IRSA INVESTMENTS & REPRESENTATIONS INC
Form 6-K
February 23, 2006

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 6-K

**REPORT OF FOREIGN ISSUER**

**PURSUANT TO RULE 13a-16 OR 15b-16 OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of February, 2006**

## Irsa Inversiones y Representaciones Sociedad Anónima

**(Exact name of Registrant as specified in its charter)**

## Irsa Investments and Representations Inc.

**(Translation of registrant s name into English)**

**Republic of Argentina**

**(Jurisdiction of incorporation or organization)**

**Bolivar 108**

**(C1066AAB)**

**Buenos Aires, Argentina**

**(Address of principal executive offices)**

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Form 20-F __T__ Form 40-F ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No __T__

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**IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANÓNIMA**

**(THE COMPANY )**

**REPORT ON FORM 6-K**

Attached is a copy of the English translation of the Unaudited Consolidated Financial Statements For the six -month period beginning on July 1, 2005 and 2004 and ended December 31, 2005 and 2004.

**IRSA Inversiones y Representaciones**

**Sociedad Anónima and subsidiaries**

**Free translation of the Unaudited**

**Consolidated Financial Statements**

For the six -month period beginning on July 1, 2005 and 2004

and ended December 31, 2005 and 2004

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Unaudited Consolidated Balance Sheets as of December 31, 2005 and June 30, 2005**

In thousand of pesos (Notes 1, 2 and 3)

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and banks (Note 5) | 69,729 | 98,244 |
| Investments (Note 9) | 153,175 | 113,690 |
| Mortgages and leases receivables, net (Note 6) | 123,356 | 65,481 |
| Other receivables and prepaid expenses (Note 7) | 41,332 | 46,694 |
| Inventories (Note 8) | 69,887 | 65,626 |
| **Total Current Assets** | **457,479** | **389,735** |
| **NON-CURRENT ASSETS** | | |
| Mortgages and leases receivables, net (Note 6) | 28,845 | 7,765 |
| Other receivables and prepaid expenses(Note 7) | 106,212 | 112,538 |
| Inventories (Note 8) | 58,546 | 53,460 |
| Investments (Note 9) | 551,968 | 531,606 |
| Fixed assets, net (Note 10) | 1,431,566 | 1,436,628 |
| Intangible assets, net | 5,119 | 5,880 |
| **Subtotal Non-Current Assets** | **2,182,256** | **2,147,877** |
| Goodwill, net | (17,004) | (13,186) |
| **Total Non-Current Assets** | **2,165,252** | **2,134,691** |
| **Total Assets** | **2,622,731** | **2,524,426** |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Trade accounts payable | 110,880 | 66,881 |
| Mortgages payable (Note 11) | 17,378 | 25,462 |
| Customer advances (Note 12) | 62,067 | 50,924 |
| Short term-debt (Note 13) | 159,993 | 93,918 |
| Salaries and social security payable | 8,228 | 12,336 |
| Taxes payable | 41,557 | 22,352 |
| Other liabilities (Note 14) | 41,075 | 39,104 |
| **Total Current Liabilities** | **441,178** | **310,977** |
| **NON-CURRENT LIABILITIES** | | |
| Trade accounts payable | 1,537 | 1,949 |
| Mortgages payable (Note 11) | 21,894 | 27,627 |
| Customer advances (Note 12) | 44,647 | 39,868 |

| | | |
|---|---|---|
| Long term-debt (Note 13) | 327,617 | 389,755 |
| Taxes payable | 18,287 | 21,772 |
| Other liabilities (Note 14) | 26,312 | 34,410 |
| **Total Non-Current Liabilities** | **440,294** | **515,381** |
| **Total Liabilities** | **881,472** | **826,358** |
| Minority interest | 439,903 | 445,839 |
| **SHAREHOLDERS EQUITY** | **1,301,356** | **1,252,229** |
| **Total Liabilities and Shareholders Equity** | **2,622,731** | **2,524,426** |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Eduardo Sergio Elsztain

President

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Unaudited Consolidated Statements of Income**

For the six-month periods beginning on July 1, 2005 and 2004

and ended December 31, 2005 and 2004

In thousand of pesos, except earnings per share (Notes 1, 2 and 3)

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Sales, leases and services | 256,446 | 185,245 |
| Cost of sales, leases and services | (113,066) | (80,373) |
| **Gross profit** | 143,380 | 104,872 |
| Gain from valuation of inventories at fair market value | 7,409 | |
| Selling expenses | (26,310) | (16,531) |
| Administrative expenses | (40,927) | (29,900) |
| **Subtotal** | (59,828) | (46,431) |
| Net gain in credit card trust Tarjeta Shopping | 2,080 | 882 |
| **Operating income (Note 4)** | 85,632 | 59,323 |
| Amortization of goodwill | (553) | (981) |
| Financial results generated by assets: | | |
| Interest income | 2,619 | 1,912 |
| Interest on discount by assets | 4 | 117 |
| Gain on financial operations | 4,681 | 18,880 |
| Exchange gain | 16,869 | 1,215 |
| **Subtotal** | 24,173 | 22,124 |
| Financial results generated by liabilities: | | |
| Interest on discount by liabilities | (2) | (132) |
| Exchange loss | (30,174) | (4,070) |
| Financial expenses | (26,321) | (27,666) |
| **Subtotal** | (56,497) | (31,868) |
| **Financial results, net** | (32,324) | (9,744) |
| Equity gain from related parties | 28,539 | 49,502 |
| Other income and expenses, net (Note 15) | (4,993) | (4,939) |
| **Net Income before taxes and minority interest** | 76,301 | 93,161 |
| Income tax and asset tax | (33,583) | (29,609) |
| Minority interest | (13,732) | (6,792) |
| **Net income for the period** | 28,986 | 56,760 |
| **Earnings per common share** | | |
| Basic (Note 25) | 0.080 | 0.224 |

| | | |
|---|---|---|
| Diluted (Note 25) | 0.077 | 0.121 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Eduardo Sergio Elsztain

President

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Unaudited Consolidated Statements of Cash Flows (1)**

For the six-month periods beginning on July 1, 2005 and 2004

and ended December 31, 2005 and 2004

In thousand of pesos (Notes 1, 2 and 3)

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| **CHANGES IN CASH AND CASH EQUIVALENTS** | | |
| Cash and cash equivalents as of beginning of year | 142,589 | 122,913 |
| Cash and cash equivalents as of end of period | 159,295 | 104,391 |
| **Net increase (decrease) in cash and cash equivalents** | 16,706 | (18,522) |
| **CAUSES OF CHANGES IN CASH AND CASH EQUIVALENTS** | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income for the period | 28,986 | 56,760 |
| Plus income tax and asset tax accrued for the year | 33,583 | 29,609 |
| **Adjustments to reconcile net income to cash flows from operating activities:** | | |
| Equity gain from related parties | (28,539) | (49,502) |
| Minority interest | 13,732 | 6,792 |
| Allowances and reserves | 16,119 | 5,194 |
| Sundry Provisions | | 3,562 |
| Amortization and depreciation | 40,737 | 35,975 |
| Financial results | 20,884 | (8,634) |
| Gain from valuation of inventories at fair market value | (7,409) | |
| Realized gains | (2,428) | (15,501) |
| Uncollected expenses | 4,438 | |
| **Changes in operating assets and liabilities:** | | |
| Decrease (Increase) in current investments | 8,921 | (20,179) |
| Increase in non-current investments | (6,572) | |
| Increase in mortgages and lease receivables | (87,362) | (23,700) |
| Decrease in other receivables | 12,617 | 13,676 |
| Decrease (Increase) in inventories | 18,234 | (3,366) |
| Increase in intangible assets | (177) | (1,821) |
| (Decrease) Increase in taxes payable, salaries and social security payable and customer advances | (3,483) | 411 |
| Increase in trade accounts payable | 32,727 | 12,832 |
| Increase in accrued interest | 3,470 | 5,941 |
| Decrease in other liabilities | (5,698) | (9,697) |
| **Net cash provided by operating activities** | 92,780 | 38,352 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Payment for companies acquired net of cash acquired | (4,232) | (4,163) |
| Increase in non current investment | | (13,772) |
| Guarantee deposit | (8,610) | |
| Decrease in minority interest | (4,149) | (16,698) |
| Sale of IRSA Telecomunicaciones N.V. | 1,719 | |
| Improvements to undeveloped parcels of land | (423) | (261) |

| | | |
|---|---|---|
| Purchase and improvements of fixed assets | (27,148) | (34,230) |
| **Net cash used in investing activities** | (42,843) | (69,124) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Increase in debt | 16,414 | 51,972 |
| Payment of debt | (31,511) | (52,014) |
| Dividend payment by subsidiaries to minority interests | (11,130) | (8,256) |
| Dividend payment to minority interests due to capital reduction | (1,320) | |
| Judicial deposit | | (788) |
| Cash received for settlement of swap | 1,190 | |
| Mortgage settlement | (17,574) | |
| Payment of Debt for purchase of controlled companies | (5,150) | |
| Issuance of capital stock (exercise of option) | 15,850 | 21,336 |
| **Net cash (used in) provided by in financing activities** | (33,231) | 12,250 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **16,706** | **(18,522)** |

(1) Includes cash and banks and investments with a realization term not exceeding three months.

The accompanying notes are an integral part of these Unaudited Consolidated Financial Statements.

Eduardo Sergio Elsztain

President

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**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Unaudited Consolidated Statements of Cash Flows (Continued)**

For the six-month periods beginning on July 1, 2005 and 2004

and ended December 31, 2005 and 2004

In thousand of pesos (Notes 1, 2 and 3)

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| **Supplemental cash flow information** | | |
| **Cash paid during the period:** | 23,207 | 25,816 |
| Interest | 413 | 640 |
| Income tax | | |
| **Non-cash activities:** | | |
| Increase in fixed assets through a decrease I inventories | | 123 |
| Increase in inventories through a decrease in fixed assets | 1,422 | 4,604 |
| Increase in intangible assets through a decrease in fixed assets | 6 | 2,108 |
| Increase in undeveloped parcels of land through a decrease in fixed assets | 1,626 | |
| Increase in inventories through a decrease in undeveloped parcels of land | 18,404 | 25,979 |
| Increase in other receivables through a decrease in fixed assets | 83 | |
| Increase in credit card trust Tarshop | | (7,245) |
| Disolution of credit card trust Tarshop | | 3,370 |
| Increase of fixed assets through an increase in trade payables | 10,860 | |
| Increase of fixed assets through a decrease of other receivables | | 103 |
| Compensation of restricted cash with provisions for contingencies | | 185 |
| Transfer from higher investment value of non current investment to fixed assets | | 596 |
| Conversion of negotiable obligations into shares | 4,291 | 2,623 |

Eduardo Sergio Elsztain

President

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Unaudited Consolidated Statements of Cash Flows (Continued)**

For the six-month periods beginning on July 1, 2005 and 2004

and ended December 31, 2005 and 2004

In thousand of pesos (Notes 1, 2 and 3)

| | **December 31, 2005** | **December 31, 2004** |
|---|---|---|
| **Acquisitions of subsidiary companies:** | | |
| Services and lease receivables | | 1,490 |
| Other receivables | 99 | 4,761 |
| Undeveloped parcels of land | 269 | |
| Fixed Assets | | 86,931 |
| Intangibles Assets | | 12 |
| Trade payables | | (983) |
| Customer Advances | | (3,325) |
| Bank and judicial loans | | (38,178) |
| Loans to related companies | | (3,133) |
| Salaries and social security charges | | (203) |
| Fiscal Debts | | (754) |
| Dividends payables (includes $75 to pay to Alto Palermo S.A (APSA)) | | (300) |
| Other liabilities | (89) | (16,182) |
| Allowances | | (4,458) |
| **Net value of the acquired non-cash assets** | **279** | **25,678** |
| Cash acquired | | 1,238 |
| **Net value of the acquired assets** | **279** | **26,916** |
| Minority interest | | (8,398) |
| Equity investment before the acquisition | | (5,087) |
| Higher value of fixed assets acquired | | 1,558 |
| Higher value of undeveloped parcels of land acquired | 3,953 | |
| **Purchase value of acquired subsidiaries** | **4,232** | **14,989** |
| Cash acquired | | (1,238) |
| Amount financed by sellers | | (9,587) |
| | **4,232** | **4,164** |

Eduardo Sergio Elsztain

President

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**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

For the six-month periods beginning on July 1, 2005 and 2004

and ended December 31, 2005 and 2004.

In thousand of pesos (Notes 1, 2 and 3)

**NOTE 1: BASIS OF CONSOLIDATION CORPORATE CONTROL**

a. Basis of consolidation

The Company has consolidated its balance sheets at December 31, 2005 and June 30, 2005 and the statements of income and cash flows for the six-month periods ended December 31, 2005 and 2004 line by line with the financial statements of its subsidiaries, following the procedure established in Technical Resolution No. 21 of the Argentine Federation of Professional Councils in Economic Sciences and approved by the Professional Council in Economic Sciences of the Autonomous City of Buenos Aires and by the National Securities Commission.

Financial statements corresponding to the six-month economic periods ended December 31, 2005 and 2004 have not been audited yet. The management believes they include all necessary settlements to reasonably show the consolidated results of each period.

Results for the six-month economic periods ended December 31, 2005 and 2004 do not necessarily reflect the portion of the company s consolidated result for such complete years.

All significant intercompany balances and transactions have been eliminated in consolidation.

The following table shows the data concerning the corporate control:

| COMPANIES | DIRECT AND INDIRECT % OF CAPITAL (*) | | DIRECT AND INDIRECT % OF VOTING SHARES (*) | |
|---|---|---|---|---|
| | December 31, 2005 | June 30, 2005 | December 31, 2005 | June 30, 2005 |
| Ritelco S.A. | 100.00 | 100.00 | 100.00 | 100.00 |
| Palermo Invest S.A. | 66.67 | 66.67 | 66.67 | 66.67 |
| Abril S.A. | 83.33 | 83.33 | 83.33 | 83.33 |

| | | | | |
|---|---|---|---|---|
| Pereiraola S.A. | 83.33 | 83.33 | 83.33 | 83.33 |
| Baldovinos S.A. | 83.33 | 83.33 | 83.33 | 83.33 |
| Hoteles Argentinos S.A. | 80.00 | 80.00 | 80.00 | 80.00 |
| Llao LLao Resorts S.A. | 50.00 | 50.00 | 50.00 | 50.00 |
| Buenos Aires Trade & Finance Center S.A. (2) | | 100.00 | | 100.00 |
| Alto Palermo S.A. ( APSA ) | 61.62 | 60.69 | 61.62 | 60.69 |
| Canteras Natal Crespo S.A. (1) | 43.00 | | 43.00 | |

(*) The above holdings do not contemplate irrevocable capital contributions.

(1) The Company holds joint control of Canteras Natal Crespo S.A. with ECIPSA, see Note 17 to the basic Unaudited Financial Statement.

(2) The Company has completed merger procedures to take-over its subsidiary company Buenos Aires Trade and Finance Center S.A. having accounting effect as of 12/01/05 (See Note 19 to the basic unaudited financial statements)

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTE 1:** (Continued)

b. Comparative Information

Balance sheet items at June 30, 2005 shown in these unaudited consolidated financial statements for comparative purposes arise from the audited annual consolidated financial statements corresponding to the year then ended.

The balances at December 31, 2005 of the Statements of Income, Changes in Shareholders Equity and Cash Flows are disclosed in comparative format with the same period of the previous fiscal year.

Certain amounts in the financial statements at June, 2005 were reclassified for disclosure on a comparative basis with those for the period ended December 31, 2005

**NOTE 2: CONSIDERATION OF THE EFFECTS OF INFLATION**

The unaudited financial statements have been prepared in constant monetary units, reflecting the overall effects of inflation through August 31, 1995. From that date and until December 31, 2001 the government discontinued the restatement of the financial statements due to a period of monetary stability. From January 1, 2002 up to February 28, 2003 the effects of inflation were recognized due to the existence of an inflationary period. As from that date, the restatement of the financial statements was discontinued.

This criterion is not in line with current professional accounting standards, which establish that the financial statements should be restated through September 30, 2003. However, due to the low level of inflation rates during the period from March to September 2003, this deviation has not had a material effect on the consolidated financial statements taken as a whole.

The rate used for restatement of items is the domestic wholesale price index published by the National Institute of Statistics and Census.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The unaudited financial statements of the subsidiaries mentioned in Note 1, have been prepared on a consistent basis with those applied by IRSA Inversiones y Representaciones Sociedad Anónima. Note 1 to the unaudited basic financial statements details the most significant accounting policies applied and mentions the consolidation of the recently approved accounting standards that will be applicable at the beginning of the next fiscal year. Below are the most relevant accounting policies adopted by the subsidiaries, which are not included in that note.

a. Banco Hipotecario S.A. shares

Banco Hipotecario S.A. shares were valued by using the equity method of accounting by the end of the period. See Note 1.5.i. to the unaudited basic financial statements.

b. Revenue recognition

The Company s revenues mainly stem from office leases, shopping center operations, development and sale of real estate, hotel operations and, to a lesser extent, from e-commerce activities.

Leases and services from shopping center operations

Leases with tenants are accounted for as operating leases. Tenants are generally charged a rent, which consists of the higher of (i) a monthly base rent (the Base Rent ) and (ii) a specified percentage of the tenant s monthly gross retail sales (the Percentage Rent ) (which generally ranges between 4% and 8% of tenant s gross sales).

Furthermore, pursuant to the rent escalation clause in most leases, the tenant s Base Rent generally increases between 4% and 7% each year during the term of the lease. Minimum rental income is recognized on a straight-line basis over the term of the lease. Certain lease agreements contain provisions, which provide for rents based on a percentage of sales or based on a percentage of sales volume above a specified threshold. The Company determines the compliance with specific targets and calculates the additional rent on a monthly basis as provided for in the contracts. Thus, these contingent rents are not recognized until the required thresholds are exceeded.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTE 3:** (Continued)

b. (Continued)

Generally, the Company s lease agreements vary from 36 to 120 months. Law No. 24,808 provides that tenants may rescind commercial lease agreements after the initial six months, upon not less than 60 days written notice, subject to penalties which vary from one to one and a half months rent if the tenant rescinds during the first year of its lease, and one month of rent if the tenant rescinds after the first year of its lease. The Company also charges its tenants a monthly administration fee, prorated among the tenants according to their leases, which varies from shopping center to shopping center, relating to the administration and maintenance of the common area and the administration of contributions made by tenants to finance promotional efforts for the overall shopping centers operations.

Administration fees are recognized monthly when accrued. In addition to rent, tenants are generally charged admission rights , that tenants may be required to pay upon entering into a lease or upon lease renewal. Admission right is normally paid in one lump sum or in a small number of monthly installments. Admission rights are recognized using the straight-line method over the life of the respective lease agreements.

Credit card operations

Revenues derived from credit card transactions include commissions and financing income. Commissions are recognized at the time the merchants transactions are processed, while financing income is recognized at the time it is accrued.

Hotel operations

The Company recognizes revenues from its rooms, catering, and restaurant facilities as accrued on the close of each business day.

Net operating results from each business unit are disclosed in Note 4.

c. Intangible assets

Intangible assets are carried at cost restated as mentioned in Note 2, less accumulated amortization and corresponding allowances for impairment in value. Included in the Intangible Assets caption are the following:

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTE 3:** (Continued)

c. (Continued)

Trademarks

Trademarks include the expenses and fees related to their registration.

Pre-operating expenses

This item reflects expenses generated by the opening of new shopping malls. Those expenses are amortized by the straight-line method in 3 years, beginning as from the date of opening of the shopping center.

Property development expenses

Expenses incurred related to the selling of development properties, including advertising, commissions and other expenses, are charged to net income for the period in which the corresponding income is accrued, based on the percentage of completion method.

The value of these assets do not exceed its estimated recoverable value at the end of each period.

d. Goodwill

Negative goodwill represents the excess of the market value of net assets of the subsidiaries at the percentage participation acquired over the acquisition cost. Goodwill has been restated following the guidelines mentioned in Note 2 and amortization has been calculated by the straight-line method based on an estimated useful life of 20 years, considering the weighted-average of the remaining useful life of identifiable assets acquired subject to depreciation.

Additionally, also included was the goodwill from the subsidiary APSA, originating from the purchase of shares of Tarshop S.A., Fibesa S.A. and Shopping Alto Palermo S.A., which is amortized through the straight-line method over a period that not exceeds 10 years.

Amortization has been classified under Amortization of goodwill in the Statements of Income.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTA 4: OPERATING INCOME BY BUSINESS UNIT**

The Company has determined that its reportable segments are those that are based on the Company s method of internal reporting. Accordingly, the Company has five reportable segments. These segments are Sale and development of properties, Office and other non-shopping center rental properties, Shopping centers, Hotel operations, and Financial operations and others. As discussed in Note 1, the consolidated statements of income were prepared following the guidelines of Technical Resolution No. 21 of the F.A.C.P.C.E..

A general description of each segment follows:

Sale and development of properties

This segment includes the operating results of the Company s construction and ultimate sale of residential buildings business.

Office and other non-shopping center rental properties

This segment includes the operating results of the Company s lease and service revenues of office space and other building properties from tenants.

Shopping centers

This segment includes the operating results of the Company s shopping centers principally comprised of lease and service revenues from tenants. This segment also includes revenues derived from credit card transactions that consist of commissions and financing income.

Hotel operations

This segment includes the operating results of the Company s hotels principally comprised of room, catering and restaurant revenues.

Financial operations and others

This segment primarily includes revenues and associated costs generated from the sale of equity securities, other securities-related transactions and other non-core activities of the Company. This segment also includes gain/loss in equity investments of the Company relating to the banking activity, internet, telecommunications and other technology-related activities of the Company.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTA 4:** (Continued)

The Company measures its reportable segments based on operating result. Inter-segment transactions, if any, are accounted for at current market prices. The Company evaluates performance of its segments and allocates resources to them based on operating result. The Company is not dependent on any single customer.

The accounting policies of the segments are the same as those described in Note 1 to the unaudited basic financial statements and in Note 3 to the unaudited consolidated financial statements.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTE 4:** (Continued)

The following information provides the operating results from each business unit:

As of December 31, 2005

| | Development and sale of properties | Office and Other non-shopping center rental properties (a) | Shopping centers | Hotel operations | Others | Total |
|---|---|---|---|---|---|---|
| Revenues | 27,706 | 13,394 | 161,472 | 53,019 | 855 | 256,446 |
| Costs | (22,127) | (4,343) | (57,049) | (28,778) | (769) | (113,066) |
| Gross (loss) profit | 5,579 | 9,051 | 104,423 | 24,241 | 86 | 143,380 |
| Income from valuation of inventories at net sale value | 7,409 | | | | | 7,409 |
| Selling expenses | (952) | (512) | (19,199) | (5,647) | | (26,310) |
| Administrative expenses | (4,926) | (4,705) | (20,741) | (10,555) | | (40,927) |
| Net gain in credit card trust | | | 2,080 | | | 2,080 |
| Operating income (loss) | 7,110 | 3,834 | 66,563 | 8,039 | 86 | 85,632 |
| Depreciation and amortization (b) | 171 | 3,980 | 31,414 | 4,827 | | 40,392 |
| Addition of fixed assets and intangible assets | 688 | 69 | 19,734 | 6,834 | | 27,325 |
| Non-current investments in other companies | | | 564 | | 245,637 | 246,201 |
| Operating assets | 363,386 | 359,866 | 1,156,122 | 139,157 | | 2,018,531 |
| Non-Operating assets | 51,753 | 51,252 | 31,134 | 3,066 | 466,995 | 604,200 |
| Total assets | 415,139 | 411,118 | 1,187,256 | 142,223 | 466,955 | 2,622,731 |
| Operating liabilities | 13,383 | 60,518 | 212,487 | 21,800 | | 308,188 |
| Non-Operating liabilities | 96,979 | 72,308 | 308,346 | 47,777 | 47,874 | 573,284 |
| Total liabilities | 110,362 | 132,826 | 520,833 | 69,577 | 47,874 | 881,472 |

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

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Continued)**

**NOTE 4:** (Continued)

The following information provides the operating results from each business unit:

As of December 31, 2004

| | Development and sale of properties | Office and Other non-shopping center rental properties (a) | Shopping centers | Hotel operations | Others | Total |
|---|---|---|---|---|---|---|
| Sales, leases and services | 26,960 | 8,862 | 103,620 | 45,304 | 499 | 185,245 |
| Cost of sales, leases and services | (11,356) | (3,816) | (40,627) | (24,258) | (316) | (80,373) |
| Gross (loss) profit | 15,604 | 5,046 | 62,993 | 21,046 | 183 | 104,872 |
| Selling expenses | (1,018) | (418) | (9,980) | (5,115) | | (16,531) |
| Administrative expenses | (3,931) | (3,171) | (13,375) | (9,423) | | (29,900) |
| Net income in credit card trust | | | 882 | | | 882 |
| Operating income | 10,655 | 1,457 | 40,520 | 6,508 | 183 | 59,323 |
| Depreciation and amortization (b) | 130 | 3,261 | 27,792 | 4,600 | | 35,738 |
| Additions of fixed assets and intangible assets (c) | | 20,370 | 50,921 | 8,025 | | 79,316 |
| Non-current investments in other companies (c) | | | 808 | | 219,432 | 220,240 |
| Operating assets (c) | 343,803 | 364,420 | 1,124,780 | 133,035 | | 1,966,038 |
| Non-operating assets (c) | 55,442 | 58,766 | 10,678 | 2,136 | 431,366 | 558,388 |
| Total assets (c) | 399,245 | 423,186 | 1,135,458 | 135,171 | 431,366 | 2,524,426 |
| Operating liabilities (c) | 11,040 | 68,129 | 147,915 | 20,313 | | 247,397 |
| Non-operating liabilities (c) | 96,332 | 72,266 | 308,153 | 44,735 | 57,475 | 578,961 |
| Total liabilities (c) | 107,372 | 140,395 | 456,068 | 65,048 | 57,475 | 826,358 |

(a) Includes offices, commercial and residential premises.
(b) Included in operating income.
(c) Information at June 30, 2005

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

## NOTA 5: CASH AND BANKS

The breakdown for this item is as follows:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| Cash in local currency | 1,967 | 2,232 |
| Cash in US$ | 2,530 | 5,135 |
| Banks in local currency | 15,697 | 14,998 |
| Banks in US$ | 35,548 | 30,702 |
| Banks in EUR | 414 | 284 |
| Special current accounts in local currency | 1,789 | 2,106 |
| Foreign accounts | 11,222 | 42,099 |
| Checks to be deposited | 562 | 688 |
| | 69,729 | 98,244 |

## NOTE 6: MORTGAGES AND LEASES RECEIVABLE

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Debtors from sale of real estate | 8,459 | 13,130 | 2,117 | 840 |
| Interest to be accrued | (97) | (83) | (10) | (5) |
| Debtors from leases and credit card | 92,146 | 16,887 | 51,256 | 7,899 |
| Debtors from leases under legal proceedings | 22,878 | | 22,664 | |
| Debtors from sales under legal proceedings | 2,037 | | 2,368 | |
| Checks to be deposited | 29,523 | | 20,319 | |
| Related parties | 294 | | 146 | |
| Mortgages accounts receivable from hotel activities | 8,363 | | 4,876 | |
| Less: | | | | |
| Allowance for doubtful accounts | (461) | | (425) | |
| Allowance for doubtful leases | (39,786) | (1,089) | (37,830) | (969) |
| | 123,356 | 28,845 | 65,481 | 7,765 |

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**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

## NOTE 7: OTHER RECEIVABLES

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Asset tax | 9,290 | 28,545 | 18,009 | 25,694 |
| Value added tax ( VAT ) receivable | 3,952 | 5,483 | 3,838 | 5,173 |
| Related parties | 3,199 | 47 | 2,055 | 46 |
| Guarantee deposits (1) (2) | 9,419 | 35 | 279 | 19 |
| Prepaid expenses | 4,148 | 291 | 6,878 | 315 |
| Guarantee of default credit (3) | | 18,001 | | 17,128 |
| Expenses to be recovered | 3,468 | | 3,726 | |
| Fund Administration | 191 | | 191 | |
| Advances to be rendered | 63 | | 79 | |
| Gross sales tax | 1,073 | 905 | 1,037 | 782 |
| Deferred income tax | | 49,641 | | 61,761 |
| Debtors under legal proceeding | 127 | | 96 | |
| Sundry debtors | 2,532 | | 2,837 | |
| Operating pending settlement | 113 | | 269 | |
| Income tax advances | 867 | | 1,332 | |
| Country club debtors | 412 | | 412 | |
| Cash reserves related to the securitization programs | 714 | 4,333 | 4,090 | 2,549 |
| Mortgages receivable under legal proceeding | | 2,208 | | 2,208 |
| Allowance for doubtful accounts | | (2,208) | | (2,208) |
| Tax on personal assets to be recovered | 5,888 | | 5,823 | |
| Allowance for tax on personal assets | (5,222) | | (5,326) | |
| Pre-paid insurance | 192 | | 52 | |
| Judicial attachments (Note 26) | 861 | | 861 | |
| Present value other receivables | | (1,204) | | (1,064) |
| Other | 45 | 135 | 156 | 135 |
| | 41,332 | 106,212 | 46,694 | 112,538 |

(1) Includes a US$ 3 million deposit in guarantee kept in the Deustche Bank in favor of Argentimo S.A. related to an agreement entered into between Alto Palermo S.A., Argentimo S.A. and Constructora San José Argentina S.A. by which the guidelines are established for negotiating the acquisition of land to develop a commercial center and a dwelling and/or office building.

(2) Included restricted cash (see Note 16.b)

(3) See note 15 to the unaduited basic financial statements and Note 16 to the unaudited consolidated financial statements.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 8: INVENTORIES**

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Credit from barter of Edificios Cruceros (1) | 12,467 | | 8,141 | |
| Dock 13 | 1,605 | | 1,605 | |
| Dorrego 1916 | 13 | | 13 | |
| Minetti D | 65 | | 65 | |
| Torres Jardín | 468 | | 468 | |
| V. Celina | 43 | | 43 | |
| Abril / Baldovinos | 7,207 | 1,853 | 7,671 | 2,782 |
| San Martín de Tours | 13,558 | | 11,743 | |
| Credit from barter of Benavidez (Note 27) | | 8,542 | | 8,542 |
| Torres de Abasto | 518 | | 518 | |
| Dique III (2) | 25,142 | 9,776 | 33,699 | |
| Credit from barter of Parcel 1 c) Dique III (3) | | 22,861 | | 22,861 |
| Torres Rosario (Note 12 (2)) | 6,662 | 15,514 | | 19,275 |
| Other inventories | 2,139 | | 1,660 | |
| | 69,887 | 58,546 | 65,626 | 53,460 |

(1) See note 1.5.h to the unaudited basic financial statements.

(2) Corresponds to parcel 1 e) (valued at restated cost).An option contract was signed for this plot and this option has not been exercised as of the date of issuance of these unaudited financial statements. Also, corresponds to parcel 1 d) (valued at net realizable value). A preliminary sale contract was signed for this plot. See Note 20 to the unaudited basic financial statements.

(3) Corresponds to the right to receive units to be received as consideration for the exchange of plot 1c). See Note 20 to the unaudited basic financial statements.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

## NOTE 9: INVESTMENTS

The breakdown for this item is as follows:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| **Current** | | |
| Cedro (1) | | 5 |
| Lebacs (1) | | 3,445 |
| Boden (1) | 39 | 39 |
| Mortgage bonds (1) | 3,152 | 3,523 |
| Bono Argentina Discount (1) | | 1,074 |
| IRSA I Trust Exchangeable Certificate (1) | 169 | 558 |
| Time deposits and money markets | 1,511 | 6,039 |
| Mutual funds (2) | 137,556 | 87,944 |
| Tarshop Trust (1) | 10,310 | 10,634 |
| Banco Ciudad de Bs. As. Bond (1) | 400 | 391 |
| Other investments (1) | 38 | 38 |
| | 153,175 | 113,690 |
| **Non-current** | | |
| Banco de Crédito y Securitización S.A. | 4,658 | 4,448 |
| Banco Hipotecario S.A. | 240,979 | 213,265 |
| IRSA Telecomunicaciones N.V. | | 1,719 |
| E-Commerce Latina S.A | 564 | 808 |
| IRSA I Trust Exchangeable Certificate | 3,317 | 3,353 |
| Tarshop Trust | 25,980 | 19,256 |
| Banco Ciudad de Bs. As. Bond | 301 | 482 |
| Other investments | 40 | 48 |
| | 275,839 | 243,379 |
| **Undeveloped parcels of land:** | | |
| Dique IV | 6,559 | 6,490 |
| Caballito plots of land | 19,898 | 19,898 |
| Padilla 902 | 89 | 89 |
| Pilar | 3,408 | 3,408 |
| Torres Jardín IV | 3,030 | 3,030 |
| Puerto Retiro (Note 16) | 46,411 | 46,493 |
| Santa María del Plata | 114,397 | 112,771 |
| Pereiraola | 21,875 | 21,875 |
| Air space Supermercado Coto | 11,695 | 11,695 |
| Caballito | 31,065 | 31,065 |
| Neuquén | 9,987 | 9,987 |
| Alcorta Plaza (Note 21) | | 18,048 |
| Canteras Natal Crespo | 4,337 | |

| | | |
|---|---|---|
| Other undeveloped parcels of land | 3,378 | 3,378 |
| | 276,129 | 288,227 |
| | 551,968 | 531,606 |

(1) Not considered as cash for unaudited consolidated statements of cash flow purposes.

(2) Include Ps. 44,270 and Ps. 46,886 at December 31, 2005 and at June 30, 2005, respectively, corresponding to Dolphin Fund PLC , not considered as cash for consolidated statement of cash flow purposes.

Include Ps. 4,174 and Ps. 1,738 at December 31, 2005 and at June 30, 2005, respectively, corresponding to NCH Development Partner fund not considered as cash for consolidated statement of cash flow purposes.

Include Ps. 1,057 and Ps. 1,014 at December 31, 2005 and at June 30, 2005, corresponding to Gainvest funds no considered cash for consolidated statements of cash flow purposes.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 10: FIXED ASSETS**

The breakdown for this item is as follows:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| **Hotels** | | |
| Llao-Llao | 37,250 | 33,097 |
| Intercontinental | 55,941 | 57,073 |
| Libertador | 35,760 | 36,700 |
| | 128,951 | 126,870 |
| **Office buildings** | | |
| Avda. de Mayo 595 | 4,520 | 4,574 |
| Avda. Madero 942 | 2,380 | 2,401 |
| Edificios Costeros (Dique II) | 19,198 | 19,358 |
| Laminar Plaza | 30,309 | 30,577 |
| Libertador 498 | 42,897 | 43,307 |
| Libertador 602 | 2,957 | 2,985 |
| Madero 1020 | 1,649 | 1,665 |
| Maipú 1300 | 44,155 | 44,581 |
| Reconquista 823 | 19,167 | 19,355 |
| Rivadavia 2768 | 162 | 164 |
| Sarmiento 517 | 82 | 84 |
| Suipacha 652 | 11,623 | 11,749 |
| Intercontinental Plaza | 66,971 | 67,741 |
| Costeros Dique IV | 21,659 | 21,849 |
| Bouchard 710 | 71,505 | 72,222 |
| | 339,234 | 342,612 |
| **Commercial real estate** | | |
| Alsina 934 | | 1,429 |
| Constitución 1111 | 540 | 545 |
| | 540 | 1,974 |
| **Other fixed assets** | | |
| Abril | 1,133 | 1,133 |
| Alto Palermo Park | 495 | 500 |
| Thames | 3,033 | 3,033 |
| Santa María del Plata | 10,513 | 12,109 |
| Constitución 1159 | 1,324 | 1,324 |
| Other | 1,719 | 1,593 |

| | | |
|---|---|---|
| | 18,217 | 19,692 |
| **Shopping Center** | | |
| Alto Avellaneda | 94,408 | 98,750 |
| Alto Palermo | 201,851 | 210,822 |
| Paseo Alcorta | 64,184 | 65,816 |
| Abasto | 198,873 | 202,776 |
| Patio Bullrich | 112,542 | 115,602 |
| Buenos Aires Design | 19,718 | 20,935 |
| Alto Noa | 30,038 | 30,883 |
| Alto Rosario | 80,290 | 79,117 |
| Mendoza Plaza Shopping | 86,617 | 83,706 |
| Advance for purchase of fixed assets (Note 33) | 16,033 | |
| Other properties | 12,338 | 12,103 |
| Other fixed assets | 27,732 | 24,970 |
| | 944,624 | 945,480 |
| **Total** | **1,431,566** | **1,436,628** |

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

## NOTE 11: MORTGAGES PAYABLE

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Mortgage payable San Martin de Tours | 3,432 | | 2,935 | |
| Mortgage payable Bouchard 710 (1) | 13,946 | 21,894 | 22,527 | 27,627 |
| | 17,378 | 21,894 | 25,462 | 27,627 |

(1) See details in Notes 6 and 12 to the unaudited basic financial statements.

## NOTE 12: CUSTOMER ADVANCES

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| Admission rights | 22,186 | 30,922 | 18,041 | 26,061 |
| Lease and service advances (1) | 12,034 | 13,725 | 10,966 | 13,807 |
| Advanced payments from customers | 25,735 | | 20,911 | |
| Advance for the sale of a plot of land (2) | 2,112 | | 1,006 | |
| | 62,067 | 44,647 | 50,924 | 39,868 |

1) The balance of rents and services advance payments include Ps 1,220 and Ps 5,789 current and non- current, respectively, that represent advance payments provided by Hoyts Cinema for the construction of the movie complexes of the Abasto Shopping and Centro Comercial Alto Noa. These advance payments accrue an interest equivalent to the semiannual Libo rate added 2-2.25 points. As of December 31, 2005 the semiannual Libo rate was 4.6975%. Due to an agreement between APSA and Hoyts Cinema, the amount is being applied to the

accrual of the rents originated in the place used by Hoyts Cinema.

2) This is a 600 Euros advanced payment that the Company received from Villa Hermosa S.A. related to a purchase contract of a plot of land that is currently an integral part of the plot located in Rosario, in which the Company projects to build housing towers. The liabilities amount is shown net of expenses that the Company has incurred on account and order of Villa Hermosa S.A. The preliminary purchase contract referred to above was subscribed on December 9, 2005. The maximum term established to formalize the deed is March 9, 2006 (this term may be extended). The plot is valued at cost of its fair market value as conditions provided in Technical Resolution No. 17 are complied with.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 13: SHORT AND LONG - TERM DEBT**

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | Current | Non-Current | Current | Non-Current |
| APSA Convertible Notes (1) | 47,111 | | | 44,821 |
| APSA Convertible Notes - Accrued interest (1) | 2,131 | | 2,016 | |
| Bank loans (2) | 94,089 | 60,010 | 77,182 | 82,218 |
| Bank loans - Accrued interest (2) | 2,840 | 6,926 | 1,630 | 5,987 |
| IRSA Convertible Notes (3) | | 172,188 | | 168,059 |
| IRSA Convertible Notes - Interest | 1,766 | | 1,726 | |
| Negotiable obligations 2009 - principal amount (4) | 11,334 | 77,214 | 10,792 | 78,917 |
| Negotiable obligations 2009 - accrued interest (4) | 722 | 11,279 | 572 | 9,753 |
| | 159,993 | 327,617 | 93,918 | 389,755 |

1) Corresponds to the outstanding balance of Negotiable Obligations convertible into shares (CNB) issued originally by APSA for an outstanding amount of US$ 50 million, as detailed in Note 23 to the unaudited consolidated financial statements, net of the CNB underwritten by the Company and net of fees and expenses related to issue of debt to be accrued.

2) The outstanding balance at December 31, 2005 includes mainly the following loans:

(a) Unsecured loan expiring in 2009 as set out in Note 7 to the unaudited basic financial statements amounted to Ps. 54,483 (Ps. 55,198 at June 30, 2005).

(b) US$ 11 million loan granted by Deutsch Bank to APSA on March 4, 2005 with installments of principal and interest amounted to US$ 5 million falling due as from April 4, 2005 and amounted to US$ 3 million each one, falling due on February 1, 2006 and on August 1, 2006 respectively. The loan accrues annual interest equivalent to LIBOR plus 3.25%. On April 4, 2005 APSA paid the first principal installment plus accrued interest and after December 31, 2005, on February 1st; 2006 paid the second principal installment.

(c) On April 5, 2005 APSA accepted a syndicated loan from Banco Río de la Plata S.A. and Bank Boston N.A. amounting to Ps. 50 million, payable in 4 equal and consecutive semiannual installments. The final due date of the transaction falls on April 5, 2007. During the first year this loan will accrue interest at a fixed interest rate of 7.875 % and during the second year, will accrue interest at the Central Bank survey rate plus 3 %. The terms of this loan require APSA to maintain certain financial ratios and conditions, and certain indicators and levels of indebtedness. The proceeds from this loan were used to settle the outstanding balance, amounting to Ps. 48.4 million, of Negotiable Obligations originally issued for an amount of Ps. 85.0 million. On October 5, 2005 the first capital installment of $ 12.5 million was cancelled as well as the second installment of interest of the loan, whith funds that principally come from the dividends that Shopping Alto Palermo S.A.(APSA Subsidiary) approved on a timely basis. On January 5, 2006, APSA paid the third principal installment plus accrued interest.

(d) Hotels Argentinos S.A. mortgage loan amounting to US$ 8,000. See Note 16.

(e) Other loans and bank overdrafts amounting to Ps. 19,617.

3)

Corresponds to the issue of Convertible Negotiable Bonds of the Company for a total value of US$ 100 million as set forth in Notes 7 and 13 to the unaudited basic financial statements.

4) Corresponds to the issue of Negotiable Bonds secured with certain Company assets maturing in 2009, as detailed in Note 7 and 12 b. to the unaudited basic financial statements.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

## NOTE 14: OTHER LIABILITIES

The breakdown for this item is as follows:

| | December 31, 2005 | | June 30, 2005 | |
|---|---|---|---|---|
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Seller Financings (1) | 12,222 | | 11,348 | 5,030 |
| Dividends payable | 39 | | 39 | |
| Related parties | 5,130 | 1,814 | 2,829 | 1,732 |
| Guarantee deposits | 1,669 | 2,230 | 924 | 2,787 |
| Provisions for contingencies (2) | 7,751 | 10,912 | 9,776 | 11,027 |
| Directors fees provision | 6,443 | | 10,379 | |
| Directors fees advances | (108) | | (3,327) | |
| Rebilled condominium expenses | 385 | | 475 | |
| Directors guarantee deposits | | 8 | | 8 |
| Sundry creditors | 824 | | 39 | |
| Fund Administration | 636 | | 636 | |
| Pending settlements for sales of plots | 138 | | 57 | |
| Contributed leasehold improvements to be accrued and unrealized gains (Note 30) | 526 | 11,210 | 635 | 13,818 |
| Donations payable | 3,960 | | 3,960 | |
| Present value other liabilities | | (3) | | (4) |
| Trust accounts payable | 283 | | 283 | |
| Other | 1,177 | 141 | 1,051 | 12 |
| | 41,075 | 26,312 | 39,104 | 34,410 |

(1) The balances as of December 31, 2005 include:

a. Ps. 5,928 relating to the financing of the acquisition of Shopping Neuquén S.A. shares made by APSA on July 6, 1999 (Ps. 3,265 of principal and Ps. 2,663 of C.E.R.). This loan accrues interest equivalent to LIBOR for six months. At December 31, 2005 LIBO rate for six months was 3.25%,

b. Ps. 5,133 maturing on September 29, 2006 corresponding to the financed acquisition of Mendoza Plaza Shopping S.A (Former Pérez Cuesta S.A.C.I.) shares (See Note 28); and

c. Ps. 181 related to the acquisition of 50% share of Conil S.A.

(2) The Company has recorder provisions in order to face up to probable contingent claims, and according to estimates developed by Company s legal counsels, such provisions would cover loss contingencies and related fees regarding to such claims. The amount of such provisions is based on management s assessment and the considerations of legal counsel s opinion regarding the matters.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 15: OTHER INCOME AND EXPENSES, NET**

The breakdown for this item is as follows:

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| **Other income:** | | |
| Recovery of allowances | 6 | 223 |
| Accelerated realized earnings (Note 30) | 2,428 | |
| Others | 422 | 984 |
| | 2,856 | 1,207 |
| **Other expenses:** | | |
| Unrecoverable VAT receivable | (643) | (485) |
| Donations | (314) | (133) |
| Loss from the sale of fixed assets | | (35) |
| Lawsuits contingencies | (403) | (516) |
| Debit and credit tax | (442) | (402) |
| Tax on personal assets | (3,384) | (4,528) |
| Allowance for doubtful accounts | (1,614) | |
| Other | (1,049) | (47) |
| | (7,849) | (6,146) |
| **Other income and expenses, net** | **(4,993)** | **(4,939)** |

**NOTE 16: RESTRICTED ASSETS**

Puerto Retiro S.A.

On April 18, 2000, Puerto Retiro S.A. (indirect subsidiary of The Company) was notified of a filing made by the National Government, through the Ministry of Defense, to extend the petition in bankruptcy of Inversora Dársena Norte S.A. (Indarsa) to Puerto Retiro S.A. Concurrently with the complaint, at the request of plaintiff, the bankruptcy court granted an order restraining the ability of Puerto Retiro S.A. to sell or dispose in any manner the real estate property near Puerto Madero denominated *Planta 1* which had been acquired from Tandanor S.A. in June 1993.

Indarsa had acquired 90% of the capital stock of Tandanor, a formerly estate owned company privatized in 1991, engaged in the shipyard industry.

Indarsa did not comply with the payment of the outstanding price for the acquisition of the stock of Tandanor, and therefore the Ministry of Defense requested the bankruptcy of Indarsa, pursuing to extend the bankruptcy to Puerto Retiro S.A..

The legal proceedings have practically reached the end of the time allowed to produce evidence. Puerto Retiro S.A. contested the complaint and appealed the provisional remedy, which was dismissed on December 14, 2000. The next steps will be the allegations and the handing down of the first instance sentence.

Management and the legal counsels of Puerto Retiro S.A. believe that the extension of the bankruptcy will be dismissed by the Court.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 16:** (Continued)

Hoteles Argentinos S.A. mortgage loan

The Extraordinary Shareholders Meeting of Hoteles Argentinos S.A. (subsidiary company) held on January 5, 2001 approved taking a long-term mortgage loan from Bank Boston N.A. for a total amount of US$ 12,000 to be used to refinance existing debts. The term of the loan was agreed at 60 months payable in 19 equal and quarterly installments of US$ 300 and one final payment of US$ 6,300. The agreement was signed on January 26, 2001.

Interest payments must be paid quarterly in arrears at an annual interest rate equivalent to LIBO for 12 months loans plus the applicable mark-up as per the contract, which consists of a variable interest rate applicable in the debt´s interest payment period that as of December 31, 2005, was 5.92125%.

The guarantee granted was a senior mortgage on a property owned by Hoteles Argentinos S.A., which houses the Hotel Sheraton Libertador Buenos Aires. As a result of the economic situation of the country, the lack of credit and the crisis of the Argentine financial system, principal installments falling due as from January 26, 2002 and the interest installments falling due as from July 29, 2002, amounting to US$ 6,681, were not paid by Hoteles Argentinos S.A. As failure to pay the installments when due entitles the creditors to require acceleration of principal and interest maturities, the loan has been classified and shown under short term debt. On March 5, 2004, BankBoston N.A. formally notified Hoteles Argentinos S.A. that as from March 10, 2004 it assigned to Marathon Master Fund Ltd., domiciled at 461 Fifth Avenue, 10th floor, New York, NY 10017, USA, all the rights and obligations arising from the loan agreement entered into on January 26, 2001 between Hoteles Argentinos S.A. as borrower and BankBoston N.A., as lender, together with all the changes, guarantees and insurance policies related to that contract.

Consequently, all pending obligations of Hoteles Argentinos S.A. must be fulfilled in favor of the assignee, Marathon Master Fund Ltd.

On December 16, 2004 Ritelco S.A. purchased the loan of US$ 12,951 that controlled subsidiary (80%) Hoteles Argentinos S.A. owed Marathon Master Fund, Ltd. for US$ 7,925.

On March 23, 2005 Ritelco S.A. sold to CSFB the loan agreement for US$ 8 million in cash and the Company entered into an agreement with CSFB pursuant to which, among other things, (a) the Company guarantees the payment of the debt owed by HASA, (b) HASA must present a restructuring plan of the loan prior to September 15, 2005, and (c) in the event of non-compliance the Company shall repurchase the loan agreement for US$ 8,000. As guarantee for this transaction, the Company made a payment of US$ 2,000 to CSFB which is disclosed as a collateral deposit within Other receivables and prepaid expenses, net in the accompanying consolidated balance sheet. The loan is collateralized by real estate properties with a net book value of Ps. 32,1 million at June 30, 2005.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 16:** (Continued)

Hoteles Argentinos S.A. has initiated the restructuring process and refinancing of its debt, for which it should present a restructuring plan of the total debt prior to March 15, 2006, which should expired on March 23, 2009 (due date for the refinancing).

Alto Palermo Group - Restricted assets.

a) Other current liabilities include Shopping Neuquén S.A. liability amounting to Ps. 42, corresponding to a mortgage set up on acquired land for Ps. 3,314.

b) At December 31, 2005, under other current receivables, the Company discloses funds amounting to Ps. 108 restricted by the National Labor Court of First Instance No. 40 Unique Secretary in relation to the case Del Valle Soria, Delicia against New Shopping S.A. claiming unfair dismissal.

c) As of December 31, 2005, non current investments include Ps 13,778 Emprendimiento Recoleta S.A. which are pledged.

**NOTE 17: TARSHOP S.A. CREDIT CARD RECEIVABLE SECURITIZACION**

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

Under the securitization programs, Trusts may issue two types of certificates representing undivided interests in Trusts - 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.

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**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 17:** (Continued)

In consideration of the receivables transferred to the trusts, which have been eliminated from the Company s balance sheet, Tarshop received cash (arising from the placement of the debt securities by the trusts) and the certificates issued by the trusts. The latter are recorded at their equity values at the closing of the period on the basis of the financial statements issued by the trusts.

**NOTE 18: SALE IN OWNERSHIP OF BANCO HIPOTECARIO S.A. AMONG SUBSIDIARIES**

On August 9, 2005 Ritelco S.A. sold 335,893 shares of Banco Hipotecario S.A. to Buenos Aires Trade and Finance Center S.A. at that moment (100% subsidiary of the Company) in the total amount of US$ 1,536 (equivalent to market value of US$ 4,57 per share). See Note 18 to the unaudited basic financial statements in connection with the sale of the interest in Banco Hipotecario S.A. made by IRSA to Buenos Aires Trade & Finance Center S.A.

As such transactions were made among subsidiaries, in which IRSA holds 100% interest, they did not modify the shareholding and did not affect the unaudited consolidated financial statements.

As of December 31, 2005, total shareholding amounted to 17,641,015.

**NOTA 19: INVESTMENT IN IRSA TELECOMUNICACIONES N.V. (ITNV)**

At June 30, 2005, Ritelco held an investment in ITNV representing 49.36% of its common shares. Ritelco had discontinued in prior years the application of the equity method for valuing this investment because there were mandatorily redeemable preferred shares issued by ITNV, as Ritelco had not secured ITNV obligations, nor had it agreed to provide financial support to that company. For this reason, the investment in ITNV was valued at zero.

On August 19, 2005, a share purchase agreement was entered into by and between ITNV, Ritelco S.A. and Dolphin Fund Plc (another shareholder of ITNV) whereby ITNV acquired all the common shares held by those shareholders (4,106,000 and 1,675,000 shares, respectively) for US$ 0.1470333852 per share. The amount of this transaction is US$ 850, of which US$ 604 correspond to Ritelco S.A.

Taking into account that the above-mentioned transaction occurred subsequent to year-end, but before the issuance of the annual financial statements, Ritelco took up as of June 30, 2005 the investment in ITNV at its equity value up to the limit of its recoverable value. Consequently, Ritelco recorded an income of US$ 604 as of June 30, 2005.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 20: MORTGAGE RECEIVABLE SECURITIZATION ORIGINATED BY IRSA INVERSIONES Y REPRESENTACIONES SOCIEDAD ANONIMA (IRSA), INVERSORA BOLIVAR S.A. AND BALDOVINOS S.A.**

The Board of Directors of The Company, in the meeting held on November 2, 2001, authorized the setting up of a financial trust for the securitization of Company receivables. The trust program for issuing participation certificates, under the terms of Law No. 24,441, was approved by the National Securities Commission by means of Resolution No. 13,040, dated October 14, 1999, as regards the program and in particular as regards the Trust called IRSA I following a decision of the Board of Directors dated December 14, 2001.

On December 17, 2001, The Company, Inversora Bolívar S.A. and Baldovinos S.A. (indirect subsidiaries )(hereinafter the Trustors ) and Banco Sudameris Argentina S.A. (hereinafter the Trustee ) agreed to set up the IRSA I Financial Trust under the Global Program for the Issuance of FIDENS Trust Values, pursuant to the contract entered into on November 2, 2001.

Under the above-mentioned program, the trustors have sold their personal and real estate receivables, secured with mortgages or arising from bills of sale with the possession of the related properties, for the total amount of US$ 26,586 to the Trustee, in exchange for cash and a part of the issuance by the Trustee of Participation Certificates. The different types of Participation Certificates issued by the Trustee are set out as follows:

Class A Participation Certificates ( CPA ): Nominal value of US$ 13,300 with a 15% fixed annual nominal yield, with monthly Service payments due on the 15th of each month or on the immediately following business day. These certificates grant the right to collect the following Services: (a) a fixed yield calculated on the Class principal balance, with monthly capitalization, payable monthly as from the total settlement of the CPAs, and (b) an amortization.

Class B Participation Certificates ( CPB ): Nominal value of US$ 1,000 with a 15.50% fixed annual, nominal yield, with monthly Service payments due on the 15th of each month or on the immediately following business day. These certificates grant the right to collect the following Services: (a) a fixed yield calculated on the Class principal balance, with monthly capitalization, payable monthly as from the total settlement of the CPAs, and (b) an amortization equivalent to the sums paid as from the Last Service Payment Date on which the total settlement of the CPA Certificates may have taken place, net of their fixed yield.

Class C Participation Certificates ( CPC ): Nominal value of US$ 1,600 with a 16% fixed annual nominal yield, with monthly Service payments due on the 15th of each month or on the immediately following business day. These certificates grant the right to collect the following Services: (a) a fixed yield calculated on the Class principal balance, with monthly capitalization, payable monthly as from the total settlement of the CPBs, and (b)

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**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 20:** (Continued)

an amortization equivalent to the sums paid as from the Last Service Payment Date on which the total settlement of the CPBs may have taken place, net of their fixed yield. The fixed yield will accrue as from the Cut-Off Date and will be capitalized on a monthly basis.

Class D Participation Certificates ( CPD ): Nominal Value of US$ 10,686. These grant the right to collect monthly sums arising from the Cash Flows, net of the contributions made to the Expense Fund, once the remaining classes have been fully settled.

The period for placing the Participation Certificates was from December 27, 2001 to January 15, 2002.

Pursuant to Decree No. 214/02, receivables and debts in U.S. dollars in the Argentine financial system as of January 6, 2002, were converted to pesos at the rate of exchange of Ps. 1 per US$ 1 and are adjusted by a reference stabilization index (CER) / coefficient of salary fluctuation (CVS).

On July 21, 2003 an amendment was signed to the trust contract by which, among other conditions, a system of proportional adjustment to the Participation Certificates was established to recognize the CER and CVS, and also nominal value of the Participation Certificates Class D was modified. New nominal value amounted to Ps. 10,321.

At December 31, 2005, the value of Class D Participation Certificates amounted to Ps. 2,904 in IRSA, Ps. 463 in Inversora Bolívar S.A., and Ps. 119 in Baldovinos S.A.. Class A, B, and C Certificates have been totally amortized at the end of the period.

**NOTE 21**: **SALE OF THE ALCORTA PLAZA PLOT**

On December 22, 2005, Alto Palermo S.A. (APSA) subscribed a preliminary purchase contract with possession, by which APSA sold to RAGHSA S.A. the plot denominated Alcorta Plaza for a total price of US$ 7.7 million. Payment terms and conditions were as follows:

- US$ 1,925 with the preliminary purchase contract.
- US$ 1,925 on March 30, 2006 (day in which the deed for final transfer will be signed).
- US$ 1,925 on March 30, 2007 and US$ 1,925 on March 30, 2008.

A first preference mortgage guarantee will be furnished on certain units to be used for offices and garage of the building owned by RAGHSA S.A., located at San Martín 338, 344, 350 and 360, and Florida 343 and 347 of the City of Buenos Aires. The amount of the mortgage was US$ 4,374.

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**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

## NOTE 22: DERIVATIVE INSTRUMENTS

**Interest rate swaps**

Alto Palermo S.A. (APSA) has used certain financial instruments to reduce its financing costs. Major financing institutions have been the counterparties of such instruments. APSA has not emitted derivative instruments with the objective of selling and purchasing. APSA managed the risk of possible counterparties inability to fulfill instrument clauses.

In order to minimize its financing costs, the Company entered into an interest rate swap agreement to effectively convert a portion of its peso-denominated fixed-rate debt to dollar-denominated floating rate debt.

During the period ended December 31, 2004 related with this contract, the company recorded profits amounting to Ps. 4.09 million. This contract expired on 4 April, 2005.

**Options and future contracts to purchase metals**

During the six-month period ended December 31, 2005, Ritelco S.A. entered into future contracts for the purchase of silver, and launched call options in Euros. In accordance with its risk management policies, Ritelco S.A. uses future metal contracts for speculative purposes.

As of December 31, 2005, the Company maintained eight contracts sold of puts in Euros due in March 2006 in an amount of US$ 1,235 per unit. The Company collected a US$ 18,800 premium for such contracts. At the same date, the price of such contracts amounted to US$ 21,700. To guarantee such contracts, the Company has deposits for US$ 57,449 (equivalent to Ps 177,871). The difference between market value and amounts agreed for the financial instruments outstanding as of December 31, 2005 is (US$ 2,900) (equivalent to Ps. 8,677).

The gain recorded during the six-month period ended December 31, 2005 amounted to US$ 552,806 (equivalent to Ps 1,625,924).

## NOTE 23: ALTO PALERMO - ISSUANCE OF NEGOTIABLE OBLIGATIONS CONVERTIBLE INTO COMMON SHARES

On July 19, 2002, Alto Palermo S.A. issued Series I of Negotiable Obligations up to US$ 50,000 convertible into common shares, par value of Ps. 0.10 each.

After the end of the period granted to exercise the accretion right, the Negotiable Obligations convertible into shares for US$ 50,000 were fully subscribed and paid-up.

This issuance was resolved at the Ordinary and Extraordinary Meeting of Shareholders held on December 4, 2001, approved by the National Securities Commission Resolution No. 14,196 dated March 15, 2002 and authorized to list for trading on the Buenos Aires Stock Exchange on July 8, 2002.

**IRSA Inversiones y Representaciones Sociedad Anónima and subsidiaries**

**Notes to the Unaudited Consolidated Financial Statements (Contd.)**

**NOTE 23:** (Continued)

Main issue terms and conditions of the Convertible Negotiable Obligations are as follows:

- Issue currency: US dollars.
- Due date: July 19, 2006.
- Interest: at a fixed nominal rate of 10% per annum. Interest is payable semi-annually.
- Payment currency: US dollars or its equivalent in pesos.
- Conversion right: the notes can be converted at any time at the option of each holder into ordinary shares at a conversion price equivalent to the higher of the result from dividing the nominal value of the Company s shares (Ps. 0.1) by the exchange rate and US$ 0.0324, which means that each Note is potentially exchangeable for 30.864 shares of Ps. 0.1 par value each.
- Right to collect dividends: the shares underlying the conversion of the negotiable obligations will be entitled to the same right to collect any dividends to be declared after the conversion as the shares outstanding at the time of the conversion.

The Convertible Negotiable Obligations were paid in cash or through the exchange of liabilities due from APSA at the time of the subscription.

APSA used the proceeds obtained from the offering of securities to the payment of expenses and fees relating to issuing and placement of convertible negotiable obligations, payment of liabilities with shareholders and repurchase of negotiable obligations Class A-2 and B-2 the latter belong to its subsidiary Shopping Alto Palermo S.A., thus fulfilling the plan for allocation of funds duly presented to the National Securities Commission.

At December 31, 2005, certain holders of Negotiable Obligations convertible into APSA common shares, have exercised their right to convert them for a total amount of US$ 2.72 million. As of December 31, 2005, the outstanding balance APSA Convertible Negotiable Obligations amounted to US$ 47.28 million of which US$ 31.7 million correspond to IRSA s holding which is eliminated in consolidation process.

With respect to the