

CRESUD INC
Form 20-F
December 30, 2003
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended: June 30, 2003

OR

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

For the transition period from _____ to _____

Commission file number: 0-29190

CRESUD SOCIEDAD ANONIMA COMERCIAL INMOBILIARIA FINANCIERA Y AGROPECUARIA

(Exact name of Registrant as specified in its charter)

CRESUD INC.

(Translation of Registrant's name into English)

Republic of Argentina

(Jurisdiction of incorporation or organization)

Av. Hipólito Yrigoyen 440, 3rd Floor,

(C1086AAF) Buenos Aires, Argentina

(Address of principal executive offices)

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

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

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

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

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

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The number of outstanding shares of Common Stock of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria as of June 30, 2003 was:

Shares of Common Stock

124,098,095

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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CRESUD SOCIEDAD ANÓNIMA

COMERCIAL INMOBILIARIA FINANCIERA Y AGROPECUARIA

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DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

unexpected developments in certain existing litigation;

increased costs;

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

the factors discussed under Risk Factors . Beginning on page 12.

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

CERTAIN MEASUREMENTS AND TERMS

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

company.

In this Form 20-F, references to Tons , tons or Tns. are to metric tons, to kgs are to kilograms, to ltrs are to liters and Hct are to hectares. A ton is equal to 1,000 kilograms. A

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

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

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

This annual report contains our audited consolidated financial statements as of June 30, 2003 and 2002 and for the years ended June 30, 2003, 2002 and 2001. Our consolidated financial statements have been audited by Price Waterhouse & Co., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. Except as discussed in the following paragraph, we prepare our consolidated financial statements in Pesos and in conformity with Argentine GAAP and the regulations of the Comisión Nacional de Valores (CNV), which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in our financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 16 to our consolidated financial statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net (loss) income and shareholders' equity.

Also contained elsewhere in this annual report are the consolidated financial statements of IRSA Inversiones y Representaciones Sociedad Anónima (IRSA), an unconsolidated equity investee, as of June 30, 2003 and 2002 and for the years ended June 30, 2003, 2002 and 2001, which have been audited by Price Waterhouse & Co, member firm of PricewaterhouseCoopers, independent auditors, whose report is included elsewhere herein. As mentioned in Note 5.b) to our consolidated financial statements, we own a 22.65% equity interest in IRSA.

IRSA prepares its financial statements in Pesos and in conformity with Argentine GAAP and the regulation of the Comisión Nacional de Valores, which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 21 to IRSA's consolidated financial statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP as they relate to IRSA, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

As discussed in Note 4.k) to our financial statements, contained elsewhere in this annual report, in order to comply with regulations of the Comisión Nacional de Valores, we recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However we believe that, such departure has not had a material effect on our financial statements.

Additionally, as discussed in Note 3.c) to our consolidated financial statements, contained elsewhere in this annual report, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the *Comisión Nacional de Valores* to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the *Comisión Nacional de Valores* issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the *Comisión Nacional de Valores* resolution and the accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date, using a conversion factor of 1.1232.

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

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

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

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

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

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

As required by Argentine GAAP we have restated the prior year financial statements to give retroactive effect to the recently adopted accounting standard, except for certain valuation and disclosure criteria that in accordance with the transition provisions have been applied prospectively.

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

References to fiscal years 1999, 2000, 2001, 2002 and 2003 are to the fiscal years ended June 30 of each such year.

MARKET DATA

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

This item is not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

This item is not applicable.

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ITEM 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data has been derived from our consolidated financial statements as of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements and the discussion in Operating and Financial Review and Prospects included elsewhere in this annual report. The selected consolidated statement of income data for the years ended June 30, 2003, 2002 and 2001 and the selected consolidated balance sheet data as of June 30, 2003 and 2002 have been derived from our consolidated financial statements included in this annual report which have been audited by Price Waterhouse & Co, member firm of PricewaterhouseCoopers, Buenos Aires, Argentina, independent auditors. The consolidated statements of income data for the years ended June 30, 2000 and 1999 and the selected consolidated balance sheet data as of June 30, 2001, 2000 and 1999 have been derived from our audited consolidated financial statements that are not included herein.

Our financial statements are presented in Pesos. Our financial statements are prepared in accordance with Argentine GAAP, which differs in certain significant respects from U.S. GAAP. Note 16 to our consolidated financial statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our net (loss) income and shareholders' equity and a reconciliation to U.S. GAAP of net (loss) income reported under Argentine GAAP for the years ended June 30, 2003, 2002 and 2001, and of shareholders' equity reported under Argentine GAAP as of June 30, 2003 and 2002. The differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC.

As discussed in Note 4.k) to our financial statements, contained elsewhere in this annual report, in order to comply with regulations of the Comisión Nacional de Valores, we recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However we believe that, such departure has not had a material effect on our financial statements.

Additionally, as discussed in Note 3.c) to our consolidated financial statements, contained elsewhere in this annual report, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the *Comisión Nacional de Valores* to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the *Comisión Nacional de Valores* issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the *Comisión Nacional de Valores* resolution and the accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were also restated until that date, using a conversion factor of 1.1232.

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

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

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

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

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

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

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

As of the year ended June 30 (1)

	2003 (2)	2003	2002	2001	2000	1999
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
INCOME STATEMENT DATA						
<i>Argentine GAAP</i>						
Sales:						
Crops	18,365,808	51,424,261	48,515,035	42,218,955	40,623,930	40,024,261
Beef cattle	6,182,576	17,311,212	27,609,516	29,332,417	29,378,834	44,982,839
Milk	862,497	2,414,992	2,258,210	2,614,583	3,741,621	8,114,912
Other	285,491	799,374	1,871,419	2,730,359	3,932,311	3,472,106
Net sales	25,696,372	71,949,839	80,254,180	76,896,314	77,676,696	96,594,118
Cost of sales:						
Crops	(14,080,554)	(39,425,551)	(13,817,006)	(32,078,174)	(30,238,138)	(43,268,647)
Beef cattle	(3,123,576)	(8,746,014)	(22,778,110)	(24,389,078)	(26,177,743)	(40,427,595)
Milk	(529,704)	(1,483,172)	(3,561,830)	(2,266,888)	(5,594,519)	(8,056,035)
Other	(495,504)	(1,387,410)	(2,122,473)	(2,380,039)	(2,747,053)	(3,467,299)
Total	(18,229,338)	(51,042,147)	(42,279,419)	(61,114,179)	(64,757,453)	(95,219,576)
Gross profit	7,467,034	20,907,692	37,974,761	15,782,135	12,919,243	1,374,542
Selling expenses	(2,159,039)	(6,045,309)	(10,248,016)	(11,103,948)	(10,509,886)	(10,859,282)
Administrative expenses	(1,538,971)	(4,309,119)	(8,368,493)	(8,436,876)	(8,697,485)	(9,548,045)
Net gain on sale of farms	1,739,101	4,869,484	16,573,853	5,729,612		20,705,474
Inventory holdings gain (loss)	4,366,005	12,224,813	(19,603,010)	(1,489,269)	157,346	(13,429,159)
Operating income (loss)	9,874,130	27,647,561	16,329,095	481,654	(6,130,782)	(11,756,470)
Financial results, net	(3,907,260)	(10,940,327)	1,506,805	12,246,539	9,694,517	12,642,511
Gain on acquisition of minority interest						1,364,803
Net gain (loss) from equity investments	24,288,864	68,008,820	(41,217,930)	(378,329)	(36,428)	229,715
Total other (expense) income, net	(747,103)	(2,091,888)	165,073	(339,917)	(256,692)	99,040
Management fee	(2,580,356)	(7,224,996)		(935,742)	(330,540)	(254,007)
Income (Loss) before income tax and minority interest	26,928,275	75,399,170	(23,216,957)	11,074,205	2,940,075	2,325,592
Income tax	(3,785,091)	(10,598,255)	(18,824,012)	(4,255,985)	(1,125,949)	(1,595,765)
Minority interest	80,016	224,046	348,884	397,526	83,916	
Net income (loss)	23,223,200	65,024,961	(41,692,085)	7,215,746	1,898,042	729,827

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Basic earnings per share (3)	0.19	0.54	(0.35)	0.06	0.02	0.006
Diluted earnings per share (3)	0.07	0.19	(0.35)	0.06	0.02	0.006
Basic earnings per ADS (3)	1.93	5.40	(3.50)	0.60	0.16	0.060
Diluted earnings per ADS (3)	0.68	1.90	(3.50)	0.60	0.16	0.060
Weighted - average number of shares outstanding	121,388,429	121,388,429	119,748,872	119,669,749	119,669,749	121,977,212
Weighted - average number of shares outstanding plus assumed conversion	246,526,666	246,526,666	119,748,872	119,669,749	119,669,749	121,977,212
US GAAP						
Net sales	25,696,371	71,949,839	80,254,180	76,896,314	77,676,696	96,594,118
Net income (loss)	13,347,579	37,373,222	(124,646,942)	4,443,316	(3,745,124)	4,712,974
Basic earnings per share (3)	0.11	0.31	(1.04)	0.03	(0.03)	0.04
Diluted earnings per share (3)	0.05	0.14	(1.04)	0.03	(0.03)	0.04
Basic earnings per ADS (3)	1.10	3.08	(10.41)	0.37	(0.31)	0.39
Diluted earnings per ADS (3)	0.52	1.45	(10.41)	0.37	(0.31)	0.39
Weighted - average number of shares outstanding	121,388,429	121,388,429	119,748,872	119,669,749	119,669,749	121,977,212
Weighted - average number of shares outstanding plus assumed conversion	194,235,230	194,235,230	119,748,872	119,669,749	119,669,749	121,977,212

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As of the year ended June 30 (1)

	2003 (2)	2003	2002	2001	2000	1999
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
BALANCE SHEET DATA						
<i>Argentine GAAP</i>						
Current assets:						
Cash and banks and Investments	8,019,871	22,455,638	44,430,915	129,491,943	60,372,197	65,257,001
Inventories	8,157,849	22,841,977	38,202,209	29,294,307	36,822,844	50,077,918
Trade and other receivables	4,689,861	13,131,611	27,868,728	38,791,627	29,823,062	42,376,143
<i>Non-current assets:</i>						
Other receivables	193,640	542,193	2,473,397	4,068,438	10,988,916	10,952,698
Inventories	13,498,924	37,796,987	29,414,567	54,741,471	61,081,508	61,555,300
Investments	121,957,785	341,481,798	121,785,625	17,829,518	17,267,244	17,377,537
Negative goodwill, net	(6,909,856)	(19,347,598)	(13,370,988)	2,638,819	3,298,523	
Property and equipment, net	53,039,588	148,510,846	128,232,309	169,493,842	182,772,267	180,415,116
Intangible assets	132,013	369,637	841,653	1,311,662	373,513	
Total assets	202,779,675	567,783,089	379,878,415	447,661,627	402,800,074	428,011,713
<i>Current liabilities:</i>						
Trade accounts payable	2,614,791	7,321,416	19,471,843	20,971,141	10,809,852	13,001,511
Short-term debt	509,107	1,425,499	7,468,233	29,885,919		
Other	2,260,683	6,329,912	8,856,652	3,060,752	2,807,021	4,777,587
Non-current liabilities	57,393,010	160,700,428	21,033,814	21,516,571	21,748,776	20,567,523
Total liabilities	62,777,591	175,777,255	56,830,542	75,434,383	35,365,649	38,346,621
Minority interest	73,825	206,709	430,755	533,696	130,509	7
Shareholders' equity	139,928,259	391,799,125	322,617,118	371,693,548	367,303,916	389,665,085
<i>US GAAP</i>						
Total assets	167,944,986	470,245,962	273,710,012	421,097,521	382,820,424	410,052,276
Shareholders' equity	105,093,570	294,261,998	216,448,715	345,129,442	347,324,266	371,705,648
CASH FLOW DATA						
<i>Argentine GAAP</i>						
Net cash provided by operating activities	4,081,955	11,429,473	27,857,421	17,311,636	18,848,628	2,678,681
Net cash (used in) provided by investing activities	(71,601,128)	(200,483,159)	33,791,076	(64,245,555)	(8,787,854)	20,596,300
Net cash provided by (used in) financing activities	59,158,706	165,644,376	(21,543,906)	26,595,742	(26,060,179)	(59,127,450)
<i>U.S. GAAP</i>						
Net cash provided by operating activities	4,081,955	11,429,473	27,857,421	17,311,636	18,848,628	2,678,681
Net cash (used in) provided by investing activities	(71,601,128)	(200,483,159)	33,791,076	(64,245,555)	(8,787,854)	20,596,300
Net cash provided by (used in) financing activities	59,158,706	165,644,376	(21,543,906)	26,595,742	(26,060,179)	(59,127,450)
OTHER FINANCIAL DATA						
<i>Argentine GAAP</i>						
Depreciation and amortization	1,269,238	3,553,867	3,971,571	3,706,947	3,711,680	3,385,931
Capital expenditures (4)	11,070,792	30,998,217	933,548	3,154,260	5,874,511	11,534,553

(1)

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We have complied with *Comisión Nacional de Valores* resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were restated until that date. In addition, as required by Argentine GAAP we has restated the prior year financial statements to give retroactive effect to the recently adopted accounting standard, except for certain valuation and disclosure criteria that in accordance with the transition provisions have been applied for prospectively. See notes 3.c and 3.d to our consolidated financial statements.

- (2) Solely for the convenience of the reader, we have translated Argentine Peso amounts into U.S. dollars at the exchange rate quoted by Banco de la Nación Argentina for June 30, 2003 which was Ps. 2.8 per US\$ 1.0. We make no representation that the Argentine Peso or U.S. dollar amounts actually represent, could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate or at all. See Exchange Rates .
- (3) Basic net income (loss) per share is computed by dividing the net income (loss) available to common shareholders for the period by the weighted average shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive potential common shares then outstanding during the period. See notes 14 and 16.II.f) to our consolidated financial statements for details in the computation of earnings per share under Argentine GAAP and US GAAP, respectively.
- (4) Includes the purchase of farms and other property and equipment.

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EXCHANGE RATES

In April 1991, Convertibility Law No. 23,928 and its regulatory decree No. 529/91 (together the Convertibility Law) established a fixed exchange rate under which the Argentine Central Bank was legally obligated to sell U.S. dollars to any person at a fixed rate of one Peso per U.S. dollar.

On January 6, 2002, Congress enacted the Public Emergency Law pursuant to which the executive branch was granted the power to determine the new exchange rate between the Peso and foreign currencies and to approve the corresponding monetary regulations. Subsequently, the executive branch announced the devaluation of the Peso and established a dual exchange rate system pursuant to which certain limited transactions occurred at a fixed rate of Ps. 1.40 per US\$ 1.00 and all other transactions were settled at a floating market rate, depending on supply and demand. See Risk Factors Risks Related to Argentina .

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

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

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

the elimination of the requirement that the Argentine Central Bank's reserves in gold and foreign currency shall at all times be equivalent to not less than 100% of the monetary base. However, the law only states that the Argentine Central Bank's reserves in gold and foreign currency will need to be at all times sufficient to support the monetary base. Accordingly the monetary base is not necessarily fully backed by foreign currency-denominated reserves, which would potentially have an inflationary effect on prices; and

the continuing prohibition of escalation clauses and other means of adjustment of monetary obligations in Pesos.

On January 11, 2002, the Argentine Central Bank ended a bank holiday that it had observed since December 21, 2001. The exchange rate began to float freely for the first time in eleven years at Ps. 1.40 per US\$ 1.00. The shortage of U.S. dollars and the desperation of the people to convert their Pesos caused the exchange rate to rise 25%, closing at Ps. 1.75 per US\$ 1.00. Since then, the exchange rate has continued to grow, forcing the Argentine Central Bank to intervene in the market and sell U.S. dollars in order to prevent a significant depreciation of the Peso.

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

the rate of exchange is determined by free supply and demand;

exchange transactions may only be carried out by entities authorized by the Argentine Central Bank to do so;

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

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

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

Nominal Exchange Rates

	Exchange Rate (5)			
	High(1)	Low(2)	Average(3)	Period End
Year Ended December 31, 1998	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 1999	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2000	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2001(4)	1.0000	0.9990	0.9995	1.0000
Year Ended December 31, 2002	3.8500	1.4750	3.2154	3.3700
Month Ended May 31, 2003	2.8900	2.7120	2.8000	2.8500
Month Ended June 30, 2003	2.8000	2.7200	2.7500	2.8000
Month Ended July 31, 2003	2.8700	2.7100	2.8700	2.9200
Month Ended August 31, 2003	2.9100	2.8350	2.9060	2.9560
Month Ended September 30, 2003	2.9300	2.8400	2.8650	2.9150
Month Ended October 31, 2003	2.8550	2.7870	2.8150	2.8650
Month Ended November 30, 2003	2.9950	2.8475	2.9400	2.9900

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

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

Fluctuations in the exchange rate between the Peso and the U.S. dollar may affect the U.S. dollar equivalent of the Peso price of our US\$ 50.0 million Convertible Notes on the *Bolsa de Comercio de Buenos Aires*. Increases in Argentine inflation or devaluation of the Argentine currency could materially and adversely affect our operating results.

B. CAPITALIZATION AND INDEBTEDNESS

This section is not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

This section is not applicable.

D. RISK FACTORS

You should consider the following risks with respect to an investment in our Company and the countries in which we operate.

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

Risks related to Argentina

Overview of Argentine economic and political risks

All of our operations and properties are located in Argentina. Domestic demand for our agricultural products is affected by prevailing conditions in the Argentine economy. Accordingly, contraction in the domestic economy or other adverse economic conditions may reduce internal demand for agricultural products and their values and may adversely affect our ability to generate revenues and to meet our future obligations. The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth and high and variable levels of inflation. In 1988, 1989 and 1990, the annual inflation rates were approximately 338%, 4,924% and 1,344%, respectively, based on the consumer price index and approximately 432%, 5,386% and 798%, respectively, based on the wholesale price index. As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the 1960s, 1970s and 1980s, and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, the Argentine government implemented various plans and utilized a number of exchange rate systems during this period. At various times throughout Argentine history, the foreign exchange market has been subject to exchange controls.

In 1991, the Argentine government launched a plan aimed at controlling inflation and restructuring the economy, by the enactment of the Convertibility Law. The Convertibility Law fixed the exchange rate at one Peso per U.S. dollar and required that the Argentine Central Bank maintain reserves in gold and foreign currency in an amount at least equivalent to the monetary base. Following the enactment of the Convertibility Law, inflation declined steadily and the Argentine economy experienced growth through most of the period from 1991 to 1997. In the fourth quarter of 1998, however, the Argentine economy entered into a recession that caused the gross domestic product to decrease by 3.0% in 1999, 0.5% in 2000 and 4.9% in 2001. During the second half of 2001, Argentina's recession worsened significantly, precipitating the political and economic crisis described in greater detail below.

During 2002, the gross domestic product dramatically decreased by 10.9% as compared to 2001, while prices increased approximately by 41.0% and 118.0%, based on the consumer price index and on the wholesale price index, respectively. During 2003, economic indicators showed some signs of recovery. During the first half of the year, the gross domestic product increased by 6.6% as compared to the same period in 2002, while prices increased by 10.2% and decreased -8.1% based on the consumer price index and on the wholesale price index, respectively.

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

Following his election in October 1999, President Fernando De la Rúa was confronted with the challenges of dealing with Argentina's enduring economic recession and obtaining political consensus on critical issues related to the economy, public sector spending, legal reforms and social programs. This government took certain measures that caused social discontent and the resignation of Minister of Economy, Domingo Cavallo, the following day. On December 21, 2001, after declaring a state of siege, President De la Rúa resigned in the midst of an escalating political, social and economic crisis.

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Following the resignation of an interim President, on January 1, 2002, the Legislative Assembly elected *Peronista* senator Eduardo Duhalde as President to serve for the remaining term of former

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President De la Rúa. During the government of President Duhalde a number of far-reaching initiatives were undertaken, including:

ratifying the suspension of payment of almost all of Argentina's sovereign debt declared by the interim President;

ending the Peso-U.S. dollar parity set forth in the Convertibility Law and the resulting devaluation of the Peso;

converting certain U.S. dollar-denominated debts ruled by Argentine law into Peso-denominated debts at a one-to-one exchange rate, plus an index known as CER;

converting, with limited exceptions (financial and commercial), U.S. dollar-denominated bank deposits into Peso-denominated bank deposits on an exchange rate of Ps. 1.4 per U.S. dollar; and

restructuring bank deposits and continuing restrictions on bank withdrawals and transfers abroad;

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

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

The Kirchner administration has continued the economic policies of his predecessor, and the official candidates have succeeded in the subsequent elections, providing a higher political support to the elected president, who obtained the lower number of votes all over the Argentine history.

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

Although the agribusiness sector has been less affected than other business sectors by the current crisis, because many of its commodities are exported and have internationally fixed prices, these conditions have had and could have a material adverse effect on our cattle and milk operations, since all of our production is sold in the Argentine market. In addition, these conditions have had and could have a material adverse effect on our financial condition and results of operation as they have paralyzed, and could paralyze in the future, investment and consumption decisions, thus causing a reduction in retail sales, sales of real estate and demand for office and commercial space.

Argentina's insolvency and default on its public debt had deepened the financial crisis

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As of December 2001, Argentina's total gross public debt was approximately US\$ 137.0 billion. On December 23, 2001, former interim President Rodríguez Saá declared the suspension of payments on certain of Argentina's sovereign debt, and President Duhalde ratified this measure on January 2, 2002. In addition, in 2002, the principal international rating agencies have downgraded the rating of Argentina's sovereign debt.

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On November 14, 2002, the Argentine government defaulted on all but a fraction of an US\$ 805 million payment due on that date to the World Bank, deepening the country's rift with the international financial establishment and damaging relations between the United States and Latin America. Countries that fail to pay official multilateral institutions such as the World Bank are likely to become international financial pariahs and, though Argentina fully intends to meet its obligations once an IMF agreement is reached, the country could fall further into economic isolation. Eventually, the World Bank is considering the suspension of disbursements on projects that aid the country's poor, consequently, Argentine exports and imports which are being financed by international loans will probably be badly affected by these measures hardening these transactions.

Although the Argentine Government reached an initial agreement with the IMF on September 20, 2003 at the annual meeting of the International Monetary Fund (IMF) and the World Bank in Dubai, which will allow Argentina to refinance its debts with the international financial institutions in the amount of US\$ 21,500 million, the renegotiation with private creditors looks difficult.

The agreement signed with the IMF set forth that the Government surplus before paying the debt should be 3% for the first year, which is equivalent to US\$ 4,200 million. Targets for years 2005 and 2006 will be set once an agreement between the country and the private creditors is reached.

The Argentine Capital Market Institute stated in a report that is part of a document about the external debt rescheduling that a 3% surplus of GDP and a growth rate in actual terms of 3% up to 2007 would not allow Argentina to meet its obligations in years 2005, 2006 and, especially 2009. During those years, principal and interest installments related to BODEN and secured loans would become due, which were not included in the debt rescheduling, amounting to US\$ 354 million, US\$ 272 million and US\$ 1,154 million, respectively.

At the annual meeting of the IMF and the World Bank in Dubai, the Argentine economy officers made an exchange offer to private creditors. They proposed that creditors exchange their debt instruments for any of the new government securities that are to be issued. Holders might opt for bonds in dollars, euros or pesos adjusted for inflation. Interest rates, payment terms and the percentage of loss of nominal value would be defined in subsequent negotiations. To date, no agreement has been reached. The government's offer that involved writing down 75% of the value of the defaulted debt, the refusal to pay interest arrears and the issuance of new long interest bonds, which would have amounted to a cut of up to 90% in the present value of the original bonds has been widely rejected by most creditors.

On December 3, 2003, the Argentine bondholder's committee, a New York based group, made a counter offer which would accept a write off of 35% in the nominal value of the defaulted debt, but Argentina would have to honour overdue interests.

As of November 13, 2002, Standard & Poor's maintained Argentina's long-term local and foreign currency sovereign credit ratings at SD (selective default), indicating that Argentina is defaulting on some of its obligations. Fitch IBCA and Duff & Phelps maintained the DDD ratings for the long term debt (with a negative rating watch) and the ratings for the short term debt at C-. Moody's Investors Service qualified Argentina's foreign currency country ceiling for long-term bonds at Caa1 with a stable rating outlook.

As of November 30, 2003 Argentina's public debt totaled US\$ 185.2 billion, or 143% of its GDP, where US\$ 106.8 billion had to be restructured.

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If the external debt is not rescheduled, the Argentine companies will find it difficult to access international financial assistance, and foreign investments either directly or through a portfolio would be restricted. These circumstances might deteriorate the slight and initial recovery of the Argentine economy and the recession as well as political crisis may reappear.

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As a result, our business, financial condition and result of operations will likely be materially and adversely affected, as paralysis of the economy and inflation negatively affect consumers' purchasing power, which in turn, affects our beef cattle and milk business.

The Argentine Peso has been subject, and may continue to be subject to substantial depreciation and volatility

The Argentine government's economic policies and any future changes in the value of the Peso against the U.S. dollar could adversely affect our financial condition and results of operations. The Peso has been subject to large devaluations in the past and may be subject to significant fluctuations in the future.

As a result of inflationary pressures, the Argentine currency was devalued repeatedly during the 1960s, 1970s and 1980s, and macroeconomic instability led to broad fluctuations in the real exchange rate of the Argentine currency relative to the U.S. dollar. To address these pressures, the Argentine government implemented various plans and utilized a number of exchange rates, and prior to December 1989, the Argentine foreign exchange market was subject to exchange controls. During the 1990s the devaluation and fluctuation of the Peso against the U.S. dollar was controlled by the Convertibility Law, which fixed the exchange rate at one Peso per U.S. dollar. However, the Public Emergency and Foreign Exchange System Reform Law No. 25,561 (the Public Emergency Law) puts an end to ten years of U.S. dollar-Peso parity, and the Argentine government has authorized a free floating exchange rate for all transactions. This has resulted in a significant devaluation of the Peso. Since the devaluation of the Peso, the Peso has fluctuated significantly, causing the Argentine Central Bank to intervene in the market to support the value of the Peso by selling U.S. dollars.

At present, the country has a floating exchange rate, which as of December 16, 2003 is Ps. 2.97 = US\$ 1.00, according to Banco de la Nación Argentina data.

No assurance can be given that future policies to be adopted by the Argentine government will be able to control the value of the Peso or that the Argentine government will not enforce a differentiated exchange rate regime for foreign trade, establishing regulated rates for exports and imports which could differ from rates set in the non-regulated market. These policies could materially and adversely affect our financial condition and results of operations.

The devaluation of the Peso has adversely affected Argentine economic conditions and our financial position

On January 6, 2002, Congress enacted the Public Emergency Law, putting an end to ten years of U.S. dollar-Peso parity under the Convertibility Law and eliminating the requirement that the Argentine Central Bank's reserves in gold, foreign currency and foreign currency denominated bonds be at all times equivalent to the sum of the Pesos in circulation and the Peso deposits of the financial sector with the Argentine Central Bank. The Public Emergency Law grants the executive branch the power to set the exchange rate between the Peso and foreign currencies and to issue regulations related to the foreign exchange market. On the same day, the executive branch established a temporary dual exchange rate system, a fixed rate for transactions subject to Argentine Central Bank approval, and import and export transactions at an exchange rate of Ps. 1.4 per U.S. dollar and a floating rate to be freely determined by the market for all other transactions.

The Argentine government is facing severe fiscal problems due to the recent devaluation. Peso-denominated tax revenues constitute the primary source of its earnings, but most of its financial liabilities are U.S. dollar-denominated. Therefore, the Argentine government's ability to honor its foreign debt obligations has been materially and adversely affected by the devaluation of the Peso.

Past history prior to the adoption of the Convertibility Law raises serious doubts as to the ability of the Argentine government to maintain a strict monetary policy and control inflation. In the past, inflation materially undermined the Argentine economy and the Argentine government's ability to create conditions that would permit growth.

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Since the end of the Convertibility Law, according to numbers released by the *Instituto Nacional de Estadística y Censos* (INDEC) the consumer price index increased 41% during 2002 and 3.9% during the first eleven months of 2003, as compared to the same period of the previous year respectively. In addition the wholesale price index grew 118% during 2002 and -2.9% during the first ten month of 2003 as compared to the same period of the previous year respectively.

The Argentine economic and political situation continues to evolve and the Argentine government may enact future regulations or policies that, when finalized and adopted, may materially and adversely impact, among other items: (i) the revenues produced by the beef cattle and milk sectors; (ii) the realized revenues that IRSA received for services offered in Argentina, such as rental contracts; (iii) our asset valuations; and (v) our Peso-denominated monetary assets and liabilities which could be affected by the introduction of different inflation adjustment indexes.

The Peso devaluation has had several effects on us. Our agricultural products are quoted in U.S. dollars, and as a result, the devaluation has had a positive effect on their prices. Nevertheless, this positive short-term effect has been largely offset by the imposition of new export taxes and increases in our U.S. dollar-denominated costs. Our cattle and milk products are quoted in Pesos and the effect of the devaluation on their prices in U.S. dollar terms has been negative.

There is risk that the Argentine financial system may collapse

Although the amount of deposits in the Argentine banking system has been decreasing during the last few years, during the last quarter of 2001, a significant amount of deposits were withdrawn from Argentine financial entities as a consequence of the increasing political instability and uncertainty. This run off of deposits had a material adverse effect on the Argentine financial system as a whole. For the most part, banks suspended the disbursement of new loans and focused on collection activities in an attempt to pay back depositors. However, the general unavailability of external or local credit created a liquidity crisis, which triggered numerous payment defaults which in turn undermined the ability of many Argentine banks to pay back depositors.

To prevent a run on the U.S. dollar reserves of local banks, on December 1, 2001, the De la Rúa administration restricted the amount of cash that account holders could withdraw from banks. Subsequently, the Duhalde administration in an attempt to stop the continuing drain on bank reserves enforced a mandatory rescheduling of maturities and released a schedule stating how and when money in savings and checking accounts and maturing time deposits would become available. These restrictions, known as the *corralito*, are no longer in effect, although exchange control restrictions remain in effect. Despite the *corralito*, between January 1 and July 1, 2002, approximately Ps. 20.0 billion were withdrawn from banks due to court rulings that enabled certain depositors to withdraw their money. This resulted in a further weakening of the banking system. Consequently, on April 25, 2002, the Argentine government enacted Law No. 25,587 in an attempt to stop the outflow of funds caused by several judicial measures which forced financial institutions to return deposited funds to their owners as a precautionary measure, pending the resolution of claims. This new law prevents judges from adopting said provisional measures in all proceedings against the Argentine government or any financial institution which involve funds frozen in the financial system.

The *corralito* led to the paralysis of virtually all commercial and financial activities and significantly diminished consumer retail spending as a result of increased uncertainty, the inability for depositors to access their savings and a general shortage of cash. Additionally, social unrest and protests directed against financial institutions and the Argentine government became widespread.

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The strength of the financial system is relevant to our business projects and operations. Although the corralito is no longer in effect and confidence in banks is slowly returning, we can not assure you that Argentine financial system will not collapse or that it will recover its pre crisis strength.

The paralysis of Argentine payment system is adversely impacting economic activity and our ability to operate

Over long periods, Argentina has had access to external financing. The default on its external debt and the characteristics of the rescheduling proposed by the country would hamper the obtainment of financial resources from abroad.

Argentina has incurred the highest default of its history in nominal terms, and the fact that this situation has not been resolved prevents the country from obtaining further foreign financing. Although the Argentine Government reached an initial agreement with the IMF on September 20, 2003 at the annual meeting of the IMF and the World Bank in Dubai, which will allow Argentina to refinance its debts with the international financial institutions in the amount of US\$ 21,500 million, the renegotiation with private creditors looks difficult.

If the external debt is not rescheduled, the Argentine companies will find it difficult to access international financial assistance, and foreign investments either directly or through a portfolio would be restricted. These circumstances might deteriorate the slight and initial recovery of the Argentine economy and the recession as well as political crisis may reappear.

Moreover, the solvency of the Argentine financial system is still in jeopardy, and the system's failure would have a material and adverse effect on the prospects for economic recovery and political stability, thus materially and adversely affecting our financial condition and results of operations, especially due to the rise in our defaulting obligors and our diminished possibility of obtaining new loans.

Inflation may escalate and further undermine the economy

On January 24, 2002, the Argentine government amended the Argentine Central Bank's charter to allow it to print currency (without having to maintain a fixed and direct ratio with the foreign currency and gold reserves), to make advances to the federal government to cover its anticipated budget deficit and to provide financial assistance to financial institutions with liquidity problems. Furthermore, the devaluation of the peso created pressures on the domestic price system that generated inflation in 2002, after several years of price stability, and, in recent years, price deflation. Through December 31, 2002, the consumer price index and the wholesale price index exhibited cumulative increases of 41.0% and 118.0%, respectively. During 2003, inflation has been relatively stable. In October 2003, the wholesale price index decreased 2.9% as compared to 2002. Although there is a considerable concern that significant inflation will continue if the Argentine Central Bank prints currency to finance public-sector spending or financial institutions in distress, such inflation has previously materially undermined the Argentine economy and the government's ability to create conditions that would engender growth.

The devaluation of the peso and accompanying economic policy measures implemented by the Argentine government were intended primarily to remedy the effects of unemployment and to stimulate economic growth. To date, it is not apparent that the objectives pursued have been achieved. The sustainable success of such measures in the future will depend on the ability of the Argentine government to generate confidence among the local and international financial and business communities. Without such confidence, it is likely that inflation rates will increase significantly, investment and economic activity will contract further, unemployment will increase beyond current levels, tax revenue (excluding inflationary effects) will drop and the fiscal deficit will widen.

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High unemployment and other labor difficulties have contributed to the social unrest in Argentina and may affect our operations

In May 2002, the official unemployment rate in Argentina was 21.5%. Even though in May 2003 the unemployment decreased to 15.6%, showing a recovery in this field, unemployment and underemployment continue to create serious social problems in Argentina. In order to moderate the social instability arising from the labor situation, the Duhalde's administration included in its 2003 budget, social aid programs aimed at improving health and food provision, employment generation and a subsidy for the unemployed. Nevertheless, such programs have not yet mitigated the current social unrest, and if unemployment rates do not decrease substantially, consumption of retail goods will be detrimentally affected which in turn will adversely affect our results of operations.

Promulgations of laws related to foreclosure on real state adversely affect property rights

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

On June 2, 2003, the Congress passed a law formally suspending the ability to foreclose on mortgaged properties for a term of ninety days, reinstating the earlier formal suspension on foreclosures that ended on November 14, 2002. This suspension was extended until September 2, 2003. However, the creditors voluntarily agreed, together with banks and other financial institutions, to extend such suspension until a new law gave solution to this situation. On November 6, 2003 the Congress enacted Law No. 25,798 in order to grant certain facilities to the debtors and discharge the payment of their due and payable debts.

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

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

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

civil unrest, rioting, looting, nation-wide protests, widespread social unrest and strikes;

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

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

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

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Risks Related to Our Business

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

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

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

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

demand for and supply of competing commodities and substitutes.

During fiscal year 2003, prices for cereals, oilseeds and by products, increased. From June 2002, to June 2003, prices in U.S. dollar for soybean, corn and wheat increased 7.9%, 5.6% and 4.9% respectively, showing a highly positive trend towards December 2003, specially in the case of soybean.

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

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

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

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

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

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

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

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Our cattle are subject to diseases

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

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

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

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

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

We currently sell our entire raw milk production to one customer in Argentina. For fiscal year 2003, these sales represented 3.4% of our total revenues. There can be no assurance that this customer will continue to purchase our entire raw milk production or that, if it fails to do so, we could enter into satisfactory sale arrangements with new purchasers in the future.

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

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

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

We store a significant portion of our grain production during harvest due to the seasonal drop in prices that normally occurs at that time. Currently, we have approximately 20,577 tons of storage capacity at various farms and plan to further increase our storage capacity. We do not maintain insurance on our storage facilities. Although our storage capacity is in several different locations, and it is unlikely that a natural disaster would affect all of our silos simultaneously, a fire or other natural disaster which damages the stored grain, particularly if such an event occurs shortly after harvesting, could have an adverse effect on our operating results and financial condition.

We may be exposed to material losses due to volatile crop prices since we hold significant uncovered futures and options positions to hedge our crop price risk

Generally, we may have uncovered futures and options positions for up to 50% of our current inventory and minimum projected production in a given crop as part of the crop price risk management strategy. However, we have had, and we cannot assure that we will not have in the future, uncovered futures and options positions substantially in excess of such amount for a limited period of time.

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

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

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

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

As of November 30, 2003 our largest shareholder, Mr. Eduardo S. Elsztain, currently is the beneficial owner of approximately 34.0% of our common shares. As of November 30, 2003, this consists of 44,410,596 of our common shares owned by Inversiones Financieras del Sur S.A., an Uruguayan holding company, for which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control Inversiones Financieras del Sur S.A..

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

As of November 25, 2003 Dolphin Fund Management S.A has spun off in two companies. One of them is Consultores Asset Management S.A. and the other remains as of Dolphin Fund Management S.A. In respect of Consultores Asset Management S.A., Eduardo Elsztain is the owner of 100% of its capital stock.

As a consequence of the spin off, the consulting agreement has been assigned to Consultores Asset Management S.A.

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

Conflicts of interest between our management, ourselves and our affiliates may arise in the performance of our respective business activities. Mr. Eduardo S. Elsztain is also the beneficial owner of approximately 25.1% of the common shares of IRSA, an Argentine company that currently owns approximately 54.2% of the common shares of its subsidiary Alto Palermo S.A. (APSA) (APSA) whose CEO is Mr. Alejandro G. Elsztain, the CEO of Cresud. In some circumstances, our interests may not be the most important consideration to our principal shareholders or to their affiliates with influence over our actions. We cannot assure you that our principal shareholders will not limit or cause us to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in our interest.

We depend on our senior management

Our success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, our president and chairman of the board of directors, and Alejandro G. Elsztain, our chief executive officer. The loss of their services for any reason could have a material adverse effect on our business. If our current principal shareholders were to lose their influence on the management of our business, our principal executive officers could resign or be removed from office.

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

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

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

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

loss of principal.

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

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

From December 2000 to July 2002, we acquired approximately 20.29% of IRSA for a total consideration of Ps. 127.26 million. Initially, we classified this investment as a current investment and carried it at market value. Effective March 31, 2002, as a result of a change in our strategy to hold such shares as a permanent investment, we began valuing our investment in IRSA using the equity method of accounting.

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As of June 30, 2003, we owned a 22.65% equity interest in IRSA representing an investment value of Ps. 133.6 million. In addition, as of such date, we owned IRSA's Convertible Notes for a total amount of US\$. 49.7 million. Consequently, as of June 30, 2003, our investment in IRSA amounted to Ps. 303.2 million representing 53.40% of our consolidated assets.

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

It is possible that these or other factors or events will impair IRSA's ability to respond to adverse changes in the performance of its investments, causing a material decline in IRSA's financial condition or results of operations. During fiscal year ended in June 30, 2003 the price of IRSA share increase by 67% from Ps. 1.5, on June 30, 2002 to Ps. 2.5 on June 30, 2003. Whilst, from fiscal year 2001 to fiscal year 2002 the price decreased 52% from Ps. 3.17 to Ps. 1.5. Given the relative size of our investment in IRSA, any decline could continue to give us a material adverse effect on our financial condition and results of operations.

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

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

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

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

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The Investment Company Act may limit our future activities

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

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

In recent years we have made a significant minority investment in the capital stock of IRSA, an Argentina company engaged in a range of real estate activities. At June 30, 2003, we owned approximately 22.6% of its outstanding shares, and our total investment in IRSA represented approximately 53.4% of our total assets.

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

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

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

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

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Based on the current and projected composition of our income and valuation of our assets we do not believe we were a Passive Foreign Investment Company (PFIC) for United States federal income tax purposes for the tax year ending June 30, 2003, and we do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether we are a PFIC is made

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annually. Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition or if our projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. If we become a PFIC, United States Holders of our shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for United States Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our shares or GDSs at a gain, as well as reporting requirements. Please see "Taxation-United States Taxation" for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

Different Corporate Disclosure and Accounting Standards

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

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

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

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

Risks Related to IRSA's Business

The Argentine Central Bank imposed restrictions on the transfer of funds outside of Argentina which could prevent IRSA from servicing certain of its external debt as it comes due, and could therefore result in the acceleration of all of its indebtedness and its inability to remain a going concern.

Since early December 2001, the Argentine government has imposed a number of monetary and currency exchange control measures that include significant restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad. The prior approval of the Argentine Central Bank was required for all transfers of funds related to debt principal or interest payments outside of Argentina up to February 8, 2003.

Effective May 6, 2003, the prior authorization by the Argentine Central Bank to remit funds abroad in order to pay principal and/or interest is no longer required, provided certain conditions are met (such as a certificate evidencing compliance with the Argentine Central Bank regulations in connection with application of funds to repay debts).

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The Argentine Central Bank issued Communication A 3944 and other similar measures for the purpose of managing the value of the Argentine peso in relation to the U.S. dollar. It cannot be anticipated whether the Argentine Central Bank will be able to achieve the referred purpose in the short term. In addition, it cannot be foreseen whether the Argentine Central Bank will introduce new amendments to exchange control regulations in order to control the quotation of the Argentine peso. Therefore, it cannot be ensured whether Communication A 3944 will be in force until maturity of IRSA's existing debt. Any amendment to the referred Communication restricting payments in foreign currency abroad will prevent IRSA from meeting its liabilities abroad in foreign currency.

IRSA cannot assure you that the Argentine Central Bank will not amend the current regulations and require again its authorization for payments abroad. In this case, IRSA cannot assure you that the Argentine Central Bank will authorize principal payments to its foreign creditors pursuant to the terms of its existing financial agreements. Even if IRSA obtained such authorization, IRSA cannot assure you that a scarcity of U.S. dollars would not become in an important obstacle to convert a large amount of Pesos into U.S. dollars complicating its U.S. dollar-denominated debt payments. If, in the future, the authorization of the Argentine Central Bank is reinstated and does not authorize IRSA to remit funds abroad, current and noncurrent debt obligations may become immediately due and payable, unless new financing is available to IRSA from outside Argentina or IRSA is able to renegotiate the indebtedness that is subject to such restrictions. Although IRSA may in the future undertake to obtain such financing or renegotiate its indebtedness, IRSA cannot assure you that such efforts would succeed and enable IRSA to remain a going concern.

IRSA is highly leveraged and may be unable to pay its debt

IRSA have, and expect to have, substantial liquidity and capital resource requirements to finance its business. As of June 30, 2003, IRSA had approximately Ps. 679.5 million of financial debt.

The amount of leverage that IRSA has and may incur in the future could have important consequences which include limiting its ability to refinance existing debt or to borrow money to finance working capital, acquisitions and capital expenditures and requiring IRSA to dedicate a substantial portion of cash flow to repay principal and interest, thereby reducing the amount of money available to invest in operations, including making acquisitions and capital expenditures. IRSA's high leverage placed them at a disadvantage position against its competitors who were not as leveraged as IRSA was, limited its ability to react to changes in market conditions, the real estate industry and economic downturns. Nowadays, IRSA is recovering from its debt crisis but IRSA cannot assure you that IRSA will not relapse and become unable to pay its debt.

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

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

IRSA's largest shareholder, Mr. Eduardo S. Elsztain, currently is the beneficial owner of approximately 25.1% of its common shares. As of November, 2003, this consists of:

3,531,539 of its common shares owned by Dolphin Fund, plc, an investment fund in which the principal investment manager is Consultores Asset Management S.A. (formerly Dolphin Fund Management), a company where Mr. Eduardo S. Elsztein has a controlling interest;

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49,912,350 of its common shares owned by Cresud, for which Mr. Eduardo S. Elsztain by reason of his position with Cresud, may be deemed to own all of its common shares held for the account of Cresud; and

Conflicts of interest between IRSA's management, IRSA and IRSA's affiliates may arise in the performance of IRSA's respective business activities. Mr. Elsztain also beneficially own (i) approximately 34.0% of our common shares. Additionally we own approximately 40.3% on a fully diluted basis of IRSA's common shares and (ii) IRSA owns approximately 56.0% of the common shares of its subsidiary APSA. In some circumstances, IRSA's interests may not be the most important consideration to its principal shareholders or to their affiliates with influence over IRSA's actions. IRSA cannot assure you that its principal shareholders and their affiliates will not limit or cause IRSA to forego business opportunities that their affiliates may pursue or that the pursuit of other opportunities will be in its interest.

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

For so long as the Convertibility Law remained in effect, IRSA had no exchange rate risk relating to its Peso-denominated revenues and its U.S. dollar-denominated liabilities. However, with the repeal of the Convertibility Law on February 4, 2002, all U.S. dollar-denominated obligations, which were within the Argentine banking sector and subject to Argentine Law, were mandatorily converted into Peso-denominated liabilities at an exchange rate one Peso to one U.S. dollar. Nevertheless, the majority of its liabilities was subject to New York law and thus has not been converted into Pesos. As of June 30, 2003 IRSA's dollar denominated debt amounted to US\$ 220.2 million.

IRSA realizes a substantial portion of its revenues in Pesos (such as rental contracts and seller financing) and, as a result, the devaluation of the Peso has adversely affected the U.S. dollar value of its earnings and, thus, impaired IRSA's financial condition. Moreover, its Peso-denominated assets (which represent 90% of its total assets as of June 30, 2003) have depreciated against its indebtedness denominated in foreign currency. As of June 30, 2003, IRSA had outstanding debt amounting to Ps. 679.5 million, of which, 87% was denominated in U.S. dollars. Any further depreciation of the Peso against the U.S. dollar will correspondingly increase the amount of its debt in Pesos, with further adverse effects on its results of operation and financial condition, and may increase the collection risk of its leases and other receivables from its tenants and mortgage debtors, most of whom have Peso-denominated revenues.

Since its significant exposure to U.S. dollar-denominated liabilities, its results are very sensitive to fluctuations in the nominal exchange rates. In this way, strong depreciation in the Peso will affect negatively IRSA's results while strong appreciations will influence positively.

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

Although IRSA's lease agreements and seller financing loans were denominated in U.S. dollars, the Argentine government mandatorily converted all U.S. dollar monetary obligations entered into between private parties prior to January 7, 2002 that are not related to the financial system into Peso-denominated obligations at a rate of Ps. 1.00 = US\$ 1.00. Although the Argentine government sought to

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mitigate the adverse effects of this mandatory pesification by permitting the Peso-denominated obligations to be adjusted for inflation pursuant to an index known as the CER, IRSA cannot assure you that an adequate adjustment will apply to amounts payable to IRSA under its lease and loan agreements. If, as a consequence of this adjustment, the agreement is unfair to any of the parties, either may ask the other for a fairness adjustment. If they do not reach an agreement, a court will make the decision. New lease agreements may be freely entered into between parties and may not contain inflation adjustment clauses based on consumer price indexes or whole price indexes. Although part of IRSA's new lease agreements are dollar denominated, the mandatory pesification of contracts originally denominated in U.S. dollars is likely to materially and adversely affect its financial condition and its ability to pay its liabilities denominated in U.S. dollars (mostly banking and financial loans), because its cash flows will be mostly denominated in devalued Pesos.

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

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

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

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

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

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

loss of principal.

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

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Real estate investments are subject to many risks

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

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

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

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

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

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

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

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

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

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

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

The Argentine crisis, including the devaluation of the Peso, deteriorated the value in a U.S. dollar basis and increased the illiquidity of real estate investments. In spite of the fact that during the last months, the value in U.S. dollars of the real state investments has begun to recover, it may be more difficult for IRSA to adjust its property portfolio promptly in response to changes in economic or business conditions or to the factors

described above. The economic recession and the devaluation of the Peso have significantly reduced consumer spending power, and the social unrest and ensuing political instability together with the succession of governmental measures have adversely affected the normal operations of banks and have heightened uncertainty and eroded confidence in the possibility of

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recovery. If IRSA is forced to sell one or more of its properties in order to cover operating expenses or to satisfy debt service obligations, or if IRSA was liquidated, the proceeds from such sales might be less than its total investment in the properties sold.

IRSA's business is subject to extensive regulation

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

Argentine lease law imposes lease restrictions that limit IRSA's flexibility

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

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

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

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

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

Eviction proceedings in Argentina are difficult and time consuming

Despite the enactment of a law amending the Argentine civil procedures that by which the lessor may, by posting a bond, obtain the immediate eviction of the tenant, historically, the heavy workload on the courts that hear these matters and the numerous procedural steps required have generally delayed efforts of landlords to evict tenants. Before the enactment of the above mentioned law, eviction proceedings generally lasted from six months to two years from the date of filing of the suit to the time of actual eviction. Historically, delinquency regarding office rental

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space has been very low, approximately 2%, and IRSA has usually attempted to negotiate the termination of lease agreements with defaulting tenants after the first few months of non-payment in order to avoid legal proceedings.

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Delinquency may increase significantly in the future, and such negotiations with tenants may not be as successful as they have been in the past. Moreover, new Argentine laws and regulations may forbid or restrict eviction proceedings, and in such case, they would likely have a material and adverse effect on its financial condition and results of operation.

IRSA's assets are concentrated in the Buenos Aires area

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

For the fiscal year ended June 30, 2003, 100% of its sales were derived from properties in the city of Buenos Aires and greater Buenos Aires. Although IRSA owns properties and may acquire or develop additional properties outside of the city of Buenos Aires and the greater Buenos Aires area, IRSA expects to continue to depend to a very large extent on economic conditions in those areas, and therefore, an economic downturn in those areas could have a material adverse effect on its financial condition.

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

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

become bankrupt or insolvent;

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

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

Development and construction activities are inherently risky

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

IRSA may abandon development opportunities and renovation proposals;

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

occupancy rates and rents at a newly completed project may be insufficient to make the project profitable;

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

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

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

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

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

IRSA is subject to shopping center operating risks that may result in lower profitability of its shopping centers

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

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

the intrinsic attractiveness of the shopping center;

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

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

the fluctuations in occupancy levels in the shopping centers.

In the event that there is an increase in operational costs, caused by inflation or other factors, it could have a material adverse effect on IRSA, if its tenants are unable to pay their higher rent obligations due to the increase in expenses.

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

The concept of the shopping center is relatively new and in a development process in Argentina

The concept of the shopping center and the broad use of shopping centers by consumers is only beginning to develop in Argentina. The first shopping center of Argentina was inaugurated in 1987. Although there has been a considerable expansion of shopping center properties, many retail stores in Argentina are not located in shopping centers. Therefore, the continued success of IRSA business plan depends to a certain extent on the continued shift by consumers from shopping at traditional street-level retail stores to large-scale shopping centers of the type owned and operated by IRSA.

The shift of consumers to purchasing goods over the Internet may hurt IRSA's shopping center sales

During the last years, retail sales by means of the Internet have grown very significantly in Argentina even though the market share of Internet sales related to retail sales is still not significant. The Internet enables manufacturers and retailers to sell directly to consumers, diminishing the

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importance of traditional distribution channels such as retail stores and shopping centers. IRSA believes that its target consumers are increasingly using the Internet, from home, work or elsewhere, to shop electronically for retail goods, and that they are likely to continue doing so. If e-commerce and retail sales through the Internet continue to grow at current rates, consumers' reliance on traditional distribution channels such as its shopping centers could be materially diminished, having a material adverse effect on its financial condition, results of operations and prospects.

IRSA's future acquisitions may be unprofitable

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

the risk that investments will fail to perform as expected; or

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

IRSA's investments in Internet companies are subject to high risk

IRSA's Internet investments, through its subsidiary, APSA, involve a high risk. Internet companies are relatively new and there is little or no historical operating and financial information available to analyze. Additionally, in the first years of operation, Internet companies do not generate earnings or positive cash flows, and their losses must be covered with capital contributions from the investors. There is no assurance that Internet companies will generate earnings or will be able to obtain financing once the initial capital contributions are already used. Therefore, IRSA's risks associated with Internet companies include the possibility that:

IRSA will not recover the investments already made and the one committed; and

IRSA will have to increase its capital contributions to finance the Internet companies.

IRSA may also experience the following additional risks with respect to its investment in Internet companies:
the possibility that the internet company might not maintain and/or increase the level of traffic of the sites;

the internet company might not adapt itself or anticipate the changes in the market;

the internet company may be inefficient in updating and developing the necessary systems and organization and in hiring new or specialized personnel;

the chance that the world wide web will not be able to handle the site traffic;

the difficulty in generating expected income;

the failure in the administration of expansion of operations; and

the lack of efficiency to merge new lines of business to the existing operations.

Moreover, it should be taken into account that the expected level of use and acceptance of the Internet and of online services might never be reached.

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IRSA's shopping center business is subject to competitive pressure

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

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

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

adverse changes in the Argentine economy;

adverse changes in the regional economies;

political instability;

increase of unemployment; and

loss of value of actual salaries.

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

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

IRSA may not be able to recover the mortgage loans it has made

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In recent years, IRSA has provided mortgage financing to purchasers of units in its residential development properties. Before January 2002, its mortgage loans were U.S. dollar-denominated and accrued interest at a fixed interest rate ranging generally from 10% to 15% per year and for terms ranging generally from 3 to 15 years. However, on March 13, 2002, the Argentine Central Bank converted all U.S. dollar denominated debts into Pesos at the exchange rate of Ps. 1.0 to U.S. dollars 1.0 and imposed maximum interest rate on mortgage loans of 3.0% for residential mortgage loans granted to individuals and 6% for mortgage loans granted to business organizations. These modifications adversely affected the dollar value of its outstanding mortgage loans which at June 30, 2003, aggregated approximately Ps. 2.9 million.

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

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

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

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

This portfolio was originally originated in U.S. dollars and mandatory converted into Pesos in January 2002. Additionally, mortgages in the trust are subject to inflation adjustment. Following these changes, the terms and conditions of the certificates of deposit issued by the trust were modified to reflect changes in the underlying assets. In May 2002, inflation adjustment on residential mortgages on homes granted to individuals was eliminated until October 2002, when adjustment was performed according to a different inflation index, the *Coefficiente de Variación Salarial* (CVS). Pursuant to Law No. 25,796 the CVS will no longer be in effect as from April 1, 2004. The terms and conditions of the certificates of deposit were modified again to reflect this new change.

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

As of October 31, 2003, Classes A and B were completely amortized.

On October 31, 2003, Classes C and D face value ascended to Ps. 1.3 million and Ps. 10.3 million, respectively.

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

on the respective cash flows.

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IRSA is subject to risks affecting the hotel industry

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

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

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

changes in travel patterns, including seasonal changes; and

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

IRSA is dependent on its senior manager Eduardo Elsztain

IRSA's success depends, to a significant extent, on the continued employment of Eduardo S. Elsztain, its chief executive officer, president and chairman of the board of directors. The loss of his services for any reason could have a material adverse effect on its business. If its current principal shareholders were to lose their influence on the management of its business, its principal executive officers could resign or be removed from office.

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

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

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

Nevertheless, APSA's hedging strategies may prove ineffective to address the effects of interest rate or foreign currency exchange movements on its financial condition. APSA has experienced net hedging losses in the past, and could experience such losses in the future to the extent that interest rates or foreign exchange rates shift in excess of the risk covered by hedging arrangements. In entering into interest rate and foreign currency contracts, APSA bears the credit risk of counterparties being unable to meet the terms of their contracts; and APSA may be unable to

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recover damages from any such defaulting counter party through legal enforcement actions due to laws affording bankruptcy or similar protection to insolvent obligors, foreign laws limiting cross-border enforcement actions or otherwise.

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

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

As of October 31, 2003, APSA was not using any other derivatives.

Risks Related to the ADSs and the Shares

Different Corporate Disclosure and Accounting Standards

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

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

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

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

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

Based on the current and projected composition of its income and valuation of its assets IRSA does not believe IRSA was a PFIC for United States federal income tax purposes for the tax year ending June 30, 2003, and IRSA does not currently expect to become a Passive Foreign Investment Company (PFIC), although there can be no assurance in this regard. The determination of whether IRSA is a PFIC is made annually.

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Accordingly, it is possible that we may be a PFIC in the current or any future taxable year due to changes in its asset or income composition or if its projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of its income and assets and the accuracy of our projections. If IRSA becomes a PFIC, United States Holders of its shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for United States Holders such as additional tax and an interest charge upon certain distributions by IRSA or upon a sale or other disposition of its shares or GDSs at a gain, as well as reporting requirements. Please see [Taxation-United States Taxation](#) for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

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ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF CRESUD

General Information

Our legal name is Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria. We were incorporated and organized on December 31, 1936 under Argentine law as a stock corporation (sociedad anónima) and were registered with the Public Registry of Commerce of the City of Buenos Aires (Inspección General de Justicia) on February 19, 1937 under number 26, on page 2, book 45 of national bylaws volume. Pursuant to our Bylaws, our term of duration expires on July 6, 2082. Our principal executive offices are located at Av. Hipólito Yrigoyen 440, 3rd Floor, (C1086AAF) Buenos Aires, Argentina. Our telephone is +54 (11) 4814-7800, and our website is www.cresud.com.ar

Please notice that as from January, 2004, we will move our headquarters to Moreno 877, (C1091AAQ), Buenos Aires, Argentina, keeping the same telephone numbers.

History

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

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

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

From December 2000 to June 2003, we invested approximately Ps. 133.6 million to acquire

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approximately 22.65% of the outstanding shares of IRSA. In addition, we owned IRSA's Convertible Notes for a total amount of US\$ 49.7 million. Consequently, as of June 30, 2003, our investment in IRSA amounted to Ps. 303.2 million representing 53.40% of our consolidated assets. IRSA is one of Argentina's largest real estate companies. As of June 30, 2003, IRSA had total assets of Ps. 2,053.0 million, and its net gain for the fiscal year ended June 30, 2003, was Ps. 286.5 million.

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

As of June 30, 2003, our net worth was Ps. 391.8 million, total assets were Ps. 567.8 million, the number of farms owned by us, together with our subsidiaries, was nineteen, the number of owned hectares was 436,929 (including 35.723% of 8,299 hectares owned by Agro-Uranga S.A., and 50% of 170 hectares owned by Cactus Argentina S.A.), the number of hectares sown was 27,255 (including 35.723% of 7,460 hectares sown by Agro-Uranga S.A.), the number of leased hectares sown was 13,628, the number of beef-cattle heads was 81,747 (including 35.723% of 3,478 owned by Agro-Uranga S.A.) and the number of cows involved in milk production was 2,786 (including 35.723% of 671 cows owned by Agro-Uranga S.A.). For fiscal year ended June 30, 2003, our total sales totaled Ps. 71.9 million.

As of November 25, 2003 Dolphin Fund Management S.A has spun off in two companies. One of them is Consultores Asset Management S.A. and the other remains as of Dolphin Fund Management S.A. In respect of Consultores Asset Management S.A., Eduardo Elsztain is the owner of 100% of its capital stock.

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

Issuance of Convertible Notes

On October 15, 2002, we initiated a preemptive rights offering to subscribe for 50 million units consisting of US\$ 50.0 million of 8% Convertible Notes due 2007 and non-detachable warrants to purchase additional shares of our common stock. The Convertible Notes may be converted at the holder's option into shares of our common stock until maturity on November 14, 2007, at the initial conversion price of US\$ 0.5078 per common share. Each warrant will be exercisable on or after conversion of the convertible note to which it is attached at the same conversion price plus a 20% premium (US\$ 0.6093). The rights offering to holders of our common shares and ADSs expired on November 13, 2002. Existing shareholders have subscribed through the exercise of their preemptive rights for US\$ 20.5 million and they have exercised their accretion rights for US\$ 1.7 million, adding together US\$ 22.2 million. During the allocation of the remainder new investors have subscribed the remaining US\$ 27.8 million units completing the US\$ 50 million offering. Proceeds of the offering were applied to subscribe IRSA's Convertible Notes.

As of December 16, 2003, the holders of Convertible Notes exercised their conversion right. The total number of notes converted amounted to 4,696,370 units with a face value of US\$ 1 each, whereas the ordinary stock delivered under this heading amounted to 9,248,449 with a face value of Ps.1 each.

The number of Convertible Notes currently outstanding amounts to US\$ 45,303,630, while the number of Company shares is 133,828,237.

Table of Contents**Purchase of IRSA's Convertible Notes**

During November and December 2002, we purchased 49.7 million Convertible Notes issued by IRSA. The notes, that mature in 2007, bear an 8% annual interest rate and grant the holder at the time of conversion to 49.7 million option to subscribe common stock. The conversion price and the warrants price established are as follows:

The conversion price is US\$ 0.545 per share, while the warrant price is US\$ 0.6541 per share.

For each of IRSA's convertible note the holder has the right to convert it to 1.8349 common shares (1.8349 GDS) and has an option to purchase the same amount of stock at the price of the warrant.

B. BUSINESS OVERVIEW**General**

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

Most of our farms are located in Argentina's pampas, one of the largest temperate prairie zones in the world and one of the richest areas of the world for agricultural production, covering portions of the provinces of Buenos Aires, Santa Fé, Córdoba, Chaco, San Luis, Catamarca, Salta and *La Pampa*. At June 30, 2003, we, together with our subsidiaries, owned 19 farms. Approximately 27,255 hectares of the land we own is productive and suitable for crop production and approximately 135,798 hectares are best suitable for beef-cattle production. The remaining hectares are primarily natural woodlands. In addition, during fiscal year 2002, we leased farms on an aggregate total area of 22,398 hectares and during fiscal year 2003 we have leased farms for crop production on an aggregate total area of 13,628 hectares.

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

	Year Ended June 30,				
	1999 ⁽¹⁾⁽²⁾	2000 ⁽¹⁾	2001 ⁽¹⁾⁽⁷⁾	2002 ⁽¹⁾⁽⁸⁾	2003 ⁽¹⁾⁽⁹⁾
	(in hectares)				
Crops ⁽³⁾	62,882	47,204	40,208	48,437	27,255
Beef-Cattle ⁽⁴⁾	175,648	177,267	170,392	147,566	135,798
Milk	2,555	2,926	2,492	1,201	977
Natural woodlands ⁽⁵⁾	283,099	275,995	275,889	275,928	272,318

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Total ⁽⁶⁾	<u>524,184</u>	<u>503,392</u>	<u>488,981</u>	<u>475,160</u>	<u>436,348</u>
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- (1) Includes 35.723% of approximately 8,299 hectares owned by *Agro-Uranga S.A.*
- (2) Includes 3,128 hectares of the Runciman farm which was sold in May 1999, but excludes 6,302 hectares of the *El Meridiano* farm which was sold in August 1998.
- (3) Includes wheat, corn, sunflower, soybean, sorghum, bean and peanuts.
- (4) Raising and fattening.
- (5) We use portions of our natural woodlands to produce charcoal and fence posts and rods. See Operations and Principal Activities - Other Production.
- (6) 44,162 hectares and 8,770 hectares were leased during fiscal year 1999, and 31,114 hectares and 1,500 hectares were leased during fiscal year 2000 for crop and beef-cattle production, respectively. During fiscal year 2001, 19,601 hectares were leased for crop production. As of June 30, 2002, 28,913 hectares were leased for crop production and 2,500 for beef-cattle production. As of June 30, 2003, 13,628 hectares were leased for crop production.
- (7) Includes 19,614 hectares of *Tourné*. This farm was sold in Ps. 6.2 million on December 4, 2000.
- (8) Includes 6,149 hectares of *La Sofía* and the plot sold from *El Coro*.
- (9) Includes 618 hectares of *Los Maizales* and 706 hectares of *El Silencio/San Luis*.

Operations and Principal Activities

In fiscal year 2002, our operations are being conducted on 21 farms and 42 leased farms. In fiscal year 2003, our operations are being conducted on 19 farms and 26 leased farms. Some of the farms we own are engaged in more than one productive activity at a time. The following table sets forth, for the periods indicated below, the volumes of our production by principal product line:

	Year ended June 30,				
	1999 ⁽¹⁾	2000 ⁽¹⁾	2001 ⁽¹⁾	2002 ⁽¹⁾	2003 ⁽¹⁾
Crops ⁽²⁾	136,363	159,992	104,974	142,478	70,369
Beef-Cattle ⁽³⁾	14,829	12,903	12,725	10,493	9,121
Milk ⁽⁴⁾	18,193	10,933	7,057	6,783	6,024

- (1) Does not include production from *Agro-Uranga S.A.*
- (2) Production measured in tons.
- (3) Production measured in tons of live weight. Production is the sum of the net increases (or decreases) during a given period in live weight of each head of beef-cattle owned by us.
- (4) Production measured in thousands of liters.

Land

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

Several major brokers with whom we work on a regular basis generally bring farms available for sale to our attention. The decision to purchase land is based on an evaluation of a number of factors. In addition to the location of the land, we normally review soil and water analyses, including the quality of the soil and its suitability for our intended use (whether for the production of crops, beef-cattle or milk), a classification

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of the various sections of the parcel, the past uses of the land, a description of improvements on the land, applicable easements, rights of way or other variances of title and satellite photographs of the farm (which are useful to reveal drainage characteristics of the soil during different cycles of precipitation) and detailed comparative data regarding neighboring farms (generally within a 50-kilometer radius). Based on the foregoing factors, we evaluate a farm in terms of the asking price as compared to the potential productivity of the land and the potential for capital appreciation. We believe that competition for the acquisition of land is generally limited to small producers (between Ps. 1.5 and Ps. 2.9 million or less in annual sales) for the purchase of smaller lots and that there is little competition for the purchase of larger lots.

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

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

The following table sets forth, for the periods indicated below, certain information concerning sales of land by us during each of the last five fiscal years ending June 30, 2003:

Fiscal Year	Sales of Land			
	No. of Farms	Gross Proceeds from Sales	Book Value of Properties Sold (in millions of Pesos)	Gain/(Loss) ⁽¹⁾
1999	2	61.1	40.4	20.7
2000				
2001	2	19.8	13.9	5.9
2002	3	53.2	36.6	16.6
2003	2	12.0	7.1	4.9

(1) Including all taxes and commissions

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

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

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

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

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

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

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

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

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

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

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

Crop Production

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

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

Crop Production				
Year ended June 30,				
1999⁽¹⁾	2000⁽¹⁾	2001⁽¹⁾	2002⁽¹⁾	2003⁽¹⁾

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	(in tons)				
Wheat	34,474	26,283	9,835	28,051	9,397
Corn	39,880	81,343	46,745	63,175	27,508
Sunflower Seeds	26,396	19,413	5,080	4,122	