LIQUIDMETAL TECHNOLOGIES INC Form SC 13D/A August 27, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

SCHEDULE 13D/A (Amendment No. 6)

Under the Securities Exchange Act of 1934

Liquidmetal Technologies, Inc.

(Name of Issuer)

Common Stock, par value \$0.001 per share

(Title of Class of Securities)

53634 X 100

(CUSIP Number)

Wynnefield Capital, Inc.
Wynnefield Capital Management LLC
Attn: Nelson Obus
450 Seventh Avenue, Suite 509
New York, New York 10123

Copy to:
Gersten Savage LLP
600 Lexington Avenue
New York, NY 10022
(212) 752-9700 Fax: (212) 980-5192
Attention: David E. Danovitch, Esq.

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

August 13, 2010

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 53634 X 100

1	NAME OF REPORTING PERSON
	S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON
	Wynnefield Partners Small Cap Value LP
	TAX ID #: 13-3688497

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) o

(b) x

o

- 3 SEC USE ONLY
- SOURCE OF FUNDS 4 WC
- 5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E)
- CITIZENSHIP OR PLACE OF ORGANIZATION 6 Delaware

Number of Shares 7 SOLE VOTING POWER

Beneficially Owned By Each

530,970 shares of common stock.

Reporting Person With

> 8 SHARED VOTING POWER

> > 0

9 SOLE DISPOSITIVE POWER

530,970 shares of common stock.

SHARED DISPOSITIVE POWER 10

0

- AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 11
 - 530,970 shares of common stock.
- CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES 12

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 13

o

0.62%

14 TYPE OF REPORTING PERSON

PN

CUSIP No. 53634 X 100 NAME OF REPORTING PERSON 1 S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Wynnefield Partners Small Cap Value LP I TAX ID #: 13-3953291 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP 2 (a) o (b) x SEC USE ONLY 3 SOURCE OF FUNDS 4 WC CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT 5 TO ITEMS 2(D) OR 2(E) o 6 CITIZENSHIP OR PLACE OF ORGANIZATION Delaware Number of Shares 7 **SOLE VOTING POWER** Beneficially Owned By Each 695,318 shares of common stock. Reporting Person With 8 SHARED VOTING POWER SOLE DISPOSITIVE POWER 695,318 shares of common stock. 10 SHARED DISPOSITIVE POWER 0 11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 695,318 shares of common stock. 12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES o 13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 0.82% 14 TYPE OF REPORTING PERSON

PN

		CU	SIP No. 53634 X 100	
1		S.S Wy	ME OF REPORTING PERSON OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON ranefield Small Cap Value Offshore Fund Ltd. X ID #: N/A	
2		СН	ECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP	(a) c
3		SE	C USE ONLY	(b) x
4		SO	URCE OF FUNDS	
5			ECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSITEMS 2(D) OR 2(E)	SUANT
6			TIZENSHIP OR PLACE OF ORGANIZATION yman Islands	C
Number of Shares Beneficially Owned By Each Reporting Person With		7	SOLE VOTING POWER	
			670,033 shares of common stock.	
		8	SHARED VOTING POWER	
		9	0 SOLE DISPOSITIVE POWER	
			670,033 shares of common stock.	
		10	SHARED DISPOSITIVE POWER	
			0	
11	AGGREGATE	E AMO	DUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	670,033 shares	of co	mmon stock.	
12	CHECK IF TH	E AG	GREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES	
13	PERCENT OF	CLA	SS REPRESENTED BY AMOUNT IN ROW (11)	C

0.79%

14 TYPE OF REPORTING PERSON

CO

CUSIP No. 53634 X 100 NAME OF REPORTING PERSON 1 S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Wynnefield Capital, Inc. TAX ID #: 13-3688495 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP 2 (a) o (b) x SEC USE ONLY 3 SOURCE OF FUNDS 4 N/A CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT 5 TO ITEMS 2(D) OR 2(E) CITIZENSHIP OR PLACE OF ORGANIZATION 6 New York **SOLE VOTING POWER** Number of Shares 7 Beneficially Owned By Each Indirect beneficial ownership of 670,033 shares of common stock which are directly Reporting beneficially owned by Wynnefield Small Cap Value Offshore Fund Ltd. Person With 8 SHARED VOTING POWER 0 9 SOLE DISPOSITIVE POWER Indirect beneficial ownership of 670,033 shares of common stock which are directly beneficially owned by Wynnefield Small Cap Value Offshore Fund Ltd. 10 SHARED DISPOSITIVE POWER

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

0

Indirect beneficial ownership of 670,033 shares of common stock which are directly beneficially owned by Wynnefield Small Cap Value Offshore Fund Ltd.

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

o

o

- 13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 0.79%
- 14 TYPE OF REPORTING PERSON

CO

CUSIP No. 53634 X 100

1 NAME OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Wynnefield Capital Management, LLC

TAX ID #: 13-4018186

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) o

(b) x

- 3 SEC USE ONLY
- 4 SOURCE OF FUNDS

N/A

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E)

o

6 CITIZENSHIP OR PLACE OF ORGANIZATION New York

Number of Shares 7 Beneficially Owned By Each Reporting Person With SOLE VOTING POWER

Indirect beneficial ownership of 1,226,288 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP and Wynnefield Partners Small Cap Value LP I.

8 SHARED VOTING POWER

0

9 SOLE DISPOSITIVE POWER

Indirect beneficial ownership of 1,226,288 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP and Wynnefield Partners Small Cap Value LP I.

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

Indirect beneficial ownership of 1,226,288 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP and Wynnefield Partners Small Cap Value LP I.

- 12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
- PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 1.44%
- 14 TYPE OF REPORTING PERSON

00

o

CUSIP No. 53634 X 100

NAME OF REPORTING PERSON 1 S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Nelson Obus CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP 2 SEC USE ONLY 3 SOURCE OF FUNDS 4 N/A CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO 5

CITIZENSHIP OR PLACE OF ORGANIZATION 6 U.S.

ITEMS 2(D) OR 2(E)

o

(a) o (b) x

Number of Shares 7

Beneficially Owned By Each Reporting

Person With

SOLE VOTING POWER

0

8 SHARED VOTING POWER

Indirect beneficial ownership of 1,896,321 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP, Wynnefield Partners Small Cap Value LP I and Wynnefield Small Cap Value Offshore Fund Ltd.

9 SOLE DISPOSITIVE POWER

0

10 SHARED DISPOSITIVE POWER

Indirect beneficial ownership of 1,896,321 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP, Wynnefield Partners Small Cap Value LP I and Wynnefield Small Cap Value Offshore Fund Ltd.

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 11

Indirect beneficial ownership of 1,896,321 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP, Wynnefield Partners Small Cap Value LP I and Wynnefield Small Cap Value Offshore Fund Ltd.

12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

o

- 13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 2.23%
- 14 TYPE OF REPORTING PERSON

IN

CUSIP No. 53634 X 100

NAME OF REPORTING PERSON S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON Joshua Landes

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) o

(b) x

o

- 3 SEC USE ONLY
- 4 SOURCE OF FUNDS N/A
- 5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(D) OR 2(E)
- 6 CITIZENSHIP OR PLACE OF ORGANIZATION U.S.

Number of Shares

7

Beneficially
Owned By Each

0

Reporting Person With

8 SHARED VOTING POWER

SOLE VOTING POWER

Indirect beneficial ownership of 1,896,321 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP, Wynnefield Partners Small Cap Value LP I and Wynnefield Small Cap Value Offshore Fund Ltd.

9 SOLE DISPOSITIVE POWER

0

10 SHARED DISPOSITIVE POWER

Indirect beneficial ownership of 1,896,321 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP, Wynnefield Partners Small Cap Value LP I and Wynnefield Small Cap Value Offshore Fund Ltd.

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

Indirect beneficial ownership of 1,896,321 shares of Common Stock which are directly collectively beneficially owned by Wynnefield Partners Small Cap Value LP, Wynnefield Partners Small Cap Value LP I and Wynnefield Small Cap Value Offshore Fund Ltd.

- 12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES
- 13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

2.23%

14 TYPE OF REPORTING PERSON

IN

o

AMENDMENT NO. 6 TO SCHEDULE 13D

This Amendment No. 6 amends certain of the information contained in the Statement on Schedule 13D, field on August 29, 2008, as amended on September 18, 2008, September 30, 2008, October 10, 2008, October 28, 2008, and May 13, 2009 (the "Schedule 13D"), filed by the parties named above (collectively, the "Wynnefield Reporting Persons"). Certain information in the Schedule 13D which has not changed since the filing thereof is not restated herein. Capitalized terms used but not defined herein have the meanings given to them in the Schedule 13D.

Item 3. Source and Amount of Funds or Other Consideration.

All securities of the Issuer reported in this Schedule 13D as beneficially owned by the Wynnefield Reporting Persons were acquired by Wynnefield Partners, Wynnefield Partners I and Wynnefield Offshore, respectively, in exchange transactions completed with the Issuer effective August 10, 2010, pursuant to which the Wynnefield Reporting Persons exchanged the Issuer's "Series A-2 Common Stock Purchase Warrants" and Issuer's "Exchange Notes," acquiring 1,896,321 shares of Issuer's common stock as follows:

Name	Number of Shares Purchased	Exercise Price per share
Wynnefield Partners	149,809	\$0.60
Wynnefield Partners	381,161	\$0.50
Wynnefield Partners I	196,178	\$0.60
Wynnefield Partners I	499,140	\$0.50
Wynnefield Offshore	189,044	\$0.60
Wynnefield Offshore	480,989	\$0.50

In exchange transactions with the Issuer effective August 12 and 13, 2010, the Wynnefield persons exchanged shares of "Series A-2 Preferred Stock" for 2,963,680 shares of issuers common stock in a cashless exercise. The common shares were then sold in open market transactions as follows:

Date	Number of Shares	SalePrice per share
August 12, 2010	500,000	\$1.18
August 12, 2010	2,000,000	\$1.57
August 13, 2010	463,680	\$1.46

In an open market transaction effective August 11, 2010, Wynnefield Small Cap Value Offshore Fund, Ltd. sold 335,000 shares of Issuer's common stock at a price of \$1.00 per share.

In an open market transaction effective August 12, 2010, Wynnefield Small Cap Value Offshore Fund, Ltd. sold 738,554 shares of Issuer's common stock at a price of \$1.18 per share.

Item 4. Purpose of Transaction.

The Wynnefield Reporting Persons are now passive shareholders in Issuer. No representative of the Wynnefield Reporting Persons further serves as observer to the board of directors or in any other oversight capacity. The transactions reported herein reflect a desire to monetize significant portions of the Wynnefield Reporting Persons'

investments in Issuer.

Item 5. Interest in Securities of the Issuer.

(a) - (c) As of August 24, 2010, the Wynnefield Reporting Persons beneficially owned in the aggregate 1,896,321shares of Common Stock constituting approximately 2.23% of the outstanding shares of the Issuer's Common Stock (based upon 84,763,339 shares of the Issuer's Common Stock outstanding on August 20, 2010, as set forth in the Issuer's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the U.S. Securities and Exchange Commission on August 20, 2010). The following table sets forth certain information with respect to shares of Common Stock beneficially owned directly by the Wynnefield Reporting Persons listed:

Name	Number of Shares	Approximate Percentage of Outstanding Shares	
Wynnefield Partners	530,970	0.62%	
Wynnefield Partners I	695,318	0.82%	
Wynnefield Offshore	670,033	0.79%	

WCM is the sole general partner of Wynnefield Partners and Wynnefield Partners I and, accordingly, may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 promulgated pursuant to the Exchange Act) of the shares of Common Stock that Wynnefield Partners and Wynnefield Partners I beneficially own. WCM, as the sole general partner of Wynnefield Partners and Wynnefield Partners I, has the sole power to direct the voting and disposition of the shares of Common Stock that Wynnefield Partners and Wynnefield Partners I beneficially own.

Messrs. Obus and Landes are the co-managing members of WCM and, accordingly, each of Messrs. Obus and Landes may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 promulgated pursuant to the Exchange Act) of the shares of Common Stock that WCM may be deemed to beneficially own. Each of Messrs. Obus and Landes, as a co-managing member of WCM, shares with the other the power to direct the voting and disposition of the shares of Common Stock that WCM may be deemed to beneficially own.

WCI is the sole investment manager of Wynnefield Offshore and, accordingly, may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 promulgated pursuant to the Exchange Act) of the shares of Common Stock that Wynnefield Offshore beneficially owns. WCI, as the sole investment manager of Wynnefield Offshore, has the sole power to direct the voting and disposition of the shares of Common Stock that Wynnefield Offshore beneficially owns.

Messrs. Obus and Landes are the principal executive officers of WCI and, accordingly, each of Messrs. Obus and Landes may be deemed to be the indirect beneficial owner (as that term is defined under Rule 13d-3 promulgated pursuant to the Exchange Act) of the shares of Common Stock that WCI may be deemed to beneficially own. Each of Messrs. Obus and Landes, as a principal executive officer of WCI, shares with the other the power to direct the voting and disposition of the shares of Common Stock that WCI may be deemed to beneficially own.

Beneficial ownership of shares of Common Stock shown on the cover pages of and set forth elsewhere in this Schedule 13D for each of the Wynnefield Reporting Persons assumes that they have not formed a group for purposes of Section 13(d)(3) under the Exchange Act, and Rule 13d-5(b)(1) promulgated thereunder. If the Wynnefield Reporting Persons were deemed to have formed a group for purposes of Section 13(d)(3) and Rule 13d-5(b)(1), the group would be deemed to own beneficially (and may be deemed to have shared voting and dispositive power over) 1,226,288 shares of Common Stock, constituting approximately 1.44% of the outstanding shares of Common Stock (based upon 84,763,339 shares of the Issuer's Common Stock outstanding on August 20, 2010, as set forth in the Issuer's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the U.S. Securities and Exchange Commission on August 20, 2010). The filing of this Schedule 13D and the inclusion of information herein with respect to Messrs. Obus and Landes shall not be considered an admission that any of such persons, for the purpose of Section 13(d) of the Exchange Act, are the beneficial owners of any shares in which such persons do not have a pecuniary interest.

To the best knowledge of the Wynnefield Reporting Persons, except as described herein, none of the Wynnefield Reporting Persons, any person in control (ultimately or otherwise) of the Wynnefield Reporting Persons, any general partner, executive officer or director thereof, as applicable, beneficially owns any shares of Common Stock, and there

have been no transactions in shares of Common Stock effected during the past 60 days by the Wynnefield Reporting Persons, any person in control of the Wynnefield Reporting Persons (ultimately or otherwise), or any general partner, executive officer or director thereof, as applicable; provided, however, certain investment banking affiliates of the Wynnefield Reporting Persons may beneficially own shares of Common Stock, including shares that may be held in discretionary or advisory accounts with the Wynnefield Reporting Persons; and the Wynnefield Reporting Persons, directly or in connection with such discretionary or advisory accounts, may acquire, hold, vote or dispose of Common Stock, including transactions that may have occurred in the past 60 days.

- (d) No person, other than each of the Wynnefield Reporting Persons referred to as the direct beneficial owner of the shares of Common Stock set forth in this response to Item 5, has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such shares of Common Stock.
- (e) Not applicable.

Item 7. Material to be Filed as Exhibits.

Exhibit A Joint Filing Agreement Dated as of May 13, 2009

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: August 26, 2010

WYNNEFIELD PARTNERS SMALL CAP VALUE,

L.P.

By: Wynnefield Capital Management, LLC, General Partner

By: /s/ Nelson Obus

Nelson Obus, Co-Managing Member

WYNNEFIELD PARTNERS SMALL CAP VALUE, L.P. I

By: Wynnefield Capital Management, LLC, General Partner

By: /s/ Nelson Obus

Nelson Obus, Co-Managing Member

WYNNEFIELD SMALL CAP VALUE OFFSHORE FUND, LTD.

By: Wynnefield Capital, Inc.

By: /s/ Nelson Obus Nelson Obus, President

WYNNEFIELD CAPITAL MANAGEMENT, LLC

By: /s/ Nelson Obus

Nelson Obus, Co-Managing Member

WYNNEFIELD CAPITAL, INC.

By: /s/ Nelson Obus Nelson Obus, President

/s/ Nelson Obus Nelson Obus, Individually

/s/ Joshua Landes Joshua Landes, Individually

EXHIBIT A

JOINT FILING AGREEMENT

THIS JOINT FILING AGREEMENT (this "Agreement") is made and entered into as of this 13th day May, 2009, by and among Wynnefield Partners Small Cap Value, L.P., Wynnefield Partners Small Cap Value, L.P. I, Wynnefield Small Cap Value Offshore Fund, Ltd., Wynnefield Capital Management LLC, Wynnefield Capital Inc., Nelson Obus and Joshua Landes.

The parties to this Agreement hereby agree to prepare jointly and file timely (or otherwise to deliver as appropriate) all filings on Schedule 13D and Schedule 13G (the "Filings") required to be filed by them pursuant to Section 13(d) or 13(g) under the Securities Exchange Act of 1934, as amended, with respect to their respective beneficial ownership of the Common Stock of Liquidmetal Technologies, Inc. that are required to be reported on any Filings. Each party to this Agreement further agrees and covenants to the other parties that it will fully cooperate with such other parties in the preparation and timely filing (and other delivery) of all such Filings.

This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

WYNNEFIELD PARTNERS SMALL CAP VALUE, L.P.

By: Wynnefield Capital Management, LLC, General Partner

By: /s/ Nelson Obus

Nelson Obus, Co-Managing Member

WYNNEFIELD PARTNERS SMALL CAP VALUE, L.P. I

By: Wynnefield Capital Management, LLC, General Partner

By: /s/ Nelson Obus

Nelson Obus, Co-Managing Member

WYNNEFIELD SMALL CAP VALUE OFFSHORE FUND, LTD.

By: Wynnefield Capital, Inc.

By: /s/ Nelson Obus Nelson Obus, President

WYNNEFIELD CAPITAL MANAGEMENT, LLC

By: /s/ Nelson Obus

Nelson Obus, Co-Managing Member

WYNNEFIELD CAPITAL, INC.

By: /s/ Nelson Obus Nelson Obus, President

/s/ Nelson Obus

Nelson Obus, Individually

/s/ Joshua Landes Joshua Landes, Individually

13 isplay: inline-block;"> Equity holders of the parent 182 3,030 9,534 1,898 1,762 2,521 Non-controlling interest 132 2,190 544 232 124 84 Profit per common share from continuing operations attributable to equity holders of the parent:

Basic 0.19 3.11 16.22 3.31 3.06 4.35

Diluted	
0.19	
3.08	
16.11	
3.28	
3.06	
4.35	
Total profit for the year per common share attributable to equity holders of the parent:	

Basic

0.32

5.27

16.58

3.31

3.06

4.35

Diluted

0.31

5.23

16.47

3.28 3.06

4.35

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit for the year 314

5,220

10,078

2,130

1,886

2,605

Other comprehensive income / (loss):

Currency translation adjustment 231 3,839 4,353 (108) 545
Net change in fair value of hedging instruments
7 124 3 — —
Items that may not be subsequently reclassified to profit or loss, net of income tax
Actuarial loss from defined benefit plans (1) (10)
(29)
— — —
Other comprehensive income / (loss) from continuing operations 238 3,953 4,327 (108) 545 78
Other comprehensive income / (loss) from discontinued operations
34 560 (194)

Items that may be subsequently reclassified to profit or loss:

Total other comprehensive income / (loss) for the year 4,513 4,133 (108)545 78 Total comprehensive income for the year 585 9,733 14,211 2,022 2,431 2,683 Total comprehensive income from continuing operations 370 6,155 13,961 2,022 2,431 2,683 Total comprehensive income from discontinued operations 215 3,578 250 Total comprehensive income for the year 585 9,733 14,211 2,022 2,431 2,683 Total comprehensive income from continuing operations attributable to:

Equity holders of the parent

143

2,380

9,466

1,773

2,202

```
249
 229
95
Total comprehensive income for the year attributable to:
Equity holders of the parent
 244
4,054
 9,605
 1,773
 2,202
 2,588
Non-controlling interest
 341
 5,679
 4,606
 249
 229
 95
CASH FLOW DATA
Net cash generated by operating activities
 545
 9,059
4,139
 834
 1,022
 863
Net cash (used in) / generated by investing activities
(124)
(2,068)
 8,210
 261
(917)
(46)
Net cash generated by / (used in) financing activities
```

2,588

2273,7754,495

Non-controlling interest

92 1,537 (3,968) (1,390) (597) (306)

2

For the fiscal year ended June 30,

2017 2016 2015 2014 2013 (recast) (recast) (recast) (recast)

(in millions

of (in millions of Ps.) (i)

US\$)(ii)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

Non-current assets

6,010	99,953	82,703	19,217	15,796	12,642
1,630	27,113	24,049	237	219	213
273	4,532	4,730	141	131	95
745	12,387	11,763	127	124	173
474	7,885	16,880	2,970	2,587	1,688
17	285	51	57	41	37
9	145	123	109	110	130
27	448	54			11
299	4,974	3,441	115	92	85
		4			
107	1,772	2,226	703	275	267
374	6,225	3,346	_	_	_
2	31	8	206		21
9,967	165,750	149,378	23,882	19,375	15,362
75	1,249	241	3	5	12
256	4,260	3,246	23	17	16
30	506	564	9	_	1
20	339	506	19	16	_
161	2,681	_	_	1,649	_
1,038	17,264	13,409	1,143	707	769
719	11,951	9,656	295	234	244
141	2,337	1,256	_	_	_
3	51	19	29	13	_
1,495	24,854	13,866	375	610	797
	1,630 273 745 474 17 9 27 299 — 107 374 2 9,967 75 256 30 20 161 1,038 719 141 3	1,630 27,113 273 4,532 745 12,387 474 7,885 17 285 9 145 27 448 299 4,974 — — 107 1,772 374 6,225 2 31 9,967 165,750 75 1,249 256 4,260 30 506 20 339 161 2,681 1,038 17,264 719 11,951 141 2,337 3 51	1,630 27,113 24,049 273 4,532 4,730 745 12,387 11,763 474 7,885 16,880 17 285 51 9 145 123 27 448 54 299 4,974 3,441 — 4 107 1,772 2,226 374 6,225 3,346 2 2 31 8 9,967 165,750 149,378 75 1,249 241 246 30 506 564 30 506 564 20 339 506 161 2,681 — 1,038 17,264 13,409 719 11,951 9,656 141 2,337 1,256 3 51 19	1,630 27,113 24,049 237 273 4,532 4,730 141 745 12,387 11,763 127 474 7,885 16,880 2,970 17 285 51 57 9 145 123 109 27 448 54 — 299 4,974 3,441 115 — 4 — 107 1,772 2,226 703 374 6,225 3,346 — 2 31 8 206 9,967 165,750 149,378 23,882 75 1,249 241 3 256 4,260 3,246 23 30 506 564 9 20 339 506 19 161 2,681 — — 1,038 17,264 13,409 1,143 719 11,951 9,656 295 141 2,337 1,256 — <td< td=""><td>1,630 27,113 24,049 237 219 273 4,532 4,730 141 131 745 12,387 11,763 127 124 474 7,885 16,880 2,970 2,587 17 285 51 57 41 9 145 123 109 110 27 448 54 — — 299 4,974 3,441 115 92 — — 4 — — 107 1,772 2,226 703 275 374 6,225 3,346 — — 9,967 165,750 149,378 23,882 19,375 75 1,249 241 3 5 256 4,260 3,246 23 17 30 506 564 9 — 20 339 506 19 16 161 2,681 — — 1,649 1,038 17,264 13,409</td></td<>	1,630 27,113 24,049 237 219 273 4,532 4,730 141 131 745 12,387 11,763 127 124 474 7,885 16,880 2,970 2,587 17 285 51 57 41 9 145 123 109 110 27 448 54 — — 299 4,974 3,441 115 92 — — 4 — — 107 1,772 2,226 703 275 374 6,225 3,346 — — 9,967 165,750 149,378 23,882 19,375 75 1,249 241 3 5 256 4,260 3,246 23 17 30 506 564 9 — 20 339 506 19 16 161 2,681 — — 1,649 1,038 17,264 13,409

Total Current Assets TOTAL ASSETS	3,938 13,905	65,492 231,242	42,763 192,141	1,896 25,778	3,251 22,626	1,839 17,201
SHAREHOLDERS' EQUITY	,		,	,,,,	,,	,
Capital and reserves attributable to equity holders of						
the parent						
Share capital	35	575	575	574	574	579
Treasury stock		4	4	5	5	_
Inflation adjustment of share capital and treasury	7	100	100	100	100	100
stock	7	123	123	123	123	123
Share premium	48	793	793	793	793	793
Additional paid-in capital from treasury stock	1	17	16	7	_	
Legal reserve	9	143	117	117	117	85
Special reserve	165	2,751	2,755	2,755	3,126	3,146
Other reserves	130	2,165	990	428	931	563
Retained earnings	1,160	19,293	16,259	7,235	4,551	3,027
Total capital and reserves attributable to equity	1 555	25.064	21 622	12.027	10.220	0.216
holders of the parent	1,555	25,864	21,632	12,037	10,220	8,316
Non-controlling interest	1,291	21,472	14,224	943	998	657
TOTAL SHAREHOLDERS' EQUITY	2,846	47,336	35,856	12,980	11,218	8,973
LIABILITIES						
Non-current liabilities						
Trade and other payables	183	3,040	1,518	255	202	211
Borrowings	6,584	109,489	90,680	3,736	3,756	2,923
Derivative financial instruments	5	86	105	265	321	
Deferred income tax liabilities	1,384	23,024	19,150	5,830	4,546	3,467
Employee benefits	46	763	689			
Salaries and social security liabilities	8	127	11	2	4	3
Provisions	57	943	532	29	29	19
Total non-current liabilities	8,267	137,472	112,685	10,117	8,858	6,623
Current liabilities						
Trade and other payables	1,253	20,839	17,874	896	679	677
Group of liabilities held for sale	112	1,855			938	
Salaries and social security liabilities	123	2,041	1,707	123	99	49
Borrowings	1,198	19,926	22,252	1,237	737	773
Derivative financial instruments	5	86	112	238	14	1
Provisions	54	890	1,039	52	18	14
MPIT liabilities	48	797	616	135	65	91
Total current liabilities	2,792	46,434	43,600	2,681	2,550	1,605
TOTAL LIABILITIES	11,059	183,906	156,285	12,798	11,408	8,228
TOTAL SHAREHOLDERS' EQUITY AND	13,905	231,242	192,141	25,778	22,626	17,201
LIABILITIES	15,705	231,272	1,2,171	20,770	22,020	17,201

	For th	ne fiscal	year	ended	June	30,
--	--------	-----------	------	-------	------	-----

	2017	2017	2016	2015	2014	2013
OTHER FINANCIAL DATA	(in millions of US\$) (ii)	(in millions of	Ps.)			
	(except for nu	mber of shares,	per share and C	DS data and ra	tios)	
Basic profit from continuing operations per GDS(3)	1.90	31.1	162.2	33.1	30.6	43.5
Diluted profit from continuing operations per GDS(3)	1.90	30.8	161.1	32.8	30.6	43.5
Basic profit for the year per GDS(3)	3.2	52.7	165.8	33.1	30.6	43.5
Diluted profit for the year per GDS(3)	3.1	52.3	164.7	32.8	30.6	43.5
Diluted weighted – averag number of common shares outstanding		578,700,307	578,811,837	578,004,721	578,676,470	578,676,470
Depreciation and amortization	284	4,715	2,085	33	29	31
Capital expenditure	330	5,482	47,059	532	318	921
Working capital	1,146	19,058	(837)	(785)	701	234
Ratio of current assets to current liabilities	0.08	1.41	0.98	0.71	1.27	1.15
Ratio of shareholders' equity to total liabilities	0.02	0.26	0.23	1.01	0.98	1.09
Ratio of non-current assets to total assets	0.04	0.72	0.78	0.93	0.86	0.89
Dividend paid(4)	(151)	(2,512)	(106)	(69.00)	(113)	(240)
Dividends per common share	(0.26)	(4.37)	(0.18)	(0.12)	(0.20)	(0.41)
Dividends per GDS	(2.63)	(43.69)	(1.84)	(1.20)	(1.97)	(4.15)
Number of common share outstanding	575,254,979	575,254,979	575,153,497	574,450,945	573,771,763	578,676,460
Capital Stock	575	575	575	574	574	579

⁽i) Totals may not sum due to rounding.

⁽ii) Solely for the convenience of the reader we have translated Peso amounts into U.S. Dollars at the seller exchange rate quoted by Banco de la Nación Argentina as of June 30, 2017, which was Ps.16.63 per US\$1.00. The average seller exchange rate for the fiscal year 2017, quoted by Banco de la Nación Argentina was Ps.15.4517. We make no representation that the Argentine Peso or U.S. Dollar amounts actually represent, could have been or could be

converted into U.S. Dollars at the rates indicated, at any particular rate or at all. See "Exchange Rates." Totals may not sum due to rounding.

(1)

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

(2)

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

(3)

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

(4)

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

Local Exchange Market and Exchange Rates

Operations Center in Argentina

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

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
Fiscal year ended June 30, 2013	5.3680	4.5650	4.9339	5.3680
Fiscal year ended June 30, 2014	8.0830	5.4850	6.9333	8.0830
Fiscal year ended June 30, 2015	9.0380	8.1630	8.5748	9.0380
Fiscal year ended June 30, 2016	15.7500	9.1400	12.2769	14.9900
Fiscal year ended June 30, 2017	16.5800	14.5100	15.4017	16.5800
Month ended April 30, 2017	15.4400	15.1400	15.3058	15.3500
Month ended May 31, 2017	16.1350	15.2400	15.6679	16.0500
Month ended June 30, 2017	16.5800	15.8280	16.0728	16.5800
Month ended July 31, 2017	17.7400	16.7500	17.1430	17.5900
Month ended August 31, 2017	17.6730	17.0200	17.3728	17.2600
Month ended September 30, 2017	17.5300	16.9250	17.1888	17.2600
October 2017 (through October 25, 2017)	17.4500	17.2850	17.3652	17.4400

Source: Central Bank

Exchange controls

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

With the change of government and political environment, in December 2015, one of the first measures taken by the Argentine government was to lift the main restrictions that limited access to individuals to the MULC. Through Communication "A" 5850 and later, as the local economy stabilized Communication "A" 6037, the Central Bank lifted the previous limitations and allowed unrestricted access to the foreign exchange market, subject to some requirements, as detailed below.

⁽¹⁾ Average between the offer exchange rate and the bid exchange rate according to Banco de la Nación Argentina "foreign currency exchange rate," against Pesos.

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

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

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

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

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

Registration Requirements

All incoming and outgoing funds to and from the MULC and any foreign indebtedness (financial and commercial) are subject to registration requirements before the Central Bank for informative purposes, in accordance with Communication "A" 3602, as amended.

Corporate profits and dividends

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

Restrictions on foreign indebtedness

Pursuant to Resolution E 1/2017 of the Ministerio de Hacienda and the Communication "A" 6150 of the Argentine Central Bank, it was deleted the obligation that required non-residents to perform portfolio investments in the country intended for the holding of private sector financial assets to maintain for a period of 120 days of permanence the funds in the country.

As of that resolution and the provisions of Communication "A" 6244 of the Argentine Central Bank, there are no restrictions on entry and exit in the MULC.

Restrictions on the purchase of foreign currency

Domestic individuals and companies

Communication "A" 5850 and AFIP Resolution No. 3821 modified and replaced the prior regimes related to, among others, the purchase of external assets by Argentine residents—domestic individuals and companies—for investment purposes and for travel, tourism and family assistance. The regime currently applicable is characterized by the following:

External assets may only be acquired by Argentine individuals, legal entities from the private sector incorporated in Argentina that are not authorized to trade on the foreign exchange market, assets (patrimonios), and other entities incorporated in Argentina and local government agencies.

Access to the local foreign exchange market without requiring prior Central Bank approval is allowed for an unlimited amount, for all of the following: real estate investments abroad, loans granted to non-Argentine residents, Argentine residents' contributions of direct investments abroad, portfolio investment of Argentine individuals abroad, certain other investments abroad of Argentine residents, portfolio investments of Argentine legal entities abroad, purchase of foreign currency bills to be held in Argentina, donations complying certain conditions, as well as purchase of traveler checks.

In the case of foreign currency sales to Argentine residents for portfolio investments abroad, the transfer has to be made directly to the bank account of such Argentine resident, which must be located at foreign banks or financial institutions that regularly conduct investment banking activities, which are not incorporated in countries or territories

considered not to be cooperative for purposes of fiscal transparency in terms of the provisions of Section 1 of the Decree No. 589/13 and its complementary provisions, or in countries or territories that do not apply the recommendations of the Financial Action Task Force, or "FATF."

The proceeds of the sale of foreign currency by Argentine residents in the foreign exchange market for all the items can be credited in a checking or savings bank account in a local financial institution in the client's name or withdrawn by cash.

Regarding the collection for services provided to non-Argentine residents and/or resulting from the sale of non-produced non-financial assets exempted from mandatory sale in the foreign exchange market. Argentine residents that receive funds in foreign currency for the payment of services rendered to non-Argentine residents or for the sale of non-produced non-financial assets may receive those funds in a local foreign currency account without exchanging it for Argentine pesos in the foreign exchange market. Following Communications "A" 6011 and 6037 of the Central Bank foreign assets may be acquired for investment purposes by Argentine residents without limitations. In addition foreign currency may be purchased through a debit account or through an unlimited cash withdrawal without limits.

Non-residents

Communication "A" 6150 dated January 13, 2017 abolished all restrictions regarding prior approval from the Central Bank, minimum amounts, or minimum holding periods to repatriate portfolio investments or direct investments of non-residents.

Restrictions on exports, imports and services

Regarding exports, in 2016 the Central Bank relaxed certain rules related to the inflow and outflow of foreign currency collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings, establishing that the deadline to repatriate to Argentina the foreign currency is 10 years. The prior 10-business day period applicable for the transfer of funds collected abroad as a result of the collection of exports of goods, advance payments, and pre-export financings to a correspondent bank account of a local financial institution (cuenta de corresponsalía) was eliminated in December 2015. In relation to the export of services, Communication "A" 6137 the Central Bank eliminated the obligation to repatriate to Argentina the foreign currency obtained.

Regarding imports, access to the foreign exchange market for the payment of imports with customs clearance date as of December 17, 2015 can be paid through the local foreign exchange market without any limit. AFIP Regulation No. 3252 published on January 5, 2012 which required importers to file affidavits was eliminated in December 2015 and the import monitoring system (Sistema Integral de Monitoreo de Importaciones, or "SIMI" was created, which established an obligation for importers to submit certain information electronically. Importers do not have to repatriate the goods within a specified period (previously this period was 365 calendar days from the date of access to the foreign exchange market).

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

Direct investments

On March 4, 2005, the Central Bank issued Communication "A" 4305 that regulates the reporting system of direct investments and real estate investments carried out by non-residents in Argentina and by Argentine residents abroad, which had been implemented through Communication "A" 4237 dated November 10, 2004.

Direct investments in Argentina of non-Argentine residents

Non-Argentine residents must comply with the reporting regime if the value of their investments in Argentina is equivalent to more than US\$500,000—measured in terms of the net worth of the company in which they participate or fiscal value of the real estate owned. If such value is less than US\$500,000, compliance with such regime is optional. According to Communication "A" 4237, companies in which non-Argentine residents participate and administrators of real estate of non-Argentine residents must comply with the reporting regime.

Direct investments made abroad by Argentine residents

Investors who are Argentine residents must comply with the reporting regime if the value of their investments abroad is equivalent to more than US\$1,000,000—measured in terms of net worth of the company in which they participate or the fiscal value of the real estate they own. If such value is less than the equivalent of US\$5,000,000, the reporting obligation is annual rather than semi-annual. If such value is less than the equivalent of US\$1,000,000, compliance with such regime is optional.

Future and forward operations

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

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

For further details regarding the exchange regulations applicable in Argentina, investors should consult their professional advisers and read the full text of the above cited rules on the website of the Ministry of Treasury and of the Central Bank.

Operations Center in Israel

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

	Maximum(1)(2)	Minimum(1)(3)	Average(1)(4)	At closing(1)
Fiscal year ended June 30, 2013	4.0145	3.5851	3.7775	3.6376
Fiscal year ended June 30, 2014	3.6213	3.4320	3.5075	3.4320
Fiscal year ended June 30, 2015	3.9831	3.4260	3.8064	3.7747
Fiscal year ended June 30, 2016	3.9604	3.7364	3.8599	3.8596
Fiscal year ended June 30, 2017	3.8875	3.4882	3.6698	3.4882
Month ended April 30, 2017	3.6718	3.6218	3.6519	3.6218
Month ended May 31, 2017	3.6170	3.5402	3.5916	3.5402
Month ended June 30, 2017	3.5562	3.4882	3.5291	3.4882
Month ended July 31, 2017	3.5789	3.5071	3.5507	3.5616
Month ended August 31, 2017	3.6269	3.5627	3.5992	3.5835
Month ended September 30, 2017	3.5736	3.4943	3.5318	3.5340
October 2017 (through October 25, 2017)	3.5373	3.4868	3.5065	3.5088
Source: Bloomberg				

(1)

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

(2)

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

(3)

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

(4)

Average exchange rates at the end of the month.

B. Capitalization and Indebtedness

This section is not applicable.

C. Reasons for the Offer and Use of Proceeds

This section is not applicable.

D. Risk Factors

You should carefully consider the risks described below, in addition to the other information contained in this annual report, before making an investment decision. We also may face additional risks and uncertainties not currently known to us, or which as of the date of this annual report we might not consider significant, which may adversely affect our business. In general, you take more risk when you invest in securities of issuers in emerging markets, such as Argentina, than when you invest in securities of issuers in the United States, and certain other markets. You should understand that an investment in our common shares and Global Depository Shares ("GDSs") involves a high degree of risk, including the possibility of loss of your entire investment.

Operations Center in Argentina

Risks Relating to Argentina

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

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

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative growth, high levels of inflation and currency depreciation, and may experience further volatility in the future.

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Among other consequences, the crisis resulted in Argentina defaulting on its foreign debt obligations, introducing emergency measures and numerous changes in economic policies that adversely affected most sectors of the economy, particularly utilities, financial institutions, and industrial companies. The Argentine Peso also was subjected to significant real devaluation and depreciation, which resulted in many Argentine private sector debtors with foreign currency exposure to default on their outstanding debt. Following that crisis, Argentine GDP grew 8.9% in 2005, 8.0% in 2006 and 9.0% in 2007. During 2008 and 2009, however, the Argentine economy suffered a slowdown attributed to local and external factors, including an extended drought affecting agricultural activities, and the effects of the global economic crisis. Real GDP growth recovered in 2010 and 2011 to 10.1% and 6.0%, respectively. However, GDP contracted 1.0% in 2012 and then grew by 2.4% in 2013. In 2014, economic again contracted by 2.5%. The Argentine economy has remained under pressure in recent years with GDP expanding 2.6% in 2015 and contracting 2.3% in 2016 according to data reported by the National Institute of Statistics (Instituto Nacional de

Estadisticas y Censos), or "INDEC."

Presidential and Congressional elections in Argentina were held on October 25, 2015, and a runoff election between the two leading Presidential candidates was held on November 22, 2015, which resulted in Mr. Mauricio Macri being elected President of Argentina. The Macri administration assumed office on December 10, 2015. Since taking office, the new administration has announced a policy agenda aimed at adopting measures that are market friendly and designed to ensure long-term macroeconomic performance including reducing the fiscal deficit, eliminating restrictions on capital flows and access to the exchange rate market, correcting energy and transport prices and obtaining financing through the capital markets.

The Macri administration has adopted the following key economic and policy reforms.

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

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

Foreign exchange reforms. In addition, the Macri administration eliminated a significant portion of foreign exchange restrictions, including certain currency controls, that were imposed under the Kirchner administration. On August 9, 2016, the Central Bank issued Communication "A" 6037 which substantially changed the existing legal framework and eliminated certain restrictions limiting access to the foreign exchange market MULC. The principal measures adopted as of the date of this annual report include:

- i.
 the reestablishment of Argentine residents' rights to purchase and remit foreign currency outside of Argentina without limit and without specific allocation (atesoramiento);
- ii. the elimination of the mandatory, non-transferable and non-interest bearing deposit previously required in connection with certain transactions involving foreign currency inflows by reducing the amount of the deposits from 30% to 0%;
- iii. the elimination of the requirement to transfer and settle the proceeds from new foreign financial indebtedness incurred by the foreign financial sector, the non-financial private sector and local governments through the MULC; and
- iv. the elimination of the requirement that proceeds from debt issuances abroad must be maintained undistributed for a minimum of 365 calendar days.

Foreign trade reforms. The Kirchner and Fernández de Kirchner administrations imposed export duties and other restrictions on several sectors, particularly the agricultural sector. The Macri administration eliminated export duties

on wheat, corn, beef and regional products, and reduced the duty on soybeans by 5% to 30%. Further, the 5% export duty on most industrial exports was eliminated. With respect to payments for imports of goods and services, the Macri administration announced the gradual elimination of restrictions on access to the MULC for any transactions originated before December 17, 2015. Regarding transactions executed after December 17, 2015, no quantitative limitations apply.

National electricity state of emergency and reforms. Following years of very limited investment in the energy sector, as well as the continued freeze on electricity and natural gas tariffs since the 2001-2002 economic crisis, Argentina began to experience energy shortages in 2011. In response to the growing energy crisis, the Macri administration declared a state of emergency with respect to the national electricity system, which will remain in effect until December 31, 2017. The state of emergency enables the Government to take actions designed to ensure the supply of electricity to the country, such as instructing the Ministry of Energy and Mining to design and implement, with the cooperation of all federal public entities, a coordinated program to guarantee the quality and security of the electrical grid. In addition, through Resolution No. 6/2016 of the Ministry of Energy and Mining and Resolution No. 1/2016 of the National Electricity Regulatory Agency (Ente Nacional Regulador de la Electricidad), the Macri administration announced the elimination of a portion of energy subsidies currently in effect and a substantial increase in electricity rates. As a result, average electricity prices have already increased and could increase further. By correcting tariffs, modifying the regulatory framework and reducing the Government's involvement in the sector, the Macri administration aims to correct distortions in the energy sector and stimulate investment. However, certain of the Government's initiatives have been challenged in the Argentine courts and resulted in judicial injunctions or rulings limiting the Government's initiatives.

Tariff increases. With the aim of encouraging companies to invest and improve the services they offer and enabling the Government to assist those in need, the Macri administration has begun updating the tariffs for electricity, transportation, gas and water services. Each of the announced tariff increases contemplates a tarifa social (social tariff), which is designed to provide support to vulnerable groups, including beneficiaries of social programs, retirees and pensioners who receive up to two minimum pensions, workers who receive up to two minimum salaries, individuals with disabilities, individuals registered in the Monotributo Social program, domestic workers and individuals receiving unemployment insurance. On August 18, 2016, the Supreme Court of Argentina in "Centro de Estudios para la Promoción de la Igualdad y la Solidaridad versus Ministry of Energy and Mining," upheld lower court injunctions suspending the proposed increases in gas tariffs and instructed the Ministry of Energy and Mining to conduct a non-binding public hearing prior to sanctioning any such increases. The public hearings were held on September 16, 2016. Pursuant to the holding by the Supreme Court, the Gas Regulatory Entity, or "Enargas," issued Resolution No. 3960 and 3961 ordering the reestablishment of the prior tariff scheme as of March 31, 2016, and implemented an installment regime for the payment of overdue bills.

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

Retiree Programs. On June 29, 2016, Congress passed a bill approving the Ley de Reparación Histórica a los Jubilados (Historical Reparations Program for Retirees and Pensioners), which took effect upon its publication in the official gazette. The main aspects of this program, which is designed to conform government social security policies to Supreme Court rulings, include (i) payments to more than two million retirees and the retroactive compensation of more than 300,000 retirees and (ii) the creation of a pensión universal (universal pension) for the elderly, which guarantees an income for all individuals over 65 years of age who are otherwise ineligible for retirement. The Historical Reparations Program for Retirees and Pensioners will give retroactive compensation to retirees in an aggregate amount of more than Ps.47.0 billion and involve expenses of up to Ps.75.0 billion to cover all potential beneficiaries.

Fiscal policy: The Macri administration reduced the primary fiscal deficit by approximately 1.8% of GDP in December 2015 through a series of tax and other measures, and pursued a primary fiscal deficit target of 4.8% of GDP in 2016 through the elimination of subsidies and the reorganization of certain expenditures. However, the primary fiscal deficit for October 2016 increased 183% compared to the comparable period in 2015, while the aggregated primary fiscal deficit as of January 2016 represented a 69% increase compared to the same period of 2015, reaching 4.6% of GDP. The Macri administration's ultimate aim is to achieve a balanced primary budget by 2019.

On February 22, 2017, Finance Minister Nicolas Dujovne announced fiscal targets for the period 2017-2019, ratifying the target set in the 2017 budget—which established a primary deficit of 4.2% of GDP for 2017—and announcing a deficit target of 3.2% for 2018 and 2.2% for 2019. It also announced quarterly targets as a percentage of GDP for 2017, of 0.6% for the first quarter; 2.0% for the second, 3.2% for the third and 4.2% for the last one. Targets for the first and second quarters have been met.

Correction of monetary imbalances: The Macri administration announced the adoption of an inflation targeting regime in parallel with the floating exchange rate regime and set inflation targets for the next four years. The Central Bank has increased the use of stabilization policies to reduce excess monetary imbalances and reduced Peso interest rates to offset inflationary pressure.

While some of the measures adopted have led to higher inflation, there has been an increase in the demand for pesos and a recovery of credit points toward a gradual normalization of macroeconomic conditions. To this end, access to external financing may have a positive effect, by significantly reducing the monetization of the fiscal deficit without requiring an abrupt fiscal adjustment that would put economic growth under pressure. Simultaneously, the inflow of foreign capital would generate a greater supply of foreign exchange in the MULC limiting the depreciation of the Argentine peso and its direct impact on inflation. This, in turn, would increase the demand for real balances in pesos, allowing for a reduction in interest rates and further revival of credit demand and economic activity.

As of the date of this annual report, the impact that the measures taken by the Macri administration will have on the Argentine economy as a whole and the real-estate sector in particular cannot be predicted. In addition, although the results from the mid-term elections held in October 2017, were characterized as positive for the Macri administration, opposition political parties retained a majority of the seats in the Argentine Congress, which has required and will require the Macri administration to seek political support from these parties to implement its proposals creating additional uncertainty regarding the ability of the Macri administration to effectively implement its policy agenda.

Higher rates of inflation, any decline in GDP growth rates and/or other future economic, social and political developments in Argentina, a lack of stability and competitiveness of the Peso against other currencies, and a decline

in confidence among consumers and foreign and domestic investors, among other factors, may materially adversely affect the development of the Argentine economy which could adversely affect our financial condition or results of operations.

There were concerns about the accuracy of Argentina's official inflation statistics.

In January 2007, the INDEC changed the methodology used to calculate the CPI. At the same time that the INDEC adopted this change in methodology the Argentine government also replaced several key officers at the INDEC, prompting complaints of governmental interference from the technical staff at the INDEC. In addition, during this period the IMF requested a number of times that INDEC clarify its methodology for measuring inflation rates.

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

In order to address the quality of official data, a new consumer price index denominated Urban National Consumers Price Index (Índice de Precios al Consumidor Nacional Urbano), or the "IPCNu," was enacted on February 13, 2014. Inflation measured by the IPCNu was 23.9% for 2014, 29.2% for 2015 and 33.7% for 2016. The IPCNu represents the first national indicator in Argentina to measure changes in prices of household goods for final consumption. While the previous price index only measured inflation in the Greater Buenos Aires area, the IPCNu is calculated by measuring prices of goods across the entire urban population of the 23 provinces of Argentina and the City of Buenos Aires. On December 15, 2014, the IMF recognized the progress of Argentine authorities to remedy the inaccurate provision of data, but has delayed the definitive evaluation of the new index.

On January 8, 2016, as a result of the INDEC's historical inability to produce reliable statistical data, the Macri administration issued an emergency decree and ceased publication of national statistics. The INDEC suspended all publications of statistical data until the technical reorganization process was completed and the administrative structure of the INDEC was recomposed. Following this process of reorganization and recovery, the INDEC began to gradually publish official data. The INDEC recalculated historical GDP data dating back to 2014, and GDP growth measures were revised to growth of 2.3% in 2013, contraction of 2.1% in 2014, growth of 2.4% in 2015 and contraction of 2.1% in 2016. GDP as reported by INDEC for the fourth quarter of 2016 grew 0.5% compared to the comparable quarter of 2015, in the seasonally adjusted measurement.

The Budget Law for fiscal year 2017 includes targets for CPI variation between 17% and 12% for 2017, between 8% and 12% for 2018 and between 3.5% and 6.5% for 2019. On November 9, 2016, the IMF, after analyzing Argentina's progress in improving quality of official data on the CPI, decided to lift the "censure motion" that was imposed in 2013, concluding that the CPI of Argentina is now in compliance with international standards. However, we cannot assure you that such inaccuracy in relation with the economic indicators will not occur again in the future and, consequently, this circumstance may have an adverse effect on the Argentine economy and on our financial results. If despite the changes introduced in the INDEC by the new government, there are still differences between the figures published by the INDEC and those recorded by private consultants, there could be a significant decrease in confidence in the Argentine economy, which could have an impact on our results of operations and financial condition.

Continuing high inflation may impact the Argentine economy and adversely affect our results of operations.

Inflation has, in the past, materially undermined the Argentine economy and the government's ability to foster conditions that would permit stable growth. In recent years, Argentina has confronted inflationary pressures, evidenced by significantly higher fuel, energy and food prices, among other factors. In response, the prior Argentine administration implemented programs to control inflation and monitor prices for essential goods and services, including freezing the prices of key products and services, and price support arrangements agreed between the Argentine government and private sector companies in several industries and markets. According to data published by the INDEC, the rate of inflation reached 10.9% in 2010, 9.5% in 2011, 10.8% in 2012, 10.9% in 2013, 23.9% in 2014 and 26.9% in 2015. In November 2015, the INDEC suspended the publication of the CPI. After implementing certain methodological reforms and adjusting certain macroeconomic statistics on the basis of these reforms, in June 2016 the INDEC resumed its publications of the CPI. At the beginning of 2017, the inflation statistics started to show a stable deceleration trend in its rates accordingly with the new inflation targeting policies of the Central Bank. The inflation rates published by the INDEC for January, February, March, April, May, June, July, August and September 2017 were 1.3%, 2.5%, 2.4%, 2.6%, 1.3%, 1.2%, 1.7%, 1.4%, and 1.9%, respectively. An inflationary environment would undermine Argentina's foreign competitiveness by diluting the effects of a peso devaluation, negatively impact the level of economic activity and employment and undermine confidence in Argentina's banking system, which could further limit the availability of domestic and international credit. In addition, a portion of the Argentine debt is adjusted by the Stabilization Coefficient (Coefficiente de Estabilización de Referencia), or "CER," a currency index, that is strongly related to inflation. Therefore, any significant increase in inflation would cause an increase in the principal amount of sovereign external debt and consequently in Argentina's financial obligations, which could negatively affect the Argentine economy. A high level of uncertainty and a general lack of stability in terms of inflation could also lead to shortened contractual terms and affect the ability to plan and make investment decisions. Inflation remains a challenge for Argentina. The Macri administration has set goals to reduce the primary fiscal deficit as a percentage of GDP over time and also reduce the Argentine government's reliance on Central Bank financing. If despite these measures the Macri administration is unable to address Argentina's structural inflationary imbalances, the prevailing high rates of inflation may continue, which would have an adverse effect on Argentina's economy that could lead to an increase in the principal amount of Argentina's debt outstanding as measured in Pesos. Moreover, certain objectives of the Macri administration, such as the increase in tariffs to incentivize investment in the energy sector, may result in higher rates of inflation. Inflation in Argentina has contributed to a material increase in our costs of operations, in particular labor costs, and has negatively impacted our financial condition and results of operations. Inflation rates could increase further in the future, and there is uncertainty regarding the effects and effectiveness of the measures adopted, or that may be adopted in the future, by the Argentine government to control inflation. Public speculation about possible additional actions have also contributed significantly to economic uncertainty and heightened the volatility of the economy. If inflation remains high or continues to rise, Argentina's economy may be negatively impacted and our results of operations could be materially affected.

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

Since the strengthening of exchange controls began in late 2011 and after measures were introduced to limit access to foreign currency by private companies and individuals (such as requiring an authorization from tax authorities to access the foreign currency exchange market), the implied exchange rate, as reflected in the quotations for Argentine securities that traded on foreign securities markets compared to the corresponding quotations in the local market, had increased significantly over the official exchange rate. These measures were mostly lifted on December 16, 2015. Any reenactment of these measures may prevent or limit us from offsetting the risk derived from our exposure to the U.S. dollar and, if so, we cannot predict the impact of these changes on our financial condition and results of operations.

After several years of moderate variations in the nominal exchange rate, in 2012 the peso depreciated approximately 14.3% against the U.S. dollar. This was followed in 2013 and 2014 by a 32.5% depreciation of the peso against the U.S. dollar in 2013 and 30.3% in 2014, including a loss of approximately 21.6% in January 2014 alone. In 2015, the Peso depreciated 52.7% against the dollar with a 33% depreciation in the last weeks of December 2015. In 2016 the Peso depreciated a further 20.5% against the dollar. During the first and second quarter of 2017 the exchange rate has remained stable, mainly as a consequence of the Tax Amnesty Law and its effects on the foreign currency market. During the third quarter of 2017, the political impact of the mid term elections caused ceratin volatile in the exchange market.

From time to time the Central Bank may intervene in the foreign exchange market in order to stabilize the exchange rate of the peso. Additional volatility, appreciation or depreciation of the peso, or reduction of the Central Bank's foreign currency reserves as a result of currency intervention, could adversely affect the Argentine economy and our ability to service our obligations as they become due.

If the Peso continues to depreciate, the Argentine economy may be negatively affected with adverse consequences on our business and financial condition. Particularly as a result of our exposure to liabilities denominated in U.S. dollars. While certain of our office leases are set in U.S. dollars, we are only partially protected against depreciation of the Peso and there can be no assurance we will be able to maintain our U.S. dollar-denominated leases.

On the other hand, a substantial appreciation of the Peso against the U.S. dollar also presents risks for the Argentine economy. The appreciation of the Peso against the U.S. dollar negatively impacts the financial condition of entities whose foreign currency denominated assets exceed their foreign currency-denominated liabilities. In addition, in the short term, a significant real appreciation of the Peso would adversely affect exports. This could have a negative effect on economic growth and employment as well as reduce the revenues of the Argentine public sector by reducing tax collection in real terms, given its current heavy reliance on taxes on exports.

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

In the past, the Argentine government has increased its intervention in the economy through the implementation or change of laws and regulations; nationalizations and expropriations; restrictions on production, imports and exports; exchange and/or transfer restrictions; direct and indirect price controls; tax increases, changes in the interpretation or application of tax laws and other retroactive tax claims or challenges; cancellation of contract rights; or delays or denials of governmental approvals.

In November 2008, the Argentine government enacted Law No. 26,425 which provided for the nationalization of the Administradoras de Fondos de Jubilaciones y Pensiones. Beginning in April 2012, the Argentine government moved to nationalize YPF S.A., or "YPF," and imposed major changes to the system under which oil companies operate, principally through the enactment of Law No. 26,741 and Decree No. 1277/2012. In February 2014, the Argentine government and Repsol S.A., or "Repsol," announced that they had reached an agreement on the terms of the compensation payable to Repsol, as the former principal shareholder of YPF for the expropriation of Repsol's YPF shares. Such compensation totaled US\$5 billion, payable by delivery of Argentine sovereign bonds with various maturities. On April 23, 2014, the agreement with Repsol was approved by the Argentine Congress and the matter was resolved on May 8, 2014.

Additionally, on December 19, 2012, the Argentine government issued Decree No. 2,552/12, which ordered the expropriation of the Predio Rural de Palermo. On January 4, 2013, the Federal Civil and Commercial Chamber granted an injunction that blocked the enforceability of such Decree. However, on June 1, 2015, the injunction was

removed. This decision was appealed and the injunction was reinstated. The Argentine government lost an appeal to have the injunction revoked. The government filed a request for dismissal in April 2016. The court granted registration of the matter and ordered a formal notification to plaintiff Sociedad Rural Argentina, which filed its response in November 2016. As of the date of this annual report, the proceedings are still pending before the Federal Civil and Commercial Courts No. 8, Secretariat No. 15 of the City of Buenos Aires. The expropriation of this development without fair compensation may affect our interest in Entertainment Holding S.A., or "EHSA," a joint venture and the entity that owns the property.

Furthermore, on May 18, 2015, we were notified that the Agencia de Administración de Bienes del Estado, or "AABE," revoked the concession agreement granted to our subsidiary Arcos del Gourmet S.A., through Resolution No. 170/2014. On June 2, 2015, we filed before the AABE a request to declare the notification void, as certain formal proceedings required under Argentine law were not complied with by the AABE. Furthermore, we filed an administrative appeal requesting the dismissal of the revocation of the concession agreement and a lawsuit seeking to declare Resolution No. 170/2014 void. We also filed a lawsuit in order to judicially pay the monthly rental fees of the property. As of the date of this annual report, the "Distrito Arcos" shopping mall continues to operate normally.

Other examples of government intervention by the prior administration, include regulations relating to domestic capital markets approved by the Argentine Congress in December 2012 and August 2013. These regulations generally provide for increased intervention in the capital markets by the government, authorizing, for example, the CNV to appoint observers with authority to veto the decisions of the board of directors of publicly-listed companies under certain circumstances and suspend the board of directors for a period of up to 180 days. Nevertheless, since November 2016 the government has been working on an amendment to the Capital Markets Law No. 26,831, or the "Capital Markets Law" which, if approved, will eliminate CNV's authorization to appoint the aforementioned observers.

We cannot assure you that these or other measures that may be adopted by the Argentine government, such as expropriation, nationalization, forced renegotiation or modification of existing contracts, new taxation policies, changes in laws, regulations and policies affecting foreign trade, investment, among others, will not have a material adverse effect on the Argentine economy and, as a consequence, adversely affect our financial condition, our results of operations and the market value of our securities.

The Argentine government may order that salary increases be paid to employees in the private sector, which would increase our operating costs.

In the past, the Argentine government has passed laws, regulations and decrees requiring companies in the private sector to maintain minimum wage levels and provide specified benefits to employees and may do so again in the future. In the aftermath of the Argentine economic crisis, employers both in the public and private sectors experienced significant pressure from their employees and labor organizations to increase wages and to provide additional employee benefits. Since July 2017, the minimum monthly salary of employees to is Ps.8,860. Due to persistent high rates of inflation, employers in both the public and private sectors continue to experience significant pressure from unions and their employees to increase minimum salaries.

In the future, the government could take new measures requiring salary increases or additional benefits for workers, and the labor force and labor unions may apply pressure for such measures. As of the date of this annual report, the government and labor representatives were engaged in negotiations to set national guidelines for salary increases during 2017. Any such increase in wage or worker benefit could result in added costs and adversely affect the results of operations of Argentine companies, including us.

Property values in Argentina could decline significantly.

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

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

According to Argentine practices, the Argentine government may impose restrictions on the exchange of Argentine currency into foreign currencies and on the remittance to foreign investors of proceeds from investments in Argentina in circumstances where a serious imbalance develops in Argentina's balance of payments or where there are reasons to foresee such an imbalance. Beginning in December 2001, the Argentine government implemented a number of monetary and foreign exchange control measures that included restrictions on the free disposition of funds deposited with banks and on the transfer of funds abroad without prior approval by the Central Bank. With the administration of President Macri, many of the former restrictions were lifted.

On January 7, 2003, the Central Bank issued communication "A" 3859, as amended, which is still in force and pursuant to which there are no limitations on companies' ability to purchase foreign currency and transfer it outside Argentina to pay dividends, provided that those dividends arise from net earnings corresponding to approved and audited financial statements. The transfer of funds abroad by local companies to pay annual dividends only to foreign shareholders, based on approved and fully audited financial statements, does not require formal approval by the Central Bank.

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

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

Exchange controls, restrictions on transfers abroad and capital inflow restrictions may limit the availability of international credit.

Until December 2015, many foreign exchange restrictions and controls had limited the access the exchange market. On December 16, 2015, the new authorities issued Communication "A" 5850 of the Central Bank, lifting most of the restrictions then in place. Among these measures, free access to the exchange market was granted for the purchase of foreign currency intended for general purposes, without requiring prior approval of the Central Bank or the Federal Administration of Public Revenues (Administración Federal de Ingresos Públicos), or "AFIP," and the requirement to deposit 30% of certain capital inflows into Argentina was eliminated. Towards the end of 2016, the remaining exchange control restrictions were also lifted by the Central Bank's Communication A 6037 and "A" 6150, so to date there is free access to the exchange market. Pursuant to Resolution E 1/2017 of the Ministerio de Hacienda and the

Communication "A" 6150 of the Argentine Central Bank, it was deleted the obligation that required non-residents to perform portfolio investments in the country intended for the holding of private sector financial assets to maintain for a period of 120 days of permanence the funds in the country. As of that resolution and the provisions of Communication "A" 6244 of the Argentine Central Bank, there are no restrictions on entry and exit in the MULC.

Notwithstanding recent measures adopted by the Macri administration, in the future the Argentine government could impose further exchange controls or restrictions on the movement of capital and/or take other measures in response to capital flight or a significant depreciation of the peso, which could limit our ability to access the international capital markets. Such measures could lead to political and social tensions and undermine the Argentine government's public finances, as has occurred in the past, which could adversely affect Argentina's economy and prospects for economic growth. For more information, see "Item 3. Key Information - Local Exchange Market and Exchange Rates."

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

Argentina's economy is vulnerable to external shocks that could be caused by adverse developments affecting its principal trading partners. A significant decline in the economic growth of any of Argentina's major trading partners (including Brazil, the European Union, China and the United States) could have a material adverse impact on Argentina's balance of trade and adversely affect Argentina's economic growth. In 2016, there were declines in exports of 4.5% with Chile, 14.3% with MERCOSUR (Brazil) and 13.5% with China. On the other hand, exports increased 15.6% with NAFTA (the United States, Mexico and Canada), 3.6% with the European Union and 26.7% with Asian countries each as compared to 2015. Declining demand for Argentine exports could have a material adverse effect on Argentina's economic growth. For example, the recent significant depreciation of the Brazilian and Chinese currencies and the current slowdown of their respective economies may negatively affect the Argentine economy. Moreover, the political and social instability in Brazil, which includes the recent removal of the President Dilma Rousseff from office following an impeachment vote in the Senate, and the uncertainties arising therefrom and the contraction of Brazil's economy, may have an adverse impact on Argentine's economy.

In addition, financial and securities markets in Argentina have been influenced by economic and market conditions in other markets worldwide. Such was the case in 2008, when the global economic crisis led to a sudden economic decline in Argentina in 2009, accompanied by inflationary pressures, depreciation of the peso and a drop in consumer and investor confidence. Although economic conditions vary from country to country, investors' perception of the events occurring in one country may substantially affect capital flows into other countries. International investors' reactions to events occurring in one market sometimes demonstrate a "contagion" effect in which an entire region or class of investment is disfavored by international investors. Argentina could be adversely affected by negative economic or financial developments in other countries, which in turn may have an adverse effect on our financial condition and results of operations. Lower capital inflows and declining securities prices negatively affect the real economy of a country through higher interest rates or currency volatility. Moreover, Argentina may also be affected by other countries that have influence over world economic cycles.

In addition, emerging market economies have been affected by the recent change in the U.S. monetary policy, resulting in the unwinding of investments and increased volatility in the value of their currencies. If interest rates rise significantly in developed economies, including the United States, emerging market economies, including Argentina, could find it more difficult and expensive to borrow capital and refinance existing debt, which would negatively affect their economic growth. There is also global uncertainty about the degree of economic recovery in the United States. Moreover, the recent challenges faced by the European Union to stabilize certain of its member economies, such as Greece, have had and may continue to have international implications affecting the stability of global financial markets, which has hindered economies worldwide.

The effects of the United Kingdom's vote to exit from the European Union and its impact on economic conditions in Latin America and Argentina and, particularly, on our business, financial condition, results of operations, prospects and trading of our notes are uncertain.

On June 23, 2016, the United Kingdom voted in favor of the United Kingdom exiting the European Union, or "Brexit." The possible negative consequences of Brexit include an economic crisis in the United Kingdom, a short-term recession and a decrease of investments in public services and foreign investments. The greatest impact of Brexit may be on the United Kingdom, however the impact may also be significant to other members states. As of the date of this annual report, the actions that the United Kingdom will take to effectively exit from the European Union or the length of such process are uncertain. Brexit has caused, and is anticipated to continue causing, volatility in the financial markets, which may adversely affect business activity and economic and market conditions in the United Kingdom, the Eurozone and globally, and could contribute to instability in global financial and foreign exchange markets. All these effects could in turn have a material adverse effect on our business, financial condition and results of operations.

The possible independence of Catalonia may have an impact on economic conditions in Latin America and Argentina and, particularly, on our business, financial condition, results of operations, prospects, generating uncertainty over the trading of our notes.

In these days, Spain is going through a very critical and delicate situation, since Catalonia intends to become independent and to be a separate country from Spain. At the moment, several debates, confrontations and political, economic and social conflicts are carried out to define the situation between the Spanish government and the Catalan. On October 27, 2017 the Parliament of Catalonia approved a resolution creating an independent Republic unilaterally by a vote considered illegal by the lawyers of the Parliament of Catalonia for violating the decisions of the Constitutional Court of Spain. As of October 28, 2017, the Catalan Republic is unrecognized by the international community, which regards the region as part of of Spain.

As of the date of this annual report, the actions that Spain and Catalonia will take to define independence or not are uncertain. Such a situation together with any measure that the European Union may take, could cause volatility in financial markets, which may adversely affect business activity and economic and market conditions in Spain and therefore in the United Kingdom abd the European Union. All these effects could in turn have a material adverse effect on our business, financial condition and results of operations.

A decline in the international prices for Argentina's main commodity exports could have an adverse effect on Argentina's economic growth and on our business.

In December 2015, the Argentine administration announced a plan to gradually reduce the exports tax payable on certain agricultural products. Export taxes on soy products and wheat, maize, sorghum and sunflower have since been eliminated in an attempt to increase agricultural production. However, this reliance on the export of certain commodities, such as soy, has made the Argentine economy more vulnerable to fluctuations in their prices. If international commodity prices decline, the Argentine government's revenues would decrease significantly affecting Argentina's economic activity. Accordingly, a decline in international commodity prices could adversely affect Argentina's economy, which in turn would produce a negative impact on our financial condition and results of operations.

In addition, adverse weather conditions can affect the production of commodities by the agricultural sector, which account for a significant portion of Argentina's export revenues. These circumstances would have a negative impact on the levels of government revenues, availability of foreign exchange and the government's ability to service its sovereign debt, and could either generate recessionary or inflationary pressures, depending on the government's

reaction. Either of these results would adversely impact Argentina's economy growth and, therefore, our business, financial condition and results of operations.

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

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

The Argentine government has been taking a number of measures to alleviate the short-term impact of energy shortages on residential and industrial users. If these measures prove to be insufficient, or if the investment that is required to increase natural gas production, transportation capacity and energy generation over the medium and long-term fails to materialize on a timely basis, economic activity in Argentina could be curtailed which may have a significant adverse effect on our business.

As a first step of these measures, subsidies on energy tariffs were withdrawn from industries and high income consumers. Additionally, since 2011, a series of rate increases and the reduction of subsidies mainly among industries and high-income consumers were implemented. On December 17, 2015 and after the publication of Decree No. 134/2015, the new government declared the National Electricity System Emergency until December 31, 2017, and ordered the Energy and Mining Ministry to prepare and propose measures and guarantee the electrical supply in suitable technical conditions. Within this context, and by the Energy and Mining Ministry Resolution No. 06/2016 of January 2016, the new seasonal reference prices for power and energy in the "Mercado Electrónico Mayorista" were issued for the period from February 1, 2016 and April 30, 2016. The objective of the aforementioned resolution was to adjust the quality and security of electricity supply and ensure the provision of public electricity services under technical and economically appropriate conditions.

In February 2016, the Argentine government revised the tariff schedule for electricity and gas rates and eliminated the subsidies for these utilities that would have resulted in increases in energy costs of 500% or more, except for tariffs for certain lower income consumers. By correcting tariffs, modifying the regulatory framework and reducing the federal government's involvement in the energy sector, the Macri administration aims to correct distortions in the energy sector and stimulate necessary investment. In July 2016, a federal court in the city of La Plata suspended the increase in gas tariffs across the Province of Buenos Aires. In addition, on August 3, 2016, a federal court in San Martín suspended the increase in gas tariffs across the country until a public hearing to discuss the electricity tariff increase was held. The case was appealed, and heard by, the Supreme Court on August 18, 2016, which court agreed that the gas tariff increases to residential customers could not be imposed without public hearings. A public hearing was held on September 16, 2016, where it was agreed that the gas tariffs would be increased approximately 200% in October 2016, with semi-annual increases until 2019.

In relation to other services, including electricity, on October 28, 2016, a public hearing was held to consider a 31% increase in tariffs requested by power distributors. Afterwards, the government announced electricity tariff increases that will raise customers' invoices 60% to 148%. In addition, on March 31, 2017, the Energy Ministry reported a new tariff schedule with increases of approximately 36% for the supply of natural gas for networks that have been partially regulated since April 1, 2017, and which will have two additional adjustments in November and April of 2018. On September 22, 2017, the Ministry of Energy and Mines announced the release of the fuel price, where oil companies could modify the sale price of their fuels for consumption in the automotive market, wich was effective as of October,

2017. This change in the regulatory framework and the fixing of new economic values in the supply of gas and electricity could change our cost structure, increasing the operating and utilities costs inherent to fixed assets.

High public expenditure could result in long-lasting adverse consequences for the Argentine economy.

Over the last several years, the Argentine government has substantially increased public expenditures. In 2014, public sector expenditures increased 43% as compared to 2013 and the government reported a primary fiscal deficit of 0.9%. During recent years, the Argentine government has resorted to the Central Bank and to the Administración Nacional de la Seguridad Social, or "ANSES," to source part of its funding requirements. In 2015, this trend continued as the primary fiscal balance showed a deficit of 5.4% as of December 31, 2015.

The Argentine government has begun to adopt measures to reduce the deficit, adjusting its subsidy policies, particularly those related to energy, electricity and gas, water and public transportation, among other measures. On December 31, 2016, the primary fiscal result was Ps.359,382 million, which represents a deficit of 4.6% of GDP. Changes in these policies could materially and adversely impact consumer purchase capacity and economic activity and may lead to an increase in prices.

Moreover, the primary fiscal balance could be negatively affected in the future if public expenditures increase at a rate higher than revenues as a result of subsidies to lower-income sectors, social security benefits, financial assistance to provinces with financial problems, increased spending on public works and subsidies to the energy and transportation sectors. A further deterioration in fiscal accounts could negatively affect the government's ability to access the long-term financial markets and could in turn result in more limited access to such markets by Argentine companies.

Failure to adequately address actual and perceived risks of institutional deterioration and corruption may adversely affect Argentina's economy and financial condition.

A lack of institutional framework and notorious incidents of corruption have been identified as, and continue to be, a significant problem for Argentina. In Transparency International's 2015 Corruption Perceptions Index of 167 countries, Argentina was ranked 107, the same as in 2014. In the World Bank's Doing Business 2016 report, Argentina ranked 121 out of 189 countries, up from 124 in 2015. Recognizing that the failure to address these issues could increase the risk of political instability, distort decision-making processes and adversely affecting Argentina's international reputation and ability to attract foreign investment, the Macri administration has announced several measures aimed at strengthening Argentina's institutions and reducing corruption. These measures include entering plea bargaining arrangements with convicted officials providing increased access to public information, seizing assets from convicted officials, increasing the powers of the Anticorruption Office (Oficina Anticorrupción) and adopting a new public ethics law, among others. The government's ability to implement these initiatives is uncertain as it would require the involvement of the judiciary branch as well as legislative support from opposition parties. We cannot assure you that the implementation of such measures will be successful.

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

In response to the emergency measures implemented by the Argentine government during the 2001-2002 economic crisis, a number of claims were filed before the International Centre for Settlement of Investment Disputes, or "ICSID," against Argentina. Claimants allege that the emergency measures were inconsistent with the fair and equitable treatment standards set forth in various bilateral investment treaties by which Argentina was bound at the time. Claimants have also filed claims before arbitral tribunals under the rules of the United Nations Commission on International Trade Law, or "UNCITRAL," and under the rules of the International Chamber of Commerce, or "ICC." As of the date of this annual report, it is not certain that Argentina will prevail in having any or all of these cases dismissed, or that if awards in favor of the plaintiffs are granted, that it will succeed in having those awards annulled.

Ongoing claims before the ICSID tribunal and other arbitral tribunals could lead to new awards against Argentina, which could have a material adverse effect on our capacity to access international credit or equity markets.

The Argentine government may lack of political support on the Senators and the Deputies Chamber and may have a negative impact on argentiniean economy and, subsequently affect our financial condition and results of operations.

The legislative elections held on October 22, 2017 for the partial renovation of both chambers of the Congress had a favorable outcome for the Macri government. Macri administration outnumbered its opponents in some of the most important districts of Argentina, making it the most voted force nationwide, but do not have enough seats to reach the quorum in either of the chambers which could prevent or limit the Macri government to continue its policies and effectively implement economic reforms or react appropriately in future circumstances.

A lack of political support that prevents the Macri administration from fully implementing its agenda may adversely affect the Argentine economy and financial condition and, therefore, our business, financial condition and results of operations.

Risks relating to our business in Argentina

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

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

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

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

the intrinsic attractiveness of the shopping mall;

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

the increasing competition from internet sales;

the amount of rent collected from each shopping mall rental unit;

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

fluctuations in occupancy levels in our shopping malls.

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

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

For the fiscal year ended June 30, 2017, 80% of our sales from leases and services provided by the Shopping Malls segment were derived from shopping malls located in the City of Buenos Aires and the Greater Buenos Aires area. In addition, all of our office buildings are located in the City of Buenos Aires and a substantial portion of our revenues in Argentina are derived from such properties. Although we own properties and may acquire or develop additional properties outside of the City of Buenos Aires and the Greater Buenos Aires area, we expect to continue to depend to a large extent on economic conditions affecting those areas. Consequently, an economic downturn in those areas could have a material adverse effect on our financial condition and results of operations by reducing our rental income and adversely affect our ability to meet our debt obligations and fund our operations.

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

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

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

downturns in the national, regional and local economic climate;

volatility and decline in discretionary spending;

competition from other shopping malls and office, and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for retail, office, or other commercial space;

decreases in consumption levels;

changes in interest rates and availability of financing;

the exercise by our tenants of their legal right to early termination of their leases;

vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;

increased operating costs, including insurance expense, salary increases, utilities, real estate taxes, state and local taxes and heightened security costs;

civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs;

declines in the financial condition of our tenants and our ability to collect rents from our tenants;

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

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

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

If any one or more of the foregoing conditions were to affect our business, it could have a material adverse effect on our financial condition and results of operations could be materially adversely affected.

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

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

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

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

We may face risks associated with property acquisitions.

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

we may not be able to obtain financing for acquisitions on favorable terms;

acquired properties may fail to perform as expected;

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

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

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

Our future acquisitions may not be profitable.

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

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

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

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

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

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

Properties we acquire may subject us to unknown liabilities.

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

liabilities for clean-up of undisclosed environmental contamination;

law reforms and governmental regulations (such as those governing usage, zoning and real property taxes); and

liabilities incurred in the ordinary course of business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Argentine Law governing leases imposes restrictions that limit our flexibility.

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

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

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

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

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

We may be liable for some defects in our buildings.

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

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

Eviction proceedings in Argentina are difficult and time consuming.

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

Historically, we have sought to negotiate the termination of lease agreements with defaulting tenants after the first few months of non-payment in order to avoid legal proceedings. Delinquency may increase significantly in the future, and such negotiations with tenants may not be as successful as they have been in the past. Moreover, new Argentine laws and regulations may forbid or restrict eviction, and in each such case they would likely have a material and adverse effect on our financial condition and results of operation.

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

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

a decrease in demand for office space;

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

difficulties or delays renewing leases or re-leasing space;

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

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

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

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

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

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

abandonment of development opportunities and renovation proposals;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face significant competitive pressure.

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

Substantially all of our shopping malls and commercial offices are located in Argentina. There are other shopping malls and numerous smaller retail stores and residential properties within the market area of each of our properties. The number of competing properties in a particular area could have a material adverse effect on our ability to lease retail space in our shopping malls or sell units in our residential complexes and on the amount of rent or the sale price

that we are able to charge. We cannot assure you that other shopping mall operators, including international shopping mall operators, will not invest in Argentina in the near future. If additional companies become active in the Argentine shopping mall market in the future, such competition could have a material adverse effect on our results of operations.

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

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

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

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

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

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

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

Demand for our premium properties may not be sufficient.

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

operations.

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

We had, and expect to have, substantial liquidity and capital resource requirements to finance our business. As of June 30, 2017, our consolidated financial debt amounted to Ps.129,415 million (including IDBD's debt outstanding as of that date plus accrued and unpaid interest on such indebtedness and deferred financing costs). We cannot assure you that we will have sufficient cash flows and adequate financial capacity in the future. While the commitments and other covenants applicable to IDBD's debt obligations do not have apply IRSA since such it is not recourse to IRSA and it is not guaranteed by IRSA's assets, these covenants and restrictions may impair or restrict our ability to operate IDBD and implement our business strategy.

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

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

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

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

We are subject to risks affecting the hotel industry.

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

In addition, the profitability of our hotels depends on:

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

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

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

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

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

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

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

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

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

In the past, the Argentine government imposed strict and burdensome regulations regarding leases in response to housing shortages, high rates of inflation and difficulties in accessing credit. Such regulations limited or prohibited increases on rental prices and prohibited eviction of tenants, even for failure to pay rent. Most of our leases provide that the tenants pay all costs and taxes related to their respective leased areas. In the event of a significant increase in the amount of such costs and taxes, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting our rental income. We cannot assure you that the Argentine government will not impose similar or other regulations in the future. Changes in existing laws or the enactment of new laws governing the ownership, operation or leasing of properties in Argentina could negatively affect the Argentine real estate market and the rental market and materially and adversely affect our operations and profitability.

Labor relations may negatively impact us.

As of June 30, 2017, 47.8% of our workforce was represented by unions under two separate collective bargaining agreements. Although we currently enjoy good relations with our employees and their unions, we cannot assure you that labor relations will continue to be positive or that deterioration in labor relations will not materially and adversely affect us.

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

During the fiscal years ended on June 30, 2017 and 2016, IRSA had unrealized fair value gains on investment properties. Although the upward revaluation adjustments reflect unrealized capital gains on our investment properties during the relevant periods, the adjustments were not actual cash flow or profit generated from the sales or rental of our investment properties. Unless such investment properties are disposed of at similarly revalued amounts, we will not realize the actual cash flow. The amount of revaluation adjustments has been, and will continue to be, significantly affected by the prevailing property markets and will be subject to market fluctuations in those markets.

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

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

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

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

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

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

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

In July 2013, the answer to the civil action was filed, which contained a number of defenses. Tandanor requested the intervention of the Argentine Government as third party co-litigant in this case, which petition was granted by the Court. In March 2015, both the Argentine Government and the criminal complainant answered the asserted defenses. On July 12, 2016, Puerto Retiro was legally notified of the decision adopted by the Tribunal Oral Federal No. 5 related to the preliminary objections above mentioned. Two of them were rejected –lack of information and lack of legitimacy (passive). We filed an appeal with regard to the rejection of these two objections. But, on the other hand, the other two objections will be considered at sentencing by the court, which is an important step in order to obtain a favorable decision. As of the date hereof, no resolution has been issued in such regard. We cannot assure you that we will be successful in getting this case dismissed.

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

In some cases, we develop and acquire properties through joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. For example, we currently own 80% of Panamerican Mall S.A. ("PAMSA"), while another 20% is owned by Centro Comercial Panamericano S.A., and 50% of Quality Invest S.A. ("Quality Invest"). We could engage in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, our joint venture partners may, at any time, have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the timing and terms of any sale or refinancing of a property. For example, the approval of certain of the other investors is required with respect to operating budgets and refinancing, encumbering, expanding or selling any of these properties. In some instances, our joint venture partners may have competing interests in our markets that could create conflicts of interest. If the objectives of our joint venture partners are inconsistent with our own objectives, we will not be able to act exclusively in our interests.

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

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

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

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

Our success, to a significant extent, depends on the continued employment of Eduardo Sergio Elsztain and certain other members of our board of directors and senior management, who have significant expertise and knowledge of our business and industry. The loss or interruption of their services for any reason could have a material adverse effect on our business and results of operations. Our future success also depends in part upon our ability to attract and retain other highly qualified personnel. We cannot assure you that we will be successful in hiring or retaining qualified personnel, or that any of our personnel will remain employed by us.

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

Our largest beneficial owner is Mr. Eduardo S. Elsztain, through his indirect shareholding through Cresud S.A.C.I.F.y A. ("Cresud"). As of June 30, 2017, such beneficial ownership consisted of: (i) 366,788,251 common shares held by Cresud, and (ii) 900 common shares held directly by Mr. Elsztain. See "Item 7 – Major Shareholders and Related Party Transactions." Conflicts of interest between our management, Cresud and our affiliates may arise in the performance of our business activities. As of June 30, 2017, Mr. Elsztain also beneficially owned (i) approximately 30.9% of Cresud's common shares and (ii) approximately 94.6% of the common shares of our subsidiary IRSA Commercial Properties ("IRSA CP"). Likewise, on October 27, 2017, we reported that it has been completed the sale in the secondary market of 2,560,000 ADSs of IRSA CP, which represents 8.1% of IRSA CP. For more information please see "Recent developments – Selling of IRSA CP' ADSs." We cannot assure you that our principal shareholders and their affiliates will not limit or cause us to forego business opportunities that our affiliates may pursue or that the pursuit of other opportunities will be in our interest.

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

As of June 30, 2017, the majority of our liabilities in our Operations Center in Argentina, such as our Series II and VIII Notes issued by the us, and the Series II and IV issued by IRSA CP, were denominated in U.S. dollars while our revenues are mainly denominated in Pesos. This currency gap exposes us to a risk of volatility in the rate of exchange between the Peso and the U.S. dollar, and our financial results are adversely affected when the U.S. dollar appreciates against the Peso. Any depreciation of the Peso against the U.S. dollar correspondingly increases the nominal amount of our debt in Pesos, with further adversely effects our results of operation and financial condition and may increase the collection risk of our leases and other receivables from our tenants, most of which generate Peso-denominated revenues.

Risks Related to our Investment in Banco Hipotecario

As of June 30, 2017, we owned approximately 29.91% of the outstanding capital stock of Banco Hipotecario S.A. ("Banco Hipotecario"), which represented 0,7% of our consolidated assets from our operations center in Argentina as of such date. All of Banco Hipotecario's operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario's loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina. These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

Risks Relating to the Argentine Financial System and Banco Hipotecario

Capital stock in Banco Hipotecario

As of June 30, 2017, we owned approximately 29.91% of the outstanding capital stock of Banco Hipotecario, which represented 0.7% of our consolidated assets from our operations center in Argentina as of such date. All of Banco Hipotecario's operations, properties and customers are located in Argentina. Accordingly, the quality of Banco Hipotecario's loan portfolio, financial condition and results of operations depend on economic, regulatory and political conditions prevailing in Argentina. These conditions include growth rates, inflation rates, exchange rates, changes to interest rates, changes to government policies, social instability and other political, economic or international developments either taking place in, or otherwise affecting, Argentina.

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

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

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

The measures implemented by the Argentine government in late 2001 and early 2002, in particular the restrictions imposed on depositors to withdraw money freely from banks and the "pesification" and restructuring of their deposits, were strongly opposed by depositors due to the losses on their savings and undermined their confidence in the

Argentine financial system and in all financial institutions operating in Argentina.

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

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

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

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

Financial institutions carry significant portfolios of bonds issued by the Argentine government and by provincial governments as well as loans granted to these governments. The exposure of the financial system to the non-financial public sector's indebtedness had been shrinking steadily, from 49.0% of total assets in 2002 to 10.3% in 2015 and 9.6% for the period of six months ended as June 30, 2017. To an extent, the value of the assets held by Argentine banks, as well as their capacity to generate income, is dependent on the creditworthiness of the non-financial public sector, which is in turn tied to the government's ability to foster sustainable long-term growth, generate fiscal revenues and reduce public expenditure.

In addition, financial institutions currently carry securities issued by the Central Bank in their portfolios, which generally are short-term. As of June 30, 2017, such securities issued by the Central Bank represented approximately 27.6% of the total assets of the Argentine financial system. As of June 30, 2017, Banco Hipotecario's total exposure to the public sector was Ps.3,122.1 million, which represented 6.3% of its assets as of that date, and the total exposure to securities issued by the Central Bank was Ps.3,306.8 million, which represented 6.3% of its total assets as of June 30, 2017.

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

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

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

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

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

Certain public and private organizations have initiated class actions against financial institutions in Argentina. The National Constitution and the Consumer Protection Law contain certain provisions regarding class actions. However,

their guidance with respect to procedural rules for instituting and trying class action cases is limited. Nonetheless, through an ad hoc doctrine, Argentine courts have admitted class actions in some cases, including various lawsuits against financial entities related to "collective interests" such as alleged overcharging on products, interest rates and advice in the sale of public securities, etc. If class action plaintiffs were to prevail against financial institutions, their success could have an adverse effect on the financial industry in general and indirectly on Banco Hipotecario's business.

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

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

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

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

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

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

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

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

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

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

In addition, the Civil and Commercial Code, among other things, modifies the applicable regime for contractual provisions relating to foreign currency payment obligations by establishing that foreign currency payment obligations may be discharged in Pesos. This amends the legal framework, pursuant to which debtors may only discharge their foreign currency payment obligations by making payment in the specific foreign currency agreed upon in their agreements; provided however that the option to discharge in Pesos a foreign currency obligation may be waived by the debtor is still under discussion.

We are not able to ensure that any current or future laws and regulations (including, in particular, the amendment to the Financial Institutions Law and the amendment to the Central Bank's charter) will not result in significant costs to us, or will otherwise have an adverse effect on Banco Hipotecario's operations.

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

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

Operations Center in Israel

Risks relating to Israel

The implementation of the provision of the Israeli Law to Promote Competition and Reduce Concentration, 5774-2013 may have implications on IDBD and its subsidiaries.

In December 2013, the official "Reshumot" published in Israel the Promotion of Competition and Reduction of Centralization Law, No. 5774-2013 (the "Reduced Centralization Act") which limits the use of pyramidal structures (or multiholding companies) that control "reporting entities" (principally entities whose securities are held by public shareholders) such regulation limits to two layers of reporting entities, being the holding company the first layer without including a reporting entity that has no controlling shareholder. Pursuant to the terms of this law, we may have to sell or dispose certain subsidiaries.

Following the implementation of the Reduced Centralization Act, in August 2014, IDBD's board of directors appointed an advisory committee to examine various alternatives to comply with the limitations set forth in the Reduced Centralization Act. Since then, the Company and IDBD have been taking measures and steps towards streamlining their organization to comply with such requirements, including the appointment of independent directors and the divestment from certain subsidiaries. For more information, see "Item 4. Business Overview - General regulations applicable to our business in Israel - Reduced Centralization Act." In case that a "layer" is not eliminated in IDBD and its subsidiaries by December 2017, the applicable authority in Israel may impose penalties on IDBD pursuant to the terms of the Reduced Centralization Act.

On August 2017, Dolphin Netherlands B.V. ("Dolphin") made a non-binding offer to purchase all the shares held by IDBD in Discount Investment Corporation Ltd. ("DIC"). On September 20, 2017, complying with the Reduced Centralization Act in respect to the pyramid participation structure, Dolphin executed a binding term sheet for the

acquisition of the entire shares held by IDBD in DIC. The term sheet has been approved by the independent directors committee created for the purposes of such transaction which has been participated in the negotiations, analyzed and assessed the term sheet. This term sheet shall continue in negotiations between the parties so as to define the terms and conditions of the definitive documents to be executed. The Audit Committee of the Company has issued an opinion without objections to make with respect to the referred transaction. On September 2017, IDBD announced that following the negotiations of DIC's independent board committee such non-binder offer was accepted pursuant to which Dolphin bought all IDBD's interest in DIC at a price of NIS 16.6 per share (and in total of NIS 1.77 billion in respect of all the shares which will be sold) by means of a debenture that will be issued by the purchaser to IDBD, for the entire amount of the consideration for the shares.

The offer is subject to the parties' executing the final agreement (which is subject to further negotiation) until November 16, 2017 as well as to the approval of the transaction by the companies' corporate bodies and the fulfillment of additional conditional terms by December 10, 2017. No assurance may be given that the parties will execute or perform any binding agreement. This transaction could significantly extend over time or could fail to be consummated or be consummated under different terms, as it must be approved by IDBD's corporate bodies and other entities, which could withhold their consent.

The deterioration of the global economy and changes in capital markets in Israel and around the world may affect IDBD and its subsidiaries.

A recession or deterioration of capital markets around the world and in Israel (including volatility in securities prices, exchange rates and interest rates), whether those which affect the entire economy, or those which affect specific market branches, are affecting and may affect IDBD and its subsidiaries, inter alia, as follows:

Negative effects on the state of their business affairs (including the demand for products of the subsidiaries of IDBD);

Negative effects on the value of the marketable securities and on the value of non-marketable assets which are held by them:

Negative effects on their ability to generate profits or an increase in capital attributed to shareholders of the companies, and realization of their holdings;

Negative effects on their liquidity and equity;

Negative effects on their ability to perform issuances on stock exchanges, in Israel and abroad;

Negative effects on the financial ratios of those companies, in a manner which could impose difficulties on capital raisings and/or affect their terms, or harm the fulfillment of financial covenants, insofar as any have been determined, in connection with the provision of loans by financing entities, or require them to provide additional securities to financing entities, and even to repay the foregoing credit, or constitute grounds for demanding the realization of securities which were given to secure the foregoing credit;

Negative effects on their debt ratings, as given by rating entities and their debt repayment ability;

Negative effects on their ability to distribute dividends;

Negative effects on the need for recording of impairment and on the data reported in their financial statements, due to the accounting standards which apply to them; and

Difficulties imposed on the identification of financing sources and on the raising or refinancing of debt funds, if these are required by them in order to finance their operating activities and long term activities, as well as on the terms of financing from financial entities and from banks.

Certain subsidiries import or buy raw materials which are required for their activities, and therefore, their business results may also be affected by changes in the prices of raw materials around the world.

Changes in legislation, standardization and regulation may have an impact on IDBD operations.

In recent years, a trend of increased legislation, standardization and regulation has taken place, horizontally and in various operating segments in the Israeli economy. This trend has an effect, including a significant effect, on the operations of certain material subsidiaries of IDBD, on their financial results, and on the prices of their securities, as well as on the activities of IDBD.

Legislative amendments in various areas in Israel and abroad, such as legislation regarding concentration, promotion of competition and antitrust laws, tax laws, regulation over the communication market, supervision of insurance business operations, legislation in the field of encouragement of capital investments, companies and securities laws, laws pertaining to the supervision of prices of products and services, increased competition in the food market, consumer protection laws, environmental laws, planning and construction laws, etc., may have an effect on the business operations and results of IDBD and of its subsidiaries. Additionally, there may be such effects due to changes in the policy which is adopted by the various authorities by virtue of these laws.

Changes in the tariffs and in the policy regarding protection of local products may affect the results of some of the subsidiaries which are held by IDBD.

Some of the subsidiaries which are held by IDBD operate abroad, or have securities which are traded on foreign stock exchanges. Changes in legislation and in the regulatory policies of the relevant foreign countries, as well as the characteristics of the business environment in the country of operation, may affect the financial results and the business position of those companies.

Changes in IFRS or in the accounting principles which apply to IDBD and its subsidiaries may have an impact, and even a significant impact, on their financial results, on various lines (including capital attributable to shareholders and profit) reported in the financial statements of IDBD and its subsidiaries, on their fulfillment of financial covenants, insofar as any have been determined for them, on their fulfillment of the conditions of permits and licenses which were given to them, and on their ability to distribute dividends.

IDBD and its subsidiaries are exposed to financial risks.

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

IDBD and its subsidiaries are exposed to risks associated with foreign operations.

IDBD and its subsidiaries operate in the real estate segment outside Israel, and primarily in the United States, both in the revenue-generating properties segment and in the residential construction segment. Material adverse changes in the state of the economy in a country in which such properties are located affect the ability to operate and realize such investments, and the receipt of financing under reasonable conditions. A global economic crisis and a recession in the global economy may adversely affect the various markets in which IDBD and its subsidiaries operate, especially in the United States. The characteristics of the business environment outside Israel, including the local regulation, the purchasing power of consumers, the financing possibilities (under reasonable conditions, if at all), and the selection of entities (including local entities in Israel) which are engaged in the field on financing with whom the collaboration is done with, and these entities business status, may affect the possibilities for financing, their terms, and the success of the foreign operation, and accordingly, may have an adverse effect on their business operations and the results of operations of IDBD and its subsidiaries.

Some activities of IDBD and/or its subsidiaries may be restricted by the terms of certains government grants and benefits and/or budgetary policy.

Some of the subsidiaries of IDBD receive funds from government entities, such as grants for research and development activities, which are provided in accordance with the Encouragement of Industrial Research and Development Law, 5744-1984, and regulations enacted pursuant thereto, as well as grants and/or various tax benefits which are provided in accordance with the Encouragement of Capital Investments Law, which are granted under certain conditions. These conditions may restrict the activities of the companies which receive such funds. Non-compliance of such restrictions may lead to the imposition of various penalties on them, including financial and criminal sanctions. Additionally, a decrease or other changes in the budgets of the aforementioned government entities, in a manner which prevents or reduces the grants and/or benefits which the subsidiaries of IDBD may receive from them in the future, may adversely affect the operations and results of those companies.

Additionally, investments of foreign entities, and particularly in the technology and communication sectors, receive certain benefits derived from the encouragement of foreign investments by regulatory entities in Israel, including certain tax benefits. If the aforementioned benefits are stopped and/or restricted, the foregoing may negatively affect investments of foreign entities in subsidiaries which are held by IDBD may cause them to loose such benefits which, may negatively affect their business results, which may adversely affect the business results of IDBD, or the marketability of their securities.

Regional conflict may affect IDBD or its subsidiary's activities, especially Cellcom ("Cellcom") activities.

The activities of Cellcom and its network are located in Israel, as are some of its suppliers. A significant part of Cellcom's communication network, as well as a significant part of Cellcom's information systems, are located within the range of missile attacks launched from the Gaza Strip and Lebanon. Any damage caused to the communication network and/or to the information systems may adversely affect Cellcom's ability to continue providing services, in whole or in part, and/or may negatively affect the activities of Cellcom in other ways, and may adversely affect its business results and IDBD's business. Additionally, negative effects of this kind may materialize due to an increase in criticism of Israel by international community. In general, any armed conflict, terror attack or political instability in the region may result in a decrease in Cellcom's income, including from roaming services of incoming tourism, and may thereby adversely affect its business results.

Changes in the characteristics of the foreign business environment may impact in IDBD or its subsidiary's activities, especially Property & Building ("PBC") foreign operations.

In its foreign activities, it is the practice of PBC to cooperate with local entities engaged in the segment. The characteristics of the foreign business environment, including local regulation, the purchasing power of citizens, and/ or financing possibilities, may affect the success of the foreign operation, which is also dependent upon the choices of the local entities. Additionally, if the profitability considerations of PBC failed to take into account all of the relevant factors in the relevant country, the foregoing may adversely affect the results of operations of PBC, which in turn would have an adverse effect on IDBD's results of operations.

A deterioration in the political-security and economical situation in Israel may affect IDBD or its subsidiary's activities.

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

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

IDBD and its subsidiaries are exposed to capital market and finance risks.

IDBD and certain of its affiliates are subject to supervision by the Israeli Supervisor of Banks relating to "Proper Conduct of Banking Business" which impose, among others limits on the aggregate principal amount of loans a financial institution can have outstanding to a single borrower, a group of related borrowers, and to the largest borrowers and groups of related borrowers of a banking entity (as these terms are defined in the aforesaid directives).

Changes to Proper Banking Management Directives, changes to the list of entities and corporations which are associated, jointly with IDBD, under the same group of borrowers, and the balance of their debt to banks in Israel, as well as changes in equity of the banks themselves, may restrict the ability of the banking system in Israel to provide credit to IDBD and its subsidiaries. However, since 2013 and until the publication date of this report, a decrease has occurred in the scope of credit used from the banking system in Israel for the group of borrowers which includes IDBD due, among other reasons, to changes of control of certain subidiaries.

The legislation and regulation which apply to the investments of institutional entities, including the implementation of the provision of credit to business groups, may have an impact on the possibilities to raise capital from institutional entities, and on the conditions of its raising.

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

Lastly, developments and shocks in the state of the economy, as stated above, may have negative effects on the business results of IDBD and its subsidiaries, on their liquidity, the value of their assets, results of operations, their credit rating, their ability to distribute dividends, and their ability to raise financing for its operations at acceptable terms, insofar as it will be required to do so, and also on their financing terms.

In addition, the prices of assets and returns in capital markets in Israel and around the world have a very significant impact on the business results of Clal. The amount of management fees (fixed or variable) charged by Clal may be reduced as the value of managed assets decreases, both as a result of the negative returns, and as a result of the decrease in the value of deposits or accruals.

Risks relating to our business in Israel

IDBD and its subsidiaries are exposed to changes in permits and licenses.

IDBD and some of its subsidiaries operate in accordance with approvals, permits or licenses which were granted to them by various authorities, such as the Commissioner of Capital Markets, the Ministry of Communication, the Ministry of Environmental Protection, and the Commissioner of Oil Affairsin the Ministry of National Infrastructures, Energy and Water. A breach of the terms of these approvals, permits or licenses may lead to the imposition of penalties (including criminal) against the IDBD or the relevant subsidiaries, including fines and/orrevocation of such approvals, licenses or permits. Revocation of such approvals, permits or licenses may adversely affect such subsidiaries, whose operations are dependent upon them (such as Clal and Cellcom). Some of the aforementioned licenses are subject to an expiration date, and are renewable from time to time, in accordance with their terms and the provisions of the law. There is no certainty that the aforementioned licenses will be renewed in the future and/or under conditions acceptable for IDBD. Non-renewal of a permit or license, as stated above, and/or the directives of regulators in segments in which subsidiaries of IDBD operate, may have an adverse effect on the business position, capital, cash flows and profitability of the relevant company which holds the aforementioned permit or license, and accordingly, on the results of operations of IDBD.

Class actions on consumer issues and environmental protection issues may have an impact on IDBD and its subsidiaries.

Subsidiaries of IDBD, primarily including Cellcom, Shufersal and Clal, may be subject, from time to time, to class actions on consumer issues and on environmental issues (including in connection with non-ionizing radiation from mobile devices, air emissions, and water, noise and odor pollution), in material amounts, which are sometimes even higher than their equity, and must defend themselves against them at significant cost, even if such claims are unfounded from the outset.

The provision of the Antitrust Law may affect IDBD operations.

IDBD is subject to, inter alia, the provisions of the Restrictive Trade Practices Law, with respect to its transactions or transactions of its subsidiaries, which constitute a merger and/or which include restrictive arrangements, as these terms are defined in the aforementioned law.

IDBD and its subsidiaries may face environmental risks.

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

If debenture holders decide to iniciate actions IDBD activities may be affected.

The trustee for the debenture holders (Series I) of IDBD (the "Trustee") raised, in early 2016 (including within the framework of legal proceedings in amendment of the debt settlement in IDB Holding Corporations Ltd. ("IDBH")) assertions regarding IDBD being insolvency, and the debenture holders (Series I) also decided to appoint a representation for that series. In June 2016, the trustee filed with the District Court of Tel Aviv-Yafo (the "Court") a motion to order the liquidation of IDBD, and a motion to order the appointment of a provisional liquidator (the "Motion To Appoint A Provisional Liquidator"). On July 18, 2016, the Court issued a ruling, in which the Court accepted the consensus motion which was filed by the trustee to strike the motion to liquidate. The initiation of legal actions against IDBD by its debenture holders may harm the ability of IDBD to continue repaying its debts in accordance with their current amortization schedules, and may also lead to a demand for the immediate repayment of future liabilities (primarily to lending corporations).

IDBD is exposed to changes in cash flows from subsidiaries.

IDBD is a holding company and, as such, relies on the dividends from it subsidiaries. In recent years, the cash flows of IDBD have primarily been used to repay debt (principal and interest payments). In recent years, the amount of dividends distributed by the subsidiaries of IDBD has decreased significantly, as a result of changes in the operating results, in regulation, in profitability (including a decrease in the balance of distributable earnings, or the existence of negative balances of profits). Changes which have occurred in connection with Clal, including capital requirements from insurers which are held by it, and the appointment of a trustee has affected, and may continue to adversely affect the dividend flows from Clal. We have not received a dividend from Clal in the last four years. DIC distributed a dividend recently, but that was a relatively extraordinary event, after more than two years during which dividends were not distributed by DIC.

A decrease of the cash flows from the subsidiaries may adversely affect the cash flows of IDBD, and its business activities.

IDBD and some of its subsidiaries may be affected by restrictions on the sale of assets, including shares in subsidiaries.

IDBD and some of its subsidiaries are subject to legal and contractual restrictions, including those which are included in permits and licenses, which may restrict the possibility of selling and transferring IDBD's equity interest in its subsidiaries, or the possibility of pledging such interests (including due to restrictions on the realization of such

pledges) by IDBD or by its subsidiaries. For example, the sale by IDBd of control over Clal may be subject to the purchaser receiving a consent from the Insurance Commissioner, IDB is restricted from pledging more than 5% of the shares of Clal without an approval from the Insurance Commissioner and the sale of shares of DIC representing more than 10% equity interest in Cellcom requires an approval from the Ministry of Communications.

IDBD and some of its subsidiaries may be affected by restrictions on the performance of investments and continued investment in existing companies.

IDBD and some of its subsidiaries may be restricted from making new investments in ceretain areas in certain areas or the increase of its investments in subsidiaries. IDBD and some of its subsidiaries are also subject to restrictions in accordance with the law or in accordance with the provisions of various regulatory entities with respect to their business activities, in Israel and abroad. These restrictions may limit the possibility of IDBD to take advantage of business opportunities for new investments, or to increase or realize existing investments, and thus, may affect IDBD's results of operations.

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

In recent years, an increasing trend has taken place in the filing of class actions and derivative claims in the field of companies laws and securities laws. In consideration of the above, and of the financial position of IDBD and the Group's holding structure, claims in material amounts may be filed against IDBD, including in connection with its financial position and cash flows, issuances which it performs, and transactions which were performed or which were not completed, including in connection with assertions and claims by the Company's controlling shareholders.

Changes in controlling shareholder status may impact DIC's results of operations.

The intention of financial institutions to reduce their credit exposure to corporations in the IDB Group, may have an adverse impact on the ratings given for DIC's debentures and/or may impose difficulties on DIC's ability to raise capital and/or to refinance its debts, if it is interested in doing so (and/or may worsen the refinancing terms with respect to such debt). As of the publication date of the report, DIC is unable to estimate the full impact of the results of the aforementioned proceedings and events on DIC.

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

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

The state of capital markets in Israel and around the world (which affects, inter alia, the value of DIC's investments), the financial ratios of DIC, the decline in the value of its main holdings, and the returns at which DIC's debentures are traded, may have an adverse effect on the rating of DIC's debentures and/or may impair DIC's ability to raise capital and/or to refinance its debts, if it wishes to do so (and/or may worsen the refinancing terms with respect to such debt).

DIC and/or its subsidiaries may be affected by changes in financial institutions which hold cash deposits and financial assets.

Cash deposits and material financial assets of DIC or of its subsidiaries (including listed shares of their subsidiaries) are held on their behalf by financial institutions and brokers. DIC and its subsidiaries, as stated above, are exposed to the risk of losses in connection with these assets, in certain cases involving a deterioration in the financial stability of those financial institutions and brokers.

Cellcom is exposed to an aggressive competition.

The communication market is characterized by significant competition in many of its segments, including mobile communication and internet provider services. The current level of competition in all markets in which Cellcom is active, including the market for the sale of end user devices and the offering of aggressive price plans by Cellcom's competitors, is expected to continue. The materialization of any one of the developments described below will result in a significantly adverse impact on Cellcom's profitability, and, thus, in its ability to pay dividends to IDBD:

(a) Difficulties or non-execution of the network sharing and hosting agreement with Electra, which came into force as of the beginning of the second quarter of 2017, or any other development which will result in loss of income from

Golan, and an inability for Cellcom to compensate for the foregoing, for example, in case of Golan's insolvency, or increased efforts by the other competitors on the market to recruit Golan's customers;

(b) Tariffs remaining at their current rates, or an additional decrease in rates, including as part of a package of services;

- (c) An ineffective wholesale market for landline communication, including due to the effective exclusion of Hot infrastructure, the effective exclusion of telephone services from the wholesale market, the offering of services not in accordance with the criteria of the wholesale market, without implementation of enforcement measures by the Ministry of Communication, or the pricing thereof in a manner which could negatively affect Cellcom's ability to offer competitive services packages, and to compete against Bezeq and Hot (due to their dominant status in the landline communication market), particularly if the structural separation which applies to the Bezeq and Hot groups is canceled before the creation of an effective landline wholesale market;
- (d) Cancellation or easement of the structural separation which applies to the Bezeq and Hot groups;
- (e) The entry of new competitors into markets in which Cellcom is engaged, or the entry of existing competitors into segments in which they were not previously active, or were partially active;
- (f) Distribution or acquisition of a landline infrastructure by one of Cellcom's competing companies, which does not own such infrastructure, or collaboration of a competitor company with an operator which has such infrastructure, if Cellcom does not distribute or acquire such infrastructure, or enter into a collaboration with an operator which holds such infrastructure:
- (g) Regulatory changes which facilitate the transition of customers between operators; or
- (h) Continued increased competition in the end user equipment market, and the entry of additional competitors into the end user equipment market and/or legislation or new judicial decisions which may restrict Cellcom's activities in the end user equipment sale market, and adversely affect its income or profitability.

Changes in legislation and significant regulatory intervention may have an impact on Cellcom activities.

Cellcom develops its activity in a highly regulated market and relies on a license issued by the Ministry of Communications of Israel to operate its business. Such License has to be renewed every six years and may be amended without Cellcom's consent. See "Item 4. Business – Regulation – Telecommunications." Other changes in legislation and the extent of such regulatory changes may have adverse effects on Cellcom's activities, including but not limited to:

- (a) cancellation or easement of the structural separation obligation which applies to Bezeq and Hot, particularly if such cancellation or easement is given before the creation of an effective wholesale market in the landline communication market;
- (b) competition-encouraging tariffs;
- the provision of easements and benefits to competitors, over Cellcom;
- (d) granting permissions for other operators to provide services to Cellcom subscribers which were previously provided only by Cellcom;

- (e) non-renewal of Cellcom's licenses and/or frequencies, or restriction of their use, and non-allocation of additional frequencies, if required;
- (f) the establishment of additional requirements for the provision of easements to competitors with respect to safety or health, including with respect to the construction and operation of base sites;
- (g) the establishment of additional restrictions or requirements regarding the provision of services and products and/or intervention in their terms of marketing, advertising and provision, including regarding existing agreements;
- (h) the establishment of a higher standard of service;
- (i) the establishment of a more stringent policy with respect to protection privacy; or
- (j) the imposition of regulations on Cellcom's television over internet service, the establishment of non-beneficial conditions for the use of DTT broadcasts, or the imposition of such non-beneficial conditions on Cellcom and not on other operators of the television over internet service.

Regulatory developments also affect the risk factors of tariff oversight, licensing of sites and the indemnification obligation, non-ionizing radiation and dependence on licenses.

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

Cellcom (and its competitors) encounters difficulties in obtaining some of the required approvals for the construction and operation of base sites, and particularly in obtaining the building permits from the various planning authorities. Cellcom's ability to maintain the quality of its mobile services is partially based on Cellcom's ability to build base sites. The difficulties encountered by Cellcom in obtaining the required permits and approvals may adversely affect the currently existing infrastructure, and the continued development of its mobile network. Additionally, the inability to obtain these approvals on time nay also prevent achievement of the mobile service quality targets which were determined in Cellcom's mobile license, may result in loss of customers, and may adversely affect its business results, which, in turn, may adversely affect IDBD's results of operations.

Cellcom provides communication services in accordance with licenses which were given by the Ministry of Communication, which are subject to changes by such Ministry, including changes that may negatively affect Cellcom's interests and operations. A breach of the terms of the licenses may result in the cancellation of the licenses. Tha inability to function as it currently does or the imposition of fines may adversely affect Cellcom's operation which, in turn, may affect IDBD's operating results. and, as a result, in Cellcom's inability to continue operating in each of the fields of communication in which it operates by virtue of the aforementioned licenses. Also, a breach of the provisions of the licenses may result in the imposition of significant financial sanctions on Cellcom.

If the public's concern with respect to non-ionizing radiation increases, that may have a significantly adverse impact on Cellcom.

Non-ionizing radiation is emitted from two sources: end user equipment and mobile sites of various kinds. The construction and operation of base sites is conditional upon the receipt of a construction permit and an operation permit from the Radiation Commissioner.

If it is determined or perceived that there are health risks connected to non-ionizing radiation, or that the radiation standards in the sites or in the end user equipment are being exceeded, or a court rules against Cellcom or against another mobile operator, or if a settlementis reached in a claim which pertains to health damages derived from radiation, claims of various types for damages with respect to property damage and physical injury of significant scopes may increase, regulation in the construction, operation and rentalof sites, decrease in income as a result of a decrease in the use of mobile communication, and realization of letters of indemnity which were deposited with planning institutions in connection with section 197 of the Planning and Construction Law. Cellcom has no insurance coverage for such cases. The increase in litigation or a reduction in our revenues may have an adverse effect on Cellcom's and IDBD's operating results.

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

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

The increase in the consumption of internet and content provider services through advanced mobile end user equipment has resulted in increased data communication volumes on mobile networks, and is expected to continue growing rapidly. The transition of subscribers to unlimited packages has significantly contributed to the increasing demand for data transmission on Cellcom's network, as well as text messages and calls. In order to meet the increasing demand for data communication, Cellcom is required to upgrade its transmission network, and also to continue investing in its 4G network, which will allow greater capacity and faster data transfer. Additionally, in order to provide provider performance on the 4G network, Cellcom makes use of additional frequencies on the Cellcom network, beyond those which were allocated to it in the 4G frequencies auctions.

Cellcom's activities are dependent upon several complex information systems and technologies. Additionally, Cellcom's array of packages including mobile and landline services has increased the number of information systems and complex technological systems which are involved in the provision of service to Cellcom customers. Malfunctions in the constantly changing and expanding complex systems are unavoidable. A malfunction in any one of Cellcom's systems which adversely affects its ability to provide services and products to its customers, or to charge for them, may result in loss of income for Cellcom, and may adversely affect the perception of Cellcom's brand, and could expose Cellcom to claims. Additionally, Cellcom is in the process of implementing a shared customer service system for the mobile segment and the landline segment, which may result in higher costs than expected, may require significant managerial attention, which could have been referred to routine management, and may also result in unexpected operational difficulties and failures, which may result in loss of income, legal claims and regulatory sanctions. All of the above may have an adverse effect on Cellcom's results of operations.

Cellcom is exposed, to frequent cyber attacks. Additionally, unauthorized penetration to the information systems of Cellcom, or disruptions to their operation, including due to internet hacks (including in customer systems which are protected by information security products provided by Cellcom), may cause damages and losses to Cellcom and its customers, including due to the inability to provide certain services, or due to the provision of such services in a disrupted manner, which may lead to the inability to charge those services, loss of information of Cellcom or of customers, or malicious use of customer information. Cellcom has no insurance coverage for this type of claims and liabilities.

A decrease of Cellcom's operating income and result due to higher costs vinculated to technological changes, malfunctions or cyberattacks may have an adverse effect on IDBD's operating results.

Cellcom depends on the provision of services from other operators.

Cellcom's roaming services are provided through foreign operators. Connecting to the other networks requires certain infrastructure and the ability to connect the networks between Cellcom and those operators. The absence of accessible or high-quality service may negatively affect Cellcom's ability to compete in the market, and may affect its business results and, thus, IDBD's operating results.

Cellcom may have to face emergency situations.

In emergency situations, the applicable laws and certain provisions of the mobile license confer upon the entities which are authorized by law to take steps as required to ensure state security and/or public peace, including, requiring

Cellcom (as a mobile license holder) to provide service to the security forces, the recruitment of Cellcom's engineering equipment and facilities, and even taking control of the system. Such measures may have an adverse effect on our assets and operating results.

Cellcom may be affected by its debt.

Cellcom has raised a significant amount of debt and it is highly leveraged. This situation increases Cellcom's exposure to market changes, and makes it difficult to respond quickly to changes in the industry and in the competitive market conditions, including raising additional debt. As of June 30, 2017, Cellcom's net debt amounts to approximately NIS 3,166 million (includes NIS 43 million which is attributed to accrued interest). A change for the worse in Cellcom's results of operations, and any additional reduction of Cellcom's rating and its debentures may adversely affect also the price and terms of Cellcom's current debt, and the raising of additional debt. An increase of interest debt services may cause us to default and our obligations which may have an adverse effect on Cellcom and IDBD.

Cellcom dependens on certain suppliers.

Cellcom is dependent upon several suppliers which provide it with network equipment, end user equipment, content and content operation services, information systems and infrastructures. Cellcom's business results may be adversely affected if any of those suppliers do not provide its support products and/or services at the required level of quality or on time, or in conditions which do not benefit Cellcom, or provides to Cellcom's competitors preferable conditions, or if the suppliers do not succeed in creating successful or in-demand products or content, in the absence of an equivalent alternative. Thus, for example, Bezeq suffered from strikes and breaches of regulatory duties with respect to the provision of wholesale services in an egalitarian manner to those which are provided to its retail customers, or refused to offer services at all. Similar scenarios to the foregoing may occur in the future and adversely affect Cellcom.

Cellcom is subject to a dividend distribution policy.

If Cellcom does not comply with its dividend distribution policy, or if it distributed dividends at a rate lower than expected by the investors, this may result in an adverse impact on Cellcom's share price. Furthermore, the aforementioned dividend policy may reduce Cellcom's cash balances and adversely affect its ability to finance unexpected expenses in the future. As a result, Cellcom may be required to borrow additional funds or to issue additional shares in accordance with unattractive conditions which may dilute IDBD's equity interest in Cellcom, or Cellcom may encounter difficulties in obtaining financing sources for these funds, which may affect its financial resultas..

Cellcom may not be successful with its investments in new lines of business.

Cellcom invested, and is expected to continue investing, in the development of new lines of business, with the aim of expanding and supplementing its services and its array of offered products, such as television over internet services, and a possible investment in a nationally distributed, broad scale cable infrastructure which Cellcom is considering. These efforts involve significant risks and uncertainties, including deviating managerial attention, loss of focus in sales and marketing efforts from core operations, absence of sufficient income to balance out the liabilities and expenses which are associated with the new investments, adverse effects on cash flows, particularly in business operations which require a long term investment and fixed amounts, such as with respect to the acquisition of content for the television over internet service, insufficient return on investment, regulatory changes which may impose additional unplanned liabilities, inability to effectively compete with the current competitors in the market or with new competitors entering the market, issues which were not identified in the evaluation of the aforementioned strategies and products, such as operational difficulties and significant investments which were insufficiently predicted, if at all. Such circumstances may also affect Cellcom's ability to distribute dividends and, thus, adversely affects IDBD's results of operations. These investments are risky by nature, and therefore, there is no certainty that the aforementioned strategies or products will be successful, and, if not, that they will not have a significantly adverse effect on Cellcom's goodwill, financial position and results of operations. Additionally, its entry to new business operations, as stated above, may result in the intensification of the competitive pressures by the current suppliers of competing services

over Cellcom's core operations, in order to prevent its efforts to compete against them in the relevant market.

Employee unions may limit Cellcom's operating activities.

The employee union may restrict Cellcom's operating activities, including Cellcom's possibility of implementing organizational and personnel changes, and may require significant managerial attention. Additionally, future disputes with representatives of the employee union, such as concerning the renewed fight over the collective agreement, may result in the initiation of organizational steps and in adverse effects on the services and on the customer service of Cellcom. Such measures may also cause changes, may fail to be implemented in a manner significantly different than planned, and as a result, may result in lower savings than planned, or in conficts with our employees.

An increase in construction costs may affect PBC results of operations.

Changes in the consumer price index and/or in the construction input price index may have an adverse effect on the construction price of new properties, and indirectly on the results of operations of PBC. Additionally, the economic situation of the executing contractors in Israel may have an effect on PBC, due to the decrease in the supply of contractors, the increase in construction costs, and the extension of timetables for the construction of projects. An increase of the construction costs may affect our operating margins and profitability, and thus have a negative effect on PBX's results of operations.

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

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

PBC's operational activities depends on availability of raw materials and workforce.

An ongoing delay or shortage in raw materials or skilled construction workers may affect the ability of the prime contractors with whom PBC engages to meet the original timetables for the completion of the PBC's projects, and the cost of the works which are paid by PBC. Intensification of the shortage of workforce in the construction segment in general, and of the foreign workers in the construction segment in particular, also affect wages in the construction segment, which may affect construction costs and timetables for the completion of projects. The cost of salary also affects the operations of PBC, such as security and cleaning works, by changes in the minimum wage in the market, and to collective agreements which apply to the aforementioned activities.

PBC is exposed to changes in legislation and standardization.

Changes in permits, regulations, restrictions and government oversight, such as changes in municipal tax laws in areas where PBC properties are located, may increase costs and negatively affect the operations and results of PBC. The activities of PBC in the residential segment may also be affected by regulatory changes in connection with the marketing of apartments and lands, and in taxation in connection therewith. Higher taxes on costs related to the compliance with new regulations may adversely affect PBC's results.

PBC is exposed to changes in securities prices.

PBC is exposed volatility in the prices of securities (primarily debentures) on the stock exchange, with respect to the investment of some of its cash surplus in such securities.

PBC is exposed to foreign currency fluctuations.

The activities of PBC in Israel are not directly affected by fluctuations in the US\$:NIS exchange rate, due to the fact that the rent charged by PBC from its customers, and the loans which it has raised, are linked to the consumer price index. However, PCB has foreign currency risk due to its foreign investing activities, the financing used in connection therewith, and the operating cost related to those investments. Additionally, in light of the fact that some of the customers of PBC in Israel are international companies, which managed their activities in US\$, in case of a decrease in the exchange rate, rent becomes more expensive relative to the US\$, and therefore, there is pressure on international lessees to reduce the NIS rent accordingly. In addition, an increase in the rent we charge may cause some clients to terminate their agreements and, thus, affect our results. Therefore, a decrease in the rent we charge or the decrease of occupancy of our buildings may negatively affect our results of operations.

Important changes in interest rate risks may affect the value of PBC's properties.

Extreme changes in interest rate risks in Israel and abroad may affect the value of PBC's properties. The higher the interest rates increase, the higher the required return on the properties, and the lower the value of the property as a result, and vice versa.

PBC may have to face difficulties in financing and raising capital.

Developments in the financial crisis in Israel and around the world may negatively affect the possibilities of PBC to raise funding for additional investments. Additionally, restrictions on the maximum scope of credit which the commercial banks in Israel are entitled to provide to each of the member companies of the IDB Group as a "single borrower," including PBC and the other member companies of PBC, may affect the ability of PBC to receive financing from financial institutions, or the scope thereof. Additionally, PBC may be affected by specific restrictions which could affect the banks' ability to provide financing to the real estate segment, such as stringent requirements regarding capital adequacy and restrictions regarding branch-specific exposure.

Shufersal on key suppliers.

Shufersal business depends on the provision of certain products by key providers. There is no certainty that these key suppliers, or other large suppliers, will continue to provide their products or maintain the terms at which we acquire them, or that they will not significantly change their pricing policies, or encounter difficulties in the provision of products to Shufersal. In such cases, we may not continue to offer our products in the current terms or provide them at all, therefore Shufersal's business affairs, financial position and results of operations may be negatively affected.

Shufersal may have to affront risks related to approvals and licenses.

The operation of branches in the Shufersal chain, acquisition of new branches, and Shufersal's operations with respect to land development, require obtaining approvals and licenses from governmental entities. Some of the branches in the Shufersal chain require licenses or approvals which have not yet been obtained, or whose validity has expired, and require renewal. If Shufersal is unsuccessful in obtaining or renewing such approvals or licenses, including those related to its main branches, Shufersal may be required to close those branches, or to take corrective actions with respect to such branches or real estate developments. The inabillity to open new shops or maintain our main branches may have a negative effect on our operations.

Shufersal may have to face risks related to changes in regulation.

Shufersal is subject to legislation with respect to business and sanitation, as well as new consumer legislation which confers extensive authorities upon the Israel Consumer Protection and Fair Trade Authority, consumer legislation, price regulation and the minimum wage legislation. Changes in such regulations may adversely affect the business affairs of Shufersal, its financial position and its results of operations. It is noted that an increase in the minimum wage may result in adverse effects to the financial results of Shufersal, including its profitability. Additionally, the Commissioner's determinations regarding the rules for conduct between the large marketing chains, of which Shufersal is one, and dominant suppliers in the good segment, including by virtue of the provisions of the Food Law, and regarding the merger of Shufersal with Clubmarket, may adversely affect Shufersal's business affairs, financial position and results of operations.

Shufersal may be affected by the competition.

The retail business in Israel is highly competitive. Shufersal closely monitors the developments in the Israel retail sector, and adjusts its operations, if and insofar as is required, in accordance with those developments. Shufersal is dealing with the competition in this sector, by continuing the implementation of its business plan. Competitive pressures, including the responses of competitors and of the market to Shufersal's strategy and the manner of its implementation, may result in adverse effects to Shufersal's ability to deal with the foregoing, and may lead to the reduction of prices, lower margins, and the loss of market share in a manner which may have an adverse effect on Shufersal's business affairs, financial position and results of operations.

Shufersal may have to face risks associated with changes of real estate.

Shufersal owns, wholly or partially, several shopping malls and commercial centers, in which its branches constitutes anchor stores, as well as additional areas which are used by Shufersal branches. The ownerships of these properties is exposed to risks associated with real estate properties, such as adverse changes in the state of the local economy, excess of supply, decreased demand, adverse regional real estate markets, and lower occupancy rates, rent, and revenues, and changes in the value of the properties. Such events may have an adverse effect on Shufersal's operations and financial position. In addition, a failure by Shufersal to recruit or maintain tenants to occupy its properties in general, and tenants of large properties in particular, may have an adverse effect on Shufersal's real estate business activities.

Additionally, an ongoing recession, if any, due to an economic downturn or crisis, may cause an increase of vacancy of the rented properties and/or a reduction in rent we charge for those properties.

Shufersal is subject to risks related to product liability and production quality.

Shufersal, through a wholly owned subsidiary, operates three production plants, and accordingly, Shufersal is subject to risks related to themanufacturing of food products. A significant defect in those products or in itd designmay adversely affect Shufersal's business affairs, financial position and results of operations.

Shufersal markets different products, including drugs, food products and hygiene products, which have a particular impact on the health of our customers. Many laws and regulations grant the rights and causes of actions to an injured party or a group of injured parties whichsuffered any damage due to a defective product which is assembled, stored, marketed or sold by Shufersal. Although Shufersal is insured against risks with respect to the aforementioned product liability, if damage is caused to a consumer and/or to a group of consumers as a result of such products, Shufersal may be liable for such damage in a manner which could have an adverse effect on Shufersal's business affairs, financial position and results of operations.

If Shufersal is unable to make use of its logistical centers, for any reason whatsoever, its ability to distribute its products to its branches may be impaired.

According to Shufersal's estimate, it will be able to prepare for direct distribution of the majority of its products to all of its stores within a reasonable period of time, and in accordance with the ability of suppliers to supply the products directly to the stores. In light of Shufersal's insurance coverage, Shufersal estimates that this matter will not significantly affect its results. Additionally, if physical damage is caused to the building of the logistical center where Shufersal management is located or to the aforementioned logistical centers, the matter may have a significantly adverse impact on Shufersal's operations and results.

Shufersal may have risks related to the collective labor agreement.

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

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

Shufersal has a wide variety of branded food and beverage products which enjoy many years of reputation, as well as products under the private brand. Negative publicity to this reputation by means of various publications, or by other means, may affect our sales and adversely affect Shufersal's profitability, regardless of the correctness of those publications. Additionally, a defect in a certain product may also affect the brand under which we sell that product, as well as the entire family of products which is marketed under the same brand. However, Shufersal endeavors to protect its brands and reputation, by strictly overseeing the quality of the raw materials which it uses in the manufacturing of the products, the production processes, the finished products and the advertising messages.

Shufersal is exposed to risks associated with the issuance of the voucher cards, including as regards fraud and theft.

Shufersal issues vouchers and electronic voucher cards for the acquisition of products in its stores and at other retailers with whom Shufersal has engaged for this purpose. Despite the fact that Shufersal has taken measures to reduce these risks, significant fraud may have an adverse effect on Shufersal's business affairs, financial position and results of operations.

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

Shufersal makes use of various information and IT systems. Shufersal's central information systems (and their backup systems) are located in and around the logistical centers which are used to manage its distribution network. Shufersal takes various steps in order to ensure the functionality and reliability of the various information and IT systems, including by securing and backing up the information. However, a collapse of the information and IT systems may have an adverse effect on Shufersal's operating activities. Shufersal makes use of systems and computer programs, some in accordance with licenses which it has acquired. A significant part of the aforementioned licenses are not restricted by time. However, Shufersal engages with the license holders in agreements for the receipt of service and support for the aforementioned systems and programs, for periods of one year. Shufersal ensures to engage with suppliers with a solid reputation and financial stability. However, if such suppliers are unable to continue providing Shufersal with their services, Shufersal will be forced to engage with other suppliers, which may have an adverse effect on our results.

Shufersal may face restrictions of the Bank of Israel regarding a "single borrower" and a "group of borrowers.

Shufersal is considered as belonging to a "group of borrowers," as part of the IDB Group. As of the reporting date, the balance of bank credit of Shufersal and its subsidiaries is insignificant.

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

Shufersal achieved a significant part of its past growth by acquiring various retail operations. Future acquisitions of various operations in the food retail segment by Shufersal may require approval of the Antitrust Authority, which may not be granted or under terms favorable to Shufersal. As of the reporting date, taking into consideration of the structure of the retail market, the restrictions which are imposed on Shufersal by law, and the provisions of the Food Law we estimate that Shufersal may not be able to acquire material entity in the retail segment.

Important variations in interest rates may affect the value of Clal.

One of the primary exposure of Clal is to interest rate decreases, since the average lifetime of its liabilities is significantly longer than the average lifetime of the assets. Clal invests its assets in different securities and such return of investments is subject to the variations of the interest rates. Therefore our capacity and results depend, in part, on the return o our investments. In the current interest rate environment, the Clal is also exposed, from an accounting perspective, to losses in certain scenarios involving an interest rate decrease due to the impact of such changes on the discount rates that are used in the calculation of the reserves for pension, and in the liability adequacy test ("LAT") and in a scope which may exceed the capital gains which will be created in that scenario with respect to interest-sensitive assets.

Clal may have to face risks related to inflation.

Clal is exposed to an increase in the inflation rate, due to the fact that the majority of insurance liabilities of Clal are adjusted on a quarterly basis in accordance with the inflation rate, while the assets held against them are not necessarily CPI-linked. Our results depend on our revenues and return of invetments, so, in a high inflation environment our assets may not generate enough return to cover the CPI- adjusted liabilities.

Other assets price risk.

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

International economic slowdown and price declines in capital markets may affect Clal's operating activities.

Clal invests in financial assets in international capital markets, and in other foreign assets. Therefore, a price decline due to a global or regional crisis or slowdown may affect our investment portfolio and the return of such investments.

Clal may face credit risks.

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

Clal may face insurance risks.

Clal is primarily exposed to the occurrence of more events or to greater severity of events covered by its policies, as compared with the actuarial assumptions, or an accumulation of damages due to a catastrophic event, which may cause liabilities higher than our reserves and provisions. Loss reserves are established such that the provision for losses and benefits represents an amount that is believed to be greater than the mathematically expected amount that will be required to ultimately settle all claims incurred in a certain period of time. As such the provision makes allowance for identified sensitivities underlying the reserve estimates. These estimates are based on actuarial and statistical projections, at a given time, of facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability or other changes in legal precedents and general economic conditions.

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

The rates of cancellation, freezing and transfers constitute a significant assumption in the life and health insurance businesses, due to the fact that the profitability in this segment is based on a margin in premiums, and on the collection of management fees throughout the lifetime of the policy. The cancellation of policies also leads to the write-off of deferred acquisition costs with respect to those policies. Likewise, stability of reinsurers also means a risk for Clal. Clal transfers some of their business risk with reinsurance, mostly through foreign reinsurers. However, the reinsurance does not release the direct insurers from their obligation towards their policyholders according to the insurance policies. Such reinsurers may become financially unable or unwilling to honour their commitments by the time they are called upon to pay amounts due, which may not occur for many years. In addition, reinsurance may prove inadequate to protect against losses or may become unavailable in the future at commercially reasonable rates.

Clal may affront claims due to catastrophes.

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

Changes in legislation and regulation may affect Clal.

Clal is an insurance company and, as such, develops its business in a highly regulated industry and is exposed to continuing changes in legislation and regulation pertaining to its operating segments. In particular, some of the regulatory changes which were recently performed and which are proposed, some as non-final drafts, may have an adverse effect on Clal's business model. Additionally, changes in legislation and regulation, including circulars, determinations in principle, position papers and provisions which the Commissioner of Capital Markets is authorized to impose in connection with changes to policy terms, including tariffs which may affect Clal, including to products which were sold in the past, both by way of retroactive application and due to their effect on the interpretation of agreements which were signed in the past, may have an adverse effect on Clal's business.

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

In particular, the insurance and long term savings activities are subject to regulatory directives which change from time to time, with respect to products which were sold over many years, and which have long insurance coverage periods and/or savings periods.

The institutional entities in Clal are exposed to the risk of decline below the minimum capital required, which may result in the initiation of regulatory actions against them. Clal is subject to restrictions and conditions by virtue of control permits for the institutional entities which are under its control, including the capital maintenance requirement.

Clal may face liquidity risks.

Clal may face liquidity challenges due to the uncertainty associated with the date in which Clal will be required to pay claims and other benefits to policyholders and to other beneficiaries, relative to the total amount of reserves which are available for this purpose at that time. Loss reserves are established based on certain assumptions and actuarial calculations. An increase of claims, lower return on investments or the inability to sell our investments on time or at attractive prices may cause our claims to be in excess of our loss reserves. Liquidity risk may increase upon the materialization of a significant catastrophic event.

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

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

Clal is exposed to operational risks.

Risk of loss due to inadequacy or failure of internal processes, people and systems, or due to external events. In light of the scope of activities of Clal, and despite the actions taken by it to identify the risks and to establish appropriate controls, the scope of its exposure to the operational risks of the type specified above is significant.

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

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

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

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

The non-binding offer for Clal shares may have a negative impact on its market price and, consequently, on our results of operations.

On May 2017, IDBD agreed to the sale of 5% of Clal's shares jointly with a swap transaction. Accordingly, such shares were sold on May 4, 2017, free from any encumbrance, for a price of NIS59.86 per share (i.e., for an aggregate amount of approximately NIS166 million, equivalent to approximately US\$697 million at the exchange rate prevailing on such date).

Under the terms of the swap agreement, IDBD retains the main risks and benefits of all of Clal's shares; for such reason, as of June 2017 all of Clal's shares were recorded as a financial assets held for sale, and a liability of Ps.783 million was recorded. The valuation of such shares as of June 30, 2017, is Ps.8,564 million and a gain of Ps.2,513 million has been recorded under net financial results for this fiscal year as a result of the increase in the fair value of these shares.

Following instructions imparted by Israel's Capital Market, Insurance and Savings Commission to the Trustee regarding the guidelines for selling Clal's shares, on August 2017, IDBD sold 5% of its equity interest in Clal by way of a swap transaction, pursuant to terms identical to those applied to the swap transaction made and reported to the market on May 2017. The consideration for the transaction was an amount of approximately NIS 164 million. Upon completion of the transaction, IDBD's equity interest in Clal was reduced from 49.9% to 44.9% of its stock capital.

On September 2017, IDBD's Board of Directors approved entering into a non-binding offer with Huabang Financial Holdings Limited for the sale of its entire equity interest in Clal, representing 44.9% of its stock capital. The transaction is subject to a due diligence process, to be conducted by the purchaser for a term of 60 days after the execution of a memorandum of understanding, and the execution of a binding agreement among the parties, among other requirements. Moreover, the consummation of the transaction is subject to the approval of Israel's Capital Market, Insurance and Savings Commission reporting to the Israeli Ministry of Finance. For more information, see "Recent development – Operations Center in Israel – Sale of Interest in Clal." On September 5, 2017 it was announced that Clal had made an erroneous calculation of the amounts standing to the credit of the plaintiff and the members of the class in profit-sharing policies, and regarding the filing of a settlement in the action and a motion to approve it, the Company gave an update that Clal reported, since the Attorney-General did not file any opposition, the Tel Aviv District Labor Law Court approved the settlement between the parties.

The request to sell the shares of CLAL in 5% tranches and the non-binding offer could cause a negative impact on the market price. A decrease in the market price of Clal's shares would cause an immediate effect in our income statements and financial results.

Risks Related to the GDSs and the Common Shares

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

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

The GDSs are freely transferable under U.S. securities laws, including common shares sold to our affiliates. Cresud, which as of June 30, 2017, owned approximately 63.38% of our common shares (or approximately 366.788.251 common shares which may be exchanged for an aggregate of 36.678.825 GDSs), is free to dispose of any or all of its common shares or GDSs at any time in its discretion. Sales of a large number of our common shares and/or GDSs would likely have an adverse effect on the market price of our common shares and GDSs.

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

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

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

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

Although the GDSs are listed on the NYSE, as a foreign private issuer we are able to rely on home country governance requirements rather than relying on the NYSE corporate governance requirements. See "Item 16G. Corporate Governance—Compliance with NYSE listing Standards on Corporate Governance." Additionally, as a foreign private issuer, we are exempt from certain rules under the Exchange Act including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are not required to file their annual report on Form 20-F until four months after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their annual report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, you may not have the same protections afforded to shareholders companies that are not foreign private issuers.

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

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

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

Based on the current and projected composition of our income and valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company, or "PFIC" for United States federal income tax purposes for the taxable year ending June 30, 2017, and do not currently expect to become a PFIC, although there can be no assurance in this regard. The determination of whether we are a PFIC is made annually. Accordingly, it is possible

that we may be a PFIC in the current or any future taxable year due to changes in our asset or income composition or if our projections are not accurate. The volatility and instability of Argentina's economic and financial system may substantially affect the composition of our income and assets and the accuracy of our projections. In addition, this determination is based on the interpretation of certain U.S. Treasury regulations relating to rental income, which regulations are potentially subject to differing interpretation. If we become a PFIC, U.S. Holders (as defined in "Item 10. Additional Information—Taxation—United States Taxation") of our common shares or GDSs will be subject to certain United States federal income tax rules that have negative consequences for U.S.

Holders such as additional tax and an interest charge upon certain distributions by us or upon a sale or other disposition of our common shares or GDSs at a gain, as well as reporting requirements. See "Item 10. E—Taxation—United States Taxation—Passive Foreign Investment Company" for a more detailed discussion of the consequences if we are deemed a PFIC. You should consult your own tax advisors regarding the application of the PFIC rules to your particular circumstances.

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

On September 23, 2013, the Argentine income tax law was amended by the passage of Law No. 26,893. Under the amended law, the sale, exchange or other transfer of shares and other securities is subject to a capital gain tax at a rate of 15% for Argentine resident individuals and foreign beneficiaries. There is an exemption for Argentine resident individuals if certain requirements are met; however, there is no such exemption for non-Argentine residents. See "Item 10. Additional Information—Taxation—Argentine Taxation." However, as of the date hereof many aspects of the amended tax law remain unclear and, pursuant to certain announcements made by Argentine tax authorities, they are subject to further rulemaking and interpretation, which may adversely affect the tax treatment of our common shares and/or the GDSs. Also, the amended law had established an income tax at a rate of 10% in the distribution of dividends; however, this has been repealed by Law No. 27,260.

The income tax treatment of income derived from the sale of GDSs or exchanges of shares from the GDSs facility may not be uniform under the revised Argentine income tax law. The possibly varying treatment of source income could impact both Argentine resident holders as well as non-Argentine resident holders.

In addition, should a sale of GDSs be deemed to give rise to Argentine source income, as of the date of this annual report no regulations are in force regarding the mechanism for paying the Argentine capital gains tax when the sale exclusively involves non-Argentine parties, despite the fact that Law No. 27,260 further provides that in such case (i.e. both seller and buyer are non residents) the buyer is in charge of paying the tax.

In this connection, on July 20, 2017, General Resolution (AFIP) 4095-E suspended for 180 days the entry into force of General Resolution 4094-E by which, almost four years after Congress –by virtue of passing Law No 26,893- imposed a capital gains tax on the gains recognized by nonresidents on the sale of shares, quotas or other equity participations in Argentine companies as well as "other securities" of Argentine residents, the AFIP had implemented a payment mechanism for resident and nonresident buyers. The new resolution, currently suspended, was applicable to transactions that occurred on or after September 23, 2013.

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

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

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

their voting rights by either attending the meeting in person or voting by proxy. GDS holders, by comparison, will not receive notice directly from us. Instead, in accordance with the deposit agreement, we will provide the notice to the GDS Depositary. If we ask the GDS Depositary to do so, the GDS Depositary will mail to holders of GDSs the notice of the meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDS holders must then instruct the GDS Depositary as to voting the common shares represented by their GDSs. Under the deposit agreement, the GDS Depositary is not required to carry out any voting instructions unless it receives a legal opinion from us that the matters to be voted would not violate our by-laws or Argentine law.

We are not required to instruct our legal counsel to give that opinion. Due to these procedural steps involving the GDS Depositary, the process for exercising voting rights may take longer for GDS holders than for holders of common shares and common shares represented by GDSs may not be voted as you desire.

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

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

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

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

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

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

We may not pay any dividends.

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

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

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

ITEM 4. Information on the Company

A. History and Development of the Company

General Information

Our legal and commercial name is IRSA Inversiones y Representaciones Sociedad Anónima. We were incorporated and organized on April 30, 1943, under Argentine law as a stock corporation (Sociedad Anónima), and we were registered with the Public Registry of Commerce of the City of Buenos Aires (Inspección General de Justicia or "IGJ") on June 23, 1943, under number 284, on page 291, book 46 of volume A. Pursuant to our bylaws, our term of duration expires on April 5, 2043. Our common shares are listed and traded on Bolsas y Mercados Argentinos ("BYMA") and our GDSs representing our common shares are listed on the New York Stock Exchange ("NYSE"). Our principal executive offices are located at Bolivar 108 1st floor, Ciudad Autónoma de Buenos Aires (C1066AAD), Argentina. Our headquarters are located at Moreno 877, (C1091AAQ), Ciudad Autónoma de Buenos Aires. Our telephone is +54 (11) 4323-7400. Information contained in or accessible through our website is not a part of this annual report. All references in this annual report to this or other internet sites are inactive textual references to these URLs, or "uniform resource locators" and are for your information reference only. We assume no responsibility for the information contained on these sites. Our Depositary Agent for the GDSs in the United States is The Bank of New York whose address is P.O. Box 358516 Pittsburgh, PA 15252-8516, and whose telephones are + 1-888-BNY-ADR for U. S. calls and + 1 - 201-680-6825 for calls outside U.S.

History

We have been actively engaged in a range of diversified real estate activities in Argentina since 1991. After our global public offering in 1994, we launched our real estate activities in the office rental market by acquiring three office towers located in prime office zones of Buenos Aires.

Since 1996, through our subsidiary IRSA Commercial Properties (former Alto Palermo S.A.), we have expanded our real estate activities in the Shopping Malls segment through the development and acquisition of controlling interests in sixteen shopping malls: Alto Palermo, Abasto Shopping, Alto Avellaneda, Alcorta Shopping, Patio Bullrich, Buenos Aires Design, Dot Baires Shopping, Soleil Premium Outlet, Distrito Arcos, Alto NOA Shopping, Alto Rosario Shopping, Mendoza Plaza Shopping, Córdoba Shopping Villa Cabrera, La Ribera Shopping, Alto Comahue Sopping and Patio Olmos (operated by a third party). Since 1996, we have also expanded our operations into the residential real estate market through the development and construction of multi-tower apartment complex in the City of Buenos Aires and through the development of private residential communities in the greatest Buenos Aires metropolitan area.

In 1997, we entered the hotel market through the acquisition of a 50% interest in the Llao Llao Hotel near Bariloche and 76.34% of the Intercontinental Hotel in the City of Buenos Aires. In 1998, we also acquired Libertador Hotel in the City of Buenos Aires and subsequently sold a 20% interest to an affiliate of Sheraton Hotels.

In 1999, we acquired 2.9% of the shares of Banco Hipotecario. Over the years, we have acquired additional common shares increasing our interest to 29.91% as of the date of this annual report.

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

In December 2006, we started the operation of Córdoba Shopping, a shopping mall located in the neighborhood of Villa Cabrera in the City of Córdoba, Province of Córdoba. Also, through our subsidiaries, we started in 2007 the construction of one of our most important projects, Dot Baires Shopping, a shopping mall and an office building

located in the neighborhood of Saavedra.

During 2007, we made several significant acquisitions in the Shopping Malls and Offices segments. We purchased Bouchard Plaza building, also known as "Edificio La Nación," located in the downtown of the City of Buenos Aires, and during 2015, we completed the sale of all of the floors in Edificio La Nación, remaining in the portfolio 116 parking spaces for rent. In 2007, we bought Dock del Plata building with a gross leasable area of 7,921 square meters, located in the exclusive area of Puerto Madero, already sold in its entirety.

We also launched the development of an office building at Dock IV of Puerto Madero, opened in May 2009, which was entirely sold in December 2015. In addition, we acquired a 50% interest in an office building including current leases with a gross leasable area of 31,670 square meters, known as Torre BankBoston, which is located in Carlos Maria Della Paolera 265, Buenos Aires, and was designed by the recognized architect Cesar Pelli (who also designed the World Financial Center in New York and the Petronas Towers in Kuala Lumpur). We currently have a 47% ownership interest in this building.

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

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

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

In May 2009, we opened the Dot Baires Shopping, which has four levels and basement levels, consisting of a total area of 173,000 square meters, 49,499 square meters of which is gross leasable area. We, through IRSA CP, are currently developing the project called "Polo Dot," which will consist of three office buildings (one of them may include a hotel) on land reserves we own through IRSA CP and the expansion of Dot Baires Shopping by approximately 15,000 square meters of gross leasable area. In the first phase, we will develop an 11-floor office building expansion with an area of approximately 32,000 square meters, in respect of which we have already executed lease agreements for approximately 75% of the available leasable area. Construction had an advance grade of 7.4% at the close of this fiscal year and we estimate its opening for fiscal year 2019. The second stage of the project consists of two office/hotel buildings that will add 38,400 square meters of GLA to the complex. We have experienced an important demand for premium office spaces in this new commercial center and we are confident that we will be able to generate a quality enterprise similar to the ones that the company has done in the past with attractive income levels and high occupancy.

On August 4, 2009, we acquired a 12.86% interest of Hersha Hospitality Trust ("Hersha") for approximately US\$60.0 million. Hersha is a U.S. Real Estate Investment Trust ("REIT"), listed in NYSE, which owned at that time participations in 77 hotels throughout the northeast cost of the United States, which contain approximately 9,800 rooms. By 2014, we had sold most of our interest in Hersha at prices by common share that almost doubled the amount invested.

During 2010, we acquired from Parque Arauco S.A. a 31.6% stake in IRSA CP, for a total purchase price of US\$126 million, as a consequence of which, we increased our shareholding in IRSA CP from 63.4% to 94.9%. As of June 30, 2017, our holding in IRSA CP was 94.61%. On October 27, 2017, we reported that it has been completed the sale in the secondary market of 2,560,000 ADSs of IRSA CP, which represent 8.1% of IRSA CP. For more information please see "Recent developments – Selling of IRSA CP' ADSs."

In December 2010, we acquired a 49% interest in the entity that then owned the building located at 183 Madison Avenue, New York, for a purchase price of US\$85.1 million. In November 2012, we increased our participation by an

additional 25.5%, to 74.50% of the outstanding share capital. In September 2014, we completed the sale of 183 Madison Avenue, for a sale price of US\$185 million.

In March 2011, we bought the Nobleza Piccardo warehouse, through a subsidiary in which we have a 50% stake. This property is located in the city of San Martín, Province of Buenos Aires, and due to its size and location represents an excellent venue for the future development of different segments. The total plot area is 160,000 square meters with floor area of 81,786 square meters. We are currently working in a draft project for the development of a thematic Shopping Mall named "Hipercentro para el Hogar" to be constructed in the existing main warehouse.

The project will involve 50,000 sqm, divided into 30,000 sqm for a shopping mall and 20,000 sqm for parking. For more information, please see "– Business Overview – Sale and Development of Properties and Land Reserves – Future developments."

At the same time, we are working jointly with an urban development firm in a comprehensive master plan to design the remaining areas of the facility. At present, the facility has a construction capacity of over 500,000 sqm that may be used for different commercial purposes as well as to build residential properties.

In August 2011, we acquired through our subsidiary IRSA CP, 50% of Nuevo Puerto Santa Fe S.A. ("NPSF") common shares, a corporation that is tenant of a building in which La Ribera Shopping was built and currently operates, a mall of approximately 8,000 square meters of gross leasable area, located within Dique I of the port of the city Santa Fe.

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

In December 2014, we renamed Alto Palermo S.A. into IRSA Commercial Properties S.A., and we transferred 83,789 square meters of five buildings of our premium office portfolio to it. As of June 30, 2017, we owned 94.61% of shares of IRSA CP, which is listed on BYMA and on Nasdaq, under the symbol "IRCP." The premium office buildings transferred included Edificio República, Torre Bank Boston, Edificio Intercontinental Plaza, Edificio Bouchard 710 and Edificio Suipacha. We also transferred to IRSA CP the reserve of land known as Intercontinental II, adjoining Edificio Intercontinental Plaza, which has potential for the development of 19,597 m2.

In December 2014, we opened a new shopping mall, "Distrito Arcos, Premium Outlet." Located in Palermo (City of Buenos Aires), this new project of approximately 13,000 square meters of gross leasable area, 52 shops and 15 stands was established as an outlet with variety of premium brands in an open-air environment.

In March 2015, we inaugurated the sixteenth mall of our portfolio. Alto Comahue Shopping, located in the center of the city of Neuquén, which has an area of 9,500 square meter gross leasable area, about 1,066 parking spaces between indoor and outdoor and a major entertainment and leisure space. The mall has 104 retail shops that feature the most prestigious brands in Argentina. The project is part of a mixed-use complex, to be complemented by a supermarket already in operation and two parcels of additional land. One of them is for the development of a hotel, and the other of 18,000 square meters, is for future housing development.

In October 11, 2015, continuing with our strategy of expansion and diversification in the international markets, we gained control of the Israeli conglomerate IDBD. IDBD is one of the largest and most diversified holding companies in Israel. Through its subsidiaries, associates, joint ventures and other investments, IDBD is engaged in numerous markets and industry sectors in Israel and other countries, including real estate (PBC), supermarkets (Shufersal), insurance (Clal), and telecommunications (Cellcom). The Company is listed on the Tel Aviv Stock Exchange ("TASE") as a "Debentures Company" pursuant to Israeli law, as it has publicly listed bonds. As a result of the consolidation of this investment in the Company's financial statements, we decided to break down reporting into an Operations Center in Argentina and an Operations Center in Israel. From the Operations Center in Argentina, the Company, through IRSA and its subsidiaries, manages the businesses in Argentina and the international investments in the Lipstick Building in New York and the Condor Hospitality Trust Hotel REIT. From the Operations Center in Israel, the Company manages IDBD and its subsidiaries.

On November 22, 2016, the sale to China National Agrochemical Corporation ("ChemChina") of 40% of the shares in Adama held by Koor, indirectly controlled by IDBD through DIC, was consummated. The proceeds of the sale were US\$230 million in excess of the full repayment of a non-recourse loan, plus interest, which had been granted to Koor by a Chinese bank.

As of June 30, 2017, this value amounted an approximate sum of NIS 4.88 billion. The transaction is subject to due diligence by the buyer for a period of 60 days from the signature of the memorandum of understanding and signature of a binding agreement between the parties, among other requirements. In addition, the completion of the transaction is subject to the regulatory approval of the Capital Market, Insurance and Savings Market Commission of the Israeli Ministry of Finance.

On June 5, 2017, the Company informed the acquisition of the historic Philips Building, adjacent to the Dot Baires Shopping Mall, and in front to General Paz Avenue in the City of Buenos Aires. The building has 4 floors of offices with a total gross leasable area of approximately 10,000 square meters and with construction capacity (FOT) of additional 18,000 square meters. The Company owns 100% of the building. We had the possesion of the building since June 2017 and it is currently leased to the seller of the building until January 19, 2018.

Significant acquisitions, dispositions and development of business

Operations Center in Argentina

Purchase of Philips Building

On June 5, 2017, the Company through IRSA CP acquired the Philips Building located in Saavedra, Autonomous City of Buenos Aires, next to the Dot Baires Shopping. The building has a constructed area of 10,142 square meters and is intended for office development and lease. The acquisition price was US\$29 million, which was fully paid as of June 30, 2017. Furthermore, IRSA CP has entered into an agreement with the seller for the use of the building for a term of 7 months and 15 days, which expires automatically on January 19, 2018.

Capital increase in Condor

In January 2017, Condor issued 150,540 new warrants in favor of RES with the right to one share each, at an exercise price of US\$0.001 per share, maturing in January 2019. The new warrants replace the previous 3,750,000 warrants issued in May 2012, which granted a right to one share each, at an exercise price of US\$1.92 per share, maturing on January 31, 2017. The new warrants cannot be exercised if the interest in Condor exceeds 49.5% as a result of such exercise. Additionally, the Company exercised the conversion right of the 3,245,156 series D preferred shares (with a par value of US\$10 per share) held by RES, converting them into 20,282,225 common shares of Condor (with a par value of US\$0.01 per share), i.e., at the conversion price established of US\$1.60 per share, which represents a total value of US\$32.4. Besides, it received 487,738 series E preferred shares that can be converted into common shares at 2.13 US\$ per share as from February 28, 2019, and pay dividends on a quarterly basis at an annual rate of 6.25%. RES allocated the considerations paid among the different identifiable net assets of Condor; as a result, it recognized a higher value for property, plant and equipment, a lower value of loans and goodwill in the amount of US\$5.69, US\$0.27 and US\$6.37, respectively.

During February, Condor's Board of Directors approved a reverse stock split, consisting of 1 (one) common share for every 6.5 shares issued and outstanding, which was carried out after the market closing on March 15, 2017. The par value of the shares remained at US\$ 0.01 per share, while the conversion price of series E preferred shares became US\$13.845 per share and the exercise price of the warrants became US\$0.0065.

During March 2017, Condor made a public offering of its shares, which resulted in the issuance of 4,772,500 new shares (including 622,500 additional shares for the exercise of one call option granted to the subscribers), at a price of US\$10.50 per share. The Company did not purchase any shares in it.

As of June 30, 2017, the Company held 3,314,453 common shares of Condor representing approximately 28.5% of the Company's share capital and voting rights. It also held 487,738 series E preferred shares, 23,160 warrants and a promissory note convertible into 97,269 common shares (at US\$10.4 per share). The Board of Directors of Condor is formed by 4 directors appointed by the company, 3 directors appointed by Stepstone Real Estate and 2 independent directors. In addition, the voting power held by the Company in Condor amounts to 49% of the votes, thus keeping significant influence over Condor.

BACS Banco de Crédito y Securitización S.A. ("BACS")

The Company through Tyrus, subscribed a purchase agreement of shares of BACS, representing an interest of 6.125%. The acquisition price was US\$1.35. On August 24, 2016 the transaction was approved by the BCRA.

On June 17, 2015, the Company, through IRSA, subscribed Ps.100 nominal value of BACS' Convertible Notes. On June 21, 2016 we notified BACS the exercise of our right to convert all of the convertible notes into common shares. On February 7, 2017, the BCRA approved the conversion whereby IRSA was given 25,313,251 shares of BACS. As a result, as of June 30, 2017, the Company holds an interest of 37.72% in BACS.

Acquisition of equity interest in EHSA

On July 2016, the Company, through IRSA CP, acquired 20% of the share of EHSA, a company of which it already owned 50%, and 1.25% of the share of Entretenimiento Universal S.A. ("ENUSA"). The amount paid was Ps.53 million. As a result, the Company now holds 70% of the share capital and voting stock of EHSA. In addition, EHSA holds, both directly and indirectly, 100% of the shares of Ogden Argentina S.A. ("OASA") and 95% of the shares of ENUSA. Furthermore, OASA holds 50% of the voting stock of La Rural S.A. ("LRSA"), a company that holds the rights to commercially operate the emblematic "Predio Ferial de Palermo" in the Autonomous City of Buenos Aires, where the Sociedad Rural Argentina holds the remaining 50%.

Acquisition of additional interest in Banco Hipotecario

During the year ended June 30, 2015, the Company acquired 3,289,029 additional shares of Banco Hipotecario in a total amount of Ps.14.2 million, thus increasing its interest in such company from 29.77% to 29.99%, without consideration of treasury shares. During the year ended June 30, 2016, the Company sold 1,115,165 shares of Banco Hipotecario in a total amount of Ps.7.7 million, thus decreasing its interest to 29.91%, without consideration of treasury shares.

Rigby capital reduction

During fiscal year 2015, Rigby reduced its capital stock by distributing the gain from the sale of Madison building among existing shareholders, proportionally to their shareholdings. The total amount distributed was US\$103.8 million, of which the Company received US\$77.4 million (US\$26.5 million through IRSA International and US\$50.9 million through IMadison LLC) and US\$26.4 million were distributed to other shareholders. As a result of such reduction, the Company has decided to reverse the corresponding accumulated conversion difference on a pro rata basis, which amounted to Ps.219 million. This reversal has been recognized in the line "Other operating results, net" in the Statements of income.

Sale of units in Intercontinental Building

IRSA CP sold 2,432 profitable square meters corresponding to three floors of office and 24 parking lots in the Intercontinental Plaza building to an unrelated third party, the Company still holds 3,876 square meters profitable of the building. The transaction price was US\$9 million, which has already been fully paid as of June 30, 2017.

Operations Center in Israel

Purchase of DIC shares by a related party of Dolphin.

On September 24, 2017, IDBD reported that the Company and Dolphin signed a Term Sheet for the purchase of DIC shares by a related party of Dolphin. The completion of the Transaction contemplated under the Term Sheet is subject to the Parties' execution of the definitive transaction documents (the "Definitive Documents") on or prior to November 16, 2017, as well as to the approval of the Transaction by the authorized organs of the Parties and to the fulfillment of additional pending warranties up to December 10, 2017 (the "Date of Completion of the Transaction").

The main points of the Term Sheet are as follows:

Transaction: The buyer will acquire the total of DIC shares held by IDBD at a stated price of NIS 16.6 per share (equivalent to approximately Ps. 80 per share at the date of these financial statements).

Payment: Payment will be made through the issuance of a promissory note by the buyer, which will expire 5 years from the date of completion of the transaction and will accrue a minimum annual interest of 5.5%. Until the payment is canceled in full, any DIC distribution will be paid in an Israeli bank and will be pledged in favor of the seller.

DIC shares that are guaranteeing DIC debt must maintain the same encumbrance and the shares that are not currently guaranteeing debt will be held in favor of the selling party until the cancellation of the payment.

Acquisition of non-controlling interest

Dolphin was required to carry out the first tranche of tender offers in December 2015. Before expiration of such first tranche, Dolphin and the agreement trustees (the "trustees") entered into an extension agreement (the "Extension Agreement"), which was subsequently replaced by the final agreement, which was approved by approximately 95% of the non-controlling shareholders of IDBD (excluding IFISA) by warrants holders of IDBD on March 2, 2016 and by the competent court on March 10, 2016. The major amendments to the Agreement were:

On replacement of the obligation to conduct tender offers, Dolphin acquired all the shares outstanding on March 29, 2016 from non-controlling shareholders of IDBD (except for those held by IFISA) on March 31, 2016. The price paid for each IDBD share held by non-controlling shareholders was NIS 1.25 per share in cash plus NIS 1.20 per share in bonds of the IDBD Series I (the "IDBD Bonds"), which IDBD will issue directly to non-controlling shareholders and holders of warrants. Additionally, Dolphin undertook to pay NIS 1.05 per share (subject to adjustments) in cash if Dolphin, either directly or indirectly, gain control of Clal (more than 30% voting interest), or else if IDBD sells a controlling shareholding in Clal (more than 30% to a third party) under certain parameters (the "payment by Clal"), which refers mainly to Clal's sale price (at a price which exceeds 75% of its book value upon execution of the sale agreement, subject to adjustments) and, under certain circumstances, the proportion of Clal shares sold by IDBD. The obligation to make such contingent payment will only expire if the sale of a controlling interest is completed (more than 30% to a third party), or if Dolphin obtains the control permission from Clal.

The warrants held by non-controlling shareholders that had not been exercised until March 28, 2016 expired on March 31, 2016. Each warrant holder was entitled to elect whether: (a) to receive IDBD bonds (based on the adjusted nominal value) in an amount equal to the difference between NIS 2.45 per share and the exercise price of the warrants and be entitled to the Clal payment; or (b) to receive a payment determined by an independent appraiser.

Dolphin compromised that would provide IDBD a total amount of NIS 515 million through several subordinated loans for a total amount of NIS 348.5 in addition to the issuance of IDBD Bonds in the amount of NIS 166.8 million, which were used to comply with the liabilities mentioned in (ii). The subordinated loans have the following features: (a) they are subordinated, even in the case of insolvency, to all current or future debts of IDBD; (b) will be reimbursed after payment of all the debts to their creditors; (c) accrues interest at a rate of 0.5%, which will be added to the amount of the debt and will be payable only on the date the subordinated debt is amortized; (d) Dolphin will not have a right to participate or vote in the meetings with IDBD creditors with respect to the subordinated debt; (e) as from January 1, 2016, Dolphin has the right, at its own discretion,to convert the debt balance into IDBD shares, that time, whether wholly or partially, including the interest accrued over the debt until that date (subject to the limit set forth in (iv) below); (f) if Dolphin opt to exercise the conversion, the debt balance will be converted so that Dolphin will receive IDBD shares according to a share price that will be 10% less than the average price of the last 30 days prior to the date the conversion option is exercised. In the event there is no market price per share, this will be determined in

accordance with an average of three valuations made by external or independent experts, who shall be determined by mutual consent and, in the event of a lack of consent, they will be set by the President of the Institute of Certified Public Accountants in Israel.

Dolphin had to pledge 28% of its IDBD shares, as well as all rights in relation to the subordinated loan granted in the amount of NIS 210 million in December 2015, until the payment obligation to Clal has been completed or has expired, after which the pledge will be discharged. Should new shares be issued by IDBD, Dolphin will have to pledge additional shares until completing the 28% of all IDBD share capital. This pledge replaces the pre-existing pledge.

Dolphin agreed not to exercise its right to convert the subordinated loans into shares of IDBD until the pledge described above has been released.

Dolphin acquired from the minority shareholders all of the shares of IDBD, in a manner whereby the control group began holding 100% of the shares of IDBD, which became a debenture company (as defined in the Israeli Companies Law). The consideration to the minority shareholders for the acquired shares, and the cancellation of the undertaking to perform the aforementioned tender offers, included: (a) payment, on March 31, 2016, in cash, of NIS 1.25 per share; (b) payment, on March 31, 2016, of NIS 1.20 per share, which was paid through debentures (Series I), in an amount which was determined based on their adjusted par value, and which were issued by IDBD against the transfer by Dolphin to IDBD of an amount equal to the adjusted par value of each debenture which was issued, as stated above; and (c) an undertaking to pay a total of NIS 1.05 per share, contingent upon the sale of shares of Clal or upon the receipt of a permit for control of Clal, in accordance with the conditions which were determined in the Amendment to The Settlement, Within the framework of the Amendment To the Settlement, Dolphin injected into IDBD a total of NIS 515 million (including, inter alia a subordinated loan in the amount of NIS 15, as stated above, and including the injection of funds against the allocation of debentures (Series I) by IDBD, and any amount which was injected into the Company within the framework of the exercise of the options). On March 15, 2016, and March 31, 2016, a total of NIS 85 million and NIS 248 million, respectively, were injected into IDBD, by Dolphin, as part of the implementation of the Amendment to The Settlement, as a subordinated loan convertible into shares of IDBD. Additionally, within the framework of the Amendment to The Settlement, all of the options for shares of IDBD which were held by the public expired, and the warrant holders of IDBD received payments or rights to payments in accordance with the alternatives which were determined in the Amendment to The Settlement.

Within the framework of the Amendment To The Settlement and in connection with the acquisition of ordinary shares, options (Series D), options (Series E), which were already deleted from trade on the TASE, Dolphin Fund and Dolphin still holds options (Series F) in IDBD, in which as of July, 2017 Dolphin Fund holds 31,960 warrants (Series F) and Dolphin holds 220,801,9 warrants (Series F). As of June 30, 2017, IRSA's indirect interest in IDBD was 68.28% without considering dilution (and 81.23% on a fully diluted basis).

The transaction described above represented the acquisition of an additional interest of 19.28% in IDBD for a total amount of Ps.1,249 million. As a result of this transaction, the non-controlling interest was increased by Ps.346 million and the interest attributable to the shareholders' of the controlling parents was increased by Ps.234 million. As of June 30, 2017, IRSA's indirect interest in IDBD was 68.28% without considering dilution.

Negotiations between Israir and Sun d'Or

On June 30, 2017, IDB Tourism was at an advanced stage of negotiations with Sun d'Or International Airlines Ltd. ("Sun d'Or"), a subsidiary of El Al Israel Airlines Ltd. ("El Al"), and on July 2, 2017 an agreement was signed, which consists of:

Israir will sell the aircrafts it owns through a sale and lease back agreement for an estimated value of US\$70 million;

Israir will repay a loan owed to IDB Tourism in the amount of US\$18 million;

Following the repayment of the loan and the sale of airplanes mentioned above, IDB Tourism will receive up to US\$45 million (which includes a loan of up to US\$8.8 million to be discharged through the distribution of dividends of Sun D' Or), plus a 25% of Sun D' Or shares, with El Al holding a 75% of the shares of such company;

The parties will enter into a shareholder agreement that would give El Al a call option (and a sale option to IDB Tourism) for the acquisition of Sun D'Or's shares in accordance with a price and terms that will be established in due course.

As a consequence of this agreement, the Company's Financial Statements as of June 30, 2017 present the investment in Israir as assets and liabilities held for sale, and a loss of nearly NIS 56 million (approximately equivalent to Ps.231 million as of December 31, 2016 when it was reclassified to discontinued operation), as a result of measuring these net assets at the estimated recoverable value. The transaction is subject to (i) approval by the Anti-Trust Authority; (ii) Sun D'Or's and Israir's equity as of December 31, 2017 may not be negative in their related Financial Statements and Israir's tangible equity should not be lower than US\$7 million; (iii) the validity and effectiveness of licenses held by Israir as granted by the Civil Aviation Authority and Transportation Ministry; (iv) the sale of the airplanes indicated above; (v) the execution of collective bargaining agreements with pilots, etc. The transaction is expected to be closed by the end of 2017.

Agreement for New Pharm

On April 6, 2017, Shufersal entered into an agreement with Hamashbir 365 Holdings Ltd. ("Hamashbir") for the purchase of the shares of New Pharm Drugstores Ltd. ("New Pharm"), representative of 100% of that Company's share capital, for an amount of NIS 130 million (equivalent to Ps.611 million as of the date of these Consolidated Financial Statements), payable upon execution of the transaction, which is subject to fulfillment of the following conditions; among others:

approval by the Antitrust Authority - if the approval is not obtained within 3 months following the date the request is filed (extendable for one additional month under certain circumstances), the agreement will be automatically terminated, unless the parties agree on a term extension.

the release and termination of all the existing guarantees of New Pharm over the liabilities of the companies of Hamashbir Group, and the release and invalidation of all the existing guarantees of the companies of Hamashbir Group over the liabilities of New Pharm.

Upon execution of the agreement, a non-competition clause will be signed. As of the date of issuance of this annual report, not all of the mentioned conditions has been fulfilled.

On August 30, 2017, Shufersal and the seller agreed to extend the approval of the Antitrust Authority until September 14, 2017 and until September 30, 2017 the fulfillment of the conditions precedent and the delivery of Financial Statements. On September 6, 2017, the Anti-trust Commission approved the merger between Shufersal and New Pham subject to certain conditions.

After the approval of the antitrust commission, on September 28, 2017, the parties signed an addendum to that agreement which states that nine New Pharm stores will be sold to a third party and a Shufersal store to another. The sale of New Pharm stores will be collected by New Pharm prior to the merger, which changes the price of the transaction but not significantly. The last date to sign the sales agreement was stipulated to be on November 30, 2017 and the execution date on December 31, 2017.

Partial sale of equity interest in Gav Yam

On December 5, 2016, PBC sold 280,873 shares of its subsidiary Gav-Yam Land Corporation Ltd. for an amount of NIS 391 million (equivalent to Ps.1,616 million as of that date). As a result of this transaction, the Company's equity interest in Gav-Yam has decreased to 55.06%.

Partial sale of equity interest in PBC

DIC sold 12% of its equity interest in PBC for a total consideration of NIS 217 million (approximately equivalent to Ps.810 million); as a result, DIC's interest in PBC has declined to 64.4%.

Share-holding increase in DIC

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

During March 2017, IDBD exercised all of DIC's Series 5 and 6 warrants for nearly NIS 210 million (approximately equivalent to Ps.882 million as of that date), thereby increasing its direct interest in DIC to nearly 70% of such company's share capital as of that date and the Company's equity interest to 79.47%. Subsequently, third parties not related to the Company, also exercised their warrants, thus diluting the Company's interest in DIC to 77.25%.

Changes of interest in Shufersal

During the fiscal year ended June 30, 2017, the Company – through DIC and several transactions – increased its interest in Shufersal capital stock by 7.7% upon payment of a net amount of NIS 235 million (equivalent to approximately Ps.935 million) and in March 2017, DIC sold 1.38% of Shufersal in an amount of NIS 50 million (equal to Ps.210 million as of that date). As of June 30, 2017, the Company held through DIC an direct interest of 54.19% in Shufersal.

Sale of Adama

In 2011, Koor (a wholly own subsidiary of DIC) sold 60% of Adama's shares to ChemChina and was also granted a non-recourse loan in the aggregate amount of US\$960 million, which was secured by the remaining 40% of Adama shares held by Koor as of June 30, 2016.

On July 17, 2016 DIC accepted the offer by ChemChina for the acquisition of 40% of Adama's shares which were held by Koor. On August 2016, Koor and a subsidiary of ChemChina executed the corresponding agreement. The price of the transaction included a payment in cash of US\$230 million plus the total repayment of the non-recourse loan and its interests, which had been granted to Koor by a Chinese bank. On November 22, 2016, the transaction was closed and Koor received cash in the amount of US\$230 million. Our equity interest in the results of Adama and the finance costs related to the hybrid financial instrument were retrospectively classified as discontinued operations in the Company's Consolidated Statements of Income as from July 17, 2016. On June 30, 2017, the Company recorded a gain of Ps.4,216 million pursuant to the sale

IDBD

Acquisition of Control

On May 2014, the Company, acting indirectly through Dolphin, acquired jointly with ETH an aggregate number of 106.6 million common shares in IDBD, representing 53.30% of its stock capital, whithin the debt restructuring process of IDBH, IDBD's parent company, with its creditors (the "Arrangement"). Under the terms of the agreement entered into, Dolphin acquired a 50% interest in this investment, and ETH acquired the remaining 50% and both entities entered into a shareholders' agreement. The initial total investment amount was NIS 950 million, equivalent to approximately US\$272 million at the exchange rate prevailing on that date. On May 2015, ETH launched the BMBY mechanism provided in the Shareholders' Agreement (clause which establishes that each party of the Shareholders' Agreement may offer to the counterparty to acquire (or sell, as the case may be), the shares it holds in IDBD at a fixed price). On June 2015, Dolphin gave notice to ETH of its intention to buy all the shares of IDBD held by ETH.

After certain aspects of the offer were resolved through an arbitration process initiated by the parties, on September 24, 2015, the competent arbitrator resolved that: (i) Dolphin and IFISA were entitled to buy the shares pursuant to the BMBY process, and consequently; (ii) the buyer would have the obligation to fulfil all of the commitments included in the seller's Arrangement, including the commitment to carry out the Tender Offers; (iii) the buyer might pledged in favor of the Arrangement Trustees the shares that the seller had pledged to them. Notwithstanding the foregoing, there

is an arbitration process going on between Dolphin and ETH in relation to certain issues connected to the acquisition of control of IDBD.

On October 11, 2015, the BMBY process concluded, and IFISA acquired all IDBD's shares of stock held by ETH (92,665,925 shares) at a price equal to NIS 1.64 per share. Consequently, the Shareholders' Agreement ceased and members of IDBD's Board of Directors representing ETH submitted their irrevocable resignation to the Board. Subsequently, Dolphin appointed new members to the Board. Additionally, on the same date, Dolphin pledged the additional shares acquired.

Later on, following the exercise of the BMBY, Dolphin entered into an option agreement with IFISA that grants Dolphin the right, but not the obligation, to acquire the shares in IDBD which IFISA had acquired in the BMBY process, at a price of NIS 1.64 per share plus an annual interest rate of 8.5%. The option may be exercised within two years counted from the execution date. Additionally, Dolphin is entitled to a first refusal right in case that IFISA agrees to sell these shares to a third party. The option has no value as of June 30, 2017.

As a consequence, the Company gained control of IDBD and started to consolidate Financial Statements as from that date. The following chart shows the consideration, the fair value of the acquired assets, the assumed liabilities and the non-controlling interest as of the acquisition date.

As of October 11, 2015

Fair value of the interest in IDBD's equity held before the business combination and warrants	1,416
Total consideration	1,416

As of October 11, 2015

Fair value of identifiable assets and assumed liabilities:

Investment properties	29,586
Property, plant and equipment	15,104
Intangible assets	6,603
Joint ventures and investment in	9,268
associates	9,200
Financial assets and other assets held for	5,129
sale	3,127
Trading properties	2,656
Inventories	1,919
Income tax credits	91
Trade and other receivables	9,713
Investments in financial assets	5,824
Cash and cash equivalents	9,193
Deferred income tax	(4,681)
Provisions	(969)
Borrowings	(60,306)
Derivative financial instruments,	(54)
net	(34)
Income tax	(267)
Employee benefits	(405)
Trade and other payables	(19,749)
Total net identifiable assets	8,655
Non-controlling interest	(8,630)
Goodwill	1,391

Total 1,416

The group asses the fair value of the investment property with the assistance of qualified independent appraisers. As of the acquisition date, the Company estimates that recognized assets are recoverable. The value of the non-controlling interest in IDBD has been determined on a proportional basis to the fair value of net acquired assets and the fair value of warrants.

Following the control of IDBD, the cumulative currency translation accumulated in shareholders' equity from the interest held in IDBD before the business combination in the amount of Ps.143 million was recognized in the Income Statement. Such result was disclosed under "Other operating results, net" line in the Income Statement.

The revenues IDBD has generated since October 11, 2015 and that have been disclosed in the Consolidated Income Statement amount to Ps.28,229 million. IDBD has also incurred in a net result of Ps.(1,643) million during said period. If IDBD had been consolidated since July 1st, 2015, the Company's Consolidated Income Statement would have shown pro-forma revenues of Ps.49,637 million and pro-forma net loss of Ps.1,651 million.

Recent Developments:

Operations Center in Argentina

Selling of IRSA CP' ADSs

On October 27, 2017, the Company reported that it has completed the sale in the secondary market of 2,560,000 ADSs of IRSA CP, each representing four common shares. The ADSs were exclusively offered and sold outside Argentina. J.P. Morgan served as underwriter for the offering. The proceeds from such offering will be used for funding current or new investment projects, the payment of dividends, for working capital or repayment of indebtedness, among others.

Metropolitan's debt refinancing

On October 23, 2017, Metropolitan has extended the term of a non-recurse loan until April 30, 2020 for the amount of US\$53.1 million as a result of having canceled US\$40 million in cash, of which we have contributed US\$20 million, and of having received an additional haircut of US\$20 million from the lender bank. In the context of this renegotiation, the interest rate of the loan has been reduced from Libor plus 4% to Libor plus 2%.

Shareholders' Meeting

Our 2017 annual meeting of shareholders has been called for October 31, 2017, in order to consider, among others:

Treatment and allocation of net income for the fiscal year ended June 30, 2017;

Payment of a cash dividend for up to Ps.1,400 million.

Consideration of appointment of regular and alternate directors due to expiration of term;

Creation of a new Global Note Program for the issuance of simple, non-convertible notes, secured or not, or guaranteed by third parties, for a maximum outstanding amount of up to US\$350,000,000 (three hundred and fifty million US dollars) (or its equivalent in any other currency) pursuant to the provisions set forth in the Negotiable Obligations Law No. 23,576, as amended and supplemented (the "program") due to the expiration of the program currently in force.

Consideration of (i) delegation to the board of directors of the broadest powers to determine all the program's terms and conditions not expressly approved by the shareholders' meeting as well as the time, amount, term, placement method and further terms and conditions of the various series and/or tranches of notes issued thereunder; (ii) authorization for the board of directors to (a) approve, execute, grant and/or deliver any agreement, contract, document, instrument and/or security related to the creation of the program and/or the issuance of the various series and/or tranches of notes thereunder; (b) apply for and secure authorization by the Argentine Securities Commission to carry out the public offering of such notes; (c) as applicable, apply for and secure before any authorized securities

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

Treatment of amounts paid as personal asset tax levied on the shareholders.

Issue of Series IV Notes

On September 12, 2017, IRSA CP issued the Series IV Notes, for US\$140,000,000, bearing a fixed interest rate of 5.00%, which matures on September 14, 2019.

Acquisition Exhibition and Convention Center

On August 4, 2017, we subscribed a concession agreement for the "Exhibition and Convention Center of the City of Buenos Aires," which was awarded by public auction on July 24, 2017 to a joint venture (Unión Transitoria de Empresa) named "LA RURAL SA - OFC SRL - OGDEN ARGENTINA SA - ENTERPRISE UNIVERSAL SA UNION TRANSITORIA" (the "Joint Venture"). The concession is for the term of 15 years. We own 70% of EHSA and Diego Finkelstein is the other shareholder with 30% interest. We indirectly hold a 54.25% interest in the Joint Venture. The Exhibition and Convention Center has approximately 22,800 square meters of surface area and can accommodate approximately 5,000 people, with an auditorium plenary room and an auxiliary room, offices and conference center. It consists of three underground levels along an area that sits between the Law School of the University Buenos Aires and Park Thays.

Investment in TGLT S.A.

On August 1, 2017, we acquired 22,225,000 Subordinated Notes Convertible into shares of TGLT S.A. ("TGLT") for US\$22,225,000 (US\$1 Nominal Value) due 2027. As a consecuence of this acquisition and in the event of the exercise of the right of conversion by all the holders, our holding on TGLT would increase to 13.80%.

Suspention notice

On July 21, 2017, IRSA CP announced that it would not proceed with the announced proposed global offering of 14,000,000 of newly issued common shares and an additional of 14,000,000 shares owned by us.

Sale of BAICOM land reserve

On July 19, 2017, the Company, acting through a subsidiary, sold to an unrelated third party a land reserve of approximately 6,905 sqm located at Av. P. Ramón Castillo, at the corner of Av. Antártida Argentina, in the neighborhood of Retiro, City of Buenos Aires. This land reserve was owned by BAICOM Networks S.A. ("Baicom"), a company in which IRSA held an indirect controlling interest of 50%.

The transaction amount was US\$14,000,000 (US\$7 million corresponding to IRSA), and as of the date of this report it has been fully paid.

Operations Center in Israel

Transaction for the Purchase of IDBD's shares in DIC by Dolphin

On August 2017, under the scope of the Concentration Law, Dolphin made a non-binding offer to purchase, all the shares held by IDBD in DIC. On September 2017, IDBD announced that following the negotiations of DIC's independent board committee the non-binder offer was signed, according to which, IDBD would sell all the shares in DIC, at a price of NIS 16.6 per share (and in total of NIS 1.77 billion in respect of all the shares which will be sold) by means of a debenture that will be issued by the purchaser to IDBD.

We cannot assure that the parties will execute or perform any binding agreement. The offer is subject to the parties' execution of the final agreements (which is subject to further negotiations) until November 16, 2017 as well as the approval of the transaction by the Companies' corporate bodies and the fulfillment of additional conditional terms by December 10, 2017. This transaction could significantly extend over time or could fail to be consummated or be consummated under different terms, as it must be approved by IDBD's corporate bodies and other entities, which could withhold their consent.

Non-binding Offer for Clal

On September 2017, IDBD's Board of Directors approved IDBD engagement with a non-binding offer with Huabang Financial Holdings Limited to acquire its entire equity interest in Clal, representing 44.9% of its stock capital.

The amount payable will be equivalent to Clal's shareholders' equity as reflected in its Financial Statements on the transaction's closing date. As of June 2017, such amount was approximately NIS 4,880 million.

The transaction is subject to a due diligence process, to be conducted by the purchaser for a term of 60 days after the execution of the memorandum of understanding, and the execution of a binding agreement among the parties, among other requirements.

Moreover, the consummation of the transaction is subject to the approval of Israel's Capital Market, Insurance and Savings Commission reporting to the Israeli Ministry of Finance.

Sale of the entire issued and paid-up share capital between Israir (subsidiary of IDB Tourism) and Sun D'or

On July 2017, IDB, IDB Tourism and Israir entered into an agreement with El Al and Sun Dor in an agreement to sell the entire issued and paid-up share capital of Israir to Sun D'or. For more information, see "Significant acquisitions, dispositions, and developments – Negotiations between Israir and Sun D'or."

Agreement for the acquisition of New Pharm

On April 2017, Shufersal entered into an agreement for the purchase of New Pharm. See "Significant acquisitions, dispositions, and developments – Agreement for New Pharma."

Bond Issues

On July 2017, IDBD issued debentures (Series N) for a total gross consideration of approximately NIS 642 million, secured by a lien on the shares of DIC and the interest rate shall be 5.30%, subject to compliance with the financial covenants. The debentures shall mature on 2022.

On October 2017, Gav Yam issued debentures (Series H) for a total gross consideration of approximately NIS 423 million. The debentures shall accrue interest of 2.55% per annum and shall mature on 2034.

Update of rating of DIC's debentures

On August 2017, Standard & Poor's Maalot Ltd. updated the forecast of the rating of DIC's debentures from BBB with a stable outlook for BBB with a positive outlook. In addition, on September 2017 and in connection with the DIC's trade in offer, as aforesaid, Standard & Poor's Maalot Ltd. granted ilBBB rating to the issue of debentures of up to NIS 2 billion.

DIC's second tranche dividend to IDBD

On September 2017 IDB received its share in the second tranche of the dividend in the amount of NIS 128 million.

DIC's trade in offer

On September 28, 2017 DIC made a partial exchange offer to the holders of DIC's series F bonds, in return for DIC's series J bonds (a new series).

DIC's series J bonds has terms that are materially different from the series F, so this will be treated in accordance with international accounting rules as the repayment of the existing original financial undertaking and the recognition of a

new financial undertaking at fair value

As a result of this exchange, DIC registered a loss for the difference between the cancellation and the value of the new debt, in the approximate amount of NIS 459 million (approximately PS. 2,228 at the date of the exchange).

Tax to be paid by PBC

On July 2017, PBC published on the TASE that on July 2017 PBC received tax assessments for the 2012 to 2015 tax years from the Tax Authority, according to which the company is required to pay a tax in the total amount of NIS 172 million (NIS 187 million including linkage differentials and interest as per the date of the report), as a result of the failure to allow the offsetting of losses. PBC intends to appeal those assessments.

Cellcom's non payment of dividends

On August 2017, Cellcom's Board of Directors decided not to declare a cash dividend for the second quarter of 2017. In making its decision, the board of directors considered the Cellcom's dividend policy and business status and decided not to distribute a dividend at this time, given the intensified competition and its adverse effect on Cellcom's results of operations, and in order to strengthen Cellcom's balance sheet.

Licences to Modi'in Energy - Limited Partnership

On August 2017, Modi'in Energy - Limited Partnership ("Modi'in") reported that at the operating committee meeting of the joint venture regarding the license area 391 / "Daniel East" and license 392 / "Daniel West" (together, the "Licenses"), that the Licenses operator recommended the partners of the joint venture to return all the rights in the Licenses to Israel. With that in mind, the general partner in Modi'in decided to return all the participation rights of Modi'in In the licenses to Israel and instructed the management of the General Partner to act accordingly.

Bonds (Series 14 - Use of dividend Funds)

IDBD announced on September 27, 2017, further to the announcement of DIC, dated August 28, 2017 that, regarding a dividend distribution to its shareholders (payment of the dividend's second tranch), and in accordance with the provisions of the deed of trust for the Company's bonds (Series 14), the interest payment to the bondholders which was scheduled for October 1, 2017 (and whose effective date was September 24, 2017), in the amount of NIS 5.98 million was paid out of the dividend funds wich were received in the trust account of the trustee for the bondholders. It is noted that the total sum of the dividend funds which were received in the trust account is NIS 74.44 million.

B. Business Overview

Operations and principal activities

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

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

- i. the acquisition, development and operation of shopping malls,
- the acquisition and development of office buildings and other non-shopping mall properties primarily for rental purposes,
- iii. the development and sale of residential properties,
- iv. the acquisition and operation of luxury hotels,

the acquisition of undeveloped land reserves for future development or sale, and

selective investments mostly in Argentina, United States and Israel.

On October 11, 2015, the Company obtained control of the Israeli company IDBD and it began to include it in its consolidated financial statements.

IDBD is one of the largest and most diversified holding companies in Israel. Through its subsidiaries, associates, joint ventures and other investments, IDBD is engaged in numerous markets and industry sectors in Israel and other countries, including real estate (PBC), supermarkets (Shufersal), agroindustry (Adama), insurance (Clal), and telecommunications (Cellcom), among others. IDBD is registered with the TASE as a "Debentures Company" pursuant to Israeli law, as it has publicly listed bonds.

As a result of the consolidation of this investment in the company's financial statements, we decided to break down reporting into an Operations Center in Argentina and an Operations Center in Israel. From the Operations Center in Argentina, the Company manages the businesses in Argentina and the international investments in the Lipstick Building in New York and the Condor Hospitality Trust Hotel REIT. From the Operations Center in Israel, the Company manages IDBD.As of June 30, 2017 we owned 29.91% of Banco Hipotecario, one of the leading financial institutions in Argentina, 28.7% of the voting power of the US REIT named Condor Hospitality Trust (formerly known as Supertel Hospitality Inc.) and indirectly 68.3% of the Israeli company IDBD.

Operations Center in Argentina

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

Our "Shopping Malls" segment includes the operating results from our portfolio of shopping malls principally comprised of lease and service revenue from tenants. Our Shopping Malls segment had assets of Ps.28,878 million and Ps.26,688 million as of June 30, 2017 and 2016, respectively, representing 64% and 68% of our operating assets for the Operations Center in Argentina at such dates, respectively. Our Shopping Malls segment generated operating income of Ps.4,253 million and Ps.17,895 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 66% and 89% of our consolidated operating income in Argentina for such years, respectively.

Our "Offices and Others" segment includes the operating results of our lease and service revenues of office space and other non-retail building properties principally comprised of lease and service revenue from tenants. Our Offices and Others segment had assets of Ps.7,859 million and Ps.5,866million as of June 30, 2017 and 2016, respectively, representing 18% and 15% of our operating assets for the Operations Center in Argentina at such dates, respectively. Our Offices and Others segment generated operating income of Ps.1,701 million and Ps.1,585 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 26% and 8% of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our "Sales and Developments" segment includes the operating results of our acquisition and/or construction of housing and other properties for sale in the ordinary course of business. Our Sales and Developments segment had assets of Ps.5,468 million and Ps.4,728 million as of June 30, 2016 and 2015, respectively, representing 12% of our operating assets for the Operations Center in Argentina for both years. Our Sales and Developments segment generated operating income of Ps.821 million and Ps.681 million for the financial years ended June 30, 2017 and 2016, respectively, representing 13% and 3% of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our "Hotels" segment includes the operating results of our hotels mainly comprised of room, catering and restaurant revenues. Our Hotels segment had assets of Ps.167 million and Ps.164 million as of June 30, 2017 and 2016, respectively, representing 0.4% of our operating assets for the Operations Center in Argentina for both years. Our Hotels segment generated operating income of Ps.9 million and operating losses of Ps.1 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 0.1% and 0.005% of our consolidated operating income for the Operations Center in Argentina for such years.

Our "International" segment includes investments that mainly operate in the United States in relation to the lease of office buildings and hotels in that country. We intend to continue evaluating investment opportunities outside Argentina as long as they offer attractive investment and development options. Our International segment had assets of Ps.572 million and Ps.145 million as of June 30, 2017 and 2016, respectively, representing 1.3% and 0.4% of our

operating assets for the Operations Center in Argentina for such years. Our International segment generated operating losses of Ps.51 million and operating income of Ps.53 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 1% and 0.3% of our consolidated operating income for the Operations Center in Argentina for such years, respectively.

Our "Financial Operations and Others" segment primarily includes the financial activities carried out by Banco Hipotecario and Tarshop S.A. ("Tarshop")and other residual financial operations and corporate expenses related to the Operations Center in Argentina. As of June 30, 2017, our investment in Banco Hipotecario generated income of Ps.83 million. Tarshop is a company specialized in the sale of consumer financing products and cash advances to non-banking customers. Our Financial Operations and Others segment had assets of Ps.1,941 million and Ps.1,703 million as of June 30, 2017 and 2016, respectively, representing 4.3% of our operating assets for the Operations Center in Argentina for both dates. Our Financial Operations and Others segment generated operating losses of Ps.119 million and operating income of Ps.80 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 1.8% and 0.4% and of our consolidated operating income for the Operations Center in Argentina for such years.

Operations Center in Israel

We operate our business in Israel through five reportable segments, namely "Real Estate," "Supermarkets," "Telecommunications," "Insurances" and "Others" as further described below:

Our "Real Estate" segment includes mainly assets and operating income derived from business related to the subsidiary PBC. PBC is engaged, independently and through its subsidiaries and associate companies, some of which are public companies, in various areas of the real estate industry in Israel and abroad. The main operating segments of PBC include the revenue-generating properties segment - its core activity, and the residential construction segment. PBC is also engaged in the agriculture segment. Our Real Estate segment had operating assets (liabilities), net of Ps.15,327 million and Ps.11,102 million as of June 30, 2017 and 2016, representing 64.6% and 76.7% of our operating assets for the Operations Center in Israel at such years, respectively. Our Real Estate segment generated operating income of Ps.2,670 million and Ps.878 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 79.3% and 96.5% of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Our "Supermarkets" segment includes assets and operating income derived from the business related to the subsidiary Shufersal. Shufersal operates both directly and through its investee corporations, and owns the largest supermarket chain in Israel in terms of sales volume. Our Supermarkets segment had operating assets (liabilities), net of Ps.9,282 million and Ps.5,826 million as of June 30, 2017 and 2016, representing 39.1% and 40.2% of our operating assets for the Operations Center in Israel at such years, respectively. Our Supermarkets segment generated operating income of Ps.1,724 million and Ps.411 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 51.2% and 45.2% of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Our "Telecommunications" segment includes assets and operating income derived from the business related to our subsidiary Cellcom. Cellcom is a provider of communication services, which offers to its customers primarily mobile communication services, landline telephone services, international telephone services, internet connectivity services and associated services, and beginning in December 2014, also television over internet services. Our Telecommunications segment had operating assets (liabilities), net of Ps.6,616 million and 5,688 million as of June 30, 2017 and 2016, representing 27.9% and 39.3% of our operating assets for the Operations Center in Israel at such years, respectively. Our Telecommunications segment generated operating losses of Ps.253 million and Ps.71 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 7.5% and 7.8% of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Our "Insurance" segment includes the investment in Clal. Clal is a holding company which is primarily engaged in the insurance, pension and provident funds segments, and in the holding of assets and real and other related businesses (such as insurance agencies), and which constitutes one of the largest insurance groups in Israel. Our Insurance

segment had operating assets (liabilities), net of Ps.8,562 million and Ps.4,602 million as of June 30, 2017 and 2016, representing 36.1% and 31.8% of our operating assets for the Operations Center in Israel at such years, respectively.

Our "Others" segment includes the assets and income derived from other diverse business activities, such as technological developments, oil and gas assets, electronics, and others. Our Others segment had operating assets (liabilities), net of Ps.(16,058) million and (12,737) million as of June 30, 2017 and 2016. Our Others segment generated operating losses of Ps.774 million and Ps.308 million for the fiscal years ended June 30, 2017 and 2016, respectively, representing 23.0% and 33.8%, of our consolidated operating income for the Operations Center in Israel for such years, respectively.

Business Strategy

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

Operations Center in Argentina

Shopping Malls

Our main purpose is to maximize our shareholders' profitability. By using our know-how in the shopping mall industry in Argentina as well as our leading position, we seek to generate a sustainable growth of cash flow and to increase the long-term value of our real estate assets.

We attempt to take advantage of the unsatisfied demand for purchase in different urban areas of the region, as well as of our customers' purchase experience. Therefore, we seek to develop new shopping malls in urban areas with attractive prospects for growth, including Buenos Aires' Metropolitan area, some cities in the provinces of Argentina and possibly, other places abroad. To achieve this strategy, the close business relationship we have had for years with more than 1000 retail companies and trademarks composing our selected group of tenants is of utmost importance, as it allows us to offer an adequate mix of tenants for each particular case.

Offices and Others

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

Sales and Developments

We seek to purchase undeveloped properties in densely-populated areas and build apartment complexes offering green spaces for recreational activities. We also seek to develop residential communities by acquiring undeveloped properties with convenient access to the City of Buenos Aires, developing roads and other basic infrastructure such as electric power and water, and then selling lots for the construction of residential units. After the economic crisis in 2001 and 2002, the scarcity of mortgage financing restricted the growth in middle class home purchases, and as a result, we mainly focused on the development of residential communities for middle and high-income individuals, who do not need to finance their home purchases. Furthermore, we seek to continue to acquire undeveloped land at attractive locations inside and outside Buenos Aires for the purpose of their appreciation for subsequent sale. We

believe that holding a portfolio of desirable undeveloped plots of land enhances our ability to make strategic long-term investments and affords us a valuable "pipeline" of new development projects for upcoming years.

Hotels

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

International

In this segment, we seek investments that represent an opportunity of capital appreciation potential in the long term. After the international financial crisis in 2008, we took advantage of the price opportunity in the real estate sector in the United States and invested in two office buildings in Manhattan, New York. In 2015, we sold the Madison building and we hold a 49.9% interest in a US company, whose main asset is the so-called "Lipstick" office building located in the City of New York. In addition, jointly with subsidiaries, we hold 28.7% of Condor's voting rights. We intend to continue evaluating, on a selective basis, investment opportunities outside Argentina as long as they offer attractive investment and development options.

Financial Operations and Others

We keep our investment in Banco Hipotecario, the main mortgage-lending bank in Argentina, as we believe that we are able to reach good synergies in the long term with a developed mortgage market.

Operations Center in Israel

We develop our operations in Israel through IDBD. IDBD is a holding company, which invests (directly and indirectly) in companies, which operate in several different fields, primarily in the communication, real estate, commerce, services and insurance branches. IDBD strives to promote and maximize the value of its existing investments, and to improve them, and also to sell them in suitable cases, through influence and involvement in the majority of its subsidiaries. This effect is realized, whether through the appointment of directors on its behalf and the provision of candidates on its behalf for corporate officer positions, or through involvement in the business strategic processes of the subsidiaries.

In parallel with substantiating the control of the control group in IDBD and DIC, in early 2016, the managerial headqaurters of IDBD was replaced, including, as of the publication date of the periodic report for 2016 the joint General Manager, CFO, VP Legal Counsel, VP Accounting and Corporate Secretary, and an emphasis was placed on active management of the group.

Most of the subsidiaries of IDBD are public companies and leaders in their fields, with strong access to capital markets and to the banking system.

Discount Investments is a holding company that invests in companies which operates in a variety of fields, mainly in communications, real estate, commerce and services. DIC strives to promote and maximize the value of its existing investments until they are sold in appropriate cases. We have accepted a non-binding offer for the sale of our equity interest in DIC. Please see "- History and Development of the Company- Significant dispositions and development of business."

Real Estate

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

Supermarkets

Implementation of Shufersal's strategy launched in the summer of 2014, the main elements of which are strengthening of Shufersal's competitive position, especially in the discount segment, promotion and significant growth in Shufersal's own brand, which includes the launch of new products in more leading categories (such as pharma and products for infants) alongside improvement in its terms of trade and relationships with its suppliers, substantial growth in sales of Shufersal Online and promotion of the digital operation, including Shufersal App, promotion of growth engines and development of specialized areas of activity, which includes, development of "Shufersal for Business" (Wholesale Sales Offers), and further implementation of the streamlining plan and changes in work procedures while saving costs.

Telecommunications

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

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

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

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

Insurance

The investment managers make use of an advanced research department and an effective trading execution, to ensure a competitive advantage in order to achieve a fair long-term yield for policy holders, maximizing income from investments in accordance with the company's risk appetite and the structure of liabilities in the portfolios. On September 5, 2017, the Company reported that IDBD has received a non-binding offer from Huabang Financial Holdings Limited to acquire its entire stake in Clal, representative of 44.9% of its share capital. For more information, please see "-History and development of the Company-Significant dispositions and development of business."

Others

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

Overview

Operations Center in Argentina

Shopping Malls

As of June 30, 2017, we own, through our subsidiary IRSA CP, a majority interest in a portfolio of 16 shopping malls in Argentina, 15 of which are operated by us. Of our 16 shopping malls, seven are located in the City of Buenos Aires, two in the greater Buenos Aires area, and the rest located in different provinces of Argentina (Alto Noa in the City of Salta, Alto Rosario in the City of Rosario, Mendoza Plaza in the City of Mendoza, Córdoba Shopping Villa Cabrera and Patio Olmos, operated by a third party, in the City of Córdoba, La Ribera Shopping in Santa Fe, through a joint venture, and Alto Comahue in the City of Neuquén).

The shopping malls we operate comprise a total of 341,289 square meters (3,673,604 square feet) of gross leasable area. Total tenant sales in our shopping malls, as reported by retailers, were Ps.34,426 million for the fiscal year ended June 30, 2017 and Ps.28,854 million for fiscal year ended June 30, 2016, representing an increase of 19.3%. Tenant sales at our shopping malls are relevant to our revenues and profitability because they are one of the factors that determine the amount of rent that we charge our tenants. They also affect the tenants' overall occupancy costs as a percentage of the tenant's sales.

For the fiscal year ended June 30, 2017, our shopping malls welcomed 105.8 million visitors and for the fiscal year ended June 30, 2016, total visitors was 112.3 million.

Total Number of Visitors Per Fiscal Year at our Shopping Malls

(in millions)

The following table shows certain information concerning our shopping malls as of June 30, 2017:

Shopping malls	Date ofacquisition/development	Location	GLA(sqm)(1)	Numberot	Occupancyrate(2)Ourownershipinteres	Rental t revenue
					(%)	(%)	(in thousands of Ps.)
Alto Palermo	Dec-97	City of Buenos Aires City of	18,945	143	99.3	100.0	507,048
Abasto Shopping(3) Nov-99	Buenos Aires	36,795	171	96.8	100.0	542,219
Alto Avellaneda	Dec-97	Buenos Aires Province	36,063	136	99.3	100.0	343,930
Alcorta Shopping	Jun-97	City of Buenos Aires	15,613	113	98.1	100.0	238,355
Patio Bullrich	Oct-98	City of Buenos Aires	11,760	91	97.6	100.0	145,803
Buenos Aires Design	Nov-97	City of Buenos Aires	13,697	62	97.2	53.7	55,837
Dot Baires Shopping	May-09	City of Buenos Aires	49,499	158	99.9	80.0	332,968
Soleil Premium Outlet	Jul-10	Buenos Aires Province	15,227	79	100.0	100.0	115,468
Distrito Arcos	Dec-14	City of Buenos Aires	14,692	67	100.0	90.0	120,351
Alto Noa Shopping Alto Rosari	Mar-95	Salta	19,059	90	99.4	100.0	88,515
Shopping(4		Santa Fe	31,807	150	99.6	100.0	247,190
Mendoza Plaza Shopping	Dec-94	Mendoza	42,867	142	97.1	100.0	148,239
Córdoba Shopping	Dec-06	Córdoba	15,445	108	98.1	100.0	87,752

Villa Cabrera La Ribera Shopping(5) Aug-11	Santa Fe	10,054	68	97.6	50.0	28,293
Alto Comahue	Mar-15	Neuquén	9,766	104	96.4	99.9	58,164
Patio Olmos(6) Total	Sep-07	Córdoba	— 341,289	 1,682	— 98.5	_	

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

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

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

⁽⁴⁾ Excludes Museo de los Niños (1,261 square meters).

⁽⁵⁾ Owned through our joint venture NPSF.

⁽⁶⁾ We own the historic building in the province of Cordoba where Patio Olmos shopping is located, which mall is operated by a third party.

The following table sets forth total rental income for each of our 16 shopping malls for the periods indicated:

For the fiscal years ended June 30, (2)

	2017	2016	2015
	(in thousand	ls of Ps.)	
Alto Palermo	507,048	413,815	310,717
Abasto Shopping	542,219	403,231	313,323
Alto Avellaneda	343,930	279,949	208,515
Alcorta Shopping	238,355	193,959	149,318
Patio Bullrich	145,803	123,395	104,142
Buenos Aires Design	55,837	47,160	37,950
Dot Baires Shopping	332,968	271,411	210,121
Soleil Premium Outlet	115,468	84,615	61,026
Distrito Arcos	120,351	81,252	27,426
Alto Noa Shopping	88,515	75,724	52,342
Alto Rosario Shopping	247,190	189,335	145,762
Mendoza Plaza Shopping	148,239	124,118	95,214
Córdoba Shopping Villa Cabrera	87,752	70,302	56,286
La Ribera Shopping(1)	28,293	21,884	15,255
Alto Comahue	58,164	49,611	16,347
Total	3,060,134	2,429,763	1,803,743

(1)

Through our joint venture NPSF

(2)

Includes Base Rent, Percentage Rent, Admission Rights, Fees, Parking, Commissions, Revenues from non-traditional advertising and Others.

The following table sets forth our revenues from cumulative leases by revenue category for the periods presented:

For the fiscal year ended June 30,

2017 2016 % Change

(in thousands of Ps.)

Base Rent(1)	1,685,900	1,261,418	33.7
Percentage Rent	637,323	599,033	6.4
Total Rent	2,323,223	1,860,451	24.9

Admission rights	262,489	207,531	26.5
Fees	47,697	37,593	26.9
Parking	192,750	153,213	25.8
Commissions	122,389	105,013	16.5
Revenues from non-traditional advertising	63,001	59,984	5.0
Others	48,588	5,977	712.8
Revenues before Expenses and Collective Promotion Fund	3,060,134	2,429,763	25.9
Expenses and Collective Promotion Fund	1,375,915	1,101,251	24.9
Total(2)	4,436,049	3,531,014	25.6

(1)

Includes Ps.209.2 million in revenues from stands operating at our shopping malls.

(2)

Does not include Patio Olmos.

Tenant retail sales

Total sales by our shopping mall tenants, as reported by retailers, increased 19.3%, to Ps.34,426 million for the period ended June 30, 2017 from Ps.28,854 million for period ended June 30, 2016. Tenant sales at our shopping malls are relevant to our revenues and profitability because they are one of the factors that determine the amount of rent that we charge our tenants. They also affect the tenants' overall occupancy costs as a percentage of the tenant's sales.

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

For the fiscal years ended June 30,

2017 2016 2015

(in millions of Ps.)

Alto Palermo	4,169	3,499	2,662
Abasto Shopping	4,604	4,043	3,150
Alto Avellaneda	4,344	3,776	2,913
Alcorta Shopping	2,207	1,899	1,475
Patio Bullrich	1,236	1,061	889
Buenos Aires Design	537	414	326
Dot Baires Shopping	3,748	3,254	2,571
Soleil	1,726	1,282	938
Distrito Arcos	1,455	962	340
Alto Noa Shopping	1,587	1,325	1,069
Alto Rosario Shopping	3,175	2,627	1,952
Mendoza Plaza Shopping	2,734	2,369	1,907
Córdoba Shopping	1,178	991	756
La Ribera Shopping(1)	771	634	398
Alto Comahue(2)	954	717	182
Total	34,426	28,854	21,526

(1)

Owned by Nuevo Puerto Santa Fe S.A., in which we are a joint venture partner.

(2)

Opened on March 17, 2015.

The following chart depicts aggregate gross sales for the fiscal years represented of our shopping mall tenants.

Aggregate Gross Sales per Fiscal Year

(in millions of Ps.)

Total sales by type of business

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

For the fiscal years ended June 30,

2017 2016 2015

(in millions of Ps.)

Anchor Store	1,875	1,590	1,299
Clothing and footwear	18,463	15,156	11,125
Entertainment	1,178	1,021	741
Home	957	784	617
Restaurant	3,671	2,723	1,938
Miscellaneous	3,963	3,368	2,589
Services	255	351	223
Electronic appliances	4,064	3,861	2,994
Total	34,426	28,854	21,526

Occupancy rate

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

	As of June 30,			
	2017	2016	2015	
	(%)			
Abasto Shopping	96.8	99.8	100.0	
Alto Palermo	99.3	99.5	99.7	
Alto Avellaneda	99.3	100.0	99.9	
Alcorta Shopping	98.1	89.1	100.0	
Patio Bullrich	97.6	99.1	100.0	
Alto Noa	99.4	100.0	100.0	
Buenos Aires Design	97.2	95.7	94.6	
Mendoza Plaza	97.1	95.2	96.1	
Alto Rosario	99.6	100.0	97.9	

Córdoba Shopping Villa Cabrera	98.1	99.2	99.8
11 0		· -	,,
Dot Baires Shopping	99.9	100.0	99.7
Soleil Premium Outlet	100.0	100.0	99.4
La Ribera Shopping	97.6	99.3	99.3
Distrito Arcos(1)	100.0	97.0	97.3
Alto Comahue(2)	96.4	96.6	94.2
Total	98.5	98.4	98.7

(1)

Opened on December 18, 2014.

(2)

Opened on March 17, 2015.

The following chart depicts the average occupancy rate for all our shopping malls for each fiscal year presented:

Shopping Malls—Occupancy rates (%) per fiscal year

Rental price

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

For the fiscal years endedJune 30,

	2017	2016	2015
	(in Ps.)		
Abasto Shopping	14,736	9,964	7,755
Alto Palermo	26,765	21,819	15,898
Alto Avellaneda	9,537	7,801	5,677
Alcorta Shopping	15,267	12,217	9,675
Patio Bullrich	12,399	10,473	8,950
Alto Noa Shopping	4,644	3,977	2,744
Buenos Aires Design	4,077	3,403	2,733
Mendoza Plaza	3,458	2,952	2,264
Alto Rosario Shopping	7,772	6,299	4,915
Córdoba Shopping Villa Cabrera	5,682	4,512	3,672
Dot Baires Shopping	6,727	5,468	4,215
Soleil Premium Outlet	7,583	6,048	4,361
La Ribera Shopping	2,814	2,222	1,564
Distrito Arcos(2)	8,192	7,274	2,262

5,956

5,017

(1)

Alto Comahue(3)

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

1,729

(2)

Opened on December 18, 2014.

(3)

Opened on March 17, 2015.

Lease expirations

The following table sets forth the schedule of estimated lease expirations for our shopping malls for leases in effect as of June 30, 2017, assuming that none of our tenants exercise their option to renew or terminate their leases prior to expiration:

As of June 30, 2017

Expiration (2)	Number of agreements/stores	Square meters due Due to		Amount of lease payments(in thousands of Ps.)(3)	Agreements(%)
Vacant stores	59	13,141	3.9		
2017(1)	360	66,577	19.4	308,613,566	22.2
2018	460	89,732	26.3	423,644,277	30.5
2019	516	114,262	33.5	410,043,421	29.5
2020 and	287	57,577	16.9	248,712,291	17.8
subsequent year Total(2)	s 1,682	341,289	100.0	1,391,013,556	100%

(1)

Includes vacant stores as of June 30, 2017. A lease may be associated with one or more stores.

(2)

Does not reflect our ownership interest in each property.

(3)

Reflects the annual Base Rent of agreements due to expire as of June 30, 2017.

Five largest tenants of the portfolio

The five largest tenants of the portfolio (in terms of sales) conforms approximately 14.6% of their gross leasable area as of June 30, 2017 and represent approximately 9.2% of the annual base rent for the fiscal year ending on June 30, 2017.

New leases and renewals

The following table shows certain information about our lease agreements as of June 30, 2017:

Average annual baserent per sqm (Ps.)

Type of business

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

	Number of agreements		C	New and renewed		Number of non-renewed agreements(1)	Non-renewed agreements(1)annual base rent amount (in millions of Ps.)
Clothing and footwear	132	19.1	21.7	1,461.8	1,103.6	843	117.3
Restaurant	15	1.5	1.3	1,154,7	803.9	198	21.7
Miscellaneous(2)	27	3.6	7.8	1,111.7	824.4	248	34.2
Home	21	2.1	2.2	693.4	620.7	71	7.2
Services	1	0.0	0.0	790.2	1,865.9	67	4.3
Entertainment	2	0.5	0.1	93.3	70.5	25	5.6
Total	198	27.0	33.1	5,305.1	5,289	1,452	190.3

(1)

Includes vacant stores as of June 30, 2017. Gross leasable area with respect to such vacant stores is included under the type of business of the last tenant to occupy such stores.

(2)

Miscellaneous includes anchor store.

Principal Terms of our Leases

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

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

Rent amount specified in our leases generally is the higher of (i) a monthly Base Rent and (ii) a specified percentage of the tenant's monthly gross sales in the store, which generally ranges between 3% and 10% of tenant's gross sales. In addition, pursuant to the rent escalation clause in most of our leases, a tenant's Base Rent generally increases between 21% and 25% on an annual and cumulative basis from the thirteenth (13th) month of effectiveness of the lease. Although many of our lease agreements contain price adjustment provisions, these are not based on an official index nor do they reflect the inflation index. In the event of litigation, there can be no assurance that we may be able to enforce such clauses contained in our lease agreements.

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

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

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

Each tenant leases its rental unit as a shell without any fixtures and is responsible for the interior design of its rental unit. Any modifications and additions to the rental units must be pre-approved by us. We have the option to charge the tenant for all costs incurred in remodeling the rental units and for removing any additions made to the rental unit when the lease expires. Furthermore, tenants are responsible for obtaining adequate insurance for their rental units, which must cover, among other things, damage caused by fire, glass breakage, theft, flood, civil liability and workers' compensation.

Control Systems

We have computer systems equipped to monitor tenants' sales (except stands) in all of our shopping malls. We also conduct regular audits of our tenants' accounting sales records in all of our shopping malls. Almost every store in our shopping malls has a point of sale that is linked to our main server. We use the information generated from the computer monitoring system to prepare statistical data regarding, among other things, total sales, average sales and peak sale hours for marketing purposes and as a reference for the internal audit. Most of our shopping mall lease agreements require the tenant to have its point of sale system linked to our server.

Competition

Given that most of our shopping malls are located in densely populated areas, there are competing shopping malls within, or in close proximity to, our target areas. The number of shopping malls in a particular area could have a material effect on our ability to lease space in our shopping malls and on the rent that we are able to charge. We believe that due to the limited availability of large plots of land and zoningrestrictions in the City of Buenos Aires, it is difficult for other companies to compete with us in areas through the development of new shopping malls. Our principal competitor is Cencosud S.A. which owns and operates Unicenter Shopping and the Jumbo hypermarket chain, among others.

The following table shows certain information concerning the most significant owners and operators of shopping malls in Argentina, as of June 30, 2017.

Entity	Shopping malls	Location(1) GLA		Stores	GLA at national level(2)	Market share(3)	
					(%)	(%)	
IRSA CP	Abasto de Buenos Aires(5)	CABA	36,795	171	2.98	2.35	
	Alto Comahue	Neuquén	9,766	104	0.79	1.43	
	Alto Palermo Shopping	CABA	18,945	143	1.54	1.96	
	Buenos Aires Design(7)	CABA	13,697	62	1.09	0.81	
	Dot Baires Shopping(6)	CABA	49,499	158	4.01	2.17	
	Paseo Alcorta(4)	CABA	15,613	113	1.26	1.55	
	Patio Bullrich	CABA	11,760	91	0.95	1.25	
	Córdoba Shopping(4)	Córdoba	15,445	108	1.25	1.48	
	Alto Avellaneda(4)	GBA	36,063	136	2.92	1.87	
	Mendoza Plaza(4) Shopping	Mendoza	42,867	142	3.46	1.95	
	Alto Rosario(4)	Rosario	31,807	150	2.57	2.06	
	Alto Noa(4)	Salta	19,059	90	1.54	1.23	
	La Ribera Shopping(7)	Santa Fe	10,054	68	0.80	0.91	
	Distrito Arcos	CABA	14,692	67	1.18	0.92	
	Soleil Premium Outlet(4)	GBA	15,227	79	1.23	1.08	
Subtotal			341,289	1,682	27.56	23.02	
Cencosud S.A.			277,203	1,237	22.44	16.95	
Other operators			617,594	4,378	50.00	60.03	
Total			1,236,086	7,297	100.00	100.00	

⁽¹⁾

Maket share equals to Stores divided Total of Stores.

(4)

[&]quot;GBA" means Greater Buenos Aires, the Buenos Aires metropolitan area, and "CABA" means the City of Buenos Aires.

Gross leasable area percentage equals the gross leasable area divided by nationwide GLA.

⁽³⁾

Includes supermarkets.

(5)

Includes Museo de los Niños.

(6)

We own 80% of the equity of PAMSA.

(7)

Our effective participation in ERSA is 53.68%, which operates the concession related to this property.

Source: Argentine Chamber of Shopping Malls.

Seasonality

Our business is directly affected by seasonality, influencing the level of our tenants' sales. During Argentine summer holidays (January and February) our tenants' sales typically reach their lowest level, whereas during winter holidays (July) and in Christmas (December) they reach their maximum level. Clothing retailers generally change their collections in spring and autumn, positively affecting our shopping malls' sales. Discount sales at the end of each season are also one of the main seasonal factors affecting our business.

Offices and Others

According to Colliers International, as of March 2017, the A+ and A office inventory increased since 2016, at 1,757,659 sqm. In terms of rental availability, there was a 0.3% increase in the vacancy rate to 4.5% during the second quarter of 2017 compared to the same period the previous year. These values indicate that the market is healthy in terms of its operations, allowing an optimum level of supply with balanced values. According to the market segments, class A properties show a vacancy rate of 8.6% for the entire stock, while A+ properties buildings show a vacancy rate of 4.5%.

We are engaged in the acquisition and management of office buildings and other rental properties in Argentina. As of June 30, 2017, we directly and indirectly owned interests in office buildings and other rental properties, which comprised 331,571 square meters of gross leaseable area. Out of these properties, 9 were office properties, which comprised 87,920 square meters of gross leaseable area. For fiscal year 2017, we had revenues from offices and other non-shopping mall rental properties of Ps.431 million.

All our office rental properties in Argentina are located in the City of Buenos Aires. For the year ended June 30, 2017, the average occupancy rate for all our properties in the Offices and Others segment was approximately 96.2%, without considering the Philips building, acquired on June 5, 2017 as there is a loan-for-use agreement executed with the seller until January 2018.

Compared to the previous quarter, a 3.3% increase was recorded (from US\$24.3 per square meter to US\$25.1 per square meter). This slight increase shows a 0.3% decrease in rental prices for A+ properties (US\$28.8 per square meter in the first quarter of the year 2017 against US\$28.7 per square meter in the fourth quarter of the year 2016) and a 1.2% decrease in rental prices for A properties (US\$23.6 per square meter in the first quarter of 2017 against US\$23.3 per square meter in the fourth quarter).

The following table shows certain information regarding our office buildings, as of June 30, 2017:

	2017	2016	2015
Leasable area (square meters)	87,920	81,020	111,678
Occupancy of total portfolio (1)	96.2%	98.7%	98.1%
Rent in Ps./square meter (1)	419.3	358.4	225.8
Rent in US\$/square meter (1)	25.3	24.0	24.90

(1) Excludes the Phillips Building as there is a loan-for-use agreement signed with the seller in effect until January 2018.

The following table shows certain information regarding our office buildings, as of June 30, 2017:

						Annual accumulated rental income (in million of Ps.) (4)		
	Date of Acquisition	Gross Leaseable Area (sqm) (1)		IRSA's Effective Interest	Monthly Rental Income (in thousands of Ps.) (3)		2016	2015
Offices								
Edificio República (5)	04/28/08	19,885	95.2%	100.0%	9,114	112	72	62

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

Torre Bankboston (5)	08/27/07	14,873	100.0%	100.0%	6,408	81	56	42
	03/15/07	-	-	100.0%	235	3	3	10
Intercontinental Plaza (5)	11/18/97	3,876	100.0%	100.0%	1,415	19	28	56
` '	06/01/05	15,014	100.0%	100.0%	7,881	86	68	48
Dique IV	12/02/97	-	-	-	-	0	15	32
Maipú 1300	09/28/95	803	50.6%	100.0%	143	6	6	16
Libertador 498	12/20/95	620	100.0%	100.0%	600	7	6	2
Suipacha 652/64 (5)	11/22/91	11,465	86.3%	100.0%	2,470	30	22	16
Dot Building (5)	11/28/06	11,242	100.0%	80.0%	4,345	50	31	27
Philips Building (5)	06/05/17	10,142	-	100.0%	-	-	-	-
Subtotal Offices		87,920	96.2%	N/A	32,611	394	307	311
Other Properties								
Santa María del Plata S.A	10/17/97	116,100	91.4%	100.0%	988	12	12	-
Nobleza Piccardo (6)	05/31/11	109,610	94.0%	50.0%	1,775	13	2	8
Other Properties (7)	N/A	17,941	N/A	N/A	1,317	13	11	7
Subtotal Other Properties		243,651	90.0%	N/A	4,080	38	25	15
Total Offices and Others		331,571	91.5%	N/A	36,691	432	332	326

⁽¹⁾ Corresponds to the total leaseable surface area of each property as of June 30, 2017. Excludes common areas and parking spaces.

⁽²⁾ Calculated by dividing occupied square meters by leaseable area as of June 30, 2017.

⁽³⁾ The lease agreements in effect as of June 30, 2017 were computed for each property.

⁽⁴⁾ Corresponds to total consolidated lease agreements.

⁽⁵⁾ Through IRSA CP.

⁽⁶⁾ Through Quality Invest.

⁽⁷⁾ Includes the following properties: Ferro, Dot Adjoining Plot, Anchorena 665, Anchorena 545 (Chanta IV) and Intercontinental plot.

Management of office buildings

We generally act as the manager of the office properties in which we own an interest. We typically own the entire building or a substantial number of floors in the building. The buildings in which we own floors are generally managed pursuant to the terms of a condominium agreement that typically provides for control by a simple majority of the interests based on owned area. As building manager, we handle services such as security, maintenance and housekeeping, which are generally outsourced. The cost of the services is passed through to, and paid for by, the tenants, except in the case of our units that have not been leased, if any, for which we bear the cost. We market our leasable area through commissioned brokers or directly by us.

Leases

We usually lease our offices and other rental properties by using contracts with an average term of three years, with the exception of a few contracts with terms of five years. These contracts are renewable for two or three years at the tenant's option. Contracts for the rental of office buildings and other commercial properties are generally stated in U.S. dollars, and in accordance with Argentine law, they are not subject to inflation adjustment. Rental rates for renewed periods are negotiated at market value.

Occupancy rate

The following table shows the occupancy rate of our offices for fiscal years 2017 and 2016:

Occupancy Percentage(1)

2017 2016

Offices

Edificio República	95.2%	100.0%
Torre Bankboston	100.0%	100.0%
Intercontinental Plaza	100.0%	100.0%
Bouchard 710	100.0%	100.0%
Suipacha 652/64	86.3%	90.7%
Dot Building	100.0%	100.0%
Maipú 1300	50.6%	100.0%
Libertador 498	100.0%	100.0%
Philips Building	-	-
Subtotal Offices	96.2%	98.7%

Annual average income per surface area as of June 30, 2015, 2016 and 2017(1)

Annual average income per square meter(1)

2017(1) 2016(1) 2015(1)

Offices	(Ps./sqm)		
Edificio República	5,671	3,615	3,115
Torre Bankboston	5,345	3,778	2,819
Bouchard 551	0	0	-
Intercontinental Plaza	5,409	4,291	2,484
Bouchard 710	5,692	4,539	3,219
Dique IV	-	-	2,847
Maipú 1300	6,425	4,790	3,330
Libertador 498	9,739	10,464	3,149
Suipacha 652/64	2,617	1,961	1,399
Dot Building	4,463	2,778	2,439
Philips Building	-	-	-

(1)Calculated by dividing annual rental income by the gross leaseable area of offices based on our interest in each building as of June 30 for each fiscal year.

New agreements and renewals

The following table sets forth certain Information on lease agreements as of June 30, 2017:

Property	Number of Agreements (1)(5)	Annual Rental Income(2)	Rental income per sqm New and Renewed(3	Previous rental income per sqm(3)	No. of non-renewed agreements	Non-renewed agreements Annual rental income(4)
Maipú 1300	1	912,402	659	528	1	1,604,411
Av. Del Libertador 498	1	3,831,017	515	468	-	-
Intercontinental Plaza	1	8,681,505	403	388	2	3,236,708
Bouchard 710	4	19,197,834	475	473	2	7,105,419
Torre BankBoston	5	49,861,824	423	452	1	876,401
Edificio República	5	37,819,319	439	435	1	13,641,466
Dot Building	5	36,963,345	356	316	-	-
Suipacha 664	6	22,087,186	234	246	-	-
Total Offices	28	179,354,432	379	376	7	26,464,405

(1)

Includes new and renewed agreements executed in fiscal year 2017.

(2)

Agreements stated in US dollars converted into Pesos at the exchange rate prevailing in the initial month of the agreement multiplied by 12 months.

(3)

Monthly value.

(4)

Agreements stated in US dollars converted into Pesos at the exchange rate prevailing in the last month of the agreement, multiplied by 12 months.

(5)

Does not include agreements of parking spaces, antennas or terrace space.

Hotels

According to the Hotel Vacancy Survey (EOH) prepared by INDEC, as of May 2017, overnight stays at hotel and parahotel establishments were estimated at 2.8 million, 10.5% higher than the same month the previous year. Overnight stays of resident and nonresident travelers increased by 10.3% and 11.3%, respectively. Total travelers who stayed at hotels during May 2017were 1.3 million, accounting for a 9.9% increase compared to the same month the previous year. The number of resident and nonresident travelers increased by 10.0% and 9.6%, respectively. The 1.1 million resident travelers represented 81.0% of the total number of travelers who stayed at hotels. The Room Occupancy Rate in April was 35.3%, showing a slight decline compared to the same month the previous year. Moreover, the Bed Occupancy Rate for the same period was 25.2%, which represents a slight decrease compared to May 2016.

During fiscal year 2017, we kept our 76.34% interest in Intercontinental hotel, 80.00% interest in Sheraton Libertador hotel and 50.00% interest in Llao Llao.

The following chart shows certain information regarding our luxury hotels:

Fiscal Year Sales as of June 30 (in millions)

Hotels	Date of Acquisition	IRSA's Interest	Number of rooms	Occupancy(Average Price per Room Ps.(2)	2017	2016	2015
Intercontinental (3	3) 11/01/1997	76.34%	309	73.9%	2,216	272	195	143
Sheraton Libertade (4)	03/01/1998	80.00%	200	73.2%	1,954	151	119	94
Llao Llao (5) Total	06/01/1997	50.00%	205 714	51.6% 67.3%	5,245 2,803	302 725	220 534	159 396
1 Otal		-	/ 1 *	07.5%	2,003	123	554	390

(1)

Accumulated

average in the

twelve-month

period.

(2)

Accumulated

average in the

twelve-month

period.

(3) Through

Nuevas

Fronteras S.A.

(4) Through

Hoteles

Argentinos

S.A.

(5) Through

Llao Llao

Resorts S.A.

Hotel Llao Llao, San Carlos de Bariloche, Province of Rio Negro

In June 1997 we acquired the Hotel Llao Llao from Llao Llao Holding S.A. Fifty percent is currently owned by the Sutton Group. The Hotel Llao Llao is located on the Llao Llao peninsula, 25 kilometers from the City of San Carlos de Bariloche, and it is one of the most important tourist hotels in Argentina. Surrounded by mountains and lakes, this hotel was designed and built by the famous architect Bustillo in a traditional alpine style and first opened in 1938. The hotel was renovated between 1990 and 1993 and has a total constructed surface area of 15,000 sqm and 158 original rooms. The hotel-resort also includes an 18-hole golf course, tennis courts, fitness facility, spa, game room and swimming pool. The hotel is a member of The Leading Hotels of the World, Ltd., a prestigious luxury hospitality organization representing 430 of the world's finest hotels, resorts and spas. The Hotel Llao Llao is currently being managed by Compa a de Servicios Hoteleros S.A., operator, among others, of the Alvear Palace Hotel, a luxury hotel located in the Recoleta neighborhood of Buenos Aires. During 2007, the hotel was subject to an expansion and the number of suites in the hotel rose to 205 rooms.

Hotel Intercontinental, City of Buenos Aires

In November 1997, we acquired 76.34% of the Hotel Intercontinental. The Hotel Intercontinental is located in the downtown City of Buenos Aires neighborhood of Montserrat, near the Intercontinental Plaza office building. Intercontinental Hotels Corporation, a United States corporation, currently owns 24% of the Hotel Intercontinental. The hotel's meeting facilities include eight meeting rooms, a convention center and a divisible 588 sqm ballroom. Other amenities include a restaurant, a business center, a sauna and a fitness facility with swimming pool. The hotel was completed in December 1994 and has 309 rooms.

Hotel Sheraton Libertador, City of Buenos Aires

In March 1998 we acquired 100% of the Sheraton Libertador Hotel from Citicorp Equity Investment for an aggregate purchase price of US\$23 million. This hotel is located in downtown Buenos Aires. The hotel contains 193 rooms and 7 suites, eight meeting rooms, a restaurant, a business center, a spa and fitness facilities with a swimming pool. In March 1999, we sold 20% of our interest in the Sheraton Libertador Hotel for US\$4.7 million to Hoteles Sheraton de Argentina. The hotel is currently managed by Sheraton Overseas Management Corporation, a United States corporation.

Bariloche Plot, "El Rancho", San Carlos de Bariloche, Province of Río Negro

On December 14, 2006, through our hotel operator subsidiary, Llao Llao Resorts S.A., we acquired a land covering 129,533 sqm of surface area in the City of San Carlos de Bariloche in the Province of Río Negro. The total price of the transaction was US\$7 million, of which US\$4.2 million were paid in cash and the balance of US\$2.8 million was financed by means of a mortgage to be paid in 36 monthly, equal and consecutive installments of US\$0.086 million each. The land is in the border of the Lago Gutiérrez, close to the Llao Llao Hotel in an outstanding natural environment and it has a large cottage covering 1,000 sqm of surface area designed by the architect Ezequiel Bustillo.

Sale and Development of Properties and Land Reserves

Residential Development Properties

The acquisition and development of residential apartment complexes and residential communities for sale is one of our core activities. Our development of residential apartment complexes consists of the new construction of high-rise towers or the conversion and renovation of existing structures such as factories or warehouses. In connection with our development of residential communities, we frequently acquire vacant land, develop infrastructure such as roads,

utilities and common areas, and sell plots of land for construction of single-family homes. We may also develop or sell portions of land for others to develop complementary facilities such as shopping areas within residential developments.

In fiscal year ended June 30, 2017, revenues from the development and sale of properties segment amounted to Ps.99 million, compared to Ps.8 million posted in the fiscal year ended June 30, 2016.

Construction and renovation works on our residential development properties are currently performed, under our supervision, by independent Argentine construction companies that are selected through a bidding process. We enter into turnkey contracts with the selected company for the construction of residential development properties pursuant to which the selected company agrees to build and deliver the development for a fixed price and at a fixed date. We are generally not responsible for any additional costs based upon the turnkey contract. All other aspects of the construction, including architectural design, are performed by third parties.

Another modality for the development of residential undertakings is the exchange of land for constructed square meters. In this way, we deliver undeveloped pieces of land and another firm is in charge of building the project. In this case, we receive finished square meters for commercialization, without taking part in the construction works.

Development	Company	Interest	Date of Acquisition	Surface area sqm	Area intended for sale sqm (1)		Sold (2)Location
Residential properties								
Available for sale								
Condominios del Alte I	OIRSA CP	100%	04/30/1999	-	2,082	-	100%	Santa Fe
Condominios del Alt II	O IRSA CP	100%	04/30/1999	-	4,082	-	100%	Santa Fe
Caballito Nuevo	IRSA	100%	11/03/1997	-	7,323	-	100%	CABA
Barrio Chico	IRSA	100%	03/01/2003	-	2,872	-	100%	CABA
El Encuentro	IRSA	100%	11/18/1997	-	127,748	-	100%	Buenos Aires
Abril Club de Campo Plots	ĪRSA	100%	01/03/1995	-	5,135	-	100%	Buenos Aires
Abril Club de Campo Manor House (3)	ĪRSA	100%	01/03/1995	31,224	34,605	-	100%	Buenos Aires
Torres Jardín	IRSA	100%	07/18/1996	-	-		-	CABA
Horizons	IRSA	50%	01/16/2007	-	60,232	-	100%	Buenos Aires
Intangible – Receival units	ole				-			
Beruti (Astor Palermo) (4)	IRSA CP	100%	06/24/2008	-	2,170	-	-	CABA
Caballito Manzana 3:	5 IRSA	100%	10/22/1998	-	6,952	-	-	CABA
CONIL - Güemes 83 – Mz. 99 and Güeme 902 – Mz. 95 and Retail Stores		100%	07/19/1996	1,389	-	5,994	-	Buenos Aires

Canteras Natal Cresp (2 commercial parcels)	o IRSA	-	-	40,333	-	-	100%	Córdoba
Isla Sirgadero	IRSA	100%	02/16/2007	826,276	-	N/A	100%	Santa Fe
Pereiraola (Greenville)	IRSA	100%	04/21/2010	-	39,634	-	-	Buenos Aires
Subtotal Residential properties Land Reserves				899,222	292,835	5,994		
Pilar R8 Km 53	IRSA	100%	05/29/1997	74,828	-	-	-	Buenos Aires
Pontevedra	IRSA	100%	02/28/1998	730,994	-	-	-	Buenos Aires
Mariano Acosta Plot	IRSA	100%	02/28/1998	967,290	-	-	-	Buenos Aires
Merlo	IRSA	100%	02/28/1998	1,004,987	-	-	-	Buenos Aires
San Luis Plot	IRSA	50%	03/31/2008	3,250,523	-	-	-	San Luis
Subtotal Land reserves Future Developments Mixed Uses	1			6,028,622	-	-		
UOM Luján (5)	IRSA CP	100%	05/31/2008	1,160,000	-	N/A	N/A	Buenos Aires
La Adela	IRSA	100%	08/01/2014	10,580,000	-	-	N/A	Buenos Aires
Predio San Martin (E Nobleza Piccardo) (6	X IRSA CP	50%	05/31/2011	159,995	-	500,000	N/A	Buenos Aires
Puerto Retiro	IRSA	50%	05/18/1997	82,051	-	N/A	N/A	CABA
Solares Santa María (7)	IRSA	100%	07/10/1997	716,058	-	N/A	N/A	CABA
Residential							-	
Coto Abasto Air Space	IRSA CP	100%	09/24/1997	-	-	21,536	N/A	CABA
	IRSA CP	100%		13,000	-	18,000	N/A	Neuquén

Neuquén – Residentia parcel	al		07/06/1999					
Uruguay Zetol	IRSA	90%	06/01/2009	152,977	62,756	-	N/A	Uruguay
Uruguay Vista al Muelle	IRSA	90%	06/01/2009	102,216	62,737	-	N/A	Uruguay
Retail								
Caballito Shopping plot (8)	IRSA CP	100%	-	23,791	-	N/A	N/A	CABA
Building Annexed to Dot Offices	IRSA CP	80%	-	15,881	-	47,643	N/A	CABA
Philips Adjoining plots - Offices 1 and 2	IRSA CP	80%	11/28/2006	12,800	-	38,400	N/A	CABA
Baicom (10)	IRSA	50%	12/23/2009	6,905	-	34,500	N/A	CABA
Intercontinental Plaza II (9)	a IRSA CP	100%	02/28/1998	6,135	-	19,598	N/A	CABA
Catalinas Norte Plot	IRSA	100%	12/17/2009	3,649	-	35,468	13%	CABA
Subtotal Future Developments				13,035,458	125,493	715,145		
Total Land Reserves				19,963,302	418,328	721,139		

⁽¹⁾

Saleable Area means the housing square meters proper, excluding parking and storage spaces. It is recorded at 100%, before making any sales.

(2)

% Sold includes those sale transactions for which there is a Preliminary Sales Agreement, Possession or a Title Deed executed. Includes housing square meters only, excludes parking and storage spaces.

(3)

Saleable Area includes 31,224 sqm of the plot and 4,712.81 total sqm of the Manor House (discounting 1,331.76 sqm of Ground Floor).

(4)

Saleable Area excludes 171 commercial parking spaces to be received and the units as compensation.

(5)

Mixed Used Feasibility requested, pending provincial approval.

(6)

Since January 2016, the plot has been subject to a regulation called "CP" (Comercial Principal), this regulation allows the development of at least 500,000 sqm for mixed uses (Commercial, Residential Properties, etc.)

(7)

Feasibility requested for 716,058 buildable square meters, pending approval from the Legislative body of the City of Buenos Aires.

(8)

Draft project of 71,374 buildable square meters, pending approval of zoning parameters.

(9)

6,135 sqm of surface area correspond to the parcel, which includes Intercontinental I and II.

(10)

On July 19, 2017, the Company sold land reserve which was owned by Baicom. For more information, please se "Recent developments – Sale of BAICOM land reserve."

(11) As a consequence of the unfavorable rulings rendered by lower courts and appellate courts, the Company and TGLT reached a settlement agreement dated December 30 2016, whereby they agree to provide a deed for the revocation of the barter agreement entered into 2011, after TGLT resolves certain issues.

Residential Properties (available for sale)

In the residential market, we acquire undeveloped properties strategically located in densely populated areas of the City of Buenos Aires, particularly properties located near shopping malls and hypermarkets or those to be constructed. We then develop multi-building high-rise complexes targeting the middle- and high- income market. These are equipped with modern comforts and services, such as open "green areas," swimming pools, sports and recreation facilities and 24-hour security. In the loft buildings market, our strategy is to acquire old buildings no longer in use located in densely populated middle and upper-middle income areas. The properties are then renovated into unfinished lofts allowing buyers the opportunity to design and decorate them according to their preferences.

Condominios del Alto II – City of Rosario, Province of Santa Fe (IRSA CP)

As of June 30, 2017, works in parcel H have been completed; all units under the barter agreement have been received and 11 parking spaces are available for sale.

Barrio Chico - City of Buenos Aires

This is a unique Project located in Barrio Parque, an exclusive residential area in the City of Buenos Aires. During May 2006, the commercialization of the project was launched with successful results. The image of the product was originally developed under the name "Barrio Chico" through advertisements in the most important media. As of June 30, 2017, the project has been completed and 2 parking spaces are yet to be sold.

El Encuentro - Benavidez, Tigre - Province of Buenos Aires

In the district of Benavidez, Municipality of Tigre, 35 kilometers north of downtown Buenos Aires, there is a 110-hectare gated residential complex known as "El Encuentro," consisting of a total of 527 lots and a total saleable area of 610,785.15 sqm with two privileged front accesses: the main one to Vía Bancalari and the service one to Highway No. 9, allowing an easy way to and from the city. As of June 30, 2017, marketing of the project has been completed.

Horizons, Vicente López, Olivos, Province of Buenos Aires.

The IRSA-CYRELA Project, developed over two adjacent blocks, was launched in March 2008 under the name Horizons. Horizons is one of the most significant developments in Greater Buenos Aires, featuring a new concept in residential complexes given its emphasis on the use of common spaces. This project includes two complexes with a total of six buildings: one complex faces the river and consists of three 14-floor buildings, the "Río" complex, and the other one, facing Libertador Avenue, consists of three 17-floor buildings, it is known as the "Parque" complex, thus totaling 59,000 square meters built of saleable area distributed in 467 units (excluding the units to be delivered as consideration for the purchase of the lands). Horizons is a unique and style-innovating residential complex offering 32 amenities, including a meeting room, work zone, heated swimming pools, mansion with spa, sauna, gym, children room, teen room, thematically landscaped areas, and aerobic trail. The showroom was opened to the public in March 2008 with great success. As of June 30, 2017, the project was fully built and 2 apartments and 2 parking spaces are pending execution of the title deed. The stock available for sale consists of 1 parking space and 30 storage spaces.

Intangibles – Units to be received under barter agreements

Beruti Plot – City of Buenos Aires (IRSA CP)

On October 13, 2010, we and TGLT entered into an exchange agreement in connection with a plot of land located at Beruti 3351/59 in the City of Buenos Aires for cash and 2,170 square meters in future residential apartments to be

constructed by TGLT on the plot. In accordance with the terms of the agreement, TGLT will transfer to us (i) certain units to be determined, representing 17.33% of the aggregate surface of the residential space, (ii) a number of parking spaces to be determined, representing 15.82% of the aggregate surface of the parking spaces, (iii) all the commercial parking spots in the future building and (iv) the sum of US\$10.7 million. To ensure performance of the obligations assumed by TGLT under the deed of sale, a mortgage over the property was granted in our favor.

On December 30, 2016, we and TGLT signed the possession certificate for 36 residential apartments totaling 2,413 square meters, 32 residential parking spaces, and 171 commercial parking spaces. As of June 30, 2017, we assigned the possession of 22 residential apartments in exchange for of US\$6.2 million and five apartments in exchange for US\$1.8 million.

Caballito Plot – City of Buenos Aires

On June 29, 2011, the Company and TGLT, a residential developer, entered into an agreement to barter a plot of land located in Méndez de Andes street in the neighborhood of Caballito in the City of Buenos Aires for cash and future residential apartments to be constructed by TGLT on the mentioned land. TGLT plans to construct an apartment building with parking spaces. The value of the transaction was agreed upon US\$12.8 million and consisted on a payment in cash of US\$0.2 million (US\$159,375) and the transfer to IRSA: (i) a number of apartments to be determined representing 23.10% of total square meters of residential space; (ii) a number of parking spaces to be determined representing 21.10% of total square meters of parking space; and (iii) in case TGLT builds complementary storage rooms, a number to be determined, representing 21.10% of square meters of storage space. TGLT is committed to build, finish and obtain authorization for the three buildings making up the project within 36 to 48 months. TGLT mortgaged the land in favor of IRSA as guarantee.

A neighborhood association named Asociación Civil y Vecinal SOS Caballito secured a preliminary injunction which suspended the works to be carried out by TGLT in the abovementioned property. Once said preliminary injunction was deemed final, the Government of the City of Buenos Aires and TGLT were served notice of the complaint. At present, the Legislature of the City of Buenos Aires has received a legislative bill to approve the zoning parameters corresponding to this property which already has the consent of the Executive Branch.

Conil – Avellaneda, Province of Buenos Aires (IRSA CP)

These plots of the Company face Alto Avellaneda shopping mall, totaling 2,398 sqm distributed in two opposite corners and according to urban planning standards, around 6,000 sqm may be built. Its intended use, either through an own development or sale to a third party, is residential with the possibility of a retail space as well. In November 2014, a barter deed was executed for the purpose of developing a residential project and as consideration for it, the Company will receive 1,389 sqm of retail stores located on the ground floors of blocks 99 and 95, at Güemes 836 and Güemes 902, respectively. Delivery of the consideration for block 95 is expected to take place in January 2018, and that corresponding to block 99 is scheduled for September 2018. The barter price was US\$0.7 million.

Pereiraola (Greenville), Hudson – Province of Buenos Aires

In April de 2010 we sold Pereiraola S.A., a company owner of certain lands adjacent to Abril Club de Campo that comprised 130 hectares, for US\$11.7 million. The purchaser would develop a project that includes the fractioning into lots, a condo-hotel, two polo fields, and apartment buildings. The delivery to the Company of 39,634 square meters of lots amounting to approximately US\$3 million was included in the sale price. At present the company is marketing its 52 lots.

Canteras Natal Crespo, La Calera - Province of Córdoba

On June 26, 2013, we sold 100% of our interest in Canteras Natal Crespo S.A. representing 50% of its capital stock, to Euromayor S.A. de Inversiones for US\$4,215,000 according to the following payment schedule: US\$3,815,000 in cash and US\$400,000 through the transfer of almost 40,000 sqm for business purposes within the project to be developed in the site known as Laguna Azul. Delivery of the non-monetary consideration is pending.

Land Reserves and developments properties

Other Land Reserves - Pilar, Pontevedra, Mariano Acosta, Merlo and San Luis Plots

We grouped here those plots of land with a significant surface area the development of which is not feasible in the short term either due to their current urban and zoning parameters, their legal status or the lack of consolidation of their immediate environment. This group totals around 14 million sqm.

Isla Sirgadero

On September 3, 2015, the entire property was sold to several companies for US\$3.9 million, payable in 16 quarterly installments, plus an installment in kind, land resulting from the final blueprint, equivalent to 10% of the surface area. Delivery of the non-monetary consideration is pending.

CAPEX 2017

	Developments		
	Greenfields	Expansions	
	Polo Dot(1) (First Stage)	Catalinas(2)	Alto Palermo(3)
Beginning of Works	FY2017	FY2017	FY2017
Estimated opening date	FY2019	FY2020	FY2019
Total GLA (sqm)	32,000	35,468	4,000
Investment amount at 100% (in millions)	Ps.1,000	Ps.1,600	US\$28.5
Work progress (%)	7.4%	3.0%	0%

(1)

Our ownership on the development is through PAMSA, which owns 80% of it. (subsidiary of IRSA CP).

(2)

55% of the development corresponds to the Company. 45% corresponds to our subsidiary IRSA CP.

(3)

100% of the development owned by IRSA CP.

Alto Palermo Expansion

The expansion project of the Alto Palermo shopping mall is currently expected to add approximately 4,000 square meters of gross leasable area to the shopping mall and consists of moving the food court to a third level by using the area of an adjacent building acquired in 2015. During the fiscal year 2017, the demolition stage of this expansion was finished.

First stage of Polo Dot

The project called "Polo Dot" located in the commercial complex adjacent to Dot Baires Shopping, has experienced significant growth since our first investment in the area. The total project is currently expected to consist of several

office buildings (one of which may include a hotel) on land reserves owned by us and the expansion of the shopping mall by approximately 15,000 square meters of gross leasable area. At a first stage, we intend to develop an office building with a proposed area of approximately 32,000 square meters on an existing building, in respect of which we have already executed lease agreements for approximately 75% of the projected development. The construction stage of this expansion started in late 2016, and we expect that the building will become operational by late 2018. The second stage of the project is currently expected to include two office/hotel buildings that would add 38,400 square meters of gross leasable area to the complex. We have seen a significant demand for premium office spaces in this new commercial hotspot, and we believe that these buildings have attractive prospects.

Catalinas Building

The proposed building to be developed is currently expected to have approximately 35,000 square meters of gross leasable area consisting of 30 office floors and more than 300 parking spaces, and will be located in the "Catalinas" area in the City of Buenos Aires, one of the most sought after neighborhoods for premium office development in Argentina. IRCP acquired from us certain units in the building representing approximately 45% of the value of the development and we maintains the remaining 55%. On December 4, 2015, we sold to Globant S.A. 4,896 square meters corresponding to four office floors. The price for the acquisition of these units was (i) Ps.180.3 million paid at signing of the purchase agreement; (ii) US\$8.6 million is payable in 12 quarterly installments that started in June 2016; and (iii) the US\$3.7 million balance is due when the property deed is transferred to us. Construction work started in late 2016, and is currently expected to be completed in approximately 3 years. As of June 30, 2017, we had completed 3.0% of the construction work.

Future Developments

Mixed Use

Ex UOM – Luján, Province of Buenos Aires (IRSA CP)

This 116-hectare plot of land is located in the 62 Km of the West Highway, in the intersection with Route 5 and was originally purchased by Cresud on May 31, 2008 from Birafriends S.A. for US\$3 million. In May 2012, the Company acquired the property through a purchase and sale agreement entered into between related parties, thus becoming the current owner. Our intention is to carry out a mixed-use project, taking advantage of the environment consolidation and the strategic location of the plot. At present, dealings are being carried out so as to change the zoning parameters, thus enabling the consummation of the project.

Ex Nobleza Piccardo Plant – San Martín, Province of Buenos Aires (IRSA CP)

On March 31, 2011, Quality Invest and Nobleza Piccardo S.A.I.C. y F., or "Nobleza Piccardo," executed the title deed for the purchase of a plot of land extending over 160,000 square meters located in the District of San Martín, Province of Buenos Aires, currently intended for industrial purposes and suitable in terms of characteristics and scale for mixed-use developments. The price for the property was US\$33 million.

Simultaneously with execution of the title deed, the parties entered into a lease agreement whereby Nobleza leased the whole property for a term of up to 36 months from May 2011. This lease agreement contained a clause providing for partial return of the property from month eight to month 14 from the date of execution. Prior to expiration, an extension was executed for two to six months due to expire in December 2012, and Quality Invest obtained usufruct rights to more than half the plot of land. The return of the remaining area set forth in the agreement and due to occur in May 2014 was further extended until December 31, 2014. On March 2, 2015, a certificate was executed by Nobleza and Quality Invest for full return of the property, and the contract relationship between the parties came to an end.

On May 16, 2012, the Municipality of San Martín granted a pre-feasibility permit for commercial use, entertainment, events, offices, etc., which would enable performance of a mixed-use development thereon.

Pursuant to an Ordinance enacted on December 30, 2014, a process was initiated to obtain a rezoning permit for the plot of land to be used mainly for commercial purposes, which considerably expands the uses and potential buildable square meters through new urban indicators. On January 5, 2016, a Provincial Decree was published in the Official Gazette of the Province of Buenos Aires granting its approval, and the new urban and rezoning standards thus became effective.

As approved in the Ordinance, on January 20, 2015, Quality Invest entered into a zoning agreement with the Municipality of San Martín which governs various issues related to applicable regulations and provides for a mandatory assignment of square meters in exchange for monetary contributions subject to fulfillment of certain administrative milestones of the rezoning process, the first of which (for Ps.20 million) was paid to the Municipality ten days after the execution of the aforementioned agreement.

Moreover, on June 27, 2016, the plot subdivision plan was filed with the Municipality, in compliance with another significant milestone agreed under the zoning agreement.

Currently we are working in a draft project for the development of a thematic Shopping Mall conceptualized as "Home Hipercenter" to be constructed in the existing main warehouse. The project will involve 50,000 sqm, divided into

30,000 sqm for the Shopping Mall and 20,000 sqm for parking.

Also, we are working jointly with an urban development firm in a comprehensive master plan to design the remaining areas of the facility. At present, the facility has a construction capacity of over 500,000 sqm that may be used for different commercial purposes as well as to build residential properties.

Concerning the legal framework for the development and operation of the Shopping Mall and the remaining segments, an addendum to the original Agreement was already executed is being negotiated with the Municipality of San Martín aimed at ensuringhaving ensured certain rights in favor of Quality Invest that will be essential for the consummation of the development.

Solares de Santa María – City of Buenos Aires

Solares de Santa María is a 70-hectare property facing the Río de la Plata in the south of Puerto Madero, 10 minutes from downtown Buenos Aires. We are owners of this property in which we intend to develop an entrepreneurship for mixed purposes, i.e. our development project involves residential complexes as well as offices, stores, hotels, sports and sailing clubs, services areas with schools, supermarkets and parking lots.

In the year 2000, we filed a master plan for the Santa María del Plata site, which was assessed by the Environmental Urban Plan Council (Consejo del Plan Urbano Ambiental, "COPUA") and submitted to the Town Treasurer's Office for its consideration. In 2002, the Government of the City of Buenos Aires issued a notice of public hearing and in July 2006, the COPUA made some recommendations about the project, and in response to the recommendations made by COPUA to the project on December 13, 2006, we filed an amendment to the project to adjust it to the recommendations made by COPUA, making material amendments to our development plan for the area, which amendments included the donation of 50% of the site to the City of Buenos Aires for public use and convenience and a perimetrical pedestrian lane along the entire site on the river bank.

In March 2007, a committee of the Government of the City of Buenos Aires, composed of representatives from the Legislative and Executive Branches issued a report stating that such Committee had no objections to our development plan and requested that the Town Treasurer's Office render a decision concerning the scope of the development plan submitted for the project. In November 2007, 15 years after the Legislative Branch of the City of Buenos Aires granted the general zoning standards for the site, the Government Chief of the City of Buenos Aires executed Decree No. 1584/07, which passed the specific ruling, set forth certain rules for the urban development of the project, including types of permitted constructions and the obligation to assign certain spaces for public use and convenience.

Notwithstanding the approval of Decree No. 1584/07 in 2007, several municipal approvals are still pending and in December 2007, a municipal court rendered a decision restricting the implementation of our proposed development plan, due to objections made by a legislator of the City of Buenos Aires, alleging the suspension of Decree No. 1584/07, and each construction project and/or the municipal permits granted for business purposes. Notwithstanding the legality and validity of Decree No. 1584/07, we entered into an agreement 5/10 that was executed with the Government of the City of Buenos Aires, which has been sent with a legislative bill to the Legislature of the City of Buenos Aires under number 976-J-2010, for approval.

On October 30, 2012 a new agreement was executed with the Government of the City of Buenos Aires, replacing all those already executed, whereby new obligations were agreed upon between the parties for the consummation of the project. To that end, such Agreement, as well as the previous ones, shall be countersigned and approved by the Legislative Branch of the City of Buenos Aires by enacting a bill that is attached to the project. The docket containing the Bill of Law was reserved and is pending such legislative treatment. The Agreement provided that if by February 28, 2014 the Bill of Law was not enacted, it would become invalidated -current status to date.

During 2016, a new Agreement was executed with the Executive Branch of the City of Buenos Aires, including a new Bill of Law. The new Bill of Law was submitted to the Legislative Branch of the City of Buenos Aires for consideration and was approved by the relevant commissions; yet, it was reserved as it had happened in 2012, and its legislative treatment is still pending. The new Bill of Law may remain in such status during legislative year 2017.

In order to ensure the enactment of the desired law, treatment of the previous bill must be resumed or a new Agreement including a Bill of Law must be executed with the executive branch of the Government of the City of Buenos Aires, and subsequently ratified through the enactment of a Law by the Legislature of the Government of the City of Buenos Aires.

Puerto Retiro – City of Buenos Aires

During fiscal year 1998, the Company initiated negotiations with the authorities of the Government of the City of Buenos Aires in order to obtain a rezoning permit for the property, allowing a change in the use of the property and setting forth new regulations for its development.

At present, this 8.3 hectare plot of land, which is located in one of the most privileged areas of the city, near Catalinas, Puerto Madero and Retiro and is the only privately owned waterfront property facing directly Río de la Plata, is affected by a zoning regulation defined as U.P. which prevents the property from being used for any purposes other than strictly port activities.

Under the records of the proceedings for the extension of bankruptcy, Puerto Retiro requested authorization to execute both leases with the companies Los Cipreses S.A. and Flight Express S.A. for certain areas of the property acquired for a term of five years each. While authorization was granted by the lower court, the Court of Appeals in Commercial Matters reversed such decision upon request of the National Government and the receiver of Indarsa. Puerto Retiro filed an extraordinary appeal that was denied.

The Company was involved in a judicial action brought by the National Government, to which this Board of Directors is totally alien. The Management and the legal counsel to the Company believe that there are sufficient legal and technical arguments to consider that the petition for extension of the bankruptcy case will be dismissed by the court. However, in view of the current status of the action, its result cannot be predicted.

In turn, Tandanor filed a civil action against Puerto Retiro and the other defendants in the criminal case for violation of Section 174 (5) based on Section 173 (7) of the Criminal Code. Such action seeks -on the basis of the nullity of the decree that approved the bidding process involving the Dársena Norte property- the restitution of the property and a reimbursement in favor of Tandanor for all such amounts it has allegedly lost as a result of a suspected fraudulent transaction involving the sale of the property. In the criminal action, the claimant reported the violation by Puerto Retiro of the injunction ordered by the criminal court consisting in an order to stay (prohibición de innovar) and not to contract with respect to the property disputed in the civil action. As a result of such report, the Federal Court (Tribunal Oral Federal) No. 5 started interlocutory proceedings, and on June 8, 2017, it ordered and carried out the closing of the property that was subject to the above mentioned lease agreements with Los Cipreses S.A. and Flight Express S.A. with the aim of enforcing the referred order. As a result, the proceedings were forwarded to the Criminal Court for it to appoint the court that will investigate the alleged commission of the crime of contempt.

Our legal counsel considers that there is a chance of success of the defense of Puerto Retiro, always taking into account that this is a complex issue subject to more than one interpretation by legal scholars and case law.

Residential

Coto Residential Project (IRSA CP)

The Company owns approximately 23,000 sqm in air space over the top of the Coto hypermarket that is close to the Abasto Shopping Mall in the heart of the City of Buenos Aires. The Company and Coto Centro Integral de Comercialización S.A. ("Coto") executed and delivered a deed dated September 24, 1997 whereby the Company acquired the rights to receive parking units and the rights to build on top of the premises located in the block formed by the streets Agüero, Lavalle, Guardia Vieja and Gallo, in the Abasto neighborhood.

In June 2016, a preliminary barter agreement was signed, subject to certain conditions, for a term of one year, at the end of which the deed will be signed. The project will be a residential development and, as consideration, the Company will receive 3,621 square meters in apartments plus a monetary payment of US\$1 million. The consideration for Torre I will be delivered by June 2021, while the consideration for Torre II will be delivered by September 2022. The value of the barter was set at US\$7.5 million.

Córdoba Shopping Mall Project (IRSA CP)

The Company owns a few plots adjacent to Córdoba Shopping Mall with a construction capacity of approximately 17,300 square meters in the center of the City of Córdoba.

In May 2016, a preliminary Barter Agreement was signed for 13,500 square meters out of the total construction capacity, subject to certain conditions, for a term of one year, at the end of which the deed will be signed. It will be a mixed residential and office project and, as part of the consideration, the Company will receive 2,160 square meters in apartments, parking spaces, plus the management of permits, unifications and subdivisions in 3 plots. The consideration will be delivered by May 2021 for Torre I and by July 2023 for Torre II. The value of the barter was US\$4 million.

Neuquén Residential parcels- Neuquén, Province of Neuquén (IRSA CP)

Through Shopping Neuquén S.A., we own a plot of 13,000 sqm and a construction capacity per FOT of 18,000 sqm of residential properties in an area with significant potential. This area is located close to the recently inaugurated shopping mall, the hypermarket recently opened and a hotel to be constructed in months to come.

Zetol S.A. and Vista al Muelle S.A. – District of Canelones – Uruguay

In the course of fiscal year 2009 we acquired a 100% ownership interest in Liveck S.A., a company organized under the laws of Uruguay. In June 2009, Liveck had acquired a 90% stake in the capital stock of Vista al Muelle S.A. and Zetol S.A., two companies incorporated under the laws of Uruguay, for US\$7.8 million. The remaining 10% ownership interest in both companies is in the hands of Banzey S.A. These companies have undeveloped lands in Canelones, Uruguay, close to the capital city of Uruguay, Montevideo.

We intend to carry out an urban project consisting in the development and commercialization of 13 apartment buildings. Such project has the "urban feasibility" status for the construction of approximately 200,000 sqm for a term of 10 years, which was granted by the Mayor's Office of the Canelones department and by its Local Legislature. Zetol S.A. and Vista al Muelle S.A. agreed to carry out the infrastructure works for US\$8 million as well as minimum amount of sqm of properties. The satisfaction of this commitment under the terms and conditions agreed upon will grant an additional 10-year effective term to the urban feasibility status.

The total purchase price for Zetol S.A. was US\$7 million; of which US\$2 million were paid. Sellers may opt to receive the balance in cash or through the delivery of units in the buildings to be constructed in the land owned by Zetol S.A. equivalent to 12% of the total marketable meters to be constructed.

Besides, Vista al Muelle S.A. owned since September 2008 a plot of land purchased for US\$0.83 million. Then, in February 2010, plots of land were acquired for US\$1 million, the balance of which as of to date amounts to US\$0.28 million plus interest and will be repaid in December 2014. In December 2010, Vista al Muelle S.A. executed the title deed of other plots for a total amount of US\$2.66 million, of which US\$0.3 million were paid. The balance will be repaid by delivering 2,334 sqm of units and/or retail stores to be constructed or in cash.

On June 30, 2009, the Company sold a 50% stake in Liveck S.A. to Cyrela Brazil Realty S.A. for US\$1.3 million. On December 17, 2010, together with Cyrela Brazil Realty S.A. we executed a stock purchase agreement pursuant to which we repurchased from Cyrela Brazil Realty S.A. a 50% shareholding in Liveck S.A. for US\$2.7 million. Accordingly, as of June 30, 2016, our stake, through Tyrus, in Liveck is 100%.

As a result of the plot barter agreements executed in due time between the IMC, Zetol S.A. and Vista al Muelle S.A. in March 2014, the parcel redistribution dealing was concluded. This milestone, as set forth in the amendment to the Master Agreement executed in 2013, initiates the 10-year term for the investment in infrastructure and construction of the buildings mentioned above. At present, the urban project and the design of the first tower are being developed.

Retail

Caballito Plot – City of Buenos Aires (IRSA CP)

This is a property of approximately 23,791 square meters in the City of Buenos Aires, in the neighborhood of Caballito, one of the most densely populated of the city, which we purchased in November 1997. This plot would allow developing a shopping mall having 30,000 square meters, including a hypermarket, a cinema complex, and several recreation and entertainment activity areas. As of the date of this annual report construction permits are still pending and the legislature of the City of Buenos Aires hasd received in 2016 a legislative bill to approve the zoning parameters corresponding to this property which hasd been approved by the Executive Branch on the same year, currently the bill's draft's status at the Legislature is pending.

Dot Adjoining Plot – City of Buenos Aires (IRSA CP)

On May 3, 2012, the Government of the City of Buenos Aires, through the General Office of Zoning Interpretation (Dirección General de Interpretación Urban'stica) approved, through a pre-feasibility study, the parcel subdivision of the ex-Philips plot contingent upon the observance of the applicable building regulations in each of the resulting parcels. In addition, all the uses and parameters established under the municipal ordinance previously issued by the above mentioned authority are being observed.

On June 3, 2013, we were given notice that the Government of the City of Buenos Aires had approved the requested parcel subdivision of the ex-Philips plot. As a result, the property was divided into three parcels: 2 parcels of approximately 6,400 sqm and a parcel adjoining DOT Baires Shopping, where at present the first stage of the Polo Dot is being developed.

Offices

Philips Adjoining Plots 1 and 2 – City of Buenos Aires (IRSA CP)

These two parcels of 6,400 sqm with construction capacity of 19,200 sqm each, are at present a significant land reserve jointly with a plot where the extension of Dot Baires Shopping is planned. As a result of major developments, the intersection of Av. General Paz and the Panamerican Highway has experienced a significant growth in recent years. The project of these parcels will conclude the consolidation of this area.

Intercontinental Plaza II Plot - City of Buenos Aires (IRSA CP)

The Intercontinental Plaza complex is located in the heart of the Monserrat district, situated a few meters away from the most important avenue in the city and the financial district. It comprises an office tower and the exclusive Intercontinental Hotel. In the 6,135 square meter plot, it would be feasible to develop a second office tower, including 19,600 square meters and 25 floors, that would supplement the one already erected in the intersection of Moreno and Tacuarí streets.

Disposals of Investment Properties in Fiscal Year 2017

Sale of units in Intercontinental Building

IRSA Propiedades Comerciales sold 2,693 leasable square meters corresponding to three office floors and 24 parking units of Intercontinental Plaza building, with the remaining 3,876 sqm in such building being held by the company. The transaction amount was US\$9 million, and has been fully collected as of June 30, 2017.

Partial sales of "Maipú 1300" building

In May 2017, 550 sqm were sold corresponding to the ground-floor store and the 23rd floor in the Maipú 1300 building, with the remaining 1,235 sqm being held by the company. The transaction amount was agreed upon in US\$0.75 million for the ground-floor store and US\$1.4 million for the 23th Floor.

Sale of Rivadavia 2768 building

In May 2017, the remaining footage of Rivadavia 2768 building was sold. The transaction amount was US\$0.2 million.

International

Lipstick Building, New York, United States

The Lipstick Building is a landmark building in the City of New York, located at Third Avenue and 53th Street in Midtown Manhattan, New York. It was designed by architects John Burgee and Philip Johnson (Glass House and Seagram Building, among other renowned works) and it is named after its elliptical shape and red façade. Its gross leaseable area is approximately 58,000 sqm and consists of 34 floors.

As of June 30, 2017, the building's occupancy rate was 95.15%, thus generating an average rent of US\$69.20 per sqm.

As of June 30,

Lipstick 2016 2017 YoY Var

Gross Leaseable Area (sqm) 58,094 58,094 -

Occupancy 97.33% 95.15% 2.18 p.p.

Rental price (US\$/sqm) 66.67 69.20 3.79%

Since June 2016, various leases have been renewed, equivalent to 4,995 sqm in aggregate (53,763 sf) with an average rent of US\$84 per sqm. In the same period, the entire floor 28 was occupied, with an average rent of US\$87 per sqm, for a term of 11 years. The difference in the occupancy rate is explained by the release of floor 27 and floor 31.

Moreover, we successfully completed the building's certification process and obtained the LEED EB: O&M Gold certification. The implementation of this project started in July 2015, and it has concluded with a certification that endorses the best environmental practices, transforming the building's operational standards.

Finally, in the southern wing of the lobby there is an exhibition since September 2014 showcasing part of the work and life of the celebrated Argentine architect César Pelli. The exhibition has been conceived, designed and executed in close cooperation with César Pelli's architectural firm.

On October 23, 2017, we communicated the extension of the term of the non-recourse debt to IRSA of Metropolitan, owner of the Lipstick Building in Manhattan, indirectly controlled by us in 49.9% for an amount of US\$113.1 million. For more information, please see "Recent developments - Metropolitan's debt refinancing."

Investment in Condor Hospitality Trust

We maintain our investment in the Condor Hospitality Trust Hotel REIT (NASDAQ: CDOR) mainly through our subsidiary Real Estate Strategies L.P. ("RES"), in which we hold a 66.3% interest. Condor is a REIT listed in Nasdaq focused on medium-class hotels located in various states of the United States of America, managed by various operators and franchises.

In January 2017, Condor issued 150,540 new warrants in favor of RES, which are entitled to one share each, at an exercise price of US\$0.001 per share and due in January 2019. The new warrants replaced the former 3,750,000

warrants which entitled their holders to one share each, at an exercise price of US\$1.92 and due on January 31, 2017. In addition, the Company exercised its conversion rights in respect of the 3,245,156 Series D preferred shares (with a par value of US\$10 each) held by RES, into 20,282,225 common shares of Condor (with a par value of US\$0.01 per share), at the agreed conversion price of US\$1.60 per share, accounting for US\$32.4 million in the aggregate. At the same time, the Company received 487,738 Series E preferred shares that are convertible into common shares at US\$2.13 each as from February 28, 2019, paying dividends on a quarterly basis at 6.25% per year.

Also in February, Condor's Board of Directors approved a one-for-6.5 reverse stock split, which was carried out after the close of trading on March 15, 2017. The par value of the shares involved in the reverse stock split remained at US\$0.01 each, with the conversion price of Series E preferred shares standing at US\$13.845 and the exercise price of the warrants, at US\$0.0065.

Subsequently, in March, Condor conducted an initial public offering pursuant to which it issued 4,772,500 new shares (including 622,500 additional shares for the exercise of a call option granted to subscribers) at a price of US\$10.50 per share. The Company did not participate in the offering.

As a consequence of the aforementioned events, as of June 30, 2017, the Company held 3,314,453 common shares of Condor's capital stock, accounting for approximately 28.5% of that company's capital stock and votes. The Company also held 487,738 Series E preferred shares, 23,160 warrants and a promissory note convertible into 97,269 common shares (at a price of US\$10.4 each).

Financial Operations and Others

Our interest in Banco Hipotecario

As of June 30, 2017, we held a 29.91% interest in Banco Hipotecario. Established in 1886 by the argentine government and privatized in 1999, Banco Hipotecario has historically been Argentina's leading mortgage lender, provider of mortgage-related insurance and mortgage loan services. All of its operations are located in Argentina where it operates a nationwide network of 65 branches in the 23 Argentine provinces and the City of Buenos Aires, and 15 additional sales offices throughout Argentina. Additionally, its subsidiary Tarshop S.A. has 24 sales offices.

Banco Hipotecario is an inclusive commercial bank that provides universal banking services, offering a wide variety of banking products and activities, including a wide range of individual and corporate loans, deposits, credit and debit cards and related financial services to individuals, small-and medium-sized companies and large corporations. As of April 30, 2017, Banco Hipotecario ranked thirteenth in the Argentine financial system in terms of shareholders' equity and fifteenth in terms of total assets. As of June 30, 2017, Banco Hipotecario's shareholders' equity was Ps.6,681.2 million, its consolidated assets were Ps.55,261.9 million, and its net income for the twelve-month period ended June 30, 2017 was Ps.865.0 million. Since 1999, Banco Hipotecario's shares have been listed on the Buenos Aires Stock Exchange in Argentina, and since 2006 it has had a Level I ADR program.

Banco Hipotecario continues its business strategy of diversifying its loan portfolio. As a result, non-mortgage loans increased from Ps.14,845.9 million as of December 31, 2014 to Ps.17,944.7 million as of December 31, 2015, from Ps.24,305.4 million as of December 31, 2016 to Ps.28,147.3 million as of June 30, 2017, increasing the interest in the aggregate loan portfolio to the non-financial private sector (without considering mortgage loans) from 84.1% as of December 31, 2014 to 89.9% as of June 30, 2017. Non-performing loans represented 2.9% of its total portfolio as of June 30, 2017.

Furthermore, Banco Hipotecario has diversified its funding sources, by developing its presence in the local and international capital markets and increasing its deposit base. Its financial debt represented 49.4% of the total financing as of June 30, 2017.

Its subsidiaries include BACS, a bank specialized in investment banking, assets securitization and asset management, BHN Vida S.A., a life insurance company, BHN Seguros Generales S.A., a homeowners' insurance company and Tarshop S.A., a company focused on selling consumer finance products and making cash advances to unbanked clients.

Operations Center in Israel

Investment in IDB Development Corporation

Acquisition of Control of IDBD

On May 7, 2014, the Company, acting indirectly through Dolphin, acquired, jointly with E.T.H.M.B.M. Extra Holdings Ltd. ("ETH," company incorporated under the laws of the State of Israel) controlled by Mordechay Ben Moshé, entered into a transaction to acquire an aggregate of 106.6 million common shares in IDBD representing 53.30% of its stock capital, in the context of a debt restructuring transaction related to IDBD's holding company, IDBH. Under the terms of the agreement, Dolphin and ETH executed a Shareholders' Agreement and Dolphin and ETH each acquired a 50% interest in IDBD. The initial amount invested by each Company was NIS 950 million, equivalent to approximately US\$272 million at the exchange rate prevailing on that date. On October 11, 2015, IFISA (a company indirectly controlled by Eduardo S. Elsztain) acquired ETH, and the directors appointed by ETH in IDBD tendered their irrevocable resignation from the Board of Directors and Dolphin became entitled to appoint new board members. Since that date, we started to consolidate IDBD into our results of operations. As of the date of this annual report, the investment made from IRSA in IDBD is US\$515 million, and IRSA's indirect equity interest reached 68.3% of IDBD's undiluted stock capital. For additional information please see "Significant acquisitions, dispositions and development of business."

Tender Offers

On March 31, 2016, Dolphin satisfied its commitments under the amendment to the debt restructuring agreement of IDBD's controlling company, IDBH, with its creditors (the "Arrangement"). Such amendment was approved by 95% of IDBD's minority shareholders on March 2, 2016 and by the competent court on March 10, 2016. As a result, as of March 3, 2016: (i) Dolphin purchased all the shares held by IDBD's minority shareholders; (ii) all the warrants held by IDBD's minority shareholders expired; and (iii) Dolphin made additional contributions to IDBD in the form of a subordinated loan, as described below.

The price paid for each IDBD share to holders of record as of March 29, 2016 was: (i) NIS 1.25 million in cash, resulting in a total payment of NIS 159.6 million (US\$42.2 million); (ii) NIS 1.20 per share through the subscription and delivery of IDBD's Series I bonds ("IDBD Bonds") that was paid by Dolphin at par; therefore, it subscribed bonds for NIS 166.5 million, including the payments due to warrant holders; and (iii) the commitment to pay NIS 1.05 million (subject to adjustment) in cash if Dolphin receives authorization to assume control of Clal Insurance Company Ltd. and Clal Insurance Business Holdings Ltd. or IDBD sells its interest in Clal for a sale price per Clal share in excess of 75% of its book value Dolphin being would be required to pay approximately NIS 155.8 million (approximately US\$40.8 million) in aggregate.

Any warrants held by minority shareholders that were not exercised as of March 28, 2016, would be convertible at a price equal to the difference (if positive) between NIS 2.45 and the warrant exercise price, and payable in IDBD Bonds. In addition, Dolphin made a capital contribution of NIS 348.4 million into IDBD, in exchange for a subordinated loan, convertible into shares.

As security for payment of each cash due to Clal shareholders, on March 31, 2016, Dolphin granted a pledge over 28% of the stock capital in IDBD it owns and its rights under a NIS 210 million subordinated loan made on December 1, 2015 due from IDBD. If IDBD issues new shares, additional shares shall be pledged until reaching 28% of IDBD's total stock capital.

Dolphin has committed to abstain from exercising its right to convert the subordinated loan into IDBD shares until the above mentioned pledge is released. However, if the pledge is enforced, the representatives of IDBH's creditors will be entitled to convert the subordinated debt into IDBD shares, up to a maximum of 35% of all IDBD shares outstanding.

On April 3, 2016, IDBD's shares were delisted from the TASE and all the minority warrants were cancelled. IDBD continues to be listed on TASE as a "Debentures Company" pursuant to Israeli law, as it has bonds listed on such exchange.

In March 2016, after the receipt of approval from the shareholders' meeting and the warrant holders of IDBD, and approval of the Court, the Debt Settlement in IDBH was amended with respect to the undertaking to perform tender offers for shares of IDBD (the "Amendment To The Settlement"). The Amendment To The Settlement included provisions according to which Dolphin acquired from the minority shareholders all of the shares of IDBD, in a manner whereby the control group began holding 100% of the shares of IDBD, which became a debenture company (as defined in the Companies Law). The consideration to the minority shareholders for the acquired shares, and the cancellation of the undertaking to perform the aforementioned tender offers, included: (a) payment, on March 31, 2016, in cash, of NIS 1.25 per share; (b) payment, on March 31, 2016, of NIS 1.20 per share, which was paid through debentures (Series I), in an amount which was determined based on their adjusted par value, and which were issued by IDBD against the transfer by Dolphin to IDBD of an amount equal to the adjusted par value of each debenture which was issued, as stated above; and (c) an undertaking to pay a total of NIS 1.05 per share, contingent upon the sale of shares of Clal or upon the receipt of a permit for control of Clal, in accordance with the conditions which were determined in the Amendment To The Settlement. Within the framework of the Amendment To The Settlement, Dolphin injected into IDBD a total of NIS 515 million (including, inter alia a subordinated loan in the amount of NIS 15, as stated above, and including the injection of funds against the allocation of debentures (Series I) by IDBD, and any amount which was injected into the Company within the framework of the exercise of the options). On March 15, 2016 and March 31, 2016, a total if NIS 85 million and NIS 248 million, respectively, was injected into IDBD, by Dolphin, as part of the implementation of the Amendment To The Settlement, as a subordinated loan convertible into shares of IDBD, Additionally, within the framework of the Amendment To The Settlement, all of the options for shares of IDBD which were held by the public expired, and the warrant holders of IDBD received payments or rights to payments in accordance with the alternatives which were determined in the Amendment To The Settlement. For additional infornation please see "Significant acquisitions, dispositions and development of business."

Within the Operations Center in Israel, the Company operates in the following segments:

Real Estate

PBC has extensive activities in the revenue-generating properties segment in Israel and in the United States, within the framework of two operating segments which are reported as separate operating segments of PBC- the yield bearer property segment in Israel and abroad, and the Residential construction segment in the in Israel and abroad. Moreover, PBC deals with the in agriculture, which is not material to IDBD. As of the reporting date, PBC owns areas intended for rent, in Israel, at a scope of approximately 1,160,000 square meters (as compared with approximately 1,110,000 square meters as of December 31, 2015), revenue-generating properties in the United States - the HSBC Tower in New York with an area of approximately 80,000 square meters, and the Tivoli project in Las Vegas, with an area of approximately 31,000 square meters (the share of PBC), as well as land reserves with associated building rights at a scope of approximately 655,000 square meters, which are intended for the construction of revenue-generating properties in Israel, most of which include approved rights in accordance with the relevant zoning plan. The construction on these lands will be performed in accordance with demand.

The revenue-generating areas of PBC in Israel and in the United States are used for various uses, of which the primary ones are as follows:

Areas rented for the use of offices and high tech industries ("Office and Hi-Tech Uses").

The areas of PBC which are leased for Office and Hi-Tech Uses in Israel are divided into two main types:

Business parks and office buildings for hi-tech industries. PBC has expertise in the provision of solutions for the special requirements of this industry, and builds designated buildings which are adjusted to the needs of the lessees, and also provides management services for those buildings.

Office buildings. The office buildings of PBC are located in high demand areas, and most are leased, at high occupancy rates, to lessees which are mostly large, stable companies, some international, generally for long lease periods. Areas for office use are characterized by areas used as parking lots, which constitute an inseparable part of the buildings. In the foreign activities of PBC, the main property for office use is the HSBC Tower on Fifth Avenue in New York.

Areas rented for industry, workshop, logistics and storage uses ("Industry and Logistics Uses").

Areas for Industry and Logistics Uses in Israel are characterized by areas with a large single space, service yards and large operational areas. In light of the rent which can be collected for areas of this kind, which is relatively low, and the fact that their construction generally requires construction on large areas of land, PBC concentrates, as do other companies operating in the segment, most of its industrial areas in periphery areas and in areas located close to airports and seaports. The turnover rate of lessees in areas for industrial use is low, and a significant part of the industrial areas of PBC are leased to lessees who have been using the same areas for many years.

Shopping malls, commercial centers and recreational areas ("Uses for Commercial and Recreational Centers").

PBC's areas which are leased to commercial and recreational centers in Israel include commercial centers, "Power Center" areas, which are located in central areas or areas near major junctions at highways from major cities, conference centers and recreational centers. The areas of PBC which are rented for commercial purposes abroad primarily include its share in the Tivoli project in Las Vegas.

Associated services in the revenue-generating properties segment in Israel.

PBC also provides management and maintenance services, primarily to lessees in areas which are used for office and commercial purposes.

Geographical distribution

PBC divides its properties into two main regions - Israel and the United States, and five sub-regions: in Israel - North, Center and South; in the United States - Northeast and West.

According to the assessment of PBC, the difference between the regions in Israel is primarily due the fact that, in Central Israel, rent is significantly higher than the average rent in Northern and Southern Israel. The common uses in Central and Northern Israel are offices, hi-tech and commerce, while in Southern Israel most properties are used for logistics and industry, as well as commerce.

In the United States, the properties of PBC are located in various states, with different economic characteristics. According to the assessment of PBC, the difference between the regions in the United States is primarily due to the fact that the average rent in the Northeast United States is significantly higher than the average rent in Western United States, primarily due to the different locations and uses (luxury office and commercial buildings in the Northeastern United States, as compared with commercial centers in occupancy and positioning processes in Western United States), as well as the location of the properties (the centers of large cities such as New York in the Northeastern United States, as compared with their locations in residential neighborhoods in the Western United States).

However, even within each region (both in Israel and in the United States), there are differences between the various sites, as well as difference, in some cases, between the various properties in each site, due to the type of property, the

different designation of each property, the age of the property, its physical condition, etc.

Mix of lessees

The revenue-generating properties segment is characterized by a wide variety of customers, including large and small companies and business customers, as well as private customers.

PBC engages with its customers mostly through medium and longer term rental contracts, and in general, rental contracts in Israel involve unprotected leases, and rent linked to the consumer price index. The policy of PBC is to engage, as much as possible, in long term contracts with high-quality lessees.

The agreements with respect to areas which are built according to the designated construction method in Israel are characterized by buildings which are adapted to the specific requirements of the designated customer. In light of the relatively significant initial investment in the property, and the adjustment thereof to the lessee's specific needs, rental agreements for buildings of this kind are signed for long periods, and generally include options for the lessee to extend the lease period. Additionally, some of the Group's lessees perform, at their own expense, works in the areas of the leased properties, and adapt them to their needs. According to the assessment of PBC, these investments may lessen the profitability of lessees in transferring to other areas.

PBC has no major lessee whose rent paid in 2016 constituted 10% or more of the total income in the consolidated financial statements of PBC.

Presented below is a structural diagram of the primary holdings of PBC, from the perspective of IDBD, as of December 31, 2016:

Property & Building Corporation

(1)

Gav-Yam is a public company whose securities are listed for trading on the TASE. Most of Gav-Yam's activities are in the revenue-generating properties segment, primarily hi-tech parks, business parks, offices and logistical centers, as well as construction and marketing, together with a partner, of a residential neighborhood in Haifa. On December 5, 2016, PBC sold, to several institutional entities, 14% of the issued share capital of Gav-Yam, for a gross consideration of approximately NIS 391 million. As a result, the holding rate of PBC in the issued capital of Gav-Yam decreased to approximately 55.06%. for details, see Note 3(H)(2) to the Financial Statements.

(2)

Matam is the rights holder to revenue-generating properties in Science Based Industries Park, one of the largest hi-tech industry parks in Israel, located in the southern suburbs of the city of Haifa.

(3)

Ispro is a wholly owned company of PBC, whose activities primarily include revenue-generating properties, primarily commercial centers and logistical areas.

(4)

Neveh-Gad - a private company wholly owned by PBC, whose activities are primarily in the residential construction segment.

(5)

Mehadrin is a public company whose securities are listed for trading on the TASE. Most of Mehadrin's activities are in the agricultural segment. Hadarim Properties and Phoenix Holdings Ltd. (which holds, through a wholly owned subsidiary, 41.4% of Mehadrin) are considered to be joint holders, by virtue of the shareholders agreement between them, of approximately 86.8% of the voting rights and of the right to appoint directors in Mehadrin.

(6)

PBC International Investments was incorporated in Israel for the purpose of operating in the field of revenue-generating properties and residential construction abroad, through foreign subsidiaries and associate companies.

(7)

As of proximate to the publication date of the periodic report of 2016 of IDBD, a wholly owned subsidiary of IDBD holds the balance of IDBG's share capital (50%). IDBG holds, together with additional investors, real estate corporations which operate in Las Vegas. The real estate corporation GW holds the rights to a commercial and office areas (which is being built in stages). Tivoli project ("GW" project) - As of proximate to the publication date of the report, IDBG holds, directly and indirectly, the entire share capital and voting rights of GW. The Tivoli project is a real estate project which is located near a prestigious neighborhood in Las Vegas, which is intended to mixed use, primarily including commercial and office areas, as a unique recreational and shopping center, and which includes three parts, with a total area of approximately 80 thousand square meters (the "Commercial Area"). The first part of the Tivoli project ("Triad A") is open to the public. Triad A has an area of 368 thousand square feet (approximately 34 thousand square meters), which includes approximately 196 thousand square feet (approximately 18 thousand square meters) of commercial areas, and approximately 172 thousand square feet (approximately 16 thousand square meters) of office areas. Additionally, the underground parking lot of the entire commercial area is under construction. As of the end of 2016, approximately 87% of the commercial and office areas in Triad A have been rented. Proximate to the publication date of the report, GW is working to market the remainder of areas for rent. The construction of the second part of the Tivoli project ("Triad B") has concluded, and it opened to the general public in October 2016. It includes commercial areas with an area of approximately 155 thousand square meters (approximately 14 thousand square meters), and office areas of approximately 149 thousand square feet (approximately 14 thousand square meters). Until now, rental agreements have been signed in Triad B with an anchor tenant and additional tenants, with respect to commercial areas of approximately 95 thousand square feet (approximately 9 thousand square meters), and with respect to office areas of approximately 52 thousand square feet (approximately 5 thousand square meters). The third part of the Tivoli project ("Triad C") is planned to include commercial and office areas with an area of approximately 198 thousand square feet (approximately 18 thousand square meters). The construction of Triad C is in the planning stages, and is scheduled for implementation in accordance with progress in marketing. It is also noted that GW has

rights for the construction of 300 residential units on land located near the GW project.GW has a loan from a local bank, the balance of which, as of December 31, 2016, is approximately US\$59 million. The interest with respect to the aforementioned loan was set as LIBOR plus 5% per year. The repayment date of the loan was extended by an additional two years to December 31, 2018. The project is presented in the reports of GW at fair value, based on a valuation of an external independent valuer as of June 30, 2016, in the amount of US\$295 million. As a result, IDBD and PBC each recorded an amortization of approximately NIS 21 million in the second quarter of 2016. Until proximate to the publication date of the report, the share of PBC in the investments in GW amounted to a total of approximately US\$274 million (including a total of US\$212 million with respect to loans (which bear interest of 15% per year), in accordance with the memorandum of understanding, and includes a total of US\$50 million of loans, in accordance with the framework agreement.

(8)

TPD Investment Limited (in England) - PBC and DIC, through England Hotels - Property & Building Ltd. (a company wholly owned by PBC) ("Property & Building Hotels") owns rights (20%) to TPD Investment Limited ("TPD" or the "English Company"), which primarily holds two hotels: the Hilton in London, and the Hilton in Birmingham, as well as the rights associated therewith (including approximately 1,900 hotel rooms (cumulatively) and conference halls). The aforementioned hotels are primarily geared to businesses and the conferences and conventions market, and are managed by the Hilton chain, in accordance with long term management agreements (until 2036), with options to extend the management periods. The overall acquisition cost of the Hilton London and Hilton Birmingham by TPD amounted to approximately GBP 455 million, including expenses. The acquisition cost was financed through a bank loan, which was provided by a British bank, repayable in July 2014, with no right of recourse, in the total amount of approximately GBP 395 million. The balance of the acquisition amount, as stated above, in the amount of approximately GBP 60 million, was financed from equity, where the share of PBC in equity amounted to a total of approximately GBP 16.6 million, which was given as a shareholder's loan, and which bears annual interest of 6%. In March 2014, the English partner (the "English Partner") in the English Company announced that refinancing had been performed, in which the English Partner announced, inter alia, to PBC, that it has the option to maintain its holdings (20%) through the provision of a shareholder's loan in the amount of GBP 5 million, and conversion of the previous shareholder's loan in the amount of GBP 5.6 million to capital, or alternatively, to have its holding rate diluted to 6.39%, and also stated, in its announcement, that the dilution had been effectively implemented. After the failure of the negotiations which were conducted between PBC and the additional partner with the English Partner, PBC filed, together with the additional partner, in April 2014, a claim with the Court in London, demanding that the English Partner acquire their holdings in TPD, in accordance with their market value, as will be determined by the Court, as well as additional conventional remedies in accordance with English law (the "Claim"). On March 3, 2015, the English Partner and TPD filed a motion for the receipt of an injunction against PBC and the additional partner, according to which PBC and the additional partner would refrain from performing any action in connection with the sale of the hotels, and for the receipt of damages in the amount of over GBP 100 thousand (the "Counterclaim"). PBC and the additional partner reject the assertions raised in the aforementioned motion, in all respects. In August 2015, PBC, the additional partner and their corporate officers received a statement of claim from the English Partner and from TPD, in which damages were claimed which were allegedly incurred by TPD and the English Partner, in an amount which will not fall below GBP 88.5 million (the "Statement Of Claim"). PBC rejected the statement of claim in all respects. The hearing of the Claim commenced in the Court in London at the end of June 2016, continued in January 2017, and concluded in February 2017. A ruling has not yet been given.

As described below, PBC filed a claim against the dilution of its holdings to 6.39

The following are the main Rental Properties and Properties under development of PBC as of June 30, 2017:

	Initial costs			Subsequent costs	Costs at end of the year				
Name	Encumbrances	Plot of Sland	Buildings, facilities and improvements	Improvements / Additions	sPlot of land	Buildings, facilities and improvements	Total	Capitalized costs, net	IFair value adjustments
Rental properties									
Tivoli	-	150	1,881	2,564	267	4,328	4,595	-	(588)
Kiryat Ono Mall	-	392	731	1,180	763	1,540	2,303	-	(4)
Shopping Center Modi'in A	Mortgage	223	289	510	434	588	1,022	-	4
HSBC	Mortgage	5,753	2,136	6,587	11,190	3,286	14,476	-	830
Matam park Haifa	Mortgage	576	2,913	3,576	1,121	5,944	7,065	-	56
Herzeliya North	-	944	1,403	2,524	1,836	3,035	4,871	-	(30)
Gav-Yam Center - Herzeliya	Mortgage	748	817	1,518	1,455	1,628	3,083	-	60
Neyar Hader Modi'in	a -	186	272	550	363	645	1,008	-	(11)
Gav yam par - Beer Sheva	^k Mortgage	34	402	455	67	824	891	-	30
Haifa Bay	-	123	235	351	238	471	709	-	11
Others PBC	Mortgage	1,790	2,052	4,523	3,482	4,833	8,365	-	305
Ispro planet -BeerSheva	-	154	294	973	300	1,121	1,421	-	-

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

-Phase1

SHARON	Mortgage	329	319	660	639	669	1,308	-	56
MERKAZ	-	110	81	280	215	256	471	-	(4)
ZAFON Mizpe Sapir Others Total Rental properties Undeveloped parcels of land	- - -	12 59 172	10 22 498	76 79 951	24 114 334	74 46 1,287	98 160 1,621	- - -	26 7 119
	1	11,755	14,355	27,357	23,611	29,611	53,467	-	867
Tivoli	-	498	-	318	816	-	816	-	(320)
Others Total	-	1,113	5	1,156	2,166	108	2,274	-	168
Undeveloped parcels of land	1	1,611	5	1,474	2,838	108	3,090	-	(152)
Total Tivoli	-	13,366 32	14,360 456	28,831 434	26,449 62	29,763 860	56,557 922	- -	715 (555)
Ispro Planet - Beer Sheva - Phase 1		42	44	113	81	118	199	-	11
Others Total	-	463	178	1,202	902	941	1,843	-	(30)
properties under development		537	678	1,749	1,045	1,919	2,964	-	(584)
Total		13,903	15,038	30,580	27,494	31,682	59,521	-	131

Activities of PBC in the residential construction segment in Israel

The products which are sold by PBC in the residential construction segment are residential units offered for sale. The residential units are built in the framework of complete residential neighborhoods, including full environmental development and associated community services. The activities of PBC in the residential construction segment also include the identification and development of new lands which are appropriate for residential construction, in urban renewal projects (demolition-construction). As of the reporting date, the balance of approved construction rights for the projects in which PBC is a partner amounted to approximately 1,790 residential units intended for construction (of which the share of PBC is approximately 1,076 residential units), where approximately 1,230 residential units are currently in construction stages (of which, the share of PBC is approximately 820 residential units). In 2016, the construction of approximately 230 residential units was commenced, as compared with approximately 590 residential units in 2015. In 2016, 480 residential units were sold (as compared with approximately 355 residential units in 2015). PBC's revenues from the sale of residential units and land which were applied to the statement of income in 2016 amounted to approximately NIS 337 million, as compared with approximately NIS 216 million in 2015. The scope of income from residential units in the Financial Statements is affected by the timing of the recognition of profit, in accordance with international accounting standards, according to which income is only recognized when the apartments are transferred to the apartment buyers. In 2016, 230 of PBC's residential units were occupied, as compared with approximately 130 in 2015. Additionally, in 2016, approximately 70 residential units were occupied in a project which is being built by an associate company of PBC (50%), whose results are reported as part of PBC's share in the profits (losses) of subsidiaries, as compared with approximately 140 residential units in 2015. PBC builds and markets, in the residential construction segment in Israel, as of the reporting date, approximately 900 residential units in 8 different complexes throughout the country.

Supermarkets

Shufersal is a public company which was incorporated in Israel, whose shares and debentures are listed for trading on the TASE. It is primarily engaged in the ownership and management of a supermarket chain - the largest and leading chain in Israel, in terms of sales volume. Shufersal is also active in the real estate segment and in the customer club credit card segment.

Shufersal operates in three operating segments: the retail segment, the real estate segment, and the credit card customer club management segment, as described below:

Retail segment. Retail marketing in the food and other products segment is the primary operating segment of Shufersal, which is the owner of the largest supermarket chain in Israel. As of December 31, 2016, Shufersal operated 272 branches (as compared with 277 branches at the end of 2015), within the framework of two groups of branches: the "discount branches group" and the "neighborhood branches group," distributed throughout the entire country, including four main retail formats, as well as Shufersal Online, and activities in the health products segment (under the brands "Organic Market" and "Green"). In 2016, in addition to Shufersal, marketing chains operated in the retail food market in Israel which operate throughout the entire country, primarily in the discount market, such as Rami Levy Hashikma Marketing, Yeinot Bitan, Victory Supermarket Chain, Yohananof, Machsanei HaShuk, Hatzi Hinam, Osher Ad, and others (the "Additional Marketing Chains," and jointly with Shufersal: the "Marketing Chains"); as well as urban convenience stores and gas stations which generally operate with continuous opening hours, throughout the entire week; neighborhood grocery stores; open and closed markets; and specialty stores. As of December 31, 2016 (with no significant change until proximate to the publication of the report), Shufersal operated two groups of branches throughout the entire country - the "discount branches group" and the "neighborhood branches group."

The aforementioned two groups include four main retail formats throughout the country, which are intended primarily for marketing purposes, and the positioning of the specific branch for the relevant target market, as follows: (A) The discount branches group: 113 branches according to the discount branches format, featuring low prices throughout the entire year ("Shufersal Deal"); 24 branches in the discount branches format, which are intended for the general population, and adapted to the needs of various population groups, by adjusting the variety of products to the customer group, strict adherence to Jewish dietary ("kashrut") laws, and a simple shopping experience (under the name "Yesh" (which includes two sub-formats: "Yesh Neighborhood" and "Yesh Chesed")); Shufersal's discount activity also includes the marketing of products throughout the entire country through various media (Shufersal Online). In 2016, the trend of increased Shufersal sales through Shufersal Online continued. During 2016, Shufersal sales through Shufersal Online constituted approximately 9% of Shufersal's sales volume (as compared with approximately 6% in 2015). Sales through Shufersal Online contribute to an increase in sales, while retaining the high service level given to Shufersal customers, including improvement of the Shufersal Online channel for the benefit of Shufersal customers by expanding the variety of products and content worlds. This service provides a solution for the developing needs and changes in the consumption habits of Shufersal customers, and for the technological development which affect lifestyle, and therefore withdrawal continues to place an emphasis on the development and quality of the service which is given to Shufersal customers who use this channel. Shufersal Online is accessible to Shufersal customers via telephone, fax and an application for the performance of acquisitions using smartphones. Shufersal acts on a continuous basis to improve service and to maintain itself at the forefront of the relevant technology.

Real estate segment. The real estate activities of Shufersal were separated, beginning on April 1, 2013, into Shufersal Real Estate Ltd. ("Shufersal Real Estate"), a wholly owned subsidiary whose assets include both branches which are rented to Shufersal (which are classified in Shufersal's consolidated financial statements as fixed assets), and real estate properties which are rented out to third parties) which are classified in Shufersal's consolidated financial statements as investment property). The aforementioned properties do not include Shufersal's logistical center in Rishon Letzion (including the attached branch), and Shufersal's new logistical center in Shoham. The real estate activity includes: (A) The development and betterment of the real estate as an additional, independent business segment generating returns for Shufersal (such as the rental of commercial areas to third parties), and unlocking value for Shufersal and its shareholders; and (B) Integrating Shufersal's primary activity in the retail segment, including: betterment and development of existing properties, acquisition of lands for the purpose of building and operating regional and local operating branches, and betterment and construction of surrounding commercial areas to increase the scope of activity in the complex. (B) The neighborhood branches group: 82 branches in the neighborhood branch format ("My Shufersal"), with an emphasis on providing solutions in terms of convenience, availability, freshness, and personalized service, as well as 48 branches in the very small branches format in neighborhoods and city centers, operated primarily by franchisees ("Shufersal Express"); The activity in the neighborhood branches group also includes the "Organic Market" activity. Shufersal operates in its branches, as of December 31, 2016, 62 health areas throughout the country, under the brand "Green," and also operates 5 independent stores under the brand "Organic Market."

Presented below are details regarding the real estate properties which are owned by Shufersal Real Estate as of December 31, 2016:

	Number of properties	Total area (thousands of square meters)	Fair value (NIS millions)
Branches rented to Shufersal	68	130	1,646(1)
Properties under construction which will be rented to Shufersal and to externals	4	9(2)	76(1)(3)
Real estate properties rented to externals (4)	21	49	501
Total	93	188	2,223

- (1) The fair value is in accordance with the presentation of these properties in the books of Shufersal Real Estate. In the books of Shufersal, these properties are classified according to their amortized cost of acquisition, and not at fair value. The balance of the amortized cost in the books of Shufersal as of December 31, 2016, which includes branches which are leased to Shufersal, and branches under construction which will be leased to Shufersal, amounted to NIS 965 million.
- (2) Not including lot areas regarding which, in 2016, a zoning plan was approved which permits construction at a scope of approximately 40,000 built square meters
- (3) Including branches under construction with a total fair value of NIS 34 million.
- (4) Rent and management fees with respect to these properties in 2016 amounted to approximately NIS 44 million, and the NOI with respect to them (gross profit with respect to them in Shufersal Real Estate, in annual terms) is approximately NIS 25 million.

Credit customer club management segment. This segment constitutes a reportable operating segment in Shufersal's financial statements, beginning with the financial statements as of December 31, 2015. Under this operating segment, Shufersal offers to the general public (subject to the fulfillment of the minimum conditions), the "Shufersal" credit card and the "Yesh" credit card, which provide an extra-banking credit facility and benefits to customers, in the vast majority of Shufersal branches and refueling stations of Paz Ltd., and which confer membership in Shufersal's customer club. Shufersal was engaged in an agreement with Leumi Card Ltd. ("Leumi Card") on all matters associated with the operation of credit cards. Shufersal is also a limited partner in Shufersal Finance Limited Partnership (and a shareholder in the general partner of Shufersal Finance), together with Leumi Card and Paz Oil Company Ltd. ("Paz"), whose purpose is the operation of credit card activity and the provision of credit through the aforementioned credit cards, and the provision of financial services, the provision of agency services and the distribution of various financial products to credit card holders and to private customers (through Leumi Card). It is noted that the regulation associated with the issuance and operation of the credit cards does not apply to Shufersal, or to Shufersal Finance.

Telecommunications

Cellcom is a public company which was incorporated in Israel, whose shares are listed for trading on the TASE and on the New York Stock Exchange, and whose debentures are listed for trading on the TASE.

Cellcom operates and sells to its customers various communication services. Cellcom's activity is divided into two segments - the mobile segment and the landline segment.

Cellcom's activity in the mobile segment includes the provision of mobile communication services in Israel, in accordance with licenses which are extended from time to time, the sale of mobile equipment to end users, and supplementary services. Cellcom holds a general license from the Ministry of Communication which is valid until the

end of January 2022 (the "Mobile License"). As of the reporting date, Cellcom provided mobile services to approximately 2,779 million subscribers, over several networks, most of which feature a national distribution, which include calls, sending and receipt of messages, and internet browsing. Cellcom also provides its customers with accompanying services, such as content and data services, and also offers end user equipment, and repair services for end user equipment.

Cellcom's activity in the landline segment includes internet infrastructure services (based on the wholesale landline market), beginning in May 2015, internet connectivity services ("internet provider services)," television over internet services, beginning in December 2014 ("Cellcom TV"), including television channel broadcasts, including channels which are provided by Idan+ broadcasts, video on demand (VOD) broadcasts, and additional advanced features, landline telephone services ("Landline Services") to the business and private sectors, data communication services to business customers and communication operators, international telephone services ("International Telephone Services") and additional services such as conference call services, cloud computing services and information security.

Cellcom has licenses for the provision of the services (except with respect to the television over internet services, which do not require a license).

In June 2016, DIC acquired Cellcom shares at a total scope of approximately NIS 13 million.

In January 2017, Cellcom terminated the agreement for the acquisition of the share capital of Golan Telecom Ltd. ("Golan" and the "Golan Acquisition Agreement," respectively).

In January 2017, after the end of the reporting period, Cellcom annulled the 2015 agreement for the purchase of Golan Telecom Ltd. ("Golan"), after the regulators' refusal to approve it and continuous litigation with Golan due to Golan's repeated breaches of its agreements with Cellcom. Following a mediation process held with Golan: Golan entered a share purchase agreement with Electra Consumer Products Ltd. ("Electra"),in which came into force as of the beginning of the second quarter of 2017. Following the execution of the aforementioned share purchase agreement with Electra the 3G and 4G network sharing and 2G hosting sharing agreement between Cellcom and Golan came into force; the aforementioned Company's 2015 purchase agreement of Golan was annulled; legal actions filed by the Company and Golan against each other were dismissed.

Cellcom markets its products through dozens of service and sale centers and dozens of licensed marketers throughout the country, a telephone sales channel and an internet sales channel. Business customers receive routine services through designated portfolio managers. Cellcom provides services to its customers through telephone hotlines, service centers, and several self-service channels (including its website).

Mobile segment

Cellcom operates in a highly competitive environment, which intensified after the entry into the market of additional mobile communication providers and regulatory changes which reduced barriers to entry and barriers to transition. As of the reporting date, it competes against eight other mobile communication operators: four mobile communication operators which are license holders for the construction of mobile networks (MNO): Partner, Pelephone Communications Ltd. ("Pelephone"), Hot Mobile and Golan (additionally, Xfone frequencies in a frequencies tender for the 4G network, and has not yet entered the market), along with four virtual operators - Rami Levy Hashikma Marketing Communications Ltd. ("Rami Levy"), Home Mobile Ltd. (whose operations were purchased by Cellcom, subject to the required approvals), Azi Communications Ltd. and Select Communications Ltd.

According to Cellcom's estimate, the subscriber market shares of the various mobile operators (based on "active subscribers") as of December 31, 2016 are as follows: Cellcom - approximately 27.5%,; Partner approximately 26%,; Pelephone - approximately 23%; Hot Mobile - approximately 13.8%; Golan - approximately 7.8%; the other virtual operators together - approximately 1.9%. Cellcom's assessment regarding the market share is based on the reports which were published to the public by other operators, and on Cellcom's assessments with respect to operators which do not issue public reports. However, there is no standard method for counting subscribers.

The average annual churn rate of mobile subscribers in the Israeli market in 2015 and in 2016 is estimated at approximately 38% and 36%, respectively, which is high relative to the churn rate in other developed countries. The churn rate from Cellcom in 2015 and 2016 was 42% and 42.4%, respectively.

End user equipment - Creating a connection between transactions for the provision of mobile services and transactions for the acquisition of end user equipment (including by way of the provision of airtime refunds for the acquisition of end user equipment) is prohibited. This prohibition has resulted in increased competition on the market. The increasing competition in the mobile device sales segment has resulted in a decrease in the scope of mobile devices sold by Cellcom.

Landline segment

The Hot and Bezeq groups are the only ones that own full landline infrastructures in Israel. In June 2016, Partner announced that it intends to create a national landline infrastructure. Cellcom is evaluating the possibility of investment in IBC group (a company owned by the Electric Corporation and an international group led by Via Europa) ("IBC"), or the creation of the broad landline infrastructure which it owns.

Internet services - access and infrastructure - The two main internet infrastructure providers for the private sector and the only groups that own infrastructure which offer internet infrastructure services both for to the internet access providers and to end user customers are Bezeq and Hot. Bezeq also provides internet infrastructure services to operators which do not own infrastructure, within the framework of the wholesale landline market. In 2014, IBC also began distributing its infrastructure and providing broadband services in select areas. IBC's license allows it to provide broadband infrastructure services on the fiber optic infrastructure of the Electric Corporation to other license holders, and to large business customers. In 2016, IBC's shareholders announced their intention to raise capital by introducing additional investors. As of the reporting date, Cellcom is evaluating the possibility of investing in IBC.

Internet provider services are provided, as of the reporting date, by the three major internet providers: Cellcom, Bezeq International, Smile Telecom (a subsidiary of Partner) and additional small providers, including Xfone Communication Ltd. As of December 31, 2016, Cellcom provides internet provider services to approximately 638,000 households, and Cellcom estimates its market share as 25% of the market share, as compared with 40% of the market share for Bezeq International, and 23% of the market share for Smile Telecom. The internet provider market is highly competitive, saturated and characterized by relatively low barriers to entry. The competition primarily focuses on the ability to offer high internet connectivity speeds relative to price. Insofar as IBC's infrastructure is available to possibility, this will boost Cellcom's opportunity to compete in the infrastructure and internet provider market, since this would decrease Cellcom's dependence on Bezeq and Hot as infrastructure providers.

Multi-channel television services - The market for multi-channel television for payment is controlled by Hot and Yes (which provide this service, as of September 30, 2016, to approximately 816,000 and 618,000 households, respectively). Cellcom began operating in this segment at the end of December 2014, through a hybrid television service which includes DTT broadcasts (television channels provided by the digital cable television broadcast network which operates in Israel and is distributed for free by the Second Authority for Television and Radio (Idan+) ("DTT Broadcasts") and OTT TV services (television over internet), and as of December 31, 2016, it provides this service to approximately 111,000 households. Other market players can also use the DTT broadcasts in combination with their own OTT services, similarly to Cellcom's method of operation in the segment. According to Partner's announcement, it will enter the television market in the first half of 2017. In 2016, Netflix and Amazon Prime, began operating in Israel, which provide internet-based VOD services, and Cellcom estimates that these services are expected to constitute a supplementary service to the television services which are offered by the existing competitors. in March and September 2014, the Antitrust Commissioner published the following requirements as a condition for the merger in the Bezeg group, in order to facilitate opening up the multi-channel television market to competition by reducing barriers to entry in the television segment: (1) in general, Bezeq will not charge a fee to internet providers with respect to the consumption of internet provider services which are due to multi-channel television broadcasts, and all of the existing exclusivity arrangements to which Bezeq and Yes are party will be canceled, with respect to non-original production television content, and the engagement of exclusivity arrangements of this kind will be prohibited in the future; and (2) The Bezeq / Yes group will allow new television service providers to acquire certain original productions of Bezeq for two years. The legal merger between Bezeq and Yes was completed in 2015.

International call services - Cellcom is a large provider of international call services. Cellcom's main competitors are Bezeq (through its subsidiary - Bezeq International) and Partner (through its subsidiary - Smile Telecom), and additionally, there are other competitors, such as Xfone Communication Ltd., Rami Levy, Golan and Hot, through their wholly owned subsidiaries or related companies. As of September 30, 2016, Cellcom's market share is estimated at approximately 20%, Bezeq International at approximately 35%, Smile Telecom at approximately 24%, and Hot-Net at approximately 12%. The international call service market is highly competitive, with the competition primarily based on the operator's ability to offer attractive pricing. Regulatory changes in this market have resulted in increased competition. In recent years, the use of alternative communication technologies, such as voice over IP, have resulted in reduction of the telephone market, and particularly, international telephone services. This trend is expected to continue in the future at a moderate rate. This trend, together with the inclusion of international telephone services in

mobile service and landline service communication packages at no additional charge, have resulted in a decrease in income from these services.

The adoption of the proposed changes in regulation of the international telephone services market, which includes the possibility for offering international telephone services by landline operators and the mobile operator themselves, and not through separate companies, may increase competition and adversely affect Cellcom's results of operations.

Local landline services - The landline telephone market has been controlled for many years by Bezeq, a monopoly in the landline telephone market, which held approximately 2/3 of the landline telephone market share (and a larger market share among business customers), according to the publications of the Ministry of Communication, and Hot. Additional providers in the landline telephone services market include Cellcom, Netvision (wholly owned by Cellcom), Partner-012 Smile and Bezeq International. Cellcom's penetration into the landline telephone market is an important component in Cellcom's ability to offer a comprehensive package of services to its subscribers. As of the reporting date, Cellcom offers landline telephone services to business customers, and through VOB technology, to its private customers. Cellcom estimates that its market share in the landline telephone services market is immaterial. Insofar as the wholesale landline market will include landline telephone, Cellcom will be able to offer home landline telephone services to its private customers through the wholesale market. According to Cellcom's second quarter 2017 results, in June 2017, the Ministry of Communications published regulations setting Bezeq's resale telephony service to be provided by Bezeq as of July 2017, as a temporary 14 month alternative for wholesale landline telephony service. In addition, the Ministry of Communications resolved that Bezeq's obligation to offer wholesale telephony service, which was to be offered by Bezeq as of May 2015, will be postponed until the lapse of said resale telephony service period. The resolution further notes that the Ministry of communications will consider the resale telephony service as a permanent replacement of the telephony wholesale service. The tariffs set for the resale telephony service are substantially higher than those set for Bezeq's telephony wholesale service. The Ministry of Communications is holding a public hearing in relation to the aforementioned tariffs, to be applied retroactively after its conclusion.

Other landline services - transmission services and data communication services are provided by Bezeq, Hot, Partner and Cellcom, and are intended for business customers and communication operators. In 2016, the competition in this segment increased, primarily due to the plans offered by Hot and Partner.

Fixed assets and facilities

Most of Cellcom's fixed assets include the mobile network equipment, which includes base sites which are distributed throughout the country, which provide broad communication coverage for the vast majority of populated areas in the country, as well as a transmission network (which includes optic fibers in a total length of approximately 1,800 km., and microwave infrastructure), which provides connectivity for Cellcom between most of its base sites, and through which Cellcom also provides, to select business customers, transmission services, data transfer and advanced landline communication services. In 2017, Cellcom intends to continue the distribution of its LTE network, and to continue optimizing its networks in order to provide to its customers maximum support for video and other content requiring broadband.

Cellcom has a backup network for disaster recovery with respect to its engineering systems, which was intended to increase network resiliency in case of damage to one of its components, and has adopted a business continuity plan and a disaster recovery plan in accordance with the requirements of its license.

As of June 30, 2017, Cellcom's fixed assets and intangible assets amounted to approximately NIS 2,916 million. In 2016, Cellcom's investments consisted in fixed assets and intangible assets, including communication networks, network equipment and transmission infrastructure.

Cellcom rents 78 service centers and points of sale. Additionally, Cellcom rents from various entities sites for the purpose of the construction, maintenance and operation of communication facilities which are used in Cellcom's communication network. Based on past experience, Cellcom encounters difficulties in extending the leases of

approximately 5% of the sites used for communication facilities.

In June 2013, Cellcom renewed the permission agreement with the Israel Land Administration, which manages the lands of the Development Authority and the Jewish National Fund, for the use of land for the construction and operation of small broadcast facilities.

The permission agreement determined that, subject to the receipt of advance approval from the land managers, which will be given at the request of Cellcom with respect to each site, Cellcom is entitled to build and operate transmission facilities on land, during the permission period, and specific permissions and contracts which will be signed following the permission agreement are cancelable by the land managers, by providing advance notice, in case of certain events. Additionally, the permission agreement includes a prohibition on the transfer of control of Cellcom without providing a definition of the term control for this purpose.

Cellcom has two main rental properties in Israel: (1) A long term agreement for its technological center in Netanya, with an area of approximately 11,000 square meters. The rental is for a period of ten years, from August 2011, and Cellcom has the option to extend the agreement for an additional period of 5 years, while in the event that Cellcom does not exercise the option, it will be required to pay compensation of approximately NIS 11 million. In January 2015, Cellcom rented approximately 1,100 square metersthrough a sublease for a period of five years, and in 2016, Cellcom rented, through a sublease, an additional area of approximately 5,000 square meters, for a period of 6 years. The sublessees have the option to extend the sublease for an additional period, under certain conditions; and (2) A long term agreement for Cellcom headquarters in Netanya, with an area of approximately 58,000 square meters (of which, approximately 26,000 square meters are used for underground parking) until December 2022, which can be extended by two additional periods of 5 years each. beginning in 2015, Cellcom has leased, through subleases, approximately one quarter of the leased area for periods of up to five years. The lessees have the option to extend the sublease for additional periods. Cellcom also has two additional properties which it leases: one in Haifa, with an area of approximately 8,900 square meters, and the other in Rosh Ha'ayin, with an area of approximately 3,300 square meters.

Intangible assets

Cellcom has the right to use frequencies for the provision of communication services in its communication networks.

In August 2015, Cellcom was allocated 3 megahertz ("MHz") in the 1800 MHz range for 4G networks (in light of Cellcom's existing 1800 MHz frequencies). As opposed to the frequencies which were provided in the past to Cellcom, which are valid during Cellcom's license period, the frequencies won by Cellcom, as part of the tender, were provided for a period of 10 years. Additionally, in order to provide optimal performance on the 4G network, Cellcom will require additional frequencies beyond those which were allocated to it in accordance with the 4G frequencies tender, and due to the fact that the Ministry of Communication believes that, for this purpose, Cellcom will clear 12 MHz in the 1800 MHz frequencies which were allocated to it for the purpose of the 2G network, Cellcom cleared such frequencies in locations where the low use of the 2G network, in combination with advanced and modern software programs which allow it, with minimum adverse impact on the performance of the 2G network. Additionally, insofar as the network sharing agreements with Electra and Xfone, are realized, Cellcom will be able to enjoy 10 MHz in the 1800 MHz frequencies of Golan and Xfone. If the aforementioned frequencies are not provided to Cellcom, Cellcom will hold a lower number of frequencies than its competitors, which may result in harm to Cellcom's competitive position.

The Ministry of Communication is evaluating the possibility of replacing 850 MHz frequencies with 900 MHz frequencies. This process will require Cellcom to perform significant investments in its networks.

Cellcom is a member of the GSM association, which includes various operators from all over the world which use GSM technology, and which meet the standards of the association. As a member of the association, Cellcom is

entitled to make use of the association's intellectual property rights, including use of the GSM logo and trademark.

Cellcom has rights to a large number of trademarks and trade names which are registered under the names of Cellcom and Netvision, as applicable. Additionally, several patents are registered under Cellcom's name.

Insurance

Clal Insurance Enterprises Holdings is a public company which was incorporated in 1987, in accordance with the laws of the State of Israel. The shares of Clal have been listed for trading on the stock exchange since 1988. Clal is a holding company which is primarily engaged in the insurance, pension and provident funds segments, and in the holding of assets and real and other businesses (such as insurance agencies), and which constitutes one of the largest insurance groups in Israel. Clal has three operating segments: long term savings, non-life insurance and health insurance.

Long term savings segment

General information regarding operating segment This operating segment includes the life insurance branch, the pension funds branch, the provident funds and study funds branch. The activities in the life insurance branch were performed in 2016 through Clal Insurance. The activity in the pension and provident fund branch was performed in 2016 through the holdings of Clal Insurance in Clal Pension and Provident Funds (100%) and in Atudot Havatika (50%).

Products and services.

The products in the segment primarily provide solutions for the retirement period to salaried employees and self-employed workers, private investment solutions and coverages in case of death, disability and loss of income due to loss of working capacity. Life insurance products constitute a contractual undertaking between the insurer and the policyholder, and include insurance plans which allow the accrual of savings, for different time ranges, and insurance plans and/or combinations in insurance plans which include insurance covers for death, illness, loss of working capacity and disability. A policyholder who has reached the end of the insurance period is entitled to insurance benefits (the amounts which have accrued in the savings component of the policy), in accordance with the policy terms. The policyholder may choose, subject to the provisions of the legislative arrangement, to receive these amounts in a one-time amount ("Capital Payment"), in lifetime payout installments ("Annuity"), or as a combination of the two, according to the policy terms; In some Annuity products, the policyholder benefits from an Annuity factor which is protected against extended life expectancy, and which is determined on the acquisition date of the policy, or on the commencement date of the payment of the Annuity to the policyholder, or which can be acquired once the policyholder reaches at least age 60. Pension funds constitute a mutual insurance fund, and operate in accordance with regulations which may change from time to time. A pension fund member is entitled to receive, beginning on the retirement date, lifetime Annuity payments, which are based on Annuity factors which do not guarantee life expectancy, and the Annuity may change from time to time, in accordance with the actuarial balance of the fund. Comprehensive pension funds allow pension savings for pension purposes and insurance coverage for death and disability which partially benefit from designated debentures, and to which it can be can be made subject to the limits prescribed in law; General (supplementary) pension funds which do not benefit from designated debentures, and which allow pension savings for Annuity purposes, and to which deposits cam be made beyond the limit prescribed in law. Some of the general funds including additional insurance coverages, beyond the old age Annuity; Provident funds provide savings solutions both for the long term (such as provident funds for severance pay and compensation to salaried employees) and for the medium term (study funds), without insurance coverages acquired directly from the managing company. A member is entitled to withdraw the amounts which accrued in his favor in the provident funds, excluding study funds, in a one-time amount or as an Annuity, in accordance with the period when they deposited them. Funds which accrued in favor of a member in study funds are withdrawn in a one-time payment. Beginning in June 2016, provident funds for investment were established in the branch, which are intended to allow a capital savings track for individual funds, and which will include an incentive for the withdrawal of funds accrued therein as an Annuity during the retirement period.

Restrictions, legislation, standardization and special constraints which apply to the operating segment. The activity in this segment is subject to the provisions of the law which apply to insurers and to pension funds and provident funds which operate in this segment, including the Insurance Law, the Control of Financial Services (Provident Funds) Law, 5765-2005 (the "Provident Funds Law"), the Income Tax Regulations (Rules for Approval and Management of Provident Funds), 5724-1964 (the "Provident Fund Regulations"), the Control of Financial Services Law (Pension Advice, Marketing and Clearing Systems), 5765-2005 (the "Pension Advice Law"), and subject to and in accordance with the directives of the Commissioner of Capital Markets, as issued from time to time.

General insurance segment

General information regarding operating segments This segment includes the activities of Clal in the general insurance branches and in the personal accidents insurance branch (up to one year), which are recorded under general insurance business operations.

Details regarding the primary details included in the operating segment.

Compulsory motor insurance - The product is insurance which the vehicle owner is required to purchase with respect to physical harm only which may be caused to the driver of the insured vehicle, or to passengers therein, or to pedestrians who were injured as a result of the damage of the insured vehicle.

Motor property insurance - Motor property insurance is insurance which covers property damage which was caused to the vehicle, as specified in the policy.

Liability insurance - (A) Third party liability insurance; (B) Employers' liability insurance; (C) Product liability insurance; (D) Professional liability insurance; (E) Officers' liability insurance.

Other property and others insurance - (A) Home insurance;(B) Other property insurance.

Guarantees - Policies in accordance with the Sales Law - Policies which are intended to secure the investments of residential unit buyers in accordance with the Sales Law, and which rely on its provisions.

Accident, illness and disability insurance - Personal accidents insurance - Provides coverage to the policyholder in case of death and/or permanent disability (full or partial) due to an accident and/or temporary loss of working capacity, as a result of an accident or illness.

Credit and foreign trade risks insurance - The policy is intended for companies which sell on credit, both in Israel and abroad, to other businesses (B2B). The insurance covers liabilities due to the sale of goods and/or the provision of services on credit.

Health insurance segment

General information regarding operating segments This segment includes the Group's activities in health insurance, in the illness and hospitalization branch, and in the long term care branch. This segment includes insurance plans designed for individual policyholders, and insurance plans designed for collectives.

Products and services.

Illness and hospitalization branch - Including illness and hospitalization insurance, international travel insurance, foreign residents insurance, personal accidents insurance, dental insurance and health insurance for Israelis abroad. Some of these products are supplementary and/or extended and/or alternative to the services which are provided within the framework of the basic health basket which is provided to the citizens of the country by virtue of the Health Insurance Law and/or to the services which are provided within the framework of the additional services of the health funds, in accordance with the provisions of the National Health Insurance Law.

Long term care branch - Long term care insurance provides solutions for policyholders who have been defined as requiring long term care, according to the definition of the insurance event in the policy, i.e., anyone who cannot independently perform part of the activities of daily living, and therefore requires assistance or supervision. In the long term care branch, insurance coverages are sold which are paid in addition to payments or services which are provided by the state, as individual insurance and as collective insurance.

Restrictions, legislation, standardization and special constraints The activity in this segment is subject to the provisions of the law which apply to insurers engaged in the segment, and to the directives of the Commissioner of Capital Markets which are published from time to time, and to the provisions of the law which apply to insurers

operating in the field. The activity in this segment requires a license, in accordance with the Insurance Law, and is overseen by the Division of Capital Markets.

Others

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

The Effect of Seasonality on Shufersal

In Israel retail segment business results are subject to seasonal fluctuations as a result of the consumption behavior of the population proximate to the Pesach holidays (March and/or April) and Rosh Hashanah and Sukkoth holidays (September and/or October). This also affects the balance sheet values of inventory, customers and suppliers. Our revenues from cellular services are usually affected by seasonality with the third quarter of the year characterized by higher roaming revenues due to increased incoming and outgoing tourism.

In 2017, the Passover holiday fell at the middle of April, compared to 2016 when it was at the end of April. The timing of the holiday affects Shufersal's sales and special offers in the second quarter of 2017, compared to last year.

The Passover holiday in the second quarter of 2017 had a greater effect on Shufersal's results than in the corresponding quarter in 2016, therefore analysis of the results for the first half of the year compared to the corresponding period in 2016 better represents the changes between the periods.

Legal Framework

Operations Center in Argentina

Regulation and Governmental Supervision

The laws and regulations governing the acquisition and transfer of real estate, as well as municipal zoning ordinances are applicable to the development and operation of our properties. Currently, Argentine law does not specifically regulate shopping malls lease agreements. Since our shopping malls leases generally differ from ordinary commercial leases, we have created provisions which govern the relationship with our shopping malls tenants.

Leases

Argentine law imposes certain restrictions on property owners, including:

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

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

Rent Increases

In addition, there are contradictory court rulings regarding whether rent may be increased during the term of the lease agreement. For example, Section 10 of the Public Emergency Law prohibits the adjustment of rent under leases subject to official inflation rates, such as the consumer price index or the wholesale price index. Most of our leases provide for incremental rent increases that are not based on any official index. As of the date of this annual report no tenant has filed any legal action against us challenging incremental rent increases, but we cannot ensure that such actions will not be filed in the future and, if any such actions were successful, that they will not have an adverse effect on us.

Lease Terms Limits

Under the Argentine Civil and Commercial Code lease terms may not exceed fifty years. Generally, our leases are for terms of three to ten years.

Rescission Rights

The Argentine Civil and Commercial Code provides that tenants may terminate leases earlier after the first six months of the effective date. Such termination is subject to penalties which range from one to one and a half months of rent payable. If the tenant terminates the lease during the first year of the lease the penalty is one and a half month's rent and if termination occurs after the first year of lease the penalty is one month's rent.

Other

The Argentine Civil and Commercial Code requires a tenant to give at least 60 days' prior notice of termination. There are no court rulings related to: (i) the tenants' unilateral right to terminate; or (ii) the possibility of establishing a penalty different from that prescribed by law.

While current Argentine government discourages government regulation of leases, there can be no assurance that additional regulations will not be imposed in the future, including regulations similar to those previously in place. Furthermore, most of our leases provide that the tenants pay all costs and taxes related to the property in proportion to their respective leaseable areas. If a significant increase in the amount of such costs and taxes occurs, the Argentine government may respond to political pressure to intervene by regulating this practice, thereby increasing our costs.

Argentine law enables lessors to pursue an "executory proceeding" if lessees' fail to pay rent when due. In executory proceedings, debtors have fewer defenses available to prevent foreclosure, making these proceedings substantially shorter than in normal proceedings. In executory proceedings the origin of the debt is not under discussion; the trial focuses on the formalities of debt instrument itself. The code also permits special eviction proceedings, which are carried out in the same way as ordinary proceedings. The Argentine Civil and Commercial Code requires that notice be given to a tenant demanding payment of amounts due in the event of breach priorto eviction, of no less than ten days for residential leases, and establishes no limitation or minimum notice for other leases. However, historically, backlogs in court dockets and numerous procedural hurdles have resulted in significant delays to eviction proceedings, which generally last from six months to two years from the date of filing of the suit.

Development and Use of the Land

In the City of Buenos Aires, where the vast majority of our properties are located, we are subject to the following regulations:

Buenos Aires Urban Planning Code. The Buenos Aires Urban Planning Code (Código de Planeamiento Urbano de la Ciudad de Buenos Aires) generally restricts the density and use of property and controls physical features of improvements on property, such as height, design, set-back and overhang, consistent with the city's urban landscape policy. The administrative agency in charge of the Urban Planning Code is the Secretary of Urban Planning of the City of Buenos Aires.

Buenos Aires Building Code. The Buenos Aires Building Code (Código de Edificación de la Ciudad de Buenos Aires) complements the Buenos Aires Urban Planning Code and regulates the structural use and development of property in the city of Buenos Aires. The Buenos Aires Building Code requires builders and developers to file applications for building permits, including the submission to the Secretary of Work and Public Services (Secretar'a de Obras y Servicios Públicos) of architectural plans for review, to assure compliance therewith.

Buenos Aires Enablement Code. The Buenos Aires Enablemant Code (Código de Habilitaciones de la Ciudad de Buenos Aires) regulates the conditions under which the licenses or licenses to operate commercial establishments are granted and the rules and procedures that they must follow. The General Direction of Habilitations and Permits is the

administrative division responsible for implementing and enforcing the Enablement Code of the City of Buenos Aires.

In other jurisdictions, our real estate activities are subject to various municipal regulations regarding urban planning, construction, occupation and the environment. The latter must respect federal principles. Additionally, in some jurisdictions we may be subject to the regulation of large commercial areas, which requires government approval of the location of certain commercial establishments.

We believe that all of our real estate properties are in material compliance with all relevant laws, ordinances and regulations.

Sales and Ownership

Buildings Law. Buildings Law No. 19,724 (Ley de Pre-horizontalidad) was superseded by the Argentine Civil and Commercial Code which became effective on August 1, 2015. The new regulations provide that for purposes of execution of agreements with respect to build units or condo units under construction, the owner or developer must purchase insurance in favor of prospective purchasers against the risk of frustration of the contract. A breach of this obligation prevents the owner from exercising any right against the purchaser, such as demanding payment of any outstanding installments due, unless the owner fully complies with its obligations, but does not prevent the purchaser from exercising its rights against seller.

Protection for the Disabled Law. The Protection for the Disabled Law No. 22,431 (Ley de Protección del Discapacitado), enacted on March 20, 1981, as amended, provides that in connection with the construction and renovation of buildings, obstructions to access must be eliminated in order to enable access by handicapped individuals. In the construction of public buildings, entrances, transit pathways and adequate facilities for mobility impaired individuals must be provided for. Buildings developed before the Law came into effect must be retrofitted to provide access, transit pathways and adequate facilities for mobility-impaired individuals. Those pre-existing buildings, which due to their architectural design may not be so retrofitted, are exempted from compliance. The Protection for the Disabled Law provides that residential buildings must ensure access by mobility impaired individuals to elevators and aisles. Architectural requirements refer to pathways, stairs, ramps and parking.

Real Estate Installment Sales Law. The Real Estate Installment Sales Law No. 14,005, as amended by Law No. 23,266 and Decree No. 2015/85 (Ley de Venta de Inmuebles Fraccionados en Lotes en Cuotas), imposes a series of requirements on contracts for the sale of subdivided real estate property regarding, for example, the sale price which is paid in installments and the deed, which is not conveyed until final payment of such price. The provisions of this law require, among other things:

The registration of the intention to sell the property in subdivided plots with the Real Estate Registry (Registro de la Propiedad Inmueble) corresponding to the jurisdiction of the property. Registration will only be possible with regard to unencumbered property. Mortgaged property may only be registered where creditors agree to divide the debt in accordance with the subdivided plots. However, creditors may be judicially compelled to agree to the division.

Preliminary registration with the Real Estate Registry of the deed of transfer within 30 days of execution of the sales contract.

Once the property is registered, the installment sale must be consistent with the requirements of the Real Estate Installment Sales Act, unless seller affirms that it will not provide for the sale in installments. If a title dispute arises, the installment purchaser who has duly registered the purchase instrument with the Real Estate Registry will be entitled to the deed. Further, the purchaser can demand conveyance of title after at least 25% of the purchase price has been paid, although the seller may demand a mortgage to secure payment of the balance of the purchase price.

After payment of 25% of the purchase price or the construction of improvements on the property equal to at least 50% of the value of the property, the Real Estate Installment Sales Act prohibits termination of the sales contract for failure by the purchaser to pay the balance of the purchase price. However, in such event the seller may take action under any mortgage on the property.

Other Regulations

Consumer Relationship. Consumer or End User Protection. The Argentine Constitution expressly establishes in Article 42 that consumers and users of goods and services have a right to protection of health, safety and economic interests in a consumer relationship. Consumer Protection Law No. 24,240, as amended, provides protection of consumers and end users in a consumer relationship, in the arrangement and execution of contracts.

The Consumer Protection Law, and the applicable provisions of the Argentine Civil and Commercial Code regulate the rights conferred under the Constitution focused on the weakest party in the consumer relationship as a means to prevent potential abuses by vendors of goods and services in a mass-market economy where standard contracts are the norm.

As a result, contractual provisions included in consumer contracts are voided and unenforceable if they:

Are inconsistent with the essence of the service to be provided or limit liability for damages;

imply a waiver or restriction of consumer rights and an extension of seller rights; or

shift the burden of proof to consumers.

In addition, the Consumer Protection Law imposes penalties ranging from warnings to the forfeiture of concession rights, privileges, tax regimes or special credits to which the sanctioned party may be entitled, including closing down of establishments for a term of up to 30 days.

The Argentine Civil and Commercial Code defines a consumer agreement as are entered into between a consumer or end user and an individual or legal entity that provides professional services or a private or public company that manufactures goods or offers services to consumers in the stream of commerce.

In addition, the Consumer Protection Law establishes a joint and several liability system under which for any damages caused to consumers, if resulting from a defect or risk inherent in the thing or the provision of a service, the producer, manufacturer, importer, distributor, supplier, seller and anyone who has placed its trademark on the good or service is liable. The Consumer Protection Law excludes professional services that require a college degree and that are provided by members of professional organizations or those provided by a governmental authority. However, this law regulates professional advertisements.

The Consumer Protection Law determines that the information contained in the offer addressed to undetermined prospective consumers, binds the offeror during the period in which the offer takes place and until its public revocation. Further, it determines that specifications included in advertisements, announcements, prospectuses, circulars or other media bind the offeror and are considered part of the contract entered into by the consumer.

Pursuant to Resolution No. 104/05 issued by the Secretariat of Technical Coordination reporting to the Argentine Ministry of Economy, the Consumer Protection Law adopted Resolution No. 21/2004 issued by the Mercorsur's Common Market Group which requires that those who engage in commerce over the Internet (E-Business) shall disclose in a precise and clear manner the characteristics of the products and/or services offered and the sale terms. Failure to comply with the terms of the offer is deemed an unjustified denial to sell and gives rise to sanctions.

On September 17, 2014, a new Consumer Protection Law was enacted by the Argentine Congress –Law No. 26,993. This law, known as "System for Conflict Resolution in Consumer Relationships," provided for the creation of new administrative and judicial procedures. It created a two-tiered administrative system: the Preliminary Reconciliation Agency for Consumer Relationships (Servicio de Conciliación Previa en las Relaciones de Consumo, COPREC) and the Consumer Relationship Audit, and a number of courts assigned to conflicts between consumers and producers (Fuero Judicial Nacional de Consumo). A claim may not exceed a fixed amount equivalent to 55 adjustable minimum living wages, as determined by the Ministry of Labor, Employment and Social Security. The claim must be filed with the administrative agency. If an agreement is not reached between the parties, the claimant may file the claim in court. The COPREC is currently in full force and effect.

However, the court system is not in force yet, therefore, any court claims currently must filed with existing courts. A considerable volume of claims filed against us are expected to be settled pursuant to the system.

Antitrust Law. Law No. 25,156, as amended, prevents monopolistic practices and requires administrative authorization for transactions that according to the Antitrust Law constitute an economic concentration. According to this law, mergers, transfers of goodwill, acquisitions of property or rights over shares, capital or other convertible securities, or similar operations by which the acquirer controls or substantially influences a company, are considered as an economic concentration. Whenever an economic concentration involves a company or companies and the aggregate volume of business of the companies concerned exceeds in Argentina the amount of Ps.200 million, in such case the respective concentration should be submitted for approval to the Argentine Antitrust Authority (Comisión Nacional de Defensa de la Competencia, "CNDC"). The request for approval may be filed either prior to the transaction or within a week after its completion.

When a request for approval is filed, the CNDC may (i) authorize the transaction, (ii) condition the transaction to satisfaction of certain conditions, or (iii) reject the application.

The Antitrust Law provides that economic concentrations in which the transaction amount and the value of the assets absorbed, acquired, transferred or controlled in Argentina, do not exceed Ps.20 million are exempted from the law. Notwithstanding the foregoing, when the transactions consummated by the companies involved in the prior 12-month period exceed in the aggregate Ps.20 million or Ps.60 million in the last 36 months, these transactions must be notified to the CNDC.

As our consolidated annual sales volume and our parent's consolidated annual sales volume exceed Ps.200 million, we should give notice to the CNDC of any concentration provided for by the Antitrust Law.

Credit Card Law. Law No. 25,065, as amended by Law No. 26,010 and Law No. 26,361, governs certain aspects of the business activity known as "credit card system." Regulations impose minimum contract contents and approval thereof by the Argentine Ministry of Industry, as well as limitations on chargeable interest by users and commissions charged by the retail stores that adhere to the system. The Credit Card Law applies both to banking and non-banking cards, such as "Tarjeta Shopping," issued by Tarshop S.A. Pursuant to Communication "A" 5477 issued by the Argentine Central Bank, loans granted under credit cards by non-financial entities cannot exceed 25% of the monthly interest rate published by the Argentine Central Bank for loans to individuals without security interests.

Environmental Law. Our activities are subject to a number of national, provincial and municipal environmental provisions.

Article 41 of the Argentine Constitution, as amended in 1994, provides that all Argentine inhabitants have the right to a healthy and balanced environment fit for human development and have the duty to preserve it. Environmental damage shall bring about primarily the obligation to estore it as provided by applicable law. The authorities shall control the protection of this right, the rational use of natural resources, the preservation of the natural and cultural heritage and of biodiversity, and shall also provide for environmental information and education. The National Government shall establish minimum standards for environmental protection whereas Provincial and Municipal Governments shall fix specific standards and regulatory provisions.

On November 6, 2009, the Argentine Congress passed Law No. 25,675, which regulates the minimum standards for the achievement of a sustainable environment, the preservation and protection of biodiversity and sets forth the environmental policy goals. Law No. 25,675 establishes the activities that will be subject to an environmental impact assessment procedure and certain requirements applicable thereto. In addition, such Law sets forth the duties and obligations that will be triggered by any damage to the environment and mainly provides for restoration of the

environment to its former condition or, if that is not technically feasible, for payment of compensation in lieu thereof. Such Law also fosters environmental education and provides for certain minimum reporting obligations to be fulfilled by natural and legal entities.

In addition, the CNV Rules require the obligation to report to the Commission any events of any nature and fortuitous acts that seriously hinder or could potentially hinder performance of our activities, including any events that generate or may generate significant impacts on the environment, providing details on the consequences thereof.

The Argentine Civil and Commercial Code introduced as a novel feature the acknowledgement of collective rights, including the right to a healthy and balanced environment expressly sets forth that the law does not protect an abusive exercise of individual rights if such exercise could have an adverse impact on the environment and collective rights in general. For additional information see "Item 3 (d). Risk Factors—Risk relating to our Business—Our business is subject to extensive regulation and additional regulations may be imposed in the future."

Control Systems

IRSA CP owns computer systems to monitor tenants' sales (except stands) in all of its shopping malls. IRSA CP also conducts regular manual audits of its tenants accounting sales records in all of its shopping malls. Almost every store in those shopping malls has a point of sale that is linked to a main computer server in the administrative office of such shopping mall. IRSA CP uses the information generated from the computer monitoring system for statistics regarding total sales, average sales, peak sale hours, etc., for marketing purposes and as a reference for the processes of internal audit. The lease contracts for tenants in Alto Avellaneda, Alto Palermo, Alcorta Shopping, Patio Bullrich, Buenos Aires Design, Abasto, Alto Rosario, Alto NOA, Dot Baires Shopping, Córdoba Shopping, Soleil Premium Outlet, La Ribera Shopping, Mendoza Plaza, Distrito Arcos and Alto Comahue contain a clause requiring tenants to be linked to the computer monitoring system, there being certain exceptions to this requirement.

Insurance

We carry all-risk insurance for the shopping malls and other buildings covering property damage caused by fire, explosion, gas leak, hail, storms and wind, earthquakes, vandalism, theft and business interruption. In addition, we carry liability insurance covering any potential damage to third parties or property caused by the conduct of our business throughout Argentina. We are in compliance with all legal requirements related to mandatory insurance, including insurance required by the Occupational Risk Law (Ley de Riesgos del Trabajo), life insurance required under collective bargaining agreements and other insurance required by laws and executive orders. Our history of damages is limited to one single claim resulting from a fire in Alto Avellaneda Shopping in March 2006, a loss which was substantially recovered from our insurers. These insurance policies contain specifications, limits and deductibles which we believe are adequate to the risks to which we are exposed in our daily operations. We further maintain liability insurance covering our directors' and corporate officers' liability.

Operations Center in Israel

IDBD is a holding company that invests, either directly or through its subsidiaries, associates and joint ventures in companies that operate in various sectors of the economy in Israel. IDBD is directly affected by the political, economic, military and regulatory conditions of Israel. The main regulations applicable to IDBD's business are described below. For more information, see "Risk Factors–Risks related to IDBD and IDBD's subsidiaries."

General regulations applicable to our business in Israel

Proper Conduct of Banking Business

IDBD and certain of its affiliates are subject to supervision by the Israeli Supervisor of Banks relating to "Proper Conduct of Banking Business" which impose, among others limits on the aggregate principal amount of loans a financial institution can have outstanding to a single borrower, a group of related borrowers, and to the largest

borrowers and groups of related borrowers of a banking entity (as these terms are defined in the aforesaid directives). IDBD, its controlling shareholders and its affiliates are considered a single group of borrowers for purposes of this regulation.

These restrictions limit the ability of IDBD and its affiliates to borrow from a single bank in Israel, their ability to make investments where they require bank lines of credit, to invest in companies that have loans outstanding from banks in Israel, and to make business transactions together with groups that have such credit outstanding. In the period from 2013 and until the date of publication of the report, the concentration of credit risk of IDBD and its affiliates decreased as a result of a reduction in the amount of utilized credit for the group that includes IDBD, including as a result of a change of control that resulted in a re-characterization of the group for purposes of applicable regulation.

Reduced Centralization Act

In December 2013, the official "Reshumot" published in Israel the Promotion of Competition and Reduction of Centralization Law, No. 5774-2013 (the "Reduced Centralization Act") pursuant to which the use of a pyramidal structures (or multiholding companies) for the control of "reporting entities" (principally entities whose securities are held by public shareholders) is limited to two layers of reporting entities, being the holding company in the first layer not including a reporting entity that has no controlling shareholder. For this purpose, on the date of publication of the law in Reshumot, IDBD was considered a second-tier company and DIC was considered a third-tier company, and as such, DIC would not have been permitted to continue to control the operating companies after December 2019. As a result of the change in control of IDBD, IDBD and DIC are no longer considered as second and third-tier companies, respectively, for the purpose of the Reduced Centralization Act. If DIC is considered a second-tier company, it would be required by December 2019 at the latest, to cease controlling entities with publicly held securities.

In connection with evaluating the application of the Reduced Centralization Act, in August 2014, IDBD's Board of Directors appointed an advisory committee to examine various alternatives to address the implications of the Reduced Centralization Act to comply with the provisions that apply to control in a pyramid o multiholding company structure in order to enable continued control of IDBD and/or DIC in "other tier companies" (currently held directly by Discount Investments) as of December 2019. The advisory committee has recommended the following alternatives:

- (a) Taking either IDBD or DIC private thereby removing the requirement that they be reporting entities (and as a result not a "tier company"); and
- (b) Merge IDBD and DIC.

The Board of Directors of Discount Investments has appointed an advisory committee with a similar function. As of the date of this Annual Report, no specific alternatives have been identified. The implementation of an alternative that would be adopted is likely to take several years.

Based on these analyses, IDBD considers it more likely that the completion of one of the specified alternatives will be adopted to comply with the restrictions of the Reduced Centralization Act regarding pyramidal holdings, while allowing IDBD to continue to control DIC, and DIC to continue to control Cellcom after December 2019. PBC, which currently is a third-tier company that controls each of Gav-Yam, Ispro and Mehadrin, has preliminarily evaluated application of the Law on its holding structure and determined that it will be able to maintain said control, as it has concluded that the Law has no effect over its financial statements.

IDBD, as a first-tier company, and DIC, as a second-tier company, are not required to designate independent directors to their respective boards of directors or to appoint outside directors as required by the Reduced Centralization Act.

Pursuant to the provisions of the Reduced Centralization Act, the boards of directors of Cellcom, PBC, Elron, Gav-Yam, Ispro and Mehadrin, include a majority of independent outside directors. In June 2014, the Promotion of Competition and Reduction of Centralization (Classification of a Company as a Tier Company) Regulations, No. 5774-2014, came into effect, as part of which exemptions were provided for certain "third-tier" entities from changing the composition of their boards of directors to comply with the Reduced Centralization Act. Pursuant to this law and the Promotion of Competition and Reduction of Centralization (Concessions Regarding the Number of Outside directors) Regulations, No. 5774-2014, and in view of the number of directors who may be appointed with the consent of the Bronfman-Fisher Group (per the terms of the shareholders' agreement between it and DIC), the Board of Directors of Shufersal includes a majority of independent outside directors. In this context, in August 2014, DIC entered into an agreement with an affiliate of the Bronfman-Fisher (which at the time held approximately 19% of the share capital of Shufersal), pursuant to which DIC will vote in favor of the four directors designated by Bronfman-Fisher at the meeting of shareholders of Shufersal (out of a board of fifteen members), for so long as it holds the minimum defined percentage of the share capital of Shufersal, although DIC reserves the right to object to any candidate on reasonable grounds.

These arrangements will be in effect so long as the restrictions of section 25(d) to the Reduced Centralization Act apply to Shufersal. Accordingly, DIC, which as of December 31, 2015, owned approximately 53% of Shufersal's share capital, is effectively able to appoint the majority of the members of Shufersal's Board of Directors.

The Reduced Centralization Act includes provisions relating to a separation between significant affiliates and significant financial institutions. Consequently, so long as IDBD will be a significant operating entity, after December 11, 2019, IDBD will not be able to control Clal Insurance and additional financial affiliates within the Clal or to hold more than 10% of the equity of any such entity (or more than a 5% stake in such an entity if it is regarded as an insurer without a controlling shareholder).

In May 2015, updated lists were published on the website of the Ministry of Finance and the official gazette in connection with the Reduced Centralization Act, which includes a list of the centralization factors, the list of the significant corporations and a list of the significant financial institutions. In accordance with the provisions of the Reduced Centralization Act, a substantial financial institution or a significant real corporation will be deemed as a centralization factor that subjects these entities to the provisions of the Reduced Centralization Act, as well as any entity that is part of a business group that includes a significant financial entity or a significant real corporation. IDBD and its controlling shareholders (Eduardo Elsztain and entities through which he holds his interest in IDBD) and the companies of the IDBD Group (including DIC, Cellcom, PBC, Shufersal, Adama, Clal, IDB Tourism, Noya Oil and Gas Explorations Ltd. and companies under the control of these companies) were included in the list of centralization factors, and these entities, except for Adama (excluding Eduardo Elsztain himself), were also included in the list of significant corporations. In addition, companies of Clal, including Clal Insurance (except Clal Holdings Insurance Enterprises) and Epsilon Investment House Ltd. (held by DIC) were also included in the list of the significant financial institutions.

Insofar as Clal Holdings Insurance Enterprises will continue to be considered a significant real entity, this may affect its ability to retain control of Clal Insurance, directly or indirectly after December 2019, which may adversely affect its ability to appoint joint directors in both of the companies (Clal Holdings Insurance Enterprises and Clal Insurance).

In light of the directives issued by the Commissioner in connection with the appointment of a trustee for holding control in Clal Holdings Insurance Enterprises, which currently are held by IDBD and considering the letter issued by the Commissioner on December 30, 2014 pursuant to which IDBD is required to sell its control shares in Clal Holdings Insurance Enterprises, Clal Holdings Insurance Enterprises has appealed to the Concentration Committee in connection with its classification as a significant real entity.

In November 2014, IDBD's Board of Directors resolved, subject to requisite corporate approvals, to promote a consolidation of management functions at IDBD and DIC, in order to achieving costs savings. In this regard, on March 29, 2016, IDBD's Board of Directors approved the terms of office and of employment of Mr. Shalom Lapidot to be chief executive officer of both IDBD and DIC, which was subsequently approved by the compensation committee of DIC. The term of office of Mr. Lapidot is subject to approval of a general meeting of shareholders of DIC.

On September 20, 2017, complying with the Reduced Centralization Act in respect to the pyramid participation structure, Dolphin, a subsidiary of the Company, has executed a binding term sheet for the acquisition of the entire shares held by IDBD in DIC through a company that it is controlled by the Company, currently existing or to be incorporated in Israel. The term sheet has been approved by the independent directors committee created for the purposes of such transaction which has been participated in the negotiations, analyzed and assessed the term sheet. This term sheet shall continue in negotiations between the parties so as to define the terms and conditions of the definitive documents to be executed. The Audit Committee of the Company has issued an opinion without objections to make with respect to the referred transaction.

Regulations applicable to each of the businesses in Israel

Real Estate

In recent years, there has been continued shortage in manpower in the construction and agricultural industries which typically are labor intensive and depend on foreign workers, including in the areas of Judea and Samaria. The security situation in Israel, as well as the shutdown of Judea and Samaria during certain periods of the year, have resulted in continued shortage in the workforce, driven by lower numbers of foreign workers from Judea and Samaria. In July 2015, the Minister of Finance increased the quota of foreign work permits to approximately 20,000 through the end of 2016, as a means to achieving the goal of increasing new construction projects by 70,000 during the year and to promote newhousing starts to alleviate the housing crisis. Given the shortage of skilled workers, wages increased in general and in particular those of foreign construction workers. The shortage and unavailability of a skilled workforce, increased construction costs and resulted in longer timetables for the execution of new projects.

Supermarkets

Labor Law

The retail sector activities of Shufersal are subject to labor laws including the Employment of Workers by Human Resources Subcontractors Law, 5756-1996, the Extension Order in the Matter of Contract Workers in the Cleaning Branch in the Private Sector, the Minimum Wage Law, 5747-1987 and the Increased Enforcement of Labor Laws Law, 5772-2011. As of June 30, 2017, Shufersal employed approximately 13,900 workers, majority of which are subject to minimum wage requirements. The majority of Shufersal's employees, in an estimated number of 11,000 of Shufersal employees, are parties to a collective bargaining agreement.

The provisions of the Minimum Wage Law (Increase of Minimum Wage - Emergency Provision), 5772 - 2015 and the amendment of the Minimum Wage Law, 5747 – 1987, resulted in an increase in the minimum wage effective as of July 2016 and led to an increase of NIS 40 million in Shufersal's wage expense in 2016 (compared with 2015). In Shufersal's evaluation the increase of the minimum wage in Israel, changes to labor laws in Israel and the increased possibility of organized workers may detrimentally affect the business results of Shufersal and result in higher wage expenses of Shufersal.

Retail and Production

The activities of Shufersal are also subject to consumer protection laws, including the Food Law, the Defective Products Liability Law, 5740-1980, the Consumer Protection Law, 5741-1981, and the Consumer Product and Service Price Supervision Law, 5756-1996 that allows a consumer to institute a class action suit for damages caused to consumers as a whole based on the causes of action set out in that law.

The Public Health Protection (Food) Law, 5776-2015, sets forth quality standards and food safety measures and provides the relevant regulator supervisory and criminal and administrative enforcement powers. The provisions of the Food Protection Law affect production activities of Shufersal, including importation and food marketing activities. Shufersal is continuing the process of implementing procedures to comply with the provisions of the Food Protection Law that apply to its activities. Shufersal also operates pharmacies in certain of its stores, and is therefore subject to the provisions of the Pharmacists Ordinance (New Version), 5741-1981.

Shufersal is involved in manufacturing activities at three owned facilities where it produces principally private-branded baked goods which are subject to compliance with applicable production and quality assurance standards. Shufersal is continuously evaluating compliance of these facilities with the provisions of the Food Protection Law and as of the date of this Annual Report, Shufersal believes its operations comply in all material respects with the applicable provisions of this law.

The retail activities of each Shufersal store requires compliance with the Business License Order (Businesses Requiring a License), 5773-2013, principally providing that they obtain a business operating license for each unit. As of the date of this Annual Report, there are two units that are subject to legal proceedings regarding business licenses that are pending against Shufersal and its directors. Shufersal's operating units are also subject to land development approvals and licensing, substantially all of which are in compliance.

The Food Law and the Anti Trusts Law

The Antitrust Law affects the activities of Shufersal, especially with respect of the possibility of carrying out future acquisitions for which approval is required from the Antitrust Commissioner (the "Commissioner") and the influence on the trade arrangements of Shufersal with its suppliers. The Food Law regulates Shufersal's trade arrangements with its suppliers which are regulated in detail which are designed to promote competition in the food supply industry. As of the date of this Annual Report, Shufersal believes that growth through acquisitions of a significant entity in the retail market would be limited. Moreover, provisions of the Food Law relating to geographical competition of retailers may influence the ability of Shufersal to expand organically through opening new stores in certain areas and under certain circumstances Shufersal may be required to close active branches under certain circumstances.

The Food Law includes the following three systems:

- (a) with respect to activities of suppliers and retail trade, the Food Law prohibits:
- i. a supplier interfering with the retail price of the products of another supplier;
- ii. a retailer interfering with a supplier in the matter of the consumer price imposed by another retailer;
- iii. a large supplier imposing its market position to influence the ordering or presentation of retail products within stores of a large retailer (Shufersal is included in the list of large retailers);
- iv. a large supplier interfering with the price a retailer charges consumers for the products of that supplier, in the allocation of sales areas at any rate for the products of the supplier, for the acquisition of a product from the supplier in any scope from the total retail purchases of the product and of competing products, and for the purchase or sale of products which another supplier supplies to the retailer, including purchase quantities and goals, the sale area allocated to them in a store and any other commercial condition sought to be imposed;
- v. a large retailer and a large supplier agreeing to set the pricing of a basket of products at a price that is lower than the marginal cost of production of the related product or that would require a consumer to purchase a minimum amount of

the related product to achieve the reduces price;

vi. a large supplier conditioning the sale of its product to a retailer on the purchase of another product of that large supplier; and

vii. a supplier forwarding payments to the large retailer, unless by way of a price reduction of the product units.

- (b) Restrictions on geographical competition of retailers have adversely affected Shufersal's expansion through organic growth and acquisitions. On September 28, 2014 Shufersal received a notification from the Antitrust Authority regarding demand areas of Shufersal's large stores ("Notice of Demand Areas"). The stores that were the subject of the Commissioner's request under the Law are 14 stores located in Haifa, 3 stores in Carmiel, 4 stores in Hadera, and 3 stores in Safed. As of the date of this Annual Report, Shufersal has not been required to close or dispose of any of its stores.
- (c) Provisions designed to increase transparency of consumer prices, inter alia, by requiring a large retailer to publish on the internet and without cost to consumers, various data on prices of consumer goods it sells in its stores to allow consumers to compare prices with those of other retailers.
- (d) Provisions regarding the contemporaneous application of the Food Law and the Antitrust law In December 2015, the Commissioner published a statement on the parallel application of the Antitrust Law and the Food Law listing cases in which only the provisions of the Food Law will apply and no additional regulation will be required under the Antitrust Law. As of the date of the notice Shufersal's operations comply with the Food Law. As of December 31, 2016 the implementation of the Food Law has had no significant impact on Shufersal's business.

Shufersal's acquisition of Clubmarket was approved by the Commissioner in 2005, and within this framework the Commissioner imposed a number of limitations on Shufersal's activities including: prohibiting Shufersal from pricing products that result in a loss that is not proportionate to its business activities and are aimed to affect the operations of competitors from the market; prohibiting Shufersal from entering into agreements with suppliers that impose restrictions on those suppliers from doing business with competitors of Shufersal; and prohibiting Shufersal from attempting to influence commercial conditions between its suppliers and competitors.

Shufersal obtained an exemption from the Commissioner, available until October 14, 2018, regarding the operation of the Fourth Chain, which is a label company owned by a number of supermarket chains that was established to develop consumer goods. The Commissioner's decision took into account the fact that Fourth Chain contracted with a third party that develops products for it under a private brand and the stipulated exemption exclusively permits these joint activities for the development of the private brand. Shufersal believes the Fourth Chain private label increases competition by establishing a cost-effective alternative to dominant branded consumer products.

The findings of the Commissioner in the matter of the rules of conduct among the largest store chains and the dominant suppliers in the food supply market, including under the provisions of the Food Law, and in the matter of the merger of Shufersal with Clubmarket, may have a detrimental effect on Shufersal's business, its financial condition and operating results.

Telecommunnications

Communications Regulations

Cellcom's operations are subject to general legal provisions regulating the relationships and method of contracting with its customers. These provisions include the Consumer Protection Law, 5721-1981 and regulations promulgated thereunder and other laws detailed below. A substantial part of Cellcom's operations are subject to the Communications Law, regulations enacted by the Ministry of Communications, and the provisions of the licenses granted to Cellcom by the Minister of Communications. Cellcom's actives which include providing cellular service, landline, international telephone services and internet access, and infrastructure services are subject to licensing.

Supervision of Rates. The Communications Regulations (Telecommunications and Broadcasts) (Payments for Interconnect), 5760 - 2000 requires cellular operators to phase in gradual reduction of communications rates (i.e. payments that will be made by an in-country operator, another cellular operator or international operator to complete one minute of call time in the network of a cellular operator or for the sending of an SMS between cellular operators). This reduction has led to a considerable reduction in Cellcom's revenues.

Moreover, in August 2013 the Communications Law was amended to authorize the Minister of Communications to set interconnection prices and regulate the use of networks owned by another operator based not only on the cost incurred to establish the network (according to the calculation method to be determined by the Minister of Communication) plus a reasonable profit, but also on one of the following: (1) flat payment for a service provided by the license holder; (2) reference to tariffs charged for a comparable service; or (3) reference to the cost of these services or with the interconnection costs charged in other countries. The Minister of Communications was also empowered to give instructions on structural separation for the providing various services, including segregating services provided by a license holder from services provided to a subscriber.

In the last few years, contract termination charges for cellular plans have been banned in the cellular and other communications markets, other than for customers who have more than a certain number of cellular lines or whose monthly payments exceed a certain amount for bundled service. The elimination of these charges led to a considerable increase in plan cancellations, increased the costs of retaining and acquiring customers, and accelerated erosion of rates.

Virtual Operators (MVNO). The Communications Law and related pronouncements regulate the activities of virtual operators. Notwithstanding that the MVNO regulations apply only to the activities of a virtual operator which has an operating agreement with a cellular operator, the regulations empower the Ministry of Communications together with the Economic Ministry to impose terms of an agreement including fixing the price to be charged for the services provided.

Other Third Generation Operators (UMTS). In 2012, Golan and Hot Mobile began to offer UMTS services. The conditions of the tender according to which Golan and Hot Mobile were granted those licenses included a number of benefits and concessions, including minimally low license fees and a mechanism to reduce the royalties they undertook to pay for the frequencies based on the operator's market share in the private sector and setting long timetables to meet the geographical coverage requirements of the network and the right to use in-country migration services via other cellular operators' networks. The Communications Law obliges the other cellular operators to provide in-country migration services to Golan and Hot Mobile for a period ranging from seven to ten years subject to certain conditions. In 2011, Cellcom entered into a contract with Golan to provide in-country migration services. Hot Mobile entered into a similar in-country migration agreement with Pelephone and later with Partner (which was subsequently replaced by a joint networks agreement with Partner) without intervention from the Ministry of Communications.

Regulation of Multi-Channel Television Services

As at the date of this Annual Report, television program streaming via the Internet is not subject to regulation in Israel. Should the recommendations of the committee for the examination of the arrangement of commercial broadcasts be adopted and the committee requires Cellcom to make additional investments or regulation is imposed that is not beneficial for Cellcom's streaming services or for its ability to use the DTT infrastructures, the results of Cellcom's streaming services may be adversely affected.

Cellcom's Communications Licenses

Cellcom holds a general license for providing cellular services, valid until January 31, 2022, setting out conditions (including duties and restrictions) applicable to its activities, officers and shareholders holding certain percentages of Cellcom's shares. The license may be extended by the Ministry of Communications for consecutive periods of six years, if Cellcom is in compliance with the provisions of the license and law, and makes requisite investments to its service and network. The Ministry of Communications has amended the license conditions in the past, and may amend them in the future, without Cellcom's consent and in a manner that may limit its ability to conduct business. The license provides that Cellcom does not have exclusivity for providing services.

The cellular license can be revoked, suspended or limited in the following cases: total holdings of the founding shareholders or their successors (as defined in the license) is less than 26% of the control shares of Cellcom; total holdings of Israeli parties (as defined in the license), who are among the founding shareholders or their successors, is less than 20% of the total issued share capital and control shares of Cellcom; a majority of directors are not Israeli citizens or residents of Israel; fewer than 20% of the directors of Cellcom were appointed by Israeli parties; an act or omission of Cellcom that adversely affects or restricts competition in the cellular sector; the aggregate equity of Cellcom, together with the aggregate equity of shareholders each holding 10% or more of the share capital, is less than US\$200 million.

In light of the 2015 change in the control structure of IDBD, the Cellcom control structure has also changed, and requires the approval of the Ministry of Communications, including with regard to Israeli holding requirements included in the licenses of Cellcom, as Mr. Eduardo Elsztain is not a citizen of Israel. IDBD and Cellcom formally applied to the Ministry of Communications to approve these changes and amend the telecommunications licenses of Cellcom accordingly. If the request is not approved and another arrangement is not offered by the Ministry of Communications, Cellcom may face sanctions, which under the terms of its license, can include suspension or cancellation of its licenses.

According to Telecommunications Law, the Ministry of Communications may impose on telecommunication companies, including Cellcom, financial sanctions for breach of license and law. The amount of the sanction is calculated as a percentage of the revenue of the operator, and according to the degree of severity and extent of the breach, said may be significant.

In July 2015, Cellcom received (through a wholly owned entity) a uniform and general license for the provision of landline telephony services (which replaced the previous license for providing this service), for the period ending April 2026. A uniform and general license was also awarded to Netvision and replaced its general license for providing internet access services, international carriers, and a network access point for the period ending February 2022. In addition, an entity, fully controlled by Cellcom received a uniform and general license which replaced the landline telephony service license, for the period ending March 2026. These licenses can be extended for an additional period of 10 years, under terms similar to the terms of extension of the general cellular license.

The Ministry of Communications has issued rules providing for unification of all uniform licenses. The uniform license allows providers to also offer virtual operator services. The process of unifying the uniform licenses and the timetable have not yet been determined and it is possible that this process will have a legal, financial, tax and accounting effect on Cellcom's and Netvision's businesses. The provision of a number of services by one entity will require limitations also on discrimination between operators.

Cellcom holds other communications licenses: a special license for the provision of data transmission and communication services in Israel, a license to provide internet services, and licenses to provide cellular services, landline telecommunication services and internet services in the West Bank, for periods ending 2016-2018. These

licenses include conditions similar to those of the general license for the provision of cellular services, as noted above.

According to regulations that apply to the uniform license, there are certain limitations on cross ownership among license holders.

2. Further Regulation Applicable to Communications Services

In July 2014, the Ministry of Communications announced a public hearing on the coverage and quality requirements for second-generation and third generation networks. The proposed requirements are stricter than those currently existing and if adopted, could have an adverse effect on the results of Cellcom. Cellcom is unable to assess whether the proposed changes will be adopted, and what the impact of these changes will have in practice on Cellcom's operating results.

In addition, in August 2014, the Ministry of Communications announced a public hearing to consider call centers owned by communications operators. In addition, the Ministry of Communications proposed to amend the Communications Law (Telecommunications and Broadcasting), 1982, providing that a customer may claim pre-set financial compensation if the telephone call center does not reply within an average response time or if there is an overcharge error. Cellcom believes that adoption of these proposed changes could have a material adverse effect on Cellcom's business.

3. Permits for Setting Up Base Sites

a. Cellcom's cellular services generlly are provided through base sites across Israel, their construction and licensing are included in TAMA 36 (District Zoning Plan) – Part A - National Master Plan for Communications - Small and Micro Broadcasting Facilities ("TAMA 36"), and Radiation Law. Regulating the deployment of wireless access devices, which are base sites with smaller dimensions, are, for the most part, regulated by Communications Law and Radiation Law. The construction of base sites requires a permit as per Planning and Building Law, 1965 ("Planning and Building Law"), and is subject to other approvals from multiple regulators.

Legal proceedings (civil, criminal and administrative) are pending against Cellcom, under which a number of arguments were raised concerning the legal compliance of some of Cellcom's sites, alleging failure to obtain permits under Planning and Building Law, or based on development of sites in contravention of a permit.

Cellcom did not apply for a building permit for approximately 33% of its base sites on the basis of the exemptions for wireless access facilities provided by law. In 2010, the Supreme Court issued a Temporary Order at the request of the Government's Attorney General, enjoining Cellcom, Partner, and Pelephone from proceeding with construction of these facilities on the basis of the exemption. A final determination of the regulatory authorities regarding applications for exemptions is pending as of the date of this Annual Report.

In addition, Cellcom provides in-building repeaters and micro-sites ("femtocells") for its subscribers seeking a solution to poor indoor reception. Based on an opinion Cellcom received from legal counsel, Cellcom did not request building permits for the repeaters that were installed on roof tops, which are a small fraction of all repeaters installed. It is not clear whether the installation of a different type of in-building repeaters and micro-sites requires a building permit. Some require a specific permit while others require a permit from the Ministry of Environmental Protection, depending on their radiation levels. Cellcom alsobuilds and operates microwave facilities as part of its transmission network. The different types of microwave facilities receive permits from the Ministry of Environmental Protection regarding their radiation levels. Based on an opinion of legal counsel, Cellcom believes that building permits are not required for the installation of microwave facilities on rooftops.

b. Indemnification obligation - under Planning and Construction Law, local planning and building committees may demand and receive, as a condition for granting a building permit for a site, a letter of indemnity for claims under Section 197 of Planning and Construction Law. By December 31, 2015, Cellcom had executed approximately 400 letters of indemnity as a condition for receiving permits. In some cases, Cellcom has not yet been built any sites. As at December 31, 2015, two requests for indemnification were received from one local committee on the basis of a letter

of indemnity as noted, in an immaterial amount.

As a result of the requirement to deposit letters of indemnity, Cellcom may decide to dismantle or move some sites to less advantageous locations, or build certain sites, if it concludes that the risk of granting letters of indemnity exceeds the benefit derived from those sites, which may result in a deterioration of cellular services and damage network coverage.

c. Radiation Law, Regulations and Permits Thereunder - Radiation Law, Regulations and Principles thereunder included provisions relating to all aspects related to regulating the issue of non-ionizing radiation, including, inter alia, levels of exposure that are permissible.

In May 2012, the Ministries of Communications, Health and Environmental Protection, based on their assessment of the potential health consequences of fourth-generation telecommunications services in Israel, including increased exposure to non-ionizing radiation, issued a memorandum advising that deployment of the fourth-generation network should be based on existing base stations, other smaller base sites both internal and external, and if possible, using the wired infrastructure so that data traffic will be carried mainly through fixed communication lines and not through any cellular infrastructure. In August 2014, the Ministry of Communications allowed the use of fourth-generation infrastructures, and in January 2015 fourth-generation frequencies were awarded to cellular operators. The recommendations of May 2012, as noted, were not included in the tender documents or in said approval.

Insurance

Areas of Activity of Clal Insurance Business Holdings

Clal Holdings offers general insurance such as car insurance, homeowners' insurance, and credit and foreign trade risk insurance, among others, as well as health insurance. The activities of Clal Holdings and its subsidiaries are subject to the provisions of laws applicable insurance companies and to regulatory supervision. Clal Holdings' subsidiaries are supervised by the Capital Markets, Insurance and Savings Commissioner (the "Insurance Commissioner"). Clal Insurance and its subsidiary, Clalbit Financing, are supervised by the Israel Securities Authority. Subsidiaries of the Clal Holdings Insurance Group have been subject to administrative enforcement proceedings and the imposition of fines. Clal Insurance is not in breach of any material regulatory provision applicable to its operations.

Capital Requirements of Insurance Companies

Minimum Capital – The Supervision of Financial Services (Insurance) (Minimum Equity Required of an Insurer), Regulations, 1998 ("Capital Regulations") law prescribes minimum capital requirements for insurance companies. The capital required for insurance activities consists of a first layer of capital, based the greater of the initial capital and capital derived from the volume of activity in general insurance, the higher of the calculation based on premiums and the calculation based on outstanding claims, as well as other capital requirements. Failure to comply with the Capital Regulations will require the insurer to increase its equity up to the amount stated in the Capital Regulations or reduce the scope of its business accordingly, no later than the date of publication of the report, except in exceptional circumstances as approved by the Insurance Commissioner, that will then determine any supplementary capital requirements.

Breakdown of an Insurer's Capital – The Insurance Commissioner issued a circular in August 2011 ("Circular") that provides a framework for determining the composition of an insurer's equity, in conjunction with the adoption in Israel of the Solvency II Directive ("Directive" or "Solvency II"), as amended and updated.

· Initial (core) capital (basic tier 1), equals the components included in capital attributable to shareholders of Clal Insurance. The overall capital ratio must be at least 60% of the total equity of the insurer.

- · Secondary (tier 2) capital includes complex secondary capital instruments (excluding periodic accrued interest payments), subordinate secondary capital instruments (as defined by the Circular) and any other component or instrument approved by the Insurance Commissioner. A complex secondary capital instruments is one that is subordinated to any other instrument, except for initial capital, including financial instruments available to absorb losses by postponing payment of principal and interest. The first repayment date of secondary capital instruments will be after the end of the period that reflects the weighted average maturity of insurance liabilities, plus two years, or after 20 years, whichever is first, but no earlier than eight years from the date an instrument is issued. If the complex secondary capital instrument includes an incentive for early redemption, the first incentive payment date may not be earlier than five years from the date of issue of the instrument.
- · Tertiary (tier 3) capital includes complex tertiary capital instruments (excluding periodic accrued interest payments) and any other component or instrument approved by the Insurance Commissioner. A tertiary capital instrument is subordinate to any other instrument, except for primary and secondary capital, and includes financial instruments available to absorb the insurer's losses by postponing the payment of principal. Tertiary capital will must be junior to secondary capital and equal in the order of credit repayments. The first repayment date on tertiary capital instruments may not be earlier than five years from the date of issuance. If the complex tertiary capital instrument includes an incentive for early redemption, the first indentive payment date may not be earlier than five years from the date of issue of the instrument. Tertiary capital may not exceed 15% of the total capital of the insurer.

Insurance liabilities include liabilities that are not yield dependent but excludes any liability fully backed by lifetime indexed bonds and net of any reinsurance costs. Approval of the Insurance Commissioner is required for inclusion of hybrid capital instruments (primary, secondary or tertiary) in equity. The Circular includes a Temporary Order regarding the breakdown of an insurer's equity ("Temporary Order"), which will apply until full implementation of the Directive in Israel, when announced by the Insurance Commissioner. The Temporary Order defines the secondary capital issued according to Capital Regulations, before amendment, as subordinate secondary capital and imposes a limit equal to 50% of basic capital.

Distribution of dividends – In accordance with rules promulgated by the Insurance Commissioner, a dividend distribution may not be approved, unless, after giving pro forma effect to the proposed distribution, the insurer has a ratio of recognized equity to required equity of at least 105%, as confirmed in filings with the Insurance Commissioner. Prior approval of the Insurance Commissioner is not required for any distribution of dividends if the total equity of the insurance company, as defined by Supervision of Financial Services (Insurance) (Minimum Equity Required of an Insurer), Regulations, 1998 ("Minimum Capital Regulations"), after giving effect to the distribution of the proposed dividend, exceeds 115% of the required equity.

In November 2014, the Insurance Commissioner outlined solvency rules ("rules" or "regime," as applicable) based on Solvency II, in Israel, in a letter addressed to managers of the insurance companies ("Letter"). In the Letter, the Insurance Commissioner outlined a plan to adopt the 2016 European model for calculating capital and capital requirements for the local market, effective as of the annual reports for 2016 ("First Adoption Date"). During a period to be determined by the Insurance Commissioner and as conditions require, insurance companies will also be required to comply with capital requirements under existing regulations. The Letter stated that until final adoption, insurance companies must prepare additional quantitative assessment exercises (IQIS) for the 2014-2015 period. These requirements are intended to assess the quantitative effects of adopting the model, as well as providing data for calibrating and adjusting the model. In addition, the Letter addressed an initiative to develop a framework for quarterly reporting of insurance companies' solvency ratio. The Letter also referred to the Commissioner's intention to publish provisions for managing capital and targets for internal capital, to address a gap survey that insurers will undertake with respect to their risk management systems, controls and corporate governance and a consultation paper to promote the process of self-assessment of risks and solvency (ORSA).

In April 2015, the Insurance Commissioner published a second letter titled "Plan for the Adoption of Rules for Solvency, based on Solvency II" and provisions for the IQIS4 exercises to be undertaken regarding the 2014 historical financial statements. The letter emphasized that the exercise reflects the decision of the Insurance Commissioner to impose adjustments required for the Israeli insurance market. The Letter further stated in connection with the proposed adoption of IQIS5 that the Insurance Commissioner would continue to monitor developments in the European markets and would consider adjustments relevant for Israel.

In July 2015, the Insurance Commissioner issued a letter concerning "transitional provisions regarding the application of solvency rules, based on Solvency II" (the "Letter on Transitional Provisions"). The transitional provisions were provided by reference to certain solvency rules set forth in the European Directive relating to, inter alia, a gradual adoption of capital requirements in respect of holdings of equity shares which may a component to be included in the calculation of core capital. In addition, the letter included transitional provisions regarding submission of a plan to improve the capital ratios of insurance companies whose ratios are negatively affected following adoption of the new solvency rules beginning with the financial statements for 2018. Adoption of the solvency rules are expected to change both the recognized regulatory and required regulatory capital and according to indications existing today, is expected to result in a significant decline in the ratio between recognized capital and required capital of Clal Insurance compared to capital ratios calculated according to capital ratio requirements currently in effect, and is expected to adversely affect the ability of Clal Insurance and Clal Insurance Enterprises to distribute dividends upon such adoption. However, as a rule, the capital requirements under the solvency rule are intended to serve as a capital cushion against more serious events, with a lower loss probability than the capital requirements under current rules.

In May 2015, the Board of Directors of Clal Insurance Enterprises and the Board of Directors of Clal Insurance directed its management team and the Risk Management Committee, which also functions as the Solvency Committee ("Committee"), to examine measures Clal Insurance may be able to employ to improve its capital ratio, in accordance with the new solvency rules and to recommend a course of action to the Board, including in relation to business adjustments and/or financial transactions related to Clal Insurance's capital, its breakdown, and/or its responsibilities. The Committee and Management have begun this examination, and during the first stage, recommended that the Board issue secondary capital instruments. The Committee will continue to examine other measures in an effort to prepare the company for possible adoption of these proposed capital requirements, and related measures.

Clal Insurance has calculated its capital ratio using results as of December 31, 2014 ("Calculation Date") and based on the IQIS4 rules and has determined that it would be in compliance, as of the Calculation Date, with the proposed capital requirements, in the context of the transitional provisions, even before taking pro forma account of the positive impact on the capital ratio provided by the subsequent issuance of subordinated notes. The related calculations were submitted to the Insurance Commissioner on August 31, 2015. The Insurance Commissioner has not yet published binding provisions for adoption, and there is uncertainty regarding the details of the final provisions. Clal Insurance will continue to monitor the quantitative aspects of the proposed solvency rules towards final adoption, in an effort to anticipate requisite controls and capital requirements.

On March 14, 2016, "IQIS Provisions for 2015" ("Draft") was published in preparation for the adoption of Solvency II. Insurance companies are required to submit an additional quantitative evaluation survey on the basis of December 2015 results ("IQIS5"), by June 30, 2016. The Draft was issued by reference to the European legislation adapted for requirements of the local market and that goes beyond provisions for quantitative evaluation surveys previously issued. The main changes relate to establishing risk-free interest curves, through extrapolation to the ultimate forward rate point, the components of recognized capital, capital requirementsless investments in infrastructure (capital and debt), adjusting capital requirements for management companies, and updating the formula for calculating capital requirements for risk premiums and reserves for general insurance. Clal Insurance is unable toassess the overall impact of the changes based on the provisions in the Draft to carry out a further quantitative evaluation survey, and will carry out an assessment of the current capital status, when the binding provisions will be finalized. According to

the Draft, the IQIS5 calculation will be a factor in assessing preparedness of insurance companies and to the implementation and scope of the final provisions to be adopted.

Capital requirements under the Capital Regulations are based on the separate individual financial statements of an insurance company. For purposes of calculating recognized capital, an investment by an insurance company in an insurance company or a controlled management company, and in other subsidiaries will be calculated on the equity basis, according to a holding rate, which includes indirect holdings.

The minimum capital required of Clal Insurance has been reduced, with approval of the Insurance Commissioner, by 35% of the original difference attributed to the managing companies and provident funds under its control. However, when calculating the amount of dividends permitted for distribution, this difference will be added at level of the capital structure. In September 2013, the Insurance Commissioner notified Clal Insurance that the deducted amount to be added back to the minimum capital required, will be after a deduction for a tax reserve accrued by Clal Insurance following the acquisition of provident fund operations. The approval of the Insurance Commissioner, as noted above, will be canceled with adoption of capital requirements under the Directive that will replace the Capital Regulations.

In March 2013, Clal Insurance received a letter from the Insurance Commissioner regarding the determination of credit ratings according to an internal model used by Clal Insurance ("internal model"), to be applied as a risk rating methodology for a subject insured, according to conditions of the relevant sector. The Insurance Commissioner authorized Clal Insurance to allocate capital for adjusted loans, ranked according to its internal model and with reference to the rates specified in the Capital Regulations. If there is an external rating available, the capital allocation will be made using the lower of the available ratings. The letter alsorequires Clal Insurance to submit immediate and periodic reports as specified regarding these activities that make the specified transactions subject to review by the Commissioner of Insurance. As a result of its compliance with the provisions of the letter, Clal Insurance's capital requirements were reduced by NIS 69 million, as at the end of the reporting period.

Permit Issued by the Insurance Commissioner to the Former Controlling Shareholders of IDBH to Retain Control of Clal Insurance Enterprises and Consolidated Institutional Entities

On May 8, 2014, legal counsel for the former controlling shareholders of IDBD (Ganden, Manor, and Livnat Groups) was notified by the Commissioner that in the context of arrangements among the creditors of IDBH, and given that they no longer controlled the Clal Insurance Enterprises Group, the authorization previously issued by the Insurance Commissioner for control of these entities was terminated, including, with respect to Clal Insurance, Clal Credit Insurance and Clal Pension and Provident Funds. IDBH undertook to supplement (or to cause its controlled affiliates to supplement) the required equity of the insurers in compliance with the Capital Regulations, subject to the a cap of 50% of the required capital of an insurer, and that the obligation will take effect only if the insurer's equity is determined to be negative, and such funding amount will then be equal to the amount of negative capital, up to the 50% cap.

In addition, IDBH undertook to contribute to the equity of Clal Pension and Provident Funds up to the amount prescribed by the Provident Fund Regulations, for as long as IDBH is the controlling shareholder of the institutional entities. The authorization specifies conditions and imposes restrictions on the ability of a holding entity to impose liens on the equity of IDBD's institutional entities it holds. The former controlling shareholders were also required, as long as any liens existed on their equity interest of IDBH, to ensure that Clal Insurance Enterprises complied with applicable capital requirements, such that the equity of Clal Insurance Enterprises at no time was less than the product of the holding rate of Clal Insurance Enterprises in Clal Insurance and 140% of the required minimum equity of Clal Insurance, calculated according to the Capital Regulations on September 30, 2005 (as the holding rate was linked to the CPI of September 2005).

At the end of the reporting period, the required minimum capital of Clal Insurance Enterprises was NIS 2.9 billion, greater that the amount required based on the foregoing calculation. The capital requirement is calculated on the basis of the financial statements of Clal Insurance Enterprises. Following termination of the control authorization, the former controlling shareholders have questioned whether the capital requirements applicable to Clal Insurance Enterprises thereunder continue to apply.

Clal Insurance is committed to finding a strategy to supplement its required equity in compliance with the Capital Regulations if the equity of Clal Credit Insurance becomes negative, and as long as Clal Insurance is the controlling shareholder of Clal Credit Insurance. Clal Insurance is committed to supplement the equity of Clal Pension and Provident Funds as necessary to ensure it complies with the minimum amount required by Income Tax Regulations (Rules for Approval and Management of Provident Funds), 1964 ("Income Tax Regulations"). This commitment is valid as long as Clal Insurance controls, directly or indirectly, Clal Pension and Provident Funds.

In February 2012, Supervision of Financial Services Regulations (Provident Funds) (Minimum Capital Required of a Management Company of a Provident Fund or Pension Fund), 2012, was published along with Income Tax Regulations (Rules for Approval and Management of Provident Funds) (Amendment 2), 2012 ("new regulations").

Pursuant to the new regulations, the capital requirements for management companies were expanded to include capital requirements based on the volume of assets under management and applicable annual expenses, but not less than the initial capital of NIS 10 million. In addition, liquidity requirements were also prescribed. A fund management company may distribute dividends only to the extent of any excess above the minimum amount of equity required by said regulations. In addition, a fund management company must provide additional capital in respect of controlled management companies. As at the end of the reporting period, the management companies controlled by Clal Insurance have capital balances in excess of the minimum capital required by the capital regulations for management companies. In light of capital regulations for management companies and in order to finance the expansion of operating and investing activities of Clal Pension and Provident Funds, the Boards of Directors of Clal Insurance and Clal Pension and Provident Funds in 2015 and 2014 approved an subscribed shares of Clal Pension and Provident Funds in consideration for NIS 100 million and NIS 80 million, respectively.

Anti-Money Laundering. In September 2015, a draft Anti-Money Laundering Order was proposed which seeks to expand its application to certain provident funds, and reduced the amounts of accumulations, deposits and withdrawals subject to reporting. Furthermore, the draft order specifies a 'know your customer' process that must be undertaken before issuing a life insurance policy or opening a provident fund. In October 2015, a draft addendum to the Anti-Money Laundering Law, 5776-2015 was published to provide for changes to existing law that set forth stricter criminal penalties under the Anti-Money Laundering Law and set forth provisions for sharing of information between the Anti-Money Laundering Authority and the insurance commissioner. In the evaluation of Clal Insurance, the draft order and draft bill may adversely affect the sale of its products.

C. Organizational Structure

The following table presents information relating to our ownership interest and the percentage of our consolidated total net revenues represented by our subsidiaries as of June 30, 2017:

O1 C	1.	•	1 11
% of	ownership	interest	held

Name of the entity	Country	Main activity	06.30.2017	06.30.2016	06.30.2015
IRSA's direct interest:					
IRSA CP (1)	_	a Real estate	94.61%	94.61%	95.80%
E-Commerce Latina S.A.		Investment	100.00%	100.00%	100.00%
Efanur S.A.		Investment	100.00%	100.00%	100.00%
Hoteles Argentinos S.A.	Argentina		80.00%	80.00%	80.00%
Inversora Bol'var S.A.	_	a Investment	100.00%	100.00%	100.00%
Llao Llao Resorts S.A. (2)	Argentina	a Hotel	50.00%	50.00%	50.00%
Nuevas Fronteras S.A.	Argentina	a Hotel	76.34%	76.34%	76.34%
Palermo Invest S.A.	Argentina	a Investment	100.00%	100.00%	100.00%
Ritelco S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
Solares de Santa María S.A. (3)	Argentina	a Real estate	-	-	100.00%
Tyrus S.A.	Uruguay	Investment	100.00%	100.00%	100.00%
Unicity S.A. (3)	Argentina	a Investment	-	-	100.00%
IRSA CP's direct interest:	-				
Arcos del Gourmet S.A.	Argentina	a Real estate	90.00%	90.00%	90.00%
Emprendimiento Recoleta S.A.	_	a Real estate	53.68%	53.68%	53.68%
Fibesa S.A. (4)	-	a Real estate	100.00%	100.00%	100.00%
Panamerican Mall S.A.	Argentina	a Real estate	80.00%	80.00%	80.00%
Shopping Neuquén S.A.	_	a Real estate	99.92%	99.14%	99.14%
Torodur S.A.	_	Investment	100.00%	100.00%	100.00%
EHSA		a Investment	70.00%	_	_
Tyrus S.A. 's direct interest:	C				
DFL (4)	Bermuda	sInvestment	91.57%	91.57%	91.57%
I Madison LLC	USA	Investment	100.00%	100.00%	100.00%
IRSA Development LP	USA	Investment	100.00%	100.00%	100.00%
IRSA International LLC	USAs	Investment	100.00%	100.00%	100.00%
Jiwin S.A.		Investment	100.00%	100.00%	100.00%
Liveck S.A.		Investment	100.00%	100.00%	100.00%
Real Estate Investment Group IV LP (REIG IV)			100.00%	100.00%	100.00%
Real Estate Investment Group V LP		sInvestment	100.00%	100.00%	100.00%
Real Estate Strategies LLC	USA	Investment	100.00%	100.00%	100.00%
Efanur S.A.'s direct interest:	0.011		100.0076	100,007,0	100.0070
Real Estate Strategies LP	Bermuda	sInvestment	66.83%	66.83%	66.83%
DFL's direct interest:	Dellilada		00.02 /0	00.02 /0	00.05 /6
IDB Development Corporation Ltd.	Israel	Investment	68.28%	68.28%	_
IDBD's direct interest:	151401	investment	00.2070	00.2070	
Discount Investment Corporation Ltd. (5)	Israel	Investment	77.25%	76.43%	_
IDB Tourism (2009) Ltd.	Israel	Tourism services	100.00%	100.00%	_
IDB Group Investment Inc.	Israel	Investment	100.00%	100.00%	_
DIC's direct interest:	151401	In vestment	100.00 /0	100.00 /0	
DIC 8 UNCCL IIILEIESL.					

Property & Building Corporation Ltd.	Israel	Investment	64.44%	76.45%	-
Shufersal Ltd.	Israel	Investment	54.19%	52.95%	-
Koor Industries Ltd.	Israel	Investment	100.00%	100.00%	-
Cellcom Israel Ltd. (6)	Israel	Investment	42.26%	41.77%	-
Elron Electronic Industries Ltd.	Israel	Investment	50.32%	50.32%	-
Bartan Holdings and Investments Ltd.	Israel	Investment	55.68%	55.68%	-
Epsilon Investment House Ltd.	Israel	Investment	68.75%	68.75%	-

- (1)Includes interest held through Tyrus S.A. On October 27, 2017, we reported that it has been completed the sale in the secondary market of 2,560,000 ADSs of IRSA CP, which represents 8.1% of IRSA CP. For more information please see "Recent developments Selling of IRSA CP' ADSs."
- (2) The Company has consolidated the investment in Llao Llao Resorts S.A. considering its equity interest and a shareholder agreement that confers it majority of votes in the decision making process.
- (3) Were merged on July 1, 2015.
- (4) Includes interest held through Ritelco S.A.
- (5) Includes Tyrus's equity interest held through DFL.
- (6) DIC considers it exercises effective control over Cellcom because DIC is the group with the higher percentage of votes vis-à-vis other shareholders, also taking into account the historic voting performance in the Shareholders' Meetings.

D. Property, Plant and Equipment

In the ordinary course of business, the leases property or spaces for administrative or commercial use both in Argentina and Israel under operating lease arrangements. The agreements entered into include several clauses, including but not limited, to fixed, variable or adjustable payments.

The following table sets forth certain information about our properties for the Operation Center in Argentina as of June 30, 2017:

Property (6)	Date of Acquisition	Leasable/ Sale m2 (1)	Location	Net Boo Value Ps.(2)	k Use	Occupancy rate (7)
Edificio República	Apr-08	19,885	City of Buenos Aires	1,534	Office Rental	95%
Bankboston Tower	Aug-07	14,873	City of Buenos Aires	1,148	Office Rental	100%
Bouchard 551	Mar-07	0	City of Buenos Aires	55	Office Rental	-
Intercontinental Plaza	Nov-97	3,876	City of Buenos Aires	80	Office Rental	100%
Bouchard 710	Jun-05	15,014	City of Buenos Aires	1,077	Office Rental	100%
Dot Building	Nov-06	11,242	City of Buenos Aires	751	Office Rental	100%
Santa María del Plata	Oct-97	116,100	City of Buenos Aires	442	Other Rentals	91%
San Martín (ex Noblez Picardo)	a May-11	109,610	Province of Buenos Aires,	739	Other Rentals	94%

Other Properties(5)	N/A	N/A	Argentina City and Province of Buenos Aires	1,339	Mainly Rental offices and properties under development	N/A
Abasto(3)	Nov-99	36,795	City of Buenos Aires, Argentina	5,374	Shopping Mall	96.8%
Alto Palermo(3)	Dec-97	18,945	City of Buenos Aires, Argentina	5,064	Shopping Mall	99.3%
Alto Avellaneda(3)	Dec-97	36,063	Province of Buenos Aires, Argentina	3,277	Shopping Mall	99.3%
Alcorta Shopping(3)	Jun-97	15,613	City of Buenos Aires, Argentina	2,370	Shopping Mall	98.1%
Patio Bullrich(3)	Oct-98	11,760	City of Buenos Aires, Argentina	1,379	Shopping Mall	97.6%
Alto Noa(3)	Nov-95	19,059	City of Salta, Argentina	678	Shopping Mall	97.2%
Buenos Aires Design(3) Dec-97	13,967	City of Buenos Aires, Argentina	25	Shopping Mall	97.2%
Mendoza Plaza(3)	Dec-94	42,867	Mendoza, Argentina	1,299	Shopping Mall	97.1%
Alto Rosario (3)	Dec-04	31,807	Santa Fe, Argentina	2,379	Shopping Mall	99.6%
Córdoba Shopping –Vi Cabrera(3)(11)	lla Dec-06	15,445	City of Córdoba, Argentina	759	Shopping Mall	98.1%
Dot Baires Shopping(3)) May-09	49,499	City of Buenos Aires, Argentina	3,287	Shopping Mall	99.9%
Soleil Premium Outlet(3)	Jul-10	15,227	Province of Buenos Aires, Argentina	922	Shopping Mall	100,00%
La Ribera Shopping(3)	Aug-11	10,054	Santa Fe, Argentina	146	Shopping Mall	97.6%
Distrito Arcos (3)	Dec-14	14,692	City of Buenos Aires, Argentina	891	Shopping Mall	100,00%
Alto Comahue(3)	Mar-15	9,766	Neuquén, Argentina	802	Shopping Mall	96.4%
Patio Olmos(3)	Sep-97	-	City of Córdoba, Argentina	147	Shopping Mall	N/A

Caballito Plot of Land	Nov-97	5,000	City of Buenos Aires	209	Land Reserve	N/A
Santa María del Plata	Oct-97	116,100	City of Buenos Aires	3,132	Other Rentals	91%
Luján plot of land(3)	May-08	1,160,000	Province of Buenos Aires, Argentina	167	Mixed uses	N/A
Other Land Reserves (4)	N/A	N/A	City and Province of Buenos Aires	1,231	Land Reserve	N/A
Intercontinental(7)	Nov-97	24,000	City of Buenos Aires	62	Hotel	74%
Sheraton Libertador(8)	Mar-98	37,600	City of Buenos Aires	29	Hotel	73%
Llao Llao(9)(10)	Jun-97	17,463	City of Bariloche	77	Hotel	52%

(1)

Total leasable area for each property. Excludes common areas and parking spaces.

(2)

Cost of acquisition or development plus improvements, less accumulated depreciation, less allowances.

(3)

Through IRSA CP.

(4)

Includes the following land reserves: Pontevedra plot; Mariano Acosta, San Luis Plot, Pilar plot and Merlo plot (through IRSA) and Intercontinental Plot, Dot Adjoining Plot, Mendoza Plot, Puerto Retiro (through IRSA Commercial Properties).

(5)

Includes the following properties: Anchorena 665, Anchorena 545 (Chanta IV), Zelaya 3102, 3103 y 3105, Constitución 1111, Madero 1020, La Adela, Paseo del Sol, Edificio Phillips, Maipú 1300, Libertador 498 and Suipacha 652.

(6)

Percentage of occupation of each property. The land reserves are assets that the company remains in the portfolio for future development.

(7)

Through Nuevas Fronteras S.A.

(8)

Through Hoteles Argentinos S.A.

(9)

Through Llao Llao Resorts S.A.

(10)

Includes Ps.21,900,000 of book value that corresponds to "Terreno Bariloche." Included in Investment Properties is the cinema building located at Córdoba Shopping – Villa Cabrera, which is encumbered by a right of antichresis as a result of loan due to Empalme by NAI INTERNACIONAL II Inc. The total amount of the loan outstanding was Ps.12.2 million as of June 30, 2017.

The following table sets forth certain information about our properties for the Operation Center in Israel as of June 30, 2017:

Property	Date of acquisition Location	Net book amount	Use

Tivoli	Oct-15	United States	4,007	Rental properties
Kiryat Ono Mall	Oct-15	Israel	2,299	Rental properties
Shopping Center Modi'in A	Oct-15	Israel	1,026	Rental properties
HSBC	Oct-15	United States	15,306	Rental properties
Matam park - Haifa	Oct-15	Israel	7,121	Rental properties
Caesarea - Maichaley Carmel	Oct-15	Israel	0	Rental properties
Herzeliya North	Oct-15	Israel	4,841	Rental properties
Gav-Yam Center - Herzeliya	Oct-15	Israel	3,143	Rental properties
Neyar Hadera Modi'in	Oct-15	Israel	997	Rental properties
Gav yam park - Beer Sheva	Oct-15	Israel	921	Rental properties
Haifa	Oct-15	Israel	720	Rental properties
Ispro planet -BeerSheva -Phase1	Oct-15	Israel	1,421	Rental properties
SHARON	Oct-15	Israel	1,364	Rental properties
Merkaz	Oct-15	Israel	467	Rental properties
Zafon	Oct-15	Israel	124	Rental properties
Mizpe Sapir	Oct-15	Israel	167	Rental properties
Others	Oct-15	Israel	10,410	Rental properties
Tivoli	Oct-15	United States	496	Undeveloped parcels of land
Others	Oct-15	Israel	2,442	Undeveloped parcels of land
Tivoli	Oct-15	United States	367	Properties under development
Ispro Planet – Beer Sheva – Phase	Dct-15	Israel	210	Properties under development
Others	Oct-15	Israel	1,813	Properties under development
Total			59,662	_

ITEM 4A. Unresolved staff comments

Not applicable.

ITEM 5. Operating and Financial Review and Prospects

The following management's discussion and analysis of our financial condition and results of operations should be read together with "Selected Consolidated Financial Data" and our audited consolidated financial statements and related notes appearing elsewhere in this annual report. This discussion and analysis of our financial condition and results of operations contains forward-looking statements that involve risks, uncertainties and assumptions. These

forward-looking statements include such words as, "expects," "anticipates," "intends," "believes" and similar language. Our actual results may differ materially and adversely from those anticipated in these forward-looking statements as a result of many factors, including without limitation those set forth elsewhere in this annual report. See Item 3 "Key Information – D. Risk Factors" for a more complete discussion of the economic and industry-wide factors relevant to us.

For purposes of the following discussion and analysis, unless otherwise specified, references to fiscal years 2017 and 2016 relate to the fiscal years ended June 30, 2017 and 2016, respectively.

A. Operating Results

Evolution of our Business Segments

Operations Center in Argentina

Shopping Malls

Our main purpose is to maximize our shareholders' profitability. By using our know-how in the shopping mall industry in Argentina as well as our leading position, we seek to generate a sustainable growth of cash flow and to increase the long-term value of our real estate assets.

We attempt to take advantage of the unsatisfied demand for purchase in different urban areas of the region, as well as of our customers' purchase experience. Therefore, we seek to develop new shopping malls in urban areas with attractive prospects for growth, including Buenos Aires' Metropolitan area, some cities in the provinces of Argentina and possibly, other places abroad. To achieve this strategy, the close business relationship we have had for years with more than 1000 retail companies and trademarks composing our selected group of tenants is of utmost importance, as it allows us to offer an adequate mix of tenants for each particular case.

Offices and Others

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

Sales and Developments

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

Hotels

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

International

In this segment, we seek investments that represent an opportunity of capital appreciation potential in the long term. After the international financial crisis in 2008, we took advantage of the price opportunity in the real estate sector in the United States and invested in two office buildings in Manhattan, New York. In 2015, we sold the Madison building and we hold a 49.9% interest in a US company, whose main asset is the so-called "Lipstick" office building located in the City of New York. In addition, jointly with subsidiaries, we hold 28.7% of Condor Hospitality Trust REIT's voting rights (NASDAQ: CDOR). We intend to continue evaluating -on a selective basis- investment opportunities outside Argentina as long as they offer attractive investment and development options.

Financial Operations and Others

We keep our investment in Banco Hipotecario, the main mortgage-lending bank in Argentina, as we believe that we are able to reach good synergies in the long term with a developed mortgage market.

Operations Center in Israel

Real Estate

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

Supermarkets

Implementation of Shufersal's strategy launched in the summer of 2014, the main elements of which are strengthening of Shufersal's competitive position, especially in the discount segment, promotion and significant growth in Shufersal's own brand, in which includes the launch of new products in more leading categories (such as Pharma and products for infants) alongside improvement in its terms of trade and relationships with its suppliers, substantial growth in sales of Shufersal Online and promotion of the digital operation, including Shufersal App, promotion of growth engines and development of specialized areas of activity, which includes, inter alia, development of "Shufersal for Business" (Wholesale Sales Offers), and further implementation of the streamlining plan and changes in work procedures while saving costs.

Telecommunications

Cellcom's business strategy is divided into the following categories: (1) Cell site construction and licensing – Cellcom construct cell sites based on its strategy to expand the geographical coverage and improve the quality of its network and as necessary to replace cell sites that need to be removed. (2) Sales and customer care - Cellcom combine their sales and customer care efforts in order to maximize sales opportunities alongside accessible and quality customer service. (3) Marketing - Cellcom marketing strategy emphasizes their position as a communications group and cellular market leader, its value for money and its provision of a comprehensive solution for their customers' communication needs, by offering services bundles for families and for the office for small and mid-sized businesses. Cellcom aims to provide its customers with a comprehensive quality experience through the various means of communications that they use, including their mobile handset, tablet and laptop. Alongside its focus on packages for a fixed sum, Cellcom has substantially reduced the number of calling plans available to its customers, thus reducing its back office operation.

Insurance

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

Others

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

Variability of Results

Income derived from the lease of office space and retail stores and sales of properties are the two core sources of our income. The historical results of our operations have varied over time based on the available opportunities to acquire and sell properties. No assurance can be given that our results will not continue to be influenced by fluctuations in values of properties.

For additional information, see "Comparability of information."

Critical Accounting Policies and Estimates

Our significant accounting policies are stated in Note 2 to our Audited Consolidates Financial Statements, "Summary of significant accounting policies." The discussion below should be read in conjunction with the referred note. Not all of these significant accounting policies require management to make subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies that management considers critical because of the level of complexity, judgment or estimations involved in their application and their impact on the Consolidated Financial Statements. These judgments involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

Estimation	Main assumptions	Potential implications
Business combination - Allocation of acquisition prices	Assumptions regarding timing, amount of future revenues and expenses, revenue growth, expected rate of return, economic conditions, discount rate, among other.	Should the assumptions made be inaccurate, the recognized combination may not be correct.
Recoverable amounts of cash-generating units (even those including goodwill), associates and assets.	The discount rate and the expected growth rate before taxes in connection with cash-generating units. The discount rate and the expected growth rate after taxes in connection with associates. Cash flows are determined based on past experiences with the asset or with similar assets and in accordance with the Company's best factual assumption relative to the economic conditions expected to prevail. Business continuity of cash-generating units. Appraisals made by external appraisers and valuators with relation to the assets' fair value, net of realization costs (including real estate assets).	Should any of the assumptions made be inaccurate, this could lead to differences in the recoverable values of cash-generating units.
Control, joint control or significant influence	Judgment relative to the determination that the Company holds an interest in the shares of investees (considering the existence and influence of significant potential voting rights), its right to designate members in the executive management of such companies (usually the Board of directors) based on the investees' bylaws; the composition and the rights of other shareholders of such investees and their capacity to establish operating and financial policies for investees or to take part in the establishment thereof.	Accounting treatment of investments as subsidiaries (consolidation) or associates (equity method)
Estimated useful life of intangible assets and property, plant and equipment	Estimated useful life of assets based on their conditions.	Recognition of accelerated or decelerated depreciation by comparison against final actual earnings (losses).
Fair value valuation of investment properties	Fair value valuation made by external appraisers and valuators. See Note 10.	Incorrect valuation of investment property values
Income tax	The Company estimates the income tax amount payable for transactions where the Treasury's Claim cannot be clearly determined. Additionally, the Company evaluates the recoverability of assets due to deferred taxes considering whether some or all of the assets will not be recoverable.	Upon the improper determination of the provision for income tax, the Group will be bound to pay additional taxes, including fines and compensatory and punitive interest.
Allowance for doubtful accounts	A periodic review is conducted of receivables risks in the Company's clients' portfolios. Bad debts based on the expiration of account receivables and account receivables'	Improper recognition of charges / reimbursements of the allowance for bad debt.

specific conditions.

Main assumptions used by the Company are:

Discounted projected income by interest rate

Level 2 and 3 financial instruments

Values determined in accordance with the shares in equity funds on the basis of its Financial Statements, based on fair value or investment assessments.

Incorrect recognition of a charge to income / (loss).

Comparable market multiple (EV/GMV ratio).

Underlying asset price (Market price); share price volatility

(historical) and market interest-rate (Libor rate curve).

contingent liabilities.

Probability estimate of contingent liabilities. Whether more economic resources may be spent in relation to contingent liabilities. Charge / reversal of provision litigation against the Company; such estimate is based on legal in relation to a claim. advisors' opinions.

Overview

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

i. the acquisition, development and operation of shopping malls,

the dequisition, development and operation of snopping main

the acquisition and development of office buildings and other non-shopping mall properties primarily for rental purposes,

iii. the development and sale of residential properties,

iv. the acquisition and operation of luxury hotels,

v. the acquisition of undeveloped land reserves for future development or sale, and

vi. selective investments mostly in Argentina, United States and Israel.

Effects of the global macroeconomic factors

Most of our assets are located in Argentina, where we conduct our operations, and in Israel. Therefore, our financial condition and the results of our operations are significantly dependent upon the economic conditions prevailing in both countries.

The table below shows Argentina's GDP growth, inflation rates, dollar exchange rates, the appreciation (depreciation) of the Peso against the U.S. dollar, and the appreciation (depreciation) of the NIS against the U.S. dollar for the indicated periods (inter-annual information—which is the 12 month period preceding the dates presented—is presented to conform to our fiscal year periods).

	Fiscal year ended June 30,			
	2017 2016 2015			
	(inter-annu	nnual data)		
GDP growth(4) Inflation (IPIM)(1) Inflation (CPI) Depreciation of the Peso against the U.S. dollar(2)	2.7% 14.2% 21.9% (10.6)%	(3.4)% 26.7% 37.6% (65.9)%	1.2% 13.6% 14.0% (12.0)%	

Average exchange rate per US\$1.00(3)

Ps.16.5800 Ps.14.9900 Ps.9.0380

Appreciation/ (depreciation) of the NIS against the U.S. Dollar

9.6%

(2.3)%

(10.0)%

(1)

IPIM (Índice de Precios Internos al por Mayor) is the wholesale price index as measured by the Argentine Ministry of Treasury.

(2)

Depreciation during fiscal year 2016 was mostly due to the depreciation of the Peso that took place on December 17, 2015.

(3)

Represents average of the selling and buying exchange rate.

(4)

Represents GDP variation as of June 30, 2016.

Sources: INDEC, Argentine Ministry of Treasury, Ministry of Treasury of the City of Buenos Aires, Central Bank and Bloomberg.

Argentine GDP increased 2.7% during our 2017 fiscal year, compared to decrease of 3.4% in our fiscal 2016. Shopping mall sales grew 11.3% in the fiscal 2017 compared to fiscal 2016. As of June 30, 2017, the unemployment rate was at 8.7% of the country's economically active population compared to 9.3% as of June 30, 2016.

Changes in short- and long-term interest rates, unemployment and inflation rates may reduce the availability of consumer credit and the purchasing power of individuals who frequent shopping malls. These factors, combined with low GDP growth, may reduce general consumption rates at our shopping malls. Since most of the lease agreements in our shopping malls, our main source of revenue, require tenants to pay a percentage of their total sales as rent, a general reduction in consumption may reduce our revenue. A reduction in the number of shoppers at our shopping malls and, consequently, in the demand for parking, may also reduce our revenues from services rendered.

Regarding Israel's economy, and based on information published by OECD, the maintenance of expansionary monetary and fiscal policies and projected wage increases will continue to shore up domestic demand, which will remain as the main driver of growth. After picking up to 4% in 2016, growth is projected to be around 3% in 2017/18. Inflation is projected to firm up gradually.

Effects of inflation

The following are annual inflation rates during the fiscal years indicated, based on information published by the INDEC, an entity dependent of the Argentine Ministry of Treasury.

Consumerprice index	Wholesaleprice index
(inter-annual data)	

Fiscal Year ended June 30,

2013	10.5%	13.5%
2014	15.0%	27.7%
2015	14.0%	13.6%
2016	37.6%(1)	26.7%
2017	21.9%	14.2%
(1)		

(1)

Given the modifications to the system that INDEC uses to measure CPI, there is no data for any price variations from July 1, 2015 to June 30, 2016. For that reason, we present aggregate prices from January 1, 2016 to June 30, 2016, published by INDEC.

Continuing increases in the rate of inflation are likely to have an adverse effect on our operations. Additionally, the minimum lease payments we receive from our shopping mall tenants are generally adjusted in accordance with the CER, an inflation index published by the Central Bank. Although higher inflation rates in Argentina may increase minimum lease payments, given that tenants tend to pass on any increases in their expenses to consumers, higher inflation may lead to an increase in the prices our tenants charge consumers for their products and services, which may ultimately reduce their sales volumes and consequently the portion of rent we receive based on our tenants' gross sales.

For the leases of spaces at our shopping malls we use for most tenants a standard lease agreement, the terms and conditions of which are described below. However, our largest tenants generally negotiate better terms for their respective leases. No assurance can be given that lease terms will be as set forth in the standard lease agreement.

The rent specified in our leases generally is the higher of (i) a monthly Base Rent and (ii) a specified percentage of the store's monthly gross sales, which generally ranges between 3% and 10% of such sales. In addition, pursuant to the rent escalation clause in most of our leases, a tenant's Base Rent generally increases between 21% and 25% on an annual and cumulative basis from the thirteenth month of effectiveness of the lease. Although many of our lease agreements contain price adjustment provisions, these are not based on an official index nor do they reflect the inflation index. In the event of litigation regarding these adjustment provisions, there can be no assurance that we may be able to enforce such clauses contained in our lease agreements. See "Business—Our Shopping Malls—Principal Terms of our Leases."

An increase in our operating costs caused by higher inflation could have a material adverse effect on us if our tenants are unable to pay higher rent due to the increase in expenses. Moreover, the shopping mall business is affected by consumer spending and by prevailing economic conditions that affect potential customers. All of our shopping malls and commercial properties are located in Argentina, and, as a consequence, their business and that of our tenants could

be adversely affected by a recession in Argentina.

Since the INDEC modified its methodology used to calculate the CPI in January 2007, there have been concerns about the accuracy of Argentina's official inflation statistics, which led to the creation of the IPCNu in February 2014 in order to address the quality of official data. See "Risk Factors—Risks Relating to Argentina—There were concerns about the accuracy of Argentina's official inflation statistics."

Regarding rates of inflation in Israel, the Consumer Price Index, according to OECD, showed a 0.5% increase in the prices in 2014, followed by a deflation of 0.6% in 2015 and 0.5% in 2016. Likewise, inflation projections for 2017 and 2018 are expected to be around 1.0% and 1.7%, respectively.

Seasonality

Our business is directly affected by seasonality, influencing the level of our tenants' sales. During Argentine summer holidays (January and February) our tenants' sales typically reach their lowest level, whereas during winter holidays (July) and in Christmas (December) they reach their maximum level. Clothing retailers generally change their collections in spring and autumn, positively affecting our shopping malls' sales. Discount sales at the end of each season are also one of the main seasonal factors affecting our business.

In Israel retail segment business results are subject to seasonal fluctuations as a result of the consumption behavior of the population proximate to the Pesach holidays (March and/or April) and Rosh Hashanah and Sukkoth holidays (September and/or October). This also affects the balance sheet values of inventory, customers and suppliers. Our revenues from cellular services are usually affected by seasonality with the third quarter of the year characterized by higher roaming revenues due to increased incoming and outgoing tourism.

In 2017, the Passover holiday fell at the middle of April, compared to 2016 when it was at the end of April. The timing of the holiday affects Shufersal's sales and special offers in the second quarter of 2017, compared to last year.

The Passover holiday in the second quarter of 2017 had a greater effect on Shufersal's results than in the corresponding quarter in 2016, therefore analysis of the results for the first half of the year compared to the corresponding period in 2016 better represents the changes between the periods.

Effects of interest rate fluctuations

Most of our U.S. dollar-denominated debt accrues interest at a fixed rate. An increase in interest rates will result in a significant increase in our financing costs and may materially affect our financial condition or our results of operations.

Effects of foreign currency fluctuations

A significant portion of our financial debt is denominated in U.S. dollars. Therefore, a devaluation or depreciation of the Peso against the U.S. dollar would increase our indebtedness measured in Pesos and materially affect our results of operations. Foreign currency exchange rate fluctuations significantly increase the risk of default on our lease receivables. Foreign currency exchange restrictions that may be imposed by the Argentine government could prevent or restrict our access to U.S. dollars, affecting our ability to service our U.S. dollar-denominated liabilities.

Typically real estate transactions in Argentina are negotiated and prices are set in U.S. dollars. Therefore, a devaluation or depreciation of the Peso against the U.S. dollar would increase the value of our real estate properties measured in Pesos and an appreciation of the Peso would have the opposite effect.

During fiscal 2017 and fiscal 2016, the Peso depreciated against the U.S. dollar by approximately 11% and 66%, respectively, which caused an impact on the comparability of our results of operations for the year ended June 30, 2017 to our results of operations for the year ended June 30, 2016, primarily in our revenues from office rentals and our net assets and liabilities denominated in foreign currency. The depreciation of the Peso affected our assets and liabilities denominated in foreign currency, as reflected in "financial results, net" in our consolidated statement of comprehensive income.

As a result of the depreciation of the Peso and the discontinuation of the official exchange rate in December 2015, the seller exchange rate was Ps.9.6880 per US\$1.00 on November 30, 2015, Ps.13.0400 per US\$1.00 on December 31, 2015, Ps.15.0400 per US\$1.00 on June 30, 2016, and Ps.16.6300 per US\$1.00 on June 30, 2017. See "Local Exchange Market and Exchange Rates."

During fiscal year 2017, Israeli New Shekel appreciated against the U.S. dollar by approximately 9.6%, while during fiscal year 2016 that currency depreciated by 2.2%, which caused an impact on the comparability of our results of IDBD's operations for the year ended June 30, 2017 to IDBD's results of operations for the year ended June 30, 2016. As of June 30 2017, the offer exchange rate was NIS3.4882 per US\$1.00, and NIS3.5340 per US\$1.00 on September 30, 2017. For more information about the exchange rates, see "Local Exchange Market and Exchange Rates."

Factors Affecting Comparability of our Results

Business Segment Reporting

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the CODM. According to IFRS 8, the CODM represents a function whereby strategic decisions are made and resources are assigned. The CODM function is carried out by the President of the Group, Mr. Eduardo S. Elsztain. In addition, and due to the acquisition of IDBD, two responsibility levels have been established for resource allocation and assessment of results of the two operations centers, through executive committees in Argentina and Israel.

Segment information is reported from two perspectives: geographic presence and products and services. From the geographic point of view, the Company has established two Operations Centers to manage its global interests: Argentina and Israel. Within each operations center, the Company considers separately the various activities being developed, which represent reporting operating segments given the nature of its products, services, operations and risks. Management believes the operating segment clustering in each operations center reflects similar economic characteristics in each region, as well as similar products and services offered, types of clients and regulatory environments.

Below is the segment information prepared as follows:

Operations center in Argentina

Within this center, the Company operates in the following segments:

The "Shopping Malls" segment includes the assets and operating results of the activity of shopping malls portfolio principally comprised of lease and service revenues related to rental of commercial space and other spaces in the shopping malls of the Company.

The "Offices and others" segment includes the assets and operating results from lease revenues of offices and other rental space and other service revenues related to the office activities.

The "Sales and Developments" segment includes the assets and operating results of the sales of undeveloped parcels of land and/or trading properties, as the results related with its development and maintenance. Also included in this segment are the results of the sale of real property intended for rent, sales of hotels and other properties included in the international segment.

The "Hotels" segment includes the operating results of hotels mainly comprised of room, catering and restaurant revenues.

The "International" segment includes assets and operating profit or loss from business related to associates Condor and Lipstick. Through these associates, the Company derives revenue from hotels and an office building in USA, respectively. Until September 30, 2014, this segment included revenues from a subsidiary that owned the building

located at 183 Madison Ave. in New York, USA, which was sold on that date. Additionally, until October 11, 2015, this international segment included results from the investment in IDBD carried at fair value.

The "Financial operations, Corporate and others" segment primarily includes the financial activities carried out by BHSA and Tarshop and other residual financial operations and corporate expenses related to the Operations Center in Argentina.

Starting in fiscal year 2017, the CODM reviews certain corporate expenses associated to all segments of the operations center in Argentina on an aggregate and separate basis, and such expenses have been accounted for under Other Segments and Corporate. As of June 2016 and 2015, the segment information has been retrospectively recast for comparability purposes.

The assets' categories examined by the CODM are: investment properties, property, plant and equipment, trading properties, inventories, right to receive future units under barter agreements, investment in associates and goodwill. The sum of these assets, classified by business segment, is reported under "assets by segment." Assets are allocated to each segment based on the operations and/or their physical location.

Within the operations center in Argentina, most revenue from its operating segments is derived from, and their assets are located in, Argentina, except for earnings of associates included in the "International" segment located in USA.

Revenues for each reporting segments derive from a large and diverse client base and, therefore, there is no revenue concentration in any particular segment.

Operations center in Israel

Within this center, the Company operates in the following segments:

The "Real Estate" segment includes mainly assets and operating income derived from business related to the subsidiary PBC. Through PBC, the Company operates rental properties and residential properties in Israel, United States and other parts of the world and carries out commercial projects in Las Vegas, USA.

The "Supermarkets" segment includes assets and operating income derived from the business related to the subsidiary Shufersal. Through Shufersal, the Company mainly operates a supermarket chain in Israel.

The "Telecommunications" segment includes assets and operating income derived from the business related to the subsidiary Cellcom. Cellcom is a provider of telecommunication services and its main activities include the provision of mobile phone services, fixed line phone services, data and Internet, among others.

The "Insurance" segment includes the investment in Clal. This company is one of the most important insurance groups in Israel, and is mainly engaged in pension and social security insurance, among others. As stated in Note 14, the Company does not have control over Clal; therefore, the business is not consolidated on a line-by-line basis but rather reported in a single line as a financial asset held for sale and valued at fair value, as required by the IFRS.

The "Others" segment includes the assets and income derived from other diverse business activities, such as technological developments, tourism, oil and gas assets, electronics, and others.

The CODM periodically reviews the results and certain asset categories and assesses performance of operating segments of this operations center based on a measure of profit or loss of the segment composed by the operating income plus the equity in earnings of joint ventures and associates. The valuation criteria used in preparing this information are consistent with IFRS standards used for the preparation of the Consolidated Financial Statements.

The Company consolidates results derived from its operations center in Israel with a three month lag, adjusted for the effects of significant transactions. Hence, IDBD's results for the period extending from October 11, 2015 (acquisition date) through March 31, 2016 are included under comprehensive income of the Company for the fiscal year ended June 30, 2016. For the fiscal year ended June 30, 2017, a full twelve-month period is consolidated, also with a three-month lag and adjusted for the effects of significant transactions.

Goods and services exchanged between segments are calculated on the basis of market prices. Intercompany transactions between segments, if any, are eliminated.

As to those business segments involving the operations center in Argentina where assets are reported under the proportional consolidation method, each reported asset includes the proportional share of the Company in the same class of assets of the associates and/or joint ventures. Only as an example, the amount of investment properties reported includes (i) the balance of investment properties as stated in the Statement of Financial Position, plus (ii) the Company's share in the balances of investment properties of joint ventures.

Within the operations center in Israel, most revenue from its operating segments are derived from, and their assets are located in, Israel, except for part of earnings from the Real Estate segment, which are generated from activities outside Israel, mainly in USA.

Below is a summary of the Companys lines of business for the years ended June 30, 2017, 2016 and 2015:

Business Segment Reporting

Operations Center in Argentina

June 30, 2017

	Operations Center in Argentina	Operations Center in Israel	Total
Revenues	4,311	68,422	72,733
Costs	(912)	(49,110)	(50,022)
Gross profit	3,399	19,312	22,711
Net gain from fair value adjustments of investment properties	4,271	374	4,645
General and administrative expenses	(721)	(3,135)	(3,856)
Selling expenses	(355)	(13,093)	(13,448)
Other operating results, net	(68)	(196)	(264)
Profit from operations	6,526	3,262	9,788
Share of (loss) / profit of associates and joint ventures	(94)	105	11
Segment profit	6,432	3,367	9,799
Reportable assets	44,885	178,964	223,849
Reportable liabilities	-	(155,235)	(155,235)
Net reportable assets	44,885	23,729	68,614

June 30, 2016 (recast)

	Operations Center in Argentina	Operations Center in Israel	Total
Revenues	3,289	27,077	30,366
Costs	(658)	(19,252)	(19,910)
Gross Profit	2,631	7,825	10,456
Net gain / (loss) from fair value adjustments of investment properties	18,209	(271)	17,938
General and administrative expenses	(554)	(1,293)	(1,847)
Selling expenses	(264)	(5,442)	(5,706)
Other operating results, net	(12)	(32)	(44)
Profit from operations	20,010	787	20,797
Share of (loss) / profit of associates and joint ventures	127	123	250
Segment profit	20,137	910	21,047
Reportable assets	39,294	147,470	186,764
Reportable liabilities	-	(132,989)	(132,989)
Net reportable assets	39,294	14,481	53,775

June 30, 2015 (recast)

	Operations Center in Argentina	Operations Center in Israel	Total
Revenues	2,548	-	2,548
Costs	(481)	-	(481)
Gross Profit	2,067	-	2,067
Net gain from fair value adjustments of investment properties	4,007	-	4,007
General and administrative expenses	(378)	-	(378)
Selling expenses	(196)	-	(196)
Other operating results, net	33	-	33
Profit from operations	5,533	-	5,533
Share of loss of associates and joint ventures	(858)	-	(858)
Segment profit	4,675	-	4,675
Reportable assets	23,052	-	23,052
Reportable liabilities	-	-	-
Net reportable assets	23,052	-	23,052

Below is a summarized analysis of the lines of business of Company's operations center in Argentina for the fiscal year ended June 30, 2017:

June 30, 2017

Operations Center in Argentina

	Shopping Malls		Sales and developments	Hotels	International	Financial operations, Corporate and others	Total
Revenues	3,043	443	99	725	-	1	4,311
Costs	(350)	(33)	(43)	(486)	-	-	(912)
Gross profit	2,693	410	56	239	-	1	3,399
Net gain from fair value adjustments of investment properties		1,354	849	-	-	-	4,271
General and administrative expenses	(261)	(33)	(32)	(135)	(78)	(182)	(721)
Selling expenses	(188)	(34)	(16)	(94)	-	(23)	(355)
Other operating results, net	(59)	4	(36)	(1)	27	(3)	(68)
Profit / (loss) from operations	4,253	1,701	821	9	(51)	(207)	6,526
Share of profit / (loss) of joint ventures and associates	-	-	14	-	(196)	88	(94)
Segment profit / (loss)	4,253	1,701	835	9	(247)	(119)	6,432
Investment properties	28,799	7,669	4,739	-	-	-	41,207
Property, plant and equipment	55	40	-	157	2	-	254
Trading properties	_	_	587	_	_	_	587
Goodwill	1	36	-	_	_	_	37
Right to receive future							
units under barter	-	-	47	-	-	-	47
agreements Inventories	23	1	-	10	-	-	34
Investments in joint ventures and associates	-	113	95	-	570	1,941	2,719
Operating assets	28,878	7,859	5,468	167	572	1,941	44,885

From all the revenues corresponding to the operations Center in Argentina, the 100% are originated in Argentina. No external client represents 10% or more of revenue of any of the reportable segments.

From all of the assets corresponding to the operations Center in Argentina segments, Ps.44,123 million are located in Argentina and Ps.762 million in other countries, principally in the United States for Ps.570 million and Uruguay for Ps.192 million.

Below is a summarized analysis of the lines of business of Company's operations center in Argentina for the fiscal year ended June 30, 2016:

June 30, 2016 (recast)

Operations Center in Argentina

	Shopping Malls		Sales and developments	Hotels	International	Financial operations, Corporate and others	Total
Revenues	2,406	340	8	534	-	1	3,289
Costs	(256)	(21)	(20)	(361)	-	-	(658)
Gross profit / (loss)	2,150	319	(12)	173	-	1	2,631
Net gain from fair value adjustments of investment properties		1,304	773	-	-	-	18,209
General and administrative expenses	(179)	(24)	(23)	(103)	(91)	(134)	(554)
Selling expenses	(145)	(8)	(23)	(69)	-	(19)	(264)
Other operating results, net	(63)	(6)	(34)	(2)	92	1	(12)
Profit / (loss) from operations	17,895	1,585	681	(1)	1	(151)	20,010
Share of profit / (loss) of joint ventures and associates	-	20	5	-	(129)	231	127
Segment profit / (loss)	17,895	1,605	686	(1)	(128)	80	20,137
Investment properties	26,613	5,786	3,975	-	-	-	36,374
Property, plant and equipment	49	17	2	156	2	-	226
Trading properties	_	_	598	_	_	_	598
Goodwill	7	4	-	_	_	_	11
Right to receive future	•						
units under barter agreements	-	-	90	-	-	-	90
Inventories	19	-	1	8	-	-	28
Investments in joint ventures and associates	-	59	62	-	143	1,703	1,967
Operating assets	26,688	5,866	4,728	164	145	1,703	39,294

From all the revenues corresponding to the operations Center in Argentina, the 100% are originated in Argentina. No external client represents 10% or more of revenue of any of the reportable segments.

From all of the assets corresponding to the operations Center in Argentina segments, Ps.38,991 million are located in Argentina and Ps.303 million in other countries, principally in the United States for Ps.145 million and Uruguay for Ps.158 million.

Below is a summarized analysis of the lines of business of Company's operations center in Argentina for the fiscal year ended June 30, 2015:

June 30, 2015 (recast)

Operations Center in Argentina

	Shopping Malls		Sales and developments	Hotels	International	Financial operations, Corporate and others	Total
Revenues	1,778	333	15	396	26	-	2,548
Costs	(164)	(13)	(19)	(278)	(7)	-	(481)
Gross profit / (loss)	1,614	320	(4)	118	19	-	2,067
Net gain from fair value adjustments of investment properties		1,871	1,407	-	-	-	4,007
General and administrative expenses	(136)	(3)	(3)	(78)	(56)	(102)	(378)
Selling expenses	(113)	(13)	(2)	(52)	-	(16)	(196)
Other operating results, net	(49)	(117)	(13)	-	214	(2)	33
Profit / (loss) from operations	2,045	2,058	1,385	(12)	177	(120)	5,533
Share of profit / (loss) of joint ventures and associates	-	5	1	1	(1,020)	155	(858)
Segment profit / (loss)	2,045	2,063	1,386	(11)	(843)	35	4,675
Investment properties	10,415	5,460	3,694	-	-	-	19,569
Property, plant and	48	23	1	165	1	-	238
equipment Trading properties			149				149
Trading properties Goodwill	- 7	- 4	149	_	-	_	149
Right to receive future	,	•					11
units under barter agreements	-	-	90	-	-	-	90
Inventories	16	-	_	7	_	_	23
Investments in joint ventures and associates	-	43	47	-	1,478	1,404	2,972
Operating assets	10,486	5,530	3,981	172	1,479	1,404	23,052

From all revenues corresponding to the operations Center in Argentina Ps.2,522 million are generated in Argentina and Ps.26 million in USA. No external client represents 10% or more of revenue of any of the reportable segments.

From all of the assets corresponding to the operations Center in Argentina segments, Ps.21,467 million are located in Argentina and Ps.1,585 million in other countries, principally in the United States for Ps.1,479 million and Uruguay for Ps.106 million.

Below is a summarized analysis of the lines of business of Company's operations center in Israel for the year ended June 30, 2017:

	Real Estate	Supermarkets	Telecommunications	Insurance	Others	Total
Revenues	4,918	47,277	15,964	_	263	68,422
Costs	(2,333)	(35,432)	(11,183)	-	(162)	(49,110)
Gross Profit	2,585	11,845	4,781	-	101	19,312
Net gain from fair value adjustments of investment properties	374	-	-	-	-	374
General and administrative expenses	(290)	(627)	(1,592)	-	(626)	(3,135)
Selling expenses	(91)	(9,517)	(3,406)	-	(79)	(13,093)
Other operating results, net	46	(52)	(36)	-	(154)	(196)
Profit / (loss) from operations	2,624	1,649	(253)	-	(758)	3,262
Share of profit / (loss) of joint ventures and associates	46	75	-	-	(16)	105
Segment profit / (loss)	2,670	1,724	(253)	-	(774)	3,367
Operating assets Operating liabilities	79,427 (64,100)	38,521 (29,239)	31,648 (25,032)	8,562 -	20,806 (36,864)	178,964 (155,235)
Operating assets (liabilities), net	15,327	9,282	6,616	8,562	(16,058)	23,729

From all revenues corresponding to the Operations Center in Israel, Ps.1,102 are originated in the United States and Ps.67,320 in Israel. No external client represents 10% or more of the revenue of any of the reportable segments. From all assets corresponding to the Operations Center in Israel segments, Ps.20,176 are located in USA, Ps.3,678 in India and the remaining are located in Israel.

Below is a summarized analysis of the lines of business of Company's operations center in Israel for the year ended June 30, 2016 (recast):

	Real Estate	Supermarkets	Telecommunications	Insurance	Others	Total
Revenues	1,538	18,610	6,655	_	274	27,077
Costs	(467)	(14,076)	(4,525)	-	(184)	(19,252)
Gross Profit	1,071	4,534	2,130	-	90	7,825
Net loss from fair value adjustments of investment properties	(271)	-	-	-	-	(271)
General and administrative expenses	(100)	(203)	(708)	-	(282)	(1,293)
Selling expenses	(29)	(3,907)	(1,493)	-	(13)	(5,442)
Other operating results, net	(19)	(13)	-	-	-	(32)
Profit / (loss) from operations	652	411	(71)	-	(205)	787
Share of profit / (loss) of associates and joint ventures	226	-	-	-	(103)	123
Segment profit / (loss)	878	411	(71)	-	(308)	910
Operating assets Operating liabilities	60,678 (49,576)	29,440 (23,614)	27,345 (21,657)	4,602 -	25,405 (38,142)	147,470 (132,989)

Operating assets (liabilities), net 11,102 5,826 5,688 4,602 (12,737) 14,481

From all revenues corresponding to the Operations Center in Israel, Ps.512 million are originated in the United States and Ps.26,565 million in Israel. No external client represents 10% or more of the revenue of any of the reportable segments. From all assets corresponding to the Operations Center in Israel segments, Ps.14,070 million are located in USA, Ps.786 million in India and the remaining are located in Israel.

Share of profit/(loss) of joint ventures of Argentina's Operating Center:

As stated in Note 2.3(e) to the consolidated financial statements as of June 30, 2017 and for the fiscal years ended June 30, 2016, 2015 and 2014, share of profit/(loss) of joint ventures Cyrsa S.A. ("Cyrsa"), Puerto Retiro, Baicom, NPSF, Quality Invest, EHSA and LRSA, are presented by application of the equity method in the line "Shares of profit/(loss) of associates and joint ventures" in the consolidated statement of income.

However, as indicated in Note 6 to the consolidated financial statements as of June 30, 2017 and for the years ended June 30, 2016, 2015 and 2014, in the business segment reporting, the operating results of these joint ventures are presented by application of proportionate consolidation. This method presents the results of joint ventures in the income statement line by line. The operating results of joint ventures are allocated to each business segment based on the nature of the operations that give rise to them. In addition, reporting contemplates certain transactions between related parties that have been eliminated at the level of the income statement but are, nonetheless, representative of genuine revenues and/or costs of each segment. These transactions include, mainly, leases of spaces and management fees.

Comparability of information:

As required by IFRS 3, the information of IDBD is included in the Consolidated Financial Statements of the Company as from takeover was secured, that is from October 11, 2015, and the prior periods are not modified by this situation. Therefore, the consolidated financial information for periods after the acquisition is not comparative with prior periods. Additionally, results for the fiscal year ended June 30, 2017 includes 12 full months of results from IDBD, for the period beginning April 1, 2016 through March 31, 2017, while results for the fiscal year ended June 30, 2016 includes the results from IDBD for the period beginning October 11, 2015 through March 31, 2016; both adjusted for significant transactions that took place between April 1 and June 30, 2016 and 2017, respectively. Hence, the result for the reported periods are not comparable.

Furthermore, during the fiscal year ended as of June 30, 2016, the Argentine Peso devalued against the US Dollar and other currencies by around 65%, which has an impact in comparative information presented in the Financial Statements, due mainly to the currency exposure of our income and costs from the "offices and other properties" segment, and our assets and liabilities in foreign currency.

Certain items from prior fiscal years have been reclassified for consistency purposes. The loans granted to associates and joint ventures, with features of long-term investments, are considered part of the investment in such associates and joint ventures; as a result, financial income derived from those loans have been reclassified to present them net, with the share of profit of associates and joint-ventures in the amount of Ps.116 million. The Company considers that it is more accurate and provides more relevant information to users of Financial Statements.

Additionally, costs associated to the sale in the supermarket line have been reclassified. They were previously included under selling expenses and have been reclassified now to costs in the amount of Ps.151 million.

Operations Center in Argentina

Shopping Malls

For the fiscal years ended June 30, 2017 and 2016

During fiscal year 2017 we maintained the same portfolio of operating shopping malls. For this reason, there were no material effects on the comparison of information.

For the fiscal years ended June 30, 2016 and 2015

During fiscal year 2016 we maintained the same portfolio of operating shopping malls.

As it concerns the new shopping malls inaugurated in fiscal year 2015, "Distrito Arcos" and "Alto Comahue," the periods during which profit from operations was recorded were different in both years. Fiscal year 2016 includes 12 months of operations of Distrito Arcos and Alto Comahue, while fiscal year 2015 includes six months and a half, and three months and a half of operations, respectively. However, the income from these new developments, both in the income statement and in the information by segment, was not significant against the total figures of this segment, for the indicated years. For this reason, there were no material effects on the comparison of information.

Offices and Others

For the fiscal years ended June 30, 2017 and 2016

During fiscal year 2017, the comparability of revenues and costs from the Offices and Others segment was affected by the partial sales of rental property allocated to this segment. In this regard, during fiscal year 2017 the Company sold 2,693 sqm in the Intercontinental Plaza building and several floors at the Maipú 1300 building.

For the fiscal years ended June 30, 2016 and 2015

During fiscal years ended June 30, 2016 and 2015, the comparability of revenues and costs from the Offices and Others segment was affected by the partial sale of rental property allocated to this segment. In this regard, during fiscal years ended June 30, 2016 and 2015 the Company sold several floors at the Maipú 1300, Intercontinental Plaza, Bouchard 551 and the entire Dique IV buildings (a leasable area of 30,658 sqm, accounting for approximately 27% of the total leasable area at the beginning of the year) and Isla Sirgadero.

Additionally, in December 2014, there was a transfer within the Company of 83,789 sqm of rental buildings from IRSA to IRSA PC. This transaction, though at the consolidated level it did not have effects because it was a related party transaction, was considered a Business Combination, and therefore, costs related to this transaction for Ps.110.5 million were recognized as income during fiscal year 2015 in "Other operating results, net."

Sales and Developments

Revenues and costs from this segment often vary significantly from one fiscal year to another due to the non-recurrence of different sales transactions performed by the Company throughout the time.

Hotels

For the fiscal years ended June 30, 2017, 2016 and 2015

During these fiscal years, there were no factors affecting comparability.

International

For the fiscal years ended June 30, 2016 and 2015

The most affected line in terms of comparability was "Share of profit / (loss) of associates and joint ventures" for, until October 11, 2015, the profit (loss) from the investment in IDBD at fair value was reported within the International segment.

On the other hand, profit from operations from this segment was also affected, but to a lesser extent, by the profits (losses) derived from the Madison building, which was disposed of during fiscal year 2015. No operation involving this building was accounted for during fiscal year 2016 while operations with this building were included during fiscal year 2015 until September 2014.

Financial Operations, Corporate and Others

For the fiscal years ended June 30, 2016 and 2015

During fiscal year 2016 there were no factors affecting comparability, except for the effect of the change in the valuation of our investment in Avenida accounted for during the previous year. No profit from operations was accounted for during 2016 in relation to this investment, as compared to fiscal year 2015 when profit from operations was recorded for the first 3 months of the year.

Results of Operations for the fiscal years ended June 30, 2017 and 2016

Revenues

Year ended on June 30, 2017

Operations Center in Argentina (in millions of Ps.)	
Aigentina	
Shopping Malls 4,392 26 (1,375) - 3,043	
Offices and Others 536 14 (115) 8 443	
Sales and Developments 98 1 - 99	
Hotels 723 2 725	
International	
Financial Operations, Corporate and Others 1 1	
Total Operations Center in Argentina 5,750 41 (1,490) 10 4,311	
Operations Center in Israel	
Real Estate 4,918 4,918	
Supermarkets 47,277 47,277	
Telecommunications 15,964 15,964	
Insurance	
Others 263 263	
Total Operations Center in	
Israel 68,422 68,422	
Total revenues 74,172 41 (1,490) 10 72,733	
Year ended on June 30, 2016 (recast)	
Revenues Income statement Ventures fund Expenses and collective promotion fund Inter-segment eliminations Segment-report	rting
Operations Center in Argentina (in millions of Ps.)	
Shopping Malls 3,487 20 (1,101) - 2,406	
Offices and Others 422 4 (93) 7 340	

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

Sales and Developments	3	5	-	-	8
Hotels	533	-	-	1	534
International	-	-	-	-	-
Financial Operations, Corporate and Others	1	-	-	-	1
Total Operations Center in Argentina	4,446	29	(1,194)	8	3,289
Operations Center in Israel					
Real Estate	1,538	-	-	-	1,538
Supermarkets	18,610	-	-	-	18,610
Telecommunications	6,655	-	-	-	6,655
Insurance	-	-	-	-	-
Others	274	-	-	-	274
Total Operations Center in Israel	27,077	-	-	-	27,077
Total revenues	31,523	29	(1,194)	8	30,366

Revenues from sales, leases and services, increased by Ps. 42,649 million, a 135.3% up from Ps. 31,523 million during fiscal year 2016 to Ps. 74,172 million during fiscal year 2017 (out of which Ps. 68,422 million were generated the Operations Center in Israel and Ps. 5,750 million were generated in the Operations Center in Argentina).

Without considering the revenues from the Operations Center in Israel, revenues from sales, leases and services increased by 29.3%. Revenues from sales, leases and services in the operations Center In Israel are not comparable year to year due to two main factors: (i) the results of operations for the fiscal year ended June 30, 2016 include only six months of operations from the operations from the Operations center in Israel, from October 11, 2015 (the date we acquired control of IDBD) through March 31, 2016 (adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016,) while the results of operations for the fiscal year ended June 30, 2017 include twelve months of operations from the operations centers in Israel, from April 1, 2016 through March 31, 2017 (adjusted by such material transactions occurred between April 1st, 2017 and June 30, 2017) and (ii) fluctuations between the Israeli Shekel, the functional currency of the Operation Center in Israel and the Argentine Peso, the groups reporting currency, i.e. the Israeli Shekel appreciated approximately 24% from 2016 to 2017.

In turn, revenues from expenses and collective promotion fund increased by 24.8%, from Ps.1,194 million (of which Ps.1,101 million are allocated to the Shopping Malls segment and Ps.93 million are allocated to the Offices and Others segment within the Operations Center in Argentina) during fiscal year 2016 to Ps.1,490 million (of which Ps.1,375 million are allocated to the Shopping Malls segment and Ps.115 million are allocated to the Offices and Others segment) during fiscal year 2017 for the Operation Center in Argentina.

Furthermore, revenues from interests in our joint ventures showed a 44.8% increase, up from Ps.29 million during fiscal year 2016 (of which Ps.20 million are allocated to the Shopping Malls segment, Ps.4 million to the Offices and Others segment, and Ps.5 million to the Sales and Developments segment within the Operations Center in Argentina) to Ps.42 million during fiscal year 2017 (of which Ps.26 million are allocated to the Shopping Malls segment, Ps.15 million to the Offices and Others segment, and Ps.1 million to the Sales and Developments segment within the Operations Center in Argentina) during fiscal year 2017.

Finally, inter-segment revenues increased by 12.5%, from Ps.8 million during fiscal year 2016 (of which Ps.7 million are allocated to the Offices and Others segment and Ps.1 million to the Hotels segment within the Operations Center in Argentina) to Ps.9 million during fiscal year 2017 (of which Ps.7 million are allocated to the Offices and Others segment and Ps.2 million to the Hotels segment within the Operations Center in Argentina).

Thus, according to business segment reporting (taking into consideration the revenues from our joint ventures and without considering the revenues from expenses and collective promotion fund or inter-segment revenues), revenues grew by Ps.42,367 million from Ps.30,366 million during fiscal year 2016 to Ps.72,733 million during fiscal year 2017 (of which Ps.68,422 million are derived from the Operations Center in Israel and Ps.4,311 million are derived from the Operations Center in Argentina). Without considering the revenues from the Operations Center in Israel, revenues, pursuant to business segment reporting, grew by 31.1%.

Operations Center in Argentina

Shopping Malls. Revenues from the Shopping Malls segment rose by 26.5%, up from Ps.2,406 million during fiscal year 2016 to Ps.3,043 million during fiscal year 2017. This increase was mainly attributable to: (i) a Ps.408 million increase in the revenues from base and percentage rents stemming from a 19.4% increase in our tenants' total sales, up from Ps.28.8 million during fiscal year 2016 to Ps.34.4 million during fiscal year 2017, (ii) a Ps.55 million increase in revenues from admission fees, (iii) a Ps.39.5 million increase in revenues from parking lot, and (iv) a Ps.134.5 million increase in revenues from commissions, among other items.

Offices and Others. Revenues from the Offices and Others segment rose by 30.3%, up from Ps.340 million during fiscal year 2016 to Ps.443 million during fiscal year 2017. They were affected by the partial sales of investment properties that took place during fiscal year 2017, which caused a reduction in the segment's total leasable surface area. Rental revenues rose by 29.3%, up from Ps.331 million during fiscal year ended June 30, 2016 to Ps.428 million

during fiscal year ended June 30, 2017, mainly due to the devaluation.

Sales and Developments. Revenues from the Sales and Developments segment increased from Ps.8 million during fiscal year 2016 to Ps.99 million during fiscal year 2017. This segment often exhibits significant changes from period to period because of the non-recurrence of the sales of properties performed by the Company throughout the time. Such increase is mainly due to the sales of the floors in the Beruti building and parking spaces in Rosario.

Hotels. Revenues from our Hotels segment rose by 35.8%, up from Ps.534 million during fiscal year 2016 to Ps.725 million during fiscal year 2017, primarily due to an increase in the average rate per room (measured in Ps.) of our hotel portfolio.

International. Revenues from our International segment showed no significant changes for the reported periods.

Financial Operations, Corporate and Others. Revenues from the Financial Operations, Corporate and Others segment did not experience significant changes during the reported periods.

Operations Center in Israel

Real Estate. Revenues from the Real estate segment increased from Ps.1,538 million during fiscal year 2016 to Ps.4,918 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) the recording of revenues from the sale of apartments and real estate is affected by the timing of the occupation of apartments, which was higher in 2017.

Supermarkets. Revenues from the Supermarket segment increased from Ps.18,610 million during fiscal year 2016 to Ps.47,277 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, and (ii) a 24% revaluation of the NIS against the Argentine peso.

Telecommunications. Revenues from the Telecomunications segment increased from Ps.6,655 million during fiscal year 2016 to Ps.15,964 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso.

Others. Revenues from the Others segment decreased from Ps.274 million during fiscal year 2016 to Ps.263 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) the sale of some revenue generating assets of DIC.

Costs

Year ended on June 30, 2017

Costs	Income statement	Interest in joir ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	(1,745)	(4)	1,399	-	(350)
Offices and Others	(141)	(10)	118	-	(33)
Sales and Developments	(39)	(4)	-	-	(43)
Hotels	(486)	-	-	-	(486)
International	-	-	-	-	-
Financial Operations, Corporate and Others	-	-	-	-	-

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

Total Operations Center in Argentina	(2,411)	(18)	1,517	-	(912)
Operations Center in Israel					
Real Estate	(2,333)	-	-	-	(2,333)
Supermarkets	(35,432)	-	-	-	(35,432)
Telecommunications	(11,183)	-	-	-	(11,183)
Insurance	-	-	-	-	-
Others	(162)	-	-	-	(162)
Total Operations Center in	(49,110)	-	-	-	(49,110)
Israel Total costs	(51,521)	(18)	1,517	-	(50,022)

Year ended on June 30, 2016 (recast)

Costs	Income statement	Interest in join ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	(1,361)	(2)	1,113	(6)	(256)
Offices and Others	(110)	(5)	94	-	(21)
Sales and Developments	(15)	(5)	-	-	(20)
Hotels	(361)	-	-	-	(361)
International	-	-	-	-	-
Financial Operations, Corporate and Others	-	-	-	-	-
Total Operations Center in Argentina	(1,847)	(12)	1,207	(6)	(658)
Operations Center in Israel					
Real Estate	(467)	-	-	-	(467)
Supermarkets	(14,076)	-	-	-	(14,076)
Telecommunications	(4,525)	-	-	-	(4,525)
Insurance	-	-	-	-	-
Others	(184)	-	-	-	(184)
Total Operations Center in Israel	(19,252)	-	-	-	(19,252)
Total costs	(21,099)	(12)	1,207	(6)	(19,910)

Costs increased by Ps.30,422 million, up from Ps.21,099 million during fiscal year 2016 to Ps.51,521 million during fiscal year 2017 (out of which Ps.49,110 million where generated in the Operations Center in Israel and Ps.2,411 million were generated in the Operations Center in Argentina). Without considering the costs from the Operations Center in Israel, costs rose by 30.5%. Costs as a percentage of Revenues also increased by 66.9% during fiscal year 2016 to 69.5% during fiscal year 2017, and such increase is mainly attributable to the Operations Center in Israel. Without considering the costs from the Operations Center in Israel, Costs as a percentage of total revenues experienced a slight increase from 41.5% during fiscal year 2016 to 41.9% during fiscal year 2017.

The Costs, leases and services in the Operations Center in Israel are not comparable year to year due to two main factors: (i) the results of operations for the fiscal year ended June 30, 2016 include only six months of operations from the Operations Center in Israel, from October 11, 2015 (the date control was acquired) through March 31, 2016 (adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016.) While the results of operations for the fiscal year ended June 30, 2017 include twelve months of operations from the Operations Center in Israel, from April 1, 2016 through March 31, 2017 (adjusted by such material transactions occurred between April 1, 2017 and June 30, 2017) and (ii) fluctuations between the Israeli Shekel, the functional currency of the Operations Center Israel and the Argentine Peso, the Group's reporting currency, i.e. the Israeli Shekel appreciated approximately 24% from 2016 to 2017.

In turn, costs from expenses and collective promotion fund increased by 25.7%, from Ps.1,207 million during fiscal year 2016 (of which Ps.1,113 million are allocated to the Shopping Malls segment and Ps.94 million to the Offices and Others segment within the Operations Center in Argentina) to Ps.1,517 million during fiscal year 2017 (of which Ps.1,399 million are allocated to the Shopping Malls segment and Ps.118 million to the Offices and Others segment within the Operations Center in Argentina), mainly due to increased costs originated by our Shopping Malls, which rose by 25.7% from Ps.1,113 million in fiscal year 2016 to Ps.1,399 million in fiscal year 2017, mainly as a result of: (i) an increase in maintenance, security, cleaning, repair and other expenses of Ps.142 million (caused mainly by price raises in security and cleaning services and in public utilities rates); (ii) an increase in salaries, social security charges and other personnel expenses of Ps.109 million; (iii) an increase in taxes, rates and contributions, and other expenses of Ps.36 million, among others. Such change was also attributable to an increase in expenses resulting from the Offices and Others segment by Ps.24 million, from Ps.94 million during fiscal year 2016 to Ps.118 million during fiscal year 2017, mainly due to: (i) maintenance, cleaning expenses, and rentals and expenses and others in the amount of Ps.21.5 million; (ii) salaries and social security charges by Ps.6.1 million; (iii) taxes, rates and contributions by Ps.3.5 million for the Operation Center in Argentina

Furthermore, costs from our joint ventures showed a net increase of 50%, up from Ps.12 million during fiscal year 2016 (of which Ps.2 million are allocated to the Shopping Malls segment, Ps.5 million to the Offices and Others segment, and Ps.5 million to the Sales and Developments segment within the Operations Center in Argentina) to Ps.18 million during fiscal year 2017, of which Ps.4 million are allocated to the Shopping Malls segment, Ps.10 million to the Offices and Others segment, and Ps.4 million to the Sales and Developments segment within the Operations Center in Argentina.

Finally, costs from inter-segment transactions where null during fiscal year 2017 while they where amounted Ps.6 during fiscal year 2016 (which are fully allocated to the Shopping Malls segment within the Operations Center in Argentina).

Therefore, according to business segment reporting (taking into consideration the costs from our joint ventures and without considering the costs from expenses and collective promotion fund or costs from inter-segment operations), costs rose by Ps.30,112 million from Ps.19,910 million during fiscal year 2016 to Ps.50,022 million during fiscal year 2017 (of which Ps.49,110 million are attributable to the Operations Center in Israel and Ps.912 million to the Operations Center in Argentina). Without considering the costs from the Operations Center in Israel, costs rose by 38.6% from Ps.658 million in 2016, to Ps.912 million in 2017. Furthermore, total costs as a percentage of total revenues, pursuant to business segment reporting, increased from 65.6% during fiscal year 2016 to 68.8% during fiscal year 2017, and such increase is mainly attributable to the increase of Costs related to the Operations Center in Israel. Without considering the effect of the Operations Center in Israel, total costs as a percentage of total revenues increased from 20% during fiscal year 2016 to 21.2% during fiscal year 2017.

Operations Center in Argentina

Shopping Malls. Costs from the Shopping Malls segment increased by 36.7%, from Ps.256 million during fiscal year 2016 to Ps.350 million during fiscal year 2017. This increase is mainly due to: (i) increased lease and expenses by Ps.41 million; (ii) a Ps.30 million increase in maintenance, security, cleaning, repair and other expenses; and (iii) a Ps.23 million increase in salaries, social security charges and other personnel expenses, among other items. Costs from the Shopping Malls segment, as a percentage of revenues derived from this segment, increased from 10.6% during fiscal year 2016 to 11.5% during fiscal year 2017.

Offices and Others. Costs in the Offices and Others segment rose by 57.1%, from Ps.21 million during fiscal year 2016 to Ps.33 million during fiscal year 2017, mainly as a consequence of: (i) a Ps.3 million increase in taxes, rates and contributions; (ii) a Ps.2 million increase in fees and payment for services and (iii) a Ps.2 million increase in maintenance, repair expenses and services. Costs in the Offices and Others segment, as a percentage of this segment's revenues, rose from 6.2% during fiscal year 2016 to 7.4% during fiscal year 2017.

Sales and Developments. This segment's costs often exhibit significant changes from period to period because of the non-recurrence of the sales of properties performed by the Company throughout the time. The costs associated to our Sales and Developments segment increased by 115%, from Ps.20 million during fiscal year 2016 to Ps.43 million during fiscal year 2017. Costs in the Sales and Developments segment, as a percentage of this segment's revenues, decreased from 250% during fiscal year 2016 to 43.4% during fiscal year 2017.

Hotels. Costs in the Hotels segment rose by 34.6%, from Ps.361 million during fiscal year 2016 to Ps.486 million during fiscal year 2017, mainly due to: (i) a Ps.68 million increase in salaries, social security charges and other personnel expenses; (ii) increased charges, amounting to Ps.26 million, as maintenance and repairs; and (iii) an increase of Ps.30 million in the cost of food, beverages and other hotel-related expenses, respectively. Costs in the Hotels segment, as a percentage of this segment's revenues, decreased from 67.6% during fiscal year 2016 to 67%

during fiscal year 2017.

International. Costs in the International segment did not exhibit significant changes compared to fiscal year 2016.

Operations Center in Israel

Real Estate. Costs from the Real estate segment increased from Ps.467 million during fiscal year 2016 to Ps.2,333 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) the occupancy of revenue-generating projects in Israel, and the higher occupation of residential apartments. In addition, costs, as a percentage of the revenues derived from this segment, accounted for 47.4% in 2017 while it was a 30.4% in 2016.

Supermarkets. Costs from the Supermarket segment increased from Ps.14,076 million during fiscal year 2016 to Ps.35,432 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso. In addition, costs, as a percentage of the revenues derived from this segment, accounted for 74.9%, in 2017 with no significant changes form 2016.

Telecommunications. Costs from Telecommunications segment increase from Ps.4,525 million during fiscal year 2016 to Ps.11,183 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso. In addition, costs, as a percentage of the revenues derived from this segment, accounted for 70.1%, in 2017 with no significant changes form 2016.

Others. Costs from the Others segment decrease from Ps.184 million during fiscal year 2016 to Ps.162 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) the sale of assets from DIC. In addition, costs, as a percentage of revenues derived from this segment, accounted for 61.6%, in 2017 with no significant changes form 2016.

Gross profit

Year ended on June 30, 2017

Gross profit	Income statement	Interest in join ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	2,647	22	24	-	2,693
Offices and Others	395	4	3	8	410
Sales and Developments	59	(3)	-	-	56
Hotels	237	-	-	2	239
International	-	-	-	-	-
Financial Operations, Corporate and Others	1	-	-	-	1
Total Operations Center in Argentina	3,339	23	27	10	3,399

Operations Center in Israel

Real Estate	2,585	-	-	-	2,585
Supermarkets	11,845	-	-	-	11,845
Telecommunications	4,781	-	-	-	4,781
Insurance	-	-	-	-	-
Others	101	-	-	-	101
Total Operations Center in Israel	19,312	-	-	-	19,312
Total gross profit	22,651	23	27	10	22,711

Year ended on June 30, 2016 (recast)

Gross profit	Income statement	Interest in join ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	2,126	18	12	(6)	2,150
Offices and Others	312	(1)	1	7	319
Sales and Developments	(12)	-	-	-	(12)
Hotels	172	_	-	1	173
International	-	_	-	-	-
Financial Operations, Corporate and Others	1	-	-	-	1
Total Operations Center in Argentina	2,599	17	13	2	2,631
Operations Center in Israel					
Real Estate	1,071	-	-	-	1,071
Supermarkets	4,534	-	-	-	4,534
Telecommunications	2,130	-	-	-	2,130
Insurance	-	-	-	-	-
Others	90	-	-	-	90
Total Operations Center in Israel	7,825	-	-	-	7,825
Total gross profit	10,424	17	13	2	10,456

Gross profit, pursuant to the income statement, increased by Ps.12,227 million, up from Ps.10,424 million during fiscal year 2016 (of which Ps.7,825 million are derived from the Operations Center in Israel and Ps.2,599 million from the Operations Center in Argentina) to Ps.22,651 million during fiscal year 2017 (of which Ps.19,312 million are derived from the Operations Center in Israel and Ps.3,339 million from the Operations Center in Argentina). Without considering the effect of the Operations Center in Israel, gross profit rose by 28.5%. Gross profit, as a percentage of revenues from sales, leases and services, decreased from 33.1% during fiscal year 2016 to 30.5% during fiscal year 2017. Without considering the effect of the Operations Center in Israel, gross profit, as a percentage of revenues from sales, leases and services, pursuant to the income statement, experienced a slight decline from 58.5% during fiscal year 2016 to 58.1% during fiscal year 2017. The Gross Profit, leases and services in the Operations Center in Israel are not comparable year to year due two main factors: (i) the results of operations for the fiscal year ended Junes 30, 2016 include only six months of operations from the Operations Center in Israel, from October 11, 2015 (the date control was acquired) through March 31, 2016 (adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016) While the results of operations for the fiscal year ended June 30, 2017 include twelve months of operations from the Operations Center in Israel, from April1, 2016 through March 31, 2017 (adjusted by such material transactions occurred between April 1, 2017 and June 30, 2017) and (ii) fluctuations between the Israeli Shekel, the functional currency of the Operations Center Israel and the Argentine Peso, the Group's reporting currency, i.e. the Israeli Shekel appreciated approximately 24% from 2016 to 2017.

In turn, total gross profit from expenses and collective promotion fund increased by Ps.14 million, from Ps.13 million during fiscal year 2016 (of which Ps.12 million are derived from the Shopping Malls segment and Ps.1 million from the Offices and Others segment) to Ps.27 million during fiscal year 2017 (of which Ps.24 million are derived from the Shopping Malls segment and Ps.3 million from the Offices and Others segment) for the Operation Center in Argentina

Furthermore, gross profit from our joint ventures increased by 35.3% from Ps.17 million in fiscal year 2016 to Ps.23 million in fiscal year 2017.

Therefore, according to business segment reporting (taking into consideration the gross profit from our joint ventures and without considering the gross profit from expenses and collective promotion fund or inter-segment gross profits), gross profit rose by Ps.12,255 million from Ps.10,456 million during fiscal year 2016 (of which Ps.7,825 million are derived from the Operations Center in Israel and Ps.2,631 million from the Operations Center in Argentina) to Ps.22,711 million during fiscal year 2017 (of which Ps.19,312 million are attributable to the Operations Center in Israel and Ps.3,399 million to the Operations Center in Argentina). Without considering the effect of the Operations Center in Israel, gross profit rose by 29.2%. Furthermore, gross profit as a percentage of revenues, pursuant to business segment reporting, decreased from 34.4% during fiscal year 2016 to 31.2% during fiscal year 2017. Without considering the effect of the Operations Center in Israel, gross profit as a percentage of total revenues experienced a slight decline from 80% during fiscal year 2016 to 78.8% during fiscal year 2017.

Operations Center in Argentina

Shopping Malls. Gross profit at the Shopping Malls segment increased by 25.3%, up from Ps.2,150 million during fiscal year 2016 to Ps.2,693 million during fiscal year 2017, mainly due to an increase in our tenants' total sales, resulting in higher percentage rents under our lease agreements. Gross profit from the Shopping Malls segment as a percentage of this segment's revenues experienced a slight decline from 89.4% during fiscal year 2016 to 88.5% during fiscal year 2017.

Offices and Others. Gross profit from the Offices and Others segment increased by 28.5%, from Ps.319 million during fiscal year 2016 to Ps.410 million during fiscal year 2017. Gross profit from the Offices and Others segment as a percentage of this segment's revenues decreased from 93.8% during fiscal year 2016 to 92.6% during fiscal year 2017.

Sales and Developments. Gross profit / (loss) from the Sales and Developments segment increased by Ps.68 million, from a loss of Ps.12 million during fiscal year 2016 to a profit of Ps.56 million during fiscal year 2017, mainly due to higher sales accounted for during fiscal year 2017 and a decrease in maintenance and preservation costs in connection with these properties.

Hotels. Gross profit from the Hotels segment rose by 38.2%, up from Ps.173 million during fiscal year 2016 to Ps.239 million during fiscal year 2017. Gross profit for the Hotels segment, as a percentage of this segment's revenues, rose slightly from 32.4% during fiscal year 2016 to 33% during fiscal year 2017.

International. Gross profit at the International segment did not experience significant changes during the reported periods.

Financial Operations, Corporate and Others. Gross profit at the Financial Operations, Corporate and Others segment did not experience significant changes during the reported periods.

Operations Center in Israel

Real Estate. Gross profit from the Real Estate segment increased from Ps.1,071 million during fiscal year 2016 to Ps.2.585 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso. In 2017 gross profit as a percentage of the revenues derived from this segment, accounted for 52.6%.

Supermarkets. Gross profit from the Supermarkets segment increased from Ps.4,534 million during fiscal year 2016 to Ps.11,845 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso. In 2017 gross profit as a percentage of the revenues derived from this segment, accounted for 25.1%.

Telecommunications. Gross profit from the Telecommunications segment increased from Ps.2,130 million during fiscal year 2016 to Ps.4,781 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso. In 2017 gross profit as a percentage of the revenues derived from this segment, accounted for 29.9%.

Others. Gross profit from the Others segment increased from Ps.90 million during fiscal year 2016 to Ps.101 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso and (iii) the sale of some revenue generating assets from DIC. In 2017 gross profit as a percentage of the revenues derived from this segment, accounted for 38,4%.

Net gain from fair value adjustment of investment properties

Operations Center in Argentina

Year ended on June 30, 2017

Net gain from fair value adjustment of investment properties	Income statement	Interest in joint ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	2,058	10	-	_	2,068
Offices and Others	1,172	182	-	-	1,354
Sales and Developments	849	-	-	-	849
Hotels	-	-	-	-	-
International	-	-	-	-	-
Financial Operations, Corporate	_	_	_	_	_
and Others					
Total Operations Center in	4,079	192	_	_	4,271
Argentina	,				,
Operations Center in Israel					
Real Estate	374				374
Supermarkets	5/4	-	-	_	37 4
Telecommunications	_	_	_	_	_
Insurance	_	_	_	_	_
Others	_	_	_	_	_
Total Operations Center in Israel	374	_	_	_	374
Total net gain from fair value					
adjustment of investment	4,453	192	_	_	4,645
properties					
Year ended on June 30, 2016 (recast)					
Net gain from fair value adjustment of investment properties	Income statement	Interest in joint ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

(in millions of Ps.)

Shopping Malls	16,049	83	-	-	16,132
Offices and Others	1,055	249	-	-	1,304
Sales and Developments	726	47	-	-	773
Hotels	-	-	-	-	-
International	-	-	-	-	-
Financial Operations, Corporate and Others	-	-	-	-	-
Total Operations Center in Argentina	17,830	379	-	-	18,209
Operations Center in Israel					
Real Estate	(271)	-	-	-	(271)
Supermarkets	-	-	-	-	-
Telecommunications	-	-	-	-	-
Insurance	-	-	-	-	-
Others	-	-	-	-	-
Total Operations Center in Israel	(271)	-	-	-	(271)
Total net gain from fair value					
adjustment of investment properties	17,559	379	-	-	17,938

Net gain from fair value adjustment of investment properties, pursuant to the income statement, decreased by Ps.13,106 million, from Ps.17,559 million during fiscal year 2016 (of which a Ps.271 million loss derives from the Operations Center in Israel and a Ps.17,830 million income from the Operations Center in Argentina) to Ps.4,453 million during fiscal year 2017 (of which Ps.374 million derive from the Operations Center in Israel and Ps.4,079 million from the Operations Center in Argentina).

The Net gain from Fair Value adjustment of investment properties, leases and services in the Operations Center in Israel are not comparable year to year due two main factors: (i) the results of operations for the fiscal year ended Junes 30, 2016 include only six months of operations from the Operations Center in Israel, from October 11, 2015 (the date control was acquired) through March 31, 2016 (adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016) While the results of operations for the fiscal year ended June 30, 2017 include twelve months of operations from the Operations Center in Israel, from April1, 2016 through March 31, 2017 (adjusted by such material transactions occurred between April 1, 2017 and June 30, 2017) and (ii) fluctuations between the Israeli Shekel, the functional currency of the Operations Center Israel and the Argentine Peso, the Group's reporting currency, i.e. the Israeli Shekel appreciated approximately 24% from 2016 to 2017.

Operations Center in Argentina:

Net gain from fair value adjustment of our investment properties for the fiscal year ended June 30, 2017 amounted to Ps.4,079 million (Ps.2,058 million from our Shopping Malls segment; Ps.1,172 million from the Offices and Others segment; and Ps.849 million from the Sales and Developments segment). The significant increase in the values of our properties as measured in Argentine Peso was primarily a consequence of: (i) a slight decrease of 16 basis points in the discount rate applied under the discounted cash flows method, which was driven mainly by macroeconomic improvements leading to a decrease in the cost of capital; and (ii) a depreciation during the fiscal year of Argentine Peso against U.S. dollar of approximately 11% (from Ps.14.99 per US\$1.00 at June 2016 to Ps.16.58 per US\$1.00 at June 2017).

We maintained the same portfolio of shopping malls during the fiscal years ended June 30, 2017 and 2016. The values of our shopping mall properties increased by 8.2% during the fiscal year ended June 30, 2017, largely due to a decrease in our cost of capital and the impact of the peso depreciation.

The value of our office buildings increased by 34% during the fiscal year ended June 30, 2017 largely as a result of the impact of the depreciation of the peso and higher rental rates for our properties. In addition, we realized a profit of Ps.100 million during the fiscal year ended June 30, 2017 compared to Ps.908 million in the comparable period in 2016, due to the sale of leasable offices and parking spaces at several buildings.

Operations Center in Israel

Real Estate. In fiscal year 2017, the net gain from fair value adjustment of investment properties from the Real Estate segment was Ps.374 million, which, as a percentage of revenues from this segment, accounted for 7.6%. In 2016 the result of this segment was a loss of Ps.271 million. Such variation is mainly due to the impairment of Las Vegas project (Tivoli) and the small revaluation of the HSBC building, compensated by the increase in fair value of the rest of the properties.

General and administrative expenses

Year ended on June 30, 2017

General and administrative expenses

Income statement Interest in Expenses Inter-segment joint ventures

and eliminations collective

Segment-reporting

promotion fund

Operations	Center in	Argentina ((in millions	of Ps.)

Shopping Malls	(256)	(2)	-	(3)	(261)
Offices and Others	(32)	(1)	-	-	(33)
Sales and Developments	(30)	(2)	-	-	(32)
Hotels	(133)	-	-	(2)	(135)
International	(78)		-	-	(78)
Financial Operations, Corporate and Others	(179)	-	-	(3)	(182)
Total Operations Center in Argentina	(708)	(5)	-	(8)	(721)
Operations Center in Israel					
Real Estate	(290)	-	_	-	(290)
Supermarkets	(627)	-	-	-	(627)
Telecommunications	(1,592)	-	-	-	(1,592)
Insurance	-	-	_	-	-
Others	(626)	-	-	-	(626)
Total Operations Center in Israel	(3,135)	-	-	-	(3,135)
Total general and administrative expenses	(3,843)	(5)	-	(8)	(3,856)

Year ended on June 30, 2016 (recast)

General and administrative expenses	Income statement	Interest in joir ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	(178)	-	-	(1)	(179)
Offices and Others	(24)	-	-	-	(24)
Sales and Developments	(22)	(1)	-	-	(23)
Hotels	(101)	_	-	(2)	(103)
International	(91)	-	-	-	(91)
Financial Operations, Corporate and Others	(130)	-	-	(4)	(134)
Total Operations Center in Argentina	(546)	(1)	-	(7)	(554)
Operations Center in Israel					
Real Estate	(100)	-	-	-	(100)
Supermarkets	(203)	-	-	-	(203)
Telecommunications	(708)	-	-	-	(708)
Insurance	-	-	-	-	-
Others	(282)	-	-	-	(282)
Total Operations Center in Israel	(1,293)	-	-	-	(1,293)
Total general and administrative expenses	(1,839)	(1)	-	(7)	(1,847)

Total general and administrative expenses, pursuant to the income statement, increased by Ps.2,004 million, up from Ps.1,839 million during fiscal year 2016 (of which Ps.1,293 million are attributable to the Operations Center in Israel and Ps.546 million to the Operations Center in Argentina) to Ps.3,843 million during fiscal year 2017 (of which Ps.3,135 million are attributable to the Operations Center in Israel and Ps.708 million to the Operations Center in Argentina). Without considering the effect of the Operations Center in Israel, general and administrative expenses rose by 29. 7%. Total general and administrative expenses, as a percentage of revenues from sales, leases and services, decreased slightly from 5.8% during fiscal year 2016 to 5.2% during fiscal year 2017. Without considering the effect of the Operations Center in Israel, total general and administrative expenses, as a percentage of total revenues from sales, leases and services, pursuant to the income statement, maintened at 12.3% for both periods.

General administrative and expenses in the Operations Center in Israel are not comparable year to year due two main factors: (i) the results of operations for the fiscal year ended Junes 30, 2016 include only six months of operations from the Operations Center in Israel, from October 11, 2015 (the date control was acquired) through March 31, 2016 (adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016) While the results of operations for the fiscal year ended June 30, 2017 include twelve months of operations from the Operations Center in Israel, from April 1, 2016 through March 31, 2017 (adjusted by such material transactions occurred between April 1,

2017 and June 30, 2017) and (ii) fluctuations between the Israeli Shekel, the functional currency of the Operations Center Israel and the Argentine Peso, the Group's reporting currency, i.e. the Israeli Shekel appreciated approximately 24% from 2016 to 2017.

In turn, general and administrative expenses from our joint ventures increased by Ps.4 million, from Ps.1 million in fiscal year 2016 to Ps.5 million during fiscal year 2017 for the Operation Center in Argentina

Finally, general and administrative expenses from inter-segment transactions did not exhibit significant changes for the reported periods.

Therefore, according to business segment reporting (taking into consideration administrative expenses from our joint ventures and without considering those related to expenses and collective promotion fund or expenses related to inter-segment operations), general and administrative expenses rose by Ps.2,009 million from Ps.1,847 million during fiscal year 2016 (of which Ps.1,293 million derive from the Operations Center in Israel and Ps.554 million from the Operations Center in Argentina) to Ps.3,856 million during fiscal year 2017 (of which Ps.3,135 million are attributable to the Operations Center in Israel and Ps.721 million to the Operations Center in Argentina).

Without considering the general and administrative expenses from the Operations Center in Israel, expenses rose by 30.1%. General and administrative expenses as a percentage of revenues, pursuant to business segment reporting, declined from 6.1% during fiscal year 2016 to 5.3% during fiscal year 2017. Without considering the effect of the Operations Center in Israel, total general and administrative expenses, as a percentage of total revenues, experienced a slight decrease from 16.8% during fiscal year 2016 to 16.7% during fiscal year 2017.

Operations Center in Argentina

Shopping Malls. General and administrative expenses in the Shopping Malls segment rose by 45.8%, up from Ps.179 million during fiscal year 2016 to Ps.261 million during fiscal year 2017, mainly as a result of: (i) a Ps.33 million increase in salaries, social security charges and other personnel expenses; (ii) a Ps.22 million increase in fees and payment for services, among other items; (iii) a Ps.13 million increase in Directors' fees; and (iv) a Ps.7 million increase in fees and payment for services, among other items. General and administrative expenses of Shopping Malls, as a percentage of this segment's revenues, increased from 7.4% during fiscal year 2016 to 8.6% during fiscal year 2017.

Offices and Others. General and administrative expenses in our Offices and Others segment increased by 37.5%, from Ps.24 million during fiscal year 2016 to Ps.33 million during fiscal year 2017, primarily due to: (i) a Ps.4 million increase in salaries, social security charges and other personnel expenses; and (ii) a Ps.5 million increase in fees and payment for services, among other items. The segment's general and administrative expenses, as a percentage of this segment's revenues, showed a slight increase from 7.1% during fiscal year 2016 to 7.4% during fiscal year 2017.

Sales and Developments. General and administrative expenses associated to our Sales and Developments segment rose by Ps.9 million, up from Ps.23 million during fiscal year 2016 to Ps.32 million during fiscal year 2017, primarily owing to: (i) a Ps.5 million increase in fees and payment for services; (ii) a Ps.2 million increase in salaries, social security charges and other personnel expenses, (iii) a Ps.2 million increase in Directors' fees, among other items. General and administrative expenses, as a percentage of this segment's revenues, decreased from 287.5% during fiscal year 2016 to 32.3% during fiscal year 2017.

Hotels. General and administrative expenses associated to our Hotels segment rose by 31.1%, from Ps.103 million during fiscal year 2016 to Ps.135 million during fiscal year 2017, mainly as a result of: (i) a Ps.16 million increase in salaries, social security charges and other personnel expenses; (ii) a Ps.4 million increase in taxes, rates and contributions; and (iii) Ps.4 million increase in fees and payments for services, among other items. General and administrative expenses associated to the Hotels segment, as a percentage of this segment's revenues, decreased from 19.3% during fiscal year 2016 to 18.6% during fiscal year 2017.

International. General and administrative expenses associated to our International segment decreased by 14.3%, from Ps.91 million during fiscal year 2016 to Ps.78 million during fiscal year 2017, mainly as a result of fees for services incurred in connection with our investment in IDBD.

Financial Operations, Corporate and Others. General and administrative expenses associated to our Financial Operations, Corporate and Others segment increased by 35.8% from Ps.134 million during fiscal year 2016 to Ps.182 million during fiscal year 2017, mainly due to (i) a Ps.23 million increase in salaries, social security charges and other personnel expenses and (ii) a Ps.22 million increase in maintenance, repair and services expenses.

Operations Center in Israel

Real Estate. General and administrative expenses from the Real Estate segment increased from Ps.100 million during fiscal year 2016 to Ps.290 million during fiscal year 2017. Such variation was due to (i) the comparability of the

figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) a higher occupancy of the investment property and an increase in the headcount.

Supermarkets. General and administrative expenses from the Supermarket segment from Ps.203 million during fiscal year 2016 to Ps.627 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) an increase in the minimum wage salary as well as an increase in the headcount.

Telecommunications. General and administrative expenses from the Telecommunications segment increased from Ps.708 million during fiscal year 2016 to Ps.1,592 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) the increased efficiency measures which were implemented by Cellcom, and the decrease in depreciation and amortization expenses.

Others. General and administrative expenses from the Others segment increased from Ps.282 million during fiscal year 2016 to Ps.626 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) a decreased in the payroll.

Selling expenses

Year ended on June 30, 2017

Selling expenses	Income statement	Interest in join ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	(185)	(1)	-	(2)	(188)
Offices and Others	(33)	(1)	-	-	(34)
Sales and Developments	(13)	(3)	-	-	(16)
Hotels	(94)	-	-	-	(94)
International	-	-	-	-	-
Financial Operations, Corporate and Others	(23)	-	-	-	(23)
Total Operations Center in Argentina	(348)	(5)	-	(2)	(355)
Operations Center in Israel					
Real Estate	(91)	-	-	-	(91)
Supermarkets	(9,517)	-	-	-	(9,517)
Telecommunications	(3,406)	-	-	-	(3,406)
Insurance	-	-	-	-	-
Others	(79)	-	-	-	(79)
Total Operations Center in Israel	(13,093)	-	-	-	(13,093)
Total selling expenses	(13,441)	(5)	-	(2)	(13,448)

Year ended on June 30, 2016 (recast)

Selling expenses

Segment-reporting

Edgar Filing: LIQUIDMETAL TECHNOLOGIES INC - Form SC 13D/A

	Income statement	Interest in jo ventures	ointExpenses and collective promotion fund	Inter-segment eliminations	
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	(144)	(1)	-	-	(145)
Offices and Others	(8)	-	-	-	(8)
Sales and Developments	(22)	(1)	-	-	(23)
Hotels	(69)	-	-	-	(69)
International	-	-	-	-	-
Financial Operations,	(10)				(10)
Corporate and Others	(19)	-	-	-	(19)
Total Operations Center in Argentina	(262)	(2)	-	-	(264)
Operations Center in Israel					
Real Estate	(29)	-	-	-	(29)
Supermarkets	(3,907)	-	-	-	(3,907)
Telecommunications	(1,493)	-	-	-	(1,493)
Insurance	-	-	-	-	-
Others	(13)	-	-	-	(13)
Total Operations Center in Israel	(5,442)	-	-	-	(5,442)
Total selling expenses	(5,704)	(2)	-	-	(5,706)

Selling expenses, pursuant to the income statement, increased by Ps.7,737 million, up from Ps.5.704 million during fiscal year 2016 to Ps.13,441 million during fiscal year 2017 (of which Ps.13,093 million are attributable to the Operations Center in Israel and Ps.348 million to the Operations Center in Argentina). Without considering the effect of the Operations Center in Israel, selling expenses rose by 32.8%. Selling expenses, as a percentage of revenues from sales, leases and services, was 18.1% for both fiscal years 2016 and 2017. Without considering the effect of the Operations Center in Israel, total selling expenses, as a percentage of revenues from sales, leases and services, experienced a slight increase from 5.9% during fiscal year 2016 to 6.1% during fiscal year 2017.

Selling Expenses in the Operations Center in Israel are not comparable year to year due two main factors: (i) the results of operations for the fiscal year ended Junes 30, 2016 include only six months of operations from the Operations Center in Israel, from October 11, 2015 (the date control was acquired) through March 31, 2016 (adjusted by such material transactions occurred between April 1, 2016 and June 30, 2016) While the results of operations for the fiscal year ended June 30, 2017 include twelve months of operations from the Operations Center in Israel, from April 1, 2016 through March 31, 2017 (adjusted by such material transactions occurred between April 1, 2017 and June 30, 2017) and (ii) fluctuations between the Israeli Shekel, the functional currency of the Operations Center Israel and the Argentine Peso, the Group's reporting currency, i.e. the Israeli Shekel appreciated approximately 24% from 2016 to 2017.

In turn, selling expenses associated to our joint ventures increased by Ps.3 million from Ps.2 million in fiscal year 2016 to Ps.5 million in fiscal year 2017 for the Operation Center in Argentina.

Therefore, according to business segment reporting (taking into consideration the selling expenses from our joint ventures and without considering those related to expenses and collective promotion fund or inter-segment expenses), selling expenses rose by Ps.7,742 million from Ps.5,706 million during fiscal year 2016 to Ps.13,448 million during fiscal year 2017 (of which Ps.13,093 million are attributable to the Operations Center in Israel and Ps.355 million to the Operations Center in Argentina). Without considering the effect of the Operations Center in Israel, selling expenses rose by 34.5%. Selling expenses, as a percentage of revenues, pursuant to business segment reporting, increased from 18.8% during fiscal year 2016 to 18.5% during fiscal year 2017. Without considering the effect of the Operations Center in Israel, total selling expenses as a percentage of total revenues pursuant to business segment reporting, experienced a slight increase from 8% during fiscal year 2016 to 8.2% during fiscal year 2017.

Operations Center in Argentina

Shopping Malls. Selling expenses in the Shopping Malls segment rose by 29.7%, up from Ps.145 million during fiscal year 2016 to Ps.188 million during fiscal year 2017, primarily as a result of higher taxes, rates and contributions and higher loan loss charges. Selling expenses, as a percentage of the Shopping Malls segment's revenues, rose from 6% during fiscal year 2016 to 6.2% during fiscal year 2017.

Offices and Others. Selling expenses associated to our Offices and Others segment increased by 325%, from Ps.8 million during fiscal year 2016 to Ps.34 million during fiscal year 2017. Such variation was mainly due to higher loan loss charges, among other factors. The selling expenses associated to our Offices and Others segment, as a percentage of this segment's revenues, rose from 2.4% during fiscal year 2016 to 7.7% during fiscal year 2017.

Sales and Developments. Selling expenses for the Sales and Developments segment decreased by Ps.7 million, from Ps.23 million during fiscal year 2016 to Ps.16 million during fiscal year 2017, mainly as a result of a decrease in taxes, rates and contributions.

Hotels. Selling expenses associated to our Hotels segment rose by 36.2%, from Ps.69 million during fiscal year 2016 to Ps.94 million during fiscal year 2017, mainly due to an increase in taxes, rates and contributions, an increase in fees

and payment for services and salaries and social security charges, among others. Selling expenses associated to our Hotels segment as a percentage of this segment's revenues experienced a slight increase from 12.9% during fiscal year 2016 to 13% during fiscal year 2017.

Financial Operations, Corporate and Others. Selling expenses in the Financial Operations, Corporate and Others segment increased by Ps.4 million from Ps.19 million in fiscal year 2016 to Ps.23 million in fiscal year 2017, mainly due to an increase in advertising, publicity and others.

Operations Center in Israel

Real Estate. Selling expenses from the Real Estate segment increased from Ps.29 million during fiscal year 2016 to Ps.91 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) an increase in marketing due to the higher efforts to increase the occupancy of the investment properties and the promotion of new projects.

Supermarkets. Selling expenses from the Supermarket segment increased from Ps.3,907 million during fiscal year 2016 to Ps.9,517 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures and (ii) a 24% revaluation of the NIS against the Argentine peso.

Telecommunications. Selling expenses from the Telecommunications segment increased from Ps.1,493 million during fiscal year 2016 to Ps.3,406 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) the increased efficiency measures which were implemented by Cellcom, which led to a decrease in advertising expenses and other expenses.

Others. Selling expenses from the Others segment increased from Ps.13 million during fiscal year 2016 to Ps.79 million during fiscal year 2017. Such variation was due to (i) the comparability of the figures, (ii) a 24% revaluation of the NIS against the Argentine peso, and (iii) due to commission and other commercial costs related to the sale of some assets.

Other operating results, net

Year ended on June 30, 2017

Other operating results, net	Income statement	Interest in joir ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions	of Ps.)			
Shopping Malls	(59)	-	-	-	(59)
Offices and Others	3	1	-	-	4
Sales and Developments	(41)	5	-	-	(36)
Hotels	(1)	-	-	-	(1)
International	27	-	-	-	27
Financial Operations, Corporate and Others	(3)	-	-	-	(3)
Total Operations Center in Argentina	(74)	6	-	-	(68)
Operations Center in Israel					
Real Estate	46	-	-	-	46
Supermarkets	(52)	-	-	-	(52)
Telecommunications	(36)	-	-	-	(36)
Insurance	-	-	-	-	-

Others	(154)	-	-	-	(154)
Total Operations Center in Israel	(196)	-	-	-	(196)
Total other operating results, net	(270)	6	-	-	(264)

Year ended on June 30, 2016 (recast)

Other operating results, net	Income statement	Interest in joint ventures	Expenses and collective promotion fund	Inter-segment eliminations	Segment-reporting
Operations Center in Argentina	(in millions of	of Ps.)			
Shopping Malls	(61)	(2)	-	-	(63)
Offices and Others	(7)	-	-	1	(6)
Sales and Developments	(42)	4	-	4	(34)
Hotels	(2)	-	-	-	(2)
International	92	-	-	-	92
Financial Operations, Corporate and Others	1	-	-	-	1
Total Operations Center in Argentina	(19)	2			