and by July 2023 for Torre II. The value of the barter was US\$4 million.

Plot of land La Plata (IRSA CP)

On March 22, 2018 the Company has acquired, directly and indirectly, 100% of a plot of land of 78,614 square meters located in the city of La Plata, Province of Buenos Aires. The price of the transaction was US\$7.5 million, which have been fully paid.

The operation was made through the purchase of 100% of the shares of common stock of the company Centro de Entretenimientos La Plata SA ("CELAP") which owns of 61.85% of the property and the direct purchase of the remaining 38.15% to of shares of common stock from non-related third parties.

La Adela – Buenos Aires

During 2015 the company acquired the "La Adela" land reserve with an area of approximately 1,058 hectares, located in the District of Luján, Province of Buenos Aires, that was previously owned by Cresud for a total amount of Ps.210 million. Given its degree of development and closeness to the City of Buenos Aires, we intend to develop a new real estate project.

Puerto Retiro – City of Buenos Aires

At present, this 8.3 hectare plot of land, which is located in one of the most privileged areas of the city, near Catalinas, Puerto Madero and Retiro and is the only privately owned waterfront property facing directly to Río de la Plata, is affected by a zoning regulation defined as U.P. which prevents the property from being used for any purposes other than strictly port activities.

During fiscal year 1998, the Company initiated negotiations with the authorities of the Government of the City of Buenos Aires in order to obtain a rezoning permit for the property, allowing a change in the use of the property and setting forth new regulations for its development.

In turn, Tandanor filed a civil action against Puerto Retiro S.A. and the other defendants in the criminal case for violation of Section 174 (5) based on Section 173 (7) of the Criminal Code. Such action seeks -on the basis of the nullity of the decree that approved the bidding process involving the Dársena Norte property- the restitution of the property and a reimbursement in favor of Tandanor for all such amounts it has allegedly lost as a result of a suspected fraudulent transaction involving the sale of the property. Puerto Retiro has presented the allegation on the merit of the evidence, highlighting that the current shareholders of Puerto Retiro did not participate in any of the suspected acts in the criminal case since they acquired the shares for consideration and in good faith several years after the facts told in the process. Likewise, it was emphasized that the company Puerto Retiro is foreign - beyond its founders - to the bidding / privatization carried out for the sale of Tandanor shares. The pronouncement of the sentence is pending.

On September 7, 2018, the Oral Federal Criminal Court No. 5 rendered a decision. According to the sentence read by the President of the Court, Puerto Retiro won the preliminary objection of limitation filed in the civil action. However, in the criminal case, where Puerto Retiro is not a party, it was ordered, among other issues, the confiscation (decomiso) of the property owned by Puerto Retiro known as Planta I. The grounds of the Court's judgement will be read on November 30, 2018. From that moment, all the parties might file the appeals.

In the criminal action, the claimant reported the violation by Puerto Retiro of the injunction ordered by the criminal court consisting in an order to stay (prohibición de innovar) and not to contract with respect to the property disputed in the civil action. As a result of such report, the Oral Federal Court (Tribunal Oral Federal) No. 5 started interlocutory proceedings, and on June 8, 2017, it ordered and carried out the closing of the property that was subject to lease

agreements with Los Cipreses S.A. and Flight Express S.A. with the aim of enforcing the referred order. As a result, the proceedings were forwarded to the Criminal Court for it to appoint the court that will investigate the alleged commission of the crime of contempt.

Our legal counsel considers that there is a chance of success of the defense of Puerto Retiro, always taking into account that this is a complex issue subject to more than one interpretation by legal scholars and case law.

Solares de Santa María – City of Buenos Aires

Solares de Santa María is a 70-hectare property facing the Río de la Plata in the south of Puerto Madero, 10 minutes from downtown Buenos Aires. We are owners of this property in which we intend to develop an entrepreneurship for mixed purposes, i.e. our development project involves residential complexes as well as offices, stores, hotels, sports and sailing clubs, services areas with schools, supermarkets and parking lots, and we would need to obtain all the necessary permits and authorizations

In the year 2000, we filed a master plan for the Santa María del Plata site, which was assessed by the Environmental Urban Plan Council (Consejo del Plan Urbano Ambiental, “COPUA”) and submitted to the Town Treasurer’s Office for its consideration. In 2002, the Government of the City of Buenos Aires issued a notice of public hearing and in July 2006, the COPUA made some recommendations about the project, and in response to such recommendations, on December 13, 2006, we filed an amendment to the project which included the donation of 50% of the site to the City of Buenos Aires for public use and a perimetrical pedestrian lane along the entire site on the river bank.

In March 2007, a committee of the Government of the City of Buenos Aires, composed of representatives from the Legislative and Executive Branches issued a report stating that such Committee had no objections to our development plan and requested that the Town Treasurer’s Office render a decision concerning the development plan submitted. In November 2007, 15 years after the Legislative Branch of the City of Buenos Aires granted the general zoning standards for the site, the Mayor of the City of Buenos Aires executed Decree No. 1584/07, setting forth certain rules for the urban development of the project, including types of permitted constructions and the obligation to assign certain spaces for public use and convenience.

Notwithstanding the approval of Decree No. 1584/07 in 2007, a municipal court issued an injunction restricting the implementation of our proposed development plan, due to objections made by a legislator of the City of Buenos Aires. Notwithstanding the legality and validity of Decree No. 1584/07, we entered into an agreement 5/10 that was executed with the Government of the City of Buenos Aires, which has been submitted with the Legislature of the City of Buenos Aires for approval.

On October 30, 2012 a new agreement was executed with the Government of the City of Buenos Aires, replacing all prior agreements, and such has been submitted to the Legislature for its consideration. The agreement provided that if by February 28, 2014 the agreement was not approved would become invalidated.

During 2016, a new Agreement was executed with the Executive Branch of the City of Buenos Aires, including a new Bill of Law. The new Bill of Law was submitted to the Legislative Branch of the City of Buenos Aires for consideration and was approved by the relevant commissions; yet, it was reserved as it had happened in 2012, and its legislative treatment is still pending. The new Bill of Law may remain in such status during legislative year 2018.

In order to ensure the enactment of the desired law, treatment of the previous bill must be resumed or a new Agreement including a Bill of Law must be executed with the executive branch of the Government of the City of Buenos Aires, and subsequently ratified through the enactment of a Law by the Legislature of the Government of the City of Buenos Aires.

Residential

Coto Residential Project (IRSA CP)

The Company owns the right to construct above the premises of the Coto hypermarket that is close to Abasto Shopping in the heart of the City of Buenos Aires which we acquired in September 24, 1997. We estimate it has a construction capacity of 23,000 square feet (it also includes the right to receive certain parking units). The premises are located within the area between Agüero, Lavalle, Guardia Vieja and Gallo streets, in the Abasto neighborhood.

In June 2016, a preliminary barter agreement was signed, pursuant to which we will receive 3,621 square meters in apartments plus a monetary payment of US\$1 million. Such complex will have two towers: I and II. The consideration for Torre I will be delivered by June 2021, while the consideration for Torre II will be delivered by September 2022. The value of the preliminary agreement was set at US\$7.5 million.

Neuquén Residential Plot– Neuquén, Province of Neuquén (IRSA CP)

Through Shopping Neuquén S.A., we own a plot of 13,000 square meters with construction capacity of 18,000 square meters of residential properties in an area with significant growth potential. This area is located close to the shopping mall Alto Comahue, the hypermarket currently in operation and a hotel to be constructed in months to come.

Caballito Plot – City of Buenos Aires

On June 29, 2011, we and TGLT, a residential developer, entered into an agreement to barter for the development of a plot of land located at Méndez de Andes street in the neighborhood of Caballito in the City of Buenos Aires, we will receive from TGLT cash and future residential apartments to be constructed by TGLT on the mentioned plot of land. TGLT planned to construct an apartment building with parking spaces. The value of the transaction was agreed upon US\$12.8 million and consisted on a payment in cash of US\$0.2 million (US\$159,375) and the transfer to IRSA: (i) a number of apartments to be determined representing 23.1% of total square meters of residential space; (ii) a number of parking spaces to be determined representing 21.1% of total square meters of parking space; and (iii) in case TGLT built complementary storage rooms, a number to be determined, representing 21.1% of square meters of storage space. TGLT was committed to build, finish and obtain authorization for the three buildings making up the project within 36 to 48 months. TGLT mortgaged the land in favor of IRSA as guarantee.

A neighborhood association named Asociación Civil y Vecinal SOS Caballito secured a preliminary injunction which suspended the works to be carried out by TGLT in the abovementioned property. On April 2018 TGLT and us terminated the barter agreement and we recovered the land. In July 2018, the Supreme Court of Justice issued a favorable final decision allowing the construction of 57,192 sqm of apartments on the plot.

Retail

Caballito Plot – City of Buenos Aires (IRSA CP)

In November 1997, IRSA CP acquired a property of approximately 23,791 square meters in the City of Buenos Aires, in the neighborhood of Caballito, one of the most densely populated of the city. During the fiscal year 2018, the Company decided to present a new project that may consist of four plots with a total surface area of 24,200 square meters and with a total covered area of 142,500 square meters, and an open space of 14,300 square meters. The development may have mainly residential use, with buildings from 5 to 10 floors over the four plots, with 1,075 apartments of 1 to 4 rooms with a total covered area of 92,750 square meters.

Between the four plots, the project may include a commercial galleries of approximate 11,000 additional square meters, which would generate an outdoor walk through almost the entire extension of the property.

Construction permits have been approved for the four plots with the uses described above. However, the Company have not yet decided when launching it.

Offices

Polo Dot 2nd and 3rd Stages – City of Buenos Aires (IRSA CP)

These two parcels of 6,400 square meters with a construction capacity of 33,485 square meters each, are located adjoining to where the extension of Dot Baires Shopping is planned. In April 2018, both plots were unified into a single one of 12,800 square meters.

Intercontinental Plaza II Plot - City of Buenos Aires (IRSA CP)

In the heart of the neighborhood of Monserrat, just a few meters from the most trafficked avenue in the city and the financial center, is the Intercontinental Plaza complex consisting of an office tower and the exclusive Intercontinental Hotel. In the current plot of 6,135 square meters a second office tower of 19,600 square meters and 25 stories could be built to supplement the tower currently located in the intersection of Moreno and Tacuarí streets.

Other Land Reserves

Other Land Reserves – Pilar, Pontevedra, Mariano Acosta, Merlo, San Luis Plot, Llao Llao Plot and Casona Abril remaining surface

We grouped here those plots of land with a significant surface area the development of which is not feasible in the short term either due to their current urban and zoning parameters, their legal status or the lack of consolidation of their immediate environment. This group totals around 7 million sqm.

Isla Sirgadero

On September 3, 2015, the entire property of 10,083,270 sqm was sold to several companies for US\$3.9 million, payable in 16 quarterly installments, plus an installment in kind, land resulting from the final blueprint, equivalent to 10% of the surface area. Delivery of the non-monetary consideration, consisting in 1,083,327 sqm, is pending.

International

Lipstick Building, New York, United States

The Lipstick Building is a landmark building in the City of New York, located at Third Avenue and 53th Street in Midtown Manhattan, New York. It was designed by architects John Burgee and Philip Johnson (Glass House and Seagram Building, among other renowned works) and it is named after its elliptical shape and red façade. Its gross leaseable area is approximately 58,000 sqm and consists of 34 floors.

As of June 30, 2018, the building's occupancy rate was 96.9%, thus generating an average rent of US\$77.50 per sqm.

As of June 30,

	2018	2017	YoY Var
Lipstick			
Gross Leaseable Area (sqm)	58,092	58,094	-
Occupancy	96.9%	95.2%	1.7 p.p.
Rental price (US\$/sqm)	77.5	69.2	12.7%

During 2018 we have successfully refinanced the "Lipstick" building debt, reducing it from US\$ 113 million to US\$ 53 million, extending the term to April 30, 2020 and reducing the loan interest rate from the Libor + 4% to Libor + 2%.

Latham & Watkins occupies 40,035 sqm of the office and storage space on a lease expiring on June 30, 2021. In April 2018, Latham & Watkins communicated its intention of not be renewing its lease. For more information see "Risk Factors – Risks relating to our business in the United States"

Investment in Condor Hospitality Trust

We maintain our investment in the Condor Hospitality Trust Hotel REIT (NYSE: CDOR) mainly through our subsidiary Real Estate Investment Group VII ("REIG VII"), in which we hold a 100% interest. Condor is a REIT listed in NYSE focused on medium-class hotels located in various states of the United States of America, managed by various operators and franchises.

Condor's investment strategy is to build a branded premium, select service hotels portfolio within the top 100 Metropolitan Statistical Areas ("MSA") with a particular focus on the range of MSA 20 to 60. Since the beginning of the reconversion of the hotel portfolio in 2015, Condor has acquired 14 high quality select service hotels in its target markets for a total purchase price of approximately US\$277 million. In addition, during this time, it has sold 53 legacy assets for a total value of approximately US\$161 million.

As of June 30, 2018, the Company held 2,245,100 common shares of Condor's capital stock, accounting for approximately 18.9% of that company's capital stock and votes. The Company also held 325,752 Series E preferred shares, and a promissory note convertible into 64,964 common shares (at a price of US\$ 10.4 each).

On September 27, 2018, Condor has initiated a process to evaluate strategic alternatives to enhance shareholder value. This review process, which will be conducted with the assistance of financial and legal advisors, will consider the full range of potential strategic alternatives, which includes but is not limited to, acquisitions, business combinations, joint ventures, public and private capital raises, recapitalization, and sale transaction options. Condor has engaged KeyBanc Capital Markets as financial advisor and McGrath North as legal counsel to assist in the review and will engage such other advisors, as it deems appropriate.

Others

Our interest in Banco Hipotecario

As of June 30, 2018, we held a 29.9% interest in Banco Hipotecario. Established in 1886 by the Argentine government and privatized in 1999, Banco Hipotecario has historically been Argentina's leading mortgage lender, provider of mortgage-related insurance and mortgage loan services. All of its operations are located in Argentina where it operates a nationwide network of 64 branches in the 23 Argentine provinces and the City of Buenos Aires, and 15 additional sales offices throughout Argentina. Additionally, its subsidiary Tarshop S.A., a credit card and small loans company, has 24 sales offices, in which Banco Hipotecario holds 80% and IRSA CP 20%.

Banco Hipotecario is a commercial bank that provides universal banking services, offering a wide variety of banking products and activities, including a wide range of individual and corporate loans, deposits, credit and debit cards, insurance, brokerage, asset management and related financial services to individuals, small- and medium-sized companies and large corporations. As of February 28, 2018, Banco Hipotecario ranked eleventh in the Argentine financial system in terms of shareholders' equity and fifteenth in terms of total assets. As of June 30, 2018, Banco Hipotecario's shareholders' equity was Ps.8,719.2 million, its consolidated assets were Ps.81,717 million, and its net income for the twelve-month period ended December 31, 2017 was Ps.1,539 million. Since 1999, Banco Hipotecario's shares have been listed on BYMA (the Buenos Aires Stock Exchange), and since 2006 it has had a Level I ADR program.

Banco Hipotecario conducts its operations through the following business units:

- retail banking, which provides a full range of retail banking products and services to individual clients;
- wholesale banking, which provides a full range of commercial banking products and services to large Argentine companies, small and medium enterprises ("SMEs") and public-sector entities;
- finance, which manages our funding, excess liquidity and investments in securities; and
- insurance, which provides a wide range of life, property, unemployment and other insurance products to both wholesale and retail clients

Banco Hipotecario continues its business strategy of diversifying its loan portfolio. As a result, non-mortgage loans increased from Ps.14,845.9 million as of December 31, 2014 to Ps.17,944.7 million as of December 31, 2015, from Ps.24,305.4 million as of December 31, 2016 to Ps.35,810.7 million as of June 30, 2017 and to Ps.41,797 million as of June 30, 2018 increasing the interest in the aggregate loan portfolio to the non-financial private sector (without considering mortgage loans) from 84.1% as of December 31, 2014 to 90.6% as of June 30, 2018. Non-performing loans represented 4.5% of its total portfolio as of June 30, 2018.

Furthermore, Banco Hipotecario has diversified its funding sources, by developing its presence in the local and international capital markets and increasing its deposit base. Its financial debt represented 53.5% of the total financing as of June 30, 2018.

Its subsidiaries include BACS, a bank specialized in investment banking, assets securitization and asset management, BHN Vida S.A., a life insurance company, BHN Seguros Generales S.A., a homeowners' insurance company and Tarshop S.A.

Tarjeta Shopping S.A. is a company founded in 1995 that is dedicated to the issuance, processing and administration of credit cards, obtaining cash and consumer financing in stores. In 2010, Banco Hipotecario S.A. acquired an 80% of the company from us and the remaining 20% is held by IRSA CP.

Others Assets

La Rural (Exhibition and Convention Center) LRSA holds usufruct rights for the commercial operation of the emblematic “Predio Ferial de Palermo” (Palermo exhibition center) in the City of Buenos Aires. IRSA CP indirectly holds a 35% interest in it.

In July 2016, we acquired from FEG Entretenimientos S.A. 25% of the shares of EHSA, in which we already held 50% of the share. We also acquired a 1.25% interest in ENUSA from Mr. Marcelo Figoli. The aggregate acquisition price for such acquisitions was Ps.66.5 million.

In addition, immediately after its acquisition, we sold 5% of the shares of EHSA to Mr. Diego Finkelstein, who already owned a 25% equity interest. The sale amount was fixed in the sum of Ps.13.45 million. As a result, we now hold 70% of the shares in EHSA and Mr. Diego Finkelstein holds the remaining 30%.

EHSA holds, both directly and indirectly, 100% of the shares of OASA and 95% of the shares of ENUSA. OASA holds 50% of the voting stock of LRSA, a company that holds the right to commercially operate the emblematic “Predio Ferial de Palermo” in the City of Buenos Aires, and SRA holds the remaining 50%. In addition, OASA manages LRSA pursuant to agreements entered into with SRA that include the right to appoint the Chairman—with casting vote on certain matters—and the general manager of LRSA.

Furthermore, ENUSA is mainly engaged in organizing entertainment events for trade fairs.

On August 4, 2017, a 15-year concession agreement for the Exhibition and Convention Center of the City of Buenos Aires was executed by the joint venture "LA RURAL S.A. - OFC S.R.L. - OGDEN ARGENTINA S.A. – ENTRETENIMIENTO UNIVERSAL S.A. UNION TRANSITORIA", which was granted pursuant a public bidding process.

The members of the joint venture hold the following interests: (a) LRSA 5%; (b) OFC SRL20%; (c) OASA 55%; and (d) EUSA 20%.

The shareholders of LRSA are Sociedad Rural Argentina, which is the owner of a 50% interest, and OASA, which holds the remaining 50% equity interest.

OASA and EUSA are controlled companies of EHSA, whose shareholders are us, with a 70% interest, and Diego Finkelstein, who holds the remaining 30%.

Consequently, we indirectly hold a 50.0% interest in the joint venture.

The Exhibition and Convention Center has a surface area of approximately 22,800 sqm and may accommodate approximately 5,000 attendees. It has a main exhibit hall and an ancillary hall, offices and meetings rooms, arranged in three underground levels that were designed to blend into the landscape extending from the School of Law of the University of Buenos Aires to Parque Thays.

TGLT (real estate)

TGLT is a real estate company listed on the BYMA which is mainly engaged in residential development projects in Argentina and Uruguay. During fiscal year 2018, we sold approximately 3.7 million ordinary shares of TGLT, reducing our stake from 9.5% to 4.2%.

On August 1, 2017, we exercised our preemptive subscription and accretion rights and purchased 22,225,000 Subordinated Notes Convertible into Newly Issued Shares of TGLT for an aggregate amount of US\$22,225,000 (US\$ 1 par value) due 2027. If all the holders exercised their conversion rights under such Notes, the company's interest in TGLT would increase to 12.8% of its stock capital, up from 4.2%.

DirecTv Arena

DirecTv Arena is an indoor stadium with unique features intended for the performance of top-level international events, including sporting and events. The price set for the transaction amounted to US\$4.2 million. In this way, we continue to expand, through OASA, which also owns a stake in LRSA and in the new Convention Center of the City of Buenos Aires, its exposure to the activity of fair events and entertainment, which could generate synergies with the business of shopping centers.

OASA, which is indirectly controlled by us in a 70%, has acquired a 60% stake of 'La Arena S.A.' which developed and operates the stadium known as 'DIRECTV ARENA', located at kilometer 35.5 of the Pilar branch, Tortuguitas, in the province of Buenos Aires.

Avenida (e-commerce)

We hold a 17.84% interest in Avenida. Avenida is an e-commerce company. Recently, two of Avenida's principal investors, who decided not to inject any further funds in light of the significant losses recorded by them.

On January 20, 2017, Avenida issued shares of stock in a new round of investment seeking commitments for US\$3.8 million. We made a US\$460,000 contribution and capitalized a loan held with Avenida for US\$229,515 increasing our stake in Avenida to 17.84%. In such round, Avenida set apart 385,103 shares to be allocated to an equity plan.

Moreover, we hold a warrant entitling us to purchase up to 3,976,225 additional preferred shares at a price of US\$0.10 per share, exercisable until the earlier of the expiration of an 18-month term or the date a new equity security is issued, subject to certain conditions. If we exercise such warrants, our interest in Avenida's stock capital would increase to 25%.

In this context, Avenida has changed its management team and its business model and strategy.

Operations Center in Israel

Investment in IDB Development Corporation

Acquisition of Control of IDBD

On May 7, 2014, the Company, acting indirectly through Dolphin, acquired jointly with E.T.H.M.B.M. Extra Holdings Ltd., a company incorporated under the laws of the State of Israel ("ETH,") controlled by Mordechai Ben Moshé, entered into a transaction to acquire an aggregate of 106.6 million common shares in IDBD representing 53.30% of its stock capital, in the context of a debt restructuring transaction related to IDBD's holding company, IDBH. Under the terms of the agreement, Dolphin and ETH executed a Shareholders' Agreement and Dolphin and ETH each acquired a 50% interest in IDBD. The initial amount invested by each Company was NIS 950 million, equivalent to approximately US\$272 million at the exchange rate prevailing on that date. On October 11, 2015, IFISA (a company indirectly controlled by Eduardo S. Elsztain) acquired ETH, since that date, we started to consolidate IDBD into our financial statements ..

Tender Offers

On March 31, 2016, Dolphin satisfied its commitments under the debt restructuring agreement of IDBD's controlling company, IDBH, with its creditors (the "Arrangement"). Such amendment approved by 95% of IDBD's minority shareholders on March 2, 2016 and by the competent court on March 10, 2016. As a result, as of March 3, 2016: (i) Dolphin purchased all the shares held by IDBD's minority shareholders; (ii) all the warrants held by IDBD's minority shareholders expired; and (iii) Dolphin made additional contributions to IDBD in the form of a subordinated loan, as described below.

The price paid for each IDBD share to minority shareholders as of March 29, 2016 was: (i) NIS 1.25 million in cash, resulting in a total payment of NIS 159.6 million (US\$42.2 million); (ii) NIS 1.20 per share through the subscription and delivery of IDBD's Series I bonds ("IDBD Bonds") that was paid by Dolphin at par; therefore, it subscribed bonds for NIS 166.5 million, including the payments due to warrant holders; and (iii) the commitment to pay (a) NIS 1.05 million (subject to adjustment) in cash if Dolphin receives authorization to assume control of Clal Insurance Company Ltd. and Clal Insurance Business Holdings Ltd. Or (b) if IDBD sells its interest in Clal for a sale price per Clal share in excess of 75% of its book value NIS 155.8 million (approximately US\$40.8 million).

Any warrants held by minority shareholders that were not exercised as of March 28, 2016, would be convertible at a price equal to the difference (if positive) between NIS 2.45 and the warrant exercise price, and payable in IDBD Bonds. In addition, Dolphin made a capital contribution of NIS 348.4 million into IDBD, in exchange for a subordinated loan, convertible into shares.

As security for payment of each cash due to Clal shareholders, on March 31, 2016, Dolphin granted a pledge over 28% of the stock capital in IDBD it owns and its rights under a NIS 210 million subordinated loan made on December 1, 2015 due from IDBD. If IDBD issues new shares, additional shares shall be pledged until reaching 28% of IDBD's total stock capital.

Dolphin has committed to abstain from exercising its right to convert the subordinated loan into IDBD shares until the above mentioned pledge is released. However, if the pledge is enforced, the representatives of IDBH's creditors will be entitled to convert the subordinated debt into IDBD shares, up to a maximum of 35% of all IDBD shares outstanding.

On April 3, 2016, IDBD's shares were delisted from the TASE and all the minority warrants were cancelled. IDBD continues to be listed on TASE as a "Debentures Company" pursuant to Israeli law, as it has bonds listed on such exchange.

In March 2016, after the receipt of approval from the shareholders' meeting and the warrant holders of IDBD, and approval of the Court, the Debt Settlement in IDBH was amended with respect to the undertaking to perform tender offers for shares of IDBD (the "Amendment To The Settlement"). The Amendment To The Settlement included provisions according to which Dolphin acquired from the minority shareholders all of the shares of IDBD, in a manner whereby the control group began holding 100% of the shares of IDBD, which became a debenture company (as defined in the Companies Law). The consideration to the minority shareholders for the acquired shares, and the cancellation of the undertaking to perform the aforementioned tender offers, included: (a) payment, on March 31, 2016, in cash, of NIS 1.25 per share; (b) payment, on March 31, 2016, of NIS 1.20 per share, which was paid through debentures (Series I), in an amount which was determined based on their adjusted par value, and which were issued by IDBD against the transfer by Dolphin to IDBD of an amount equal to the adjusted par value of each debenture which was issued, as stated above; and (c) an undertaking to pay a total of NIS 1.05 per share, contingent upon the sale of shares of Clal or upon the receipt of a permit for control of Clal, in accordance with the conditions which were determined in the Amendment To The Settlement. Within the framework of the Amendment To The Settlement, Dolphin injected into IDBD a total of NIS 515 million (including, inter alia a subordinated loan in the amount of NIS 15, as stated above, and including the injection of funds against the allocation of debentures (Series I) by IDBD, and any amount which was injected into the Company within the framework of the exercise of the options). On March 15, 2016 and March 31, 2016, a total of NIS 85 million and NIS 248 million, respectively, was injected into IDBD, by Dolphin, as part of the implementation of the Amendment To The Settlement, as a subordinated loan convertible into shares of IDBD. Additionally, within the framework of the Amendment To The Settlement, all of the options for shares of IDBD which were held by the public expired, and the warrant holders of IDBD received payments or rights to payments in accordance with the alternatives which were determined in the Amendment To The Settlement.

Purchase of shares of IDBD to IFISA

In December 1, 2017, Dolphin executed a share purchase agreement pursuant to which Dolphin purchased all the shares that IFISA held of IDBD, which amounted to 31.7% of the capital stock. As of the end of December 31, 2017, Dolphin controlled 100% of IDBD's shares.

The transaction was made at a price of NIS 398 million (equivalent to NIS 1.968 per share and approximately to Ps.1,968 million as of the date of the transaction). As consideration of the transaction all receivables from Dolphin to IFISA have been canceled plus a payment of US\$ 33.7 million (equivalents to Ps.588 million as of the date of the transaction). This transaction was accounted in equity as a decrease in the equity holders of the parent for an amount of Ps.2,923 million.

As of the date of this annual report, the investment made from IRSA in IDBD and DIC is approximately US\$640 million, and IRSA's indirect equity interest reached 100% of IDBD's undiluted stock capital. For additional information

please see “Significant acquisitions, dispositions and development of business.”

Purchase of DIC's shares by Dolphin

On November 22, 2017, all of DIC's shares held by IDBD (106,780,853 shares) were transferred to Dolphin IL., wholly owned by Dolphin, which issued the debenture to IDBD, and a total of NIS 70 million as purchase price. Additionally, within the framework of the completion of the transaction, as part of the collateral which was provided by the buyer to IDB, in connection with the debentures, Dolphin IL. deposited 9,636,097 DIC shares with I.B.I. Trust Management, which serves as the trustee for the debenture on behalf of IDBD and Dolphin IL, in accordance with the debenture's terms.

It should be noted that the financial position of IDBD and its subsidiaries at the Operations Center in Israel does not affect the financial position of the Company and subsidiaries at the Operations Center in Argentina. In addition, the commitments and other covenants resulting from IDBD's financial debt do not have impact on the Company since such indebtedness has no recourse against us and it is not granted by IRSA's assets.

On May 6, 2018, IDBD agreed on a SWAP on shares of DIC held by third parties with a banking entity not related to the group for a period of one year with the possibility of extending an additional year. The total of shares subject to the agreement is 6,020,811 and the value of the swap at the time of subscription is on average NIS 10.12 per share, approximately NIS 60 million (approximately Ps.342 million on the day of the transaction). The present transaction will be settled in cash for the difference between the quotation at the end of the agreement and the agreed price. For this transaction, we have not increased its participation in DIC for this transaction and granted guarantees on certain financial assets.

As of June 30, 2018 we owned indirectly 76.57% of DIC and as of the date of this annual report we owned indirectly 77.92% of DIC, for more information see "Recent Developments."

For additional information please see "Operations Center in Israel" ..

IDBD's investee companies

As of June 30, 2018, the investee companies which are held by IDBD include IDB Tourism and Clal, which are presented under discontinued operations, as well as IDBG (50%) and Modiin Energy (18%), which are treated as investee companies accounted by the treated at the equity method.

DIC investee companies

As of June 30, 2018, the main consolidated companies directly held by DIC are Property & Building Ltd. (64.4%), Cellcom (43.1% in capital, 47.2% in voting rights), and Elron (50.3%).

In addition, other main investments include the debenture from Dolphin IL (which was received in the transaction involving the sale of the IDBD's holdings in DIC in November 2017, as stated above).

Segments

Within the Operations Center in Israel, the Company operates in the following segments through IDBD and DIC:

Real Estate (DIC)

PBC operates in Israel and in the United States, within two separate operating segments: the yield bearer property segment and the residential construction segment. PBC has other investments in agriculture. As of June 30, 2018,

PBC owns rental properties in Israel for approximately 1,175,000 square meters (as compared with approximately 1,170,000 square meters as of December 31, 2017), the HSBC Tower in New York with an area of approximately 80,000 square meters, which according to a valuation dated July 30, 2018 is estimated in an approximate amount of US\$ 920 million, and the Tivoli project in Las Vegas, with leasable area of approximately 31,000 square meters of office spaces and approximately 31,000 square meters of commercial space, as of June 30, 2018 the occupancy rate stands of approximately 68%, as well as land reserves of approximately 655,000 square meters in Israel.

PBC's properties in Israel and in the United States are as follows:

Areas rented for the use of offices and high tech industries ("Office and Hi-Tech Uses").

Business parks and office buildings for hi-tech industries. PBC has expertise in the provision of solutions for the special requirements of this industry, and builds designated buildings which are adjusted to the needs of the lessees, and also provides management services for those buildings.

Office buildings. PBC's office buildings are located in high demand areas, and most are leased, at high occupancy rates, generally for long lease periods. Areas for office use are characterized by areas used as parking lots, which constitute an inseparable part of the buildings. PBC's activities abroad mainly consist of the HSBC Tower on Fifth Avenue in New York.

Areas rented for industry, workshop, logistics and storage uses ("Industry and Logistics Uses").

PBC's areas for industry and logistics uses in Israel are characterized by areas with a large single space, service yards and large operational areas. In light of the rent which can be collected for areas of this kind, which is relatively low, and the fact that their construction generally requires construction on large areas of land, PBC concentrates, as do other companies operating in the segment, most of its industrial areas in periphery areas and in areas located close to airports and seaports. Shopping malls, commercial centers and recreational areas ("Uses for Commercial and Recreational Centers").

PBC's areas which are leased to commercial and recreational centers in Israel include commercial centers, which are located in central areas or areas near major junctions at highways from major cities, conference centers and recreational centers. The areas of PBC which are rented for commercial purposes abroad primarily include its share in the Tivoli project in Las Vegas.

PBC also provides management and maintenance services, primarily to lessees in areas which are used for office and commercial purposes.

Geographical distribution

PBC divides its properties into two main regions - Israel and the United States, and five sub-regions: in Israel - North, Center and South; in the United States - Northeast and West.

In Israel is primarily due the fact that, in Central Israel, rent is significantly higher than the average rent in Northern and Southern Israel. The common uses in Central and Northern Israel are offices, hi-tech and commerce, while in Southern Israel most properties are used for logistics and industry, as well as commerce.

In the United States, PBC's properties are located in various states, with different economic characteristics. In the United States rent in the Northeast is significantly higher than the average rent in the Western United States region, and vary by locations and uses (luxury office and commercial buildings in the Northeastern region, as compared to commercial centers in the Western United States region), as well as the location of the properties (large city centers such as New York, as compared to residential neighborhoods in the Western region).

However, even within each region (both in Israel and in the United States), there are differences among sites, as well as difference, in some cases, between the various properties in each site, due to the characteristics of the property.

Mix of lessees

The revenue-generating properties segment is characterized by a wide variety of customers, including large and small companies and business customers, as well as private customers.

PBC leases include mainly medium and longer term rental contracts, and in general, rental contracts in Israel involve unprotected leases, and rental rates are linked to the consumer price index. The policy of PBC is to prefer long term contracts with high-quality lessees.

Leased properties are tailored to the specific requirements of the customer. Given the cost of customizing properties to the lessee's specific needs, related for buildings of this kind are signed for long periods, and generally include options for the lessee to extend the term period. Additionally, some of the Group's lessees perform, at their own expense, improvements of the leased properties, and adapt them to their needs. Such investments by lessees are more efficient than transferring to other areas.

Presented below is a corporate chart of PBC and its subsidiaries, as of December 31, 2017

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(1)

Gav-Yam is a public company whose securities are listed for trading on the TASE. Most of Gav-Yam's activities are in the revenue-generating properties segment, primarily hi-tech parks, business parks, offices and logistical centers, as well as construction and marketing, together with a partner, of a residential neighborhood in Haifa. In June 2017, Gav-Yam issued to the public 131 thousand ordinary shares, for a total net consideration of NIS 196 million. As a result of this issuance, the holding rate of Property & Building in Gav-Yam decreased from 55.0% to 51.7%. As a result of the aforementioned sale, the Company recorded its share in the increase in capital attributed to the owners of in the amount of NIS 15 million

(2)

Matam is the rights holder to revenue-generating properties in Science Based Industries Park, one of the largest hi-tech industry parks in Israel, located in the southern suburbs of the city of Haifa.

(3)

Ispro is a wholly owned company of PBC, whose activities primarily include revenue-generating properties, primarily commercial centers and logistical areas.

(4)

Neveh-Gad - a private company wholly owned by PBC, whose activities are primarily in the residential construction segment.

(5)

Mehadrin is a public company whose securities are listed for trading on the TASE. Most of Mehadrin's activities are in the agricultural segment. Hadarim Properties and Phoenix Holdings Ltd. (which holds, through a wholly owned subsidiary, 41.4% of Mehadrin) are considered to be joint holders, by virtue of the shareholders agreement between them, of approximately 86.8% of the voting rights and of the right to appoint directors in Mehadrin.

(6)

PBC International Investments was incorporated in Israel for the purpose of operating in the field of revenue-generating properties and residential construction abroad, through foreign subsidiaries and associate companies. At the end of the liquidation PBC will hold PBC international's subsidiaries directly.

(7)

As of June 30, 2018, IDB Group USA Investments Inc. ("IDBG") is a company incorporated in the United States. IDBG was incorporated in 2005 and is held in equal parts by PBC and IDBD, for the purpose of investing in real estate projects in the USA. IDBG holds, together with additional investors, real estate corporations which operate in Las Vegas. The real estate corporation GW holds the rights to a commercial and office areas (which is being built in stages). Tivoli project ("GW" project) - As of proximate to the publication date of the report, IDBG holds, directly and indirectly, the entire share capital and voting rights of GW. The Tivoli project is comprised of three phases, in a space of approximately 868,000 square feet of retail, office and hotel space (in this section: the "Project"). The first two phases, in a space of approximately 670,000 square feet were completed and comprising of approximately 337,000 square feet of office, and approximately 333,000 square feet of retail. Occupancy rate as of the end of June 2018 is 68%. The third phase of the Project remains under development with no completion date specified at this time. IDBG obtained an independent third-party appraisal of its investment property. The valuation was performed mainly by discounting the future cash flows anticipated to be derived from the Project. The discount rates used by the independent appraisers was 8.5% as of June 30, 2018, and June 30, 2017, and was selected based on the type of property and its intended use, its location and the quality of the lessees. The capitalization rates used was 6.5% as of June 30, 2018 and June 30, 2017. The valuation concluded that the fair value of the property as at June 30, 2018 to be \$ 249 million (June 30, 2017 - \$268 million), including \$18 million in respect of a parcel of land adjacent to the Project – see below. Due to the change in fair value, IDBD incurred a loss of approximately \$ 22 million for the six months ended June 30, 2018 (June 30, 2017- \$ 70 million). GW has a mortgage loan from KeyBank that bears interest at the 30-day LIBOR (2.0% as of June 30, 2018) plus 5.0%. On January 3, 2018, PBC signed an amendment to the mortgage loan with KeyBank and extended the loan maturity date to December 31, 2018. As of June 30, 2018, the loan balance was approximately \$59 million, and GW is in compliance with interest reserve obligations under the loan. The mortgage loan is collateralized by a lien on the investment property. On January 3, 2017, IDBG signed an

agreement for the receipt of a loan from an Israeli financing institution for \$ 41.4 million. The loan bears an annual fixed interest rate of 7%. The loan principal will be repaid in a single payment at the end of 24 months. In the second quarter of 2018, PBC initiated an active program to locate a buyer for a parcel of land adjacent to the Project intended for multi-family residential development, which land was classified in investment property. In August 2018 PBC signed a contract to sell the land in consideration of \$18 million. The contract provides that PBC is entitled to additional consideration of up to \$2.5 million if certain conditions are achieved. The closing of the contract is subject to, among others, performance of due diligence procedures by the purchaser and receipt of certain local municipality approvals.

(8)

TPD Investment Limited (in England) – Until September 2017, PBC and DIC, through England Hotels - Property & Building Ltd. (a company wholly owned by PBC) (“Property & Building Hotels”) owned rights (20%) to TPD Investment Limited (“TPD” or the “English Company”), which primarily holds two hotels: the Hilton in London, and the Hilton in Birmingham, as well as the rights associated therewith (including approximately 1,900 hotel rooms (cumulatively) and conference halls). In March 2014, the English partner (the “English Partner”) in the English Company announced that refinancing had been performed, in which the English Partner announced, inter alia, to PBC, that it and its additional partnerholding rate was diluted, each, to 6.3%. After the failure of the negotiations which were conducted between PBC and the additional partner with the English Partner, PBC filed, together with the additional partner, in April 2014, a claim with the Court in London, demanding that the English Partner acquire their holdings in TPD, in accordance with their market value, as will be determined by the Court, as well as additional conventional remedies in accordance with English law (the “Claim”). In April 2017 PBC received a ruling from the English Court, according to which its English Partner in TBD and TBD are obligated to acquire PBC's rights and the other Partner's rights in TBD in an amount of GBP 48 million (50% to PBC). On September 29, 2017 this ruling was executed and the company received GBP 24 million.

The following are the main Rental Properties and Properties under development of PBC as of June 30, 2018:

Property's Name	Fair Value (in million of Ps.)	Date of construction	Date of acquisition by PBC	Banking / financial institution - Encumbrances
Commercial centers				
Kiryat Ono Mall	3,914	Nov-07	2007	-
Shopping Center Modi'in A	1,767	Aug-05	-	Bank
Ispro planet -BeerSheva -Phase 1 High-tech buildings, offices and industry	2,091	2016	-	-
HSBC	25,194	1927-1984	2010	Bank / Financial institution
Matam park - Haifa	12,822	1979-2015	1999	Bank
Herzeliya North	9,003	1996-2015	1970	-
Gav-Yam Center - Herzeliya	5,176	1997-2006	-	Bank
Neyar Hadera Modi'in Holon	1,665 1,925	2010-2016 1960-1985	2010	-
Gav yam park - Beer Sheva	2,407	2013-2018	2011	Bank and Financial institution
Others (including trade centers) Properties in construction	18,862	-	-	-
Ispro planet -BeerSheva -Phase 2	252	in progress	-	-
Amot tozeret H'aaretz	2,777	in progress	-	-
Others	1,806	-	-	-

Activities of PBC in the residential construction segment in Israel

PBC's residential construction segment develops and sells residential units. The residential units are developed within residential neighborhoods, including full environmental development and associated community services. PBC's residential construction segment also includes the identification and development of new lands including urban renewal projects (demolition-construction). As of December 31, 2017, the balance of approved construction rights for the projects in which PBC was a partner amounted to approximately 1,866 residential units (of which 1,127 units belong to PBC), where approximately 942 residential units are currently in construction (of which 680 units belong to PBC). In June 30, 2018, the construction of and marketing of 812 residential units. In the second quarter of 2018, 55 housing units were sold (as compared with approximately 80 housing units in the corresponding period last year). In the first half of 2018, 105 residential units were sold (as compared with approximately 160 residential units in the corresponding period last year). In the first half of 2018, PBC's revenues from the sale of residential units amounted to approximately NIS 194 million, as compared with approximately NIS 286 million in the first half of 2017. In the first half of 2018, 379 housing units were occupied, compared to 27 housing units in the corresponding period last year. PBC builds and markets, in the residential construction segment in Israel, as of June 30, 2018, approximately 812 residential units, of which 511 were sold, in 6 different complexes throughout the country.

In June 2018 Gav-Yam's General Assembly approved the transaction for a combination deal with Shufersal Real Estate (in this section: "Shufersal") regarding land of 8,800 sqm owned by Shufersal in Ra'anana. According to the agreement Shufersal will sell to Gav-Yam 69.5% of the land in exchange for Gav-Yam Building on the land a project of offices and retail with a total gross area of 41,000 sqm and a parking lot of 1,000 places. The validity of the agreement is subject to the fulfilment of the following conditions within 24 months of the signature date of the agreement: the transaction was also approved by Shufersal's general assembly. The transaction is conditional upon the approval of a detailed zoning plan for the project.

In July 2018, PBC issued NIS 507 million par value debentures (Series I) by way of expanding the series for a total gross consideration of NIS 500 million, which reflects an unlinked yield of 4.27%.

Supermarkets (DIC)

Shufersal is a public company, which is included under the Tel Aviv 35 index, which was incorporated in Israel, whose shares and debentures are listed for trading on the TASE. It is primarily engaged in the ownership and management of a supermarket chain - the largest and leading chain in Israel, in terms of sales volume. Shufersal is also active in the real estate industry and in the customer club credit card segment. In December 2017 Shufersal completed the acquisition of the entire share capital of New Pharm Drugstores Ltd. ("New Pharm"), which operates in the drugstore sector.

In June 2018, a transaction was completed in which DIC sold 16.6% of the issued share capital of Shufersal, for a total net consideration of NIS 848 million, according to which DIC's holdings in Shufersal decreased to approximately 33.6% and therefore ceased to be the controlling shareholder of Shufersal. Thus, after the date of the said sale DIC ceased to consolidate the financial statements of Shufersal.

Accordingly, commencing from the closing date of the said sale, Shufersal ceases to be classified as a "second tier company" (nor is it a "first tier company"), within the meaning of these terms in the Reduced Concentration Law.

Shufersal Group employs approximately 13.5 thousand employees and has an annual revenues of NIS 12.5 billion.

In Israel, the retail segment business's results are subject to seasonal fluctuations as a result of the consumption behavior of the population proximate to the Passover holidays (March and/or April) and Rosh Hashanah and Sukkoth

holidays (September and/or October). This also affects the balance sheet values of inventory, customers and suppliers. Shufersal revenues from cellular services are usually affected by seasonality with the third quarter of the year, which is characterized by higher roaming revenues due to increased incoming and outgoing tourism.

In 2018, the Passover holiday fell at the beginning of April, compared to 2017 when it was at the middle of April. The timing of the holiday affects Shufersal's sales and special offers in the second quarter of 2018, compared to last year. The Passover holiday in the second quarter of 2018 had a smaller effect on Shufersal's results than in the corresponding quarter in 2017, therefore analysis of the results for the first half of the year compared to the corresponding period in 2017 better represents the changes between periods.

On June 5, 2018, a wholly-owned subsidiary of Shufersal entered into an agreement with Amot Investments Ltd. ("Amot") whereby the subsidiary Amot will acquire 25% of the lease rights that Amot has in vacant real estate in the Modi'in industrial zone, (in this section: "the Project"), where the parties to the project will be 25% of the subsidiary and the remaining 50% will be regarded to Amot, in unspecified parts, and Shufersal will lease the logistics center, which will serve as an automated center for the Shufersal's online operations. The total investments in respect of the establishment of the automated centers in Modi'in and Kadima, as aforesaid, are estimated at approximately NIS 600 million, with most of the said amount being in respect of the payment for the automation equipment and construction, and will be spread over a period of four years.

Shufersal operates in four operating segments: the retail segment, the real estate segment, the credit card customer club management segment and, as from December 31, 2017, the New Pharm segment, as described below:

Retail segment. This segment includes the retail marketing of food and other products in Shufersal branches and the manufacture of frozen and fresh baked products that are sold mainly in the Shufersal's branches. As of June 30, 2018, Shufersal operated 276 branches (as compared with 272 and 277 branches at the end of 2017 (same as 2016) and 2015, respectively').

Shufersal owns the largest supermarket chain in Israel in terms of sales volume.

As of December 2017, Shufersal operates two branches of this Segment, the "Discount Discount Group" and the "Group of Neighborhood Branches". These two groups include four different formats in the retail segment, including an on-line format "Shufersal Online" and organic food stores, throughout the country, with the aim of satisfying its customers and providing them a buying experience that differs and varies in each of the formats. Shufersal have a mix of varied products organized in a number of sales departments and sub departments in each store, including, in the health areas that were placed in part of the branches, and it includes, among other things, products sold under the private label of Shufersal, with the view of offering the consumer a quality product, strengthening price perception (a quality product for cheaper prices than similar products in the same category), developing consumer loyalty and improving profitability of the categories in which the private label is sold. The area of manufacturing frozen and fresh baked products is operated by a wholly owned subsidiary of Shufersal.

Real estate segment. The real estate activities of Shufersal were separated, beginning on April 1, 2013, into Shufersal Real Estate Ltd. ("Shufersal Real Estate"), a wholly owned subsidiary whose assets include both branches which are rented to Shufersal (which are classified in Shufersal's Consolidated Financial Statements as fixed assets) and real estate properties which are rented out to third parties (which are classified as investment property). The aforementioned properties do not include Shufersal's logistical center in Rishon Letzion (including the attached branch), and Shufersal's new logistical center in Shoham. The real estate activity includes: (A) Real estate development as an independent business segment; and (B) Integrating Shufersal's primary activity in the retail segment, including: development of existing properties, acquisition of lands for future development and operating regional and local operating branches, and improving surrounding commercial areas to increase the scope of activity in the complex. The neighborhood branches group: 80 branches in the neighborhood branch format ("My Shufersal"), with an emphasis on offering convenience, availability, and personalized service, as well as 51 branches in the very small branches format in neighborhoods and city centers, operated primarily by franchisees ("Shufersal Express"); The activity in the neighborhood branches group also includes the "Organic Market" activity. Shufersal operates, as of December 31, 2017, and 70 health markets throughout the country, under the brand "Green," and also operates 5 independent stores under the brand "Organic Market."

Presented below are details regarding the real estate properties which are owned by Shufersal Real Estate as of December 31, 2017:

	Number of properties	Total area (thousands of square meters)	Fair value (NIS millions)	Rent and annual management fees (NIS thousands) in 2017(2)	NOI (NIS thousands) in 2017 (3)	Average yield
Branches rented to Shufersal	70	Approx.131	1,702(1)	125,051	118,311	7.1%
Properties under construction which will be rented to Shufersal and to externals	2	Approx.5	21(1)(5)	-	-	-
Real estate properties which will be rented to externals (4)	2	Approx.50	84	-	-	-
Real estate properties rented to externals	20	Approx.54	504	43,091	23,977	4.7%
Total	94	Approx.240	2,311	168,142	142,288	6.5%

(1) The fair value is in accordance with the presentation of these properties in the books of Shufersal Real Estate. In the books of Shufersal, these properties are classified according to their amortized cost of acquisition, and not at fair value.

(2) Including income from Miscellaneous.

(3) NOI at Shufersal Real Estate - Shufersal Real Estate's gross profit in annual terms.

(4) Not including lot areas regarding which, in 2016, a zoning plan was approved which permits construction at a scope of approximately 40,000 built square meters, Some of which are classified in Shufersal's financial statements as a branch, and that branch in 2017 amounts to approximately NIS 11 million.

(5) The balance of the depreciated cost in Shufersal's books is approximately NIS 998 million.

Until January 11, 2018, the credit-card company that issued the credit cards to the Shufersal's customers was Leumi Card Ltd. ("Leumi Card"), by virtue of an agreement dated July 19, 2006 between the parties, for issuance and operation of the credit cards to the Shufersal's customers. On August 28, 2017, Shufersal notified Leumi Card that it did not wish to renew the Leumi Card agreement, and accordingly, the agreement was terminated on January 18, 2018.

As of January 18, 2018, the credit cards are issued to Shufersal's customers by Israel Credit Cards Ltd. and Diners Club Israel Ltd. (jointly - "CAL"), pursuant to a memorandum of understanding signed between Shufersal and CAL on November 2, 2017.

During the first half of 2018, Shufersal began to establish the new credit card club, during which 400,000 tickets were issued.

Accordingly, on April 24, 2018, Shufersal was served with a statement of claim filed by Leumi Card together with an application for temporary injunctions against Shufersal and against the accountants of Shufersal Finances, Limited Partnership (the "Partnership", PwC) and the general partner of the partnership. In the framework of the claim, the court was asked, among other things, to issue an order declaring that all of Shufersal credit card activity (with all of its income driven from it) belongs to the Partnership and as such must be performed by it and even if the issuance and

operation services are provided by a company other than Leumi Card. In addition, Leumi Card claimed that that the options granted to Shufersal and Leumi Card in the partnership agreement are valid and have not expired. Moreover, they requested to appoint a valuator for the purpose of valuing the partnership. Shufersal rejected all of the said claims and requested the Court to dismiss it in limine. On May 28, 2018, Shufersal and Leumi Card notified the Court that the said dispute was transferred to a mediator. At this preliminary stage it is not possible to estimate the chances of this claim or the mediation process.

New Pharm segment. Following completion of the transaction to acquire New Pharm Drugstores Ltd. on December 20, 2017 by Shufersal, the activity of the New Pharm segment constitutes a reportable segment for Shufersal. As of December 31, 2017 New Pharm operates in the drugstore sector through 63 branches that sell mainly cosmetics, convenience and toiletry products, medicine and food supplements. As of December 31, 2017, was not include results of New Pharm for the period from the date of completing the transaction to the reporting date due to immateriality. In Shufersal's estimation, New-Pharm's market share in 2017 accounts for 4% of the total pharmaceutical market.

Telecommunications (DIC)

Cellcom is a public company which was incorporated in Israel, whose shares are listed for trading on the TASE and on the New York Stock Exchange, and whose debentures are listed for trading on the TASE.

Cellcom operates and sells to its customers various communication services. Cellcom's activity is divided in two main segments, "Cellular" and "Fixed-line". The cellular segment includes the cellular communications services, end user cellular equipment and supplemental services. The fixed-line segment includes landline and long distance telephone services, internet infrastructure and connectivity services, television services, transmission services end user fixed-line equipment and supplemental services.

In June 2018, Cellcom issued shares and options to the public in Israel and received net proceeds of NIS 275 million. In addition, in June 2018, DIC entered into a swap transaction with a banking institution in connection with Cellcom shares, whereby DIC acquired an additional 1% of the issued and paid-up share capital of Cellcom (the "Swap Transaction"). The Swap Transaction is a differential transaction only, for a period of 90 days, at the end of which DIC will be obligated to resell the said shares. As part of the said issuance, DIC acquired shares and warrants for Cellcom shares at a cost of NIS 146 million. Following the swap transaction and DIC's participation in the issue, after completion of the issue, DIC holds 43.1% of the issued and paid-up share capital of Cellcom (not including the swapped shares) and 46.33% of the voting rights in Cellcom (directly and indirectly).

Cellular Segment. Cellcom's activity in the mobile segment includes the provision of mobile communication services in Israel, the sale of mobile equipment to end users, and other supplementary services. Cellcom holds a general license from the Ministry of Communication which is valid until the end of January 2022 (the "Mobile License"). - At the end of the second quarter of 2018, Cellcom had approximately 2.809 million cellular subscribers. During the second quarter of 2018, Cellcom's cellular subscriber base decreased by approximately 13,000 net cellular subscribers. This decrease resulted mainly from the removal M2M (machine to machine) subscribers from Cellcom's cellular subscriber base, according to Cellcom's active cellular subscriber calculation method. Cellcom offers a broad range of cellular services through our 2G, 3G and 4G network. There is intense competition in all aspects of the cellular communications market in Israel, with a penetration rate (the ratio of cellular subscribers to the Israeli population) of approximately 121%, representing approximately 10.6 million cellular subscribers as of December 31, 2017, and the average annual churn rate in Israel in 2017 is estimated to be 37%, higher than the churn rates in other developed economies. Cellular's churn rate for the second quarter of 2018 totaled to 12.6%, compared to 10.8% in the second quarter of 2017. The monthly cellular Average Revenue per User ("ARPU") for the second quarter of 2018 totaled NIS 51.8 (US\$14.2), compared to NIS 57.0 (US\$15.6) in the second quarter last year. The decrease in ARPU resulted mainly from the ongoing erosion in the prices of cellular services, resulting from the intense competition in the cellular market.

Cellcom compete for market and revenue share with seven other cellular communications operators: four mobile network operators (Partner, Pelephone, Hot Mobile and Golan) and three mobile virtual network operators (Rami Levy Hashikma Communications Marketing Ltd., or Rami Levy, Azi Communications Ltd., or Azi, and Cellact Communications Ltd., or Cellact). Xfone won frequencies in the 2015 4G frequencies tender and received a cellular license in 2017. In April 2018, Marathon 018 Xfone Ltd., with which Cellcom entered into a network sharing and hosting agreement, commenced operating in the Israeli cellular market.

These services include basic cellular telephony services, text and multimedia messaging, advanced cellular content and data services and other value-added services, and also offers international roaming services, a wide selection of handsets from various leading global manufacturers and repair services on most handsets offered by us. Not all services are supported by all handsets or by all of their networks.

End user equipment - Creating a connection between transactions for the provision of mobile services and transactions for the acquisition of end user equipment (including by way of the provision of airtime refunds for the acquisition of end user equipment) is prohibited in Israel. This prohibition has resulted in increased competition on the market. The increasing competition in the mobile device sales segment has resulted in a decrease in the scope of mobile devices sold by Cellcom.

Cellcom provides Golan national roaming services under our Sharing Agreements and we provide the Joint Corporations services as a subcontractor.

Basic cellular services

The main cellular service is basic cellular telephony and data transfer, upload and download (in supporting handsets). Both are included in packages price plans. In addition, Cellcom offers many other services with enhancements and additional features to our basic cellular telephony service, including voice mail, cellular fax, call waiting, call forwarding, caller identification and conference calling.

Data services can be used with handsets (in supporting models), cellular modems and tablets. Cellcom provides their customers with a variety of "internet data packages" for that purpose.

Cellcom also offers both an outbound roaming service to our subscribers when traveling outside of Israel and an inbound roaming service to visitors to Israel who can "roam" on our network.

Value-added services

In addition to basic cellular telephony and data services, Cellcom offers many value-added services, such as SMS and MMS, cloud backup and content services such as "Cellcom Volume" (music application) and "Cellcom tv" application. Business subscribers are offered with multi SMS, M2M (machine to machine), "Double Net" services allowing combined usage of cellular and landline networks in order to insure continuous service, work force management, vehicles management applications and IOT (internet of things) solutions such as "smart city" end-to-end cellular and fixed line solutions.

Handsets

Cellcom sells a wide selection of handsets (which for purposes of this report may include other types of communications end-user equipment, such as tablets) designed to meet individual preferences. Prices of handsets vary based on handset features and special promotions. Cellcom offers a variety of installment plans for handsets and discounts for short term installment plans, although in most cases, handsets are to be paid for in 36 monthly installments. Cellcom is also required to provide cellular services to subscribers who did not purchase their handsets from it, provided that the handset model complies with the standards set by the Ministry of Communications.

Cellcom also sells modems and tablets to promote our data services. In addition, Cellcom sell added value products to our customers, such as smart watches.

Fixed line segment. Cellcom's activity in fixed line services include our internet infrastructure (for private customers based mostly on the landline wholesale market and for business customers based on our landline infrastructure) and connectivity services, Over the Top TV services ("OTT TV") services, ILD services, landline telephony services and transmission services (for business customers). Cellcom also offers bundles of these services, including a triple offering (internet service including infrastructure and connectivity, landline telephony, TV service) and quatro offering (internet services, landline telephony, TV service and cellular services). Cellcom also offers landline transmission and data services to selected business customers and telecommunications operators (including transmission revenues from Golan according to the network sharing agreement as of March and April 2017), using our fiber-optic infrastructure and complementary microwave links, IP switchboard services and operation and management of business telecommunications systems. Additional services include cloud services and data protection products solutions based on products and services offered by us and by third party vendors and IOT solutions such as

"smart city" end-to-end cellular and fixed line solutions.

Internet infrastructure and Connectivity

Cellcom is a major provider of internet connectivity services. Prior to the formation of the landline wholesale market, the Israeli internet market was characterized by a separation between the internet infrastructure providers (mainly Bezeq and Hot) and the internet connectivity service providers. Consequently, the internet customer was required to enter into a contractual arrangement with both types of these providers. The infrastructure provider is responsible for the connection of the customer from his computer or other device to the infrastructure provider's operator. The internet service provider is responsible for providing access to the customer from the infrastructure provider's operator, through its own operator, to the local and global internet network. As of May 2015, following the inception of the landline wholesale market, Cellcom (and other operators) provides end-to-end internet service (infrastructure and connectivity) using Bezeq's infrastructure. Cellcom sells internet infrastructure services bundled with internet connectivity, as well as with our other services.

As of June 30, 2018, Cellcom provides end-to-end internet service, to approximately 248,000 households. In the second quarter of 2018, Cellcom's subscriber base in the internet infrastructure field increased by approximately 13,000 net households.

In addition, Cellcom offers their internet subscribers value added services, such as data protection services to our private subscribers and connectivity integration solutions and global communications solutions to their business customers, including firewalls, anti-virus and anti-spam software, overseas internet connectivity services and server hosting services. In addition, Cellcom provides internet connectivity services that offer the ability to filter the content viewed by the internet users.

OTT TV services

As of December 2014, Cellcom offer OTTTV services, branded 'Cellcom tv' mostly to private customers. Cellcom tv is a hybrid OTT-DTT TV service provided to the Israeli market. The service includes a set-top box that enables linear channels, including based on the Israeli digital terrestrial television (DTT) broadcasting, other commercial channels and Video on Demand library subscription (SVoD), music streaming service and additional advanced features such as cloud recording and VoD playlist channels, for a highly competitive price. Cellcom tv service can generally also be accessed by smartphones, tablets, Smart TV and additional TV services' equipment like Apple TV and Android TV devices (TV anywhere). Our VoD catalogue and linear channels offer international and local content from top content suppliers. As of June 30, 2018, Cellcom provides OTT TV services to approximately 195,000 households. In the second quarter of 2018, Cellcom's subscriber base in the TV field increased by 11,000 net households.

International Long Distance (“ILD”) services

Cellcom is one of the major players in the Israeli ILD market. Our principal service in the ILD market is the provision of outgoing and incoming telephone calls with substantially worldwide coverage. Cellcom provide these services mostly to post-paid customers, but also to pre-paid customers mainly through the sale of calling cards. Most of the customers of the pre-paid services are foreign workers who reside in Israel.

In addition, Cellcom provides "Hubbing" services to non-Israeli international operators. Hubbing services are bridging services between two non-Israeli international operators. Such services are provided where there is no direct connection between two non-Israeli international operators or where pricing differences in different locations make such bridging service desirable.

Landline telephony services

Cellcom offers advanced, voice and data landline services to selected business customers. Cellcom also offers basic landline telephony services to private customers by VOB technology. Landline telephony service enables an end user to conduct a telephone conversation with another end user who uses either another landline or a cellular telephone or computer, either in Israel or overseas.

Cellcom estimates that their current market share in the Israeli landline telephony market is not material.

Internet of Things (“IOT”)

IOT solutions provide the ability to connect various devices to the internet. Cellcom, together with strategic partners, offers IOT solutions based on a variety of communications solutions, including landline (WiFi) and cellular. Cellcom offers smart city solutions which include a central management and control system to manage the various solutions, water and electricity meter readout from a-far, smart parking, smart and efficient street lighting, smart cameras which

include analytic capabilities for security solutions, smart sensors for efficient waste disposal, various environmental factors and flood alert, stress buttons for educational institutions as well as WiFi and broadband communication capabilities in public areas.

Internet services - access and infrastructure – Bezeq and Hot are the two main internet infrastructure providers for the private sector. Also they are the only groups that own infrastructure which offer internet infrastructure services to both for to the internet access providers and to end user customers. Bezeq also provides internet infrastructure services to operators which do not own infrastructure, within the framework of the wholesale landline market. In 2014, IBC also began distributing its infrastructure and providing broadband services in select areas. IBC's license allows it to provide broadband infrastructure services on the fiber optic infrastructure of the Electric Corporation to other license holders, and to large business customers. In 2016, IBC's shareholders announced their intention to raise capital by introducing additional investors. As of the reporting date, Cellcom is evaluating the possibility of investing in IBC. As of September 30, 2017, internet infrastructure services were provided by Bezeq and Hot to approximately 1.12 million and 706,000 households in Israel, respectively, with an immaterial quantity by IBC.

Internet services are provided, as of the reporting date, by the three major internet providers: Cellcom, Bezeq International, Smile Telecom (a subsidiary of Partner) and additional small providers, including Xfone Communication Ltd. As of December 31, 2017, Cellcom had approximately 222,000 households subscribed to our end-to-end internet services. The internet provider market is highly competitive, saturated and characterized by relatively low barriers to entry. The competition primarily focuses on the ability to offer high internet connectivity speeds relative to price. Internet infrastructure service is not provided yet using Hot's infrastructure (maximum tariffs for Hot's wholesale internet infrastructure services - higher than those set for Bezeq's services - were published by the MOC on June 2017) and it is unclear when the service will be offered. Effective inclusion of Hot's infrastructure in the wholesale market may increase the amount of potential subscribers to Cellcom's triple play and bundle offerings.

In August 2018, following Cellcom's previous reports regarding a possible investment in Israel Broadband Company, or IBC, Cellcom, the Israeli Electric Company, or IEC, IBC and the other shareholders and main creditors of IBC have entered a memorandum of understanding, for an investment by Cellcom in IBC. By means of IBC's licenses. IBC has the exclusive right to deploy fiber optic over IEC's infrastructure. The MOU outlines the principles of the transaction contemplated by the parties and in addition to standard and customary conditions contains the following stipulations:

With respect to the terms of the transaction, Cellcom Israel (by itself or with a group of investors it may arrange) will own 70% of IBC's issued and outstanding share capital and the other 30% of IBC's issued and outstanding share capital will be owned by IEC. The consideration will be a total amount of approximately NIS 100 million and shall be used to settle generally all of IBC's debts.

The transaction is subject to entering a definitive agreement and certain other documentation (including an updated agreement of IBC with IEC and an IRU broadband service agreement between Cellcom and IBC), or the Agreement, within a certain period from the MOU execution.

The MOU also contains precedent conditions precedent to the closing of the transaction, including regulatory approvals (including with regards to the change of IBC's deployment obligations) and tax arrangements.

The terms of the Agreement are subject to further negotiations between the parties and approval of Cellcom's Board of Directors. If entered, the execution of the transaction will be subject to the said conditions precedent, including regulatory approvals. There is no assurance that the parties will enter into the Agreement, or that such Agreement will be approved and executed, nor as to its timing and terms.

Furthermore, in August 2018, the Minister of Communication, ("MOC"), resolved to allow IBC to apply for a general unique (infrastructure) license that the MOC intends to regulate, in lieu of its current license. The new license will

include, among others, a deployment requirement to at least 40% of Israel's households in 10 years from receipt of the license, as opposed to a universal deployment requirement in IBC's current license.

Multi-channel television services – Multichannel pay-tv services are dominated by Hot (the incumbent TV provider and monopoly in this field) and YES (a subsidiary of Bezeq) with approximately 797,000 and 597,000 households, respectively, as of September 30, 2017. Cellcom began operating in this segment at the end of December 2014, through a hybrid television service which includes DTT broadcasts (television channels provided by the digital cable television broadcast network which operates in Israel and is distributed for free by the Second Authority for Television and Radio (Idan+) (“DTT Broadcasts”) and OTT TV services (television over internet), with approximately 170,000 households subscribed to Cellcom tv services as of December 31, 2017. In June 2017, Partner launched its OTT TV solution which includes Netflix's (American internet based VOD content provider) application integration (and offering for a limited period), and in August and October 2017, respectively, Hot and Yes each launched an OTT TV low cost brand solution – branded Hot Next and Sting, respectively (Hot's OTT TV solution is also to be marketed by Rami Levy). Also, Netflix and Amazon Prime, another American internet based VOD content provider, provide their services to viewers in Israel, as complementary service to the existing competitors' content. In March and September 2014, the Antitrust Commissioner published the following requirements as a condition for the merger in the Bezeq group, in order to facilitate opening up the multi-channel television market to competition by reducing barriers to entry in the television segment: (1) in general, Bezeq will not charge a fee to internet providers with respect to the consumption of internet provider services which are due to multi-channel television broadcasts, and all of the existing exclusivity arrangements to which Bezeq and Yes are party will be canceled, with respect to non-original production television content, and the engagement of exclusivity arrangements of this kind will be prohibited in the future; and (2) The Bezeq / Yes group will allow new television service providers to acquire certain original productions of Bezeq for two years. The legal merger between Bezeq and Yes was completed in 2015.

International call services - Cellcom is a large provider of international call services. Cellcom's main competitors are Bezeq (through its subsidiary - Bezeq International) and Partner (through its subsidiary - Smile Telecom), and additionally, there are other competitors, such as Xfone Communication Ltd., Rami Levy, Golan and Hot, through their wholly owned subsidiaries or related companies. As of September 30, 2016, Cellcom's market share is estimated at approximately 20%, Bezeq International at approximately 35%, Smile Telecom at approximately 24%, and Hot-Net at approximately 12%. The international call service market is highly competitive, with the competition primarily based on the operator's ability to offer attractive pricing. Regulatory changes in this market have resulted in increased competition. In recent years, the use of alternative communication technologies, such as voice over IP, have resulted in reduction of the telephone market, and particularly, international telephone services. This trend is expected to continue in the future at a moderate rate. This trend, together with the inclusion of international telephone services in mobile service and landline service communication packages at no additional charge, have resulted in a decrease in income from these services. The adoption of the proposed changes in regulation of the international telephone services market, which includes the possibility for offering international telephone services by landline operators and the mobile operator themselves, and not through separate companies, may increase competition and adversely affect Cellcom's results of operations.

Local landline services - The landline telephone market has been controlled for many years by Bezeq, a monopoly in the landline telephone market, which held approximately 2/3 of the landline telephone market share (and a larger market share among business customers), according to the publications of the Ministry of Communication, and Hot. Additional providers in the landline telephone services market include Cellcom, Netvision (wholly owned by Cellcom), Partner-012 Smile and Bezeq International.

Cellcom's penetration into the landline telephone market is an important component in Cellcom's ability to offer a comprehensive package of services to its subscribers. As of the reporting date, Cellcom offers landline telephone services to business customers, and through VOB technology, to its private customers.

Cellcom estimates that its market share in the landline telephone services market is immaterial. Insofar as the wholesale landline market will include landline telephone, Cellcom will be able to offer home landline telephone services to its private customers through the wholesale market. According to Cellcom's second quarter 2017 results, in June 2017, the Ministry of Communications published regulations setting Bezeq's resale telephony service to be provided by Bezeq as of July 2017, as a temporary 14 month alternative for wholesale landline telephony service. In addition, the Ministry of Communications resolved that Bezeq's obligation to offer wholesale telephony service, which was to be offered by Bezeq as of May 2015, will be postponed until the lapse of said resale telephony service period. The resolution further notes that the Ministry of communications will consider the resale telephony service as a permanent replacement of the telephony wholesale service. The tariffs set for the resale telephony service are substantially higher than those set for Bezeq's telephony wholesale service. The Ministry of Communications is holding a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion.

Other landline services - transmission services and data communication services are provided by Bezeq, Hot, Partner and Cellcom, and are intended for business customers and communication operators. In 2016, the competition in this segment increased, primarily due to the plans offered by Hot and Partner.

Fixed assets and facilities

Most of Cellcom's fixed assets include the mobile network equipment, which includes base sites which are distributed throughout the country, which provide broad communication coverage for the vast majority of populated areas in the country, as well as a transmission network (which includes optic fibers in a total length of approximately 1,900 km., and microwave infrastructure), which provides connectivity for Cellcom between most of its base sites, and through which Cellcom also provides, to select business customers, transmission services, data transfer and advanced landline communication services. In 2018, Cellcom's Long-Term Evolution ("LTE") network covers most of the population of Israel and in 2018 Cellcom intends to continue the deployment of this network in order to enable higher data throughput rate.

Cellcom has a backup network for disaster recovery with respect to its engineering systems, which was intended to increase network resiliency in case of damage to one of its components, and has adopted a business continuity plan and a disaster recovery plan in accordance with the requirements of its license.

During the first quarter of 2018, Cellcom invested NIS 146 million (US\$42 million) in fixed assets and intangible assets and others (including, among others, investments in the Cellcom's communications networks, information systems, software and TV set-top boxes and capitalization of part of the customer acquisition costs as a result of the adoption of IFRS 15), compared to NIS 140 million (US\$40 million) in the first quarter 2017.

As of December 31, 2017, Cellcom rents 78 service centers and points of sale. Additionally, Cellcom rents from various entities sites for the purpose of the construction, maintenance and operation of communication facilities which are used in Cellcom's communication network. Based on past experience, Cellcom encounters difficulties in extending the leases of approximately 5% of the sites used for communication facilities.

In June 2013, Cellcom renewed the permission agreement with the Israel Land Administration, which manages the lands of the Development Authority and the Jewish National Fund, for the use of land for the construction and operation of small broadcast facilities.

The permission agreement determined that, subject to the receipt of advance approval from the land managers, which will be given at the request of Cellcom with respect to each site, Cellcom is entitled to build and operate transmission facilities on land, during the permission period, and specific permissions and contracts which will be signed following the permission agreement are cancelable by the land managers, by providing advance notice, in case of certain events. Additionally, the permission agreement includes a prohibition on the transfer of control of Cellcom without providing a definition of the term control for this purpose.

Cellcom has two main rental properties in Israel: (1) A long term agreement for its technological center in Netanya, with an area of approximately 11,000 square meters. The rental is for a period of ten years, from August 2011, and Cellcom has the option to extend the agreement for an additional period of 5 years, while in the event that Cellcom does not exercise the option, it will be required to pay compensation of approximately NIS 11 million. In January 2015, Cellcom rented approximately 1,100 square meters through a sublease for a period of five years, and in 2016, Cellcom rented, through a sublease, an additional area of approximately 5,000 square meters, for a period of 6 years.

The sublessees have the option to extend the sublease for an additional period, under certain conditions; and (2) A long term agreement for Cellcom headquarters in Netanya, with an area of approximately 58,000 square meters (of which, approximately 26,000 square meters are used for underground parking) until December 2022, which can be extended by two additional periods of 5 years each. beginning in 2015, Cellcom has leased, through subleases, approximately one quarter of the leased area for periods of up to five years. The lessees have the option to extend the sublease for additional periods. Cellcom also has two additional properties which it leases: one in Haifa, with an area of approximately 8,900 square meters, and the other in Rosh Ha'ayin, with an area of approximately 3,300 square meters.

Intangible assets

Cellcom has the right to use frequencies for the provision of communication services in its communication networks.

In July 2018, following the Cellcom's previous reports regarding a frequencies migration Cellcom shall be required to execute to accord to European standards, the Ministry of Communications, or MOC, notified Cellcom that its 850MHZ frequencies allocation shall expire on February 1, 2022 and replaced by 900MHZ frequencies no later than March 22, 2021. The method and schedule in which such replacement will be executed, including interim frequencies allocations as required, shall be formed separately. The MOC noted Cellcom may use an interim leniency to the Planning and Building Law, allowing, under certain conditions, replacement of cell sites without obtaining a building permit. Cellcom is examining the implications of the MOC's notification and possible courses of action.

In August 2015, Cellcom was allocated 3 megahertz ("MHz") in the 1800 MHz range for 4G networks (in light of Cellcom's existing 1800 MHz frequencies). As opposed to the frequencies which were provided in the past to Cellcom, which are valid during Cellcom's license period, the frequencies won by Cellcom, as part of the tender, were provided for a period of 10 years. Additionally, in order to provide optimal performance on the 4G network, Cellcom will require additional frequencies beyond those which were allocated to it in accordance with the 4G frequencies tender, and due to the fact that the Ministry of Communication believes that, for this purpose, Cellcom will clear 12 MHz in the 1800 MHz frequencies which were allocated to it for the purpose of the 2G network, Cellcom cleared such frequencies in locations where the low use of the 2G network, in combination with advanced and modern software programs which allow it, with minimum adverse impact on the performance of the 2G network. Additionally, insofar as the network sharing agreements with Electra and Xfone, are realized, Cellcom will be able to enjoy 10 MHz in the 1800 MHz frequencies of Golan and Xfone. If the aforementioned frequencies are not provided to Cellcom, Cellcom will hold a lower number of frequencies than its competitors, which may result in harm to Cellcom's competitive position.

The Ministry of Communication is evaluating the possibility of replacing 850 MHz frequencies with 900 MHz frequencies. This process will require Cellcom to perform significant investments in its networks.

Cellcom is a member of the GSM association, which includes various operators from all over the world which use GSM technology, and which meet the standards of the association. As a member of the association, Cellcom is entitled to make use of the association's intellectual property rights, including use of the GSM logo and trademark.

Cellcom has rights to a large number of trademarks and trade names which are registered under the names of Cellcom and Netvision, as applicable. Additionally, several patents are registered under Cellcom's name.

In addition, the Ministry of Communication announced it intends to publish a 5G frequencies tender in 2018 or thereafter.

Insurance (IDBD)

Clal

In August 2013, the Commissioner of the Capital Market, Insurance and Savings appointed a trustee for most of the Company's holdings in Clal Holdings Insurance Enterprises, and in December 2014 a time outline was established for the sale of its holdings of Clal Holdings Insurance Enterprises ("The Outline"). In April 2017, a ruling was given in which the Court ordered the trustee to sell 5% of the IDBD's holding in Clal, within 30 days ("The ruling"). In May and August 2017, and in January and May 2018, IDBD cumulatively sold 20% of the shares of Clal, 5% at each time,

and in parallel, IDBD entered into commitments with two banking corporations, in four swap transactions, according to which, at the end of a period of 24 months from the date of each sale transaction, accounting will take place between IDBD and those banking corporations in respect of the difference between the selling price of the shares being sold to a third party, and the selling price of the shares as of the date of the accounting.

In August 2018, the Commissioner instructed the trustee to take action for the sale of an additional 5% of the the shares in Clal, which wall sold, in a manner of swap transaction, on August 30, 2018.

To be noted that Clal's activity is considered a discontinued activity. IDBD's holdings in Clal are held by a trustee appointed by the Israeli Commissioner of Capital Market, Insurance and Saving Authority (the "Commissioner").

On March 7, 2018, Mr. Izzy Cohen, who served as CEO of Clal from November 1, 2012, and Clal, announced Mr. Izzy Cohen's intention to terminate his tenure as CEO of Clal. The Board of Directors of Clal decided on March 11, 2018, to appoint a committee to locate and recommend a new CEO for Clal, headed by the Chairman of the Board of Directors, Mr. Danny Naveh, which includes directors of the Clal and Clal Insurance. On June 17, 2018, Clal's board of directors and Clal Insurance approved the appointment of Mr. Yoram Naveh as CEO of Clal and Clal Insurance as of July 1, 2018.

Clal is a public company which was incorporated in 1987, in accordance with the laws of the State of Israel. Clal is one of the leading insurance and long-term savings groups in Israel. The shares of Clal have been listed for trading on the stock exchange since 1988. Clal is part of the IDBD Group, which holds as of June 30, 2018 about 34.81% of its shares and 34.47% on a fully diluted basis. Clal offers a wide range of services and products to private and corporate customers, such as, inter alia, non-life insurance, health insurance, travel insurance, study fund, provident funds, pension funds, etc. As of December 31, 2017, Clal Insurance employs over 4,400 people and markets its products through 2,090 insurance agents, all of whom provide quality service and professional support to their customers. As of March 31, 2018, Clal has NIS 192 billion under asset. Furthermore, Clal is constantly analyzing the market to understand trends and changes in the industry and adjusting accordingly. Clal Insurance consists of three insurance segments: Non-Life Insurance, Long-Term Savings and Health.

Non-Life Insurance

The General Insurance domain in Clal Group is among the largest in Israel. As of June 30, 2018, Clal holds 10.9% market share of the premiums in the in the Non-Life Insurance Division and offers coverage to private and corporate customers. Clal markets its products through 1,466 non-life insurance agents, all of whom provide quality service and professional support to their customers. The Non-Life Insurance Segment offers a wide range of insurance plans: automotive, property, liability, marine insurance, personal accidents, guarantees and additional services. It's vision is to provide professional and high-level service to company's agents and customers, through constant improvements and new product development.

Life Insurance and Long-Term Savings

As of June 30, 2018, The Long-Term Savings Division holds a 13.7% market share of the long-term savings market, as defined by the Commissioner of Insurance and have assets in an approximate amount of NIS 149,472 billion. As at June 30, 2018, Clal holds 17.3% market share of the premiums in the in the Life Insurance Division. There is no single customer or a limited number of customers of which Clal is dependent. Clal has no single customer whose revenues constitute 10% or more of Clal's total revenues in the Consolidated Financial Statements. Clal markets insurances policies, from time to time and in the normal course of business, to companies in the IDBD Group (both policyholders in collective insurance, both as members of central provident funds and as employers depositing for pension savings for long-term savings products). This does not exceed 5% of the Clal's total revenues in this segment. The Long-Term Savings segment manages long-term assets, including life insurance, pension and provident funds. The segment also provides comprehensive solutions to private and corporate customers in all sectors of the Israeli economy. Among the division's customers are large corporations and many residents of the State of Israel. Its objectives are to support the company's distribution channels and become a professional benchmark, helping to improve company business results, profitability and value, while emphasizing quality of service. The segment offers a variety of savings options, enabling its customers to maintain a strong, solid economic foundation in the event of

death, accident or loss of earning capacity. It also offers a variety of pension funds designed to guarantee a monthly income for life in the event of retirement, disability, or death, enabling economic stability for the future even in difficult times.

On July 26, 2018, Clal's Board of Directors resolved to change the organizational structure of Clal Group. As of September 1, 2018, the life insurance and pension and provident divisions will be merged into the long-term savings division. In addition, a new a customer and distribution division will be established.

Health Insurance

The Health Insurance segment offers a wide range of products for individuals, families and groups, specializing in comprehensive solutions for specific market segments such as women and children. As of June 30, 2018, Clal Insurance holds a 17.4% market share of the premiums in the health insurance market in Israel and offers health insurance products such as surgeries in Israel and overseas, transplants, medications, critical illness, long-term care, personal accidents, travel and more. Health Insurance segment vision is to establish Clal as a leading, innovative and professional company in the field of health and nursing care insurance, while providing a professional and timely service to its agents and customers. The segment focuses on technological innovation as well as on developing a range of innovative health insurance products, enabling flexibility in creating health insurance packages tailored for each client, based on his needs and financial status. Each package is either derived from existing packages, or custom-built for each customer. Clal markets most of its products through 852 health agents, all of whom provide quality service and professional support to their customers. The Health Insurance segment is constantly growing, and is proud to provide quality service to 400,000 members insured under private insurance plans as well as an additional 2,000,000 members insured under group insurance plans.

The engagement of Clal Insurance in collective long-term care insurance agreements of members of the Maccabi and Leumit health funds, which will be completed in December 2018 and March 2019, respectively, as of December 2017, the value of these funds is NIS 2,997 million. In May 2018, Maccabi and Clalit Health Funds published new tenders for the selection of an insurer for group long-term care insurance for members of the health funds (the "Tender"), in a format different from the format in Clal Insurance's existing agreement with Maccabi) in such a manner that the winning insurer will bear only 20% of the insurance risk. Clal Insurance's proposal to continue providing group long-term care insurance services to Maccabi insurers did not win the public tender held by Maccabi, and therefore Clal Insurance will continue to insure Maccabi's policyholders in the current format, as stated, until December 31, 2018. It should be noted that according to publications in the press the insurance company Phoenix won both the tender and the fund Clalit Health Services and the Maccabi Health Fund tender, and chose to be insurers of the Maccabi health fund. It should be noted that according to the Commissioner's instructions, an insurance company cannot make more than one agreement for long-term care insurance for members of the health fund (or some of them) if the total number of insureds it insures in one agreement or more, as stated above, exceeds 50% of the number of insureds in all the existing agreements for long-term care insurance for members of the health fund, unless the Commissioner approved otherwise and under the terms he approved. To the best of Clal's knowledge at this stage Clalit Health Services has not yet issued an official notice in connection with the results of the tender. Clal Insurance is studying the results of the tender and its implications and the assessments required of it.

Others with respect to IDBD

Includes the assets and income from other miscellaneous businesses, such as oil and gas assets.

Others with respect to DIC

Includes the assets and income from other miscellaneous businesses, such as technological developments, electronics, and other sundry activities.

IDBG segment:

IDBD holds 50% of IDBG which was incorporated under the laws of Delaware (the remaining 50% is held by PBC which is a subsidiary wholly owned by DIC). IDBG is a real estate corporation in the construction and operation of a commercial and office project in Las Vegas, Nevada (USA). IDBG activity was presented under the area of activity of

PBC in projects in Las Vegas.

IDBG holds the real estate corporation GW (100%), which holds all the rights in the Tivoli project in Las Vegas, with a total area of approx. 62 thousand square meters. For further details regarding the IDBG and the Tivoli project please see below PBC Segment.

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IDB Tourism segment (discontinued segment):

IDB Tourism is a wholly-owned subsidiary of IDBD, which was incorporated in Israel and commenced its operations in 1934. In 2014, IDB Tourism's management decided to focus its business activity on the sale of tourism services, in the framework of tourism packages that were adapted to the preferences of the Israeli public, to the incoming tourists to Israel. Until 2015, IDB Tourism held three major companies operating in the field of tourism: Terminal 1 Holdings Ltd. (formerly - Dienenhaus Ltd.), Open Sky Ltd, and Israil Airlines & Tourism Ltd. ("Israil"), (Israil, Dienenhaus, Open Sky and related parties will be referred to hereinafter as "the IDB Tourism Group").

In July 2017 IDBD, IDB Tourism and Israil, with El Al Israel Airlines Ltd. and Sun D'Or, entered into an agreement for the sale of IDB Tourism's entire stake (100%) in Israil to Sun D'Or (in this section: the "Transaction"). On January 10, 2018, IDBD received a notice from the Anti-trust Authority, pursuant to which the Antitrust Authority objected to the transaction, and expressed the reasons for its objection. On March 29, 2018, the parties to the agreement filed an appeal against the Authority's decision and on June 20, 2018, the Acquisition Agreement was terminated by mutual agreement among the parties so, the Court dismissed the appeal. IDBD is examining alternatives in connection with the sale of its holdings in IDBG Tourism and/or in Israil and therefore IDBD is continuing to treat IDB Tourism as held for sale and as a discontinued operation, in its financial statements as of June 30, 2018, in accordance with IFRS 5. In addition, in August 2018, after the date of the statement of IDBD retained Giza Zinger Even Ltd. and with Epsilon Underwriting and Issuing Ltd.(together: the "Consultants"), a company that is under the control of DIC, for the purpose of advising on the sale and the disposal of the IDBD's operations in the tourism and aviation field. The Consultants will be entitled to fees that are comprised of a retainer and a success fee in respect of the services, which will be payable at the time of the completion of a transaction (insofar as there may be one).

In August 2018, after the date of the financial statement of IDB's second quarter 2018 financial position, IDB Tourism entered into a memorandum of understanding with Dizenhaus B.T.C. Ltd. (the "Purchaser"), the sale of 50% of the issued share capital of a company that managed the incoming tourism operations and which is held by Israil in consideration for an amount of NIS 26 million. The completion of the transaction is subject to the completion of due diligence process on and the receipt of approvals from third parties, before November 30, 2018. In the event that the transaction is not completed by that time, the transaction will be terminated. At the time of the completion of the transaction, Israil and the Purchaser will manage the incoming tourism activity under a joint control agreement. Upon the completion of the transaction, as aforesaid, IDBD is expected to record a capital gain, which is estimated at approximately NIS 30 million, in respect of the IDBD's share of the difference between the consideration that Israil is expected to receive in respect of the sale, with the addition of the fair value of the balance of the said investment in the incoming tourism operations and the carrying value of the investment as recorded in Israil's accounting records as of June 30, 2018. This estimate of the gain will be adjusted in accordance with IDBD's share of the incoming tourism operations' results from the end of the second quarter of 2018 and until the time of the completion of the transaction. It should be clarified that there is no certainty regarding the completion of the transaction, including that the parties will make a commitment under a purchase agreement, inter alia, as a result of the non-receipt of the approvals that are required for the completion of the transaction.

Legal Framework

Operations Center in Argentina

Regulation and Government Supervision

The laws and regulations governing the acquisition and transfer of real estate, as well as municipal zoning ordinances, apply to the development and operation of our properties. Currently, Argentine law does not specifically regulate shopping mall lease agreements. Since our shopping mall leases generally diverge from ordinary commercial lease

agreements, we have developed contractual provisions which are tailored to the commercial relationship with our shopping mall tenants.

Leases

Argentine law imposes certain restrictions on property owners, including:

a prohibition to include in lease agreements automatic price adjustment clauses based on indexes;and

a minimum lease term of two years for all purposes, except in particular cases such as embassy, consulate or international organization venues, room with furniture for touristic purposes for less than three months, custody and bailment of goods, exhibition or offering of goods in fairs or in cases where due to the circumstances, the subject matter of the lease agreement requires a shorter term.

Rent increases

There are contradictory court rulings regarding whether rents may be increased during the term of a lease agreement. For example, Section 10 of the Law No. 23,928, as amended by Public Emergency Law No. 25,561 prohibits a rent adjustment under leases subject to indexes, such as the consumer price index or the wholesale price index. Most of our lease agreements have rent increase clauses that are not based on any official index. As of the date of this annual report, no tenant has filed any legal action against us challenging incremental rent increases, but we cannot assure that such actions will not be filed in the future and, if any such actions were successful, that they will not have an adverse effect on our business and results of operations.

Lease term limits

Under the Argentine Civil and Commercial Code lease terms may not exceed twenty years (for residential purpose) or fifty years (all other purposes). Generally, terms in our lease agreements range from 3 to 10 years.

Rescission rights

The Argentine Civil and Commercial Code provides that tenants may terminate lease agreements early after the first six months of the effective date. Such termination is subject to penalties which range from one to one-and-a-half months of rent. If the tenant terminates the agreement during the first year of the lease, the penalty is one-and-a-half month's rent and if termination occurs after the first year of lease, the penalty is one month's rent.

Other

The Argentine Civil and Commercial Code, among other rules, repealed the Urban Lease Law (No. 23,091), which provided for a rule similar to the one described above, but established the obligation to give at least 60 days' prior notice of exercise of the unilateral right to termination by the tenant. There are no court rulings yet with respect to the new regulations related to: (i) the unilateral right to termination by tenant; i.e., whether the parties may waive the tenant's right to terminate the agreement unilaterally; or in relation to (ii) the possibility of establishing a penalty different from the penalty described above in the event of termination.

While current Argentine government policy discourages government regulation of lease agreements, there can be no assurance that additional regulations will not be imposed in the future by the Argentine Congress, including regulations similar to those previously in place. Furthermore, most of our leases provide that the tenants pay all costs and taxes related to the property in proportion to their respective leasable areas. In the event of a significant increase

in the amount of such costs and taxes, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby adversely affecting our rental income.

The Argentine Civil and Commercial Code enables the lessor to pursue what is known as an “executory proceeding” upon lessees’ failure to pay rent. In executory proceedings, debtors have fewer defenses available to prevent foreclosure, making these proceedings substantially shorter. In executory proceedings the origin of the debt is not under discussion; the trial focuses on the formalities of the debt instrument itself. The aforementioned code also permits special eviction proceedings, which are carried out in the same way as ordinary proceedings. The Argentine Civil and Commercial Code requires that a residential tenant receive at least 10 days’ prior notice when a landlord demands payment of the amounts due in the event of breach prior to eviction but does not impose any such requirement for other leases. However, court case backlog and numerous procedural hurdles have resulted in significant delays to eviction proceedings, which generally last from six months to two years from the date of filing of the suit for eviction.

Development and use of the land

In the City of Buenos Aires, where the vast majority of our properties are located, we are subject to the following regulations:

Buenos Aires Urban Planning Code

The Buenos Aires Urban Planning Code (Código de Planeamiento Urbano de la Ciudad de Buenos Aires) generally restricts the density and use of property and regulates physical features of improvements to property, such as height, design, set-back and overhang, consistent with the city's urban planning policy. The Secretary of Urban Planning of the City of Buenos Aires (Secretaría de Planeamiento Urbano) is responsible for implementing and enforcing the Buenos Aires Urban Planning Code.

Buenos Aires Building Code

The Buenos Aires Building Code (Código de Edificación de la Ciudad de Buenos Aires) complements the Buenos Aires Urban Planning Code and regulates the structural use and development of property in the City of Buenos Aires. The Buenos Aires Building Code requires builders and developers to file applications for building permits, including the submission to the Secretary of Work and Public Services (Secretaría de Obras y Servicios Públicos) of architectural plans for review, to monitor regulatory compliance.

Buenos Aires Authorizations and Licenses Code

The Buenos Aires Authorizations and Licenses Code (Código de Habilitaciones de la Ciudad de Buenos Aires) sets forth the conditions under which authorizations or licenses to operate may be granted to business establishments, and the rules and procedures these latter are obliged to follow. The General Bureau of Authorizations and Licenses (Dirección General de Habilitaciones y Permisos) is responsible for implementing and enforcing the Buenos Aires Authorizations and Licenses Code.

In other jurisdictions, our real estate activities are subject to similar municipal zoning, building, occupation and environmental regulations. These latter must adhere to federal standards. Additionally, in some jurisdictions we may be subject to the regulation concerning large commercial areas, which requires governmental approval of the location of certain commercial establishments. We believe that all of our real estate properties are in material compliance with all applicable relevant laws, ordinances and regulations.

Sales and ownership

Real Estate Installment Sales Law

The Real Estate Installment Sales Law No. 14,005, as amended by Law No. 23,266 and Decree No. 2015/85, or "Real Estate Installment Sales Act," imposes a series of requirements on contracts for the sale of subdivided real estate property regarding, for example, that the purchase price for a property is paid in installments and the deed, which is not conveyed to the purchaser until the price has been paid in full. The provisions of this law require, among other things:

The registration of the intention to sell the property in subdivided plots with the Real Estate Registry (Registro de la Propiedad Inmueble) corresponding to the jurisdiction of the property. Registration is only possible with regard to

unencumbered property. Mortgaged property may only be registered where creditors agree to divide the debt in accordance with the subdivided plots. However, creditors may be judicially compelled to agree to the partition.

The preliminary registration with the Real Estate Registry of the purchase instrument within 30 days of execution of the agreements.

Once the property is registered, the installment sale must be completed in a manner consistent with the Real Estate Installment Sales Act. If a dispute arises over the title between the purchaser and third-party creditors of the seller, the installment purchaser who has duly registered the purchase instrument with the Real Estate Registry will have title of the deed to the plot. Further, the purchaser can demand conveyance of title after at least 25% of the purchase price has been paid, although the seller may demand a mortgage to secure payment of the balance of the purchase price.

After payment of 25% of the purchase price or advancement of at least 50% of construction, the Real Estate Installment Sales Act prohibits termination of the sales contract for failure by the purchaser to pay the balance of the purchase price. However, in such event the seller may exercise its rights under any mortgage on the property.

Buildings Law

Buildings Law No. 19,724 (Ley de Pre-horizontalidad) was repealed by the Argentine Civil and Commercial Code which provides that for purposes of execution of sales agreements for units under construction, the owner or developer must purchase insurance in favor of prospective purchasers against the risk of frustration of the development pursuant to the agreement for any reason. A breach of this obligation precludes the owner from exercising any right against the purchaser—such as demanding payment of any outstanding installments due—unless he/she fully complies with their obligations, but does not prevent the purchaser from exercising its rights against the seller.

Protection for the Disabled Law

The Protection for the Disabled Law No. 22,431, enacted on March 16, 1981, as amended, provides that in connection with the construction and remodeling of buildings, access by handicapped persons must be provided. In the construction of public buildings, entrances, transit pathways and adequate facilities for mobility impaired individuals is required.

Buildings constructed before the enforcement of the Protection for the Disabled Law must be adapted to provide accesses, transit pathways and adequate facilities for mobility-impaired individuals. Those pre-existing buildings, which due to their architectural design may not be adapted to the use by mobility-impaired individuals, are exempted from the fulfillment of these requirements.

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

Other regulations

Consumer relationship, consumer or end-user protection

The Argentine Constitution expressly establishes in Article 42 that consumers and users of goods and services have a right to protection of health, safety and economic interests in a consumer relationship. Consumer Protection Law No. 24,240, as amended, regulates several issues concerning the protection of consumers and end users in a consumer relationship, in the arrangement and execution of contracts.

The Consumer Protection Law, and the applicable sections of the Argentine Civil and Commercial Code are intended to regulate the constitutional right conferred under the Constitution on the weakest party to the consumer relationship and prevent potential abuses deriving from the stronger bargaining position of vendors of goods and services in a market economy where standard form contracts are widespread.

As a result, the Consumer Protection Law and the Argentine Civil and Commercial Code deem void and unenforceable certain contractual provisions included in consumer contracts entered into with consumers or end users, including those which:

deprive obligations of their nature or limit liability for damages;

imply a waiver or restriction of consumer rights and an extension of seller rights; and

impose the shifting of the burden of proof from the consumer to the seller in order to protect the consumers.

In addition, the Consumer Protection Law imposes penalties ranging from warnings to the forfeiture of concession rights, privileges, tax regimes or special credits to which the sanctioned party may be entitled, including closing down establishments for a term of up to 30 days.

The Consumer Protection Law and the Argentine Civil and Commercial Code define consumers or end users as the individuals or legal entities that acquire or use goods or services, free of charge or for a price for their own final use or benefit or that of their family or social group. In addition, both laws extend consumer protections to those who acquire or use goods or services, with or without consideration, for their own final use or that of their family or social group. The protection under the laws afforded to consumers and end users encompasses the entire consumer relationship, from the offering of the product or service, to cover more than just those relationships established by means of a contract.

The Consumer Protection Law defines the suppliers of goods and services as those who produce, import, distribute or commercialize goods or supply services to consumers or users.

The Argentine Civil and Commercial Code defines a consumer agreement as an agreement that is entered into between a consumer or end user and an individual or legal entity that acts professionally or occasionally either with a private or public company that manufactures goods or provides services, for the purpose of acquisition, use or enjoyment of goods or services by consumers or users for private, family or social use.

The Consumer Protection Law establishes joint and several liability of any producer, manufacturer, importer, distributor, supplier, seller and anyone who has placed its trademark on the thing or service for damages caused to consumers derived from a defect or risk inherent in the thing or the provision of a service.

The Consumer Protection Law excludes the services supplied by professionals that require a college degree and registration in officially recognized professional organizations or by a governmental authority. However, this law regulates the advertisements that promote the services of such professionals.

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

Pursuant to Resolution No. 104/2005 issued by the Secretariat of Technical Coordination reporting to the Argentine Ministry of Treasury, Consumer Protection Law adopted Resolution No. 21/2004 issued by the Mercosur's Common Market Group which requires that those who engage in commerce over the Internet (E-Business) disclose in a precise and clear manner the characteristics of the products and/or services offered and the sale terms. Failure to comply with the terms of the offer is deemed an unjustified denial to sell and gives rise to sanctions.

On September 17, 2014, the Argentine Congress enacted a revised Consumer Protection Law through Law No. 26,993. This law, known as "Conflict Resolution in Consumer Relationships System," provides for the creation of new administrative and judicial procedures for this field of Law. It created a two-instance administrative system: the Preliminary Conciliation Service for Consumer Relationships (Servicio de Conciliación Previa en las Relaciones de Consumo), or "COPREC," and the Consumer Relationship Audit, and a number of courts assigned to the resolution of conflicts between consumers and producers of goods and services (Fuero Judicial Nacional de Consumo). In order to file a claim, the amount claimed may not exceed a fixed amount equivalent to 55 adjustable minimum living wages, which are determined by the Ministry of Labor, Employment and Social Security. The claim is required to be filed with the administrative agency. If an agreement is not reached between the parties, the claimant may file the claim in court. COPREC is currently in full force and effect. However, the court system (Fuero Judicial Nacional de Consumo) is not in force yet. Therefore, any court claim should be currently filed with the existing applicable courts. A considerable volume of claims filed against us are expected to be settled pursuant to the system referred to above, without disregarding the full force and effect of different instances for administrative claims existing in the provincial

sphere and the City of Buenos Aires, which remain in full force and effect, where potential claims related to this matter could also be filed.

Antitrust Law

Law No. 25,156, as amended, or the “Antitrust Law,” prevents collusive practices by market participants and requires administrative approval for transactions that according to the Antitrust Law constitute an economic concentration. According to this law, mergers, transfers of goodwill, acquisitions of property or rights over shares, capital or other convertible securities, or similar transactions by which the acquirer controls or substantially influences a company, are considered as an economic concentration. Whenever an economic concentration involves a company or companies and the aggregate volume of business in Argentina of the companies concerned exceeds Ps.200.0 million, the respective concentration must be submitted for approval to the CNDC. The request for approval may be filed, either prior to the transaction or within a week after its completion.

When a request for approval is filed, the CNDC may (i) authorize the transaction, (ii) subordinate the transaction to the accomplishment of certain conditions or (iii) reject the authorization.

The Antitrust Law provides that economic concentrations in which the transaction amount and the value of the assets subject to acquisition or disposition do not exceed Ps.20.0 million each are exempted from the administrative authorization. Notwithstanding the foregoing, when the transactions concerned during the prior 12-month period exceed in the aggregate Ps.20.0 million or Ps.60.0 million in the last 36 months, these transactions must be notified to the CNDC.

As our consolidated annual sales volume and our parent’s consolidated annual sales volume exceed Ps.200.0 million, we should give notice to the CNDC of any concentration provided for by the Antitrust Law.

Money laundering

Argentine Law No. 25,246, as amended by Laws Nos. 26,119, 26,268, 26,683 and 27,270, or the “Anti-Money Laundering Law,” categorizes money laundering as a crime, which is defined as the exchange, transfer, management, sale or any other use of money or other assets obtained through a crime, by a person who did not take part in such original crime, with the potential result that such original assets (or new assets resulting from such original assets) have the appearance of having been obtained through legitimate means. The law sets forth a minimum of Ps.300,000 for punishable offenses though crimes involving a lower amount are also prosecuted, but the prison sentence that may be imposed is reduced.

After the enactment of Law No. 26,683, money laundering was included in the Penal Code as an independent crime against economic and financial order and it was split from the title “Concealment” as originally disposed. Therefore, money laundering is a crime which may be prosecuted independently.

The Anti-Money Laundering Law created the Financial Information Unit, or “UIF,” is responsible for the analysis, treatment and procurement of information to prevent money laundering originating from, among others:

Crimes related to the traffic and illegal commercialization of drugs (Law No. 23,737);

Crimes related to arms traffic (Law No. 22,415);

Crimes related to illegal association or terrorist association;

Crimes committed by illegal associations organized to commit crimes for political or racial purposes;

Crimes against Public Administration;

Crimes of minor's prostitution and child pornography; and

Crimes related to terrorism financing.

The UIF analyzes the information received from entities that have the obligation to report suspicious activities or operations and, as the case may be, inform the Public Ministry to carry out the investigations that may be considered relevant or necessary.

The anti-money laundering legal framework in Argentina also assigns information and control duties to certain private sector entities, such as banks, agents, non-profit organizations, stock exchanges, insurance companies, according to the regulations adopted by the UIF, and for financial entities, the Central Bank. These regulations apply to many Argentine companies, including us. These obligations consist mainly of: (i) maintaining internal policies and procedures aimed at money laundering prevention and financing of terrorism, especially through the application of the policy “know your client;” (ii) reporting any suspicious activity or operation and (iii) acting according to the Anti-Money Laundering Law with respect to the confidentiality of the information obtained from the clients. For that purpose, each entity involved must appoint an officer responsible for the monitoring and control under the Anti-Money Laundering Law.

On May 8, 2009, the CNV issued Resolution No. 554 which incorporated within the exchange market provisions designed to comply with money laundering prevention pursuant to Law No. 25,246, as amended and as required by the UIF. This resolution established that any entity subject to the supervision of CNV could only take part in securities transactions if they were ordered by parties that were registered or domiciled in jurisdictions not included in the list of tax havens detailed in Decree No. 1344/98. The resolution also provided that securities offerings by foreign issuers under the supervision of a regulator similar to the CNV, may be approved only if such regulator has signed a memorandum of understanding with the CNV regarding compliance with anti-money laundering principles.

On February 2, 2012, Resolution No. 554 was replaced by Resolution No. 602, which extended the instructions issued by UIF to the entities supervised by the CNV, including some payment mechanisms and control proceedings for the receipt from and the transfers of funds to registered or regulated entities or persons, fixing amounts and instruments to be used. Moreover, this resolution updated the reference to the Decree which referred to tax havens (No. 1,037).

As part of a more comprehensive modification of the rules that govern the scope of supervision of CNV, derived from the enactment of the revised Capital Markets Law and the CNV Rules, which established a new regime for the public offer of securities, CNV issued a revision of its rules to incorporate a new chapter of Anti-Money Laundering Laws including provisions related to the fulfillment of duties to be complied by “Agentes de Negociación,” “Agentes de Liquidación y Compensación,” “Agentes de Distribución y Colocación” and “Agentes de Administración de Productos de Inversión Colectiva,” each of which is considered mandatory under the terms of sections 4, 5 and 22 of article 20 of Law No. 25,246. Such agents are required to comply with Law No. 25,246 and its amendments, regulations enacted by UIF, including executive orders with reference to the decisions adopted by the United Nations Security Council in the fight against terrorism and to comply with the resolutions issued by the Ministry of Foreign Affairs, International Trade and Religion. Furthermore, “Agentes de Custodia de Productos de Inversión Colectiva (Sociedades Depositarias de Fondos Comunes de Inversión),” “Agentes de corretaje,” “Agentes de depósito colectivo” and listed companies with respect to contribution, irrevocable contributions or indebtedness made by a shareholder or a third person to become a shareholder in the future, are also reached by the resolution.

Each of these entities must send by internet (through the online application of CNV) their tax identification number. Additionally, in case of companies, the personal data of the “Compliance Officer” (both regular and alternate) must also be disclosed.

The CNV Rules provide that entities it regulates may only take action relating to public offerings of securities, stipulated, future or optional contracts of any nature and other instruments and financial products with registered, domiciled or domestic counterparties known to CNV or foreign counterparties in jurisdictions included on the list of cooperating countries provided in article 2º, subsection b) of Decree No. 589/2013.

Where a counterparty is not included in the referred list and is from a jurisdiction where it is regulated by an entity similar to CNV, validity of the transactions will be granted if the foreign regulator has signed a memorandum of

understanding, cooperation and exchange of information with the CNV.

With the purpose of strengthening the requirements applicable to the grant of authorization to operate in the capital markets, additional requirements were established in connection with: (i) competence and capacity; (ii) moral integrity and honesty and (iii) solvency. Such requirements are subject to the appraisal of CNV and must be fulfilled by managers, directors, auditors and any other individual who performs duties or activities within the company.

Pursuant to Decree 360/2016 dated February 16, 2016, the Argentine government created the National Coordination Program for Combating Money Laundering and Terrorist Financing within the purview of the Ministry of Justice and Human Rights. Its purpose is to rearrange, coordinate and strengthen the anti-money laundering and anti-terrorist financing system at the national level, in light of evolving risks that could impact Argentina and the global requirements to be met under the scope of the obligations and international recommendations of the United Nations and FATF standards.

Moreover, Law No. 27,260, which introduced certain tax modifications and a new regime for residents to disclose undeclared assets currently, due to the restrictions of the Ministry of Finance, the UIF is within its purview, established that the UIF would now be within the purview of the Ministry of Economy and Finances. Furthermore, Resolution 4/2017 was recently issued by UIF by which specific due diligence (commonly referred to as “know your client”) is required when local and foreign depositors open a bank account for financial investments.

On March 5, 2018, the UIF Resolution No. 21/2018 on guidelines for the management of risks of money laundering and financing of terrorism and on the minimum compliance to be adopted for the prevention of laundering was published in the Official Gazette. In line with UIF Resolution No. 30/17 addressed to the financial sector, UIF Resolution No. 21/2018 also moves from a formalistic compliance approach to a risk-based approach, in order to ensure that the measures implemented are commensurate with the risks identified. In this way, the obligated subjects must identify and evaluate their risks and, depending on this, adopt management and mitigation measures. In this framework, they are enabled to implement accredited technological platforms that allow carrying out procedures at a distance, without personal display of the documentation, without this conditioning the fulfillment of due diligence duties.

UIF Resolution No. 21/2018 provides that as of September 30, 2018, the obligors must have developed and documented the risk identification and assessment methodology and, as of December 31, 2018, they must have a technical report that reflects the results of the implementation of the risk identification and evaluation methodology. In this sense, as of March 31, 2019, they must have adjusted their policies and procedures and, in accordance with the results of the irrigation self-assessment performed, they must be included in the money laundering and terrorist financing prevention manual. Finally, as of September 30, 2018, the compliance of the information regimes will be deferred, starting from that date the obligation to inform on the terms and conditions contemplated therein.

Some other measures are applicable to listed companies or their shareholders or beneficial owners who had been convicted or sentenced in connection with money laundering and/or terrorist financing activities or appeared in the list published by the United Nation Security Council.

Credit Card Law

Law No. 25,065, as amended by Law No. 26,010 and Law No. 26,361, governs certain aspects of the business activity known as “credit card system.” Regulations impose minimum contract contents and approval thereof by the Argentine Ministry of Industry, as well as limitations on chargeable interest by users and commissions charged by the retail stores subject to the system. The Credit Card Law applies both to banking and non-banking cards, such as “Tarjeta Shopping,” issued by Tarshop S.A. Pursuant to Communication “A” 5477 issued by the Central Bank, interest rates charged by non-financial entities may not exceed the interest rate published by the financial system for unsecured loans to individuals, as reported monthly by the Central Bank by more than 25%.

Environmental Law

Our activities are subject to a number of national, provincial and municipal environmental provisions. Article 41 of the Argentine Constitution, as amended in 1994, provides that all Argentine inhabitants have the right to a healthy and balanced environment fit for human development and have the duty to preserve it. Environmental damage requires that the person or entity responsible assume the obligation to restore the subject property as provided by applicable law. The authorities must enforce the protection of this right, the rational use of natural resources, the preservation of the natural and cultural heritage and of biodiversity, and shall also provide for environmental information and education. The National Government must establish minimum standards for environmental protection whereas Provincial and Municipal Governments must set specific standards and regulatory provisions.

On November 6, 2002, the Argentine Congress passed Law No. 25,675 to regulate the minimum standards for the achievement of a sustainable environment and the preservation and protection of biodiversity and to fix environmental policy goals. This law establishes the activities that are subject to an environmental impact assessment and sets forth certain requirements applicable thereto. In addition, such Law sets forth the duties and obligations triggered by any damage to the environment and provides for restoration of the environment to its former condition or, if that is not technically feasible, for payment of compensation in lieu thereof. This Law also fosters environmental education and provides for certain minimum reporting obligations to be fulfilled by natural and legal entities.

In addition, the CNV Rules require reporting of any events of any nature and fortuitous acts that seriously hinder or could potentially hinder performance of our activities, including any events that generate or may generate significant impacts on the environment, providing details on the consequences thereof.

The Argentine Civil and Commercial Code introduced as a novel feature the acknowledgement of collective rights, including the right to a healthy and balanced environment. Accordingly, the Argentine Civil and Commercial Code expressly sets forth that the law does not protect an abusive exercise of individual rights if such exercise could have an adverse impact on the environment or on the collective rights to environmental safety in general. For additional information see “Item 3. Key Information—Risk Factors—Risk Relating to Our Business—Our business is subject to extensive regulation and additional regulations may be imposed in the future.”

Environmental matters

We have consistently acted responsibly regarding the environment in the management of our operating activities by preventing and minimizing the potential adverse environmental impacts of our activities. We have adopted an environmental impact policy, which is used as a reference for the realization of our investments.

We are subject to environmental legislation under a series of laws, ordinances, norms, and national, provincial and municipal regulations of Argentina. Environmental obligations vary depending on the project site, the site’s environmental conditions, current and prior uses, and the activity to be developed. Compliance with environmental laws may result in prior project delays or imposed additional requirements that may result in substantial costs, and curtail or infringe our commercial activities. Before purchasing land or carrying out an investment, we undertake or contract independent consultants to carry out an environmental assessment of the plot to identify possible environmental contingencies, as well as analyzing the possible environmental impact of the investment or the development to be carried out. Historically, our operations have not been negatively affected by the existence or potential existence of pollutants, nor by the failure to obtain environmental approvals or permits.

We intend to continue implementing plans for further improvement, following our trajectory of respect for the environment, compliance with the current regulations and optimizing the use of resources.

Operations Center in Israel

IDBD and DIC invest, either directly or through its subsidiaries, associates and joint ventures in companies that operate in various sectors of the economy in Israel. Both companies are directly affected by the political, economic, military and regulatory conditions of Israel. The main regulations applicable to IDBD’s and DIC’s business are described below. For more information, see “Risk Factors—Risks related to IDBD and IDBD’s subsidiaries.”

General regulations applicable to our business in Israel

Proper Conduct of Banking Business

IDBD and DIC and certain of their affiliates are subject to supervision by the Israeli Supervisor of Banks relating to “Proper Conduct of Banking Business” which impose, among others limits on the aggregate principal amount of loans a financial institution can have outstanding to a single borrower, a group of related borrowers, and to the largest borrowers and groups of related borrowers of a banking entity (as these terms are defined in the aforesaid directives). IDBD and DIC, their controlling shareholders and their affiliates are considered a single group of borrowers for purposes of this regulation. These restrictions limit the ability of IDBD and DIC, and their affiliates to borrow from a single bank in Israel, their ability to make investments where they require bank lines of credit, to invest in companies that have loans outstanding from banks in Israel, and to make business transactions together with groups that have such credit outstanding. In the period from 2013 and until the date of publication of the report, the concentration of credit risk of IDBD and DIC, and their affiliates decreased as a result of a reduction in the amount of utilized credit for the group that includes IDBD and DIC, including as a result of a change of control that resulted in a re-characterization of the group for purposes of applicable regulation. However, in recent years, and until the publication date of the report, the scope of credit used from the banking system in Israel to the group of borrowers which includes DIC has decreased, including due to the change in its control, within the framework of the debt settlement in IDB Holdings and the sale of the Group’s holdings in Adama shares.

In December 2013, The Law to Promote Competition and Reduce Concentration, 5774- 2013, was published in the Official Gazette (hereinafter, in this section: the “Reduced Centralization Act”):

1.

According to the provisions of the Reduced Centralization Act, a pyramid structure for the control of “reporting corporations” (in general, corporations whose securities were offered to and are held by the public) is restricted to 2 tiers of reporting corporations (where a first tier company may not include a reporting corporation which does not have a controlling shareholder). In accordance with transitional provisions which were determined in the Reduced Centralization Act, a third tier company or higher tier company is no longer entitled to control reporting corporations, except for corporations as stated above which are under its control as of the publication date of the Law in the Official Gazette (herein, the “Publication Date”), regarding which it was required to discontinue control by no later than December 2017 (the “2017 Requirement”). It is noted that so long as a reporting corporation is considered a second tier company in accordance with the law, it is not entitled to control reporting corporations, and insofar as, on the publication date, it holds control of reporting corporations, it must discontinue its control of such corporations by no later than December 2019 (the “2019 Requirement”).

2.

On the date of the Reduced Centralization Act’s publication in the Official Gazette, DIC was considered a third tier company, and the reporting corporations controlled by DIC were considered fourth and fifth tier companies. In May 2014, the control of IDBD changed as part of the completion of the creditors’ settlement in IDB Holding Corporation Ltd. (“IDB Holding”), and subsequently, DIC ceased being considered a third tier company, and is as of that date was considered a second tier company

3.

In August 2014, the Boards of Directors of IDBD and DIC each resolved to appoint (separate) advisory committees to evaluate various alternatives for dealing with the implications of the law, and of its fulfillment of the restrictions specified therein, with respect to the control of companies through a pyramid structure, with the intention to allow the continued control by IDBD and/or DIC of “other tier companies” (which are currently directly held by DIC) also after December 2019. It is noted that the alternatives which were evaluated by the advisory committee of DIC’s Board of Directors included, inter alia, possible structural changes to all tiers (i.e., both on the tier of IDBD, which was DIC’s controlling shareholder at the time, and on the tiers of DIC, PBC and its investee companies), including a preliminary evaluation of several alternatives with respect to the 2017 requirement.

4.

Further to the above, due to the fact that some of the possible actions and/or structural changes may have included transactions in which DIC’s controlling shareholders may have had a personal interest, and in accordance with the recommendations of the advisory committee, the DIC’s Board of Directors resolved, on March 22, 2017, to authorize the audit committee to evaluate various alternatives for the DIC’s dealing with the requirements of the Reduced Centralization Act with respect to the 2017 requirement, and also in light of the 2019 requirement and possible structural changes on the first tier (i.e., IDBD and its holdings, at the time, in DIC). DIC was also informed, at that time, by IDBD that IDBD is also evaluating various alternatives for dealing with the requirements of the law with respect to the 2017 requirement, and also in consideration of the 2019 requirement, and accordingly, the Board of Directors of IDBD established an independent committee of the Board, which is comprised of outside and independent directors only (herein, the “Committee”).

5.

With the consent of the DIC’s audit committee, as stated above, it held a series of discussions, in which it evaluated several alternatives for the manner by which DIC, and all tiers in the Group, will address the 2017 requirement, including an evaluation of the feasibility of alternatives to which DIC is not directly party, and an evaluation of the feasibility of other alternatives. The committee’s work was accompanied by external independent advisors, who were appointed and chosen by the committee.

6.

in parallel, and further to a series of discussions which were held by the independent committee of IDBD, the aforementioned independent committee of IDBD decided that the preferred alternative, from the perspective of IDBD, in terms of IDBD's response to the 2017 requirement, is the alternative in which IDBD sells all of its shares in DIC (as of the date of implementation of the alternative) to a special purpose entity (which will be a private company incorporated in Israel, and a "non-reporting corporation", as this term is defined in the Securities Law, 5728-1968) wholly owned by corporations under the control of the controlling shareholder of IDB Development, Mr. Eduardo Elsztain (the "Preferred Alternative").

7.

Further to the decision of the independent committee of the Board of Directors of IDBD on this matter, on May 25, 2017, the Audit Committee and Board of Directors of IDBD, respectively, adopted the recommendations of the aforementioned committee, and its decision regarding the preferred alternative for IDBD's dealing with the 2017 requirement.

8.

In light of the decisions of the independent committee, the audit committee and the Board of Directors of IDBD, the audit committee of DIC on August 16, 2017, decided that the aforementioned alternative is preferred, from its perspective for the way in which DIC should cope with the provisions of the Reduced Centralization Act in relation to the requirement for 2017, and that it will continue evaluating, if necessary, and insofar as may be required, additional potential alternatives for DIC's dealing with the provisions of the Reduced Centralization Act.

9.

Further to the foregoing, in September 2017, following the negotiations between the committee, with the accompaniment of its independent advisors (legal and economic), and Dolphin Netherlands, as well as additional discussions between the parties, and following the receipt of the committee's approval, IDBD and Dolphin Netherlands signed a memorandum of understanding in connection with the implementation of the transaction (herein, the "Transaction") for the sale of all DIC shares which are held by IDBD to a private company which is incorporate, or which incorporated, in Israel, which is affiliated with Dolphin Netherlands, and controlled by DIC's controlling shareholder, based on the principles which were determined by the committee (herein, the "Memorandum of Understanding"). In October 2017, after discussions had been held with the holders of IDBD's bonds and their representatives, and also after meetings had been held of the holders of all of the series of IDBD's bonds, and after the receipt of the Committee's approval, IDBD and Dolphin Netherlands signed on an amendment to the Memorandum of Understanding.

10.

On November 22, 2017, after the legally required approvals were received, the transaction was completed. Accordingly, inter alia, all of DIC's shares which were held by IDBD (106,780,853 shares) were transferred to Dolphin IL., a private company incorporated in Israel, and which is wholly owned by Dolphin Netherlands (herein: the "Buyer"), the Buyer issued the debenture to IDBD, and additionally, IDBD received a total of NIS 70 million from the buyer, in accordance with the determined terms of the transaction. Additionally, within the framework of the completion of the transaction, as part of the collateral which was provided by the buyer to IDB Development, in connection with the debenture, the buyer deposited 9,636,097 DIC shares with I.B.I. Trust Management, which serves as the trustee for the debenture on behalf of IDBD and the Buyer, in accordance with the debenture's terms.

11.

Beginning from the transaction closing date, DIC ceased being considered a second tier company, and is now considered a first tier company only, as defined in the Reduced Centralization Act, which led to the postponement of the application of the requirements of the Reduced Centralization Act with respect to reporting corporations which constitute other tier companies, and which under his control until December 2019.

12.

DIC continues to consider various alternatives for dealing with the demand for 2019. These alternatives may include possible structural changes in some of the companies in the DIC Group, that are affected by the demand for 2019 (that is, at the level of DIC's layer or at the level of PBC or companies under its control).

13.

PBC is a Second tier company and is the controlling shareholder of reporting corporations (Gav-Yam, Mehadrin and Ispro), is also evaluating the implications of the law on its aforementioned holdings, with DIC of retaining control in Gav-Yam and Mehadrin. As DIC was informed, according to the assessment of PBC, it will be able to retain control of the reporting corporations which are under its control, and therefore, the aforementioned law had no impact on its financial statements as of December 31, 2017. PBC did not create a deferred tax liability in case it is forced to realize such holdings, and according to its assessment, it will not be required to pay taxes with respect to the profits from the aforementioned realization

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Regulations applicable to each of the businesses in Israel

Real Estate

In recent years, there has been continued shortage in manpower in the construction and agricultural industries which typically are labor intensive and depend on foreign workers, including in the areas of Judea and Samaria. The security situation in Israel, as well as the shutdown of Judea and Samaria during certain periods of the year, have resulted in continued shortage in the workforce, driven by lower numbers of foreign workers from Judea and Samaria. In July 2015, the Minister of Finance increased the quota of foreign work permits to approximately 20,000 through the end of 2016, as a means to achieving the goal of increasing new construction projects by 70,000 during the year and to promote new housing starts to alleviate the housing crisis. Given the shortage of skilled workers, wages increased in general and in particular those of foreign construction workers. The shortage and unavailability of a skilled workforce, increased construction costs and resulted in longer timetables for the execution of new projects. In addition, PBC is subject, similar to other companies which operate in the segment, to statutory restrictions, which regard to the planning and construction of projects out, as well as to contracts with purchasers and tenants, to planning and building laws, labor and safety standards in Israel.

PBC's engagements with tenants are subject to the provisions of the Lease and Lending Law, 5731-1971 and in rare cases, subject to the Tenant Protection Law (Consolidated Version) 5732-1972.

PBC is subject to Legislation and standardization in the field of construction, which includes, inter alia, planning and construction, rental and sale, licensing, building permits, maintaining safety at the construction site, and obtaining permits to populate. In that regard, any entity that engages in the construction and sale of housing units required to ensure that any discrepancies (as defined in the Sale Law) are rectified.

PBC is obligated to engage with contractors who operates with compliance to safety standards.

PBC is subject to all Israeli standards, which relates to the quality of work and materials.

Green Building - PBC agenda is subject to acts with adequate protection to environmental aspects.

Supermarkets

Labor Law

The retail sector activities of Shufersal are subject to labor laws including the Employment of Workers by Human Resources Subcontractors Law, 5756-1996, the Extension Order in the Matter of Contract Workers in the Cleaning Branch in the Private Sector, the Minimum Wage Law, 5747-1987 and the Increased Enforcement of Labor Laws Law, 5772-2011. As of June 30, 2018, Shufersal employed approximately 15,000 workers, majority of which are subject to minimum wage requirements. As of December 31, 2017, the majority of Shufersal's employees, in an estimated number of 11,000 of Shufersal employees, are parties to a collective bargaining agreement. On March 29, 2018, Shufersal and its said employees' representatives signed an extension to the collective agreements until December 31, 2019. In the last 25 years, Shufersal had industrial quiet without shutdowns.

The provisions of the Minimum Wage Law (Increase of Minimum Wage - Emergency Provision), 5772 - 2015 and the amendment of the Minimum Wage Law, 5747 - 1987, resulted in an increase in the minimum wage effective from 2015 to December 31, 2017, of NIS 200 million in Shufersal's wage expense. In that regard, in 2017 (compared with 2016) the increase was in the amount of NIS 58 million. In Shufersal's evaluation the increase of the minimum wage in Israel, changes to labor laws in Israel and the increased possibility of organized workers may detrimentally affect the

business results of Shufersal and result in higher wage expenses of Shufersal.

Retail and Production

The activities of Shufersal are also subject to consumer protection laws, including the Food Law, the Defective Products Liability Law, 5740-1980, the Consumer Protection Law, 5741-1981, and the Consumer Product and Service Price Supervision Law, 5756-1996 that allows a consumer to institute a class action suit for damages caused to consumers as a whole based on the causes of action set out in that law. The Public Health Protection (Food) Law, 5776-2015, sets forth quality standards and food safety measures and provides the relevant regulators supervisory and criminal and administrative enforcement powers. The provisions of the Food Protection Law affect production activities of Shufersal, including importation and food marketing activities. Shufersal is continuing the process of implementing procedures to comply with the provisions of the Food Protection Law that apply to its activities. Shufersal also operates pharmacies in certain of its stores, and is therefore subject to the provisions of the Pharmacists Ordinance (New Version), 5741-1981. Shufersal is involved in manufacturing activities at three owned facilities where it produces principally private-branded baked goods which are subject to compliance with applicable production and quality assurance standards. Shufersal is continuously evaluating compliance of these facilities with the provisions of the Food Protection Law and as of the date of this Annual Report, Shufersal believes its operations comply in all material respects with the applicable provisions of this law.

The retail activities of each Shufersal store requires compliance with the Business License Order (Businesses Requiring a License), 5773-2013, principally providing that they obtain a business operating license for each unit. As of the date of this Annual Report, there are two units that are subject to legal proceedings regarding business licenses that are pending against Shufersal and its directors. Shufersal's operating units are also subject to land development approvals and licensing, substantially all of which are in compliance. On December 26, 2017, the Public Health Protection Regulations (Food) (Food Marking), 5727 - 2017 (the "Marking Regulations") were published - the Marking Regulations are intended to make information accessible to consumers regarding the nutritional value of pre-packaged food, using symbols that indicate that food contains a high amount of sodium, sugars or saturated fatty acids, to allow consumers to make informed choices about their foods, and to promote their health. The main regulations concern to manufacturers or importers of prepackaged food, which include, inter alia, provisions which are expected to affect the productive activities of Shufersal. These regulations will enter into effect on January 1, 2020. Shufersal estimates that the said regulations will not materially affect its financial results. To the best of the Shufersal's knowledge, Shufersal complies with the various legislative and regulatory requirements that apply on it.

The Food Law and the Anti Trusts Law The Antitrust Law affects the activities of Shufersal, especially with respect of the possibility of carrying out future acquisitions for which approval is required from the Antitrust Commissioner (the "Commissioner") and the influence on the trade arrangements of Shufersal with its suppliers. The Food Law regulates Shufersal's trade arrangements with its suppliers which are regulated in detail which are designed to promote competition in the food supply industry. As of the date of this Annual Report, Shufersal believes that growth through acquisitions of a significant entity in the retail market would be limited. Moreover, provisions of the Food Law relating to geographical competition of retailers may influence the ability of Shufersal to expand organically through opening new stores in certain areas and under certain circumstances Shufersal may be required to close active branches under certain circumstances. The Food Law includes the following three systems:

(a) with respect to activities of suppliers and retail trade, the Food Law prohibits:

- i. a supplier interfering with the retail price of the products of another supplier;
- ii. a retailer interfering with a supplier in the matter of the consumer price imposed by another retailer;
- iii. a large supplier imposing its market position to influence the ordering or presentation of retail products within stores of a large retailer (Shufersal is included in the list of large retailers);

iv. a large supplier interfering with the price a retailer charges consumers for the products of that supplier, in the allocation of sales areas at any rate for the products of the supplier, for the acquisition of a product from the supplier in any scope from the total retail purchases of the product and of competing products, and for the purchase or sale of products which another supplier supplies to the retailer, including purchase quantities and goals, the sale area allocated to them in a store and any other commercial condition sought to be imposed; v. a large retailer and a large supplier agreeing to set the pricing of a basket of products at a price that is lower than the marginal cost of production of the related product or that would require a consumer to purchase a minimum amount of the related product to achieve the reduces price; vi. a large supplier conditioning the sale of its product to a retailer on the purchase of another product of that large supplier; and

vii. a supplier forwarding payments to the large retailer, unless by way of a price reduction of the product units. (b) Restrictions on geographical competition of retailers have adversely affected Shufersal's expansion through organic growth and acquisitions. On September 28, 2014 Shufersal received a notification from the Antitrust Authority regarding demand areas of Shufersal's large stores ("Notice of Demand Areas"). The stores that were the subject of the Commissioner's request under the Law are 14 stores located in Haifa, 3 stores in Carmiel, 4 stores in Hadera, and 3 stores in Safed. As of the date of this Annual Report, Shufersal has not been required to close or dispose of any of its stores. (c) Provisions designed to increase transparency of consumer prices, inter alia, by requiring a large retailer to publish on the internet and without cost to consumers, various data on prices of consumer goods it sells in its stores to allow consumers to compare prices with those of other retailers.

(d) Provisions regarding the contemporaneous application of the Food Law and the Antitrust law - In December 2015, the Commissioner published a statement on the parallel application of the Antitrust Law and the Food Law listing cases in which only the provisions of the Food Law will apply and no additional regulation will be required under the Antitrust Law. As of the date of the notice Shufersal's operations comply with the Food Law. Shufersal's acquisition of Clubmarket was approved by the Commissioner in 2005, and within this framework the Commissioner imposed a number of limitations on Shufersal's activities including: prohibiting Shufersal from pricing products that result in a loss that is not proportionate to its business activities and are aimed to affect the operations of competitors from the market; prohibiting Shufersal from entering into agreements with suppliers that impose restrictions on those suppliers from doing business with competitors of Shufersal; and prohibiting Shufersal from attempting to influence commercial conditions between its suppliers and competitors. Shufersal obtained an exemption from the Commissioner, available until October 14, 2018, regarding the operation of the Fourth Chain, which is a label company owned by a number of supermarket chains that was established to develop consumer goods. The Commissioner's decision took into account the fact that Fourth Chain contracted with a third party that develops products for it under a private brand and the stipulated exemption exclusively permits these joint activities for the development of the private brand. Shufersal believes the Fourth Chain private label increases competition by establishing a cost-effective alternative to dominant branded consumer products.

The findings of the Commissioner in the matter of the rules of conduct among the largest store chains and the dominant suppliers in the food supply market, including under the provisions of the Food Law, and in the matter of the merger of Shufersal with Clubmarket, may have a detrimental effect on Shufersal's business, its financial condition and operating results.

In October 2016, Shufersal received a notice from the Antitrust Authority about catchment areas of the large stores of Shufersal ("the catchment area notice"). The catchment area notice referred to 132 large stores, with calculated rate of more than 30% but less than 50%, and 38 large stores with calculated rate of over 50%. The notice was accompanied by maps of catchment areas of those stores. It is noted that after reviewing the catchment area maps that were enclosed in the catchment area notice, the stores that may be exposed to actions under the above temporary provision are as follows: 19 stores in the Haifa area and 3 stores in the Zefat area. It is noted that as of the date of this report, Shufersal had not been required, under the temporary provision, to close any of its stores. As at December 31, 2017,

implementation of the Food Law did not have any material impact on the business of Shufersal.

Telecommunications Regulations Cellcom's operations are subject to general legal provisions regulating the relationships and method of contracting with its customers. These provisions include the Consumer Protection Law, 5721-1981 and regulations promulgated thereunder and other laws detailed below. A substantial part of Cellcom's operations are subject to the Communications Law, regulations enacted by the Ministry of Communications, and the provisions of the licenses granted to Cellcom by the Minister of Communications. Cellcom's activities which include providing cellular service, landline, international telephone services and internet access, and infrastructure services are subject to licensing.

Supervision of Rates. The Communications Regulations (Telecommunications and Broadcasts) (Payments for Interconnect), 5760 - 2000 requires cellular operators to phase in gradual reduction of communications rates (i.e. payments that will be made by an in-country operator, another cellular operator or international operator to complete one minute of call time in the network of a cellular operator or for the sending of an SMS between cellular operators). This reduction has led to a considerable reduction in Cellcom's revenues. Moreover, in August 2013 the Communications Law was amended to authorize the Minister of Communications to set interconnection prices and regulate the use of networks owned by another operator based not only on the cost incurred to establish the network (according to the calculation method to be determined by the Minister of Communication) plus a reasonable profit, but also on one of the following: (1) flat payment for a service provided by the license holder; (2) reference to tariffs charged for a comparable service; or (3) reference to the cost of these services or with the interconnection costs charged in other countries. The Minister of Communications was also empowered to give instructions on structural separation for the providing various services, including segregating services provided by a license holder from services provided to a subscriber.

In the last few years, contract termination charges for cellular plans have been banned in the cellular and other communications markets, other than for customers who have more than a certain number of cellular lines or whose monthly payments exceed a certain amount for bundled service. The elimination of these charges led to a considerable increase in plan cancellations, increased the costs of retaining and acquiring customers, and accelerated erosion of rates.

Virtual Operators (MVNO). The Communications Law and related pronouncements regulate the activities of virtual operators. Notwithstanding that the MVNO regulations apply only to the activities of a virtual operator which has an operating agreement with a cellular operator, the regulations empower the Ministry of Communications together with the Economic Ministry to impose terms of an agreement including fixing the price to be charged for the services provided. Other Third Generation Operators (UMTS). In 2012, Golan and Hot Mobile began to offer UMTS services. The conditions of the tender according to which Golan and Hot Mobile were granted those licenses included a number of benefits and concessions, including minimally low license fees and a mechanism to reduce the royalties they undertook to pay for the frequencies based on the operator's market share in the private sector and setting long timetables to meet the geographical coverage requirements of the network and the right to use in-country migration services via other cellular operators' networks. The Communications Law obliges the other cellular operators to provide in-country migration services to Golan and Hot Mobile for a period ranging from seven to ten years subject to certain conditions. In 2011, Cellcom entered into a contract with Golan to provide in-country migration services. Hot Mobile entered into a similar in-country migration agreement with Pelephone and later with Partner (which was subsequently replaced by a joint networks agreement with Partner) without intervention from the Ministry of Communications.

Regulation of Multi-Channel Television Services

As at the date of this Annual Report, television program streaming via the Internet is not subject to regulation in Israel. Should the recommendations of the committee for the examination of the arrangement of commercial

broadcasts be adopted and the committee requires Cellcom to make additional investments or regulation is imposed that is not beneficial for Cellcom's streaming services or for its ability to use the DTT infrastructures, the results of Cellcom's streaming services may be adversely affected.

Cellcom's Communications Licenses

Cellcom holds a general license for providing cellular services, valid until January 31, 2022, setting out conditions (including duties and restrictions) applicable to its activities, officers and shareholders holding certain percentages of Cellcom's shares. The license may be extended by the Ministry of Communications for consecutive periods of six years, if Cellcom is in compliance with the provisions of the license and law, and makes requisite investments to its service and network. The Ministry of Communications has amended the license conditions in the past, and may amend them in the future, without Cellcom's consent and in a manner that may limit its ability to conduct business. The license provides that Cellcom does not have exclusivity for providing services.

The cellular license can be revoked, suspended or limited in the following cases: total holdings of the founding shareholders or their successors (as defined in the license) is less than 26% of the control shares of Cellcom; total holdings of Israeli parties (as defined in the license), who are among the founding shareholders or their successors, is less than 20% of the total issued share capital and control shares of Cellcom; a majority of directors are not Israeli citizens or residents of Israel; fewer than 20% of the directors of Cellcom were appointed by Israeli parties; an act or omission of Cellcom that adversely affects or restricts competition in the cellular sector; the aggregate equity of Cellcom, together with the aggregate equity of shareholders each holding 10% or more of the share capital, is less than US\$200 million. In light of the 2015 change in the control structure of IDBD, the Cellcom control structure has also changed, and requires the approval of the Ministry of Communications, including with regard to Israeli holding requirements included in the licenses of Cellcom, as Mr. Eduardo Elsztain is not a citizen of Israel. IDBD and Cellcom formally applied to the Ministry of Communications to approve these changes and amend the telecommunications licenses of Cellcom accordingly. If the request is not approved and another arrangement is not offered by the Ministry of Communications, Cellcom may face sanctions, which under the terms of its license, can include suspension or cancellation of its licenses.

According to Telecommunications Law, the Ministry of Communications may impose on telecommunication companies, including Cellcom, financial sanctions for breach of license and law. The amount of the sanction is calculated as a percentage of the revenue of the operator, and according to the degree of severity and extent of the breach, said may be significant. In July 2015, Cellcom received (through a wholly owned entity) a uniform and general license for the provision of landline telephony services (which replaced the previous license for providing this service), for the period ending April 2026. A uniform and general license was also awarded to Netvision and replaced its general license for providing internet access services, international carriers, and a network access point for the period ending February 2022. In addition, an entity, fully controlled by Cellcom received a uniform and general license which replaced the landline telephony service license, for the period ending March 2026. These licenses can be extended for an additional period of 10 years, under terms similar to the terms of extension of the general cellular license.

The Ministry of Communications has issued rules providing for unification of all uniform licenses. The uniform license allows providers to also offer virtual operator services. The process of unifying the uniform licenses and the timetable have not yet been determined and it is possible that this process will have a legal, financial, tax and accounting effect on Cellcom's and Netvision's businesses. The provision of a number of services by one entity will require limitations also on discrimination between operators.

Cellcom holds other communications licenses: a special license for the provision of data transmission and communication services in Israel, a license to provide internet services, and licenses to provide cellular services, landline telecommunication services and internet services in the West Bank, for periods ending 2016-2018. These licenses include conditions similar to those of the general license for the provision of cellular services, as noted above.

According to regulations that apply to the uniform license, there are certain limitations on cross ownership among license holders.

2. Further Regulation Applicable to Communications Services

In July 2014, the Ministry of Communications announced a public hearing on the coverage and quality requirements for second-generation and third generation networks. The proposed requirements are stricter than those currently existing and if adopted, could have an adverse effect on the results of Cellcom. Cellcom is unable to assess whether the proposed changes will be adopted, and what the impact of these changes will have in practice on Cellcom's operating results. In addition, in August 2014, the Ministry of Communications announced a public hearing to consider call centers owned by communications operators. In addition, the Ministry of Communications proposed to amend the Communications Law (Telecommunications and Broadcasting), 1982, providing that a customer may claim pre-set financial compensation if the telephone call center does not reply within an average response time or if there is an overcharge error. Cellcom believes that adoption of these proposed changes could have a material adverse effect on Cellcom's business.

3. Permits for Setting Up Base Sites

a. Cellcom's cellular services generally are provided through base sites across Israel, their construction and licensing are included in TAMA 36 (District Zoning Plan) – Part A - National Master Plan for Communications - Small and Micro Broadcasting Facilities ("TAMA 36"), and Radiation Law. Regulating the deployment of wireless access devices, which are base sites with smaller dimensions, are, for the most part, regulated by Communications Law and Radiation Law. The construction of base sites requires a permit as per Planning and Building Law, 1965 ("Planning and Building Law"), and is subject to other approvals from multiple regulators.

Legal proceedings (civil, criminal and administrative) are pending against Cellcom, under which a number of arguments were raised concerning the legal compliance of some of Cellcom's sites, alleging failure to obtain permits under Planning and Building Law, or based on development of sites in contravention of a permit.

As of December 31, 2017, Cellcom operated a small portion of Cellcom's cell sites without building permits or applicable exemptions and approximately 33% of Cellcom's cell sites without building permits in reliance on an exemption from the requirement to obtain a building permit, mainly for radio access devices. In 2010, the Supreme Court issued a Temporary Order at the request of the Government's Attorney General, enjoining Cellcom, Partner, and Pelephone from proceeding with construction of these facilities on the basis of the exemption. A final determination of the regulatory authorities regarding applications for exemptions is pending as of the date of this Annual Report. In addition, Cellcom provides in-building repeaters and micro-sites ("femtocells") for its subscribers seeking a solution to poor indoor reception. Based on an opinion Cellcom received from legal counsel, Cellcom did not request building permits for the repeaters that were installed on roof tops, which are a small fraction of all repeaters installed. It is not clear whether the installation of a different type of in-building repeaters and micro-sites requires a building permit. Some require a specific permit while others require a permit from the Ministry of Environmental Protection, depending on their radiation levels. Cellcom also builds and operates microwave facilities as part of its transmission network. The different types of microwave facilities receive permits from the Ministry of Environmental Protection regarding their radiation levels. Based on an opinion of legal counsel, Cellcom believes that building permits are not required for the installation of microwave facilities on rooftops.

b. Indemnification obligation - under Planning and Construction Law, local planning and building committees may demand and receive, as a condition for granting a building permit for a site, a letter of indemnity for claims under Section 197 of Planning and Construction Law. By December 31, 2015, Cellcom had executed approximately 400 letters of indemnity as a condition for receiving permits. In some cases, Cellcom has not yet been built any sites.

As a result of the requirement to provide indemnification letters, Cellcom may decide to construct new cell sites in alternative, less suitable locations, to reduce capacity coverage or not to construct them at all, which could impair the quality of Cellcom's service in the affected areas.

c. Radiation Law, Regulations and Permits Thereunder - Radiation Law, Regulations and Principles thereunder included provisions relating to all aspects related to regulating the issue of non-ionizing radiation, including, inter alia, levels of exposure that are permissible.

In May 2012, the Ministries of Communications, Health and Environmental Protection, based on their assessment of the potential health consequences of fourth-generation telecommunications services in Israel, including increased exposure to non-ionizing radiation, issued a memorandum advising that deployment of the fourth-generation network should be based on existing base stations, other smaller base sites both internal and external, and if possible, using the wired infrastructure so that data traffic will be carried mainly through fixed communication lines and not through any cellular infrastructure. In August 2014, the Ministry of Communications allowed the use of fourth-generation infrastructures, and in January 2015 fourth-generation frequencies were awarded to cellular operators. The recommendations of May 2012, as noted, were not included in the tender documents or in said approval.

As of December 31, 2017, Cellcom were subject to five criminal and administrative legal proceedings alleging that some of its cell sites were built and have been used without the relevant permits or not in accordance with the permits. As of the same date, a small portion of Cellcom cell sites operated without building permits or applicable exemptions. Although Cellcom is continually seeking to obtain building permits for these sites, Cellcom may not be able to obtain them and in several instances Cellcom may be required to relocate these sites to alternative locations or to demolish them without any suitable alternative. In addition, Cellcom may be operating a significant number of its cell sites, in a manner which is not fully compatible with the building permits issued for them, although they are covered by permits from the Ministry of Environmental Protection in respect of their radiation level. In some cases Cellcom will be required to relocate these cell sites to alternative locations, to reduce capacity coverage or to demolish them without any suitable alternative.

In 2017 a draft regulations setting procedures for making changes in existing radio access devices including replacement thereof and for the construction of a limited number of new radio access devices exempt from building permits, but requiring certain municipal procedures, was deliberated in the Israeli Parliament's Economic Committee.

4. Services in Judea and Samaria

The Israeli Civil Administration in Judea and Samaria granted Cellcom a non-exclusive license for the provision of cellular services to the Israeli-populated areas in Judea and Samaria. This license is effective until 2022.

Insurance

Areas of Activity of Clal Insurance Business Holdings

Clal Holdings offers general insurance such as car insurance, homeowners' insurance, and credit and foreign trade risk insurance, among others, as well as health insurance. The activities of Clal Holdings and its subsidiaries are subject to the provisions of laws applicable insurance companies and to regulatory supervision. Clal Holdings' subsidiaries are supervised by the Capital Markets, Insurance and Savings Commissioner (the "Insurance Commissioner"). Clal Insurance and its subsidiary, Clalbit Financing, are supervised by the Israel Securities Authority. Subsidiaries of the Clal Holdings Insurance Group have been subject to administrative enforcement proceedings and the imposition of fines. Clal Insurance is not in breach of any material regulatory provision applicable to its operations.

Capital Requirements of Insurance Companies

In April 2018, the sublaw: Supervision of Financial Services Regulations (Insurance) (Minimum Equity Required for an Insurer's License) Regulations, 5778-2018 (the "Minimum Capital Regulations"), which nulify the Supervision of Financial Services (Insurance) (Minimum Equity Required of an Insurer), Regulations, 1998. The Minimum Capital Regulations prescribes minimum capital different requirements for different segments in the insurance field. The capital required for Long term insurance (e.g. life insurance, long term health insurance and Liability insurance) is NIS 15 million as compared to 52 million pursuant to the previous regulations. The capital required for short term

insurance (e.g. general insurance and short term health insurance) is NIS 10 million as compared to NIS 59 million pursuant to the previous regulations. The said Minimum Capital Regulations are expected to increase competition in the insurance market due to the reduction of the capital requirement for the purpose of obtaining an insurance company license. At this stage, Clal Insurance cannot expect the full implications of the regulations.

the insurance and savings segments, in recent years and in particular in 2017, there Commissioner if promoting a significant amount of regulatory reforms, mainly those aimed to reduce insurance and management fees. In particular, the Commissioner has set a special pension funds, which will be a default choice for employees unless they choose otherwise, which significantly reduce the management fees. With respect to the said fund, the Commissioner also intervenes with terms which regards to loss of work capacity, a material change in compulsory insurance tariffs and changes in the conditions and tariffs in health products. The regulatory intervention creates changes in the structure of the engagement and the interaction between institutional bodies, agents, employers and customers, in a manner that can affect the ability of an institutional body to link its revenues and expenses, impose significant operating expenses on it and harm its profitability. The implementation of some of the reforms began in 2017, and some of them will be implemented in the future and / or are in various stages of implementation or discussions. As of December 31, 2017, Clal cannot estimate the full impact of the said measures and regulations taken on the insurance and pension market in Israel. The range of the proposed changes, the intervention in tariffs and management fees, the operational load, the scope and complexity of the regulatory changes, and the adjustments required in the automation systems and work processes, affect the business model of the insurance market in Israel and its profitability, among others on the value of the business which will be sold (VNB) and the solvency ratio to comply with pursuant to the Solvency Directive.

Breakdown of an Insurer's Capital – The Insurance Commissioner issued a circular in August 2011 (“Circular”) that provides a framework for determining the composition of an insurer's equity, in conjunction with the adoption in Israel of the Solvency II Directive (“Directive” or “Solvency II”), as amended and updated.

- Initial (core) capital (basic tier 1), equals the components included in capital attributable to shareholders of Clal Insurance. The overall capital ratio must be at least 60% of the total equity of the insurer.
- Secondary (tier 2) capital includes complex secondary capital instruments (excluding periodic accrued interest payments), subordinate secondary capital instruments (as defined by the Circular) and any other component or instrument approved by the Insurance Commissioner. A complex secondary capital instruments is one that is subordinated to any other instrument, except for initial capital, including financial instruments available to absorb losses by postponing payment of principal and interest. The first repayment date of secondary capital instruments will be after the end of the period that reflects the weighted average maturity of insurance liabilities, plus two years, or after 20 years, whichever is first, but no earlier than eight years from the date an instrument is issued. If the complex secondary capital instrument includes an incentive for early redemption, the first incentive payment date may not be earlier than five years from the date of issue of the instrument.

- Tertiary (tier 3) capital includes complex tertiary capital instruments (excluding periodic accrued interest payments) and any other component or instrument approved by the Insurance Commissioner. A tertiary capital instrument is subordinate to any other instrument, except for primary and secondary capital, and includes financial instruments available to absorb the insurer's losses by postponing the payment of principal. Tertiary capital will must be junior to secondary capital and equal in the order of credit repayments. The first repayment date on tertiary capital instruments may not be earlier than five years from the date of issuance. If the complex tertiary capital instrument includes an incentive for early redemption, the first incentive payment date may not be earlier than five years from the date of issue of the instrument. Tertiary capital may not exceed 15% of the total capital of the insurer.

Insurance liabilities include liabilities that are not yield dependent but excludes any liability fully backed by lifetime indexed bonds and net of any reinsurance costs. Approval of the Insurance Commissioner is required for inclusion of hybrid capital instruments (primary, secondary or tertiary) in equity. The Circular includes a Temporary Order regarding the breakdown of an insurer's equity (“Temporary Order”), which will apply until full implementation of the Directive in Israel, when announced by the Insurance Commissioner. The Temporary Order defines the secondary capital issued according to Capital Regulations, before amendment, as subordinate secondary capital and imposes a limit equal to 50% of basic capital.

Distribution of dividends – In accordance with rules promulgated by the Insurance Commissioner, a dividend distribution may not be approved, unless, after giving pro forma effect to the proposed distribution, the insurer has a ratio of recognized equity to required equity of at least 100% pursuant to the provisions of any Solvency Directive, as confirmed in filings with the Insurance Commissioner. Prior approval of the Insurance Commissioner is not required for any distribution of dividends if the total equity of the insurance company, as defined in the Minimum Capital Regulations, after giving effect to the distribution of the proposed dividend, exceeds 115% of the required equity.

In November 2014, the Insurance Commissioner outlined solvency rules (“rules” or “regime,” as applicable) based on Solvency II, in Israel, in a letter addressed to managers of the insurance companies (“Letter”). In the Letter, the Insurance Commissioner outlined a plan to adopt the 2016 European model for calculating capital and capital requirements for the local market, effective as of the annual reports for 2016 (“First Adoption Date”). During a period to be determined by the Insurance Commissioner and as conditions require, insurance companies will also be required to comply with capital requirements under existing regulations. The Letter stated that until final adoption, insurance companies must prepare additional quantitative assessment exercises (IQIS) for the 2014-2015 period. These requirements are intended to assess the quantitative effects of adopting the model, as well as providing data for calibrating and adjusting the model. In addition, the Letter addressed an initiative to develop a framework for quarterly reporting of insurance companies’ solvency ratio. The Letter also referred to the Commissioner’s intention to publish provisions for managing capital and targets for internal capital, to address a gap survey that insurers will undertake with respect to their risk management systems, controls and corporate governance and a consultation paper to promote the process of self-assessment of risks and solvency (ORSA). In April 2015, the Insurance Commissioner published a second letter titled “Plan for the Adoption of Rules for Solvency, based on Solvency II” and provisions for the IQIS4 exercises to be undertaken regarding the 2014 historical financial statements. The letter emphasized that the exercise reflects the decision of the Insurance Commissioner to impose adjustments required for the Israeli insurance market. The Letter further stated in connection with the proposed adoption of IQIS5 that the Insurance Commissioner would continue to monitor developments in the European markets and would consider adjustments relevant for Israel.

In July 2015, the Insurance Commissioner issued a letter concerning “transitional provisions regarding the application of solvency rules, based on Solvency II” (the “Letter on Transitional Provisions”). The transitional provisions were provided by reference to certain solvency rules set forth in the European Directive relating to, inter alia, a gradual adoption of capital requirements in respect of holdings of equity shares which may a component to be included in the calculation of core capital. In addition, the letter included transitional provisions regarding submission of a plan to improve the capital ratios of insurance companies whose ratios are negatively affected following adoption of the new solvency rules beginning with the financial statements for 2018. Adoption of the solvency rules are expected to change both the recognized regulatory and required regulatory capital and according to indications existing today, is expected to result in a significant decline in the ratio between recognized capital and required capital of Clal Insurance compared to capital ratios calculated according to capital ratio requirements currently in effect, and is expected to adversely affect the ability of Clal Insurance and Clal Insurance Enterprises to distribute dividends upon such adoption. However, as a rule, the capital requirements under the solvency rule are intended to serve as a capital cushion against more serious events, with a lower loss probability than the capital requirements under current rules. In May 2015, the Board of Directors of Clal Insurance Enterprises and the Board of Directors of Clal Insurance directed its management team and the Risk Management Committee, which also functions as the Solvency Committee (“Committee”), to examine measures Clal Insurance may be able to employ to improve its capital ratio, in accordance with the new solvency rules and to recommend a course of action to the Board, including in relation to business adjustments and/or financial transactions related to Clal Insurance’s capital, its breakdown, and/or its responsibilities. The Committee and Management have begun this examination, and during the first stage, recommended that the Board issue secondary capital instruments. The Committee will continue to examine other measures in an effort to prepare the company for possible adoption of these proposed capital requirements, and related measures. Clal Insurance has calculated its capital ratio using results as of December 31, 2014 (“Calculation Date”) and based on the IQIS4 rules and has determined that it would be in compliance, as of the Calculation Date, with the proposed capital

requirements, in the context of the transitional provisions, even before taking pro forma account of the positive impact on the capital ratio provided by the subsequent issuance of subordinated notes. The related calculations were submitted to the Insurance Commissioner on August 31, 2015. The Insurance Commissioner has not yet published binding provisions for adoption, and there is uncertainty regarding the details of the final provisions. Clal Insurance will continue to monitor the quantitative aspects of the proposed solvency rules towards final adoption, in an effort to anticipate requisite controls and capital requirements. On March 14, 2016, "IQIS Provisions for 2015" ("Draft") was published in preparation for the adoption of Solvency II. Insurance companies are required to submit an additional quantitative evaluation survey on the basis of December 2015 results ("IQIS5"), by June 30, 2016. The Draft was issued by reference to the European legislation adapted for requirements of the local market and that goes beyond provisions for quantitative evaluation surveys previously issued. The main changes relate to establishing risk-free interest curves, through extrapolation to the ultimate forward ratepoint, the components of recognized capital, capital requirements less investments in infrastructure (capital and debt), adjusting capital requirements for management companies, and updating the formula for calculating capital requirements for risk premiums and reserves for general insurance. Clal Insurance is unable to assess the overall impact of the changes based on the provisions in the Draft to carry out a further quantitative evaluation survey, and will carry out an assessment of the current capital status, when the binding provisions will be finalized. According to the Draft, the IQIS5 calculation will be a factor in assessing preparedness of insurance companies and to the implementation and scope of the final provisions to be adopted.

Capital requirements under the Capital Regulations are based on the separate individual financial statements of an insurance company. For purposes of calculating recognized capital, an investment by an insurance company in an insurance company or a controlled management company, and in other subsidiaries will be calculated on the equity basis, according to a holding rate, which includes indirect holdings.

The minimum capital required of Clal Insurance has been reduced, with approval of the Insurance Commissioner, by 35% of the original difference attributed to the managing companies and provident funds under its control. However, when calculating the amount of dividends permitted for distribution, this difference will be added at level of the capital structure. In September 2013, the Insurance Commissioner notified Clal Insurance that the deducted amount to be added back to the minimum capital required, will be after a deduction for a tax reserve accrued by Clal Insurance following the acquisition of provident fund operations. The approval of the Insurance Commissioner, as noted above, will be canceled with adoption of capital requirements under the Directive that will replace the Capital Regulations. In March 2013, Clal Insurance received a letter from the Insurance Commissioner regarding the determination of credit ratings according to an internal model used by Clal Insurance (“internal model”), to be applied as a risk rating methodology for a subject insured, according to conditions of the relevant sector. The Insurance Commissioner authorized Clal Insurance to allocate capital for adjusted loans, ranked according to its internal model and with reference to the rates specified in the Capital Regulations. If there is an external rating available, the capital allocation will be made using the lower of the available ratings. The letter also requires Clal Insurance to submit immediate and periodic reports as specified regarding these activities that make the specified transactions subject to review by the Commissioner of Insurance. As a result of its compliance with the provisions of the letter, Clal Insurance’s capital requirements were reduced by NIS 69 million, as at the end of the reporting period. Permit Issued by the Insurance Commissioner to the Former Controlling Shareholders of IDBH to Retain Control of Clal Insurance Enterprises and Consolidated Institutional Entities On May 8, 2014, legal counsel for the former controlling shareholders of IDBD (Ganden, Manor, and Livnat Groups) was notified by the Commissioner that in the context of arrangements among the creditors of IDBH, and given that they no longer controlled the Clal Insurance Enterprises Group, the authorization previously issued by the Insurance Commissioner for control of these entities was terminated, including, with respect to Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds. IDBH undertook to supplement (or to cause its controlled affiliates to supplement) the required equity of the insurers in compliance with the Capital Regulations, subject to the a cap of 50% of the required capital of an insurer, and that the obligation will take effect only if the insurer’s equity is determined to be negative, and such funding amount will then be equal to the amount of negative capital, up to the 50% cap. In addition, IDBH undertook to contribute to the equity of Clal Pension and Provident Funds up to the amount prescribed by the Provident Fund Regulations, for as long as IDBH is the controlling shareholder of the institutional entities. The authorization specifies conditions and imposes restrictions on the ability of a holding entity to impose liens on the equity of IDBD’s institutional entities it holds. The former controlling shareholders were also required, as long as any liens existed on their equity interest of IDBH, to ensure that Clal Insurance Enterprises complied with applicable capital requirements, such that the equity of Clal Insurance Enterprises at no time was less than the product of the holding rate of Clal Insurance Enterprises in Clal Insurance and 140% of the required minimum equity of Clal Insurance, calculated according to the Capital Regulations on September 30, 2005 (as the holding rate was linked to the CPI of September 2005). At the end of the reporting period, the required minimum capital of Clal Insurance Enterprises was NIS 2.9 billion, greater than the amount required based on the foregoing calculation. The capital requirement is calculated on the basis of the financial statements of Clal Insurance Enterprises. Following termination of the control authorization, the former controlling shareholders have questioned whether the capital requirements applicable to Clal Insurance Enterprises thereunder continue to apply.

Clal Insurance is committed to finding a strategy to supplement its required equity in compliance with the Capital Regulations if the equity of Clal Credit Insurance becomes negative, and as long as Clal Insurance is the controlling shareholder of Clal Credit Insurance. Clal Insurance is committed to supplement the equity of Clal Pension and Provident Funds as necessary to ensure it complies with the minimum amount required by Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964 (“Income Tax Regulations”). This commitment is valid as long as Clal Insurance controls, directly or indirectly, Clal Pension and Provident Funds. In February 2012, Supervision of Financial Services Regulations (Provident Funds) (Minimum Capital Required of a Management Company of a Provident Fund or Pension Fund), 2012, was published along with Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment 2), 2012 (“new regulations”).

Pursuant to the new regulations, the capital requirements for management companies were expanded to include capital requirements based on the volume of assets under management and applicable annual expenses, but not less than the initial capital of NIS 10 million. In addition, liquidity requirements were also prescribed. A fund management company may distribute dividends only to the extent of any excess above the minimum amount of equity required by said regulations. In addition, a fund management company must provide additional capital in respect of controlled management companies. As at the end of the reporting period, the management companies controlled by Clal Insurance have capital balances in excess of the minimum capital required by the capital regulations for management companies. In light of capital regulations for management companies and in order to finance the expansion of operating and investing activities of Clal Pension and Provident Funds, the Boards of Directors of Clal Insurance and Clal Pension and Provident Funds in 2015 and 2014 approved an subscribed shares of Clal Pension and Provident Funds in consideration for NIS 100 million and NIS 80 million, respectively.

Anti-Money Laundering. In May 2017, the Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Insurers, Insurance Agents and Managing Companies in Order to Prevent Money Laundering and the Financing of Terrorism), 2017, was published, which came into effect in March 2018 (the “Prohibition on Money Laundering Order”). The order consolidates and combines, under a single framework regarding institutional entities. The following regulations: the Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Insurers and Insurance Agents), 2001 and The Prohibition on Money Laundering Order (Obligation to Identify, Report and Maintain Records of Provident Funds and Managing Companies of Provident Funds), 2001. The main changes in the order, relative to the current orders, include the expansion of the application of the order to a new general fund, provident fund for investment and provident fund for savings, and with respect to an annuity paying provident fund in certain cases, and regarding the reduction of the limit of accruals, deposits and withdrawals which require the performance of actions in accordance with the order. Additionally, an obligation was established to perform a “know your customer” process upon engagement in a life insurance contract or upon the opening of a provident fund.

In addition, in December 2016, the bill for amending the Prohibition on Money Laundering Law (Amendment No. 19), 5766 - 2016 (the "Amendment") was published and was yet to be approved. The Amendment includes changes which expand the list of cases included pursuant to the law, and also sets the right of the Authority for the Prohibition of Money Laundering to transfer information to the Commissioner of Insurance.

In February 2018, the Management of Money Laundering and Financing of Terror Risks in financial institutions circular was published (the "Money Laundering Risk Management Circular"), which extends and imposes additional obligations on institutional entities which are not included in the Prohibition on Money Laundering Order.

The Money Laundering Risk Management Circular.

The main purpose of the Money Laundering Risk Management's Circular is to establish directives regarding the implementation of orderly processes for the identification and assessment of the risks of money laundering and the financing of terrorism and the taking of measures for their management and amortization, including the guidelines regarding the adoption of a money laundering and terror financing risk management policy for the approval of the Board of Directors; Formulating a risk assessment document in which the money laundering and terrorist financing risks in the institutional body will be identified and evaluated; Implementation of measures to reduce the risk of money laundering and the financing of terrorism; And those responsible for fulfilling the obligations of the prohibition of money laundering and the prevention of terrorism in an institutional entity.

According to the Clal's estimate, the Prohibition on Money Laundering Order, the Amendment and the said circular may have implications on the sale process of insurance products, both within the framework of the direct sale channels, and through agents, inter alia, in light of the requirements of the order and their impact on the sale processes, both in light of the need to implement a process of learning about the customer prior to the sale process, and in light of the interpretation which will be given for the aforementioned obligations, with respect to the insurance companies, the insurance agents and the reciprocal relationship between them.

C. Organizational Structure

The following table presents information relating to our ownership interest and the percentage of our consolidated total net revenues represented by our subsidiaries as of June 30, 2018:

Name of the entity	Country	Main activity	% of ownership interest held by the Group		
			06.30.2018	06.30.2017	06.30.2016
IRSA's direct interest:					
IRSA CP (1)	Argentina	Real estate	86.34%	94.61%	94.61%
E-Commerce Latina S.A.	Argentina	Investment	100.00%	100.00%	100.00%
Efanur S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
Hoteles Argentinos S.A.	Argentina	Hotel	80.00%	80.00%	80.00%
Inversora Bolívar S.A.	Argentina	Investment	100.00%	100.00%	100.00%
Llao Llao Resorts S.A. (2)	Argentina	Hotel	50.00%	50.00%	50.00%
Nuevas Fronteras S.A.	Argentina	Hotel	76.34%	76.34%	76.34%
Palermo Invest S.A.	Argentina	Investment	100.00%	100.00%	100.00%
Ritelco S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
Tyrus S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
U.T. IRSA and Galerías Pacífico (2) (6)	Argentina	Investment	50.00%	50.00%	-
IRSA CP's direct interest:					
Arcos del Gourmet S.A.	Argentina	Real estate	90.00%	90.00%	90.00%
Emprendimiento Recoleta S.A.	Argentina	Real estate	53.68%	53.68%	53.68%
Fibesa S.A. (3)	Argentina	Real estate	100.00%	100.00%	100.00%
Panamerican Mall S.A.	Argentina	Real estate	80.00%	80.00%	80.00%
Shopping Neuquén S.A.	Argentina	Real estate	99.92%	99.92%	99.14%
Torodur S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
EHSA	Argentina	Investment	70.00%	70.00%	-
Centro de Entretenimiento La Plata (6)	Argentina	Real estate	100.00%	-	-

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Tyrus S.A.'s direct interest:

DFL (4)	Bermudas	Investment	91.57%	91.57%	91.57%
I Madison LLC	USA	Investment	-	100.00%	100.00%
IRSA Development LP	USA	Investment	-	100.00%	100.0%
IRSA International LLC	USA	Investment	100.0%	100.0%	100.00%
Jiwin S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
Liveck S.A.	Uruguay	Investment	100.0%	100.0%	100.00%
Real Estate Investment Group IV LP (REIG IV)	Bermudas	Investment	-	100.0%	100.00%
Real Estate Investment Group V LP (REIG V)	Bermudas	Investment	100.0%	100.0%	100.00%
Real Estate Strategies LLC	USA	Investment	100.00%	100.00%	100.00%

Efanur S.A.'s direct interest:

Real Estate Investment Group VII LP (REIG VII)	Bermudas	Investment	100.00%	-	-
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DFL's direct interest:

IDB Development Corporation Ltd.	Israel	Investment	100.00%	68.28%	66.28%
Dolphin IL Investment Ltd.	Israel	Investment	100.00%	-	-

DIL's direct interest:

Discount Investment Corporation Ltd. (4)	Israel	Investment	76.57%	77.25%	76.43%
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IDBD's direct interest:

IDB Tourism (2009) Ltd.	Israel	Tourism services	100.00%	100.00%	100.00%
IDB Group Investment Inc.	Israel	Investment	100.00%	100.00%	100.00%

DIC's direct interest:

Property & Building Corporation Ltd.	Israel	Real estate	64.40%	64.40%	76.45%
Shufersal Ltd. (7)	Israel	Retail	-	54.19%	52.95%
Cellcom Israel Ltd. (5)	Israel	Telecommunications	43.14%	42.26%	41.77%
Elron Electronic Industries Ltd.	Israel	Investment	50.30%	50.30%	50.3%
Bartan Holdings and Investments Ltd.	Israel	Investment	55.6%	55.68%	55.68%
Epsilon Investment House Ltd.	Israel	Investment	68.75%	68.75%	68.75%

(1) Includes interest held through E-Commerce Latina S.A. and Tyrus S.A.

(2) The Company has consolidated the investment in Llao Llao Resorts S.A. and UT IRSA and Galerías Pacífico considering its equity interest and a shareholder agreement that confers it majority of votes in the decision making process.

(3) Includes interest held through Ritelco S.A. and Torodur S.A.

- (4) Includes Tyrus's equity interest. Until the present financial year, the participation was through Tyrus S.A. and IDBD.
- (5) DIC considers it exercises effective control over Cellcom because DIC is the group with the higher percentage of votes vis-à-vis other shareholders, with a stake of 46.16%, also taking into account the historic voting performance in the Shareholders' Meetings, as well as the evaluation of the holdings of the remaining shareholders, which are highly atomized.
- (6) Corresponds to acquisitions and constitutions of new entities considered not material as a whole.
- (7) Control was lost in June 30, 2018. See Note 4.G to the Audited Consolidated Financial Statements. Except for the aforementioned items the percentage of votes does not differ from the stake.

D. Property, Plant and Equipment

In the ordinary course of business, the leases property or spaces for administrative or commercial use both in Argentina and Israel under operating lease arrangements. The agreements entered into include several clauses, including but not limited, to fixed, variable or adjustable payments.

The following table sets forth certain information about our properties for the Operation Center in Argentina as of June 30, 2018:

Property (6)	Date of Acquisition	Leasable/ Sale m2 (1)	Location	Net Book Value Ps.(2)	Use	Occupancy rate (7)
República Building (3)	Apr-08	19,885	City of Buenos Aires	2,672	Office Rental	95%
Bankboston Tower (3)	Aug-07	14,873	City of Buenos Aires	2,008	Office Rental	100%
Bouchard 551	Mar-07	-	City of Buenos Aires	97	Office Rental	-
Intercontinental Plaza Building (3)	Nov-97	2,979	City of Buenos Aires	142	Office Rental	100%
Bouchard 710 (3)	Jun-05	15,014	City of Buenos Aires	1,881	Office Rental	100%
Dot Building (3)	Nov-06	11,242	City of Buenos Aires	1,304	Office Rental	100%
Santa María del Plata	Oct-97	116,100	City of Buenos Aires	485	Other Rentals	91%
DirecTV Arena (3)	Feb-18	-	Province of Buenos Aires, Argentina	153	Other Rentals	N/A
San Martín plot (ex Nobleza Picardo)	May-11	109,610	Province of Buenos Aires, Argentina	1,406	Other Rentals	94%
PH Office Park (under construction) (3)	Nov-06	-	City of Buenos Aires	1,583	Other Rentals	N/A
Other Properties(5)	N/A	N/A	City and Province of Buenos Aires	2,026	Mainly Rental offices and properties under development	N/A
Abasto Shopping(3)	Nov-99	36,795	City of Buenos Aires, Argentina	7,125	Shopping Mall	96.8%
Alto Palermo Shopping(3)	Dec-97	18,945	City of Buenos Aires, Argentina	7,356	Shopping Mall	99.3%
Alto Avellaneda(3)	Dec-97	36,063	Province of Buenos Aires, Argentina	4,579	Shopping Mall	99.3%
Alcorta Shopping(3)(12)	Jun-97	15,613	City of Buenos Aires, Argentina	3,542	Shopping Mall	98.1%
Patio Bullrich(3)	Oct-98	11,760		1,891	Shopping Mall	97.6%

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			City of Buenos Aires, Argentina			
Alto Noa(3)	Nov-95	19,059	City of Salta, Argentina	1,084	Shopping Mall	97.2%
Buenos Aires Design(3)	Dec-97	13,967	City of Buenos Aires, Argentina	11	Shopping Mall	97.2%
Mendoza Plaza(3)	Dic-94	42,867	Mendoza, Argentina	1,770	Shopping Mall	97.1%
Alto Rosario (3)	Dec-04	31,807	Santa Fe, Argentina	3,378	Shopping Mall	99.6%
Córdoba Shopping –Villa Cabrera(3)(11)	Dic-06	15,445	City of Córdoba, Argentina	1,112	Shopping Mall	98.1%
Dot Baires Shopping(3)	May-09	49,499	City of Buenos Aires, Argentina	4,615	Shopping Mall	99.9%
Soleil Premium Outlet(3)	Jul-10	15,227	Province of Buenos Aires, Argentina	1,477	Shopping Mall	100,00%
La Ribera Shopping(3)	Aug-11	10,054	Santa Fe, Argentina	218	Shopping Mall	97.6%
Distrito Arcos (3)	Dec-14	14,692	City of Buenos Aires, Argentina	1,060	Shopping Mall	100,00%
Alto Comahue(3)	Mar-15	9,766	Neuquén, Argentina	992	Shopping Mall	96.4%
Patio Olmos(3)	Sep-97	-	City of Córdoba, Argentina	258	Shopping Mall	N/A
Caballito Plot of Land (3)	Nov-97	5,000	City of Buenos Aires	375	Land Reserve	N/A
Santa María del Plata	Oct-97	116,100	City of Buenos Aires	6,013	Other Rentals	91%
Building annexed to Dot (3)	Nov-09	-	City of Buenos Aires	1,099	Land Reserve	N/A
Catalinas Norte	May-10	-	City of Buenos Aires	1,491	Land Reserve	N/A
Luján plot of land(3)	May-08	1,160,000	Province of Buenos Aires, Argentina	306	Mixed uses	N/A
Other Land Reserves (4)	N/A	N/A	City and Province of Buenos Aires	791	Land Reserve	N/A
Intercontinental(7)	Nov-97	24,000	City of Buenos Aires	62	Hotel	74%
Sheraton Libertador(8)	Mar-98	37,600	City of Buenos Aires	29	Hotel	73%
Llao Llao(9)(10)	Jun-97	17,463	City of Bariloche	78	Hotel	52%

- (1) Total leasable area for each property. Excludes common areas and parking spaces.
- (2) Cost of acquisition or development plus improvements, less accumulated depreciation, less allowances for our Hotels. The remaining properties are valued at fair value.
- (3) Through IRSA CP.
- (4) Includes the following land reserves: Pontevedra plot; Mariano Acosta Plot, San Luis Plot, Pilar plot and Merlo plot (through IRSA) and Intercontinental Plot, Dot Adjoining Plot, Mendoza Plot, Mendoza 2.992 East Av. Plot, Puerto Retiro plot and La Plata plot (through IRSA CP).
- (5) Includes the following properties: Anchorena 665, Anchorena 545 (Chanta IV), Zelaya 3102, 3103 y 3105, Madero 1020, La Adela, Paseo del Sol, Phillips Building, Libertador 498, UTE EH and Suipacha 652.
- (6) Percentage of occupation of each property. Land reserves are assets that the company keeps in the portfolio for future developments.
- (7) Through Nuevas Fronteras S.A.
- (8) Through Hoteles Argentinos S.A.
- (9) Through Llao Llao Resorts S.A.
- (10) Includes Ps.21,900,000 of book value that corresponds to “Terreno Bariloche.”
- (11) The cinema building located at Córdoba Shopping – Villa Cabrera is included in Investment Properties, which is encumbered by a right of antichresis as a result of loan due to Empalme by NAI INTERNACIONAL II Inc. The total amount of the loan outstanding was Ps.9.6 million as of June 30, 2018. Includes “Ocampo parking spaces”

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The following table sets forth certain information about our properties for the Operations Center in Israel as of June 30, 2018:

Property	Date of acquisition	Location	Net Book Value	Use
in million of Ps.				
Tivoli	oct-15	United States	5,815	Rental properties
Kiryat Ono Mall	oct-15	Israel	3,914	Rental properties
Shopping Center Modi'in A	oct-15	Israel	1,767	Rental properties
HSBC Building	oct-15	United States	25,194	Rental properties
Matam park - Haifa	oct-15	Israel	12,822	Rental properties
Holon	jan-16	Israel	1,925	Rental properties
Herzeliya North	oct-15	Israel	9,003	Rental properties
Gav-Yam Center - Herzeliya	oct-15	Israel	5,176	Rental properties
Neyar Hadera Modi'in	oct-15	Israel	1,665	Rental properties
Gav yam park - Beer Sheva	oct-15	Israel	2,407	Rental properties
Ispro planet -BeerSheva –Phase 1	oct-15	Israel	2,091	Rental properties
Others	oct-15	Israel	18,862	Rental properties
Tivoli	oct-15	United States	371	Undeveloped parcels of land
Others	oct-15	Israel	3,673	Undeveloped parcels of land
Tivoli	oct-15	United States	552	Properties under development
Ispro Planet – Beer Sheva – Phase 2	oct-15	Israel	252	Properties under development
Amot tozeret H'aaretz	oct-15	Israel	2,777	Properties under development
Others	oct-15	Israel	1,806	Properties under development
Total			100,072	

ITEM 4A. Unresolved staff comments

On May 14, 2018 and July 23, 2018, we received a comment letter from the staff of the SEC's Division of Corporation Finance with respect to our Annual Report filed on October 31, 2017, requesting us to provide certain clarifications related to our calculations of the fair market value of our shopping malls and offices properties, among others. We filed responses on June 11, 2018 and August 15, 2018 and, on September 21, 2018, we received a subsequent letter from the staff requesting us to clarify certain responses from our letter filed on August 15, 2018. We submitted our response on October 19, 2018 and we are awaiting the SEC's response. As of the date of this Annual Report, we have not received confirmation from the staff of the Division of Corporation Finance of the SEC that its review process relating to our Annual Report filed on October 31, 2017 has been completed. If we receive additional comments from the staff, we intend to resolve such additional comments promptly.

ITEM 5. Operating and Financial Review and Prospects

A. 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 Audited Consolidated Financial Statements and

related notes appearing elsewhere in this annual report. This discussion and analysis of our financial condition and results of operations 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 without limitation those set forth elsewhere in this annual report. See Item 3 “Key Information – D. Risk Factors” for a more complete discussion of the economic and industry-wide factors relevant to us.

General

We prepare our Audited Financial Statements in Pesos and in accordance with IFRS, as issued by the IASB, and with CNV Rules.

Historically, we measured the value of our portfolio of investment properties at cost. Our Board of Directors resolved to change our accounting policy for measuring the value of our investment property from the cost model to the fair value model, as permitted under IAS 40. Accordingly, we retroactively recast our previously issued consolidated financial statements as of June 30, 2016 and 2015 and for the fiscal years ended June 30, 2016, 2015 and 2014 as required by IAS 40 and IAS 8.

Our Audited Consolidated Financial statements and the financial information included elsewhere in this annual report have been prepared in accordance with IFRS. We have determined that, as of July 1, 2018, the Argentine economy qualifies as a hyperinflationary economy according to the guidelines of IAS 29 since the total cumulative inflation in Argentina in the 36 months prior to July 1, 2018 exceeded 100%. IAS 29 requires that the financial information recorded in a hyperinflationary currency be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the reporting period. Therefore, our audited consolidated financial statements included in this annual report will be adjusted by applying a general price index and expressed in the measuring unit (the hyperinflationary currency) current at the end of the most recent reporting period. See “Risk Factors—Risks Relating to Argentina—The peso qualifies as a currency of a hyperinflationary economy under IAS 29. Accordingly, we will apply IAS 29 for periods ending after July 1, 2018 and our historical audited consolidated financial statements and other financial information will need to be restated.” We have not estimated yet the impact of the application of IAS 29 provisions in our audited consolidated financial statements.

Our Audited Consolidated Financial Statements included in this annual report were not restated into constant currency. For more information, see “Financial Information—Inflation.”

Overview

We are engaged, directly and indirectly through subsidiaries and joint ventures, in a range of diversified activities, primarily in real estate, including:

- i.
the acquisition, development and operation of shopping malls,
- ii.
the acquisition and development of office buildings and other non-shopping mall properties primarily for rental purposes,
- iii.
the development and sale of residential properties,
- iv.
the acquisition and operation of luxury hotels,
- v.
the acquisition of undeveloped land reserves for future development or sale, and

vi.
selective investments mostly in Argentina, United States and Israel.

Effects of the global macroeconomic factors

Most of our assets are located in Argentina, where we conduct our operations, and in Israel. Therefore, our financial condition and the results of our operations are significantly dependent upon economic conditions prevailing in both countries.

The table below shows Argentina's GDP growth, inflation rates, dollar exchange rates, the appreciation (depreciation) of the Peso against the U.S. dollar, and the appreciation (depreciation) of the NIS against the U.S. dollar for the indicated periods (inter-annual information—which is the 12 month period preceding the dates presented—is presented to conform to our fiscal year periods).

Fiscal year ended June 30,

2018 2017 2016

(inter-annual data)

GDP growth(4)	(4.2)%	2.7%	(3.4)%
Inflation (IPIM)(1)	44.1%	14.2%	26.7%
Inflation (CPI)	29.5%	21.9%	37.6%
Depreciation of the Peso against the U.S. dollar(2)	(73.7)%	(10.6)%	(65.9)%
Average exchange rate per US\$1.00(3)	Ps.28.8000	Ps.16.5800	Ps.14.9900
Appreciation/ (depreciation) of the NIS against the U.S. Dollar	(4.8)%	9.6%	(2.3)%

(1) IPIM (Índice de Precios Internos al por Mayor) is the wholesale price index as measured by the Argentine Ministry of Treasury.

(2) Depreciation during fiscal year 2016 was mostly due to the depreciation of the Peso that took place on December 17, 2015.

(3) Represents average of the selling and buying exchange rate quoted by Banco de la Nación Argentina as of June 30, 2018. As of October 25, 2018, the exchange rate was 36.7900 per U.S. Dollar.

(4) Represents GDP variation as of June 30, 2016.

Sources: INDEC, Argentine Ministry of Treasury, Ministry of Treasury of the City of Buenos Aires, Banco de la Nación Argentina and Central Bank.

Argentine GDP decreased 4,2% during our 2018 fiscal year, compared to an increase of 2.7% in our fiscal year 2017. Shopping mall sales grew 31.2% in the fiscal 2018 compared to fiscal 2017. As of June 30, 2018, the unemployment rate was at 9,6% of the country's economically active population compared to 8.7% as of June 30, 2017.

Changes in short- and long-term interest rates, unemployment and inflation rates may reduce the availability of consumer credit and the purchasing power of individuals who frequent shopping malls. These factors, combined with low GDP growth, may reduce general consumption rates at our shopping malls. Since most of the lease agreements in our shopping malls, our main source of revenue, require tenants to pay a percentage of their total sales as rent, a general reduction in consumption may reduce our revenue. A reduction in the number of shoppers at our shopping malls and, consequently, in the demand for parking, may also reduce our revenues from services rendered.

Regarding Israel's economy, and based on information published by OECD, despite a decline in residential investment, activity remained solid at the beginning of 2018, with strong public consumption and good export performance, particularly of services. After picking up to 3.3% in 2017, growth is projected to be around 3.7% in 2018 and 3.6% in 2019. Rising wage pressures are projected to lead to a steady increase in inflation.

Effects of inflation

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The following are annual inflation rates during the fiscal years indicated, based on information published by the INDEC, an entity dependent of the Argentine Ministry of Treasury.

Consumerprice index	Wholesaleprice index
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(inter-annual data)

Fiscal Year ended June 30,

2013	10.5%	13.5%
2014	15.0%	27.7%
2015	14.0%	13.6%
2016	37.6%(1)	26.7%
2017	21.9%	14.2%
2018	29.5%	44.1%

(1) Given the modifications to the system that INDEC uses to measure CPI, there is no data for any price variations from July 1, 2015 to June 30, 2016. For that reason, we present aggregate prices from January 1, 2016 to June 30, 2016, published by INDEC.

The current structure of Company's lease contracts for shopping malls generally includes provisions that provide for payment of variable rent based on sales of the Company's shopping mall tenants. Therefore, the projected cash flows for these properties generally are highly correlated with GDP growth and inflation rates.

Continuing increases in the rate of inflation are likely to have an adverse effect on our operations. Additionally, the minimum lease payments we receive from our shopping mall tenants are generally adjusted in accordance with the CER, an inflation index published by the Central Bank. Although higher inflation rates in Argentina may increase minimum lease payments, given that tenants tend to pass on any increases in their expenses to consumers, higher inflation may lead to an increase in the prices our tenants charge consumers for their products and services, which may ultimately reduce their sales volumes and consequently the portion of rent we receive based on our tenants' gross sales.

For the leases of spaces at our shopping malls we use for most tenants a standard lease agreement, the terms and conditions of which are described below. However, our largest tenants generally negotiate better terms for their respective leases. No assurance can be given that lease terms will be as set forth in the standard lease agreement.

The rent specified in our leases generally is the higher of (i) a monthly Base Rent and (ii) a specified percentage of the store's monthly gr