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Gross profit

17,928 38,984 179,154 136,714 53,721 608 427,109

Gain from valuation of inventories at net realizable value

20,737 20,737

Selling expenses

(12,846) (4,376) (22,346) (61,966) (12,175) (113,709)

Administrative expenses

(19,624) (16,827) (32,717) (45,366) (26,893) (141,427)

Net income from retained interest in securitized receivables

3,254 3,254

(Loss) Gain from operations and holdings of real estate assets, net

(18) 1,845 741 2,568

Operating income

6,177 19,626 124,832 32,636 14,653 608 198,532

Amortization of goodwill

286 1,044 (2,802) (1,472)

(Loss) Gain on equity investees

(491) (818) (412) 41,747 40,026

Financial results, net

(7,088) (6,256) (28,190) 825 (5,268) 50,076 4,099

Other (expenses) income, net

(6,382) 3,034 160 (10,912) (14,100)

(Loss) Income before taxes and minority interest

(1,116) 14,414 86,640 36,495 9,133 81,519 227,085

Income tax and MPIT

(11,786) (1,987) (40,798) (15,455) (3,102) (14,411) (87,539)

Minority interest

(4) (326) (22,000) (8,719) (1,400) (32,449)

Net (loss) income

(12,906) 12,101 23,842 12,321 4,631 67,108 107,097

Acquisitions of fixed assets and intangible assets

2,895 263,104 157,857 57,115 480,971

Depreciation and amortization (b)

39 16,256 67,046 1,297 12,358 96,996

Non-current investments in affiliated companies

306,853 306,853

Operating assets

508,742 675,321 1,336,166 139,657 202,113 2,861,999

Non-operating assets

30,516 24,662 39,073 18,771 6,318 1,163,560 1,282,900

Total assets

Ps. 539,258 Ps. 699,983 Ps. 1,375,239 Ps. 158,428 Ps. 208,431 Ps. 1,163,560 Ps. 4,144,899

Operating liabilities

31,472 83,073 199,616 165,713 23,304 503,178

Non-operating liabilities

278,615 247,763 734,370 44,722 153,117 86,010 1,544,597

Total liabilities

Ps.310,087 Ps.330,836 Ps.933,986 Ps.210,435 Ps.176,421 Ps.86,010 Ps.2,047,775

(a) Includes offices, commercial and residential premises.
(b) Included in operating income.

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

As of and for the year ended June 30, 2006:

	Development and sale of properties	Office and other non-shopping center rental properties (a)	Shopping centers	Credit card operations	Hotel operations	Financial operations and others	Total
Revenues	Ps. 103,966	Ps. 30,565	Ps. 215,003	Ps. 122,969	Ps. 103,763	Ps. 1,414	Ps. 577,680
Costs	(54,200)	(8,987)	(77,382)	(43,933)	(57,971)	(1,358)	(243,831)
Gross profit	**49,766**	**21,578**	**137,621**	**79,036**	**45,792**	**56**	**333,849**
Gain from valuation of inventories at net realizable value	9,063						9,063
Selling expenses	(1,797)	(1,020)	(15,700)	(30,900)	(10,688)		(60,105)
Administrative expenses	(12,807)	(11,315)	(25,837)	(25,925)	(20,998)		(96,882)
Net income from retained interest in securitized receivables				2,625			2,625
Gain from operations and holdings of real estate assets, net	52	2,619	9,499		446		12,616
Operating income	**44,277**	**11,862**	**105,583**	**24,836**	**14,552**	**56**	**201,166**
Amortization of goodwill			(856)	(224)			(1,080)
(Loss) Gain on equity investees			(1,599)		146	43,110	41,657
Financial results, net	(5,383)	(4,579)	(23,273)	106	(1,935)	(5,862)	(40,926)
Other expenses, net			(9,636)	(125)	(415)	(8,087)	(18,263)
Income before taxes and minority interest	**38,894**	**7,283**	**70,219**	**24,593**	**12,348**	**29,217**	**182,554**
Income tax and MPIT	(2,053)	(2,451)	(40,220)	(8,238)	(3,852)	(1,977)	(58,791)
Minority interest		(1,077)	(14,582)	(7,374)	(4,157)		(27,190)
Net income	**36,841**	**3,755**	**15,417**	**8,981**	**4,339**	**27,240**	**96,573**
Acquisitions of fixed assets and intangible assets	619	320	29,524	3,586	20,070		54,119
Depreciation and amortization (b)	253	7,903	62,337	815	9,671		80,979
Non-current investments in affiliated companies			129			265,082	265,211
Operating assets	386,740	359,725	1,139,767	74,148	145,796		2,106,176

Non-operating assets	49,624	46,158	18,536	10,655	13,310	495,662	633,945
Total assets	Ps. 436,364	Ps. 405,883	Ps. 1,158,303	Ps. 84,803	Ps. 159,106	Ps. 495,662	Ps. 2,740,121
Operating liabilities	15,183	52,688	129,653	97,969	21,281		316,774
Non-operating liabilities	81,414	72,126	243,303	13,272	59,030	18,447	487,592
Total liabilities	Ps. 96,597	Ps. 124,814	Ps. 372,956	Ps. 111,241	Ps. 80,311	Ps. 18,447	Ps. 804,366

(a) Includes offices, commercial and residential premises.
(b) Included in operating income.

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Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

As of and for the year ended June 30, 2005:

	Development and sale of properties	Office and non-shopping center rental properties (a)	Shopping centers	Credit card operations	Hotel operations	Financial operations and others	Total
Revenues	Ps. 32,311	Ps. 19,431	Ps. 165,529	Ps. 64,558	Ps. 87,120	Ps. 940	Ps. 369,889
Costs	(17,542)	(7,746)	(69,781)	(23,102)	(48,924)	(979)	(168,074)
Gross profit (loss)	**14,769**	**11,685**	**95,748**	**41,456**	**38,196**	**(39)**	**201,815**
Gain from valuation of inventories at net realizable value	17,317						17,317
Selling expenses	(1,961)	(922)	(10,655)	(13,496)	(9,792)		(36,826)
Administrative expenses	(10,080)	(9,771)	(16,548)	(14,837)	(19,434)		(70,670)
Net income from retained interest in securitized receivables				423			423
Gain from operations and holdings of real estate assets, net	521	12,228	13,093		2,096		27,938
Operating income (loss)	**20,566**	**13,220**	**81,638**	**13,546**	**11,066**	**(39)**	**139,997**
Amortization of goodwill			(1,421)	(242)			(1,663)
(Loss) Gain on equity investees			(1,989)		12,197	56,999	67,207
Financial results, net	(5,633)	(4,127)	(17,380)	96	(4,189)	19,385	(11,848)
Other (expenses) income, net			(8,371)	56	223	(5,997)	(14,089)
Income before taxes and minority interest	**14,933**	**9,093**	**52,477**	**13,456**	**19,297**	**70,348**	**179,604**
Income tax and MPIT	(13,089)	(1,784)	(28,751)	(4,864)	(1,179)	(3,540)	(53,207)
Minority interest		(2,112)	(16,317)	(899)	(3,824)		(23,152)
Net income	**1,844**	**5,197**	**7,409**	**7,693**	**14,294**	**66,808**	**103,245**
Acquisitions of fixed assets and intangible assets		20,370	48,458	2,463	8,025		79,316
	252	6,672	57,885	458	8,824		74,091

Depreciation and amortization (b)							
Non-current investments in affiliated companies			808			219,432	220,240
Operating assets	343,803	364,420	1,093,242	31,538	133,035		1,966,038
Non-operating assets	55,442	58,766	3,586	7,092	2,136	431,366	558,388
Total assets	Ps. 399,245	Ps. 423,186	Ps. 1,096,828	Ps. 38,630	Ps. 135,171	Ps. 431,366	Ps. 2,524,426
Operating liabilities	11,040	68,129	99,139	48,776	20,313		247,397
Non-operating liabilities	96,332	72,266	296,788	11,365	44,735	57,475	578,961
Total liabilities	Ps. 107,372	Ps. 140,395	Ps. 395,927	Ps. 60,141	Ps. 65,048	Ps. 57,475	Ps. 826,358

(a) Includes offices, commercial and residential premises.
(b) Included in operating income.

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

7. Gain from operations and holdings of real estate assets, net:

	Year ended June 30, 2007	2006	2005
Gain from operation and holdings of real estate assets, net	Ps. 2,568	Ps. 12,616	Ps. 27,938
	Ps. 2,568	Ps. 12,616	Ps. 27,938

8. Financial results, net:

	Year ended June 30, 2007	2006	2005
Generated by assets:			
Net unrealized gain on investments and others	Ps. 53,441	Ps. 10,782	Ps. 17,752
Interest income	22,197	12,312	4,870
Gain on derivative instruments (Note 14)	665	2,942	6,533
Interest on discounting assets	(31)	456	173
Foreign exchange (loss) gain	(4,893)	21,546	(3,519)
	Ps. 71,379	Ps. 48,038	Ps. 25,809
Generated by liabilities:			
Interest expense and others (Note 29.f.)	Ps. (66,642)	Ps. (49,710)	Ps. (47,232)
Foreign exchange (loss) gain	(749)	(39,274)	7,504
Interest on discounting liabilities	111	20	(134)
Discounts			2,205
	(67,280)	(88,964)	(37,657)
Financial results, net	Ps. 4,099	Ps (40,926)	Ps. (11,848)

9. Other expenses, net:

	Year ended June 30, 2007	2006	2005
Other income:			
Recovery of allowance for doubtful accounts, net	Ps. 3,127	Ps. 8	Ps. 78

Easement income (i)		2,428	
Other	1,892	822	615
	Ps. 5,019	Ps. 3,258	Ps. 693
Other expenses:			
Provision for contingencies	Ps. (3,031)	Ps. (373)	Ps. (2,312)
Tax on shareholders personal assets	(7,110)	(5,848)	(6,977)
Donations	(7,390)	(2,921)	(4,203)
Recovery (loss) on fire damages (net of insurance recoveries)	1,773	(5,788)	
Unreimbursed expenses	(298)	(1,743)	
Unrecoverable VAT	(2,252)	(2,743)	(839)
Other	(811)	(2,105)	(451)
	(19,119)	(21,521)	(14,782)
Other expenses, net	Ps. (14,100)	Ps. (18,263)	Ps. (14,089)

(i) As of June 30, 2006, the charge relates to the termination of the easement agreement with Riocruz S.C.S. On February 2, 1999, Mendoza Plaza Shopping S.A. had entered into an easement agreement with one anchor tenant, C&A, for an aggregate purchase price of US$ 2.9 million. Easement revenue was amortized to income under the straight-line method over the term of the agreement. In September 2005, Mendoza Plaza Shopping S.A. acquired from Riocruz S.C.S. the retail space where the C&A store was located, and consequently, the easement agreement was terminated.

IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

10. Issuance of IRSA Notes

a) Convertible Notes

On November 21, 2002, the Company issued US$ 100 million of 8% Convertible Notes due 2007 (the IRSA Convertible Notes) with non-detachable warrants to acquire additional shares of common stock (the Warrants) in exchange for US$ 85.0 million in cash and the settlement of certain liabilities (See Note 4.i.). In accordance with the agreement, the IRSA Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares of the Company. The agreement provides for an original conversion price of US$ 0.55713, which only can be adjusted as a result of anti-dilution provisions. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of US$ 0.66856 per share. The exercise price of the warrants is also adjusted as a result of anti-dilution provisions. Under Argentine GAAP no proceeds were allocated to the conversion feature and warrants. Proceeds from the issuance of the IRSA Convertible Notes were mainly used to the settlement and restructuring of the debts outstanding at that date and for working capital needs.

As a result of the distribution of treasury shares approved by the shareholders in November 2002, effective December 20, 2002 the conversion price and the warrants exercise price was decreased to US$ 0.54505 and to US$ 0.65406, respectively.

During the years ended June 30, 2003, 2004, 2005, 2006 and 2007, certain holders of IRSA Convertible Notes (aggregating US$ 81.1 million) exercised their conversion rights and, as a result, the Company issued 12,531 shares, 23,734,388 shares, 52,448,952 shares, 55,961,675 shares and 16,640,658 shares of common stock, respectively. During the years ended June 30, 2004, 2005, 2006 and 2007, the Company also issued 104,171,679 shares of common stock in exchange for US$ 68.1 million in cash as a result of the exercise of warrants. As of June 30, 2007, the outstanding balance of the IRSA Convertible Notes amounted to US$ 18.9 million.

b) Issuance of Non-Convertible Note

In February 2007, the Company issued US$ 150.0 million of Non-Convertible Notes (the Non-Convertible Notes) due February 2017 under the Global Program for up to US$ 200 million authorized by the CNV in December 2006. The Non-Convertible Notes bear interest at a fixed rate of 8.5% per annum. The Non-Convertible Notes pay interest in cash semi-annually in arrears on February 2 and August 2 of each year, beginning on August 2, 2007. Principal on the Non-Convertible Notes is fully paid at maturity.

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

11. Balances and transactions with related parties

The following is a summary of the balances and transactions with related parties:

Company	Relation	Description of Transaction/caption	Income (loss) included in the statement of income for the year ended June 30, 2007	2006	2005	Balance receivable (payable) as of June 30, 2007	2006
Red Alternativa S.A.	Subsidiary of ITNV, equity investee of the Company (sold in 2006)	Rental Income	Ps.	Ps.	Ps. 168	Ps.	Ps.
		Sales and Developments			30		
Altocity.com S.A.	Subsidiary of E-Commerce Latina S.A., an equity investee of the Company	Other receivables and prepaid expenses (current)					596
		Other liabilities (current)					(471)
		Rental income			19		
		Sales and developments		2	30		
		Trade accounts payable (current)					(1)
Alternativa Gratis S.A.	Subsidiary of ITNV, equity investee of the Company	Sales and development			38		
Hoteles Sheraton de Argentina S.A.C.	Shareholder of HASA, subsidiary of the Company	Other liabilities (current)				(452)	(77)
		Other liabilities (non current)				(232)	
BHSA	Equity investee of the Company (i)	Other receivables and prepaid expenses (current)				113	
		Investments (current)				2,073	2,704
		Results from holding and operations	12	49			
		Short term debts					(2)
		Long term debts					(22)
		Other liabilities (current)				(56)	
BACSA	Equity investee of the Company and subsidiary of BHSA (i)	Mortgages and leases receivables, net (current)				56	23
						430	133

Cresud S.A.C.I.F. y A.	Shareholder of the Company	Mortgages and leases receivables, net (current)					
		Other receivables and prepaid expenses (current)				1,895	878
		Trade accounts payable (current)				(232)	(1,550)
		Trade accounts payable (non-current)				(41)	(150)
		Other liabilities (current)				(919)	
		Short and long-term debts-IRSA Convertible Notes				(37,495)	(37,411)
		Accrued interest	(2,960)	(7,124)	9,965		
		Sales and developments	2,146	607	405		
		Cost of services	(390)		(53)		
Dolphin Fund Management S.A.	Related party (iii)	Accrued interest	1,400				
		Results from holding and operations	46,817	(32)	16,269		
Dalor	Related company of a minority shareholder of Tarshop	Other Liabilities (current)					(100)

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

Company	Relation	Description of Transaction/caption	Income (loss) included in the statement of income for the year ended June 30, 2007	2006	2005	Balance receivable (payable) as of June 30, 2007	2006
E-Commerce Latina S.A.	Equity investee	Other receivables and prepaid expenses (current)	Ps.	Ps.	Ps.	Ps.	Ps. 25
		Investments (non-current)					129
Estudio Zang (legal advisory)	Shareholders of law firm are directors of the Company	Cost of legal services	(3,286)	(1,612)	(1,083)		
		Trade accounts payable (current)				(303)	(179)
Grupo Sutton	Shareholder of Llao Llao Resorts S.A., subsidiary of the Company	Accrued interest		(244)			
		Other liabilities (current)				(18,221)	(118)
		Other liabilities (non-current)				(10,826)	(6,875)
		Other receivables and prepaid expenses (current)				26,652	
Fundación IRSA	(iv)	Donations	(2,543)	(2,597)	(4,053)		
		Sales and developments		14			
		Mortgages and leases receivables, net (current)				14	14
		Other receivables and prepaid expenses (current)				4	
Bass Hotels & Resorts BV	Shareholder of Nuevas Fronteras S.A., subsidiary of the Company	Trade accounts payable (current)				(535)	(318)
		Sales and developments		2,629	2,110		
Cactus S.A.	Subsidiary of Cresud S.A.	Other receivables and prepaid expenses (current)				5	
Futuros y Opciones.com S.A.	Subsidiary of Cresud S.A.	Other receivables and prepaid expenses (current)				1	

Managers, Directors and other staff of the Company	(ii)	Mortgages and lease receivables (Director s Guarantee deposits)				101	
		Other receivables and prepaid expenses (current) (personnel loans)				1,266	803
		Other receivables and prepaid expenses (non-current) (personnel loans)				84	51
		Trade accounts payable (current)				(78)	
		Other liabilities (current)				(931)	
		Expenses to be recovered	(520)	8	6		
		Interest and exchange differences	(5)	(7)			
Mendoza Plaza Shopping S.A.		Accrued interest			(80)		
Falabella S.A.	Minority shareholder of Mendoza Plaza Shopping S.A., a subsidiary of the Company	Other liabilities (current)				(959)	(989)
		Other receivables and prepaid expenses (current)				268	164
		Other liabilities (non-current)					(926)
		Accrued interest	(80)	(305)	79		
		Other liabilities - Dividends					
Starwood	Shareholder of HASA, subsidiary of the Company	Other liabilities (current)				(447)	(113)
		Mortgages and leases receivables, net (current)					34
Leon Halac	Minority shareholder of Tarshop S.A., subsidiary of the Company	Other liabilities (current)					(771)

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Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

Company	Relation	Description of Transaction/caption	Income (loss) included in the statement of income for the year ended June 30, 2007	2006	2005	Balance receivable (payable) as of June 30, 2007	2006
Consultores Assets Management S.A.	(v)	Mortgages and leases receivables, net (current)	Ps.	Ps.	Ps.	Ps. 193	Ps. 75
		Other receivables and prepaid expenses (current)				48	13
		Trade accounts payable (current)					(1)
Metronec S.A.	Metroshop S.A. shareholder	Other liabilities (current)				(729)	(1,242)
		Trade accounts payable (current)					(855)
Metroshop S.A.	Subsidiary of Tarshop S.A., subsidiary of APSA	Other receivables and prepaid expenses (current)				8,320	4,057
		Trade accounts payable (current)					
		Other liabilities (current)				(2,226)	
Museo de los Niños	Related party	Other receivables and prepaid expenses (current)				57	6
		Montages and leases receivables (current)				21	
Parque Arauco S.A.	Shareholder of APSA	Accrued interest	(4,887)	(7,787)	(4,035)		
		Short term debt (current)				(2,124)	(2,158)
		Long term debt (non-current)				(47,856)	(47,748)
Directors	Related party	Other liabilities, accrual for directors fees					
		Administrative expenses	(14,727)	(14,859)	(11,168)		
		Other liabilities (current) (Director s fees)				(13,089)	(13,478)
		Short term debt (current)				(1)	(1)
		Long term debt (non-current)				(41)	(41)
		Mortgages and leases receivables, net				72	8

	(current)		
	Other liabilities (current)	(519)	
	Other liabilities (non-current)	(12)	
ECIPSA Holding S.A.	Mortgages and leases receivables, net (current)	23	8
	Other liabilities (current)	(223)	(25)
	Other receivables (current)	275	
	Trade accounts Payable (current)	(1)	

(i) The Company is a shareholder of BHSA and Banco de Crédito y Securitización S.A.
(ii) The Company provided loans and advances to employees, the balances of which amounted to Ps. 1,386 and Ps. 854 as of June 30, 2007 and 2006, respectively. Such balances are to be repaid via scheduled payroll deductions.
(iii) An open -ended investment fund which is related to our chairman Eduardo Elsztain.
(iv) A not-for-profit organization whose chairman is Eduardo Elsztain.
(v) A shareholder and director of Cresud (Shareholder of the Company) own 85% of the capital stock of Consultores Asset Management S.A. (CAM). Remaining 15% is owned by Cresud s first vice chairman of Board.

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements

for the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

		Description	Sale of goods and/or services for the year ended June 30,			Purchase of goods and/or services for the year ended June 30,		
Company	**Relation**	**of transaction**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
BACSA	Equity investee of the Company and subsidiary of BHSA	Expenses recovery	48					
Cresud S.A.C.I.F. y A.	Shareholder of the Company	Shared services	734	257	222	173	116	86
Cresud S.A.C.I.F. y A.	Shareholder of the Company	Expenses recovery	130	150	89	145	66	9
Cresud S.A.C.I.F. y A.	Shareholder of the Company	Director s fees			41			
Fundación IRSA	(i)	Director s fees	14	14				
Consultores Assets Management S.A.	(ii)	Expenses recovery	50	34				
Personnel	Employees	Interests	9	8	6			

(i) A not-for-profit organization whose chairman is Eduardo Elsztain.

(ii) A shareholder and director of Cresud (Shareholder of the Company) own 85% of the capital stock of CAM. Remaining 15% is owned by Cresud s first vice chairman of Board.

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(Amounts in thousands, except share data and as otherwise indicated)

12. Additional information on assets and liabilities

The breakdown of main assets and liabilities as of June 30, 2007 is as follows:

	To mature in 3 months	To mature between 4 and 6 months	To mature between 7 and 9 months	To mature between 10 and 12 months	To mature in greater than 1 year	Past due	No fixed term Current	No fixed term Non-Current	Total
Assets									
Investments	Ps. 461,062	Ps. 5,962	Ps. 3,721	Ps. 8,702	Ps. 55,683	Ps.	Ps. 158,904	Ps. 617,590	Ps. 1,311,624
Mortgages and leases receivable, net	70,613	16,750	16,920	14,306	42,442	50,894	140		212,065
Other receivables and prepaid expenses	40,149	55,093	6,425	7,063	52,893	2,622	2,733	28,309	195,287
	Ps. 571,824	Ps. 77,805	Ps. 27,066	Ps. 30,071	Ps. 151,018	Ps. 53,516	Ps. 161,777	Ps. 645,899	Ps. 1,718,976
Liabilities									
Trade accounts payable	Ps. 178,531	Ps. 11,793	Ps. 1,743	Ps. 2,357	Ps. 135	Ps. 1,323	Ps. 123	Ps. 40,807	Ps. 236,812
Customer advances	29,385	17,671	16,252	18,367	63,908	4,945	2,190		152,718
Salaries and social security payable	23,443	16	3,301				81		26,841
Mortgage payables	4,588	4,685	4,782	3,483	4,557				22,095
Short and long term debt	75,436	92,479	10,973	17,676	1,217,866		91		1,414,521
Taxes payable	22,092	38,911	746	2,963	2,256			27,300	94,268
Other liabilities	17,612	12,566	19,506	5,044	25,716	567	6,361	13,148	100,520
	Ps. 351,087	Ps. 178,121	Ps. 57,303	Ps. 49,890	Ps. 1,314,438	Ps. 6,835	Ps. 8,846	Ps. 81,255	Ps. 2,047,775

	Accruing interest at a fixed rate Current	Accruing interest at a fixed rate Non-Current	Accruing interest at a variable rate Current	Accruing interest at a variable rate Non-Current	Not accruing interest Current	Not accruing interest Non-Current	Total
Assets							
Investments	Ps. 461,923	Ps.	Ps. 128,515	Ps. 56,370	Ps. 47,913	Ps. 616,903	Ps. 1,311,624
Mortgages and leases receivable, net	2,054	372	4,365	414	163,204	41,656	212,065
Other receivables and prepaid expenses	39,433	21,955	16,829		57,823	59,247	195,287
	Ps. 503,410	Ps. 22,327	Ps. 149,709	Ps. 56,784	Ps. 268,940	Ps. 717,806	Ps. 1,718,976
Liabilities							
Trade accounts payable	Ps.	Ps. 115	Ps. 1,323	Ps.	Ps. 194,547	Ps. 40,827	Ps. 236,812
Customer advances			1,220	3,686	87,590	60,222	152,718
Salaries and social security payable					26,841		26,841
Mortgage payables	17,538	4,557					22,095
Short and long term debt	146,999	1,119,540	31,936	51,210	17,720	47,116	1,414,521

Taxes payable			46	192	64,666	29,364	94,268
Other liabilities	16,414	1,483		15,311	45,242	22,070	100,520
	Ps. 180,951	Ps. 1,125,695	Ps. 34,525	Ps. 70,399	Ps. 436,606	Ps. 199,599	Ps. 2,047,775

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13. Restricted assets

In a series of transactions, which occurred between 1999 and 2000, the Company acquired from an unrelated party, Puerto Retiro, whose sole asset is an undeveloped parcel of land in Retiro, Buenos Aires. Prior to the acquisition by the Company, Puerto Retiro had acquired land from Tandanor S.A. (Tandanor), a formerly state-owned entity, which had been acquired by Inversora Dársena Norte S.A. (Indarsa) in 1991 through a privatization process. The Argentine Government sustained Indarsa had not cancel the outstanding balance of the purchase price of Tandanor, and as a result petitioned the bankruptcy of Indarsa. Since the sole asset of Indarsa was its ownership interest in Tandanor, the Argentine Government was seeking to extend the bankruptcy procedures to any company or individual, which, according to its view, acted as a group, and therefore, in this process requested the bankruptcy of Puerto Retiro and other companies and individuals. In this connection, the bankruptcy court for the Buenos Aires District issued an order restraining the ability of Puerto Retiro to sell or dispose in any manner the land acquired from Tandanor. The Company is vigorously defending against this case. The management and legal advisors of the Company believe that there are legal and technical issues sufficient to consider that the request for bankruptcy will be denied by the court. However, taking the circumstances into account and the progress of the legal action, this position cannot be considered final. The Company s investment in Puerto Retiro amounts to Ps. 54.9 million at June 30, 2007.

During fiscal year 2003, the Company acquired a parcel of land in Barrio Parque (San Martin de Tours) for US$ 310 in cash plus US$ 750 to be paid through the transfer of title of 25% of future apartments to be built on the land. The Company mortgaged the land in favor of the seller as collateral. The property was transferred in March 2007.

The Company gave a first mortgage on the property identified as Bouchard 710 as guarantee of the amount owed for its purchase. The mortgage payable matures is in May 26, 2008. At June 30, 2007, the mortgage payable amounted to US$ 13,625.

The Company mortgaged certain real estate properties (13 functional units at Libertador 498, 71 complementary units in Laminar Plaza and 19 complementary units in Dique IV) in connection with the issuance of the Collateralized Notes. At June 30, 2007 mortgaged properties had a net book value of Ps. 81.0 million.

The Company gave a mortgage on the plot of land acquired in Bariloche. The mortgage matures is in December 14, 2009. The mortgage payable amounted to US$ 2,800 (see Note 2.f.).

The Company mortgaged the Sheraton Libertador Hotel property as guarantee for the payment of a loan obtained by Hoteles Argentinos, a subsidiary of the Company. The property had a net book value of Ps. 33.0 at June 30, 2007. For details of the debt, see Note 23.

At June 30, 2007, the Company had restricted cash amounting to Ps. 1.2 million of which Ps. 0.3 million are related to certain labor lawsuits of the Company and Ps. 0.9 are related to the Llao Llao litigation. Restricted cash is classified within other current receivables and prepaid expenses.

As security for the purchase of Rummaala s shares, the Company has pledged total shares acquired.

As security for the purchase of the plot of land adjacent to Rummaala s property, the Company has set up a first mortgage on a Company s real estate in the amount of US$ 13,253 (see Note 2.f.).

<u>Alto Palermo Group - Restricted assets</u>

a)

Short and long-term debt include Shopping Neuquén S.A. s liability amounting to Ps. 42, corresponding to a mortgage set up on acquired land for Ps. 3,314.

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b) Short and long term debt includes a loan from Banco de la Ciudad de Buenos Aires from Tarshop S.A. (subsidiary of APSA) for Ps. 5.0 million, which is secured by interest in credit card receivables of the Tarjeta Shopping Financial Trusts Series XII, XIV, XVI and XVIII. Additionally, it has granted commercial pledge to Standard Bank (ex Bank Boston N.A.) Sucursal Buenos Aires, as guarantee, Participation Certificates of the Tarjeta Shopping Financial Trusts Series XXI, XXIII, XXV and XXVI for Ps. 11.7 million.

c) Fixed assets include the cinema building located in the Córdoba Shopping Villa Cabrera which is levied with antichresis in rem right due to the financial debt that Empalme S.A.I.C.F.A. y G. has with NAI Internacional II Inc. (See Note 2.f.)

d) In the caption name receivable for trust guarantee fund as credit protection for investors are included the contingency funds of the financial trusts that as of June 30, 2007 amount to Ps. 11.9 million. These are credits of restricted availability up to the time of liquidation, in accordance with the respective prospectus.

e) As of June 30, 2007, under other current receivables, APSA has restricted funds according to the following detail:

I. Ps. 21, in relation to the case Saavedra Walter Ricardo against Alto Palermo S.A. and others about dismissal

II. Ps. 20, in relation to the case La Meridional Cía. de Seguros against Alto Palermo S.A. by collecting in pesos.

III. Ps. 53, in relation to the case Palma Claudio against Alto Palermo S.A. about dismissal .

f) In relation with file number 25,030-I Alto Palermo S.A. against tax authorities on Recourse of Appeal , under court proceedings, the building located in 367 Olegario Andrade Avenue, Caballito, City of Buenos Aires is subject to a legal attachment, such building having a value of Ps. 36.7 million as of June 30, 2007 (recorded in non-current investments - Undeveloped parcels of land).

g) As of June 30, 2007 the amount of Ps. 32.6 million is recorded for pledged shares of Empalme S.A.I.C.F.A. y G.

14. Derivative financial instruments
Option and future contracts to purchase metals

From time to time the Company engages in derivative instrument activity for trading purposes. As of June 30, 2007 the Company has 30 contracts for the purchase of 100 ounces of gold due in December 2007 at an average market price of US$ 0.7. As guarantee for such contracts, the Company has deposits in the amount of US$ 81 (equivalent to Ps. 247). As of June 30, 2006, there were no outstanding future contracts or guarantees or deposits related to derivative financial instruments. As of June 30, 2005, the Company had approximately 35 future contracts to purchase silver at an average price of US$ 0.007075 per ounce with maturities through September 2005. As collateral for these contracts, the

Company maintained deposits amounting to Ps. 358 as of June 30, 2005. The fair market value of these contracts amounted to Ps. (89) as of June 30, 2005. The deposit net of their fair market value was shown within other receivables and prepaid expenses in the accompanying balance sheet. During the years ended June 30, 2007, 2006 and 2005, the Company recognized gains of Ps. 665, Ps. 2,942 and 1,311 related to these contracts.

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15. Mortgage receivable securitization

On November 2, 2001 the Company entered into a securitization program with Banco Sudameris (BS). Under this program, during the year ended June 30, 2002, the Company sold an aggregate amount of US$ 26.6 million mortgage receivables to a trust in exchange for US$ 10.0 million in cash, US$ 3.3 million senior debt certificates (Class A), US$ 2.6 million subordinated debt certificates (Classes B and C) and a US$ 10.7 million equity interest (Class D). Mortgage receivables sold under this program were excluded from accounts receivable in the consolidated financial statements. The Company s retained interest in Class A, B and C debt securities were valued at cost plus accrued interest while the retained interest in Class D securities is accounted for under the equity method. At June 30, 2007 the Company s retained interest in Class D equity security amounted to Ps. 793. Class A, B and C debt certificates had been fully amortized at the end of the year.

16. Tarshop credit card receivables securitization

The Company has ongoing revolving year securitization programs through which Tarshop, a majority-owned subsidiary of APSA, transfers a portion of its customer credit card receivable balances to master trusts that issue certificates to public and private investors.

Under the securitization programs, Trusts may issue two types of certificates representing undivided interests in the Trust - *Títulos de Deuda Fiduciaria* (TDF) and *Certificados de Participación (CP),* which represent debt, and equity certificates, respectively. Interest and principal services are paid periodically to the TDF holders throughout the life of the security. CPs are subordinated securities which entitle the CP holders to share pro rata in the cash flows of the securitized credit card receivables, after principal and interest on the TDFs and other fees and expenses have been paid. During the revolving period no payments are made to TDF and CP holders. Principal collections of the underlying financial assets are used by the Trust to acquire additional credit card receivables throughout the revolving period. Once the revolving period ends, a period of liquidation occurs during which: (i) no further assets are purchased and (ii) all cash collections are used to fulfill the TDF service requirements and (iii) the remaining proceeds are used to fulfill the CPs service requirements.

At the time of the securitization, Tarshop transfers credit card receivables to the trust in exchange for cash and retained interests in the trust (CPs). Part of the proceeds is retained by the trustee and maintained as a cash reserve to serve as collateral for the payment of amounts due on the TDFs. Cash reserves flow back to Tarshop on a monthly basis according to a schedule until all TDFs are fully paid. Cash reserves are stated at cost and are classified as guarantee deposits within the caption Other receivables and prepaid expenses in the accompanying consolidated balance sheets. CPs are carried at their equity value based on financial statements issued by the trusts and classified as investments in the accompanying consolidated balance sheets. Gain or losses on CPs are reported as a component of net income in credit card trust. Tarshop recognizes a result on the sale of receivables when the carrying value of transferred credit card receivables differs from the amount of cash and CPs received. Results recognized on the sale of receivables are reported as a component of Net income from retained interest in securitized receivables in the accompanying statements of income. Expenses related to the securitization of receivables are expensed as incurred.

At June 30, 2007 the Company has twenty securitization programs outstanding, pursuant to which Tarshop has sold an aggregate amount of Ps. 751.7 million of its customer credit card receivable balances to Trusts in exchange for Ps. 642.0 million in cash proceeds, Ps. 43.3 million variable rate interest TDFs, and Ps. 66.4 million nominal value subordinated CPs. Under the securitization programs, the Trusts issued Ps. 27.5 million 10.25% fixed-rate interest TDFs, Ps. 18.2 million 11.50% fixed-rate interest TDFs, Ps. 60.5 million 12.00% fixed-rate interest TDFs, Ps. 253.40 million 12.50% fixed-rate interest TDFs and Ps. 282.4 million 13.00% fixed-rate interest TDFs. Except for certain TDFs acquired by Tarshop as mentioned above, the TDFs were sold to other investors through a public offering in Argentina. As mentioned above, as a credit protection for investors, the trusts has established cash reserves for losses amounting to Ps. 11.9 million.

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17. Income tax and MPIT

The Company accounts for income taxes using the deferred tax method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

Income tax expense for the years ended June 30, 2007, 2006 and 2005 consists of the following:

	2007	2006	2005
Current income and MPIT expense	Ps. 49,751	Ps. 51,858	Ps. 45,792
Deferred income tax expense	37,788	6,933	7,415
Income and MPIT expense	Ps. 87,539	Ps. 58,791	Ps. 53,207

The tax effects of temporary differences that give rise to the Company s deferred tax assets and liabilities at June 30, 2007 and 2006 are presented below:

	Balances as of beginning of year	Changes for the year	Balances at year-end
Deferred tax assets (liabilities):			
Cash equivalents	Ps.	Ps. 583	Ps. 583
Investments	(10,011)	(14,853)	(24,864)
Accounts receivable	5,747	3,894	9,641
Other receivables and prepaid expenses	(8,733)	68,296	59,563
Inventory	(7,002)	(19,847)	(26,849)
Fixed assets	(14,559)	(15,290)	(29,849)
Intangible assets	(630)	428	(202)
Short-term and long-term debt	(71)	(4,944)	(5,015)
Liabilities	10,613	(1,139)	9,474
Tax loss carryforwards (i)	90,808	(81,843)	8,965
Valuation allowance	(30,271)	26,926	(3,345)
Net deferred income tax asset (liability)	Ps. 35,891	Ps. (37,789)	Ps. (1,898)

(i) Includes the effect of deferred taxes of the acquisition of Empalme and the PAMSA transaction, which do not impact earnings of the year.

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Income tax expense for the years ended June 30, 2007, 2006 and 2005 differed from the amounts computed by applying the Company s statutory income tax rate to pre-tax income as a result of the following:

	Years ended June 30,		
	2007	**2006**	**2005**
Pretax income	Ps. 227,085	Ps. 182,554	Ps. 179,604
Statutory income tax rate	35%	35%	35%
Income tax expense at statutory tax rate on pretax income	79,480	63,894	62,861
Non-deductible expenses	5,888	4,416	(1,930)
Gain on equity investees	(14,009)	(14,580)	(23,522)
Change in valuation allowance	(32,019)	(14,453)	3,005
Inflation adjustment	35,449	17,566	14,365
Others, net	12,750	1,948	(1,572)
Income and MPIT expense	Ps. 87,539	Ps. 58,791	Ps. 53,207

As of June 30, 2007, the Company and its subsidiaries had accumulated tax loss carryforwards of approximately Ps. 14.9 million, which expire at various dates beginning 2007 and ending 2011.

18. Earnings per share

The following tables set forth the computation of basic and diluted net income per share under Argentine GAAP for all years presented:

	Year ended June 30,		
	2007	**2006**	**2005**
Numerator:			
Net income available to common shareholders	Ps. 107,097	Ps. 96,573	Ps. 103,245
Plus: income impact of assumed conversions:			
Interest expense on convertible debt	6,174	11,832	17,856
Foreign currency exchange loss (gain) on convertible debt	38	10,836	(5,250)
Net income available to common shareholders plus assumed conversions	Ps. 113,309	Ps. 119,241	Ps. 115,851
Denominator:			
Weighted-average number of shares outstanding	Ps. 444,904	Ps. 379,506	Ps. 280,282
Plus: incremental shares of assumed conversions:			
Convertible debt and warrants	113,690	143,130	221,098
Adjusted weighted-average number of shares	Ps. 558,594	Ps. 522,636	Ps. 501,380

Basic and diluted EPS:						
Basic EPS	Ps.	0.24	Ps.	0.25	Ps.	0.37
Diluted EPS	Ps.	0.20	Ps.	0.23	Ps.	0.23

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19. Supplementary cash flow information

The following table reconciles the balances included as cash and banks and current investments in the consolidated balance sheets to the total amounts of cash and cash equivalents at the beginning and end of the period shown in the consolidated statements of cash flows:

	As of June 30,		
	2007	**2006**	**2005**
Cash and banks	218,356	103,018	98,244
Current investments	638,351	130,420	113,690
Total cash and banks and current investments as per balance sheet	856,707	233,438	211,934
Less: Items not considered cash and cash equivalents			
- Mutual funds	115,776	54,241	49,638
- Retained interest in transferred credit card receivable	106	184	10,488
- Government bonds	6,620	1,287	4,563
- Retained interest in transferred mortgage receivables	22,104	10,319	558
- Mortgage bonds issued by BHSA	2,073	2,704	3,523
- Other investments	1,505	763	575
Cash and cash equivalents as shown in the consolidated statement of cash flows	708,523	163,940	142,589

20. Shopping Neuquén S.A.

APSA´s subsidiary, Shopping Neuquén S.A.´s sole asset is a 50,000 square meter undeveloped parcel of land located in Neuquén, Argentina, where APSA intends to develop a commercial project including the construction of a shopping center, a hypermarket, a hotel and residential buildings. In June 2001, Shopping Neuquén requested the Neuquén Municipality the extension of original deadlines for the completion of the project and the authorization to sell to third parties certain parcels of the acquired plot. The Municipal Government of Neuquén had originally rejected the request and had declared that the purchase of the plot was void. Accordingly, in January 2003, Shopping Neuquén requested an injunction measure and submitted all pertinent documents sustaining the reasons underlying the delay of the project. Shopping Neuquén also requested permission to submit a new schedule considering the economic situation of the country after the 2002 crisis. Since this new request had also been rejected by the Municipal Government, Shopping Neuquén filed an action before the Supreme Court of Neuquén seeking to declare all municipal decrees and resolutions against the Company null and void. In December 2004, Shopping Neuquén was served notice by the Supreme Court of Neuquén of the rejection of APSA´s subsidiary action against the Municipal Government. Accordingly, Shopping Neuquén filed a petition seeking the case be brought before the National Supreme Court. This petition has not been resolved yet.

In December 2006, Shopping Neuquén signed an agreement of understanding (the Agreement) with the Municipality of Neuquén and the Provincial Government pursuant to which the rescheduling of the project s deadline as well as the sale of parcels to third parties was authorized and accepted. The Municipal Government of Neuquén enacted the ordinance on January 12, 2007. The Agreement provides for the submission of a new urban project and updated environmental studies within 120 days as from the date of the Agreement. The new project and studies were submitted by Shopping Neuquén on March 28, 2007. The Agreement establishes that Shopping Neuquén should submit all construction plans within a 150-day period after approval of the project plan by the Municipal Government. On May 10, 2007, the Municipal Government requested further explanations and delivered comments and recommendations on the project s plan. On July 17, 2007, Shopping Neuquén S.A. answered the Municipal Government´s request and is currently waiting for the Municipal Government´s decision over the feasibility of the project. When the construction plans are approved and registered with the Municipal Government, construction has to begin within a 90-day as from the registration date. The first stage of the project should comprise the construction of 21,000 square meter of the shopping center plus 10,000 square meter of the hypermarket, both to be completed within 22 months as from the commencement of construction. Should the Company default on the Agreement s obligations, the Agreement is declared null and void regardless of any potential actions brought against the Company by the Municipal and Provincial Governments.

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21. Llao Llao Resorts

LLao Llao Holdings S.A. (LLH) (in liquidation process following the merger with and into the Company), predecessor of Llao Llao Resorts (LLR), as operator of the Llao Llao Hotel was sued in 1997 by the National Parks Administration (NPA), a governmental entity, seeking collection of US$ 2,870 in Argentine External Debt Bonds (EDB) relating to the unpaid balance of the additional sales price. The Court of First Instance sustained the demand. The Company appealed the sentence but it was rejected by the Court of Appeals which demanded the Company to pay NPA an amount of US$ 3,799 including interest, penalties and attorney s fees. In March 2004, LLH paid NPA $9,156 in cash and Argentine EDBs. In June 2004, NPA rejected the payment alleging that the amount deposited by LLH represented a partial payment and demanded that LLH made a 30-day renewable time deposit of that amount until the total debt was satisfied. The Court requested LLH to make the time deposit until the case is sentenced. Based on the Company s legal counsel, the Company reserved Ps. 4,561 (based on the difference between the amount paid and the claimed amount). All but one of the plaintiff s six attorneys filed a motion demanding their fees to paid in US dollars and not in Argentine pesos. The Court sustained the claim and restricted Company s funds for an amount of Ps. 861. The Company contested vigorously and believes the demand is unjustified and onerous. However, based on the Company s legal counsel, the Company reserved an additional Ps. 1,021 to cover for potential losses on the case for two out of the six attorneys. The Company settled the claim with other three out of the six attorneys and agreed to pay each of them US$ 68 in installments until February 2008. The sixth attorney, who had not appealed the pesification of her fees, filed a motion claiming payment for US$ 95. The Company believes this claim is unjustified based on the sentence dictating the pesification of the fees. The case is still pending resolution. Based on the opinion of the Company s legal counsel, the Company reserved Ps. 155.

22. Investment in Banco Hipotecario S.A.

To help prevent widespread insolvencies, the Argentine government pledged to provide offsetting compensation to banks. The general principles of the compensation scheme were to: (1) maintain the peso value of each bank s net worth, and (2) leave the banks hedged in terms of currency. To that end, the Argentine government issued two types of bonds to banks. BHSA filed a presentation to seek compensation in the amounts of US$ 360,811 in BODEN 2012 compensation bonds and US$ 832,827 in BODEN 2012 coverage bonds. In September 2002 and October 2005, the BCRA credited US$ 344,050 and US$ 16,761 in BODEN 2012 compensation bonds, respectively, as compensation. BODEN 2012 compensation bonds are US-dollar denominated bonds that the BCRA offered to affected banks at a discounted price of Ps. 1.40 plus CER indexation to US$ 1.00, to compensate for the consequences of creating a mismatch between a bank s dollar and peso position as a result of the pesification. In September 2005, the subscription process for BODEN 2012 coverage bonds commenced. As of June 30, 2007, the subscription amounts to US$ 773,531.

In addition, in July 2007 the Bank requested an advance of Ps. 83,012 (through Dossier 27.551/07) to purchase US$ 59,294 in National Government Bonds in US Dollars Libor Due 2012 (BODEN 2012) pursuant to the provisions of Section 29, subsections f) and g) of Decree No. 905/02 of the Executive Branch and regulations.

In order to guarantee the advance to be received, the Bank submitted as collateral a) Secured Bonds (BOGAR) for a face value of Ps. 83,012 and b) Mortgage Securities granted customers of the non-financial private sectors, in Situation 1, equivalent to Ps. 26,163.

As of June 30, 2007, BHSA has an aggregate asset receivable position with the non-financial public sector amounting to Ps. 3,234,211. On the other hand, liabilities from BCRA amount to Ps. 180,590, representing advances to subscribe BODEN 2012 bonds. The net exposure to the public sector (without considering liquid assets in BCRA accounts) amounts to Ps. 3,053,621 and Ps. 3,712,157 as of June 30, 2007 and 2006, respectively. BHSA intends to use a portion of the assets receivable with the public sector towards the subscription of BODEN 2012 coverage bonds.

Effective January 1, 2006, Communiqué A 3911 establishes that the exposure to the public sector cannot be higher than 40% of the total assets measured as of the last day of the previous month. On July 9, 2006, Communiqué

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A 4546 established that such limit be reduced to 35% effective July 1, 2007. BHSA´s exposure to the public sector principally arises from the government s compensation for the asymmetric pesification. BHSA´s exposure was 31% and 41% as of June 30, 2007 and 2006, respectively.

23. Hoteles Argentinos mortgage loan

On January 5, 2001, the Extraordinary Shareholders Meeting of Hoteles Argentinos (HASA), subsidiary of the Company, entered into a long-term mortgage loan (the Mortgage Loan) with Bank Boston N.A. for US$ 12,000, the proceeds of which were used to refinance existing debt. The loan was payable in 19 quarterly installments of US$ 300 each and a final payment of US$ 6,300 at maturity in January 2006. Following the crisis in Argentina, HASA defaulted on the loan after January 26, 2002. In March 2004, Bank Boston N.A. notified HASA of the loan assignment in favor of Marathon Master Fund Ltd. (MMF). In December 2004, the Company repurchased the loan from MMF and subsequently, in March 2005, sold the loan to Credit Suisse International (CSI). In April 2006, HASA and CSI entered into an agreement to revise the terms of the Mortgage Loan (the Revised Mortgage Loan). Under the Revised Mortgage Loan, HASA paid US$ 2,000 as a partial payment. The remaining principal balance is payable as follows: US$ 213 on March 15, 2008; US$ 225 on September 15, 2008; US$ 239 on March 15, 2009; US$ 253 on September 15, 2009 and US$ 5,070 on March 15, 2010. Interest was payable at a fixed rate of 12.07% per annum for the period March 15, 2006 through September 15, 2006. As from September 15, 2006, interest is payable semi-annually in arrears at a rate of six-month LIBO plus 7%. As part of the restructuring of the debt, a deed was signed between the Company and HASA s creditor, CSI, for the 80% of the value of the reorganized debt where the Company guarantees the fulfillment of HASA s debt. As a reward for the guarantee, the Company charges an interest at 6-month LIBOR plus 450 basis points.

24. Damages in Alto Avellaneda

On March 5, 2006, one of the shopping centers of APSA, Alto Avellaneda Shopping Mall was affected by a fire caused by an electrical failure in one of the stores. The fire produced no injuries to persons, or casualties, but caused significant damages to the property. The total area damaged by the fire represented 36 stores or 15.7% of the square meters built. The area was reopened for normal business between June and August 2006. APSA carries insurance coverage which covers fire damage. Days after June 30, 2007 part of the liquidation process related with the reconstruction work has been finished. The final indemnification amount obtained for this item amounts to Ps. 6.8 million. As of the issuance date of the financial statements, the final liquidation process is pending because of other items in the policies mentioned above, and the amount of Ps. 0.3 million has been collected as early payment.

25. Compensation plan for executive management

During fiscal year 2007, the Company s subsidiary APSA has developed a special compensation plan for its key managers (the Plan) by means of contributions to be made by the employees and by APSA.

Such Plan is directed to key managers and aims to retain them by increasing their total compensation package, granted to those who have met certain conditions. Participation and contributions under the Plan are voluntary. Once the invitation to participate has been accepted by the employee (the Participant), he/she is required to make two kinds of contributions: monthly contributions (salary based) and extraordinary contribution (annual bonus based). The suggested contribution to be made by Participants is up to 2.5% of their monthly salary and up to 15% of their annual bonus.

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This Plan is intended to improve the compensation benefits of the key management employees who are encouraged to increase his/her compensation package by getting an extraordinary reward at the end of the Plan for those who have met certain conditions mentioned below.

APSA´s contribution will be 200% of the employees´ monthly contributions and 300% of the extraordinary employees contributions.

The funds arising out of the Participants contributions are transferred to a special independent vehicle created and located in Argentina as an Investment Fund approved by the National Securities Commission (CNV). Such funds (including the rents derived thereof) are freely redeemable upon request of the participants.

Funds arising out of contributions made by APSA under the Plan are transferred to another separate and independent vehicle (e.g., a trust fund).

Participants or their assigns, as the case may by, will have access to 100% of the benefits of the Plan (that is, APSA s contributions made on their behalf to the specially created vehicle) under the following circumstances:

(i) ordinary retirement in accordance with applicable labor regulations;

(ii) total or permanent incapacity or disability;

(iii) death.

In case of resignation or termination without good cause, the manager will get the amounts arising out of APSA s contribution only if he or she has participated in the Plan for at least 5 years.

As of June 30, 2007 APSA s contributions amounted to Ps. 0.9 million.

26. Financing and occupation agreement with NAI Internacional II, INC.

As discussed in Note 2.f., the Company acquired Empalme in December 2006. Prior to the Company s acquisition, back in August 1996, Empalme had entered into a Financing and Occupancy Agreement with NAI INTERNACIONAL II, INC. (NAI) (the NAI Agreement) pursuant to which NAI financed the construction of a movie theatre complex and a portion of parking facilities in the Cordoba Shopping for up to US$ 8.2 million. The financing accrued interest at LIBOR plus 1.5%. As part of the NAI Agreement, NAI had the right to occupy a portion of the building for a period of 10 years as from the commencement of NAI operations in October 1997, renewable for four additional periods of 5 years each. Interest payments under the NAI Agreement were to be offset against the lease payments to be received from NAI. The NAI Agreement originally established that in the event that any outstanding loans balance remained unpaid after the total lease period (together with renewals and extensions), the NAI Agreement would be further extended for the lower of a 10-year period or the period necessary to settle the loan. Any unpaid outstanding balance after that extension was to be forgiven by NAI. In July 2002, following the Argentine crisis, the NAI Agreement was amended to, among other matters, (i) pesify the payments, (ii) establish a CER-adjustment indexing clause, and (iii) impose restrictions to Empalme and/or third parties on the use of the space occupied by NAI.

27. Subsequent events

Call option exercised

During August 2007, the Company exercised a call option for the acquisition of the 75% of the capital stock and votes of a company primarily dedicated to the development of a cultural and recreational property in the Palermo neighborhood in the City of Buenos Aires.

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to the years ended June 30, 2007, 2006 and 2005 (continued)

(Amounts in thousands, except share data and as otherwise indicated)

Said option is subject to the accomplishment of certain basic conditions as the approvement of the project by the respective authorities and the acquisition transaction by the Argentine Antitrust Authority, among others, which are pending as of the date of issuance of these financial statements.

The call option price was set in the amount of US$ 0.6 million, which was fully offset as of the date of issuance of these financial statements. Should the conditions above-mentioned timely and properly complied with, the Company will make a total investment of US$ 24.4 million to be performed not before than year 2008.

Acquisition of BankBoston Tower

On August 27, 2007, the Company acquired from an unrelated party the 50% of 31,635 square meter of leasable area office building known as BankBoston Tower for an aggregate purchase price of US$ 54.000. The transaction was fully paid in cash. The Company is in the process of determining the purchase price allocation.

Agreement with Cyrela Brazil Realty S.A.

On August 14, 2007, the Company signed an agreement with Cyrela Brazil Realty S.A. Emprendimentos y Participacoes (CYRELA) under which CYRSA S.A., which will operate under the IRSA- CYRELA brandname, will develop residential projects in Argentina.

Both the Company and CYRELA are publicly traded companies and market leaders in each of their home countries. The companies and their shareholders have built a close and lengthy commercial relationship given past developments they have jointly been involved in such as Brazil Realty S.A. and BrasilAgro, both of them in Brazil. In this new partnership they both bring together their track records and expertise to position CYRSA S.A. as a solid, reliable player in the real estate market.

CYRSA S.A. will develop real estate projects targeted to diverse market segments, comprising high construction quality and a new concept of central infrastructure and amenities that will allow its customers to enjoy a new lifestyle, based on safety, comfort and service. At this stage, CYRSA S.A. will start up its operations with an initial investment of US$ 60 million contributed by both partners on an equal basis.

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Notes to the Consolidated Financial Statements (continued)

(Amounts in thousands, except share data and as otherwise indicated)

28. Differences between Argentine GAAP and U.S. GAAP

The Company s consolidated financial statements have been prepared in accordance with Argentine GAAP and the regulations of the CNV, which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and the Regulation S-X of the SEC.

As discussed in Notes 2.c, in order to comply with regulations of the CNV, the Company discontinued inflation accounting as from February 28, 2003. The application of the CNV regulations represented a departure from Argentine GAAP. However, such departure had not had a material effect on the accompanying consolidated financial statements.

In addition, in accordance with the CNV regulations, deferred income taxes have been accounted for on an undiscounted basis. The CNV resolution represented a departure from Argentine GAAP. Such departure did not have a significant impact on these consolidated financial statements. However, as further discussed in Note 2.e. below, the CPCECABA issued revised accounting standards. One of these standards requires companies to account for deferred income taxes on an undiscounted basis, thus aligning the accounting to that of the CNV. Since the CNV adopted the CPCECABA standards effective for fiscal years beginning January 1, 2006, there is no longer a difference on this subject between Argentine GAAP and the CNV regulations.

I. Differences in measurement methods

The following reconciliation to U.S. GAAP does not include the reversal of the adjustments to the consolidated financial statements for the effects of inflation through February 28, 2003, because the application of this standard represents a comprehensive measure of the effects of price level changes in the Argentine economy.

The principal differences, other than inflation accounting, between Argentine GAAP and U.S. GAAP are described below, together with an explanation, where appropriate, of the method used in the determination of the necessary adjustments.

Reconciliation of net income:

	Year ended June 30,		
	2007	**2006**	**2005**
Net income under Argentine GAAP	**Ps. 107,097**	**Ps. 96,573**	**Ps. 103,245**
U.S. GAAP adjustments:			
Impact of U.S. GAAP adjustments on equity investees (Note 28.I.(a))	4,229	23,753	71,796
Accounting for marketable securities (Note 28.I.(b))	(49,105)	(6,262)	(15,372)
Depreciation of fixed assets (Note 28.I.(c))	541	(1,210)	417
Pre-operating and organization expenses (Note 28.I.(d))	694	1,120	(3,362)
Depreciation and amortization expense (Notes 28.I.(e) and (g))	6,477	2,715	3,290
Securitization accounting (Note 28.I.(f))	2,101	(6,739)	4,168
Present-value accounting (Note 28.I.(h))	(87)	(333)	(345)
Reversal of previously recognized impairment losses (Note 28.I.(i))	1,905	(7,431)	(23,939)
Accounting for convertible notes (Note 28.I.(j))	(2,047)	(6,758)	(8,521)
Reversal of gain recognized on troubled debt restructuring (Note 28.I.(k))	3,756	3,081	4,436
Accounting for real estate barter transactions (Note 28.I.(l))		(44,172)	(14,985)
Reversal of the result from valuation of inventories at net realizable value (Note 28.I.(m))	631	(3,705)	(18,087)

Reversal of capitalized exchange difference (Note 28.I.(w))	(432)		
Revenue recognition real estate (Note 28.I.(x.1))	(1,522)		
Carry forward	Ps. 74,238	Ps. 50,632	Ps. 102,741

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Notes to the Consolidated Financial Statements (continued)

(Amounts in thousands, except share data and as otherwise indicated)

Reconciliation of net income:

	Year ended June 30, 2007	2006	2005
Brought forward	Ps. 74,238	Ps. 50,632	Ps. 102,741
Amortization of fees related to APSA Senior Notes (Note 28.I.(o))			402
Software developed or obtained for internal use (Note 28.I.(p))	5	(101)	(49)
Accounting for increasing rate debt (Note 28.I.(q))	203	(9)	(194)
Debtor s accounting for a modification of convertible debt instruments (Note 28.I.(t))	(161)	(18)	
Deferred revenues insurance & fees (Note 28.I.(v) and (y))	(5,330)	(8,219)	
Revenue recognition deferred commissions (Note 28.I.(x.3))	(2,132)		
Revenue recognition scheduled rent increases (Note 28.I.(x.2))	4,554		
Deferred income tax (Note 28.I.(r))	48,486	40,068	18,460
Minority interest (Note 28.I.(s))	(16,641)	7,593	8,038
Net income under U.S. GAAP	**Ps.103,222**	**Ps. 89,946**	**Ps. 129,398**
Earnings per share under U.S. GAAP (Note 28.II.(i):			
Basic net income per common share	Ps. 0.23	Ps. 0.24	Ps. 0.46
Diluted net income per common share	Ps. 0.20	Ps. 0.23	Ps. 0.31

Reconciliation of shareholders' equity:

	As of June 30, 2007	2006
Total shareholders' equity under Argentine GAAP	**Ps.1,646,714**	**Ps. 1,485,766**
U.S. GAAP adjustments:		
Impact of U.S. GAAP adjustments on equity investees (Note 28.I.(a))	(31,712)	(52,227)
Depreciation of fixed assets (Note 28.I.(c))	(9,691)	(10,232)
Pre-operating and organization expenses (Note 28.I.(d))	(3,309)	(4,003)
Mortgage payable with no stated interest rate (Note 28.I.(e))	(2,029)	(2,029)
Differences in basis related to purchase accounting (Note 28.I.(g.1))	48,197	48,197
Depreciation and amortization expense (Note 28.I.(e) and (g))	17,331	10,854
Securitization accounting (Note 28.I.(f))	3,361	672
Present-value accounting (Note 28.I.(h))	640	727
Reversal of previously recognized impairment losses (Note 28.I.(i))	(117,235)	(119,140)
Accounting for convertible notes (Note 28.I.(j))	466	2,513
Reversal of gain recognized on troubled debt restructuring (Note 28.I.(k))	(6,908)	(10,664)
Accounting for real estate barter transactions (Note 28.I.(l))	(59,838)	(59,838)
Reversal of the result from valuation of inventories at net realizable value (Note 28.I.(m))	(21,161)	(21,792)
Appraisal revaluation of fixed assets (Note 28.I.(n))	(3,953)	(3,953)
Reversal of capitalized exchange difference (Note 28.I.(w))	(432)	
Revenue recognition real estate (Note 28.I.(x.1))	(1,522)	
Software obtained for internal use (Note 28.I.(p))	(174)	(179)

Accounting for increasing rate debt (Note 28.I.(q))		(203)
Debtor s accounting for a modification of convertible debt instruments (Note 28.I.(t))	930	1,091
Deferred revenues insurance & fees (Note 28.I.(v) and (y))	(13,549)	(8,219)
Carry foward	Ps.1,446,126	Ps. 1,257,341

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(Amounts in thousands, except share data and as otherwise indicated)

Brought forward	Ps. 1,446,126	Ps. 1,257,341
Cumulative effect of initial application of SAB 108 (Note 28.I.(y))	(3,755)	
Revenue recognition Deferred commissions (Note 28.I.(x.3))	(2,132)	
Revenue recognition Scheduled rent increases (Note 28.I.(x.2))	4,554	
Deferred income tax (Note 28.I.(r))	(162,487)	(193,581)
Minority interest (Note 28.I.(s))	76,433	94,604
Shareholders' equity under U.S. GAAP	**Ps. 1,358,739**	**Ps. 1,158,364**

Description of changes in shareholders' equity under U.S. GAAP:

	For the year ended June 30, 2007	2006
Shareholders' equity under U.S. GAAP at the beginning of the year	**Ps. 1,158,364**	**Ps. 921,716**
Cumulative effect of the initial application of SAB No. 108 (Note 28.I.(y))	(3,755)	
Issuance of common stock upon conversion of debt and exercise of warrants	29,521	78,181
Additional paid-in-capital common stock	22,951	47,580
Additional paid-in-capital warrants	1,379	12,312
Unrealized gain on available-for-sale securities	30,945	4,042
Unrealized loss on retained interest in securitization programs	(174)	1,043
Unrealized gain on available-for-sale securities on equity investees	16,286	3,544
Net income under U.S. GAAP	103,222	89,946
Shareholders' equity under U.S. GAAP at the end of the year	**Ps. 1,358,739**	**Ps. 1,158,364**

(a) Impact of U.S. GAAP adjustments on equity investees

Under Argentine GAAP, investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method. Under the equity method, the investment is recorded at original cost and periodically increased (decreased) by the investor's proportionate share of earnings (losses) of the investee and decreased by all dividends received from the investor by the investee. The Company applies its percentage ownership interest to the financial statements of its equity method investments prepared under Argentine GAAP. For purposes of this reconciliation, the Company has assessed the impact of U.S. GAAP adjustments on the Argentine GAAP financial statements of its equity investees. For the year ended June 30, 2007, the equity investees of the Company are BHSA, BACSA and Puerto Retiro. The fiscal year 2006 and 2005 also includes E-commerce Latina. Accordingly, the Company recognized a net gain of Ps. 4.2 million, Ps. 23.8 million and Ps. 71.8 million for the years ended June 30, 2007, 2006 and 2005, respectively.

(b) Accounting for marketable securities

Under Argentine GAAP, the Company s investments in mutual funds, government and mortgage bonds are carried at market value, with unrealized gains and losses included in the statement of income.

Under U.S. GAAP, the Company has classified these investments as available-for-sale and carried them at market value with unrealized gains and losses, if any, included in stockholders equity in accordance with Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). The Company's investments are considered available for sale as these securities could potentially be sold in response to needs for liquidity, changes in the availability of and the yield on alternative instruments or changes in funding sources or terms.

During the years ended June 30, 2007, 2006 and 2005, proceeds from the sale of available-for-sale securities were Ps. 1,307.7 million, Ps. 316.3 million and Ps. 284.6 million, respectively. Gross realized gain was Ps. 8.8 million, Ps. 6.7 million and Ps. 0.3 million for the years ended June 30, 2007, 2006 and 2005, respectively.

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(Amounts in thousands, except share data and as otherwise indicated)

The Company s available-for-sale investments consist of the following:

	Cost	Fair Value	Gross unrealized Gain (loss)
June 30, 2005			
Mutual funds	Ps. 40,896	Ps. 41,058	Ps. 162
Dolphin Fund	27,883	46,886	19,003
Mortgage bonds	3,418	3,523	105
Government bonds	4,310	4,563	253
	Ps. 76,507	Ps. 96,030	Ps. 19,523
June 30, 2006			
Mutual funds	Ps. 54,601	Ps. 58,267	Ps. 3,666
Dolphin Fund	27,882	49,976	22,094
Mortgage bonds	2,712	2,704	(8)
Government bonds	1,254	1,287	33
	Ps. 86,449	Ps. 112,234	Ps. 25,785
June 30, 2007			
Mutual funds	Ps. 496,440	Ps. 502,212	Ps. 5,772
Dolphin Fund	27,882	96,687	68,805
Mortgage bonds	2,069	2,073	4
Government bonds	6,311	6,620	309
	Ps. 532,702	Ps. 607,592	Ps. 74,890

(c) Depreciation of fixed assets

Prior to 2007, certain office and apartment buildings of the Company were being depreciated over a useful life of 50 years under Argentine GAAP. For U.S. GAAP purposes, these buildings were being depreciated over a useful life of 40 years. Accordingly, the U.S. GAAP adjustment reflected higher depreciation charges for U.S. GAAP purposes. As a result of this adjustment, the net book value of these assets for U.S. GAAP purposes differs from the book value for Argentine GAAP purposes. As discussed in Note 3.e, in the year ended June 30, 2007, independent appraisers reassessed the appropriateness of the useful lives of the Company s office buildings and other properties. As a result of the work, the remaining useful lives of certain of these properties were reduced and no difference exists in the remaining useful life of these assets between Argentine GAAP and U.S. GAAP . However, due to the different cost base of fixed assets for Argentine GAAP and U.S. GAAP purposes, a U.S. GAAP reconciling item for depreciation still exists.

(d) Pre-operating and organization expenses

Under Argentine GAAP, the Company capitalizes certain costs related to pre-operating activities of the Company s shopping centers and expenses incurred in the organization of subsidiaries. These expenses are generally amortized on a straight-line basis over periods ranging from 3 to 5 years commencing upon the opening of the shopping center and/or launching of a project. Under U.S. GAAP, these expenses are charged to expense as incurred.

(e) Mortgage payable with no stated interest rate

In 1991, the Company obtained a non-interest bearing mortgage with a face value of US$ 3.3 million to acquire a property (Suipacha 652/64). Under Argentine GAAP, the Company did not make any fair value adjustment for this non-interest bearing mortgage. Under U.S. GAAP however, and in accordance with Accounting Principles Board (APB) Opinion No. 21, Interest on Receivables and Payables , the non-interest bearing mortgage held by the Company was recorded at the estimated market value of the note. The Company used an interest rate of 12%, which approximated its weighted-average borrowing rate, in determining the present value of this debt. This mortgage was fully repaid in November 1996. As a result, the carrying value of the acquired property was decreased by Ps. 2.0 million. This adjustment gives rise to differences in depreciation expense.

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(f) Securitization accounting

As discussed in Notes 15 and 16, the Company directly or through subsidiaries enters into two-year revolving-period securitization programs, through which the Company and Tarshop, a majority-owned subsidiary of the Company transferres a portion of its mortgage receivables and credit card receivables to the trusts in exchange for cash and retained interests in the trusts (CPs). Part of the proceeds is retained by the trustee and maintained as a cash reserve to serve as collateral for the payment of amounts due on the TDFs. Cash reserves flow back to the Company on a monthly basis according to a schedule until all TDFs are fully paid.

Under Argentine GAAP, the Company recognizes a gain or loss on the sale of receivables when the carrying value of transferred receivables differs from the amount of cash and CPs received. Results recognized on the sale of receivables are reported as a component of Net income from retained interest in securitized receivables in the accompanying statements of income. Cash reserves are stated at cost and are classified as receivables from trust guarantee funds within the caption Other receivables and prepaid expenses in the accompanying consolidated balance sheets. CPs are carried at their equity value based on financial statements issued by the trusts and are classified as investments in the accompanying consolidated balance sheets. Certain expenses associated with the securitization of receivables are capitalized and amortized over the term of the agreements.

Under U.S. GAAP, the Company adopted Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 140). SFAS No. 140 was issued in September 2000 and replaced, in its entirety, SFAS No. 125. The Company was required to adopt the provisions of SFAS No. 140 prospectively for transactions beginning after March 31, 2001. Although SFAS No. 140 has changed many of the rules regarding securitizations under SFAS No. 125, it continues to require an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. The proceeds of securitized financial assets are allocated to the assets sold, the servicing asset or liability and retained interest, based on their estimated fair values at the transfer date in determining the gain on the securitization transaction. SFAS No. 140 and SFAS No. 125 also require an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service financial assets that have been securitized and amortize it over the period of estimated net servicing income or loss. The Company has not recognized any servicing asset or liability since the estimated fair value of the servicing right was de minimus. In determining the estimated fair value, the Company considered the fees received as compensation for its servicing responsibilities (i.e. the fees received as compensation for the services rendered are similar to those that would be paid to a substitute servicer, should one be required, according to estimated market values).

The retained interests in mortgage and credit card receivables are treated as debt securities classified as available-for-sale in accordance with Statement of Financial Accounting Standards No. 115 (SFAS No. 115), Accounting for Certain Investments in Debt and Equity Securities and are carried at fair value. At the time of securitization, the retained interest is initially recorded at the basis allocated in accordance with SFAS No. 140. This original cost basis is periodically adjusted to fair value, which is based on the discounted anticipated future cash flows on a cash out basis. The cash out method projects cash collections to be received only after all amounts owed to investors have been paid. Adjustments to fair value (net of related deferred income taxes) are recorded as a component of other comprehensive income. SFAS No. 115 also states that for individual securities classified as available-for-sale an enterprise shall determine whether a decline in fair value below the amortized cost basis is other than temporary. In such event, accumulated unrealized losses included in other comprehensive income shall be reclassified into the statement of income. Cash reserves are considered retained interests and as such they are considered in calculating the gain or loss on the sale of receivables under U.S. GAAP.

Provided below is an analysis of the securitization accounting adjustments, including a description of each significant component, where appropriate.

The shareholders equity adjustments represent the difference in the valuation of the Company s retained interests in the trusts related to securitization programs that qualified for sale treatment under U.S. GAAP. Under Argentine GAAP, retained interests in the trusts are carried at their equity value. Under U.S. GAAP those retained interests are considered available-for-sale securities in accordance with SFAS 115 and, as a result, are carried at their estimated fair market value. The U.S. GAAP adjustments affecting shareholders equity at June 30, 2007 and 2006 are as follows:

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Notes to the Consolidated Financial Statements (continued)

(Amounts in thousands, except share data and as otherwise indicated)

	2007	2006
Equity value as reported under Argentine GAAP	Ps. 74,145	Ps. 49,539
Less: retained interests related to securitization programs that did not qualify as a sale under U.S. GAAP	(14,379)	(20,010)
Equity value reported under Argentine GAAP of retained interests related to securitization programs that qualified as a sale under U.S. GAAP	Ps. 59,766	Ps. 29,529
Estimated fair market value of retained interests related to securitization programs that qualified as a sale under U.S. GAAP	63,127	30,201
U.S. GAAP adjustment	**Ps. 3,361**	**Ps. 672**

The U.S. GAAP adjustments affecting net income as reported under Argentine GAAP for the years ended June 30, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Reversal of results recognized under Argentine GAAP(1)	Ps. 3,394	Ps. 1,150	Ps. 2,654
Recognition of results under U.S. GAAP(2)	(1,294)	(7,889)	1,514
U.S. GAAP adjustment	**Ps. 2,100**	**Ps. (6,739)**	**Ps. 4,168**

(1) Includes the reversal of results reported in Net income from retained interest in securitized receivables in the Company s consolidated statements of income as well as the reversal of inflation accounting results reported within Financial results, net in the Company s consolidated statements of income.

(2) Primarily includes the gain or loss recorded on the sale of receivables plus unrealized losses on retained interests considered other-than-temporary.

Regarding receivables transferred in connection with the Company s securitization programs that qualified for sale treatment under U.S. GAAP, neither the Company nor the trustee have responsibility over any shortfall or failure in collecting the receivables which are the source of cash payment for the TDF holders. Furthermore, the agreements relating to the securitization stipulate that the rights of the beneficiaries (TDF holders) will not be affected by any financial or liquidity failure of either the trustee or the Company. The agreements also state that the transfer qualifies as a non-recourse transfer of receivables since if receivables are not collected in full, neither the trustee nor the Company is obligated to use its own cash flows to cover any potential shortfall or collection failure.

The following summarizes the changes in the balance of the Company's retained interest under U.S. GAAP for the years ended June 30, 2007, 2006 and 2005:

	Cost	Estimated unrealized (loss) gain (i)	Fair value
Balance at June 30, 2004	Ps. 12,554	Ps. 3,978	Ps. 16,532
Retained interest in portfolios sold	12,909		12,909
Liquidation of retained interest	(1,977)		(1,977)
Unrealized loss		(376)	(376)

Balance at June 30, 2005	Ps. 23,486	Ps. 3,602	Ps. 27,088
Retained interest in portfolios sold	10,833		10,833
Liquidation of retained interest	(11,999)		(11,999)
Unrealized loss		4,279	4,279
Balance at June 30, 2006	Ps. 22,320	Ps. 7,881	Ps. 30,201
Retained interest in portfolios sold	39,062		39,062
Liquidation of retained interest	(6,725)		(6,725)
Unrealized gain		589	589
Balance at June 30, 2007	Ps. 54,657	Ps. 8,470	Ps. 63,127

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(Amounts in thousands, except share data and as otherwise indicated)

(i) Unrealized gains for the years ended June 30, 2004, 2005, 2006 and 2007 were included as a component of Accumulated Other Comprehensive Income in shareholders equity.

The key economic assumptions used in measuring the fair value of retained interests at the time of and subsequent to a securitization are the estimated cash flows and the discount rate. The estimated cash flows have been discounted at rates that include charges for losses. The following represents the sensitivity of the current fair value of retained interest in securitizations at June 30, 2007 to changes to key assumptions:

	Impact on fair value of a	
	5% interest rate increase	**10% interest rate increase**
Discount rate	Ps. (980)	Ps. (1,898)

The above sensitivities are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

The Company's managed credit card receivables consist of retained interests in mortgage and credit card receivable securitizations and investor's share of securitizations sold to unrelated parties without recourse. The Company records its retained interests in mortgage and credit card receivables securitizations on the consolidated balance sheet.

(g) Purchase accounting

(g.1) Differences in basis relating to purchase accounting

The reconciling item of Ps. 48.2 million relates to various adjustments related to purchase accounting for business combinations which occurred prior to 2001. These adjustments resulted in a difference between the amount of goodwill recorded under Argentine GAAP and U.S. GAAP.

In addition, as discussed in Note 3.c.(ii) a), under Argentine GAAP, the Company followed the guidance in RT No. 18 in accounting for the acquisition of Empalme S.A.I.C.F.A. y G., the remaining 33% interest in Palermo Invest, and the acquisition of two buildings, Bouchard and Dock del Plata. The purchase price was allocated based on the fair value of each component. A portion of the purchase price was allocated to tangible assets considering the value of the property as if it were vacant. In addition, a portion of the purchase price was allocated to below-market leases and in-place leases. No customer relationships were identified as part of the in-place leases. The sum of the individual fair values of the identifiable tangible and intangible assets exceeded the purchase price paid. Under Argentine GAAP, the amount of negative goodwill was fully allocated to reduce the value of intangible assets acquired to zero. The remaining amount of negative goodwill is amortized under the straight-line method over the remaining weighted average useful life at the main tangible assets acquired. Under U.S. GAAP, upon acquisitions of real estate, the Company also assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets, and allocates purchase price based on these assessments. There is no difference between U.S. GAAP and Argentine GAAP in the purchase price allocation process. However, under U.S. GAAP, when negative goodwill exists, eligible assets (tangible and intangible) are subject to pro rata reduction. Accordingly, under U.S. GAAP, a liability for below-market leases and intangible assets for in-place leases amounting to Ps. 28.6 million and Ps. 23.0 million, respectively, were recognized. The fair value of below market leases is recorded as deferred income and amortized as additional lease revenue over the remaining contractual lease period and any renewal option periods included in the valuation analysis. Intangible assets associated with at-market in-place leases are amortized as additional expense over the remaining contractual lease term. There is no USGAAP adjustment to equity for this item. The U.S. GAAP adjustment to net income as described in note 28.I.(g.2) represents the net effect of (i) reversing the amortization of the negative goodwill recorded under Argentine GAAP; (ii) lower depreciation charges on fixed assets under U.S. GAAP, (iii) amortization charges for intangible assets recognized under U.S. GAAP and (iv) amortization of below-market leases.

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Also, in 2006 APSA acquired an additional 2.7% in ERSA. Under Argentine GAAP, the unallocated portion of negative goodwill is amortized over the average remaining useful lives of tangible assets acquired, mainly the shopping center property. Under U.S. GAAP, a pro rata reduction was performed following the guidance in SFAS No. 141. This reduction resulted in lower depreciation charges under U.S. GAAP. Since the amortization of negative goodwill under Argentine GAAP equals the lower depreciation charge of the assets acquired under U.S. GAAP (after pro rata reduction), there is no effect in the U.S. GAAP reconciliation.

(g.2) Purchase accounting Amortization and depreciation expense

This reconciling item includes adjustments related to purchase accounting for business combinations which occurred prior to 2005. These adjustments resulted in a difference between the amount of goodwill recorded under Argentine GAAP and U.S. GAAP. Therefore, the differences in the carrying amount of negative goodwill give rise to differences in depreciation expense. The differences in the carrying amount of goodwill between Argentine GAAP and U.S. GAAP of Ps. 48.2 million gave rise to differences in amortization expense until June 30, 2002. Annual amortization expense recorded in this connection totaled Ps. 5.4 million. Effective July 1, 2002, the Company adopted SFAS No. 142 and, as such, discontinued amortization of goodwill as from that date. Consequently, amortization expense recorded under Argentine GAAP was reversed under U.S. GAAP in the amount of Ps. 5.4 million for all of the years presented.

In addition, the differences in the carrying amount of fixed assets, intangible assets and liabilities (below-market leases) acquired between Argentine GAAP and U.S. GAAP and the reversing of the amortization of the negative goodwill recorded under Argentine GAAP as described above gave rise (i) amortization charges for intangible assets recognized under U.S. GAAP, (ii) higher amortization of deferred revenues (below-market leases), (iii) lower (higher) depreciation charges on fixed assets and (iv) reversing the amortization of the negative goodwill recorded under Argentine GAAP, amounting to a net lower effect of Ps. 1.1 million, Ps. (2.7) million and Ps. (2.1) million during fiscal years 2007, 2006 and 2005, respectively.

(h) Present-value accounting

As indicated in Note 3.i, under Argentine GAAP, certain other tax receivables and liabilities are measured at present-values as of year-end. Under U.S. GAAP, present valuing or discounting of these assets and liabilities is precluded.

(i) Reversal of previously recognized impairment losses

As a result of increases in the fair market value of property, equipment and inventories, undeveloped parcels of land and as required by Argentine GAAP, during 2005, 2006 and 2007 the Company partially reversed impairment losses recognized in 2002 and 2003. Amounts reversed in 2007, 2006 and 2005 amounted to Ps. 2.6 million, Ps. 13 million and Ps. 28.0 million, respectively, given rise to higher depreciation charges under Argentine GAAP. Under U.S. GAAP, reversal of a previously recognized impairment loss is prohibited. When an impairment loss is recognized, the adjusted carrying amount of the asset becomes the new cost basis, which is depreciated over the remaining useful life of the asset. Depreciation expense and sales of properties reversed under U.S. GAAP for the years ended June 30, 2007, 2006 and 2005 amounted to Ps. 4.4 million, Ps. 5.6 million and Ps. 4.1 million, respectively, and are shown netted against the reversal impairment losses under Argentine GAAP.

(j) Accounting for Convertible Notes

As discussed in Note 10, in November 2002, the Company issued US$ 100 million of IRSA Convertible Notes with non-detachable warrants to acquire additional shares of common stock. In accordance with the agreement, the IRSA Convertible Notes are convertible, at any time, at the option of the holder, into a fixed number of common shares. Once converted, the holder has the right to acquire an additional equal number of shares at the exercise price of the warrant. Under Argentine GAAP purposes, no proceeds were allocated to the conversion feature and non-detachable warrants.

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Under U.S. GAAP, the Company applied EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments (EITF No. 00-27), which address how a beneficial conversion amount should be measured when an entity issues a convertible instrument that, if converted, will result in the holder receiving common stock and other equity instruments of the issuer, such as warrants to acquire common stock of the issuer. In EITF No. 00-27, the Task Force reached a tentative conclusion that the intrinsic value of the conversion option should be computed based on a comparison of (a) the proceeds of the convertible instrument allocated to the common stock portion of the conversion option and (b) the fair value at the commitment date of the common stock to be received by the holder upon conversion. The excess of (b) over (a) is the intrinsic value of the embedded conversion option that should be recognized by the issuer at the issuance date for the convertible instrument. In EITF No. 00-27 the Task Force also reached a consensus that the Issue 98-5 model should be modified for convertible instruments that have a stated redemption date to require a discount resulting from recording a beneficial conversion option to be accreted from the date of issuance to the stated redemption date of the convertible instrument, regardless of when the earliest conversion date occurs. EITF 00-27 also states that the entire unamortized discount, if any, remaining at the date of conversion should be immediately recognized as interest expense.

As a result of applying EITF 00-27, under U.S. GAAP the Company allocated Ps. 36,191 of the proceeds received, representing the intrinsic value of the embedded beneficial conversion feature at the commitment date, to additional paid-in capital (Ps. 23,524 net of income tax). The resulting debt discount is being recognized as expense over the term of the Convertible Notes. Upon conversion, warrants are recognized as additional paid-in capital and any unamortized discount is immediately recognized as interest expense. Total discount amortization recognized during the years ended June 30, 2007, 2006 and 2005 totaled Ps. 2,039, Ps. 7,338 and Ps. 8,183, respectively (included accelerated amortization recognized as a result of conversions made during those years). As IRSA Convertible Notes are denominated in U.S. Dollars, the U.S. GAAP adjustment also includes the elimination of exchange rate differences between the Argentine peso and the U.S. Dollar related to the debt discount. Foreign exchange gain (losses) gains reversed under U.S. GAAP totaled Ps. 8, Ps. (580) and Ps. 338 during the years ended June 30, 2007, 2006 and 2005, respectively.

During the years ended June 30, 2007, 2006, 2005 and 2004 certain holders of IRSA Convertible Notes for a total amount of US$ 81.1 million, exercised its conversion rights and, as a result, the Company issued 16,640,658, 55,961,675, 52,448,952, and 23,734,388 shares of common stock, respectively. Upon conversion, during the years ended June 30, 2007, 2006, 2005, 2004 and 2003 the Company issued US$ 9.1 million, US$ 30.5 million, US$ 28.6 million, US$ 12.9 million and US$ 0 of warrants, of which US$ 7 million, US$ 12.1 million and US$ 30.5 million were exercised during fiscal year ended June 30, 2007, 2006 and 2005, respectively. As a result of the conversions and exercises of warrants, under U.S. GAAP the Company has reclassified in 2007 and 2006 a net amount of Ps. 1,379 and Ps. 12,312, respectively from additional paid-in capital of common stock to additional paid-in capital of warrants.

(k) Reversal of gain recognized on trouble debt restructuring

As explained in Note 4.i.(iii) in November 2002 the Company completed the refinancing of certain financial debts amounting to US$ 117 million. Under Argentine GAAP, the restructuring of these debts was treated as an exchange of debt instruments with substantially different terms. As a result, the Company removed the original loans from the consolidated balance sheet and recognized the new debt instruments at their present value discounted at an 8% market interest rate. Gain on restructuring recorded in fiscal year 2003 amounted to Ps. 36.5 million (Ps. 31.7 million net of related expenses). Under Argentine GAAP the Company also recognized a gain of Ps. 7.6 million from interest expense reductions.

For U.S. GAAP purposes, the restructuring of the debt was accounted for in accordance with SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings (SFAS 15), as the creditors made certain concessions due to the financial difficulties of the Company. SFAS No. 15 requires that a comparison be made between the future cash outflows associated with the new debt instruments (including interest), and the recorded amount of the payables at the time of restructuring. Gain on trouble debt restructuring is only recognized when the carrying amount of the payable at the time of restructuring exceeds the total future cash payments specified by the new debt terms. Since the total future cash outflows associated with the new debt instruments exceeded the carrying value of the old debts, no gain on restructuring was recorded under U.S. GAAP. As a result, the carrying amount of the new debt instruments under U.S. GAAP is greater than the amount recorded under Argentine GAAP and a new effective interest rate was determined, which equates the present value of the future cash payments specified by the new debt instruments with the carrying amount of the old debts. Under U.S. GAAP, expenses incurred in a trouble debt restructuring are reported in earnings.

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The adjustment to interest expense recognized under Argentine GAAP according to the new effective interest rate totaled Ps. 3.8 million, Ps. 4.0 million and Ps. 4.0 million for the years ended June 30, 2007, 2006 and 2005, respectively. As the Company s new debt instruments are denominated in US Dollars, the U.S. GAAP adjustment also includes the recognition of exchange rate differences related to the difference in the carrying amount of the debts. Foreign exchange (losses) gains recorded under U.S. GAAP totaled Ps. (0.9) million and Ps. 0.4 million during the years ended June 30, 2006 and 2005, respectively.

As discussed in Note 4.i.(iii) during the year ended June 30, 2004 the Company repurchased US$ 28 million of the Uncollateralized Loan Agreement. As the carrying value under U.S. GAAP of the repurchased debt was greater than the carrying value under Argentine GAAP, under U.S. GAAP the Company recognized a greater gain on repurchase of debt of Ps. 8.7 million.

(l) Accounting for real estate barter transactions

During the years ended June 30, 2007, 2006 and 2005 the Company entered into certain non-monetary transactions with third parties pursuant to which the Company sold parcels of land held for sale in the ordinary course of business in exchange for cash and/or other real estate properties. See Note 4.e. for details of the transactions.

Under Argentine GAAP, these transactions were recorded based on the fair value of the assets involved and, as a result, a gain or loss was recognized at the time of the exchange. As a result, the Company recorded a gain of Ps. 44,172, and Ps. 14,985 for the years ended June 30, 2006 and 2005.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 153, Exchanges of Non-monetary Assets An Amendment of APB Opinion No. 29. SFAS 153 amends APB Opinion No. 29 (Opinion 29), Accounting for Non-monetary Transactions, which was issued in 1973. The amendments made by SFAS 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for non-monetary exchanges of similar productive assets and replaced it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The provisions in SFAS 153 are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, thus are effective for all non-monetary exchanges entered into by the Company for the years ended on and after June 30, 2006.

As discussed in Note 4.e.(ii), in May 2006, DYPSA accepted the option to acquire plot 1.e. of Dique III on an exchange basis. The Company and DYPSA established the price of the transaction in US$ 13,530. As consideration for plot 1.e., DYPSA will deliver housing units, individual storage spaces and parking lots representing an aggregate 31.5% of the housing area of a 40-storey building to be constructed by DYPSA on the plot within a maximum period of 36 months. The Company applied the provisions of SFAS 153 and determined that the transaction has commercial substance, and therefore the transaction should be measured at fair value. However, since there was no down payment involved, the Company would apply the deposit method prescribed by SFAS 66 Accounting for Sales of Real Estate in accounting for this transaction. Under the deposit method, the seller does not recognize any profit, does not record notes receivables, continues to report in its financial statements the property and related liabilities even if it has been assumed by the buyer, and discloses that those items are subject to a sales contract. Accordingly, under U.S. GAAP, the Company reversed in fiscal year ended June 30, 2006 the gain recognized on the transaction and continued to report the property on its balance sheet.

As discussed in Note 4.e.(vi), in May 2006, the Company entered into a barter agreement with Koad pursuant to which the Company exchanged an undeveloped parcel of land for the future delivery of housing units to be constructed by Koad. Both parties valued the transaction in US$ 7,500. As consideration, Koad made a down payment of US$ 50 and will settle the remaining balance through the delivery of units within a maximum period of 1,188 days. The Company also applied the provisions of SFAS 153 and determined that the transaction has commercial substance,

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and therefore the transaction should be measured at fair value. However, since the cumulative payments received by the Company are less than 10% of the sales price, the Company would also apply the deposit method prescribed by SFAS 66 Accounting for Sales of Real Estate in accounting for this transaction, as discussed in the preceding paragraph above. Accordingly, under U.S. GAAP, the Company reversed in fiscal year ended June 30, 2006 the gain recognized on the transaction and continued to report the property on its balance sheet.

Prior to the adoption of SFAS No. 153, under U.S. GAAP, the Company applied the provisions APB Opinion No. 29, Accounting for Non-monetary Transactions (APB 29). APB 29 stated that exchanges of real estate held for sale in the ordinary course of business in exchange for real estate to be sold in the same line of business are transactions not resulting in a culmination of the earnings process (referred to as like-kind exchanges). The recognition of gain on like-kind exchanges depends on whether monetary consideration is received and, if so, how much. If no monetary consideration is involved in the exchange, the property received is recorded at the book value of the property given up and no gain is recorded in the exchange. If monetary consideration is involved in the exchange, the recognition of gain depends on whether the amount of the monetary consideration is less than 25% of the fair value of the exchange. When monetary consideration is less than 25%, the Company should recognize a portion of any gain on the transaction in the ratio of cash received to total consideration (cash plus fair value of the asset received). If monetary consideration is 25% or more of the exchange, the transaction should be allocated between the monetary and nonmonetary component based on the relative fair values of the components at the time of the transaction. Any loss on the exchange should be recognized immediately.

Under U.S. GAAP the barter transactions entered into by the Company prior to July 1, 2005 were accounted for as follows:

The Company recorded the exchange of Cruceros in 2004 at its fair market value since the Company incurred a loss of Ps. 763 in the exchange. As a result no difference existed in accounting for this transaction between Argentine and U.S. GAAP.

In connection with the exchange of Benavidez in 2004, as monetary consideration represented less than 25% of the fair value of the exchange, the Company recognized a pro-rata gain amounting to Ps. 226. As a result, the U.S. GAAP adjustment represents the partial reversal of the gain recognized under Argentine GAAP amounting to Ps. 907.

The Company recorded the exchange of plot 1c) of Dique III in 2005 at the book value of the land given up, thus not recording any gain on the exchange. As a result, the U.S. GAAP adjustment represents the reversal of the gain recognized under Argentine GAAP amounting to Ps. 14,985.

(m) Reversal of the result from valuation of inventories at net realizable value

During fiscal year 2007, 2006 and 2005 the Company signed promissory sales contracts to sell units of Cruceros, Renoir, San Martin de Tours, Villa Hermosa and plot 1d) of Dique III. The pending transfer deeds of those agreements have not been consummated at each year-end. However, as the Company received payments in advance that fixed the sales prices and the terms and conditions of the contracts assure the closing of the transaction and the realization of the gain, under Argentine GAAP the Company valued these inventories at net realizable value. As a result, the Company recognized a gain of Ps. 17,663, Ps. 3,498 and Ps. 18,087 during the years ended June 30, 2007, 2006 and 2005, respectively. Under U.S. GAAP, inventories are valued at acquisition cost. As such, the U.S. GAAP adjustment represents the reversal of the gain recognized under Argentine GAAP in 2007, 2006 and 2005 and the recognition of the gain under U.S. GAAP from deeds executed for the units in 2007 and 2006 of Ps. 18,294 and Ps. 1,534 respectively. In addition in 2006 the Company recognized an exchange gain difference in connection with the receivable recorded under Argentine GAAP in an amount of Ps. 1,741, which under U.S. GAAP was reversed and recognized in 2007 together with the sale of the property.

(n) Appraisal revaluation of fixed assets

Under Argentine GAAP, APSA recognized a parcel of land acquired prior to June 30, 1986 at its appraised value as of such date. This appraisal increased the carrying value of the land by approximately Ps. 4.0 million. Under U.S. GAAP, this parcel of land was recorded at original cost.

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(o) Amortization of fees related to APSA Senior Notes

For the year ended June 30, 2005 under Argentine GAAP, fees and expenses relating to APSA Senior Notes were amortized on a straight-line method over the term of the agreement. Under U.S. GAAP, such costs were amortized over the same period using the effective interest method of amortization. The Senior notes were paid in January and April 2005.

(p) Software developed or obtained for internal use

During the year ended June 30, 2006, under Argentine GAAP, the Company capitalized certain costs amounting to Ps. 0.1 million, which would be expensed under U.S. GAAP pursuant to the provisions of Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1). The U.S. GAAP adjustment for the year 2006 represents the effect net of (i) expenses such costs and (ii) reversal of depreciation charges for 2007 and 2006 and previously capitalized costs under Argentine GAAP and expenses under U.S. GAAP.

(q) Accounting for increasing rate debt

The syndicated loan discussed in Note 4.i.(iv), accrued interest at a fixed rate of 7.875% per annum during the first year and Encuesta variable rate plus 3% thereafter. The outstanding balance of the syndicated loan was fully paid in April 2007. Under Argentine GAAP, interest was recognized based on the interest rate applicable to each interest period. Under U.S. GAAP, the Company followed the guidance in EITF 86-15, Increasing Rate Debt . In EITF 86-15, the Task Force reached a consensus that the borrower's periodic interest cost should be determined using the interest method based on the estimated outstanding term of the debt.

(r) Deferred income tax

The Company accounts for income taxes using the liability method under both Argentine GAAP and U.S. GAAP. Argentine GAAP is similar to the guidance in SFAS No. 109 Accounting for Income Taxes . However, as discussed in Note 2.e, following CNV Resolutions 485 and 487, the Company elected to continue treating the differences between book basis and inflation-adjusted basis of non-monetary balance sheet items as permanent for deferred income tax calculation purposes.

Under U.S. GAAP, the Company applies EITF 93-9, Application of FASB Statement No.109 in Foreign Financial Statements Restated for General Price-Level Changes , which requires such differences to be treated as temporary differences in calculating deferred income taxes.

In addition, the U.S. GAAP adjustment includes the effect on deferred income taxes of the foregoing reconciling items, as appropriate.

(s) Minority interest

This adjustment represents the effect on minority interest of the reconciling items, as appropriate.

(t) Debtor s accounting for a modification of APSA convertible debt instruments

As indicated in Note 4.i.(ii), in August 2002 APSA issued US$ 50 million of Convertible Notes. Under U.S. GAAP, the Company applied APB 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants , which requires that no portion of the proceeds be allocated to the conversion feature if the convertible debt securities are convertible into common stock of the issuer at a specified price at the option of the holder and are sold at a price or have a value at issuance not significantly in excess of the face amount. In considering the accounting treatment of the Convertible Notes under U.S. GAAP the Company took account of the guidance provided in EITF 98-5. This regulation, EITF 98-5, requires that embedded beneficial conversion features present in convertible securities be valued separately at issuance when the non-detachable conversion feature is in-the-money at the commitment date. The embedded beneficial conversion feature should be recognized and measured by allocating to additional paid-in capital a portion of the proceeds equal to the intrinsic value of that feature. That amount is calculated at the commitment date as the difference between the conversion price and the fair value of the common stock or other

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securities into which the security is convertible, multiplied by the number of shares into which the security is convertible (intrinsic value). As a result of the analysis the Company performed, no proceeds were allocated to the embedded conversion feature since it was out-the-money at the commitment date (i.e. the intrinsic value at the commitment date was zero).

As discussed in Note 4.i.(ii), the terms of the convertible debt instrument were modified to extend the maturity date through July 19, 2014. Argentine GAAP requires that an exchange of debt instruments with substantially different terms be considered a debt extinguishment and that the old debt instrument be derecognized. Argentine GAAP clarifies that from a debtor s perspective, an exchange of debt instruments between, or a modification of a debt instrument by, a debtor and a creditor shall be deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. The new debt instrument should be initially recorded at fair value and that amount should be used to determine the debt extinguishment gain or loss to be recognized. Fair value should be determined by the present value of the future cash flows to be paid under the terms of the new debt instrument discounted at a rate commensurate with the risks of the debt instrument and time value of money. If it is determined that the original and new debt instruments are not substantially different, then a new effective interest rate is to be determined based on the carrying amount of the original debt instrument and the revised cash flows. Based on the analysis performed, the Company concluded that the instruments were not substantially different and accordingly the old instrument was not derecognized. The outstanding balance was reclassified to non-current in these consolidated financial statements.

Under U.S. GAAP, in November 2006, the EITF reached a final consensus in EITF Issue 06-6 Debtor s Accounting for a Modification (or Exchange) of Convertible Debt Instruments . EITF 06-6 reconsidered the original consensus in Issue 05-7 Accounting for Modification to Conversion Options Embedded in Debt Instruments and Related Issues that the change in fair value of an embedded conversion option should be included in the cash flow analysis under EITF Issue 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments, in determining whether a debt instrument has been modified or extinguished. This Issue considers the accounting for a modification of debt terms (or exchange in debt instruments) when a change in the fair value of an embedded conversion option has occurred or an embedded conversion option has been added or eliminated from the debt instrument. This Issue also amended the guidance in EITF Issue 96-19.

The consensus stipulates that, in evaluating whether a convertible debt instrument has been modified or extinguished, three aspects of the modification (or exchange of debt instruments) must be considered.

1. Change in cash flows: If the change in cash flows as prescribed by the analysis under Issue 96-19 is greater than 10% of the carrying value of the original debt instrument, the modification (or exchange of debt instruments) should be accounted for as an extinguishment. This test would not include any changes in fair value to the embedded conversion option.

2. Change in fair value of the embedded conversion option: If the change in the fair value of the embedded conversion option is greater than 10% of the carrying value of the original debt instrument immediately before the change (or exchange of debt instruments), the modification (or exchange) should be accounted for as an extinguishment.

3. Addition or removal of an embedded conversion option: The addition or removal of a substantive conversion option would automatically result in extinguishment accounting. Whether an embedded conversion option is substantive would be assessed as of the modification date and would be based on the definition of substantive in EITF Issue 05-1, Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option.

Any one of the three criteria needs to be met to account for the modification of the debt instrument (or exchange of debt instruments) as an extinguishment. When the result of the three-pronged evaluation above results in a conclusion that a convertible debt instrument has been modified (and not extinguished), the Task Force affirmed as a final consensus that any increase in the fair value of the embedded conversion option should reduce the carrying value of the debt instrument (with a corresponding increase to additional paid-in capital), but any decrease in the fair value of the embedded conversion option is ignored.

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Based on the analysis performed, neither of criteria 1, 2 or 3 above are met. Accordingly, the change of the debt instrument has not been accounted for as an extinguishment. Thus, the increase in the fair value of the conversion option reduced the carrying value of the debt instrument with a corresponding increase to additional paid-in-capital. This resulted in an increase in interest expense prospectively.

(u) Stock option agreement with CIM

E-Commerce Latina entered into a stock option agreement with Consultores Internet Managers Ltd. (CIM), pursuant to which options were granted, to purchase class B shares of Altocity.com, representing 15% of its common stock. CIM is a special-purpose Cayman Islands´ corporation created to act on behalf of the Company s management and is represented by an independent attorney-in-fact. Pursuant to the terms of the agreement, options were granted for a period up to eight years and at an exercise price to be determined by the quotient of (i) the original value of class B shares at the time of the contribution to Altocity.com by the holding company, plus interest accrued at an annual fixed interest rate of 14% through the exercise date of the option over (ii) the total number of class B shares owned by the holding company at the exercise date of the option. CIM has a vested interest in 50% of the underlying shares within 30 days after the grant date and the remaining 50% will vest upon the third anniversary of the grant date. The option was granted to CIM to be allocated by it among the management of Altocity.com as an incentive compensation for their services. Upon exercise of the option, CIM s sole asset will be its 15% interest in Altocity.com. As of the date of these financial statements, the options were not individually allocated. As such, there was no grant date established.

In December 2004, the FASB issued SFAS No. 123R (Share-Based Payment). SFAS No. 123R revises SFAS No. 123 and requires entities to recognize compensation expense for all share-based payment transactions in an amount equal to the fair value of share-based payments granted to employees. SFAS No. 123R requires a company to record compensation expense for all awards granted after the date of adoption of SFAS No. 123R and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. The revised statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB 25, which was permitted under SFAS No. 123, as originally issued. The Company will apply the provisions of SFAS 123R as from the grant date of the options which will be allocated to management on an individual basis.

(v) Deferred revenues insurance & fees

Under Argentine GAAP, APSA, through its subsidiary Tarshop, accounts for revenues from life and disability insurance and origination fees on an up-front basis.

Under U.S. GAAP, said revenues from life and disability insurance and origination fees are recognized to income on a straight-line basis over the term of the respective financial receivable.

(w) Reversal of capitalized exchange differences

Under Argentine GAAP, the Company capitalized financial costs comprising of interest and foreign exchange differences for the year ended June 30, 2007. The capitalization related to the PAMSA project. The Company did not capitalize any financial costs for the year ended June 30, 2006. Under U.S. GAAP, the Company applied the provisions of Statement of Financial Accounting Standards No. 34, Capitalization of Interest Cost (SFAS No. 34), which requires interest capitalization on assets which have a period of time to get them ready for their intended use. Capitalization of foreign exchange differences is not allowed under SFAS No. 34. The U.S. GAAP reconciling item represents the effect of reversing the foreign exchange differences capitalized under Argentine GAAP related to the acquisition of PAMSA for an amount of Ps. 0.4 million.

(x) Revenue recognition

(x.1) Real estate

The Company signed preliminary agreements to sell units of San Martín de Tours and has delivered possession rights to the purchasers. Under Argentine GAAP revenue is recognized with the delivery of the property, therefore the Company recognized Ps. 1,564 million gain on the sale.

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Under U.S. GAAP in accordance with SFAS No. 66 Sales of Real Estate profit on real estate shall not be recognized by the full accrual method until a sale is consummated. A sale shall not be considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing for which the seller is responsible has been arranged, and (d) all conditions precedent to closing have been performed. Usually, those four conditions are met at the time of closing or after closing, not when an agreement to sell is signed or at a preclosing.

Since the Company has not signed a final deed including the legal transfer of the property, consummation is not fulfilled. Therefore, the deposit method shall be used until a sale is consummated. Under the deposit method the seller does not recognize any profit, does not record notes receivable, continues to report in its financial statements the property and the related existing debt even if it has been assumed by the buyer, and discloses that those items are subject to a sales contract. Cash received from the buyer, including the initial investment and subsequent collections of principal and interest, is reported as a deposit on the contract. Consequently, under U.S. GAAP, the Company reversed the gain for an amount of Ps. 1,522 million, which includes the reversal of exchange difference of Ps. 42.

(x.2) Scheduled rent increases

As discussed in Note 3.a., pursuant to rent escalation clauses in most leases, a tenant s Base Rent generally increases between 4% and 7% each year during the term of the lease. Under Argentine GAAP, rental revenue pursuant to rent escalation clauses is recognized when the escalated payment is due rather than recognizing the effects of the scheduled rent increases under the straight-line method over the lease term. Under U.S. GAAP, effective July 1, 2006, the Company applied the provisions of SFAS No. 13 and FTB 85-3 and accordingly, recognized escalated rental revenue under the straight-line method over the term of the leases.

(x.3) Deferred commissions

As discussed in Note 3.a., under Argentine GAAP, brokerage commissions earned are recognized at the time a transaction is successfully completed. Under U.S. GAAP, brokerage commissions are deferred and amortized to income over the term of the respective leases.

(y) Cumulative effect of the initial application of SAB No. 108

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB No. 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which provides guidance on quantifying financial statement misstatements. SAB No. 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. SAB No. 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006.

Traditionally, there have been two widely recognized methods for quantifying the effects of financial statement misstatements: the roll-over method and the iron curtain method. The roll-over method focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements, but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. Prior to the Company s application of the guidance in SAB No. 108, the Company s management used the roll-over method for quantifying financial statement misstatements both for Argentine GAAP and U.S. GAAP purposes.

In SAB No. 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company s financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods.

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Notes to the Consolidated Financial Statements (continued)

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SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the dual approach had always been applied or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities with an offsetting adjustment recorded to the opening balance of retained earnings. Under U.S. GAAP, the Company elected to record the effects of applying SAB No. 108 using the cumulative effect transition method. The misstatements that have been corrected are described below.

As discussed in Note 3.a, the Company primarily derives its revenues from leases and services. Tenants are generally charged a rent, which consists of the higher of: (i) a monthly base rent (the Base Rent) and (ii) a specified percentage of the tenant s monthly gross retail sales (the Percentage Rent) (which generally ranges between 4% and 8% of tenant s gross sales). Furthermore, pursuant to the rent escalation clause in most leases, a tenant s Base Rent generally increases between 4% and 7% each year during the term of the lease. Under U.S. GAAP, prior to the application of SAB No. 108, rental revenue was recognized when the escalated rental payment was due rather than recognizing the effects of scheduled rent increases on a straight-line basis over the lease term in accordance with SFAS No. 13 and FTB 85-3. This accounting treatment results in an understatement of rental revenue at a given month-end. However, due to occupancy rates and sales volumes in all of the Company s properties, the majority of the tenants were charged the percentage rent for all of the periods presented. In those cases, percentage rents charged were higher than amounts derived from straight-line recognition of scheduled rent increases. Hence, the understatement of rental revenue only affects those property rentals where the Base Rent is higher than the Percentage Rent. The Company s management previously quantified these errors under the roll-over method and concluded that they were immaterial. In its initial application of SAB No. 108, the Company corrected the errors by increasing the balance of accounts receivable against retained earnings in the amount of Ps. 5.4 million. The correction also required adjustment for deferred income taxes and minority interest.

Additionally, as discussed in Note 3.a, the Company derives revenues from brokerage commissions paid by tenants calculated as a percentage of the final rental income value for both the lessee and the Company. Under U.S. GAAP prior to the application of SAB 108, brokerage commissions were recognized at the time that the transaction was successfully concluded, rather than defer and amortize them over the term of the lease. A transaction is considered successfully concluded when both parties have signed the related lease contract. This accounting treatment resulted in an overstatement of rental revenue. The Company s management previously quantified these errors under the roll-over method and concluded that they were immaterial. In its initial application of SAB No. 108, the Company corrected the errors by increasing deferred revenues against retained earnings in the amount of Ps. 12.4 million. The correction also required adjustment for deferred income taxes and minority interest.

In addition, as further explained in Note 3.a., APSA, through its subsidiary Tarshop, derives revenues from life and disability insurance and origination fees. Under U.S. GAAP, prior to the application of SAB 108, revenues from life and disability insurance and origination fees related to securitized receivables which did not qualify as a sale under U.S. GAAP, were recognized up-front, rather than deferred and recognized in income over the term of the financial receivable. This accounting treatment resulted in an overstatement of revenues. The Company´s management previously quantified this error under the roll-over method and concluded that it was immaterial. In its initial application of SAB No. 108, the Company corrected the error by increasing deferred revenues against retained earnings in the amount of Ps. 3.7 million. The correction also required adjustment for deferred income taxes and minority interest. Effective July 1, 2006, the Company defers said revenues from life and disability insurance and origination fees over the term of the respective securitized receivables.

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These correcting entries and the balance sheet line items that were affected and the respective amounts before tax effects are summarized in the following table:

Adjustment	**Adjustment recorded as of June 30, 2006**
Revenue recognition deferred commissions	Ps. (12,436)
Revenue recognition scheduled rent increases	3,253
Revenue recognition deferred insurance & fees	(1,480)
Minority interest	3,308
Deferred income tax	3,600
Cumulative effect of initial application of SAB No. 108	**Ps. (3,755)**

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II. Additional disclosure requirements

(a) Balance sheet classification differences

Under Argentine GAAP, assets and liabilities are classified as current or non-current depending on their respective settlement dates. Under U.S. GAAP, balance sheets of real companies generally do not present a classified balance sheet.

In addition, under Argentine GAAP the Company has classified the net deferred tax liability as of June 30, 2007 amounting to Ps. 1.9 million and the net deferred tax assets as of June 30, 2006 amounting to Ps. 35.9 million, as follows: Ps. 25.4 million and Ps. 47.9 million as of June 30, 2007 and 2006, respectively, as non-current other receivables and prepaid expenses; and Ps. 27.3 million and Ps. 12.0 million as of June 30, 2007 and 2006, respectively, as non-current taxes payable. Under U.S. GAAP, the classification of deferred taxes is determined by the classification of the asset or liability for financial reporting to which the temporary difference is related. A temporary difference is related to an asset or liability if reduction of the asset or liability causes the temporary difference to reverse. For deferred tax balances not related to an asset or liability for financial reporting (e.g. tax loss carryforwards), the classification is based on the expected realization date. As of June 30, 2007 and 2006, Ps. 13.7 million and Ps. 7.7 million, respectively, would have been classified as current assets, and Ps. 21.5 million and Ps. 49.1 million, respectively, would have been classified as non-current assets. As June 30, 2007 and 2006 Ps. 6.4 million and Ps. 4.1 million, respectively, would have been classified as current liabilities and Ps. 30.7 million and Ps. 16.8 million, respectively, would have been classified as non-current liabilities.

Furthermore, under Argentine GAAP, deferred debt costs are shown as a deduction of the corresponding liability. Under U.S. GAAP, and in accordance with Accounting Principles Board (APB) Opinion No. 21, Interest on Receivables and Payables , issue costs should be reported as deferred charges as of Ps. 14,329.

As these differences have no effect on net income or on shareholders´ equity, no reconciling items are presented for U.S. GAAP purposes.

(b) Statement of income classification differences

Should a U.S. GAAP income statement be presented, certain items shown in some line items of the income statement under Argentine GAAP would have to be reclassified to affect other line items. The following reclassifications are intended to present Argentine GAAP numbers using a different criterion of classification under U.S. GAAP. The numbers included below are not U.S. GAAP numbers.

Revenues

Gross vs. net presentation

As part of the lease agreements, tenants are required to pay their proportionate share of common area maintenance expenses. The Company does not charge any mark up on reimbursable costs. These expenses are incurred and paid by the Company and then passed through to tenants as reimbursable costs.

Under Argentine GAAP, pass-through expenses, such as these reimbursable costs, are accounted for on a net basis and, as such, excluded from revenues and expenses in the consolidated financial statements. However, Note 29.f shows the total amount of expenses passed through to tenants by expense category with the corresponding offsetting amount therefore having no impact in the consolidated costs of the Company. No amount is shown as revenues.

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Under U.S. GAAP, the Company accounts for pass-through revenue and expenses in accordance with Emerging Issues Task Force, or EITF, Issue 01-14, Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred, and include these costs incurred as a component of revenue and as a component of operating expenses in the statement of income. These costs, which are pass-through expenses to tenants included in both revenues and expenses were Ps. 134.4 million, Ps. 107.3 million and Ps. 79.8 million for the years ended June 30, 2007, 2006 and 2005, respectively. As these expenses are fully reimbursed, without mark-up, by the tenants, there is no impact on operating income, net income, EPS, cash flows or the balance sheet.

Should the EITF 01-14 be applied to the Argentine GAAP income statement, net revenues under Argentine GAAP would have been Ps. 873.1 million, Ps. 685 million and Ps. 449.7 million for the years ended June 30, 2007, 2006 and 2005, respectively.

Operating income

Under U.S. GAAP, certain income and expense items included in the Argentine GAAP financial statements of the Company within Other expenses, net would have been included in the determination of operating income. In addition, under Argentine GAAP, the recovery of certain allowances and provisions has been included within Other expenses, net . Under U.S. GAAP, such items would have been classified as a reversal to the amounts in the line items, which were originally recorded

Should certain other expenses, financial results and the recovery of allowances and provisions be reclassified into/out of operating income, as applicable, operating income under Argentine GAAP would have been Ps. 201.3 million, Ps. 194.7 million, and Ps. 140.1 million for the years ended June 30, 2007, 2006 and 2005, respectively.

(c) Maturities of long-term debt

Aggregate annual maturities during the next years (excluding current portion and capitalized costs of issuance of debt See Note 28.II.(a)), as of June 30, 2007, are as follows:

2009	Ps. 115,718
2010	90,588
2011	43,588
Thereafter 2012	980,375
	Ps. 1,230,269

(1) Not including deferred debt issuance costs in the amount of Ps. 12,403.

(d) Operating leases

This note discloses operating leases information of the Company and its controlled and jointly controlled subsidiaries:

Operating lease information:

Leases and services from office and other buildings

The Company enters into cancelable commercial leases with its tenants for terms ranging from three to five years, with most leases having terms of no more than 5 years. Tenants are charged a base rent on a monthly basis. No contingent rentals were recorded for the years ended June 30, 2007, 2006 and 2005.

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(In thousands of Argentine Pesos, except share data and as otherwise indicated)

Leases and services from shopping center operations

The Company enters into cancelable commercial leases with its tenants for terms ranging from three to ten years, with most leases having terms of no more than five years. Tenants are generally charged a rent, which consists of the higher of (i) the base rent and (ii) the percentage rent (which generally ranges between 4% and 8% of the tenants sales). Furthermore, pursuant to the rent escalation clause in most leases, a tenant s base rent generally increases between 4% and 7% each year during the term of the lease. Included in lease revenues for the years ended June 30, 2007, 2006 and 2005 were contingent rentals of Ps. 51.9 million, Ps. 40.9 million, and Ps. 29.4 million, respectively.

(e) Disclosure of related parties transactions

The following additional disclosures of transactions with related parties are required under U.S. GAAP:

Acquisition of IRSA Units by Cresud: During November and December 2002, Cresud purchased 49.7 million Convertible Notes issued by us and during July and November 2003, Cresud purchased an additional 0.25 million Convertible Notes.

In May 2004 Cresud decided to exercise their option to convert 5.0 million aggregate principal amount of our Convertible Notes. As a result of this conversion, Cresud has received 9.2 million of our common shares.

In July 2004, Cresud purchased 0.35 million of Convertible Notes issued by us for US$ 0.5 million.

On September 30, 2004, Cresud exercised 5.0 million of our Warrants for 9.2 ordinary shares at a total cost of US$ 6 million.

In February 2006 and April 2006, Cresud purchased 5.0 million and 16.0 million of Convertible Notes issued by us for 9.2 million and 29.3 million ordinary shares.

In April 2006, Cresud converted 16.0 million of Convertible Notes issued by us for 29.3 million ordinary shares.

As of June 30, 2007 Cresud owned 25% of our common shares

Donations: For the years ended June 30, 2007, 2006, and 2005, the Company made unconditional promises to give money to two not-for-profit organizations, namely *Fundación IRSA* and *Museo de los Niños*, amounting Ps. 2.5 million, Ps. 4.3 million and Ps. 4.1 million, respectively. Unconditional promises are paid in the subsequent year. A director and shareholder of the Company is the President of these organizations.

Lease agreements: Our principal executive offices are located at Bolívar 108, in the City of Buenos Aires. In the past we subleased a portion of our headquarters from Consultores Assets Management S.A. (formerly Dolphin Fund Management) pursuant to two lease agreements dated June 30, 1997. As of November 25, 2003 Dolphin Fund Management S.A has spun off in two companies. One of them is Consultores Assets Management S.A. and the other remains as Dolphin Fund Management S.A. In respect of Consultores Assets Management S.A., Eduardo Elsztain is the owner of 100% of its capital stock. Consultores Assets Management S.A. (formerly Dolphin Fund Management) leased such offices both from Elsztain e Hijos S.C.A., a company controlled by relatives of Eduardo S. Elsztain, our chairman, and also from Hamonet S.A., a company controlled by Fernando A. Elsztain, our director, and certain of his relatives.

These lease and sublease agreements were cancelled on February, 2004 and a new lease agreement was signed by the Company, APSA, Cresud and Isaac Elsztain e Hijos S.C.A. We have leased our headquarters located in Bolivar 108, City of Buenos Aires pursuant to this agreement since March 2014. This lease has a term of 120 months and rent of Ps. 8.5 is payable monthly. The Company, APSA and Cresud each pay one-third of such rent in an amount of Ps. 2.8 each.

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The Company has entered into lease agreements for offices located in Costero, a building located in Puerto Madero with Altocity.com and Red Alternativa S.A. The agreement with Altocity.com expired in October 2004. Although the agreement with Red Alternativa S.A. expired in May 2004 it is still in effect. The leases are for monthly rents of Ps. 8.3 plus CER.

Mutual investment fund: Since 1996, the Company has investments in Dolphin Fund Plc, an open ended investment fund which is related to the Company s directors. These investments are carried at market value as of year-end, with unrealized gains reported in earnings within Financial results, net in the accompanying consolidated statements of income.

The Company recognized net gains of Ps. 46.8 million, Ps. 2.5 million and Ps. 16.3 million, for the years ended June 30, 2007, 2006 and 2005 respectively.

Corporate services: In order to reduce administrative expenses and to achieve a more efficient allocation of corporate resources, a program for partial operating integration in the areas of Human Resources, Finance, Institutional Relations, Administration, Systems, Insurance, Purchasing, Contracts and Operations, among others, was implemented on June 30, 2003 by the Company, and its subsidiary APSA and Cresud (the Parties). This program was implemented to reduce operating costs by optimizing the individual administrative efficiencies of each Party.

On the basis of this program, the Parties entered into the Exchange of Operating Services Agreement on June 30, 2004, a two-year agreement (being renewed for an equal period of time unless any of the Parties decides to terminate it) by which tasks are performed by one or more Parties for the benefit of one or more other Parties in exchange for a fee to be paid primarily through the provision of services in other areas. Through this agreement, each party continues to maintain its strategies and commercial independence, while increasing operating efficiency.

In the ordinary course of business, the Company shares corporate services (finance, human resources, procurement, internal audit, systems, administration, etc.) with APSA and Cresud under an Exchange of Operating Services Agreement entered into by all three companies in 2004. The Company pays a fee, primarily through the provision of services to the other parties.

Options to purchase shares of Comercializadora Los Altos S.A. (Altocity.com S.A. s continuing company): see Note 28.I.(u). for details.

In January 2000, E-Commerce Latina S.A., granted Consultores Internet Managers Ltd. an option to purchase certain of its class B shares of Altocity.com. Consultores Internet Managers Ltd. is a special-purpose Cayman Islands corporation created to act on behalf of its management and is represented by an independent attorney-in-fact. The option granted to Consultores Internet Managers represents 15% of the capital stock of Altocity.com and was granted for a period of eight years.

Pursuant to the terms of the agreement, the exercise price is equal to the quotient of (i) the original value of class B shares at the time of the contribution to Altocity.com by E-Commerce Latina S.A., plus interest accrued at an annual fixed interest rate of 14% through the exercise date of the option, over (ii) the total number of class B shares owned by E-Commerce Latina S.A. at the exercise date of the option.

The option was granted to Consultores Internet Managers Ltd. to be allocated by it among the management of Comercializadora Los Altos S.A. (Altocity.com S.A. s continuing company) as an incentive compensation for their services, but as of today, no individual awards have been determined for participating employees under this option. Upon exercise of the option, Consultores Internet Managers Ltd. s sole asset will be its 15% interest in Altocity.com.

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Legal services: During the years ended June 30, 2007, 2006 and 2005, the Company paid the law firm Zang, Bergel & Viñes an aggregate amount of approximately Ps. 3.3 million, Ps. 1.9 million and Ps. 1.1 million, respectively, for legal services. Certain directors or alternative directors of the Company are partners of the law firm and an alternate director of the Company is off counsel of the law firm.

(f) Disclosure about fair value of financial instruments

Under Argentine GAAP, there are no specific rules regarding disclosure of fair value of financial instruments.

Under U.S. GAAP, SFAS No. 105 requires reporting entities to disclose certain information about financial instruments with off-balance sheet risk of accounting loss. SFAS No. 107, Disclosures about Fair Value of Financial Instruments , requires disclosure of fair value information about financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Financial instruments include such items as to cash and cash equivalents and accounts receivable and other instruments. SFAS No. 107 excludes from its disclosure requirements lease contracts and various significant assets and liabilities that are not considered to be financial instruments. SFAS No. 119 requires reporting entities to disclose certain information for derivative financial instruments. SFAS No. 133 superseded SFAS No. 105 and SFAS No. 119 and amended SFAS No. 107 to include in SFAS No. 107 the disclosure requirements of credit risk concentrations from SFAS No. 105. See Note 28.II. (g) for details of concentration of credit risk.

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Quoted market prices are used when available. In other cases, fair values are based on estimates using other valuation techniques, such as discounting estimated future cash flows using a rate commensurate with the risks involved or other acceptable methods. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, prepayments, discount rates, and estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair value, the Company s fair values should not be compared to those of other companies.

Under this statement, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amount presented does not represent the underlying value of the Company. For certain assets and liabilities, the information required under this statement is supplemental with additional information relevant to an understanding of the fair value.

The methods and assumptions used to estimate the fair values of each class of financial instruments as of June 30, 2007 and 2006 are as follows:

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less, consisting of time deposits and mutual funds, to be cash and cash equivalents. The carrying amounts reported in the consolidated balance sheets approximate fair value.

Marketable securities

The fair value of marketable securities is based on quoted market prices for those or similar investments. Marketable securities are carried at fair value on the consolidated balance sheet.

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Mortgages and leases receivable, net

The carrying value of mortgages and lease receivables reported in the consolidated balance sheet approximates its estimated fair value. All amounts that are assumed to be uncollectible within a reasonable time are written off and/or reserved.

Retained interest in transferred mortgage and credit card receivables

Fair value is estimated by discounting anticipated future cash flows using a discount rate based on specific factors. The anticipated future cash flows are projected on a cash out basis to reflect the restriction of cash flows until the investors have been fully paid. As of June 30, 2007 and 2006, the fair value of retained interests in transferred mortgage and credit card receivables totaled Ps. 92.7 million and Ps. 30.2 million, respectively.

Accounts payable

The carrying amounts of accounts and notes payable reported in the consolidated balance sheets approximate their fair value.

Short-term debt

The carrying amounts of short-term debt reported in the consolidated balance sheets approximate fair value due to its short-term nature.

Long-term debt (includes current portion of the non-current item)

As of June 30, 2007 and 2006, except for the Convertible Notes issued by IRSA and APSA and IRSA Notes, the carrying amounts of long-term debt reported in the consolidated balance sheets approximate their fair value.

The fair value of APSA Convertible Notes was Ps. 794.3 million and Ps. 375.6 million at June 30, 2007 and 2006, respectively. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end.

The fair value of IRSA Convertible Notes was Ps. 325.3 million and Ps. 252.1 million at June 30, 2007 and 2006, respectively. Such fair value was determined based on the market price of the shares assuming full conversion of the notes at year-end plus the estimated fair value of the warrants that should be issued by the Company upon conversion.

The fair value of IRSA Notes (see Note 10) was Ps. 142.8 million at June 30, 2007 and was determined based on quoted market prices of the notes.

Other receivables and other liabilities

The carrying amounts of other receivables and other liabilities reported in the consolidated balance sheets approximate fair value.

Options and future contracts to purchase metals

The fair value of the futures contracts is based on the estimated amount at which they could be settled based on future market prices. The fair value of future contracts outstanding at June 30, 2007 was Ps. (0.13) million. Future contracts are reported at their fair market value on the consolidated balance sheet. There were no future contracts in 2006.

Seller financings

The fair value of the seller financings is estimated based on discounted cash flows using rates offered to the Company for debt of the same remaining maturities. The carrying value approximates fair value.

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(g) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, accounts receivable, and short-term investments. The Company places its cash and cash equivalents, investments, and other financial investments with various high credit quality financial institutions, thus mitigating the amount of credit exposure to any one institution. The Company has not experienced any significant losses in such accounts.

The Company s accounts receivable are primarily derived from real estate revenues from customers and credit card receivables. The Company is not dependent on any single customer.

Accounts receivable derived from real estate revenues, are related to mortgages to individuals in connection with its sales of residential properties. These properties are located principally in Buenos Aires, Argentina. The Company is subject to credit risk in the event of non-performance by the counterparties to the mortgages; however, in the opinion of management, the values of the properties that collateralize the mortgages are presently adequate to protect the Company from material losses resulting from such non-performance. The company has not experienced any significant losses resulting from non-performance of any counterpart to the mortgage contracts.

Credit card receivables arise primarily under open-end revolving credit accounts used to finance purchases of goods and services offered by the Company s shopping centers, hypermarkets and street stores, and financing and lending activities. These accounts have various billing and payment structures, including varying minimum payment levels and finance charge rates. Credit card receivables are shown net of an allowance for uncollectible accounts. The Company provides an allowance for uncollectible accounts based on impaired accounts, historical charge-off patterns and management judgment.

As of June 30, 2007 the Company has sold credit card receivables of Ps. 751.7 million through securitization programs outstanding, for which the Company s credit risk exposure is contractually limited to the subordinated CPs held by the Company representing Ps. 77.8 million (equity value) and Ps. 21.9 million escrow reserves for losses.

(h) Recently issued accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments , which resolves issues addressed in FASB SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets . Among other things, it permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity s first fiscal year that begins after September 15, 2006. This standard will be effective for the Company s fiscal year ended June 30, 2008. As of the date of these financial statements, the Company has not analyzed the impact, if any, that this standard will have on its financial position and results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets , which permits an entity to choose either the amortization method or fair value method for each class of separately recognized servicing assets and servicing liabilities. This statement is effective for an entity s first fiscal year that begins after September 15, 2006. This standard will be effective for the Company s fiscal year ended June 30, 2008. As of the date of these financial statements, the Company has not analyzed the impact, if any, that this standard will have on its financial position and results of operations.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109). Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions accounted for under SFAS No. 109 upon initial adoption. The standard will be effective for the Company s fiscal year ended June 30, 2008. The cumulative

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effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the provisions of FIN 48 and its impact, if any, on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement , which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosures about the use of fair value to measure assets and liabilities. This statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets about a fair value hierarchy with the highest priority being quoted prices in active markets. Under the Statement, fair value measurements are disclosed by level within the hierarchy. While the statement does not add any new fair value measurements, it does change current practice. Changes to practice include (a) a requirement for an entity to include its own credit standing in the measurement of its liabilities, (b) a modification of the transaction price presumption, (c) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies, (d) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. This standard will be effective for the Company s fiscal year ended June 30, 2009. As of the date of these financial statements, the Company has not analyzed the impact, if any, that this standard will have on its financial position and results of operations.

In September 2006, the FASB EITF issued EITF 06-07 Issuers Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133 which states that an issuer should account for a previously bifurcated conversion option in a convertible debt instrument if the embedded conversion option no longer meets the bifurcation criteria in Statement 133 by reclassifying the carrying value of the liability for the conversion option to shareholders equity. Any debt discount recorded at the issuance of the convertible debt should continue to be amortized. The guidance in this Issue should be applied to all previously bifurcated conversion options in convertible debt instruments that no longer meet the bifurcation criteria in Statement 133 in the interim or annual periods beginning after December 15, 2006 irrespective of whether the debt instrument was entered into prior or subsequent to the effective date of this Issue.

In September 2006, the FASB EITF issued EITF 06-8 Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums which states that an entity should evaluate the adequacy of the buyer's initial and continuing investment pursuant to paragraph 12 of FASB Statement No. 66, Accounting for Sales of Real Estate , to recognize profit under the percentage-of-completion method. An entity can meet the continuing investment criterion in paragraph 12 of Statement 66 by requiring the buyer to either (a) make additional payments during the construction term at least equal to the level annual payment to fund principal and interest on a customary mortgage for the remaining purchase price of the property or (b) increase the minimum initial investment by an equivalent aggregate amount. The remaining purchase price should be determined based on the sales price of the property. If a transaction initially failed this test and changed circumstances later occur, the entity should evaluate the adequacy of the buyer's investment from the reassessment date on a prospective basis. If an entity is unable to meet the initial or continuing investment tests in paragraphs 8 12 of Statement 66, then an entity should use the deposit method to recognize profit as described in paragraphs 65 67 of Statement 66. FASB ratified the consensus on November 29, 2006. The guidance in this Issue is effective for the first annual reporting period beginning after March 15, 2007 and is effective for the Company for fiscal year ended June 30, 2008. As of the date of these financial statements, the Company has not analyzed the impact, if any, that this standard will have on its financial position and results of operations.

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

On February 15, 2007, the FASB issued Statement 159, The Fair Value Option (FVO) for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115 , which permits an entity to measure certain financial assets and financial liabilities at fair value. Statement 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. Entities that elect the FVO will report unrealized gains and losses in earnings. The FVO may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety, and is irrevocable, unless a new election date occurs. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. If an entity chooses to elect the FVO for existing items at the date of adoption, the difference between their carrying amount and fair value is included in a cumulative-effect adjustment to the opening balance of retained earnings. This standard will be effective for the Company s fiscal year ended June 30, 2009. As of the date of these financial statements, the Company has not analyzed the impact, if any, that this standard will have on its financial position and results of operations.

(i) Earnings per share

As described in Note 3.x., under Argentine GAAP the Company is required to disclose earnings per share information in accordance with RT 18 for all periods presented. Note 18 to the consolidated financial statements disclose the computation of basic and diluted net income per common share under Argentine GAAP. Guidance set forth in RT 18 is similar to the basic principles set forth in SFAS No. 128 Earnings per Share (SFAS No.128).

Under U.S. GAAP, basic and diluted earnings per share are presented in conformity with SFAS No. 128.

Under Argentine GAAP, the Company has considered the dilutive effects of outstanding warrants using the if converted method. Under U.S. GAAP, the Company applied the treasury-stock method as required by U.S. GAAP. Using the treasury-stock method, the weighted-average number of potential common stock would have been 95,918 shares, 139,100 shares and 195,207 shares, for the years ended June 30, 2007, 2006 and 2005, respectively. Diluted net income per common share under Argentine GAAP for the years ended June 30, 2007, 2006 and 2005 using the treasury-stock method, would have been Ps. 0.20, Ps. 0.23 and Ps. 0.24, respectively.

The following tables set forth the computation of basic and diluted net income per common share under U.S. GAAP for all periods presented:

	Year ended June 30,		
	2007	**2006**	**2005**
Numerator:			
Net income available to common shareholders	Ps. 103,222	Ps. 89,946	Ps. 129,398
Plus (less): income (loss) impact of assumed conversions:			
Interest expense on convertible debt	8,213	19,170	26,039
Foreign currency exchange gain on convertible debt	46	10,257	(4,912)
Income tax effects	(716)	(2,366)	(2,982)
Net income available to common shareholders plus assumed conversions	Ps. 110,765	Ps. 117,007	Ps. 147,543

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

Denominator:			
Weighted-average number of shares outstanding	Ps. 444,904	Ps. 379,506	Ps. 280,282
Plus: incremental shares of assumed conversions:			
Warrants (i)	49,317	46,985	50,346
Convertible Notes	46,601	92,115	144,861
Adjusted weighted-average number of shares	Ps. 540,822	Ps. 518,606	Ps. 475,489
Earnings per share under U.S. GAAP:			
Basic net income per common share	Ps. 0.23	Ps. 0.24	Ps. 0.46
Diluted net income per common share	Ps. 0.20	Ps. 0.23	Ps. 0.31

(i) Potential common shares related to the warrants have been calculated using the treasury-stock method as required by U.S. GAAP.

(j) Risks and uncertainties

The Company is subject to certain business risks arising in connection with its operations which include, among others:

Risks associated with Argentine operations. A substantial part of the Company s operations and properties are located in Argentina. As a result, the Company financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing in Argentina.

Risks associated with office and other buildings leases: The Company s lease revenues from its real estate operations may be adversely affected by (i) local or national economic conditions in the areas in which the properties are located, (ii) oversupply of office space or a reduction in demand for such space, (iii) increased competition from other real estate operators, (iv) changes in the ability of the Company or the tenants to provide for adequate maintenance and/or insurance, (v) increases in operating expenses, (vi) adverse changes in the regional or national economy, (vii) the bankruptcy or insolvency of, or a downturn in the business of, any of its major tenants, and/or (vii) the possibility that such tenants will not renew their leases as they expire. Unfavorable economic conditions could also result in the inability of tenants in certain sectors to meet their lease obligations and otherwise could adversely affect the Company s ability to attract and retain desirable tenants.

Risks associated with development properties activities: Include (i) the potential abandonment of development opportunities; (ii) construction costs may exceed the Company s original estimates, possibly making a project uneconomical; (iii) occupancy rates and rents at a newly completed project may be insufficient to make the project profitable; (iv) the Company s inability to obtain financing on favorable terms for the development of the project; (v) construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs; and (vi) the Company s inability to obtain, or the delays in obtaining, all necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations; (vii) preconstruction buyers may default on their purchase contracts or units in new buildings may remain unsold upon completion of constructions. (viii) sales prices for residential units may be insufficient to cover development cost.

Risks associated with the hotel industry. The success of the Company s operated hotels will depend, in large part, upon the Company s ability to compete in areas such as access, location, quality of accommodations, room rate structure, quality and scope of food and beverage facilities and other services and amenities. The Company s hotels may face additional competition if other companies decide to build new hotels or improve their existing hotels such that they are more attractive to potential guests. In addition, the profitability of the Company s hotels depends on (i) the Company s ability to form successful relationships with international operators to run the hotels; (ii) changes in travel patterns, including seasonal changes; and (iii) taxes and governmental regulations which influence or determine wages, prices, interest rates, construction procedures and costs.

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

Shopping center operating risks: The development, administration and profitability of shopping centers are impacted by various factors including: the accessibility and the attractiveness of the area where the shopping center is located, the intrinsic attractiveness of the shopping center, the flow of people and the level of sales of each shopping center rental unit within the Company s shopping centers, the amount of rent collected from each shopping center rental unit and the fluctuations in occupancy levels in the shopping centers. In the event that there is an increase in operational costs, caused by inflation or other factors, it could have a material adverse effect on the Company if its tenants are unable to pay their higher rent obligations due to the increase in expenses.

Since May 28, 1997, Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months upon not less than sixty days written notice, subject to penalties of only one-and-a-half months rent if the tenant rescinds during the first year of the lease, and one-month rent if the tenant rescinds after the first year of the lease. The exercise of such rescission rights could materially and adversely affect the Company.

Credit card operating risks: Credit card operations are subject to federal legislation and regulation. From time to time, such legislation, as well as competitive conditions, may affect, among other things, credit card finance charges. While the Company cannot predict the effect of future competitive conditions and legislation or the measures the Company might take in response thereto, a significant reduction in the finance charges imposed by Tarshop would have an adverse effect on the Company. In addition, changes in general Argentine economic conditions, including, but not limited to, higher interest rates and increases in delinquencies, charge-offs and personal bankruptcies could have an adverse effect on the Company.

(k) Summarized financial information of unconsolidated equity investees

Equity investments in unconsolidated affiliated companies where the Company exercises significant influence, generally representing between 20% and 50% of the capital stock in such companies, have been accounted for under the equity method.

The Company s share of the income of these affiliates was Ps. 40.0 million in 2007, Ps. 41.7 million in 2006 and Ps. 67.2 million in 2005, and its investment in these companies totaled Ps. 306.9 million, and Ps. 265.2 million at June 30, 2007 and 2006, respectively.

Summarized financial information in accordance with Central Bank s policies which prescribe the reporting and disclosure requirements for banks and financial institutions in Argentina (Argentine Banking GAAP) of BHSA a significant equity investee (on a 100% basis) is as follows:

	As of and for the year ended June 30, 2007	2006
Current assets	Ps. (i)	Ps. (i)
Non-current assets	(i)	(i)
Total assets	10,167,649	8,941,732
Current liabilities	(i)	(i)
Non-current liabilities	(i)	(i)
Total liabilities	7,423,415	6,556,693
Minority interest	32,938	31,634
Shareholders equity	Ps. 2,711,296	Ps. 2,353,405

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	For the year ended June 30,		
	2007	2006	2005
Revenues	Ps. 882,220	Ps. 733,803	Ps. 681,482
Gross profit	507,554	321,619	292,600
Net income	Ps. 357,891	Ps. 309,078	Ps. 151,022

(i) Balance sheets of banking entities are unclassified.

(l) Severance indemnities

Under Argentine law and labor agreements, the Company is required to make minimum severance payments to its dismissed employees without cause and employees leaving its employment in certain other circumstances. Under Argentine GAAP, severance payments are expensed as incurred. Under U.S. GAAP, the Company follows the guidelines established by SFAS No. 112, Employers Accounting for Post-employment Benefits , and SFAS No. 43, Accounting for Compensated Absences , which requires the accrual of severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and are reasonably estimable. While the Company expects to make severance payments in the future, it is impossible to estimate the number of employees that will be dismissed without proper cause in the future, if any, and accordingly the Company has not recorded such liability.

(m) Statements of cash flows classification differences

The statements of cash flows presented in the primary financial statements are prepared based on Argentine GAAP amounts.

Under Argentine GAAP, the Company considers all short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less to be cash equivalents. Under Argentine GAAP, mutual funds are considered to be cash equivalents since original maturity is determined by reference to the frequency with which liquidity is available according to current Argentine GAAP guidance and practice. However, under SFAS No. 95 Statement of Cash Flows , the original maturity is determined by reference to the stated term of the security or the timeframe for exercising any put features to the issuer, not by reference to the frequency with which liquidity may be available through an auction, a put feature to a third party, or otherwise.

Therefore, for U.S. GAAP purposes, certain mutual funds are not considered to be cash equivalents. As a result, differences exist between the total amount of the increase or decrease in cash and cash equivalents reported in the primary financial statements and the same totals that would be reported in a statement of cash flows prepared following SFAS 95 provisions.

The following tables set forth the amounts of cash and cash equivalents at the beginning and end of each year and corresponding increases and/or decreases that would be reported in a statement of cash flow following SFAS 95 provisions:

	For the year ended June 30,		
	2007	2006	2005
Cash and cash equivalents under U.S. GAAP as of the beginning of the year	Ps. 163,940	Ps. 142,589	Ps. 122,913
Cash and cash equivalents under U.S. GAAP as of year-end	270,416	163,940	142,589
Net increase in cash and cash equivalents under U.S. GAAP	Ps. 106,476	Ps. 21,351	Ps. 19,676

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

Differences exist between cash flows from operating, investing and financing activities reported in the primary financial statements and the cash flows from operating, investing and financing activities that would be reported under SFAS No. 95. Due to the difference in the definition of cash and cash equivalents, cash flows from purchasing and selling of mutual funds would be reported as cash flows from investing activities following SFAS 95 provisions.

In addition, under Argentine GAAP the effect of exchange rate changes on cash and cash equivalents were not disclosed by presenting a fourth cash flow statement category as required by U.S. GAAP.

The following tables set forth the condensed statements of cash flows prepared in accordance with U.S. GAAP:

	For the year ended June 30,		
	2007	2006	2005
Net cash provided by operating activities	Ps. 111,936	Ps. 192,589	Ps. 105,655
Net cash used in investing activities	(470,318)	(128,687)	(141,746)
Net cash provided by (used in) financing activities	900,907	(36,767)	52,868
Effect of exchange rate changes on cash and cash equivalents	2,058	(5,784)	2,899
Net increase in cash and cash equivalents	Ps. 544,583	Ps. 21,351	Ps. 19,676

Additionally, under Argentine GAAP, the Company consolidates the accounts of Metroshop S.A. and Canteras Natal Crespo S.A. on a pro rata basis. Under U.S. GAAP, proportionate consolidation is not appropriate since the Company does not exercise control over this investment. As a result, differences exist between the amount of cash and cash equivalents reported in the primary financial statements and the amount of cash and cash equivalents that would be reported in a statement of cash flows prepared under U.S. GAAP using Argentine GAAP numbers. For this reason, cash flows from operating, investing and financing activities would be different in a statement of cash flows prepared under U.S. GAAP using Argentine GAAP since each line item would exclude the pro rata equity interest of the accounts of Metroshop S.A. and Canteras Natal Crespo S.A.

(n) Comprehensive income

On July 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income . SFAS No. 130 establishes guidelines for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income represents the change in shareholder s equity of the Company during the period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The adoption of SFAS No. 130 had no impact on total shareholders equity. The following table summarizes the components of comprehensive income for the years ended June 30, 2007, 2006 and 2005.

	Year ended June 30,		
	2007	2006	2005
Net income under U.S. GAAP	Ps. 103,222	Ps. 89,946	Ps. 129,398
Other comprehensive income:			
Unrealized gain on available-for-sale-securities (i)	30,945	4,042	9,978
	(174)	1,043	(821)

Unrealized gain (loss) on retained interest in transferred mortgage and credit card receivables			
Unrealized gain on available-for-sale-securities of equity investees	16,286	3,544	6,291
Comprehensive income	Ps. 150,279	Ps. 98,575	Ps. 144,846

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

Accumulated non-owner changes in equity (accumulated other comprehensive income) for the years ended June 30, 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Unrealized gain on available-for-sale securities (i)	Ps. 47,611	Ps. 16,666	Ps. 12,624
Unrealized gain on retained interest in transferred mortgage and credit card receivables	1,830	2,004	961
Unrealized gain on available-for-sale-securities on equity investees	46,302	30,016	26,472
Accumulated other comprehensive income	Ps. 95,743	Ps. 48,686	Ps. 40,057

(i) Net of minority interest and income taxes of Ps. 973 and Ps. 17,187, respectively, for 2007, Ps. 29 and Ps. 2,192, respectively, for 2006; and Ps. 13 and Ps. 5,830, respectively, for 2005.

(o) Pro-rata consolidation of Canteras Natal Crespo S.A. and Metroshop S.A.

As discussed in footnote (v) of Note 2.b. under Argentine GAAP the Company consolidates the accounts of Natal Crespo S.A. on a pro-rata basis and also, APSA consolidates Metroshop S.A. on a pro-rata basis. Under U.S. GAAP consolidation is not appropriate since the Company does not exercise control over these subsidiaries.

Presented below is the consolidated condensed information of the Company at June 30, 2007 and 2006 considering Natal Crespo S.A. and Metroshop S.A. as an equity investee:

	As of and for the year ended June 30, 2007			
	As reported	Eliminations of Metroshop S.A. and Natal Crespo S.A. accounts	Inclusion of Metroshop S.A. and Natal Crespo S.A. as an equity investee	As adjusted
Current assets	Ps. 1,175,790	Ps. 2,185	Ps.	Ps. 1,177,975
Non-current assets	2,969,109	(6,950)	3,133	2,965,292
Total assets	4,144,899	(4,765)	3,133	4,143,267
Current liabilities	652,082	(1,632)		650,450
Non-current liabilities	1,395,693			1,395,693
Total liabilities	2,047,775	(1,632)		2,046,143
Minority interest	450,410			450,410
Shareholders equity	1,646,714			1,646,714
Revenues	738,756	(5,620)		733,136

Gross profit		427,109		(3,606)				423,503
Net income	Ps.	107,097	Ps.		Ps.		Ps.	107,097

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	As of and for the year ended June 30, 2006			
	As reported	Eliminations of Metroshop S.A. and Natal Crespo S.A. accounts	Inclusion of Metroshop S.A. and Natal Crespo S.A. as an equity investee	As adjusted
Current assets	Ps. 481,788	Ps. 1,163	Ps.	Ps. 482,951
Non-current assets	2,258,333	(1,694)	224	2,256,863
Total assets	2,740,121	(531)	224	2,739,814
Current liabilities	419,228	(385)		418,843
Non-current liabilities	385,138		78	385,216
Total liabilities	804,366	(385)	78	804,059
Minority interest	449,989			449,989
Shareholders equity	1,485,766			1,485,766
Revenues	577,680	(1,773)		575,907
Gross profit	333,849	(1,016)		332,833
Net income	Ps. 96,573	Ps.	Ps.	Ps. 96,573

(p) Business combinations

1) <u>**Fair values of assets and liabilities acquired**</u>

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of acquisition for each transaction (in millions):

	Palermo Invest S.A.	Bouchard 551	Dock del Plata	Empalme S.A.I.C.F.A. y G.
Working capital	7.7			(17.7)
Fixed assets	40.3	254.2	30.9	57.6
In place leases	1.2	12.6	1.8	7.3
Below market leases	(1.6)	(19.6)	(5.1)	(2.4)
Deferred income tax	7.3	(2.7)	(0.7)	(4.0)
Net assets acquired	**55.0**	**244.5**	**26.9**	**40.8**

2) <u>**Acquisition of Palermo Invest S.A., Empalme S.A.I.C.F.A. y G., Bouchard and Dock del Plata (unaudited)**</u>

The following schedule presents 2007 and 2006 supplemental unaudited pro forma information as if the transactions of Palermo Invest, Empalme, Dock del Plata and Bouchard had occurred on July 1, 2005. The unaudited pro forma information is presented based on information available, is intended for informational purposes only and is not necessarily indicative of and does not purport to represent what the Company s future financial condition or operating results will be after giving effect to the transactions and does not reflect actions that may be undertaken by management in integrating this business. In addition, this information does not reflect financial and operating benefits the Company expects to realize as a result of the transactions.

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(In thousands of Argentine Pesos, except share data and as otherwise indicated)

The following table summarizes the pro forma income statement information of the Company for the fiscal years ended 2007 and 2006:

	Year ended June 30, 2007	2006
Revenues	Ps. 751,389	Ps. 600,907
Net income	109,653	102,622
Earning per share under Argentine GAAP	0.25	0.27

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(In thousands of Argentine Pesos, except share data and as otherwise indicated)

(q) Investments in real estate and accumulated depreciation

The following is a summary of the Company's investments in real estate as of June 30, 2007 prepared in accordance with SEC Regulation S-X 12-28.

ription	Land	Buildings and improvement	Impairment	Improvements	Total buildings and improvements	Total	Accumulated depreciation	Net carrying value as of June 30	Date of construction	Date acquired	Life on wh depreciat in latest in statemer is compu
Palermo	474	130		57	187	661	101	560	June 1996	November 1997	
Palermo a	1					1		1	December 1996-March 1997 and September 1997	November 1997	
de Mayo	679	6,659	(57)		6,602	7,281	2,147	5134	July 1992	March 1992	
Madero 942	1,302	1,975			1,975	3,277	809	2,468	N/A	July 1994-August 1994	
chard 551	4,798			239,750	239,750	244,548	2,649	241,899		March, 2007	
chard 710	725	71,735			71,735	72,460	4,070	68,390		May, 2005	
stitución	583	754	(249)		505	1,088	311	777	September 1994- March 1995	June 1994- January 1994	
stitución	7,966	796	(6,712)		(5,916)	2,050		2,050			
eros Dique	2,726	20,611			20,611	23,337	2,462	20,875	N/A	June 2001	
e II cio A y B ficios eros	5,948	15,236			15,236	21,184	2,713	18,471	September 1998	March 1997	
k del Plata	26			26,918	26,918	26,944	750	26,194	N/A	November, 2006	
l continental	8,672	39,299		8,367	47,666	56,338	4,941	51,397	December 1994	November 1994	
l Libertador	3,027	60,612		4,472	65,084	68,111	35,150	32,961	October 1973- November 1990- December 1997	March 1998	
l Llao Llao	3,073	41,764		44,398	86,162	89,235	8,702	80,533			
continental a	8,669	57,726		31,565	89,291	97,960	2,968	94,992	June 1996	November 1997	
inar Plaza	6,595	26,918			26,918	33,513	4,326	29,187	N/A	March 1999	
rtador 498	11,729	39,421			39,421	51,150	10,089	41,061	N/A	December 1995	
rtador 602	698	2,787			2,787	3,485	654	2,831	N/A	May 1996	
e Cruceros	59	234			234	293	8	285			

ero 1020	2,188					2,188	494	1,694	N/A	December 1995
pú 1300	10,294	42,338			42,338	52,632	10,285	42,347	N/A	September 1995
onquista	4,942	19,772		42	19,814	24,756	5,663	19,093	June 1995	November 1993
davia 2768		334			334	334	39	295	N/A	
a María del	10,513			1,981	1,981	12,494		12,494	N/A	
miento 517	48	438	(350)		88	136	38	98	March 1995	December 1994-August 1994-July 1994
acha 652	2,533	14,477			14,477	17,010	4,718	12,292	April-June 1994	November 1991

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

cription	Land	Buildings and improvement	Impairment	Improvements	Total buildings and improvements	Total	Accumulated depreciation	Net carrying value as of June 30	Date of construction	Date acquired	Life on whi depreciatio in latest inco statement is compute
rre noir	306			1,214	1,214	1,520	5	1,515	April, 2007	April, 2007	
ras en rso Dique				9,684	9,684	9,684		9,684	Under Construction		
opping asto	9,750	250,410		745	251,155	260,905	73,469	187,436	November 1998	N/A	
opping o ermo	8,694	398,127		456	398,583	407,277	231,760	175,517	October 1990	November 1997- March 1998	
opping o ellaneda	18,089	147,848		12,053	159,901	177,990	88,326	89,664	October 1995	November 1997- December 1997	
opping eo orta	8,066	97,905		6,177	104,082	112,148	47,716	64,432	June 1992	June 1997	
o Noa	358	42,861		89	42,950	43,308	16,268	27,040	September 1994	March 1995- September 1996- January 2000	
enos es sign		48,986		34	49,020	49,020	32,938	16,082	November 1993- December 1993	November 1997	
io lrich	8,420	151,846		485	152,331	160,751	57,614	103,137	September 1988	October 1998	
o Rosario	25,686	61,914		2,353	64,267	89,953	5,808	84,145	November 2004	N/A	
ndoza za opping	10,821	101,704		3,859	105,563	116,384	27,380	89,004	June 1994	December 2004	
uquén ject	3,315	8,851		136	8,987	12,302		12,302	Under construction	September 1999	N
namerican ll	123,568			44,038	44,038	167,606		167,606	Under construction	November, 2006	N
rdoba opping - la orera -	5,009			88,388	88,388	93,397	17,889	75,508	March, 1990	December, 2006	
her		8,018	(245)	3,035	10,808	10,808	3,821	6,987	N/A	N/A	N

al	Ps. 320,350	Ps. 1,782,486	Ps. (7,613)	Ps. 530,296	Ps. 2,305,169	Ps. 2,625,519	Ps. 707,081	Ps. 1,918,438

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (Continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	Year ended June 30,		
	2007	**2006**	**2005**
Balance, beginning of the year	Ps. 1,976,105	Ps. 1,945,452	Ps. 1,700,568
Additions during the year:			
Acquisition of Mendoza Plaza Shopping S.A. (formerly Pérez Cuesta S.A.C.I)			95,268
Acquisitions and improvements	566,309	18,138	113,281
Recovery of impairment	2,466	5,800	24,301
Transfers from undeveloped parcels of land	66,958	12,165	13,371
Transfers from non-current investments			9,138
Transfers from real estate inventory	1,521	293	123
Transfers from other receivables	12,160		103
	2,625,519	1,981,848	1,956,153
Deductions during the year:			
Transfers to real estate inventory		(1,776)	(8,575)
Transfers to intangible assets			(2,126)
Transfers to undeveloped parcels of land		(2,690)	
Sales		(1,277)	
		(5,743)	(10,701)
Balance, end of the year	Ps. 2,625,519	Ps. 1,976,105	Ps. 1,945,452

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

(r) Mortgage loans on real estate
Prepared in accordance with SEC Regulation S-X 12-29

Col. A.	Col. B.	Col. C.	Col. D.	Col. E.	Col. F.	Col. G.	Col. H.
Description	Interest Rate	Final maturity date	Periodic payment term	Prior liens	Face amount of mortgages	Carrying amount of mortgages	Principal amount of loans subject to delinquent principal or interest
Customer A	14%	June 2014	Monthly	None	Ps. 128	Ps. 73	None
Customer B	14%	May 2014	Monthly	None	77	129	None
Customer C	12%	April 2015	Monthly	None	73	57	None
Customer D	14%	June 2014	Monthly	None	70	149	None
Customer E	14%	July 2009	Monthly	None	60	141	None
Customer F	12%	November 2007	Monthly	None	125	227	None
Customer G	9%	November 2008	Monthly	None	472	163	None
Customer H	10%	October 2008	Monthly	None	1,006	478	None
Customer I	14%	February 2014	Monthly	None	50	76	None
Mortgage receivables Ps. 30,000-Ps. 49,999	14-17%	September 2007-September 2009-January 2011	Monthly	None	96	74	None
Mortgage receivables Ps. 50,000-Ps.69,999	14-16%	May 2009-July 2014	Monthly	None	280	152	None
Mortgage receivables Ps. 70,000-Ps.89,999	14-16%	June 2009-December 2014	Monthly	None	311	30	None
					Ps. 2,748	Ps. 1,749	

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

The summary of activity in mortgage receivables is as follows:

	Year ended June 30,		
	2007	**2006**	**2005**
Balance, beginning of year	Ps. 2,033	Ps. 1,373	Ps. 1,435
Deductions during the year:			
New mortgage loans	163	1,005	
Collections of principal	(447)	(345)	(62)
Balance, end of year	Ps. 1,749	Ps. 2,033	Ps. 1,373

29. Other financial statement information

The following tables present additional financial statement disclosures required under Argentine GAAP:

a. Fixed assets, net

b. Intangible assets, net

c. Allowances and provisions

d. Cost of sales, leases and services

e. Foreign currency assets and liabilities

f. Other expenses

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IRSA Inversiones y Representaciones Sociedad Anónima and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

a. Fixed assets

	Original value				Depreciation					Net carrying value as of June 30,		
						Current year						
Principal account	**Value as of beginning of year**	**Additions and transfers**	**Deductions and transfers**	**Value as of end of year**	**Accumulated as of beginning of year**	**Increases / (decreases) and transfers**	**Amount (i)**	**Accumulated as of end of year**	**Impairment**	**2007**	**2006**	**2005**
Facilities	Ps. 89,249	Ps.6,282	Ps. (29)	Ps. 95,502	Ps. 62,430	Ps. 1,261	Ps. 5,144	Ps. 68,835	Ps.	Ps. 26,667	Ps. 26,819	Ps. 28,043
Furniture and fixtures	51,878	6,372	(43)	58,207	43,491	651	3,468	47,610		10,597	8,387	8,089
Machinery and equipment	5,767	215		5,982	5,316		318	5,634		348	451	359
Computer equipment	41,362	13,477	(60)	54,779	32,790	4,859	5,213	42,862		11,917	8,572	5,690
Vehicles	910	175	(35)	1,050	596	23	132	751		299	314	419
Leasehold improvements	17,613	1,658	(1,126)	18,145	12,889	651	1,297	14,837		3,308	4,724	2,677
Advances to suppliers	2,628	45,508	(7,904)	40,232	14			14		40,218	2,614	905
Properties:												
Alsina 934												1,429
Alto Palermo Park	604	57		661	85		16	101		560	519	500
Av. de Mayo 595	7,339		(1)	7,338	1,914		233	2,147	57	5,134	4,630	4,574
Av. Madero 942	3,277			3,277	626		183	809		2,468	2,651	2,401
Bouchard 551		244,548		244,548			2,649	2,649		241,899		
Bouchard 710	72,460			72,460	1,674		2,396	4,070		68,390	70,786	72,222
Constitución 1111	1,338		(1)	1,337	269		42	311	249	777	760	545
Constitución 1159	8,762			8,762					6,712	2,050	2,000	1,324
Costeros Dique IV	23,337			23,337	1,874		588	2,462		20,875	21,463	21,849
Dique II Edificio A y B Edificios Cruceros	21,184			21,184	2,164		549	2,713		18,471	19,020	19,358
Dock del Plata		26,944		26,944			750	750		26,194		
Hotel Intercontinental	47,971	8,367		56,338	3,199		1,742	4,941		51,397	44,772	45,269
Hotel Libertador	63,640	4,472	(1)	68,111	32,899		2,251	35,150		32,961	30,741	32,051
Hotel Llao Llao	44,834	44,825	(424)	89,235	6,622		2,080	8,702		80,533	38,212	27,652
Intercontinental Plaza	66,397	31,565	(2)	97,960	120		2,848	2,968		94,992	66,277	67,741
Laminar Plaza	33,513			33,513	3,481		845	4,326		29,187	30,032	30,577
Libertador 498	51,152		(2)	51,150	8,662		1,427	10,089		41,061	42,490	43,307

Libertador 602	3,486		(1)	3,485	557		97	654		2,831	2,929	2,985
Av. Madero 1020	2,188			2,188	370		124	494		1,694	1,818	1,665
Maipu 1300	52,632			52,632	8,906		1,379	10,285		42,347	43,726	44,581
Reconquista 823	24,714	42		24,756	5,009		654	5,663		19,093	19,560	19,355
Rivadavia 2768	334			334	13		26	39		295	321	164
Santa María del Plata	10,513	1,981		12,494						12,494	10,513	12,109
Sarmiento 517	482	3		485	20	(4)	21	37	350	98	86	84
Store Cruceros	293			293			8	8		285	293	
Suipacha 652	17,010			17,010	4,265		453	4,718		12,292	11,808	11,749
<u>Work-in-progress</u>												
Dique IV		9,684		9,684						9,684		
<u>Shopping Centers:</u>												
Shopping Abasto	260,162	772	(29)	260,905	65,270		8,199	73,469		187,436	194,892	202,776
Shopping Alto Palermo	406,823	457	(3)	407,277	213,310	(1)	18,451	231,760		175,517	193,513	210,822
Shopping Alto Avellaneda	165,937	12,053		177,990	79,648		8,678	88,326		89,664	86,289	98,750
Shopping Paseo Alcorta	105,971	6,177		112,148	43,711		4,005	47,716		64,432	62,260	65,816
Shopping Alto Noa	43,218	93	(3)	43,308	14,202	(4)	2,070	16,268		27,040	29,016	30,883
Shopping Buenos Aires Design	48,986	79	(45)	49,020	30,469		2,469	32,938		16,082	18,517	20,935
Shopping Patio Bullrich	160,265	510	(24)	160,751	50,856		6,758	57,614		103,137	109,409	115,602

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IRSA Inversiones y Representaciones Sociedad Anónima and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

	Original value				Depreciation					Net carrying value as of June 3		
						Current year						
al account	Value as of beginning of year	Additions and transfers	Deductions and transfers	Value as of end of year	Accumulated as of beginning of year	Increases/ (decreases) and transfers	Amount (i)	Accumulated as of end of year	Impairment	2007	2006	20
ng Alto o	Ps. 88,823	Ps. 5,185	Ps. (4,055)	Ps. 89,953	Ps. 3,307	Ps.	Ps. 2,501	Ps. 5,808		Ps. 84,145	Ps. 85,516	Ps.
ng ba		93,397		93,397		15,708	2,181	17,889		75,508		
za Plaza ng	112,525	4,410	(551)	116,384	23,924		3,456	27,380		89,004	88,601	
én Project	12,166	136		12,302						12,302	10,012	
erican		167,606		167,606						167,606		
	25,492	7,358	(304)	32,546	7,348	(304)	1,235	8,279	245	24,022	17,899	
s of 0, 2007	Ps. 2,197,235	Ps. 744,408	Ps. (14,643)	Ps. 2,927,000	Ps. 772,300	Ps. 22,840	Ps. 96,936	Ps. 892,076	Ps. 7,613(ii)	Ps. 2,027,311		
s of 0, 2006	Ps. 2,164,209	Ps. 54,919	Ps. (21,893)	Ps. 2,197,235	Ps. 700,234	Ps. (8,562)	Ps. 80,628	Ps. 772,300	Ps. 11,723(ii)		Ps. 1,413,212	
s of 0, 2005	Ps. 1,899,720	Ps. 358,806	Ps. (94,317)	Ps. 2,164,209	Ps. 593,989	Ps. 30,192	Ps. 76,053	Ps. 700,234	Ps. 18,424(ii)			Ps. 1,4

(i) The allocation of annual depreciation charges in the consolidated statements of income is included in Other expenses (Note 29 f.), except for Ps. (250), Ps. 6 and Ps. 441 for the years ended 2007, 2006 and 2005, respectively allocated in Costs and Ps. 316, Ps. 301 and Ps. 238 for the years ended June 30, 2007, 2006 and 2005, respectively, passed-through to tenants.

(ii) Net of the depreciation of the year for Ps. 112, Ps. 388 and Ps. 1,935 for the years ended June 30, 2007, 2006 and 2005 and recovery of impairment of Ps. 3,998 for the year ended 2007.

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IRSA Inversiones y Representaciones Sociedad Anónima and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

b. Intangible assets, net:

	Original value			Amortization					Net carrying value as of June 30,		
					Current year						
Principal account	**Value as of beginning of year**	**Additions/ (deductions)**	**Value as of end of year**	**Accumulated as of beginning of year**	**Increases/ (decreases)**	**Amount (i)**	**Accumulated as of end of year**	**Impairment**	**2007**	**2006**	**2005**
Preoperating and organization expenses	Ps. 23,319	Ps. (5,306)	Ps. 18,013	Ps. 19,896	Ps. (6,070)	Ps. 1,487	Ps. 15,313	Ps.	Ps. 2,700	Ps. 3,423	Ps. 4,749
Trademarks	599		599	423		54	477		122	176	226
Expenses related to securitization of receivables	6,660	(6,660)		6,660	(6,660)						
Total as of June 30, 2007	Ps. 30,578	Ps. (11,966)	Ps. 18,612	Ps. 26,979	Ps. (12,730)	Ps. 1,541	Ps. 15,790	Ps.	Ps. 2,822		
Total as of June 30, 2006	Ps. 30,545	Ps. 33(ii)	Ps. 30,578	Ps. 25,215	Ps.	Ps. 1,764	Ps. 26,979	Ps. (v)		Ps. 3,599	
Total as of June 30, 2005	Ps. 21,220	Ps. 9,325(iii)	Ps. 30,545	Ps. 18,498	Ps. 5,751(iv)	Ps. 966	Ps. 25,215	Ps. 355(vi)			Ps. 4,975

(i) The allocation of annual amortization charges in the consolidated statements of income is included in Other expenses, net (Note 29.f.); except for Ps. 1 and Ps. 8 for the years ended 2007 and 2006, respectively, allocated in Costs and Ps. 5 for the year ended 2005 allocated in Net income from retained interest in securitized receivables .

(ii) Includes:
Ps. (12) reclassified to Other receivables.

(iii) Includes:
Ps. 2,126 reclassified from fixed assets.
Ps. (18) reclassified to inventory.
Ps. 6,082 related to the acquisition of Mendoza Plaza Shopping.

(iv) Includes Ps. 6,070 related to the acquisition of Mendoza Plaza Shopping.

(v) Net of the amortization of the past year of Ps. 152. (See Note 29.f.) and recovery of impairment of Ps. 203.

(vi) Net of the amortization of the past year of Ps. 123. (See Note 29.f.).

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

c. Allowances and provisions

Item	Balances as of beginning of year	Additions	Deductions	Carrying value of June 30, 2007	2006	2005
Deducted from current assets:						
Allowance for doubtful accounts	44,043	36,014(i)	(23,981)(ii)	56,076	44,043	38,255
Total as of June 30, 2007	Ps. 44,043	Ps. 36,014	Ps. (23,981)	Ps. 56,076		
Total as of June 30, 2006	Ps. 38,255	Ps. 13,306	Ps. (7,518)		Ps. 44,043	
Total as of June 30, 2005	Ps. 35,299	Ps. 6,657	Ps. (3,701)			Ps. 38,255
Deducted from non-current assets:						
Allowance for doubtful accounts	1,333	622(i)		1,955	1,333	969
Allowance for doubtful mortgage receivable	2,208			2,208	2,208	2,208
Allowance for impairment of fixed assets	11,723		(4,110)(iii)	7,613	11,723	18,424
Allowance for impairment of inventories	2,229	79	(1,167)	1,141	2,229	2,056
Allowance for impairment of undeveloped plots of land	1,758	17	(335)	1,440	1,758	9,592
Allowance for impairment of intangible assets						355
Total as of June 30, 2007	Ps. 19,251	Ps. 718	Ps. (5,612)	Ps. 14,357		
Total as of June 30, 2006	Ps. 33,604	Ps. 765	Ps. (15,118)		Ps. 19,251	
Total as of June 30, 2005	Ps. 61,836	Ps. 19,228	Ps. (47,460)			Ps. 33,604
Included in current liabilities:						
Provision for contingencies	8,755	603	(1,763)	7,595	8,755	9,776
Total as of June 30, 2007	Ps. 8,755	Ps. 603	Ps. (1,763)	Ps. 7,595		
Total as of June 30, 2006	Ps. 9,776	Ps. 1,047	Ps. (2,068)		Ps. 8,755	
Total as of June 30, 2005	Ps. 6,439	Ps. 3,965	Ps. (628)			Ps. 9,776
Included in non-current liabilities:						
Provision for contingencies	10,942	5,166(iv)	(3,376)(v)	12,732	10,942	11,027
Total as of June 30, 2007	Ps. 10,942	Ps. 5,166	Ps. (3,376)	Ps. 12,732		
Total as of June 30, 2006	Ps. 11,027	Ps. 821	Ps. (906)		Ps. 10,942	

Total as of June 30, 2005	Ps.	6,549	Ps.	6,880	Ps.	(2,402)	Ps. 11,027

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

(i) Doubtful accounts are disclosed in Other expenses (Note 29.f.), except for Ps. 1,041 and Ps. 5,136 related to the allowance of the cancelled trusts in the period and Ps. 22 allocated in fees and payments for services.
(ii) Related to off set and recovery of the year.
(iii) Includes recovery of impairment of Ps. 3,998 disclosed in Gain from operations and holdings of real estate assets, net and the depreciation of the year of Ps. 112.
(iv) Includes Ps. 3,370 shown in Other expenses, net (Note 9), Ps. 323 shown in Note 29.f. and Ps. 1,457 related to the incorporation of E-Commerce Latina S.A. and Empalme S.A.I.C.F.A.y G.
(v) Includes utilization of the year of Ps. 3,023 and recovery of provision of Ps. 353.

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

d. Cost of sales, leases and services

	Year ended June 30, 2007	2006	2005
I. Cost of sales			
Stock as of beginning of year	Ps. 159,774	Ps. 98,522	Ps. 28,398
Plus:			
Expenses (Note 29.f.)	2,728	2,384	2,255
Transfers to fixed assets	(3,399)	(293)	(123)
Transfers from investments			240
Transfers from fixed assets	10,513	1,422	4,715
Transfers to other receivables and prepaid expenses	(1,773)	(1,516)	
Transfers from undeveloped parcels of land	4,465	33,006	25,979
Capitalized interest		222	418
Decrease in mortgage loans	(3,632)		
Exchange gain	133		
Transfer from intangible assets	2,217		
Merger	978		
Adjustment to purchase price of inventory	124,538	70,740	33,721
Stock as of end of year	(253,246)	(159,774)	(98,522)
Subtotal	43,296	44,713	(2,919)
Plus:			
Gain from valuation of inventories at fair market value	15,750	9,727	18,087
Results from holding of real estate assets	165	13	297
Impairment of the year	(1,599)		2,027
Cost of properties sold	57,612	54,453	17,492
II. Cost of leases			
Expenses (Note 29.f.)	107,063	85,120	76,964
Cost of properties leased	107,063	85,120	76,964
III. Cost of fees for services			
Expenses (Note 29.f.)	1,505	2,354	1,591
Cost of fees for services	1,505	2,354	1,591
IV. Cost of hotel activities			
Stock as of beginning of year	2,336	1,289	1,313
Purchases of the year	621	1,047	(24)
Expenses (Note 29.f.)	69,216	57,971	48,925
Stock as of end of year	(2,957)	(2,336)	(1,289)

Cost of hotel activities	69,216	57,971	48,925
V. Cost of credit card operations			
Expenses (Note 29.f.)	76,251	43,933	23,102
Cost of credit card operations	76,251	43,933	23,102
TOTAL COSTS	Ps. 311,647	Ps. 243,831	Ps. 168,074

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

e. Foreign currency assets and liabilities

				Total as of June 30,	
Captions	**Currency**	**Amount of foreign currency**	**Current Exchange rate (i)**	**2007**	**2006**
Assets					
Current assets					
Cash and banks:					
Cash	U$S	231,022	3.053	Ps. 706	Ps. 2,460
Cash	Euros	6,551	4.130	27	7
Cash	Reales	945	1.410	1	2
Cash	Libras	381	6.120	2	2
Bank accounts	U$S	17,675,126	3.053	53,962	49,919
Bank accounts	Euros	423,560	4.130	1,749	1,638
Saving Accounts	Yens	1,174,070	24.760	29,070	28,666
Checks to be deposited	U$S	140,021	3.053	427	414
Investments:					
Government bonds	U$S	7,944	3.053	25	27
Bono Banco Ciudad	Euros	30,466	4.130	126	439
Mutual funds	U$S	138,710,122	3.053	423,483	89,180
Other investments	U$S		(ii)		42
Mortgages and leases receivable, net	U$S	4,018,396	3.053	12,268	7,193
Related parties	U$S	18,410	3.093	57	76
Mortgages and leases receivable	Euros		4.130		6
Other receivables and prepaid expenses:					
Related parties	U$S	8,745,137	3.093	27,049	
Prepaid expenses	U$S	46,203	3.053	141	106
Credit Default swap	U$S	257,135	3.053	785	279
Guarantee deposits	U$S	1,760	3.053	5	9,184
Other	U$S	168,435	3.053	515	33
Total current assets				550,398	189,673
Non-current assets					
Investments:					
Bono Banco Ciudad	Euros		4.130		117
Other	U$S	363,000	3.053	1,108	
Mortgages and leases receivable	U$S	148,917	3.053	454	12,663
Mortgages and leases receivable	Euros	3,000	4.130	12	12
Guarantee receivable	U$S	1,013,931	3.053	3,096	15,889
Prepaid expenses	U$S		3.093		150
Other receivables and prepaid expenses:					
Other	U$S	44,949	3.053	137	
Total non-current assets				4,807	28,831
Total assets as of June 30, 2007				Ps. 555,205	

Total assets as of June 30, 2006	Ps. 218,504

(i) Official exchange rate prevailing as of June 29, 2007.
(ii) Valuated at fair market value.

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Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

Captions	Currency	Amount of foreign currency	Current Exchange rate (i)	Total as of June 30, 2007	Total as of June 30, 2006
Liabilities					
Current liabilities					
Trade accounts payable	U$S	698,672	3.093	Ps. 2,161	Ps. 2,139
Trade accounts payable	Euros	4,251	4.184	18	
Customer advances	U$S	7,262,064	3.093	22,461	11,602
Customer advances	Euros	600,000	4.184	2,510	2,366
Mortgages payables	U$S	5,670,427	3.093	17,538	14,809
Taxes payable	U$S	393,817	3.093	1,218	180
Short-term debt	U$S	44,356,305	3.093	137,194	48,221
Other liabilities					
Guarantee deposits	U$S	751,265	3.093	2,324	1,025
Provision for discount	U$S	233,686	3.093	723	
Collections on behalf of third parties	U$S		3.093		13
Related parties	U$S	765,845	3.093	2,368	1,516
Other	U$S	322,952	3.093	998	
Total current liabilities				189,513	81,871
Non-current liabilities					
Trade accounts payable	U$S	43,425	3.093	135	1,160
Mortgages payables	U$S	1,473,220	3.093	4,557	14,722
Long-term debt	U$S	332,584,124	3.093	1,028,683	280,766
Other liabilities					
Related parties	U$S		3.093		518
Guarantee deposits	U$S	899,192	3.093	2,781	2,403
Total non-current liabilities				1,036,156	299,569
Total liabilities as of June 30, 2007				Ps. 1,225,669	
Total liabilities as of June 30, 2006					Ps. 381,440

(i) Official exchange rate prevailing as of June 29, 2007.

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IRSA Inversiones y Representaciones Sociedad Anónima

Notes to the Consolidated Financial Statements (continued)

(In thousands of Argentine Pesos, except share data and as otherwise indicated)

f. Other expenses

Items	Cost of properties leased	Cost of properties sold	Cost of fees and services	Cost of hotel activities	Cost of credit card operations	Cost of pass-through expenses	Cost of collective promotion fund	Cost of expenses recovery	Administrative	Selling	Financing	Total as of June 30, 2007	Total as of June 30, 2006	Total as of June 30, 2005
Director's fees	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps.	Ps. 16,395	Ps.	Ps.	Ps.16,395	Ps.20,351	Ps. 11,168
Fees and payments for services				3,075	8,335	5,053	63	(5,116)	30,519	401		42,330	25,440	18,893
Salaries and bonuses				24,391	24,870	40,092	5,104	(45,196)	53,403	7,213		109,877	68,511	48,025
Social security contributions				5,670					1,596	571		7,837	8,396	6,227
Depreciation and amortization	82,417	20		9,274	1,302	299	17	(316)	5,250	36		98,299	82,082	75,118
Maintenance of building	24,041	2,708		10,122	469	26,868	86	(26,954)	1,157	12		38,509	27,955	24,628
Mail and telephone				3,001		2,140		(2,140)	496	114		3,611	3,028	3,903
Advertising						107	29,157	(29,264)		31,720		31,720	19,465	12,241
Lease expense					1,362	894	46	(940)	836	3		2,201	2,597	1,618
Commissions and property sales charges				715	21,916				1,601	3,567		27,799	15,470	11,075
Freight and transportation				227	1,136	1,543	95	(1,638)	2,092	499		3,954	2,746	2,233
Taxes, rates and contributions	281				14,192	14,732	1,583	(16,315)	12,901	2		27,376	17,124	9,509
Subscriptions and publications						142		(142)	166			166	199	204
Interest and index adjustment						22		(22)			66,622	66,622	49,125	45,237
Bank charges						27		(27)	5,000	6		5,006	1,700	1,610
Safe deposits box									510		20	530	515	378
Allowance for doubtful accounts										26,110		26,110	11,033	2,952
Travel expenses				443		17		(17)	1,060			1,503	398	313
Food and beverages				8,882								8,882	5,892	5,234
Personnel					1,385	45		(45)	2,007	404		3,796	1,093	753
Training expenses													304	131
Contingencies (i)													965	666
Insurances				174	1,252	703	17	(720)	2,246			3,672	2,246	1,631
Surveillance						1,171		(1,171)	783			783	446	340
Training courses						1		(1)	327			327	22	112
(Recovery) Change for contingencies for lawsuits	324											324		

Gross sales tax				5		(5)		40,027	40,027	20,021	13,232
Expenses recovery				(97,732)	(36,650)	134,382					
Unrecovered expenses				423		(423)					
Other	1,505	3,242	32	3,448	482	(3,930)	3,082	3,024	10,885	11,335	10,134