

INNOSPEC INC.  
Form 8-K  
October 09, 2012

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

**Form 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): 10/09/2012**

**INNOSPEC INC.**

(Exact name of registrant as specified in its charter)

**Commission File Number: 1-13879**

**Delaware**  
(State or other jurisdiction of  
incorporation)

**98-0181725**  
(IRS Employer  
Identification No.)

**8375 South Willow Street, Littleton, Colorado, 80124**  
(Address of principal executive offices, including zip code)

**303-792-5554**  
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 8.01. Other Events**

On October 5, 2012, Innospec submitted a preliminary, non-binding proposal to acquire all outstanding shares of TPC Group, Inc. ("TPC") common stock for an all-cash price of \$44 to \$46 per share. Our proposal is subject to certain conditions, including completion of our due diligence, obtaining all necessary internal approvals, and negotiation of definitive documentation.

Based on our analysis of publicly available information to date, we believe Innospec's acquisition of TPC has the potential to augment our revenue and earnings growth through opportunities within TPC's existing businesses and also the potential to create additional value from the combination of TPC with Innospec's current operations.

We believe our offer represents a fair value for the TPC business.

We believe that Innospec could benefit from:

- A complementary fit between TPC's Performance Products division (which produces key raw materials for fuel and lubricant additives) and Innospec's Fuel Specialties business,
- A number of common customers in Innospec's Fuel Specialties business and TPC's C4 and Performance Products businesses, and
- The ability to bring Innospec's global capabilities and relationships to TPC's businesses, and other potential synergies.

Innospec expects to fund the potential acquisition with a combination of debt financing and a preferred equity investment in Innospec by investment funds affiliated with Blackstone Capital Partners VI, L.P. Innospec plans to maintain leverage below 3x on a net debt to EBITDA basis, pro forma for the transaction.

It is not anticipated that any further developments will be disclosed with regard to these discussions and diligence review unless definitive agreements relating to the transaction are entered into.

A copy of the press release issued by the Company is attached as Exhibit 99.1 to this report.

**Forward-Looking Statements**

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated herein may constitute forward-looking statements. Such forward-looking statements frequently use or are accompanied by words like "expects," "anticipates," "may," "believes" or similar words or expressions and include, for example, statements which relate to operating performance, events or developments that we expect or anticipate will or may occur in the future, such as, without limitation, statements regarding the growth potential of and future financial performance that may result from the proposed transaction discussed herein. Although forward-looking statements are believed by management to be reasonable when made, they are subject to certain risks, uncertainties and assumptions, and our actual performance or results may differ materially from these forward-looking statements, including without limitation that the transaction described above may not be consummated or consummated on the terms described above, that the financing for the transaction described above may not be available or available on the terms described above, or that the synergies or potential benefits to Innospec described above may not be realized. Additional information regarding risks, uncertainties and assumptions relating to the Company and affecting our business operations and prospects are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and other reports filed and to be filed with the U.S. Securities and Exchange Commission. You are urged to review our discussion of risks and uncertainties that could cause actual results to differ from forward-looking statements under the heading "Risk Factors" in such existing and future filings. The Company undertakes no

obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

**Item 9.01. Financial Statements and Exhibits**

(c) Exhibits

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

INNOSPEC INC.

Date: October 09, 2012

By: /s/ David E. Williams

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David E. Williams

Vice President, General Counsel and Chief Compliance Officer

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
EX-99.1	Press Release dated October 9, 2012

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Position itself as one of the leading private banks in terms of equity in Argentina, with full provisioning of non-performing loans.

Reduce its exposure to the public sector risk.

Improve profitability by controlling operating expenses and generating stable operating results.

**Factors Affecting Comparability of Financial Data**

Its consolidated results of operations for the twelve month periods ended June 30, 2007, 2006 and 2005 and its financial condition at those dates reflect significant ongoing changes in the nature of its business, the composition of its loan and investment portfolios, changes in its sources of funding and in the regulatory environment. Subsequent to the economic crisis in Argentina, Banco Hipotecario has complemented its traditional mortgage lending with other types of banking services. As a result, its results of operations for the periods ended June 30, 2007, 2006 and 2005 are not comparable in many important respects to its results for preceding periods and are not necessarily indicative of its future results.

Argentina experienced a high rate of inflation in 2002. Therefore, on July 17, 2002, through Decree No. 1269/02, the Argentine Government reestablished the practice of restating financial information to account for inflation for periods beginning on or after January 1, 2002. This was regulated by Communiqué A 3702 of the Argentine Central Bank, Resolution No. 415/02 of the Comisión Nacional de Valores. Starting on January 1,

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2002, Banco Hipotecario began to adjust its financial statements for inflation based on changes in the wholesale price index published by the National Institute of Statistics and Census, or INDEC. Through Decree No. 664/03, Argentine Central Bank's Communiqué A 3921 and Resolution No. 441/03 of the *Comisión Nacional de Valores*, dated April 8, 2003, the Government eliminated the requirement that financial statements be prepared in constant currency, effective for financial periods ending on or after March 1, 2003.

### **Critical Accounting Policies**

Banco Hipotecario believes that the following are the critical accounting policies under Central Bank accounting rules and U.S. GAAP, as they are important to the portrayal of its financial condition and results of operations and require its most difficult, subjective and complex judgment and the need to make estimates about the effect of matters that are inherently uncertain.

#### ***Reserve for Loan Losses***

Banco Hipotecario's reserve for loan losses are maintained in accordance with Central Bank accounting rules. Under such regulations, a minimum reserve for loan losses is calculated primarily based upon the classification of Banco Hipotecario's commercial loan borrowers and the past due status of Banco Hipotecario's individual loan borrowers. Although the Banco Hipotecario are required to follow the methodology and guidelines for determining its reserve for loan loss as set forth by the Central Bank, are allowed to provide additional allowances for loan loss reserves.

Banco Hipotecario classifies individual loans based upon their past due status consistent with the requirements of the Central Bank. Minimum loss percentages required by the Central Bank are also applied to the totals in each loan classification. Balances of loans and reserves are charged-off and reflected on its balance sheets three months from the date on which the loans were fully covered by its loan loss reserves.

For commercial loans, Banco Hipotecario is required to classify all of its commercial loan borrowers. In order to perform the classification, Banco Hipotecario must consider the management and operating history of the borrower, the present and projected financial situation of the borrower, the borrower's payment history and ability to service the debt, the capability of the borrower's internal information and control systems and the risk in the sector in which the borrower operates. Banco Hipotecario applies the minimum loss percentages required by the Central Bank to Banco Hipotecario's commercial loan borrowers based on the loan classification and the nature of the collateral, or guarantees, of the loan. In addition, based on the overall risk of the portfolio, Banco Hipotecario considers whether or not additional loan loss reserves in excess of the minimum required are warranted.

Under U.S. GAAP reserve for loan losses represents the estimate of probable losses in the loan portfolio. Determining the reserve for loan losses requires significant management judgments and estimates including, among others, identifying impaired loans, determining customers' ability to pay and estimating the fair value of underlying collateral or the expected future cash flows to be received. Actual events are likely to differ from the estimates and assumptions used in determining the allowance for loan losses. Additional provisions for loan losses could be required in the future.

#### ***Fair Value Estimates***

Banco Hipotecario prepares its financial statements in accordance with the rules of the Central Bank related thereto, which differ from U.S. GAAP in valuing financial instruments.

U.S. GAAP requires financial instruments to be valued at fair value. Banco Hipotecario estimated the fair value as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and such value was best evidenced by a quoted market price, if one existed. In cases where quoted market prices were not available, fair value estimation was based on the quoted market price of a financial instrument with similar characteristics, the present value of expected future cash flows, or other valuation techniques, all of which were significantly affected by the assumptions used.

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For a detailed description of the applicable accounting principles, please see Note 5 to Banco Hipotecario's consolidated financial statements included elsewhere in this prospectus.

***Government Securities – BODEN***

Central Bank accounting rules regarding investments in government securities allow banks to classify their portfolio of government securities into two balance sheet categories: trading and investing securities. Trading securities are marked to market daily with the resulting gain or loss reflected in the statements of income. Investing securities are carried at cost plus accretion of discount or amortization of premiums and accrued interest, as applicable.

The compensatory and hedge (additional Boden 2012 subscribed) bonds Banco Hipotecario receives are classified as Investing securities at par value based on Central Bank accounting rules, notwithstanding that the estimated market value of such bonds is lower than such par value. As of June 30, 2006 the BODEN were trading in the secondary market at a price of approximately US\$94.5 for every US\$100 of nominal value. As market conditions change, adjustments to the estimated market value of the BODEN are not reflected in its financial position. Future sales or settlements of the BODEN will reflect the market conditions at the time and may result in a significant gain or loss that represents the difference between the settlement amount and the then carrying value. See note to its audited financial statements.

Its right to receive BODEN that are issued in hedge transactions is classified as Other receivables from financial transactions and is being recognized at par value of the BODEN to be issued, notwithstanding that the estimated market value of the BODEN linked to such right is significantly below such carrying value. As of June 30, 2007, the BODEN were trading in the secondary market at a price of approximately US\$95.15 for every US\$100 of nominal value.

As of the date of this information Banco Hipotecario had subscribed additional BODEN due 2012 in principal amount of US\$403.7 million, for cash in aggregate principal amount of Ps.1,247.9 million.

Under U.S. GAAP compensatory and hedge bonds are valued at fair value. See Fair Value Estimates above.

***Other Receivables from Financial Transactions and Miscellaneous Receivables,***

Banco Hipotecario carries other receivables from financial transactions and miscellaneous receivables net of allowances for uncollectible amounts. Its judgment regarding the ultimate collectibility is performed on an account-by-account basis and considers its assessment of the borrower's ability to pay based on factors such as the borrower's financial condition, past payment history, guarantees and past-due status.

***Minimum Presumed Income Tax***

Banco Hipotecario recognized the minimum presumed income tax accrued as of June 30, 2007 and paid in prior years as an asset as of June 30, 2007, because Banco Hipotecario started to generate taxable income and Banco Hipotecario expects to be able to compute it as a payment on account of income tax in future years. Recognition of this asset arises from the ability to generate sufficient taxable income in future years to absorb the asset before it expires. Management's determination of the likelihood that deferred tax assets can be realized is subjective, and involves estimates and assumptions about matters that are inherently uncertain. The realization of deferred tax assets arises from levels of future taxable income and the achievement of tax planning strategies.

Underlying estimates and assumptions can change over time, influencing its overall tax positions, as a result of unanticipated events or circumstances.

**Table of Contents****Twelve month periods ended June 30, 2007 and 2006****General**

The following table sets forth the principal components of its net income for the twelve-month periods ended June 30, 2007 and 2006.

	<b>Twelve months ended June 30,</b>		<b>% Change</b>
	<b>2006</b>	<b>2007</b>	<b>2006/2007</b>
	<b>(in millions of pesos, except for percentages)</b>		
Financial income	Ps. 733.8	Ps. 882.2	20.2%
Financial expenses	(412.2)	(374.7)	(9.1)
Net financial income	321.6	507.6	57.8
Provision for losses on loans	(10.5)	(43.7)	316.0
Net contribution from insurance <sup>(1)</sup>	44.9	69.8	55.6
Other income from services	47.6	83.4	75.3
Other expenses on services	(30.6)	(67.8)	121.6
Administrative expenses	(185.2)	(270.8)	46.2
Miscellaneous income, net <sup>(2)</sup>	124.5	81.4	(34.6)
Minority interest	(1.9)	(0.9)	(51.7)
Income tax	(1.3)	(1.0)	(23.8)
Net income	Ps. 309.1	Ps. 357.9	15.8%

(1) Insurance premiums minus insurance claims paid.

(2) Miscellaneous income minus miscellaneous expenses.

**Net Income**

Banco Hipotecario's net income for the twelve-month period ended June 30, 2007 of Ps.357.9 million was higher than Ps 309.1 for the twelve-month period ended June 30, 2006, principally due to:

Higher financial income principally as a result of higher income from government and private securities, hedging transactions and the increase of new consumer products.

Higher net contributions from insurance as a result of an increase in new loan origination and an expansion on insurance products offered.

Higher income from services as a result of higher bank activity.

These factors were partially offset by:

Higher administrative expenses mainly related to social security contributions, and fees related to actions adopted by Banco Hipotecario in developing its retail banking business.

Higher expenses on services mainly to commissions related to Visa Credit Cards, scoring and origination of personal loans and higher structuring and underwriting expenses.

*Financial Income*

The following table sets forth the principal components of its financial income for the twelve-month periods ended June 30, 2007 and 2006.



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	Twelve months ended June 30,		%
	2006	2007	Change
	(in millions of pesos, except for percentages)		
Mortgage loans and other financial transactions	Ps. 170.2	Ps. 177.7	4.4%
Government guaranteed loans	96.2	10.6	(89.0)
Government and Private Securities	190.7	273.1	43.2
Compensatory and other BODEN	24.6	9.6	(61.0)
Buyback of restructured debt	51.2	12.9	(74.8)
Hedges	37.5	140.8	275.2
Mortgage-backed securities	27.6	51.3	85.8
Other loans	16.7	32.3	93.4
Credit Cards loans	7.0	32.5	366.9
Personal loans	38.5	82.1	113.4
Advance loans	18.3	24.3	33.0
Effects of changes in exchange rates	46.2	19.3	(58.3)
Cash and due from banks	3.5	4.4	25.4
Interbank Loans	1.8	5.2	190.4
Others	3.6	6.0	67.0
Total	Ps. 733.8	Ps. 882.2	20.2%

Banco Hipotecario's financial income increase 20.2% to Ps.882.2 million for the twelve-month period ended June 30, 2007 as compared to Ps.733.8 million for the twelve-month period ended June 30, 2006 primarily as a result of:

Higher income from some government and private securities as a result of higher market prices.

Higher income from the increase of LIBO rate accrued during this period on the stock of BODEN US\$2012 recorded in investment account.

Higher income from credit cards, personal loans and new consumer products as a result of a significant increase in the volume of such loans granted during 2007.

Higher income from derivate operations resulting from hedging transactions including its total return swap. These factors were partially offset by:

Lower income from hedge bond, as a result of the subscription made.

Lower income from the repurchase of restructured financial debts at market prices.

Lower income from Secured loans as a consequence of the reduction of the stock.

**Financial Expenses**

The following table sets forth information regarding its financial expenses for the twelve-month periods ended June 30, 2007 and 2006.



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	Twelve Months ended June 30,		%
	2006	2007	Change
	(in millions of pesos, except for percentages)		
Bonds and similar obligations	Ps. 222.2	Ps. 278.6	25.4%
Borrowings from Central Bank	121.9	20.1	(83.5)
Borrowings from banks	30.0	16.2	(46.0)
Time deposits	17.7	36.5	106.4
Other <sup>(1)</sup>	6.5	3.5	(45.9)
Contributions and taxes on financial income	13.8	19.7	42.4
<b>Total</b>	<b>Ps. 412.2</b>	<b>Ps. 374.7</b>	<b>(9.1)%</b>

(1) Includes interest and other amounts payable on savings accounts, checking accounts, and other deposits.

Banco Hipotecario's financial expenses for the twelve-month period ended June 30, 2007 decreased 9.1% to Ps.374.7 million from Ps.412.2 million for the twelve-month period ended June 30, 2006 primarily as a result of lower financial expenditures principally as result of the substantial reduction of Central Bank and others Banks borrowings. This effect was partially offset by higher interest liabilities resulting from increased average balances on savings accounts and time deposits, related to the growth of private sector.

**Provision for Losses on Loans**

The following table sets forth its provision for loan losses for the twelve-month periods ended June 30, 2007 and 2006.

	Twelve Months ended June 30,		%
	2006	2007	Change
	(in millions of pesos, except for percentages)		
Provision for loan losses	Ps. 10.5	Ps. 43.7	316.0%
Charge-offs	Ps. 142.7	Ps. 52.0	(63.6)%

Banco Hipotecario's provision for loan losses for the twelve-month period ended June 30, 2007 increased to Ps.43.7 million from Ps.10.5 million in the twelve-month period ended on June 30, 2006 in connection with the significant increase in the volume of the loans granted during 2007.

The Risk and Credit Committee decided to maintain a maximum 100% coverage of the loan loss reserve, relative to the total amount of those loans classified as non-performing, consequently a recovery of Ps.100 million was recorded. Reserves and funds created in connection with the special reserve envisaged by Section 13 of Law 24,143 and the Special fund created by a resolution of the board of directors of Banco Hipotecario dated December 12, 2001, shall not be included in the total amount used for calculating such coverage.

**Table of Contents****Net Contribution from Insurance**

The following table sets forth the principal components of its net contribution from insurance for the twelve-month periods ended June 30, 2006 and 2007:

	Twelve Months ended June 30,		% Change
	2006	2007	2006/2007
	(in millions of pesos, except for percentages)		
<b>Insurance premiums earned:</b>			
Life	Ps. 37.1	Ps. 60.0	61.8%
Property damage	12.6	12.1	(4.0)
Unemployment	1.4	1.2	(14.5)
Other	2.8	Ps. 3.7	33.2
<b>Total premiums earned</b>	<b>Ps. 53.9</b>	<b>77.0</b>	<b>43.0</b>
<b>Insurance claims paid:</b>			
Life	8.0	6.1	(23.7)
Property damage	0.4	0.3	(19.5)
Unemployment	0.2	0.2	(2.6)
Other	0.3	0.5	57.2
<b>Total claims paid</b>	<b>Ps. 9.0</b>	<b>7.2</b>	<b>(20.0)</b>
<b>Net contribution from insurance</b>	<b>Ps. 44.9</b>	<b>Ps. 69.8</b>	<b>55.6%</b>

Banco Hipotecario's net contribution from insurance activities of Ps.69.8 million during the twelve-month period ended June 30, 2007 increased 55.6% from Ps.44.9 million, compared to the twelve-month period ended June 30, 2006. This increase was primarily a consequence of higher premiums resulted from an increase in new loan origination and an expansion of insurance products offered.

**Other Income from Services**

The following table includes the principal components of its other income from services for the twelve-month periods ended June 30, 2006 and 2007:

	Twelve Months ended June 30,		%
	2006	2007	Change
	(in millions of pesos, except for percentages)		
Loan servicing fees from third parties	Ps. 1.4	Ps. 1.8	27.3%
FONAVI commissions	3.3	4.1	22.5
Other commissions	1.4	1.5	7.4
Credit card commissions	12.3	47.9	290.0
Saving accounts commissions	3.2	5.5	70.6
Current accounts commissions	1.1	3.2	178.5
Commissions for technological services (MSI)	12.0		NM
<b>Total commissions</b>	<b>34.8</b>	<b>64.0</b>	<b>84.1</b>
Recovery of loan expenses	7.7	13.0	67.7
Other	5.0	6.3	26.2

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Total	Ps. 47.6	Ps. 83.4	75.3%
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Banco Hipotecario's income from services increased to Ps.83.4 million for the twelve-month period ended June 30, 2007 from Ps 47.6 million in the same period of 2006, as a result of higher commissions derived from credit cards, origination of mortgage loans and new consumer products. This higher income was attributable not only to the greater number of credit cards, but also to the greater average purchases made with such cards recorded during the period.

**Table of Contents*****Other Expenses on Services***

The following table includes the principal components of its other expenses on services for the twelve-month periods ended June 30, 2006 and 2007:

	Twelve Months ended June 30,		% Change 2006/2007
	2006	2007	
	(in millions of pesos, except for percentages)		
Structuring and underwriting fee	Ps. 9.2	Ps. 9.5	3.8
Banking services	4.7	5.8	23.2
Commissions on third party originations	0.2	0.1	(36.4)
Collections	0.3	0.4	56.4
Commissions on Visa	9.9	38.1	284.7
Commissions on saving accounts	1.6	2.4	52.4
Commissions on scoring	2.0	6.6	231.6
Commissions paid to real estate agents	1.0	1.6	60.8
Total	28.9	64.7	124.0
Contributions and taxes on income from services	1.7	3.2	82.1
Total	Ps. 30.6	Ps. 67.8	121.6

Banco Hipotecario's other expenses on services increased 121.6% to Ps.67.8 million for the twelve-month period ended June 30, 2007 from Ps.30.6 million in the period ended June 30, 2006. This increase was mainly to commissions recorded in other expenditures on services related to the VISA credit card and scoring, in connection with the higher number of credit cards managed.

***Administrative Expenses***

The following table sets forth the principal components of its administrative expenses for the twelve-month periods ended June 30, 2006 and 2007:

	Twelve Months ended June 30,		% Change 2006/2007
	2006	2007	
	(in millions of pesos, except for percentages)		
Salaries and social security contributions	Ps. 84.4	Ps. 111.4	31.9
Fees and external administrative services	24.6	55.3	125.1
Maintenance and repair	4.4	4.9	11.8
Advertising and publicity	15.7	20.9	33.3
Nonrecoverable VAT and other taxes	11.8	17.0	43.7
Electricity and communications	7.1	10.9	52.6
Depreciation of bank premises and equipment	7.1	6.7	(6.2)
Amortization of organizational expenses	2.9	3.0	4.5
Corporate personnel benefits	14.5	20.6	42.1
Other	12.6	20.2	59.5
Total	Ps. 185.2	Ps. 270.8	46.2

Administrative expenses for the twelve-month period ended June 30, 2007 increased 46.2% to Ps.270.8 million from Ps.185.2 million for the twelve-month period ended June 30, 2006. The main reasons for this increase were higher salaries and social security contributions required under applicable regulations in Argentina, higher advertising expenses related to the launch of its new products and an increase in other fees related to the actions adopted by Banco Hipotecario in developing its retail banking business.



**Table of Contents****Miscellaneous Income**

The following table sets forth its miscellaneous income for the twelve-month periods ended June 30, 2006 and 2007.

	Twelve Months ended June 30,		% Change
	2006	2007	2006/2007
	(in millions of pesos, except for percentages)		
Penalty interest	5.9	Ps. 6.4	8.9
Loan loss recoveries	87.2	207.2	135.9
Capitalization of presumed income tax	24.6		NM
Reversal of reserve for loan losses	10.2		NM
Reversal of provision for contingencies	25.4	13.5	(46.7)
Other	19.7	4.6	(76.4)
<b>Total</b>	<b>Ps. 173.7</b>	<b>Ps. 231.8</b>	<b>33.5</b>

Banco Hipotecario's miscellaneous income increased 33.5% to Ps.231.8 million for the twelve-month period ended June 30, 2007 from Ps.173.7 million for the twelve-month period ended June 30, 2006 primarily as a result of a reversal of reserve for loan losses of the restructured loans and for the result of the two sales of a portion of non performing portfolio recorded in memorandum accounts for approximately Ps.120 million.

**Miscellaneous Expenses**

The following table sets forth the principal components of its miscellaneous expenses for the twelve-month periods ended June 30, 2006 and 2007:

	Twelve Months ended June 30,		% Change
	2006	2007	2006/2007
	(in millions of pesos, except for percentages)		
Provision for lawsuit contingencies	Ps.	Ps. 14.6	NM
Provision for miscellaneous receivables and others			NM
Provision StAR granted creditors under guaranteed debt		35.1	NM
Provision SAR		39.4	NM
Provision for insurance contingencies	1.5	3.0	98.4
Provision for administrative organization	10.8	34.9	223.1
Bogar and Guarantee loans adjustment	20.8		NM
Other taxes	7.7	9.1	17.2
Contingency related to the sale of non-performing mortgage portfolio		8.0	NM
Other	8.4	6.3	(25.0)
<b>Total</b>	<b>Ps. 49.2</b>	<b>Ps. 150.4</b>	<b>205.8</b>

Banco Hipotecario's miscellaneous expenses increased 205.8% to Ps.150.4 million for the twelve-month period ended June 30, 2007 from Ps.49.2 million for 2006 primarily as a result of:

Higher provisions related to the appreciation in the trading price of its Class D shares, which is designed to account for the higher value attributable to the stock appreciation rights issued with and attached to its Medium Term Guaranteed Debt due 2010 and its management compensation plan.



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Higher provision for: Stock Appreciation Compensation plan, Lawsuits, contingencies, administrative organization and for the sale of a portion of its non performing portfolio.

This effect was partially offset by an extraordinaire adjust on changes in the valuation of public sector assets given as collateral for Central Bank borrowings (BOGAR and Secured loans).

**Table of Contents****Twelve month periods ended June 30, 2006 and 2005****General**

The following table sets forth the principal components of its net income for the twelve-month periods ended June 30, 2005 and 2006.

	<b>Twelve Months ended June 30,</b>		<b>%</b>
	<b>2005</b>	<b>2006</b>	<b>Change</b>
	<b>(in millions of pesos, except for percentages)</b>		
Financial income	Ps. 681.5	Ps. 733.8	7.7
Financial expenses	(388.9)	(412.2)	6.0
<b>Net financial income</b>	<b>292.6</b>	<b>321.6</b>	<b>9.9</b>
Provision for losses on loans	(16.7)	(10.5)	(37.1)
Net contribution from insurance <sup>(1)</sup>	37.0	44.9	21.4
Other income from services	43.7	47.6	8.9
Other expenses on services	(14.8)	(30.6)	106.8
Administrative expenses	(147.0)	(185.2)	26.0
Miscellaneous income, net <sup>(2)</sup>	(42.3)	124.5	NM
Minority interest	5.6	(1.9)	(133.9)
Income tax	(7.0)	(1.3)	(81.4)
<b>Net income</b>	<b>Ps. 151.0</b>	<b>Ps. 309.1</b>	<b>104.7</b>

(1) Insurance premiums minus insurance claims paid.

(2) Miscellaneous income minus miscellaneous expenses.

**Net Income**

Banco Hipotecario's net income for the twelve-month period ended June 30, 2006 of Ps.309.1 million was higher than Ps 151.0 for the twelve-month period ended June 30, 2005, principally due to:

Higher financial income principally as a result of higher income from government and private securities, and

Higher miscellaneous income as a result of reversal of certain provisions and a capitalization of minimum presumed income tax. These factors were partially offset by:

Higher financial expenses as a result of higher financial expenses from foreign currency denominated liabilities,

An extraordinary adjust on changes in the valuation of public sector assets given as collateral for Central Bank borrowings (Bogar and Guarantee loans) and,

Higher administrative expenses mainly related to advertising campaigns and higher salaries and social security contributions.



**Table of Contents****Financial Income**

The following table sets forth the principal components of its financial income for the twelve-month periods ended June 30, 2005 and 2006.

	Twelve Months ended June 30,		%
	2005	2006	Change
	(in millions of pesos, except for percentages)		
Mortgage loans and other financial transactions	Ps. 189.7	Ps. 170.2	(10.3)
Government-guaranteed loans	92.1	96.2	4.4
Government and private securities	82.6	190.7	130.9
Compensatory and other BODEN	59.9	24.6	(58.9)
Buyback of restructured debt	109.1	51.2	(53.0)
Hedges	76.4	37.5	(50.9)
Mortgage-backed securities	36.3	27.6	(23.9)
Other loans	15.1	16.7	10.7
Credit Cards loans	0.6	7.0	NM
Personal loans	6.4	38.5	NM
Advance loans	6.8	18.3	167.4
Effects of changes in exchange rates	0	46.2	NM
Cash and due from banks	1.0	3.5	266.1
Interbank loans	1.2	1.8	46.4
Others	4.1	3.6	(12.7)
Total	Ps. 681.5	Ps. 733.8	7.7

Banco Hipotecario's financial income increase 7.7% to Ps.733.8 million for the twelve-month period ended June 30, 2006 as compared to Ps.681.5 million for the twelve-month period ended June 30, 2005 primarily as a result of:

Higher income from government and private securities as a result of higher market prices and higher libor rate accrued during this period on the stock of BODEN US\$2012 recorded in investment account,

Higher income of credit cards, origination of personal loans and new consumer products as a result of higher bank activity, and

Higher income as a result of effect of changes in exchange rates during the year ended on June 2006.

These factors were partially offset by:

lower income from compensatory and additional BODEN, resulting from the receipt of BODEN US\$2012 a compensation granted to financial institutions,

Lower income from the buyback of restructured financial debts at market prices, and

Lower income from hedges, as a result of lower impact in derivatives adjusted by CER.

**Financial Expenses**

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The following table sets forth information regarding its financial expenses for the twelve-month periods ended June 30, 2005 and 2006.

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	Twelve Months ended June 30,		% Change
	2005	2006	2005/2006
	(in millions of pesos, except for percentages)		
Bonds and similar obligations	Ps. 109.8	Ps. 222.2	102.4
Borrowings from Central Bank	219.2	121.9	(44.4)
Borrowings from banks	28.8	30.0	4.4
Effects of changes in exchange rates	6.1		NM
Time deposits	8.0	17.7	121.9
Other <sup>(1)</sup>	2.5	6.5	160.0
Contributions and taxes on financial income	14.5	13.8	(4.6)
Total	Ps. 388.9	Ps. 412.2	6.0

(1) Includes interest and other amounts payable on savings accounts, checking accounts, and other deposits.

Banco Hipotecario's financial expenses for the twelve-month period ended June 30, 2006 increased 6.0% to Ps.412.2 million from Ps.388.9 million for the twelve-month period ended June 30, 2005 primarily as a result of:

higher financial expenses from foreign currency-denominated liabilities due to new external financing mainly due to higher interest paid on bonds resulting from newly issued notes and strengthening Banco Hipotecario's position in the international capital markets, and

Higher interest liabilities resulting from increased average balances on savings accounts and time deposits, related to the growth of private sector.

This effect was partially offset by lower financial expenditures principally as result of the substantial reduction of Central Bank borrowings.

***Provision for Losses on Loans***

The following table sets forth its provision for loan losses for the twelve-month periods ended June 30, 2005 and 2006.

	Twelve Months ended June 30,		%
	2005	2006	Change
	(in millions of pesos, except for percentages)		
Provision for loan losses	Ps. 16.7	Ps. 10.5	(37.1)
Charge-offs	Ps. 73.2	Ps. 142.7	94.9

Banco Hipotecario's provision for loan losses for the period ended June 30, 2006 decreased to Ps.10.5 million from Ps.16.7 million in the period ended on June 30, 2005. This decreased provision reflects the improvement in the portfolio of performing loans. As of result of this improvement, the Risk and Credit Committee decided to maintain a maximum 100% coverage of the loan loss reserve, relative to the total amount of those loans classified as non-performing. Reserves and funds created in connection with the special reserve envisaged by Section 13 of Law 24,143 and the Special fund created by a resolution of the board of Directors of Banco Hipotecario dated December 12, 2001, shall not be included in the total amount used for calculating such coverage.

***Net Contribution from Insurance***

The following table sets forth the principal components of its net contribution from insurance for the twelve-month periods ended June 30, 2005 and 2006.

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	Twelve Months ended June 30		%
	2005	2006	Change
	(in millions of pesos, except for percentages)		
<b>Insurance premiums earned:</b>			
Life	Ps. 27.8	Ps. 37.1	33.5
Property damage	12.9	12.6	(2.2)
Unemployment	1.6	1.4	(13.8)
Other	2.5	2.8	9.4
<b>Total premiums earned</b>	<b>Ps. 44.8</b>	<b>Ps. 53.9</b>	<b>20.2</b>
<b>Insurance claims paid:</b>			
Life	Ps. 6.9	8.0	16.4
Property damage	0.4	0.4	8.7
Unemployment	0.2	0.2	(2.6)
Other	0.3	0.3	(2.8)
<b>Total claims paid</b>	<b>Ps. 7.7</b>	<b>Ps. 9.0</b>	<b>14.7</b>
<b>Net contribution from insurance</b>	<b>Ps. 37.0</b>	<b>Ps. 44.9</b>	<b>21.3</b>

Banco Hipotecario's net contribution from insurance activities of Ps.44.9 million during the twelve-month period ended June 30, 2006 increased 21.3% from Ps.37.0 million, compared to the twelve-month period ended June 30, 2005. This increase was primarily a consequence of higher premiums resulted from an increase in new loan origination and an expansion of insurance products offered. However, these effects were partially offset by higher claims paid during the quarter.

**Other Income from Services**

The following table includes the principal components of its other income from services for the periods ended June 30, 2005 and 2006.

	Twelve Months ended June 30,		%
	2005	2006	Change
	(in millions of pesos, except for percentages)		
Loan servicing fees from third parties	Ps. 2.1	Ps. 1.4	30.0
FONAVI commissions	3.0	3.3	9.7
Other Commissions	4.1	18.1	344.5
Commissions for technological services (MSI)	22.7	12.0	(47.4)
<b>Total commissions</b>	<b>31.9</b>	<b>34.8</b>	<b>9.2</b>
Recovery of loan expenses	9.1	7.7	(15.2)
Other	2.7	5.0	88.3
<b>Total</b>	<b>Ps. 43.7</b>	<b>Ps. 47.6</b>	<b>8.9</b>

Banco Hipotecario's income from services increased to Ps.47.6 million for the twelve-month period ended June 30, 2006 from Ps 43.7 million in the same period of 2005, as a result of higher commissions derived from credit cards, origination of mortgage loans and new consumer products, as a result of higher bank activity. These effects were partially offset by commissions for technological services in Banco Hipotecario's subsidiary MSI.





**Table of Contents****Other Expenses on Services**

The following table includes the principal components of its other expenses on services for the twelve-month periods ended June 30, 2005 and 2006:

	Twelve Months ended June 30,		%
	2005	2006	Change
	(in millions of pesos, except for percentages)		
Structuring and underwriting fees	Ps. 0.2	Ps. 0.3	25.9%
Banking services	5.0	9.2	84.5
Commissions on third party originations	7.0	16.2	131.6
Collections	0.3	0.2	(35.8)
Others	0.9	3.0	250.1
Total	13.3	28.8	116.7
Contributions and taxes on income from services	1.5	1.7	13.3
Total	Ps. 14.8	Ps. 30.6	106.3%

Banco Hipotecario's other expenses on services increased 106.3% to Ps.30.6 million for the twelve-month period ended June 30, 2006 from Ps.14.8 million in the twelve-month period ended June 30, 2005. This increase was mainly to commissions recorded in other expenditures on services related to the VISA credit card as a consequence of higher credit card financings and increased customer base, and higher structuring and underwriting expenses associated with the issue of bonds and financial trusts.

**Administrative Expenses**

The following table sets forth the principal components of its administrative expenses for the twelve-month periods ended June 30, 2005 and 2006.

	Twelve Months ended June 30,		% Change
	2005	2006	2005/2006
	(in millions of pesos, except for percentages)		
Salaries and social security contributions	Ps. 83.2	Ps. 98.9	18.9%
Fees and external administrative services	16.1	24.6	52.7
Maintenance and repair	4.2	4.4	6.1
Advertising and publicity	7.2	15.7	117.4
Nonrecoverable VAT and other taxes	10.2	11.8	16.1
Electricity and communications	5.5	7.1	28.6
Depreciation of bank premises and equipment	7.3	7.1	(2.0)
Amortization of organizational expenses	2.2	2.9	29.3
Other	11.1	12.6	13.9
Total	Ps. 147.0	Ps. 185.2	26.0%

Administrative expenses for the twelve-month period ended June 30, 2006 increased 26.0% to Ps.185.2 million from Ps.147.0 million for the twelve-month period ended June 30, 2005. The main reasons for this increase were higher salaries and social security contributions required under applicable regulations in Argentina, higher advertising expenses related to the launch of its new products and an increase in other fees related to the actions adopted by Banco Hipotecario in developing its retail banking business.

**Miscellaneous Income**

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The following table sets forth its miscellaneous income for the twelve-month periods ended June 30, 2005 and 2006.

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	Twelve Months ended June 30,		%
	2005	2006	Change
	(in millions of pesos as, except for percentages)		
Penalty interest	Ps. 9.6	Ps. 5.9	(38.2)%
Loan loss recoveries	58.9	87.2	49.1
Capitalization of presumed income tax		24.6	NM
Reversal of reserve for loan losses		10.2	NM
Reversal of provision for contingencies	0.2	25.4	NM
Other	15.3	19.7	29.0
<b>Total</b>	<b>Ps. 84.0</b>	<b>Ps. 173.7</b>	<b>106.7%</b>

Banco Hipotecario's miscellaneous income increased 106.7% to Ps.173.7 million for the twelve-month period ended June 30, 2006 from Ps.84.0 million for the twelve-month period ended June 30, 2005 primarily as a result of:

A reversal of reserve for loan losses and higher income from recovered loans due to the continued improvement in its loan portfolio.

A capitalization of minimum presumed income tax paid for the fiscal years 1999, 2000 and 2001, resulting from Banco Hipotecario intention to charge the minimum presumed income tax credit held by it against future income tax liabilities.

A reversal of provision for contingences principally as a result of recovery of reserves for director's fees established in compliance with shareholder resolutions and recovery of stock appreciation rights.

**Miscellaneous Expenses**

The following table sets forth the principal components of its miscellaneous expenses for the twelve-month periods ended June 30, 2005 and 2006:

	Twelve Months ended June 30,		%
	2005	2006	Change
	(in millions of pesos, except for percentages)		
Provision for lawsuit contingencies	Ps. 1.3	Ps.	NM
Provision for miscellaneous receivables and others	4.6		NM
Provision StAR granted creditors under guaranteed debt	71.3		NM
Provision SAR	26.9		NM
Provision for administrative organization	8.9	12.3	38.2
Bogar and Guarantee loans adjustment		20.8	NM
Other	13.3	16.1	21.1
<b>Total</b>	<b>Ps. 126.4</b>	<b>Ps. 49.2</b>	<b>(61.1)%</b>

Banco Hipotecario's miscellaneous expenses decreased 61.1% to Ps.49.2 million for the twelve-month period ended June 30, 2006 from Ps.126.4 million for 2005 primarily as a result of:

Higher provisions recorded in the period ended June 30, of 2005 related to the appreciation in the trading price of its Class D shares, which is designed to account for the higher value attributable to the stock appreciation rights issued with and attached to its Medium

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Term Guaranteed Debt due 2010 and its management compensation plan.  
This effect was partially offset by an extraordinary adjustment on changes in the valuation of public sector assets given as collateral for central Bank borrowings (Bogar and Guarantee loans).

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### **Exchange Rate Sensitivity**

Exchange-rate sensitivity is the relationship between the fluctuations of exchange rates and Banco Hipotecario's net financial income resulting from the revaluation of Banco Hipotecario's assets and liabilities denominated in foreign currency. The impact of variations in the exchange rate on Banco Hipotecario's net financial income depends on whether Banco Hipotecario has a net asset foreign currency position (the amount by which foreign currency denominated assets exceed foreign currency denominated liabilities) or a short foreign currency position (the amount by which foreign currency denominated liabilities exceed foreign currency denominated assets). In the first case an increase/decrease in the exchange rate derives in a gain/loss, respectively. In the second case, an increase/decrease derives in a loss/gain, respectively.

At June 30, 2007 and June 30, 2006 its total foreign currency-denominated liabilities were Ps.4,850 million and 5,210 million, respectively, all of which were US dollar-and Euro-denominated obligations. At June 30, 2007, its US dollar-denominated assets (including BODEN) were Ps.3,349 million, and its Euro-denominated assets were Ps.1,097 million, while its US dollar-denominated liabilities were Ps.3,862 million, and its Euro-denominated liabilities were Ps.988 million.

### **Liquidity**

Its general policy has been to maintain liquidity adequate to meet its operational needs and financial obligations. At June 30, 2007, its liquid assets consisted of:

Ps.327.6 million of cash and due from banks;

Ps.330.9 million of Argentine government and corporate securities classified as held for trading, and

Ps.403.9 million of Argentine Central Bank Bills.

At June 30, 2006, its liquid assets consisted of:

Ps.314.9 million of cash and due from banks;

Ps.387.1 million of Argentine government and corporate securities classified as held for trading; and

Ps.318.1 million of Argentine Central Bank Bills.

*Cash Flows from Operating Activities.* The changes in cash flows from operating activities were principally due to the change in:

- (i) Provision for losses on loans and for contingencies and miscellaneous receivables, net of reversals,
- (ii) Net (gain) loss on government securities,
- (iii) Net indexing of loans, deposits and other debt, and

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(iv) Net change in other assets and liabilities.

*Cash Flows from Investing Activities.* The changes in cash flow from investing activities were due to subscription of Argentine Government Hedge BODENs.

*Cash Flows from Financing Activities.* The changes in cash flows from financing activities were principally due to the issuance of notes Series IV partially offset by payments on Central Bank debt, Bonds, Notes and Long Term debts, as a result of the changes in its restructuring financial debt in 2004 and 2003.

**Table of Contents****Funding**

Historically, Banco Hipotecario financed its lending operations mainly through:

the issuance of fixed and floating rate securities in the international capital markets,

other financing arrangements with international and domestic financial institutions,

securitizations of mortgage loans,

cash flow from existing loans,

deposits, and

Central Bank long term loans.

At June 30, 2007 and 2006, Banco Hipotecario had four principal funding sources: bonds, Central Bank, other liabilities from financial institutions and deposits. The table below sets forth its liabilities outstanding with respect to each of its sources of funding as of the dates indicated.

	As of June 30,		% Change
	2006	2007	2006/2007
	(in millions of pesos, except for percentages)		
Bonds(1)	Ps. 3,253.8	Ps. 3,587.20	10.2%
Borrowings from Central Bank	198.3	218	9.9
Borrowings from banks and international entities	376.9	231.7	(40.1)
Deposits	610	864.5	41.7
<b>Total</b>	<b>Ps. 4,449.2</b>	<b>Ps. 4,901.4</b>	<b>(10.2)%</b>

(1) Excludes accrued interest.

**Bonds**

The principal amount values of the different series of notes Banco Hipotecario has issued and outstanding is as follows:

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	Outstanding			
	principal amount			
	at			
	June 30, 2007 (millions of pesos)	Date of Issue	Maturity Date	Annual Interest rate (%)
Bonds issued prior to restructuring <sup>(1)</sup>	Ps. 92.9			
<b>GMTN (US\$1,200,000,000)</b>				
<b>Notes Issued in Restructuring:</b>				
Guaranteed bonds (US\$107,941,000)		Sep. 15, 2003	Aug. 3, 2010	Libor + 2.5
Long term bonds (US\$449,880,000)	563	Sep. 15, 2003	Dec. 1, 2013	3.0 6.0
Long term bonds (Euro 278,367,000)	946.2	Sep. 15, 2003	Dec. 1, 2013	3.0 6.0
Series 4 - 9.75% Notes due 2010 (US\$150,000,000)	456.9	Nov. 16, 2005	Nov. 16, 2010	9.75
Series 4 Tranche II (US\$100.000 miles)	308.6	Ene. 26, 2006	Nov. 16, 2010	9.75
Series 5 (US\$250.000 miles)	760.2	Abr. 27, 2006	Abr. 27, 2016	9.75
Series 6	459.4	June 27, 2007	June 21, 2010	11.25
Accrued interest	82.3			
Total	Ps. 3,669.5			

(1) Banco Hipotecario S.A. has 10 series of bonds issued prior to the restructuring that have outstanding amounts that were not tendered in the restructuring process consummated in January 2004.

On January 2006, Banco Hipotecario repurchased the remaining stock of its medium term guaranteed bonds for a face value of US\$36.8 million issued in connection with its restructuring in January 2004.

On May 03, 2006, Banco Hipotecario repurchased in cash, through an offer commenced on April 04, 2006, US dollar denominated Negotiable Obligations due in 2013 for a capital amount of US\$129,763,869 and Euro denominated Negotiable Obligations due in 2013 for a capital amount of Euro 20,626,433.

On June 21, 2007 Banco Hipotecario issued an ARS- Linked US\$150 mm bond due 2010. The notes accrue interest at a fixed rate equal to 11.25%

**Borrowings from Banks and International Entities**

Banco Hipotecario incurred the following indebtedness, which have been already fully paid with the proceeds obtained from other financings:

Banco Hipotecario obtained interbank loans in pesos in an aggregate principal amount of pesos 190.7 million.

Banco Hipotecario obtained a loan from Warehousing Credit Line Agreement with IFC in an aggregate principal amount of Pesos 40.9 million.

**Borrowings from the Central Bank**

On November 11 and December 1, 2004, Banco Hipotecario pre-paid the financial assistance loans granted by the Central Bank in amounts totaling Ps.10.0 million and Ps.30.0 million, respectively, in order to settle in advance restructured foreign debt. On January 20, 2005 and February 25, 2005, Banco Hipotecario took part in the tender offer established by the Central Bank in accordance with the guidelines of Communications A 4268 and 4282, the amount of Ps.63.8 million and Ps.16.9 million, respectively, having been accepted in settlement of the previously refinanced debt. On May 3, 2005 Banco Hipotecario fully prepaid all outstanding balances due on this indebtedness of approximately Ps.233.5 million. As of June 30, 2007, Banco Hipotecario recorded in its financial statements borrowings from the Central Bank totaling Ps.218 million, respectively, in respect of advances Banco Hipotecario expects to incur in the future for its right to subscribe additional BODEN.





**Table of Contents*****Loan Securitization Program***

Banco Hipotecario has various series of bonds under its securitization program that existed and that were issued prior to its restructuring. These bonds remain outstanding under its off-balance sheet securitization program. For each mortgage trust, Banco Hipotecario transferred a portfolio of its loans to a trustee, which then issued senior bonds, subordinated bonds and certificates of participation. The payment obligations of these instruments are secured by the trust assets consisting of the portfolio of individual residential mortgage loans and any reserve fund established by us for such purpose. The holders of the securities have no recourse against us if the trustee defaults in its payment obligations. Notwithstanding this fact, certain holders of bonds issued by the mortgage trusts have sued us for the effects of the devaluation of the peso and its impact on the value of the trust assets. See *Business Litigation*.

On June 25, 2004, Banco Hipotecario led the sale of the first series of *Cédulas Hipotecarias Argentinas* in the local capital market. The aggregate amount of the offering was Ps.50 million, consisting of Ps.40 million of Senior Bonds and Ps.10 million of Subordinated and Certificates of Participation issued under the Ps.500 million Program. On November 17, 2004, Banco Hipotecario closed a second series of *Cédulas Hipotecarias* in the local capital market for an aggregate amount of Ps.50 million, issued under the Ps.500 million Program. The bonds accrue variable interest at the higher of CER + 3% and the interest rate for time deposits between Ps.100.000 and Ps.500.000, up to 59 days, reported by Central Bank + 4% subject to a floor of 8% per annum and a ceiling of 15% per annum. On April 7, 2005, Banco Hipotecario closed a third series of *Cédulas Hipotecarias* for an aggregate amount of Ps.62.5 million. On June 16, 2005, Banco Hipotecario closed a fourth series of *Cédulas Hipotecarias* market for an aggregate amount of Ps.64.6 million. On October 20, 2005, Banco Hipotecario closed a fifth series of *Cédulas Hipotecarias* for an aggregate amount of Ps.65.0 million. These last three series of bonds accrue variable interest at the higher of CER + 1% and the interest rate for time deposits between Ps.100.000 and Ps.500.000, up to 59 days, reported by Central Bank + 2% subject to a floor of 9% per annum and a ceiling of 16% per annum. On March 27, 2006, Banco Hipotecario began offering a new series VI of *Cédulas Hipotecarias* of up to Ps.69.0 million in aggregate principal amount. This new series of bonds accrues variable interest at the higher of CER + 1% and the interest rate for time deposits between Ps.100,000 and Ps.500,000, up to 59 days, reported by Central Bank + 2% subject to a floor of 9% per annum and a ceiling of 19% per annum. On September 22, 2006 closed a seventh series of *Cédulas Hipotecarias* for an aggregate amount of Ps.71.4 million. This series of bonds accrue variable interest at the higher of CER + 2,5% and the interest rate for time deposits between Ps.100.000 and Ps.500.000, up to 59 days, reported by Central Bank + 2,5% subject to a floor of 9% per annum and a ceiling of 23% per annum. All series are collateralized by residential mortgage loans and were rated *ra AAA* on a local scale by Standard and Poor's. On March 26, 2007, Series VIII Savings Mortgage Bonds (CHA) was issued for a face value of Ps.74.497.

***Deposits***

Banco Hipotecario did not historically rely upon deposits as a principal source of funding, Banco Hipotecario engaged in limited deposit taking activities. Its other deposits consist of checking accounts maintained by different provincial housing funds and agencies representing Argentine government contributions from the collection of federal taxes which have been set aside for use by the provinces for special purposes and transferred to these accounts.

In December 2001 Banco Hipotecario received authorization from the Central Bank to accept time deposits for individuals as well as institutions and amended its by-laws accordingly, with approval of a majority of its shareholders as required by Argentine Corporate Law. At June 30, 2007 and 2006 its total deposits consisted of the following:

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	At June 30, 2006	At June 30, 2007	% Change 2006/2007
Checking accounts	Ps. 11.5	Ps. 39.3	(42.2)%
Saving accounts	141.7	183.9	22.3
Time deposits	434.5	613.4	61.2
Other deposits accounts	22.3	27.9	51.7
Accrued interest payable	4.8	4.1	50
Total	Ps. 614.8	Ps. 868.6	45.2%

Its current strategy is to increase deposits significantly over time in order to achieve significant liquidity to maintain and further develop its financing activities.

**Contractual Obligations**

In connection with its operating activities, Banco Hipotecario enters into certain contractual obligations. The following table shows the principal amounts plus accrued interests of its contractual obligations and their contractual interest rates as of June 30, 2007:

	Maturity	Annual Interest Rate	Total Ps.	Past Due	Less than 1 year	1 to 3 Years	3 to 5 Years	Over 5 Years
<b>Bonds</b>								
Defaulted bonds US\$(1)			110.3	110.3				
Defaulted bonds EURO(1)			35.3	35.3				
Serie 4 i	Nov-2010	9.75%	462.5		5.7		456.9	
Serie 4 II	Nov-2010	9.75%	312.3		3.8		308.6	
Serie 5	Apr-2016	9.75%	773.6		13.4			760.2
Serie 6	Jun-2010	11.25%	460.8		1.4	459.4		
Long term bond US\$	Dec-2013	3% - 6%	565.4		2.4	187.67	187.7	187.7
Long term bond EURO	Dec-2013	3% - 6%	950.6		4.4	315.42	315.4	315.4
<b>Loans</b>								
Repurchase Agreement, Deutsche Bank	Aug-2007	Libor 180d + 1.2%	53.3		53.3			
Repurchase Agreement, Deutsche Bank	Aug-2007	Libor 180d + 1.15%	47.9		47.9			
Repurchase Agreement, Deutsche Bank	Jul-2008	Libor 180d + 1.10%	43.1		1.4	41.7		
Repurchase Agreement, DEPFA Bank	Feb-2008	Libor 180d + 1.1%	16.9		16.9			
Repurchase Agreement, DEPFA Bank	Feb-2008	Libor 180d + 1.1%	67.2		67.2			
Repurchase Agreement, Credit Suisse	Jul-2008	Libor 180d + 1.1%	18.2		0.6	17.6		
Repurchase Agreement, Credit Suisse	Jul-2008	Libor 180d + 1.1%	8.0		0.3	7.7		
Repurchase Agreement, Credit Suisse	Jul-2008	Libor 180d + 1.1%	69.6		2.2	67.4		
Repurchase Agreement, Credit Suisse	Mar-2008	Libor 180d + 0.83%	63.7		63.7			
Repurchase Agreement, Merrill Lynch	May-2010	Libor 180d + 0.55%	63.7		1.9	61.8		
Repurchase Agreement, Barclays	May-2010	Libor 180d + 0.49%	63.7		1.8	61.8		
IFC	Jul-2009	Libor 30d + 3.25%	41.1		0.1	41.0		
<b>Argentine Central Bank</b>								
Acquisition of the Hedge Bond	Aug-2012	CER + 2%	218.0					218.0
<b>TOTAL</b>			<b>4,445.2</b>	<b>145.6</b>	<b>288.3</b>	<b>1,261.5</b>	<b>1,268.5</b>	<b>1,481.3</b>

(1) Includes debtors who did not accept the restructuring process

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**BUSINESS**

**Overview**

We are one of Argentina's leading real estate companies in terms of total assets. We are engaged directly and indirectly through subsidiaries and joint ventures in a range of diversified real estate related activities in Argentina, including:

the acquisition, development and operation of shopping centers,

the origination and securitization of credit card loans,

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

the acquisition, development and operation of office and other non-shopping center properties primarily for rental purposes, and

the acquisition and operation of luxury hotels.

As of June 30, 2007, we had total assets of Ps.4,144.9 million and shareholders' equity of Ps.1,646.7 million. Our net income for the fiscal years ended June 30, 2005, 2006, and 2007 was Ps.103.2 million, Ps.96.6 million, Ps.107.1 million, respectively. We are the only Argentine real estate company whose shares are listed on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*) and on the New York Stock Exchange, Inc.

*Shopping Centers.* We are engaged in purchasing, developing and managing shopping centers through our subsidiary Alto Palermo. Alto Palermo operates and owns majority interests in ten shopping centers, six of which are located in the Buenos Aires metropolitan area, and the other four of which are located in the Provinces of Mendoza, Rosario, Córdoba and Salta. Our Shopping Center segment had assets of Ps.1,375.2 million as of June 30, 2007, representing 33.2% of our consolidated assets at such date, and generated operating income of Ps.124.8 million during our 2007 fiscal year, representing 62.9% of our consolidated operating income for such year.

*Credit Cards.* We operate a credit card consumer finance business through our majority-owned subsidiary, Tarshop. Our Credit Card Operations consist primarily of lending and servicing activities relating to the credit card products we offer to consumers at shopping centers, hypermarkets and street stores. We finance a substantial majority of our credit card activities through securitization of the receivables underlying the accounts we originate. Our revenues from credit card transactions are derived from interest income generated by financing and lending activities, merchants' fees, insurance charges for life and disability insurance, and fees for processing and printing cardholders' account statements. Our Credit Card segment had assets of Ps.158.4 million as of June 30, 2007, representing 3.8% of our consolidated assets at such date, and generated operating income of Ps.32.6 million during our 2007 fiscal year, representing 16.4% of our consolidated operating income for such year.

*Residential Properties.* The acquisition and development of residential apartment complexes and residential communities for sale is another of our core activities. Our development of residential apartment complexes consists of the construction of high-rise towers or the conversion and renovation of existing structures, such as factories and warehouses. In residential communities, we acquire vacant land, develop infrastructure such as roads, utilities and common areas, and sell plots of land for construction of single-family homes. Our Development and Sale of Properties segment had assets of Ps.539.3 million as of June 30, 2007, representing 13.0% of our consolidated assets at such date, and generated operating income of Ps.6.2 million during our 2007 fiscal year, representing 3.1% of our consolidated operating income for such year.

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*Office Buildings.* In December 1994, we launched our office rental business by acquiring three prime office towers in Buenos Aires: Libertador 498, Maipú 1300 and Madero 1020. As of June 30, 2007, we, directly and indirectly, owned interests in 24 offices and other non-shopping center leased properties in Argentina that in the aggregate represented 234,320 square meters of gross leasable area. Our Offices and Other Non-Shopping Center leased properties segment had assets of Ps.700.0 million as of June 30, 2007, representing 16.9% of our consolidated assets at such date, and generated operating income of Ps.19.6 million during our 2007 fiscal year, representing 9.9% of our consolidated operating income for such year.

*Hotels.* In 1997, we acquired the Hotel Llao Llao and an indirect controlling interest in the Hotel Intercontinental in Buenos Aires. In March 1998, we acquired the Hotel Sheraton Libertador in Buenos Aires. During fiscal year 1999, we sold a 20% interest in the Hotel Libertador to Hoteles Sheraton de Argentina S.A., and during the fiscal year 2000, we sold 50% of our interest in the Hotel Llao Llao to the Sutton Group. Our Hotels segment, which consists of these three hotels, had assets of Ps.208.4 million as of June 30, 2007, representing 5.0% of our consolidated assets at such date, and generated income of Ps.14.7 million during our 2007 fiscal year, representing 7.4% of our consolidated operating income for such year.

*Banco Hipotecario.* We currently own 11.8% of Banco Hipotecario, Argentina's leading mortgage lender and provider of mortgage-related insurance. We acquired 2.9% of Banco Hipotecario for Ps.30.2 million when it was privatized in 1999. During 2003 and 2004, we increased our investment in Banco Hipotecario to 11.8% by acquiring additional shares, and by acquiring and exercising warrants, for an aggregate purchase price of Ps.33.4 million. In May 2004, we sold Class D shares representing 1.9% of Banco Hipotecario to IFISA, one of our controlling shareholders, for Ps.6.0 million, generating a loss of Ps.1.6 million. Our 11.8% investment in Banco Hipotecario is held in the form of Class D shares, which are currently entitled to three votes per share, affording us the right to vote approximately 18.36% of the total votes that can be cast at Banco Hipotecario's shareholders' meetings. At June 30, 2007, our investment in Banco Hipotecario represented 7.3% of our consolidated assets, and during our fiscal years ended June 30, 2005, 2006 and 2007, this investment generated gains of Ps.55.2 million, Ps.47.0 million and Ps.41.4 million, respectively.

## **Business Strategy**

We seek to take advantage of our position as a leading company in Argentina dedicated to owning, developing and managing real estate. Our business strategy seeks to (i) generate stable cash flows through the operation of our real estate rental assets (shopping centers, office buildings, hotels), (ii) achieve long-term appreciation of our asset portfolio by selectively acquiring strategically located properties, by taking advantage of through the subsequent materialization of development opportunities, and (iii) enhance the margins of our sales and developments segment through timely transformation of our land reserves into developed residential and commercial properties.

*Shopping centers.* In recent years, the Argentine shopping center industry has benefited from improved macroeconomic conditions and a significant expansion in consumer credit. We believe that the Argentine shopping center sector offers attractive prospects for long-term growth due to, among other factors, (i) a continuing evolution of consumer preferences in favor of shopping malls (away from small neighborhood shops) and (ii) a level of shopping center penetration that we consider low compared to many developed countries. We seek to improve our leading position in the shopping center industry in Argentina by taking advantage of economies of scale to improve the operating margins of our diversified portfolio of existing shopping centers and by developing new properties at strategic locations in Buenos Aires and other important urban areas, including in Argentine provinces and elsewhere in Latin America. The shopping center business is at present the strongest source of cash and EBITDA generation of our business segments.

*Credit Cards.* We believe that our credit card operations complement our shopping center business and offer attractive prospects for long-term growth due to improved macroeconomic conditions and an expansion in consumer credit. We seek to grow our credit card business and intend to maintain low levels of credit exposure through continuing securitization of our credit card loans. From time to time we consider strategic alternatives with respect to our investment in Tarshop which, due to its recent growth in size and profitability, competes increasingly with domestic and international banks and credit card companies that are substantially larger than Tarshop. As a result, we are considering alternatives to maximize the value of our investment in Tarshop including its possible merger with, or sale to, another financial institution actively engaged in the Argentine credit card sector. Although we are actively considering a range of such strategic alternatives, we cannot give you any assurance if or when any of them will be in fact be implemented.

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*Residential property.* During the economic crisis in Argentina in 2001 and 2002 and its aftermath, a scarcity of mortgage financing restrained growth in middle class home purchases. As a result, we decided to focus on projects for affluent individuals who do not need to finance their home purchases. We believe that there are attractive opportunities in the residential segment, as construction costs have remained low and property values have recovered significantly. We seek to take advantage of this opportunity, as well as improvements in highway and other transport infrastructure in and around Buenos Aires, by focusing on the development of residential properties for medium- and high-income individuals. In urban areas, we seek to purchase undeveloped properties in densely-populated areas and build apartment complexes offering greenspace for recreational activities. We recently entered into a partnership with Cyrela, a leading Brazilian developer of residential real estate, to develop residential real estate projects in Argentina and to increase our presence in such business. In suburban areas, we seek to develop residential communities by acquiring undeveloped properties with convenient access to Buenos Aires, developing roads and other basic infrastructure such as power and water, and then selling lots for the construction of residential units.

*Office buildings.* During the Argentine economic crisis in 2001 and 2002, little new investment was made in high-quality office buildings in Buenos Aires and, as a result, we believe there is currently substantial demand for desirable office space in Buenos Aires. We seek to purchase, develop and operate premium office buildings in strategically-located business districts in the City of Buenos Aires and other locations that we believe offer potential for rental income and long-term capital gain. We expect to continue our focus on attracting premium corporate tenants to our office buildings and will consider opportunities to acquire existing properties or construct new buildings depending on the location and circumstances.

*Hotels.* We believe our portfolio of three luxury hotels is positioned to take advantage of future growth in tourism and business travel in Argentina. We seek to continue our strategy of investing in high-quality properties which are operated by leading international hotel companies to capitalize on their operating experience and international reputation. We currently intend to renovate and expand Hotel Llao Llao and to remodel the Hotel Sheraton Libertador.

*Banco Hipotecario.* We believe that our investment in Banco Hipotecario has attractive prospects for long-term appreciation. After the 2002 economic crisis in Argentina mortgage loan originations have increased, and we believe they are likely to continue to increase as salaries, consumer purchasing power and investments in residential construction grow. We believe that, unlike certain other countries in Latin America, Argentina has a low level of mortgages outstanding, particularly if measured in terms of GDP and believe that Banco Hipotecario is currently valued at a level that is attractive compared to most other Argentine listed banks. Finally, we believe that the mortgage origination business and our real estate development business (which we expect to be bolstered through our recent partnership with Cyrela mentioned above) may potentially experience synergies that enhance operational efficiencies and cross selling opportunities that may promote the development of our undeveloped land reserves.

*Land reserves.* We continuously seek to acquire undeveloped land at locations we consider attractive inside and outside Buenos Aires. In all cases, our intention is to purchase land with significant development or appreciation potential for subsequent sale. We believe that holding a portfolio of desirable undeveloped plots of land enhances our ability to make strategic long-term investments and affords us a valuable pipeline of new development projects for upcoming years.

*International.* In the past, we have made significant real estate investments outside of Argentina, including investments in Brazil Realty in Brazil and Fondo de Valores Inmobiliarios in Venezuela which we disposed of in 2002 and 2001, respectively. Although we cannot assure you that we will make further investments outside of Argentina, we believe that Brazil and certain other Latin American countries offer certain interesting real estate opportunities. We expect to continue to evaluate actively such regional opportunities as they arise.

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### **Recent Developments**

*Agreement with Cyrela Brazil Realty S.A. Empreendimentos y Participações.* On August 14, 2007, we signed an agreement with Cyrela Brazil Realty S.A. Empreendimentos y Participações ( Cyrela ) pursuant to which we and Cyrela propose to develop residential projects in Argentina targeted to diverse market segments. We and Cyrela formed a new company to carry out the proposed development projects and have each agreed to make an initial investment of US\$30 million in such company. Cyrela is a public company in Brazil and is one of the largest developers of residential real estate in the cities of Sao Paulo and Rio de Janeiro. We and our principal shareholder Cresud have a long-standing commercial relationship with Cyrela as evidenced by our substantial investment in Brazil Realty S.A. from 1994 and 2002 and Cresud's recent investment in BrasilAgro, a company focused on agricultural opportunities in Brazil that was founded by Cresud and another company owned by Mr. Elie Horn, Cyrela's controlling shareholder and current chief executive officer and other investors.

*Acquisition of BankBoston Tower.* On August 27, 2007, we signed a deed that entitles us to 50% ownership of the office building known as the BankBoston tower, located at 265 Carlos Maria Della Paolera in the City of Buenos Aires. This modern property was designed by the recognized Architect Cesar Pelli and has a gross leasable area of 31,670 square meters. The transaction was consummated for an aggregate purchase price equal to US\$108,000,000.

*Neuquén Project.* On September 20, 2007, the City Hall of Neuquén approved the feasibility of our new urban project and environmental impact survey for the construction of housing enterprises in the City of Neuquén.

### **Shopping Centers**

#### ***Overview***

We are engaged in purchasing, developing and managing shopping centers through our subsidiary Alto Palermo. As of June 30, 2007, Alto Palermo operated and owned majority interests in ten shopping centers, five of which are located in the City of Buenos Aires, one of which is located in the greater Buenos Aires metropolitan area and the remaining are located in the interior Argentine cities of Salta, Rosario, Mendoza and Córdoba.

As of June 30, 2007, we owned approximately 62.5% of Alto Palermo, and Parque Arauco S.A. ( Parque Arauco ) owned 29.5%. The remaining shares are held by the public and traded on the *Bolsa de Comercio de Buenos Aires* and on the Nasdaq National Market (USA) under the symbol APSA. In addition, as of June 30, 2007, we owned US\$31.7 million of Alto Palermo's convertible notes due 2014. If we and all other holders of such convertible Notes were to exercise our option to convert the convertible notes into shares of Alto Palermo's common stock, our shareholding in Alto Palermo would increase to 65.6% of its fully diluted capital.

At June 30, 2007, Alto Palermo's shopping centers comprised a total of 224,138 square meters of gross leasable area (excluding certain space occupied by hypermarkets which are not Alto Palermo's tenants and the surface area of the Panamerican Mall that includes several projects one of which is the construction of a shopping center). For the year ended June 30, 2007, the average occupancy rate of Alto Palermo's shopping center portfolio was approximately 97.0%.

In December 2006, Alto Palermo acquired a 100% of Empalme S.A. which owns Córdoba Shopping, a shopping center covering 35,000 square meters of surface area, having 160 commercial stores, 12 movie theatres and parking lot for 1,500 vehicles, located in the Villa Cabrera neighborhood of Córdoba City.

As a result of our acquisition of several shopping centers and a corporate reorganization of Alto Palermo, we recently centralized management of our shopping centers in Alto Palermo. Alto Palermo is responsible for providing common area electrical power, a main telephone switchboard, central air conditioning and other basic common area services.

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The following table shows certain information concerning our shopping centers.

	Date of Acquisition	Leaseable Area sqm <sup>(1)</sup>	Alto Palermo s Effective Interest <sup>(3)</sup>	Occupancy Rate <sup>(2)</sup>	Annual Rental Income for the fiscal years <sup>(4)</sup>			Book Value (in thousand Ps.) <sup>(5)</sup>
					2005	2006	2007	
(in thousand Ps.)								
<b>Shopping Centers<sup>(6)</sup></b>								
Alto Palermo	12/23/97	18,210	100.0%	99.6%	37,889	47,730	57,345	175,517
Abasto de Buenos Aires	07/17/94	39,683	100.0%	97.0%	34,583	44,739	56,380	187,436
Alto Avellaneda	12/23/97	27,336	100.0%	95.0%	19,149	25,151	31,249	89,664
Paseo Alcorta	06/06/97	14,403	100.0%	99.0%	19,734	24,562	31,241	64,432
Patio Bullrich	10/01/98	10,978	100.0%	100.0%	17,819	21,425	25,368	103,137
Alto NOA Shopping	03/29/95	18,831	100.0%	100.0%	3,829	5,243	6,635	27,040
Buenos Aires Design	11/18/97	13,988	53.7%	100.0%	7,082	8,619	10,359	16,082
Alto Rosario	11/09/04	30,261	100.0%	93.4%	5,497	11,823	15,464	84,145
Mendoza Plaza Shopping	12/02/04	39,392	85.4%	95.9%	9,212	14,636	18,779	89,004
Córdoba Shopping Villa Cabrera	12/31/06	11,056	100.0%	99.0%	N/A	N/A	3,810	75,508
Panamerican Mall S.A. <sup>(11)</sup>	12/01/06	28,741	80.0%	N/A	N/A	N/A	N/A	167,606
Fibesa and others <sup>(7)</sup>	N/A	N/A	100.0%	N/A	10,735	11,075	13,636	N/A
Income from Tarjeta Shopping	N/A	N/A	80.0%	N/A	64,558	122,969	212,965	N/A
Neuquén <sup>(8)</sup>	07/06/99	N/A	94.6%	N/A	N/A	N/A	N/A	12,302
Total <sup>(7)</sup>		252,879	N/A	97.0%	230,087	337,972	483,231	1,091,873

(1) Total leaseable area in each property. Excludes common areas and parking spaces.

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

(3) Effective participation of Alto Palermo in each business unit. We have a 62.48% in Alto Palermo.

(4) Represents the total consolidated leases according to the RT21 method.

(5) Cost of acquisition plus improvements, less accumulated depreciation, plus adjustment for inflation, less allowance for impairment in value, plus recovery of allowances if applicable.

(6) Owned through our subsidiary Alto Palermo.

(7) Includes revenues from Fibesa S.A.

(8) Parcel of land for developing a shopping center.

(9) The project includes the construction of a shopping center, a hypermarket, a movie theater complex and an office and/or dwelling building.

(10) Corresponds to the Shopping Centers business unit mentioned in Note 4 to the consolidated financial statements. Includes profits for the Tarshop credit card.

(11) Meters represent only the land surface.

**Tenant Retail Sales**

The following table sets forth the total approximate tenant retail sales in Pesos at the shopping centers in which we had an interest for the periods shown.



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	Fiscal Year Ended June 30, <sup>(1)</sup>		
	2005	2006	2007
	Ps.	Ps.	Ps.
Abasto	333,216,597	453,871,445	573,814,588
Alto Palermo	362,089,242	436,244,953	502,220,444
Alto Avellaneda	259,630,930	308,900,404	418,349,117
Paseo Alcorta	212,617,732	264,060,375	321,948,304
Patio Bullrich	170,679,604	195,877,528	226,200,714
Alto Noa	75,648,232	104,529,187	130,318,508
Buenos Aires Design	73,906,709	91,921,046	110,722,931
Mendoza Plaza	159,206,234	275,864,008	337,757,597
Alto Rosario	50,895,239	143,806,266	204,430,069
Total retail sales <sup>(2)</sup>	1,697,890,519	2,275,075,212	2,825,762,272

(1) Retail sales based upon information provided to us by retailers and prior owners. The amounts shown reflect 100% of the retail sales of each shopping center, although in certain cases we own less than 100% of such shopping centers.

(2) Excludes sales from stands and spaces used for special exhibitions.

**Lease Expirations**

The following table shows a schedule of lease expirations for our shopping center properties in place as of June 30, 2007, assuming that none of the tenants exercise renewal options or terminate their lease early.

Lease Expirations as of June 30,	Number of Leases Expiring	Square Meters Subject to Expiring Leases (square meters)	Percentage of Total Square Meters Subject to Expiration (%)	Annual Base Rent Under Expiring Leases(1) (Ps.)	Percentage of Total Base Rent Under Expiring Leases (%)
2008(2)	703	134,815	63%	49,763,778	28%
2009	277	35,413	17%	66,336,108	38%
2010	96	17,564	8%	41,939,740	24%
2011+	25	25,290	12%	17,961,963	10%
Total	1,101	213,082	100%	176,001,589	100%

(1) Includes only the basic rental income amount. Does not give effect to our ownership interest.

(2) Includes stores which contracts have not been renewed yet and vacant stores at June 30, 2007.

**Occupancy Rate**

The following table shows the average occupancy rate of each shopping center during fiscal years ended June 30, 2005, 2006 and 2007:

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	<b>Occupancy Rate</b>		
	<b>Fiscal year ended June 30,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	(%)	(%)	(%)
Abasto de Buenos Aires	100.0	99.9	97.0
Alto Palermo Shopping	100.0	100.0	99.6
Alto Avellaneda	99.1	96.6	95.0
Paseo Alcorta	99.7	99.2	99.0
Patio Bullrich	98.6	100.0	100.0
Alto Noa	99.5	100.0	100.0
Buenos Aires Design	96.8	100.0	100.0
Alto Rosario	98.0	100.0	93.4
Mendoza Plaza Shopping	95.5	97.8	95.9
Córdoba Shopping Villa Cabrera	N/A	N/A	99.0
Total average	98.4	99.1	97.0

**Rental Price**

The following table shows the annual/period average rental price per square meter for the fiscal years ended June 30, 2004, 2005, 2006 and 2007:

	<b>Fiscal Year Ended</b>		
	<b>June 30,(1)</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(in Ps. per square meter)</b>		
Abasto	779.7	1,021.5	1,273.2
Alto Palermo	1,926.2	2,432.2	2,925.0
Alto Avellaneda	678.0	899.7	1,099.8
Buenos Aires Design	399.9	501.4	633.7
Paseo Alcorta	1,295.5	1,628.7	2,074.2
Patio Bullrich	1,455.0	1,791.6	2,051.1
Alto Noa	193.1	280.0	343.9
Alto Rosario	274.1	376.0	484.2
Mendoza Plaza	203.2	353.8	455.6

(1) Annual / six month rental price per gross leasable square meter reflects the sum of base rent, percentage rent, stands and revenues from admission rights (excluding any applicable tax on sales) divided by gross leasable square meters.

**Principal Terms of our Leases**

Under Argentine Law, terms of commercial leases must be between three to ten years, with most leases in the shopping center business having terms of no more than five years. Our lease agreements are generally denominated in Pesos.

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

We charge our tenants 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 sales in the store (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. Although many of our lease agreements contain readjustment clauses, these are not based on an official index nor do they reflect the inflation index. In the event of litigation, there can be no assurance that we may be able to enforce such clauses contained in our lease agreements. See *Risk Factors - Risks Related to Our Business* for a more detailed discussion.

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In addition to rent, we charge most of our tenants an admission right, which is required to be paid upon entering into a lease agreement and upon a lease agreement renewal. The admission right is normally paid in one lump sum or in a small number of monthly installments. If the tenant pays this fee in installments, it is the tenant's responsibility to pay for the balance of any such amount unpaid in the event the tenant terminates its lease prior to its expiration. In the event of unilateral termination and/or resolution for breach of duties by the tenant, a tenant will not be refunded its admission right without our consent.

We are responsible for supplying each shopping center with the electrical power connection and provision, a main telephone switchboard, central air conditioning connection and a connection to a general fire detection system. Each rental unit is connected to these systems. We also provide the food court tenants with sanitation and with gas systems connections. Each tenant is responsible for completing all the necessary installations within its own rental unit, in addition to the direct expenses generated by these items within each rental unit. These direct expenses generally include: electricity, water, gas, telephone and air conditioning. Tenants must also pay for a percentage of total charges and general taxes related to the maintenance of the common areas. We determine this percentage based on the tenant's gross leasable area and the location of its store. The common area expenses include, among others, administration, security, operations, maintenance, cleaning and taxes.

We carry out promotional and marketing activities to increase attendance to our shopping centers. These activities are paid for with the tenants contributions to the Common Promotional Fund ( CPF ), which is administered by us. Every month tenants contribute to the CPF an amount equal to approximately 15% of their rent (Base Rent plus Percentage Rent), in addition to rent and expense payments. We may increase the percentage that tenants must contribute to the CPF, but the increase cannot exceed 25% of the original amount set forth in the corresponding lease agreement for the contributions to the CPF. We may also require tenants to make extraordinary contributions to the CPF to fund special promotional and marketing campaigns or to cover the costs of special promotional events that benefit all tenants. We may require tenants to make these extraordinary contributions up to four times a year provided that each such extraordinary contribution may not exceed 25% of the preceding monthly rental payment of the tenant.

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

**Sources of Shopping Center Revenues**

Set forth below is a breakdown of the sources of our shopping center revenues for our fiscal years ended June 30, 2005, 2006 and 2007.

	<b>Fiscal Year ended June 30,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(in Pesos)</b>		
Fixed monthly minimum rent	78,701,727	104,548,288	129,594,156
Variable rent dependent on sales	29,421,020	40,896,378	51,872,357
Stand and kiosk rentals	14,650,061	17,711,770	21,303,064
Admission fees	19,068,915	26,254,296	34,477,499
Various	16,286,582	17,035,196	23,012,445
Parking	7,349,610	8,523,290	9,872,453
<b>Total rent and services</b>	<b>165,477,915</b>	<b>214,969,218</b>	<b>270,131,974</b>
Tarjeta Shopping revenues	64,557,977	122,968,616	212,965,332
Other revenues from other segments	51,219	0	133,848
<b>Total shopping center revenues</b>	<b>230,087,111</b>	<b>337,971,664</b>	<b>483,231,154</b>

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Set forth below is information regarding our principal shopping centers.

**Alto Palermo Shopping, City of Buenos Aires.** Alto Palermo Shopping is a 150-store shopping center that opened in 1990 and is located in the well known and densely populated neighborhood of Palermo in the City of Buenos Aires. Alto Palermo Shopping is located only a few minutes from downtown Buenos Aires and with nearby subway access. Alto Palermo Shopping has a total constructed area of 64,574 square meters that consists of 18,210 square meters of gross leasable area. The shopping center has a food court with 21 restaurants. Alto Palermo Shopping is spread out over four levels and has a 647 car-parking lot. Tenants in this shopping center generated average estimated monthly retail sales of approximately Ps.2,298 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Zara, Frávega, Garbarino, Just For Sport and Musimundo. Alto Palermo Shopping's five largest tenants (in terms of sales in this shopping center) accounted for approximately 15.4% of its gross leasable area at June 30, 2007 and approximately 9.6% of its annual base rent for the fiscal year ended on such date.

**Alto Avellaneda, Avellaneda, Greater Buenos Aires.** Alto Avellaneda is a 145-store shopping center that opened in October 1995 and is located in the densely populated neighborhood known as Avellaneda, on the southern border of Buenos Aires. Alto Avellaneda has a total constructed area of 97,655 square meters that includes 27,336 square meters of gross leasable area. Alto Avellaneda includes several anchor stores, a six-screen multiplex movie theatre, a Wal-Mart superstore, an entertainment area, a bowling alley, a 16-restaurant food court and an outdoor parking lot. Wal-Mart purchased the space it now occupies. Tenants in this shopping center generated average estimated monthly retail sales of approximately Ps.1,275 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Frávega, Rodo, Bingo, Garbarino and Compumundo. Alto Avellaneda's five largest tenants (in terms of sales in this shopping center) accounted for approximately 14.4% of its gross leasable area at June 30, 2007 and approximately 12.4% of its annual base rent for the fiscal year ended on such date.

**Paseo Alcorta, City of Buenos Aires.** Paseo Alcorta is a 113-store shopping center that opened in 1992 and is located in the residential neighborhood of Palermo Chico, one of the most exclusive areas in the City of Buenos Aires, within a short drive from downtown Buenos Aires. Paseo Alcorta has a total constructed area of approximately 54,728 square meters that consists of 14,403 square meters of gross leasable area. The three-level shopping center includes a four-screen multiplex movie theatre, a 17 restaurant food court, a Carrefour hypermarket, and a free parking lot with approximately 1,300 spaces. Carrefour purchased the space it now occupies but it pays a share of the expenses of the shopping center. Tenants in this shopping center generated average estimated monthly retail sales of approximately Ps.1,863 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Zara, Frávega, Musimundo, Kartun and Etiqueta Negra. Paseo Alcorta's five largest tenants (in terms of sales in this shopping center) accounted for approximately 17.3% of Paseo Alcorta's gross leasable area at June 30, 2007 and approximately 9.3% of its annual base rent for the fiscal year ended on such date.

**Abasto Shopping, City of Buenos Aires.** Shopping is a 171-store shopping center located in the City Buenos Aires. Abasto Shopping is directly accessible by subway, railway and highway. Abasto Shopping opened in November 1998. The principal building is a landmark building which during the period 1889 to 1984 operated as the primary fresh produce market for the City of Buenos Aires. The property was converted into a 115,905 square meter shopping center, with approximately 39,683 square meters of gross leasable area. Abasto Shopping is located across from Torres de Abasto residential apartment development. The shopping center includes a food court with 24 restaurants covering an area of 5,600 square meters, a 12-screen multiplex movie theatre, entertainment facilities and the Museo de los Niños Abasto, a museum for children. Abasto Shopping is spread out over five levels and has a 1,200-car parking lot. Tenants in this shopping center generated estimated average monthly sales of approximately Ps.1,205 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Zara, Hoyts Cinemas, Frávega, Hiper Rodo and Garbarino. Abasto Shopping Center's five largest tenants (in terms of sales in this shopping center) accounted for approximately 11.3% of Abasto Shopping's gross leasable area at June 30, 2007 of the annual base rent for the fiscal year ended on such date.

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***Patio Bullrich, City of Buenos Aires.*** Patio Bullrich is an 83-store shopping center located in Recoleta, a popular tourist zone in City of Buenos Aires a short distance from the Caesar Park, Four Seasons and Hyatt hotels. Patio Bullrich has a total constructed area of 28,211 square meters that consists of 10,978 square meters of gross leasable area. The four-story shopping center includes a 14 restaurant food court, an entertainment area, a six-screen multiplex movie theatre and a parking lot with 212 spaces. Tenants in this shopping center generated estimated average monthly sales of approximately Ps.1,717 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Etiqueta Negra, Rapsodia, Christian Dior, Casa López and Rouge International. Patio Bullrich's five largest tenants (in terms of sales in the shopping center) accounted for approximately 14.9% of Patio Bullrich's gross leasable area at June 30, 2007, and approximately 9.4% of its annual base rent for the fiscal year ended on such date.

***Alto Noa, Salta, Province of Salta.*** Alto Noa is an 84 store shopping center located in the City of Salta, the capital of the Province of Salta. The shopping center consists of approximately 41,700 square meters of total constructed area that consists of 18,831 square meters of gross leasable area and includes a 13-restaurant food court, a large entertainment center, a supermarket, an eight-screen movie theatre and parking facilities for 551 cars. Tenants in this shopping center generated estimated average monthly sales of approximately Ps.577 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Supermercado Norte, Frávega, Garbarino, Y.P.F. and Slots. Alto Noa's five largest tenants (in terms of sales in this shopping center) accounted for approximately 32.8% of Alto Noa's gross leasable area at June 30, 2007, and approximately 8.0% of its annual base rent for the fiscal year ended on such date.

***Buenos Aires Design, City of Buenos Aires.*** Buenos Aires Design is a 61-store shopping center intended for specialty interior, home decorating and restaurants that opened in 1993. Alto Palermo owns Buenos Aires Design through a 54% interest in Emprendimientos Recoleta, which owns the concession to operate the shopping center. Buenos Aires Design is located in Recoleta, one of the most popular tourist zone in Buenos Aires City. Buenos Aires Design has a total constructed area of 31,645 square meters that consists of 13,988 square meters of gross leasable area. The shopping center has 6 restaurants, is divided into two floors and has a 174-car parking lot. Tenants in this shopping center generated estimated average monthly sales of approximately Ps.1,660 per square meter for the fiscal year ended June 30, 2007. Principal tenants currently include Morph, Barugel Azulay, Garbarino, Hard Rock Café and Prima Fila. Buenos Aires Design's five largest tenants (in terms of sales in this shopping center) accounted for approximately 29.5% of Buenos Aires Design's gross leasable area and 17.6% of its annual base rent for the fiscal year ended on such date.

***Alto Rosario, Santa Fe, City of Rosario.*** Alto Rosario is a shopping center of 146 stores, located in City of Rosario, Province of Santa Fe. It was inaugurated in November 2004 and has 105,809 square meters of fully covered surface, and 30,261 square meters of gross leasable area. This center is primarily devoted to clothing and entertainment and includes a food patio with 18 stores, a childrens' entertainment area, a 14-cinema complex and parking lot for almost 1,736 vehicles. Tenants in this shopping center generated average monthly sales of approximately Ps.563 per square meter, for fiscal year ended June 30, 2007. Principal tenants are Frávega, Sport 78, McDonald's, Compumundo and Red Megatone. Alto Rosario's five largest tenants (in terms of sales in this shopping center) accounted for approximately 6.5% of Alto Rosario's gross leasable area and 6.9% of its annual base rent for the fiscal year ended on such date.

***Mendoza Plaza, Mendoza, Province of Mendoza.*** Mendoza Plaza is a 148-store shopping center located in the City Mendoza in the Province of Mendoza. It consists of 39,392 square meters of gross leasable area. Mendoza Plaza has a multiplex movie theatre covering an area of approximately 3,659 square meters, the Chilean department store Falabella, a food court, with 23 stores, an entertainment center and a supermarket which is also a tenant. Tenants in this shopping center generated estimated average monthly sales of approximately Ps.715 per square meter for the fiscal year 2007. During the year 2005 a 68.8% interest was acquired to Pérez Cuesta, increasing up to 85.4%. Principal tenants currently include Falabella, Super Plaza Vea, Frávega, Garbarino and Red Megatone. Mendoza Plaza's five largest tenants (in terms of sales in this shopping center) accounted for approximately 33.7% of Mendoza Plaza's gross leasable area at June 30, 2007, and approximately 22.3% of its annual base rent for the fiscal year ended on such date.

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***Córdoba Shopping, Villa Cabrera, Córdoba.*** Córdoba Shopping is a 106 shops commercial center located in Villa Cabrera, Province of Córdoba. It covers 11,056 square meters of gross locative area. The Córdoba Shopping has a movie theatre complex with 12 units covering a surface area of approximately 6,929 square meters, a food patio and an entertainment area. Tenants in this shopping center generated estimated average monthly sales of approximately Ps.115 per square meter for the fiscal year 2007. Principal lessees are New Sport, Musimundo, Dexter, McDonald's and Plenty.

***Ex Escuela Gobernador Vicente de Olmos, Córdoba, Province of Córdoba.*** In November 2006 we participated in a public bidding of the Corporación Inmobiliaria Córdoba S.A. for the sale of the building known as Ex Escuela Gobernador Vicente de Olmos, located in the City of Córdoba. The building covers 5,147 square meters of surface area. Inside the building there is a part of the Patio Olmos shopping center, in operation in four commercial plants and two underground parking lots. This shopping center also includes two neighbor buildings with cinemas and a commercial annex connected to the bidding sector and legally related through easement contracts. The building is under a concession contract, effective for a 40-year term terminating in February 2032, in which we act as grantor. Such contract establishes a monthly payment which is increased by Ps.2,513 every 47 months. To the date of this (i) the concession is in its 181<sup>st</sup> month with a monthly payment of Ps.10,052, being the next monthly increase in the 186<sup>th</sup> month to Ps.12,565, and (ii) the transfer deed document is not yet effective. Our offer bid was for Ps.32.5 million, of which Ps.9.7 was paid on the awarding of the building and Ps.22.8 million was paid on the date of the execution of the transfer deed. On November 20, 2006, we were notified that the bid was awarded to us, and we paid the 30% of the offer bid in accordance with the terms and conditions established in the bid.

We were ordered the Corporación Inmobiliaria Córdoba S.A. to execute the deed documents on May 15, 2007. We answered such order by indicating our willingness to sign the related deed documents for the purchase and sale agreement and the assignment of the concession agreement, respectively, provided the bidding terms are respected.

On January 15, 2007 we were notified of two claims filed against us before the Argentine Antitrust Authority, one by a private individual and the other one by the licensee of the shopping center, both opposing this transaction. On February 1, 2007 we responded the claims.

On June 26, 2007, we were advised that the Argentine Antitrust Authority initiated a summary proceeding to determine whether their prior consent was required to complete this transaction. As of the date of this prospectus the result of this proceeding is yet to be determined.

***Panamerican Mall Project.*** In December 2006 we entered into a series of agreements for the construction, marketing and management of a new shopping center to be developed in the neighborhood of Saavedra, City of Buenos Aires, by Panamerican Mall S.A., a recently formed company in which our subsidiary Alto Palermo has an 80% shareholding. The project includes the construction of a shopping center, a hypermarket, a cinema complex and an office building and/or housing building. This is currently one of our most significant development projects. We have started the construction of this shopping center and currently seek to complete it during our fiscal year ending June 30, 2009.

## **Credit Card Operations**

Through our 80% owned subsidiary Tarshop, we are engaged in the credit card business through the issuance of our *Tarjeta Shopping* and *Tarjeta Shopping Metroshop* credit cards which have a strong presence in our shopping centers and nearby hypermarkets and street stores. In addition to increasing sales and traffic in our shopping centers, we also seek to achieve a financial return by facilitating access to credit for an underbanked segment of the public.

We target all customers of our shopping centers as well as customers in nearby hypermarkets and street stores. We attract customers by offering a credit card which is easy to obtain and use and by promotions suited to the commercial needs of our tenants and that are also regarded by customers as more convenient than other means of payment. One of the most important benefits granted to customers is the *welcome discount* which provides a 10% discount on all purchases made on the customer's first day. One of the most aggressive promotions includes offering up to a 20% discount at stores designated at random, and as a result, affording accessible prices to a wide range of customers. Many of Tarjeta Shopping's customers also have access to the Banelco and Link ATM networks, allowing them to make cash withdrawals from any ATM in Argentina.

From time to time we consider strategic alternatives with respect to our investment in Tarshop which, due to its recent growth in size and profitability, competes increasingly with credit card companies that are substantially larger. As a result, we are currently considering alternatives to maximize the value of our investment in Tarshop, including its possible merger with, or sale to, another entity engaged in the credit card sector.



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### *History of our Credit Card Business*

The credit card business in Argentina started in the 1960s, but its development was limited until companies such as Visa and Mastercard entered the Argentine market in the early 1980s. During this first stage, and as a consequence of an inflationary economy, the surcharges imposed by merchants for credit card sales were high burdensome and curtailed the growth of the credit card business in Argentina. With the implementation of the Convertibility Plan in April 1991 the inflation was curbed, and the consumer financing market, in pesos as well as in dollars, rapidly developed.

The *Tarjeta Shopping* card was introduced in 1996 with the main objective of developing a private credit card that would be offered to customers of the Alto Avellaneda shopping center and accepted at all its stores, including the Wal-Mart Avellaneda superstore located next to Alto Avellaneda. In light of the initial success of the *Tarjeta Shopping* card in Alto Avellaneda, we determined to use it as our platform for expanding our credit card business to our other shopping centers.

In late 2004, we introduced our *Tarjeta Shopping Metroshop* credit card through a 50.0% owned joint venture with Metronec S.A., a company which issues the *Tarjeta Subtecard* credit card. The *Tarjeta Shopping Metroshop* credit card has the same characteristics and benefits as our *Tarjeta Shopping* card as well as the *Tarjeta Subtecard*. The *Tarjeta Shopping Metroshop* credit card allows us access to the users of the subway of the City of Buenos Aires and the General Urquiza Railway. Holders of the *Tarjeta Shopping Metroshop* credit card can pay credit card bills at Metroshop's branches, subway stations ticket counters and other collection agents, and are entitled to participate in exclusive promotions and specially designed financing plans. This alliance permits us to develop a consumer credit business using the captive customer base, experience and know how in the marketing of financial products in high-transit areas and its use in its more than 30,000 participating stores, the best chains and the Banelco and Link ATM networks.

Metroshop currently has 11 branches distributed in the main stations of the A, B, C, and D and E subway lines in the City of Buenos Aires, one in the City of Mar del Plata and more than twenty outsourced participating points of sale located in the subway network of the City of Buenos Aires.

Since 2003, our credit card business has expanded its customer base and its area of influence, particularly in the south area of Buenos Aires and in other provinces. For the fiscal years ended June 30, 2000, 2003, 2006 and 2007 the evolution of Tarshop's customers base was as follows:

Fiscal year ended June 30,	Street Stores and Other Non-Shopping Center	
	Shopping Centers	Stores
2000	87.0%	13.0%
2003	56.0%	44.0%
2006	16.0%	84.0%
2007	13.9%	73.7%

Our *Tarjeta Shopping* card has become one of the main credit cards in Alto Avellaneda shopping center with more than 33% of the credit card sales made, and in Abasto de Buenos Aires with a share exceeding 15%. In addition, *Tarjeta Shopping* has been increasing its customer base to almost 600,000 accounts by the end of 2006, with an activation of more than 70%, sales of almost \$1 billion in the year and more than 30,000 participating stores.

The table below sets forth information with respect to the growth of our credit card business during the periods shown:



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	Fiscal year ended June 30,	
	2005	2006
	(in millions of Ps.)	
<b>Revenues:</b>		
Interest income	14.8	29.9
Merchants commissions	14.5	22.7
Other fees and commissions	0.0	0.1
Compensatory, punitive and other interest	3.1	5.9
Account maintenance charges	12.7	22.2
Charges for life and disability insurance	19.4	41.6
Income from Metroshop	0.1	0.4
Other services	0.0	0.1
Credit cards reissued	0.0	0.1
<b>Total</b>	<b>64.6</b>	<b>123.0</b>
Credit card receivables <sup>(1)</sup>	209.2	384.6
Credit cards issued	0.4	0.5
Branches <sup>(2)</sup>	19	20
Participating stores <sup>(2)</sup>	21,500	25,900

(1) Including the securitized portion.

(2) In constant Ps.

The table below sets forth information with respect to the growth of our credit card business during fiscal year 2007, considering the last classification of revenues in Tarshop's financial statements:

	Fiscal year ended June 30,	
	2007	
	(in million of Ps.)	
<b>Revenues</b>		
Merchants commissions	38.2	
Income for services	74.2	
Interest income	70.2	
Other fees and commissions	2.6	
Credit card reissued	1.5	
Account maintenance charges	32.0	
Income from Metroshop	0.7	
<b>Total</b>	<b>219.5</b>	

**Distribution Network**

Today, *Tarjeta Shopping* has 22 branches, including in our Alto Avellaneda, Alto Palermo, Abasto and Paseo Alcorta shopping centers, as well as street offices such as the one located in the Avellaneda District in the downtown area of Buenos Aires, and in the cities of Lomas de Zamora, Morón and Quilmes, among others. This growth has been accompanied by the significant expansion made towards the rest of the country by the opening of branches in the provinces of Córdoba, Tucumán, Salta and San Salvador de Jujuy. In addition, we have stands for promotion, opening of accounts and distribution of cards at the Wal-Mart Avellaneda superstore and the Coto supermarkets located in the cities of Lanús, Sarandí and Temperley. We have also entered into strategic alliances at the sales points of certain important household appliance and motorcycle stores where it is possible to obtain instant credit through the so-called "First Transaction" scheme where no card is needed for the first purchase.

Each branch is organized as an autonomous and independent business unit that handles the resources necessary to attain its business goals, such as invoicing and number of accounts opened. In addition, *Tarjeta Shopping* has its own ATM structure for payment of bills and extension of automatic cash loans to customers in its branches, applying facilities and procedures for the management and movement of cash comparable to those used by bank branches.



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***Credit Risk Management***

*Credit Approval Process*

Applications for issue of credit cards submitted are subjected to an evaluation process that undergoes various controls. In the first place, the applicant's identity is checked and its credit information is obtained from credit bureau agencies. Based on the information filed by the applicant and the credit bureau data obtained, in the absence of any negative background, the applicant is given a card with a provisional limit set according to its score level. Simultaneously, the data contributed by the applicant himself are verified directly and by cross-checking by means of inquiries to credit data basis and governmental agencies, and if necessary, telephone verifications and validations are made at the relevant domicile.

*Credit Limits*

The credit limit assigned to each card applicant is determined on the basis of the family income and other requirements established by Tarshop based on its experience up to a maximum of Ps.20,000. The credit limit is the maximum amount of unmatured installment payments that the client and its additional cardholders may jointly use in the form of purchases, services and cash advances, after having analyzed the client's indebtedness to other financial institutions.

Applications for increase of the credit limit are evaluated on the basis of the applicant's seniority and payment behavior and financial condition vis-à-vis other financial institutions. In addition, Tarshop from time to time revises the card's limit based on the card holders' payment behavior.

*Payment Plans*

Tarshop handles a single billing cycle that matures on the 25<sup>th</sup> day of each month. The bill contemplates a grace period for non-interest accruing payments that expires on the 9<sup>th</sup> day of the following month, and a second due date subject to delayed payment charges on the 20<sup>th</sup> day of the following month. Bills are payable at any Tarshop office and in our major collection facilities.

Accounts with unpaid bills as of the 20<sup>th</sup> day of each month fall in arrears, and are blocked until payment is effected. During the first 30 days of arrears, the client receives automatic and manual calls and letters of reminder. As from the 31<sup>st</sup> day of arrears, telephone collection officers arrange an interview with the delinquent client at the branches, so as to continue collection management proceedings in person.

*Credit Monitoring and Collection Procedures*

Delinquent collection management proceedings start with a reminder call sent to clients who have failed to pay on the first due date, by using an automatic call system. Approximately 40 to 120 days after the due date, the actions involve a combination of telephone calls, interviews with collection officers at the Tarshop's branches and home visits, aimed at obtaining a discharge of the debt or a payment rescheduling, accompanied by the execution of a debt acknowledgment instrument by the client. Finally, accounts with arrears of more than 120 days are transferred to the attorneys for the filing of legal actions, unless there is evidence of the debtor's insolvency.

Tarshop's collection procedures are similar to those established in the trust, see *Funding and Securitization Activities* below.

As concerns loan loss provisions, the policies we apply are similar to those established by the Argentine Central Bank. We generally make provisions in relation to the credit portfolio category based on the following:

<b>Performing</b>	<b>Provision</b>
Past due:	
0-30 days	1.0%
31-89 days	5.0%
90-180 days	25.0%
181-365 days	50.0%

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The table below sets forth information with respect to the credit card receivables (including the securitized portion):

	2005		At June 30, 2006		2007	
	Ps.	%	Ps.	%	Ps.	%
<b>Portfolio Status</b>						
Performing <sup>(1)</sup>	264.1	90.5	338.6	88.2	627.4	86.7
Past due:						
31-89 days	8.1	2.8	13.3	3.5	26.2	3.6
90-180 days	10.2	3.5	16.8	4.4	37.8	5.2
181-365 days	9.4	3.2	15.0	3.9	32.2	4.5
<b>Total</b>	<b>291.8</b>	<b>100.0</b>	<b>383.7</b>	<b>100.0</b>	<b>723.6</b>	<b>100.0</b>
Over 365 days and legal proceedings <sup>(2)</sup>	30.9		35.5		55.0	
Loan loss allowance as % of past due loans		37.8		29.5		20.3
Loan loss allowance as % of all loans		3.5		3.5		2.7

(1) Performing loans not past due more than 30 days.

(2) These claims are subject to a 100% loan loss allowance.

**Funding and Securitization Activities**

Tarshop's main liquidity needs and capital resources include: payment of sales made by retail stores, working capital needs, investment in new technology, the opening and improvement of branches and holding of cash to take advantage of opportunities that may arise. Tarshop has significantly expanded its business by securitizing its credit card receivables pursuant to the Tarjeta Shopping Trust Program. By resorting to this innovative financial engineering mechanism, Tarjeta Shopping has led one of the largest issues in the market and successfully placed 29 series for more than Ps.1,250 million, and was assigned the highest rating by Standard & Poor's.

Throughout its history, Tarshop has incurred liabilities mainly in local currency and to a lesser extent in foreign currency, and leveraged twice the coverage for its commitments incurred in foreign currency.

**Receivables Portfolio Securitization**

Tarshop has its own \$450 million Trust Security Program. An application was filed with the *Comisión Nacional de Valores* to obtain authorization for extending this amount to \$900 million in order to accompany the expected growth of business.

To date, 29 series have been issued aggregating Ps.1,265 million in bonds and certificates of participation. In 2006, 9 series were issued for \$348 million, and in 2005 8 series were issued for \$210 million. Total terms under each issue range from 20 to 30 months. The applicable nominal interest rates for Class A and B Bonds are approximately 13% and 15%, respectively. The interest accrued on both Bonds is subject to a floor and ceiling rates. Class A Bonds in both the revolving and non-revolving structures have an AAA rating granted by S&P.

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### *Liquidity Policies*

Tarshop's policy is to maintain cash and bank account balances for an average of approximately \$ 1.5 million, and to invest any excess in interest-accruing accounts and in mutual investment funds callable within 48 or 24 hours. All balances and reserves are denominated in local currency.

### *Technology*

Information systems are an essential element for credit card companies, as the processing of a large size of transactions in constant expansion is required. This has prompted Tarjeta Shopping to procure state-of-the art technology, and for this reason the current data and transaction processing systems maintain all branches linked through its local intranet, allowing expediency and confidentiality in the handling and transmission of data. In addition, its administrative headquarters are capable of being connected via PosNetworks to the participating stores, ensuring the possibility of adding stores and carrying out transactions around the clock.

The expansion of the call center and our credit department required a significant investment in technology and communications, resulting in an aggressive growth in the number of transactions and inquiries attended and sharp increase in processing speed. The Area has four sectors: Systems Development, Technology, New Projects and Server Management and IT Security. *Tarjeta Shopping* operates with proprietary information systems, developed and suited to the Company's business. Its main systems are developed in 4GL language with Informix DS Data Base Engine, currently, migrating to a new context developed under .net under Oracle DFG Data Base. The main systems' platform is composed of SUN Spark servers, with Solaris 10 operating system.

All business processes, from origination to account opening, issue of plastics, transaction validation, loan management, customer management, generation and printing of bills, payments, collections, delinquency management and processing, are supported by these systems.

The systems allow the on-line capturing and validation of purchases, receiving transactions through Posnet, LaPos (Visa), and direct communication with the major Shopping Center, Hypermarket and Department Store chains, and cash withdrawal transactions through Banelco and Link ATMs.

Tarjeta Shopping's equipment and IT systems are comparable to those used by large-scale credit card companies, which will allow it to respect its current cost structure while still maintaining the speed in the growth of accounts and portfolio it has been showing so far.

### *Summary Balance Sheet and Other Data*

The following table sets forth certain balance sheet and other data for Tarshop as of June 30, 2005, 2006 and 2007:

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	As of June 30,		
	2005	2006	2007
	(in million Ps., except percentage)		
<b>BALANCE SHEET DATA</b>			
<i>Current assets:</i>			
Cash and banks	5.74	4.65	8.83
Investments	10.76	10.79	35.29
Accounts receivable	20.09	46.06	67.72
Other receivables	6.62	6.66	16.16
Total current assets	43.21	68.16	128.00
<i>Non-current assets:</i>			
Other receivables	2.11	7.43	24.31
Property, plant and equipment	2.88	4.88	9.68
Investments	19.26	39.81	55.68
Accounts receivable	6.93	19.74	40.58
Intangible assets, net	0.04	0.03	0.02
Other assets	0.00	0.03	0.01
Total non-current assets	31.22	71.92	130.28
Total assets	74.43	140.08	258.28
<i>Current liabilities:</i>			
Accounts payable	39.69	87.68	156.90
Customer advances	1.31	2.20	4.40
Short-term debt	3.11	5.83	12.28
Related parties	8.38	6.77	3.19
Salaries and social security payable	2.21	2.15	5.02
Taxes payable	5.44	6.44	21.78
Other liabilities	0.00	0.07	0.73
Total current liabilities	60.14	111.14	204.30
<i>Non-current liabilities:</i>			
Long-term debt	0.00	0.00	5.60
Other liabilities	0.00	0.10	0.53
Total non-current liabilities	0.00	0.10	6.13
Total liabilities	60.14	111.24	210.43
Shareholders' equity	14.29	28.84	47.85
Total liabilities plus shareholders' equity	74.43	140.08	258.28
<b>OTHER FINANCIAL DATA</b>			
Return on assets	10.0%	10.4%	7.4%
Return on shareholders' equity	107.7%	101.8%	65.9%
Net interest margin	62.08%	62.84%	64.72%
Non-performing loans as a percentage of total loans	26.65%	25.20%	24.48%
Reserve for loan losses as a percentage of total loans	26.37%	16.80%	15.17%
Reserve for loan losses as a percentage of non-performing loans	98.98%	66.65%	61.98%

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### **Development and Sale of Properties**

The acquisition and development of residential apartment complexes and residential communities for sale is one of our core activities. Our development of residential apartment complexes consists of the new construction of high-rise towers or the conversion and renovation of existing structures such as factories and warehouses. In connection with our development of residential communities, we frequently acquire vacant land, develop infrastructure such as roads, utilities and common areas, and sell plots of land for construction of single-family homes. We may also develop or sell portions of land for others to develop complementary facilities such as shopping areas within residential developments.

In our fiscal year ended June 30, 2007, revenues from our Sales and Development segment were Ps.75.8 million, compared to Ps.104.0 million in fiscal year 2006. The local currency remained stable throughout the 2007 fiscal year; the real estate market was promoted by the increase in the demand for all types of properties, whether office buildings, housings, retail premises or other. Likewise, the current framework provides incentives for the development of projects linked to our real estate activity. Therefore, during the 2008 fiscal year we expect to complete the projects under development, as well as to analyze new undertakings.

Construction and renovation works on our residential development properties is currently performed, under our supervision, by independent Argentine construction companies that are selected through a bidding process. We enter into turnkey contracts with the selected company for the construction of residential development properties pursuant to which the selected company agrees to build and deliver the development for a fixed price and at a fixed date. We are generally not responsible for any additional costs based upon the turnkey contract. All other aspects of the construction including architectural design are performed by third parties.

Another modality for the development of residential undertakings is the exchange of land for constructed square meters. In this way, we deliver undeveloped pieces of land and another firm is in charge of building the project. Eventually, we receive finished square meters for commercialization, without taking part in the construction works.

Prior to the commencement of construction of a residential project, we conduct an advertising program that continues after the launching of the sales of the units.

The following table shows certain information and gives an overview regarding our sales and development properties:

**Table of Contents****Sales and Development Properties**

	Date of acquisition	Estimated Cost / Real Cost (Ps. thousand) <sup>(1)</sup>	Area intended for sale (sqm) <sup>(2)</sup>	Total Units or Lots <sup>(3)</sup>	IRSA s Effective Interest	Percentage constructed	Percentage sold <sup>(4)</sup>	Accumulated Sales for the year ended June 30, 2000			
								(Ps. thousand) <sup>(5)</sup>	(Ps. thousand)	(Ps. thousand)	(Ps. thousand)
<b>Apartment</b>											
in	18/07/96	56,579	32,339	490	100.00%	100.00%	97.40%	70,049			21
basto <sup>(8)</sup>	17/07/94	74,810	35,630	545	62.36%	100.00%	100.00%	109,266			21
ruceros	22/07/03	5,740	3,633	40	100.00%	100.00%	91.40%	18,414	8,383	10,031	
o	03/2003	12,171	2,891	20	100.00%	100.00%	85.20%	8,557	8,557		
Arenal	20/12/96	15,069	6,913	70	100.00%	100.00%	98.90%	11,626			
no Park <sup>(9)</sup>	18/11/97	35,956	10,488	72	100.00%	100.00%	100.00%	47,920	390	63	
lito Mz	03/11/97	22,815	6,833	118	100.00%	4.00%	0.00%				
ir <sup>(15)</sup>	09/09/1999	22,861	5,383	28	100.00%	78.26%	76.40%				
ir II <sup>(15)</sup>	03/11/97	41,808	6,294	37	100.00%	4.50%	0.00%				
ential <sup>(10)</sup>		31,245	22,804	163	100.00%	100.00%	100.0%	48,532			
<b>Residential</b>		<b>319,055</b>	<b>128,554</b>	<b>1,583</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>302,054</b>	<b>17,330</b>	<b>10,094</b>	<b>42</b>
<b>Communities</b>											
vinos <sup>(11)</sup>	03/01/95	130,955	1,408,905	1,273	100.00%	100.00%	95.50%	218,440	1,124	3,942	3,820
<sup>(5)</sup>	18/11/97	20,544	989,423	110	100.00%	90.00%	100.00%	11,830			
a I, II y III	26/05/92	4,742	75,970	219	100.00%	100.00%	98.90%	13,952			
a IV y V	17/12/97	2,450	58,373	181	100.00%	100.00%	100.00%	9,505			
ential					N/A	N/A	N/A				
<b>Residential</b>		<b>158,691</b>	<b>2,532,671</b>	<b>1,783</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>253,727</b>	<b>1,124</b>	<b>3,942</b>	<b>3,820</b>
<b>Services</b>											
ro <sup>(9)</sup>	18/05/97		82,051		50.00%	0.00%	0.00%				
	03/11/97		20,968		100.00%	0.00%	40.10%	22,815		22,815	
a del Plata	10/07/97		675,952		90.00%	0.00%	10.00%	31,000	31,000		
<sup>(1)</sup>	16/12/96		1,299,630		100.00%	0.00%	0.00%				
atal	27/07/05		4,320,000		55.93%	0.00%	0.00%	166	91	75	
lcorta	07/07/98		1,925		67.67%	0.00%	100.00%	22,969		22,969	
bez	16/01/07		29,564		100.00%	0.00%	0.00%				
			14,368,591		89.18%	0.00%	2.00%				
<b>Land</b>			<b>20,798,681</b>		<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>76,950</b>	<b>31,091</b>	<b>45,859</b>	
	20/08/92	705	3,750	1	100.00%	100.00%	100.00%	11,745		1,833	
0	21/12/95	16,008	5,056	8	100.00%	100.00%	100.00%	16,471			3,543
	09/09/99	25,836	10,474	3	100.00%	0.00%	100.00%	91,638	26,206	41,808	23,624
erties <sup>(13)</sup>		23,871	11,352	61	100.00%	80.00%	88.20%	30,310		430	1,282
<b>Other</b>		<b>66,420</b>	<b>30,632</b>	<b>73</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>150,164</b>	<b>26,206</b>	<b>44,071</b>	<b>28,449</b>



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544,166 23,490,538 3,439 N/A N/A N/A 782,895 75,751 103,966 32,311

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Notes:

- (1) Cost of acquisition plus total investment made and/or planned if the project has not been completed, adjusted for inflation until 02/28/03.
- (2) Total area devoted to sales upon completion of the development or acquisition and before the sale of any of the units (including parking and storage spaces, but excluding common areas). In the case of Land Reserves the land area was considered.
- (3) Represents the total units or plots upon completion of the development or acquisition (excluding parking and storage spaces).
- (4) The percentage sold is calculated dividing the square meters sold by the total saleable square meters.
- (5) Includes only the cumulative sales consolidated by the RT21 method adjusted for inflation until 02.28.03.
- (6) Corresponds to our total sales consolidated by the RT4 method adjusted for inflation until 02.28.03. Excludes turnover tax deduction.
- (7) Cost of acquisition plus improvement, plus activated interest of properties consolidated in portfolio at June 30, 2007, adjusted for inflation at 02/28/03.
- (8) Through Alto Palermo.
- (9) Through Inversora Bolivar.
- (10) Includes the following properties: Dorrego 1916 through IRSA, Yermal 855 and Arcos 2343 through Baldovinos (fully sold).
- (11) Directly through IRSA and indirectly through Inversora Bolivar. Includes sale of Abril shares.
- (12) Includes the following land reserves: Torre Jardín IV, Padilla 902 and Terreno Pilar (through IRSA), Pontevedra, Mariano Acosta, Merlo, Intercontinental Plaza II (through Inversora Bolivar) and Caballito, Torres Rosario and the Coto Project (through Alto Palermo).
- (13) Includes the following properties: Puerto Madero Dock XIII and Dique II, Sarmiento 517, Income from Termination, Alto Palermo s Real Properties Sales and Rivadavia 2768 (fully sold through IRSA).
- (14) Corresponds to the Sales and Developments business unit mentioned in Note 4 to the consolidated financial statements.
- (15) Corresponds to receivables from swaps disclosed as Inventories in the consolidated financial statements.

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**Table of Contents*****Residential Apartments***

In the apartment building market, we acquire undeveloped properties strategically located in densely populated areas of the City of Buenos Aires, particularly properties located next to shopping centers and hypermarkets or those to be constructed. We then develop multi-building high-rise complexes targeting the middle-income market. These are equipped with modern comforts and services, such as open green areas, swimming pools, sports and recreation facilities and 24-hour security. In the loft buildings market, our strategy is to acquire old buildings no longer in use located in areas with a significant middle and upper-income population. The properties are then renovated into unfinished lofts allowing buyers the opportunity to design and decorate them according to their preferences.

***Apartment Projects Under Development***

***Torre Caballito, City of Buenos Aires.*** This undeveloped 2.1 hectare property is situated in the northern area of Caballito's residential neighborhood in the City of Buenos Aires. On May 4, 2006, we and Koad S.A. (Koad), an Argentine developer, entered into an asset exchange agreement valued at US\$7.5 million pursuant to which we sold to Koad plot number 36 of Terrenos de Caballito in exchange for Koad's agreement to construct, at its sole expense, a residential complex to be named Caballito Nuevo. Koad has agreed to develop a residential complex consisting of two 34-story towers containing 220 apartments each, consisting of one, two and three bedroom residential units with surface areas ranging from 40 to 85 square meters. The proposed apartment complex is currently expected to offer a wide variety of amenities and services. The total area of this apartment complex that will be for sale is estimated to be approximately 28,000 square meters. On August 2009, we will be entitled to ownership of 26.7% of the total square meters and 25% of the parking lots of the entire complex, representing 118 apartments and 55 parking lots located in Tower 1. As a result of an incentive scheme agreed to with Koad, the number of square meters we will receive could vary according to the project's date of completion. As a result of this transaction, Koad granted to us a first lien mortgage on the property to secure up to US\$7.4 million of its obligations to us and posted a surety bond in our favor supporting an additional US\$2.0 million of Koad's obligations to us.

***Dock IV, City of Buenos Aires.*** This luxury office building has a total surface area of approximately 22,000 square meters, and will offer 11,000 square meters of large and versatile office space for lease. The building's layout welcomes both companies requiring smaller office space, averaging 200 square meters, and corporations in need of an entire floor. The building's development is currently at its first stage, bid submission for the foundations and lobby. The building will have nine floors with offices and commercial shops on the first floor. Paper work seeking permits for bid submissions for the second stage is still pending.

***Torres Renoir, Dock III.*** On November 25, 2004 a deed of conveyance of title for a certain plot known as plot 1.c. was executed in favor of *Desarrollos y Proyectos Sociedad Anónima* (DYPSA). This deed establishes

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in kind consideration for the sale, and at the same time granted DYPSA the option to acquire in barter another plot known as plot 1.e. This option acts as an alternative to the construction of the 13<sup>th</sup> floor of the building to be developed on plot 1.c. As a guaranty for this transaction, DYPSA established a first lien mortgage for US\$8.03 on plot 1.c. and for US\$10.8 on plot 1.e. DYPSA contracted an obligation to transfer 4,642 square meters at the building constructed on certain plot known as plot 1c, representing 28.5% of the apartment surface of such building, and 6,421 square meters at the building constructed on certain plot known as plot 1e, representing 31.5% of the total apartment surface of that building. During December 2006 we began the sales of the available units.

On May 18, 2005, Buenos Aires Trade & Finance Center S.A. ( Trade ) signed a purchase agreement relating to certain plot known as plot 1.d., with then owner of this plot, DYPSA. On that date Trade paid DYPSA US\$2.15 million. On January 19, 2006, a partial payment of the outstanding balance of US\$1.0 million was made. As of September 30, 2006, the outstanding balance for this sale recorded in accounts receivable is US\$5.35 million. This sum is expected to be collected when the deed of title is executed and the property transferred.

To provide for the sustained increase in the demand for residential apartments in the Puerto Madero area, during fiscal year 2006 IRSA has entered into bartering contracts allowing to start the construction of these two exclusive dwelling towers of 37 and 40-storey. In line with the boom of developments in the area, the market has great expectations on the project given its exceptional features. On September 30, 2006 due to the interest shown in this project, the marketing of Tower I was launched as the rate of progress was 78.3%. During fiscal year 2007 preliminary sales contracts were signed for 76.4% of the units available. In respect of Tower II works started and the percentage of work completed is 4.5%.

### ***Completed Apartment Projects***

***Torres Jardín, City of Buenos Aires.*** Torres Jardín is a high-rise residential complex located in the Buenos Aires neighborhood of Villa Crespo, approximately five minutes from Abasto Shopping. Torres Jardín I, II and III have been completed and consist of 490 one, two and three-bedroom residential apartments. The complex also includes 295 spaces of underground parking. As of June 30, 2007 there is one apartment and 35 parking spaces pending sale. The project originally included four 23-story towers targeting the middle-income market, but we decided not to construct Torres Jardín IV and may consider a barter transaction with a third party for its construction.

***Torres de Abasto, City of Buenos Aires.*** Torres de Abasto is a 545-apartment high-rise residential apartment complex developed through our subsidiary Alto Palermo, located one block from Abasto Shopping. The project consists of three 28-story buildings and one 10-story building targeted to the middle-income market. The apartments were completed in May 1999. The complex has a swimming pool, a terrace, 24-hour security, four retail stores on the ground floor of one of the buildings and 310 underground parking spaces. As of June 30, 2007, 100% of the units in the complex had been sold.

***Edificios Cruceros, City of Buenos Aires.*** Edificios Cruceros is a project located in the Puerto Madero area. This dwelling building covers 6,400 square meters of surface area of which 3,633 belong to the Company, and it is close to the Edificios Costeros office building. It is directed to the high-income segment and all its common areas have spectacular views to the river. This development was partially financed through the anticipated sale of its apartments. Works are 100% finished and as of June 30, 2007 more than 90% of the units had been sold.

***Barrio Chico, City of Buenos Aires.*** In March 2003 we purchased a plot of land on San Martin de Tours Street in the district of Barrio Parque, an exclusive residential zone in the City of Buenos Aires. At the time the sales contract was signed, US\$0.08 million were prepaid. In June 2003 at the time the deed of title was transferred, US\$0.23 million were paid. At that time, the property was mortgaged to Providence for US\$0.75 million, to guarantee 25% of the housing units we were obligated to deliver upon the building's completion. We financed with its own working capital the construction of this luxury residential complex designed for high-income customers. This is a unique Project located in Barrio Parque, an exclusive residential zone in the City of Buenos Aires. During May 2006 the successful marketing of this project was launched. The image of the product was previously developed with the name of Barrio Chico with advertisements in the most important media. As of June 30 2007 the project is finished and only 3 units are still to be sold.

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***Palacio Alcorta, City of Buenos Aires.*** Palacio Alcorta is a 191-loft units residential property that we converted from a former Chrysler factory in the residential neighborhood of Palermo Chico, one of the most exclusive areas of Buenos Aires City, located just a ten-minute drive from downtown Buenos Aires. The loft units range from 60 to 271 square meters. This development project targets the upper-income market. Palacio Alcorta also has seven retail units and 165 parking spaces. As of June 30, 2007, all of the loft units in the complex had been sold.

***Concepción Arenal 3000, City of Buenos Aires.*** Concepción Arenal 3000 is a 70-loft residential property located in the north-central area of the City of Buenos Aires. Each loft unit has a salable area of 86 square meters and a parking space. Lofts in this building are targeted to at middle-income market.

***Alto Palermo Park and Plaza, City of Buenos Aires.*** Alto Palermo Park is one of two 34-story apartment buildings located two blocks from Alto Palermo Shopping in the exclusive neighborhood of Palermo. Apartments in this building are targeted primarily towards the upper-income market. Alto Palermo Park is located next to its twin building, Alto Palermo Plaza. Both buildings are comprised of three- and four-bedroom apartments with an average area of 158 square meters in the case of Alto Palermo Park and of 294.5 square meters, in the case of Alto Palermo Plaza. Each unit includes an average of 18 and 29 square meter parking/storage space, respectively. These buildings were included in the assets we acquired in November 1997 from Pérez Companc S.A. As of June 30, 2007, 100% of Alto Palermo Plaza was sold and there was only one unit to be sold in the Alto Palermo Park.

***Villa Celina, Greater Buenos Aires.*** Villa Celina is a 400-plot residential community for the construction of single family homes located in the residential neighborhood of Villa Celina on the southeastern edge of the City of Buenos Aires. We have been developing this property in several stages since 1994. The first three stages involved 219 lots, each measuring on average 347 square meters and the last two stages involve 181 lots. As of June 30, 2007, 100% of the residential community had been sold.

### ***Residential Communities***

In the residential communities market, we acquire undeveloped properties located in suburban areas or neighborhoods near the large cities to develop private neighborhoods and country clubs in which to sell vacant lots for the construction of single family homes. In these properties we build streets and roads and arrange for the provision of basic municipal services and amenities such as open spaces, sports facilities and security. We seek to capitalize on improvements in transportation and communication around the City of Buenos Aires, the growing suburbanization of the region and the shift of the population moving to countryside-type residential communities.

An important factor in the trend towards living in suburban areas has been the improvements and additions to the Autopista Panamericana, Avenida General Paz and Acceso Oeste highways, which significantly reduce traveling time, encouraging a significant number of families to move to the new residential neighborhoods. Furthermore, improvements in public train, subway and bus transportation since their privatization has also influenced the trend to adopt this lifestyle.

As of June 30, 2007, our residential communities for the construction of single-family homes for sale in Argentina had a total of 62,990 square meters of salable area in the Abril, residential communities located in the province of Buenos Aires.

***Abril, Hudson, Greater Buenos Aires.*** Abril is a 312-hectare private residential community located near Hudson City, approximately 34 kilometers south of the City of Buenos Aires. We have developed this property into a private residential community for the construction of single family homes targeting the upper-middle income market. The project includes 20 neighborhoods subdivided into 1,273 lots of approximately 1,107 square meters each. Abril also includes an 18-hole golf course, 130 hectares of woodlands, a 4,000 square meter mansion

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and entertainment facilities. A bilingual school, horse stables and sports centers and the construction of the shopping center were concluded in 1999. The neighborhoods have been completed, and as of June 30, 2007, 95.5% of the property had been sold for an aggregate of Ps.217.41 million, with 62,900 square meters left to be sold.

**Benavidez, Tigre.** Benavidez is an undeveloped 98.9 hectare plot located in the area of Tigre, 35 kilometers north from downtown Buenos Aires. On May 21, 2004 an exchange deed was signed whereby DEESA agreed to pay US\$3.98 million to Inversora Bolívar, of which US\$0.98 million were paid and the balance of US\$3.0 million will be paid through the exchange of 110 residential plots already chosen and identified in the option contract signed in December 3, 2003. Furthermore, through the same act, DEESA set up a first mortgage in favor of Inversora Bolívar on real property amounting to US\$3.0 million in guarantee of compliance with the operation and delivered US\$0.5 million to Inversora Bolívar corresponding to a deposit in guarantee of performance on the obligations undertaken. This balance will not accrue interest in favor of DEESA, and will be returned as follows: 50% of the outstanding balance at the time of certification of 50% of the progress of work and the remaining upon certification of 90% of work progress. Within this property, a closed quarter called El Encuentro is developed, with a direct access to highway 9 that facilitates the way into and out of the city. Considering the high price of the plots in the north of the province of Buenos Aires, mostly in the place in which this enterprise is placed, IRSA has great expectations for marketing the land through the bartering system. The launching of the sale of our units will be carried out at the beginning of fiscal year 2008. As of June 30, 2007, the work progress degree is 90%.

### **Land Reserves**

We have acquired large undeveloped properties as land reserves located in strategic areas for the future development of office and apartment buildings, shopping centers and single family housing. We have acquired what we believe to be two of the largest and most important undeveloped river front plots in Buenos Aires, Puerto Retiro and Santa María del Plata, for the future development of residential and office spaces. In addition, we have benefited from the improvement of land values during periods of economic growth. As of June 30, 2007, our land reserves totaled 17 properties consisting of approximately 3079 hectares (including Rosario, Caballito, Vicente Lopez and Coto C.I.C.S.A. ( Coto ) air space owned by Alto Palermo).

### **Land Reserves in the City of Buenos Aires**

**Solares de Santa María, City of Buenos Aires (ex Santa María del Plata).** Solares de Santa María is a 70 hectares property facing the Río de la Plata in the South of Puerto Madero, 10 minutes far from the National Government House. This is an urbanization project developed through our subsidiary Solares de Santa María S.A. ( Solares de Santa María ), which has been recently incorporated. This project has a residential profile and mixed uses, it is currently expected to have offices, stores, hotels, sport and nautical clubs, service areas with schools, supermarkets, parking lots, etc.

The project ultimately submitted to government authorities included various proposals made by advisors of the Urban Environmental Plan Council (*Consejo del Plan Urbano Ambiental*) and contemplates the assignment of 358,000 square meters to become public parks including a 90,000 square meter green sector, boulevards designated for access to and walking around the neighborhood and the transference of all water areas (especially the zone in front of the commercial area) for public use. The river presence in this part of the city has been reserved for general public use, including space for a marina which may be built in the future.

While we await the city government approvals and authorizations, we have contacted national and international investors with experience in this type of real state developments. As part of the project, we sold 31,491,932 shares for US\$10.6 million to Mr. Israel Sutton Dabbah, who is part of the Sutton Group. This sale represents the 10% of Solares de Santa María capital stock and is to be paid in the following manner: (i) an initial payment of US\$1,500,000; and (ii) the balance of US\$9,100,000 payable on December 26, 2007. Under the purchase agreement a first grade pledge on certain assets owned by the buyer was granted to us and our subsidiary Palermo Invest S.A., the sellers, in order to secure the payment price.

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***Puerto Retiro.*** Puerto Retiro is an 8.3 hectare undeveloped riverside property bounded by the Catalinas and Puerto Madero office zones to the west, the transportation hub Retiro to the north and the Río de la Plata to the south and east. One of the only two significant privately owned waterfront properties in The City of Buenos Aires, Puerto Retiro may currently be utilized only for port activities. We have initiated negotiations with municipal authorities in order to rezone the area. Our plan is to develop a 360,000 square meter financial center. The launching date has not been settled and consequently, the estimated cost and financing method are not decided. We own a 50% interest in Puerto Retiro through our wholly-owned subsidiary Inversora Bolívar S.A. ( Inversora Bolívar ). See Legal Proceedings Puerto Retiro.

***Caballito, Ferro Project.*** This is a property of approximately 25,539 square meters in the City of Buenos Aires, neighborhood of Caballito, one of the most densely populated of the city, which Alto Palermo purchased in October 1998. This plot would allow developing a shopping center having 30,000 square meters, a hypermarket, a cinema complex, and several recreation and entertainment activity areas. We are currently working to define the commercial project. The approval of the authorization of the government of the City of Buenos Aires for the development of a shopping center in this plot has not been granted.

***Terreno Figueroa Alcorta.*** With respect to the plot located in the Figueroa Alcorta avenue, in front of Paseo Alcorta on December 22, 2005, our subsidiary Alto Palermo subscribed a preliminary purchase contract with possession, by which Alto Palermo sold to RAGHSA S.A. the plot denominated Alcorta Plaza for a total price of US\$7.7 million. The terms and conditions of payment agreed were determined in four installments of US\$1.9 million, the first installment to be due at the date of the preliminary sales contract and the second one collected on March 30, 2006, date on which the final deed was signed. The third installment was paid in March 2007 and the fourth installment is due in March 2008.

***Land Reserves in the Province of Buenos Aires***

***Pereiraola, Hudson.*** Through Inversora Bolivar, we own a 100.0% interest in Pereiraola S.A., a company whose principal asset is a 130 hectare undeveloped property adjacent to our Abril community. We intend to use this property to develop a private community for the construction of single family homes targeted at the middle-income market. We have not yet established the costs and financing method for this proposed project, but we have already obtained the necessary municipal permits. The plot s book value is estimated to be Ps.21.7 million as of June 30, 2007.

***Pilar.*** Pilar is a 74 hectare undeveloped land reserve property located close to Pilar City, 55 kilometers northwest of downtown of the City of Buenos Aires. The property is easily accessible due to its proximity to the Autopista del Norte. The Pilar area is one of the most rapidly developing areas of the country. We are considering several alternatives for this property including the development of a residential community or the sale of this property as it is and, therefore, we do not have a cost estimate or a financing plan. The plot s book value is estimated to be Ps.3.4 million as of June 30, 2007.

***Vicente López, Olivos, Provincia de Buenos Aires.*** On January 16, 2007, Patagonian Investment S.A. and Ritelco S.A. acquired 90% and 10%, respectively, of the total shares of the company named Rummaala S.A. ( *Rummaala* ), the main asset of which is a plot of land located in Vicente Lopez, Province of Buenos Aires. As of June 30, 2007, IRSA holds 100% of the ownership interest of Rummaala as a result of certain transactions performed with Patagonian Investment S.A. and Ritelco S.A. The purchase price was US\$21.17 million, payable as follows: (i) US\$4.25 million in cash and (ii) by delivering certain units of the building to be constructed in the land owned by Rummaala in the amount of US\$16.92 million, within a 4-year term as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever last occurs.

As security for compliance with the construction of the future building and transfer of the future units, the shares acquired were pledged.

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Simultaneously with the former transaction, Rummaala acquired a plot of land adjacent to its own property for a total consideration of US\$15.00 million, payable as follows: (i) US\$0.50 million in cash; (ii) by delivering certain units of buildings Cruceros I and II in the amount of US\$1.25 million and (iii) by delivering certain units of the building to be constructed in the land acquired for a total consideration of US\$13.25 million, within a 40-month term considered as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever last occurs.

***Other Undeveloped Plots in the City and Province of Buenos Aires.*** Our land reserve portfolio also includes nine land reserve properties located in Buenos Aires and its surrounding areas. These properties are projected for future developments of offices, shopping centers, apartment buildings and residential communities. The main properties under this category include Merlo, Mariano Acosta and Ponce de Leon.

### ***Land Reserves in Other Provinces***

***Torres Rosario Project, City of Rosario, Province of Santa Fe.*** IRSA's subsidiary Alto Palermo owns a plot of land covering approximately 50,000 square meters of surface area in the city of Rosario, in the place in which the Alto Rosario Shopping Center is located. A residential complex will be built in this plot of land.

***Neuquén Project, Province of Neuquén.*** On July 6, 1999, Alto Palermo acquired a 94.6% share in Shopping Neuquén amounting to Ps.4.2 million. Alto Palermo paid Ps.0.9 million on September 1, 1999, and the remaining Ps.3.3 million were to be paid on July 5, 2001, or at the time of the opening of the shopping center to be constructed in the building owned by Shopping Neuquén, whichever happened first. As of June 30, 2007 the remaining amount was paid.

The only asset of Shopping Neuquén is a plot of land of 50,000 square meters approximately, in which we hope to build a shopping center. We are currently involved in litigation which will likely determine whether we proceed with this proposed project. See [Legal Proceedings](#) Legal issues with the City Hall of Neuquén.

***Canteras Natal Crespo, Province of Córdoba.*** The first guidelines for development of this project are in process on the basis of the Master Plan of the Chilean architect firm called URBE. Also, preliminary presentations have been submitted to the Municipality of La Calera and to the Provincial Government.

This undertaking is characterized by an attractive and varied residential offer of land, dwelling areas of low and medium density, and commercial and social areas. Each one of the quarters will have a full service infra-structure and will be distinguished by the particularities of the land in the outstanding natural environment of the Sierras Chicas of the Province of Córdoba.

Canteras Natal Crespo S.A. is a company located in the Province of Córdoba that will have as main activity the urbanization of own or third parties plots of land, the so-called countries, lots for sale or rent, production of quarries, real estate business and construction of houses.

### **Offices and Other Non-shopping Center Leased Properties**

#### ***Overview***

We are engaged in the acquisition, development and management of offices and other rental properties in Argentina. As of June 30, 2007, we directly and indirectly, owned interests in 24 office and other rental properties in Argentina which comprised 234,320 square meters of gross leaseable area. Of these properties, 17 were office properties which comprised 138,315 square meters of gross leaseable area. For fiscal year 2007, we had revenues from office and non- shopping center leases properties of Ps.55.7 million.

All our office rental property in Argentina is located in Buenos Aires City. All of these properties are rented to various different premium tenants. For the year ended June 30, 2007 the average occupancy rate for all IRSA's properties in the Offices and other rental property segment was approximately 97.37%. Seven different

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tenants accounted for approximately 26.75% of IRSA's monthly office rental and 28.91% of IRSA's total revenues for fiscal year 2007 for the same concept. IRSA's seven main office rental tenants are: Grupo Total Austral, Finterbusch Pickenhayn Sibille S.C. (KPMG), Microsoft Argentina S.A., Techint Cia. Tecnica Int. SACEI, Occidental Argentina, Exploration and Production Inc., Marval & O'Farrel and Cisco Systems Argentina S.A.

*Management.* We generally act as the managing agent of the office properties in which we own an interest. These interests consist primarily of the ownership of entire buildings or a substantial number of floors in a building. The buildings in which we own floors are generally managed pursuant to the terms of a condominium agreement that typically provides for control by a simple majority of the interests (based on the area owned) in the building. As the managing agent of operations, we are responsible for handling services, such as security, maintenance and housekeeping. These services are generally contracted to third party providers. The cost of the services are passed-through and paid for by the tenants, except in the case of our units not rented, in which case we absorb the cost. Our leasable space is marketed through commissioned brokers, the media and directly by us.

*Leases.* We lease our offices and other properties pursuant to contracts with an average term of three years, with the exception of a few contracts with terms of five years. These contracts are renewable for two or three additional years at the tenant's option. Contracts for the rental of property not located in shopping malls are generally stated in U.S. dollars, and in accordance with Argentine law they are not subject to inflation adjustment. Rental rates for renewed periods are negotiated at market value.

**Properties**

The following table sets forth certain information regarding our direct and indirect ownership interest in offices and other non-shopping center leased properties.

**Offices and other non-shopping center leased properties**

	Date of Acquisition	Leaseable Area sqm <sup>(1)</sup>	Occupancy Rate <sup>(2)</sup>	IRSA'S Effective Interest	Monthly Rental Income Ps./000 <sup>(3)</sup>	Annual Rental Income for fiscal years Ps./000(4)			Book Value (in thousand pesos) <sup>(5)</sup>
						2007	2006	2005	
<b>Offices</b>									
Intercontinental Plaza <sup>(6)</sup>	11/18/97	22,535	100.00%	100.00%	1,115	10,977	5,436	5,289	94,992
Dock Del Plata	11/15/06	7,921	100.00%	100.00%	450	3,103	N/A	N/A	26,194
Libertador 498	12/20/95	10,533	100.00%	100.00%	651	6,307	3,872	3,061	41,061
Maipú 1300	09/28/95	10,280	100.00%	100.00%	590	6,006	3,515	2,797	42,347
Laminar Plaza	03/25/99	6,521	100.00%	100.00%	416	4,631	3,059	2,346	29,187
Reconquista 823/41	11/12/93	5,016	100.00%	100.00%	173	1,139	N/A	N/A	19,093
Suipacha 652/64	11/22/91	11,453	100.00%	100.00%	188	1,398	1,055	621	12,292
Edificios Costeros	03/20/97	6,389	95.73%	100.00%	282	3,124	1,760	1,242	18,471
Costeros Dique IV	08/29/01	5,437	96.01%	100.00%	222	1,987	1,736	1,378	20,875
Bouchard 710	06/01/05	15,014	100.00%	100.00%	767	8,900	5,813	412	68,390
Bouchard 551	03/15/07	33,324	100.00%	100.00%	1,124	3,925	N/A	N/A	241,899
Madero 1020	12/21/95	215	100.00%	100.00%	8	97	78	47	1,694
Works in progress Dique IV <sup>(11)</sup>	12/02/97	N/A	N/A	100.00%	N/A	N/A	N/A	N/A	9,684
Others <sup>(7)</sup>	N/A	3,677	100.00%	N/A	110	1,289	1,041	804	10,826
<b>Subtotal Offices</b>		<b>138,315</b>	<b>99.36%</b>		<b>6,095</b>	<b>52,883</b>	<b>27,364</b>	<b>17,997</b>	<b>637,005</b>
<b>Other rental properties</b>									
Commercial properties <sup>(8)</sup>	N/A	642	83.00%	N/A	20	242	175	139	4,156
Thames <sup>(6)</sup>	11/01/97	33,191	100.00%	100.00%	51	607	607	580	3,899
Santa María del Plata	7/10/97	60,100	100.00%	100.00%	68	1,043	1,234	57	12,494
Other properties <sup>(9)</sup>	N/A	2,072	100.00%	N/A	5	168	106	124	2,610



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<b>Subtotal</b>		<b>96,005</b>	<b>95.75%</b>	<b>N/A</b>	<b>144</b>	<b>2,060</b>	<b>2,122</b>	<b>900</b>	<b>23,159</b>
Related fees	N/A	N/A	N/A	N/A	N/A	740	1,079	534	N/A
Total offices and other <sup>(10)</sup>	N/A	<b>234,320</b>	<b>97.37%</b>	<b>N/A</b>	<b>6,239</b>	<b>55,683</b>	<b>30,565</b>	<b>19,431</b>	<b>660,164</b>

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Notes:

- (1) Total leaseable area for each property. Excludes common areas and parking.
- (2) Calculated dividing occupied square meters by leaseable area.
- (3) Agreements in force as of 06/30/07 for each property were computed.
- (4) Total consolidated leases, according to the RT21 method.

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- (5) Cost of acquisition, plus improvements, less accumulated depreciation, plus adjustment for inflation, less allowance for impairment.
- (6) Through Inversora Bolivar.
- (7) Includes the following properties: Madero 942, Av. de Mayo 595, Av. Libertador 602, Rivadavia 2774, Dock 5 Puerto Madero and Sarmiento 517 (through IRSA)
- (8) Includes the following properties: Constitución 1111, Alsina 934/44 (fully sold), Crucero I; Retail stores in Abril and Casona in Abril (through IRSA and Inversora Bolivar).
- (9) Includes the following properties: one unit in Alto Palermo Park (through IBSA) and Constitución 1159 (through IRSA).
- (10) Corresponds to the Offices and Other Rental Properties business unit mentioned in Note 4 to our audited consolidated financial statements included elsewhere in this prospectus.
- (11) Work in progress of a building of offices AAA in Puerto Madero.

The following table shows a schedule of the lease expirations of IRSA's office and other properties for leases outstanding as of June 30, 2007, assuming that none of the tenants exercise renewal options or terminate their lease early. Most tenants have renewal clauses in their leases.

Fiscal year of lease expiration	Number of leases expiring <sup>(1)</sup>	Square meters subject to expiring leases <sup>(2)</sup> (in square meters)	Percentage of total square meters subject to expiration (%)	Percentage of total rental	
				Annual rental income under expiring leases (Ps.)	income under expiring leases (%)
2008	75	144,085	62%	20,056,180	27%
2009	52	37,736	16%	20,622,695	28%
2010	42	30,493	13%	20,072,355	27%
2011+	11	21,102	9%	13,892,432	18%
<b>Total</b>	<b>180</b>	<b>233,416</b>	<b>100%</b>	<b>74,643,662</b>	<b>100%</b>

(1) Includes Offices which contract has not been renewed and vacant stores as of June 30, 2007.

(2) Does not include vacant lease square meters.

The following table shows IRSA's offices occupancy percentage during fiscal years ended June 30, 2005, 2006 and 2007:

Offices	Occupancy Percentage		
	Fiscal year ended June 30, <sup>(1)</sup>		
	2005	2006	2007
	(in percentage)		
Intercontinental Plaza	96	100	100
Bouchard 710	100	100	100
Bouchard 557	N/A	N/A	100
Dock del Plata	N/A	N/A	100
Libertador 498	94	100	100
Maipu 1300	96	95	100
Laminar Plaza	95	100	100
Madero 1020	100	100	100
Reconquista 823/41	0	0	100
Suipacha 652/64	80	100	100
Edificios Costeros	100	95	96
Costeros Dock IV	100	100	96
Others <sup>(2)</sup>	100	100	100

(1) Leased square meters in accordance with lease agreements in effect as of June 30, 2007, 2006 and 2005 considering the total leaseable office area for each year.

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(2) Includes the following buildings: Madero 942, Av. De Mayo 595, Av. Libertador 602, Sarmiento 517 and Rivadavia 2768.  
The following table sets forth the annual average income per square meter for IRSA's offices during fiscal years ended June 30, 2007, 2006 and 2005:

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	Annual average income per square meter		
	Fiscal year ended June 30, <sup>(1)</sup>		
	2005	2006	2007
	(Ps. per square meter)		
<b>Offices</b>			
Intercontinental Plaza	293	299	487
Bouchard 710 <sup>(2)</sup>	27	387	623
Bouchard 557 <sup>(3)</sup>	N/A	N/A	118
Dock del Plata	N/A	N/A	392
Libertador 498	330	374	634
Maipu 1300	286	373	597
Laminar Plaza	379	479	710
Madero 1020	219	362	450
Suipacha 652/64	95	119	123
Reconquista 823/41			236
Edificios Costeros	196	278	504
Costeros Dock IV	265	259	387
Others <sup>(4)</sup>	219	285	429

(1) Calculated considering Annual Leases to total leaseable office area, in accordance with IRSA's percentage of ownership in each building.

(2) Lease agreement beginning in the fourth quarter of fiscal year 2005.

(3) Lease agreement beginning in the third quarter of fiscal year 2007, consequently income is for only three months.

(4) Includes the following buildings: Madero 942, Av. De Mayo 595, Av. Libertador 602, Sarmiento 517 and Rivadavia 2768.

Set forth below you will find information regarding our principal currently owned office properties, including the names of the tenants occupying 5% or more of the gross leasable area of each property.

**Intercontinental Plaza, City of Buenos Aires.** Intercontinental Plaza is a modern 24-story building located next to the Intercontinental Hotel in the historic neighborhood of Monserrat in downtown City of Buenos Aires. We own the entire building which has floors averaging 900 square meters with 324 parking spaces. The principal tenants currently include Total Austral S.A., Danone Argentina S.A., Occidental Argentina Exploration and Production Inc, IRSA, Alto Palermo and Cresud.

**Bouchard 710, City of Buenos Aires.** Bouchard 710 is an office building acquired by us in June 2005, located in the Retiro area. The building is a 12-story tower, with an average area per floor of 1,251 square meters, with 180 units for car parking. Tenants are Unilever de Argentina S.A., Finterbusch Pickenhayn Sibille S.C. (KPMG), and Microsoft de Argentina S.A.

**Bouchard 551, City of Buenos Aires.** Bouchard 551 is a Class A office building we acquired in March 2007, located in the Retiro area close to the intersection of the Leandro N. Alem and Córdoba avenues and the Plaza Roma. The building is a 23-story tower covering a surface area of 2,900 square meters in the low floors that becomes smaller as it goes higher up to 900 square meters approximately, and parking for 177 units. Principal lessees include La Nación S.A., Price Waterhouse & Co., AS. EM. S.R.L. and Techint Cía. Técnica Internacional S.A.C.e I.

**Dock del Plata, City of Buenos Aires.** Dock del Plata is a Class A office building we acquired in November 2006, located in the Puerto Madero area at Alicia Moreau de Justo 400. The building is 4-story high, with an average surface per plant of 1,500 square meters and parking lot for 309 units. The principal lessees are Veco S.A., Davila 380 S.A., Farmacity S.A., Rosso Alba, Francia y Ruiz Romero, Converse Argentina S.A., AT & T Communications Serv. S.R.L., MCO LEX S.R.L., Garfín Agropecuaria S.A., CA Argentina S.A. and Dell América Latina Corp.

**Libertador 498, City of Buenos Aires.** Libertador 498 is a 27-story office tower located at the intersection of three of the most important fares thorough of the City of Buenos Aires, making it accessible from the north, west and south of the city. We own 17 floors with an average area per floor of 620 square meters and 281 parking spaces. The building has a singular cylindrical design and a highly visible circular neon billboard that makes it a landmark in the Buenos Aires skyline. The principal tenants in this building currently include MTV Networks Argentina S.R.L., Epson Argentina S.A., Cervecería y Maltería Quilmes, Yara Argentina S.A., Alfaro Abogados S.C., Julius Baer Financial Consultancy S.A., LG Electronics Argentina S.A., Eastman Chemical Argentina S.R.L., Allergan Productos Farmaceuticos S.A. and Alto Palermo's subsidiary, Tarshop S.A.

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***Maipú 1300, City of Buenos Aires.*** Maipú 1300 is a 23-story office tower located on the San Martín Plaza, a prime office zone. The building is also located within walking distance of the Retiro commuter train station, Buenos Aires' most important public transportation hub, connecting rail, subway and bus transit. We own the entire building which has an average area per floor of 440 square meters. The building's principal tenants currently include Allende & Brea, Carlson Wagonlit Travel Argentina S.A. and PPD Argentina S.A.

***Laminar Plaza, City of Buenos Aires.*** Laminar Plaza is a 20-story office building located in Catalinas, the City of Buenos Aires' most exclusive office district. Each floor has an average area of 1,453 square meters, including common areas. We own 5 floors and 66 parking spaces. The main tenants, among others, are as follows: Cisco Systems, Telefónica Mviles de Argentina S.A., Chubb Argentina de Seguros S.A., Hewitt Associates S.A., Apache Petrolera Argentina S.A., Natural Energy S.A. and Bank Hapoalim B.M.

***Madero 1020, City of Buenos Aires.*** Madero 1020 is a 25-story office tower located in the center of Catalinas, an important office area, with views of the Port of Buenos Aires, the Río de la Plata and the city's downtown area. As of June 30, 2007, we own a 215-square meter lockup.

***Suipacha 652/64, City of Buenos Aires.*** Suipacha 652/64 is a 7-story office building located in the office district of the City of Buenos Aires. We own the entire building and 70 parking spaces. The building has unusually large floor, most measuring 1,580 square meters. This property underwent substantial renovations shortly after we acquired the deed in 1991 to prepare the building for rental. The building's principal tenants currently include Gameloft Argentina S.A., Monitor de Medios Publicitarios S.A, Organización de Servicios Director Empresarios (OSDE) and Alto Palermo's subsidiary, Tarshop S.A.

***Reconquista 823/41, City of Buenos Aires.*** Reconquista 823/41 is a 15-story office tower located in the Catalinas area. We own the entire building which is made up of three basements, space for 52 cars in the car parks, the ground floor and 15 floors of office space. The building has floors with an average area of 540 square meters. As of June 30, 2007, we have an occupancy rate of 100.0%. The building's principal tenants include Marval & O'Farrel and Tracker S.R.L.

***Edificios Costeros, Dique II, City of Buenos Aires.*** Costeros A and B are two four-story buildings developed by us and located in the Puerto Madero area. We own the two buildings which have a gross leasable area of 6,319 square meters. In September 1999 we completed their construction and in April 2000 began to market the office spaces and 147 parking spaces. The main tenants of these properties are as follows: Leo Burnett Worldwide Invest. Inc., Reckitt Benchiser Argentina S.A., Martina Di Trento S.A., Loyalty Marketing Group S.A., Italcred S.A., Minera Agua Rica L.L.C. and Somos Tres S.R.L.

***Edificios Costeros, Dique IV, City of Buenos Aires.*** On August 29, 2001, we signed the deed of purchase of Section C of the office complex known as Puerto del Centro that includes buildings 5 and 6. The property is located in the Puerto Madero area and has approximately 5,500 square meters of gross leasable area and 50 parking spaces. The building's principal tenants currently include Nextel Argentina S.A., Consultora de Estudios Bonaerense S.R.L., London Supply S.A.C.I.F.I., Techint Cía. Técnica Internacional S.A.C.I. and Trafigura Argentina S.A.

***Other office properties.*** We also have interests in three smaller office properties, all of which are located in the City of Buenos Aires. These properties are either entire buildings or portions of buildings, none of which contributed more than Ps.0.8 million in annual rental income for fiscal year 2006. Among these properties are Madero 942, Libertador 602, Av. de Mayo 595, Rivadavia 2768 and Sarmiento 517.

***Retail and other properties.*** Our portfolio of non-shopping center leased properties includes nine non-shopping center leased properties that are leased as street retail, a warehouse, two leased undeveloped plots of land and various other uses. Most of these properties are located in the City of Buenos Aires, although some are located in other cities in Argentina. These properties include Constitución 1111, Edificio Crucero I, Abril commercial stores, Thames and Santa María del Plata.

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**Hotels**

At the end of the 1997 fiscal year, we acquired the Hotel Liao Liao, our first luxury hotel. Some months later, as part of the acquisition from Pérez Companc of the Old Alto Palermo, we acquired an indirect 50% interest in the Hotel Intercontinental in Buenos Aires which we own through our subsidiary Inversora Bolívar. In March 1998, we acquired the Hotel Libertador. During fiscal year 1999, we sold a 20% interest in the Hotel Libertador to Hoteles Sheraton de Argentina S.A., ( Hoteles Sheraton de Argentina ) and during the fiscal year 2000, we sold 50% of our interest in the Hotel Liao Liao to the Sutton Group. During fiscal year 2007 we increased our share in Inversora Bolivar by 100% and obtained an indirect share in the Hotel Intercontinental of 76.34%.

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The following chart shows certain information regarding our luxury hotels:

Hotel	Date of Acquisition	IRSA s effective interest	Number of rooms	Average Occupancy % <sup>(1)</sup>	Average price per room Ps. <sup>(2)</sup>	Accumulated sales in Ps.000 as of June 30 of fiscal (in thousand Ps.) <sup>(3)</sup>			Book value as of 06/30/07
						2007	2006	2005	
Intercontinental <sup>(3)</sup>	11/97	76	309	69.4%	413	45,263	39,305	33,228	61,404
Sheraton Libertador <sup>(4)</sup>	3/98	80	200	82.9%	336	29,338	25,302	20,556	40,950
Llao Llao <sup>(5)</sup>	6/97	50	158	71.8%	768	48,080	39,156	33,336	66,992
Plots in Bariloche <sup>(5)</sup>	12/07	50	N/A			N/A	N/A	N/A	21,900
<b>Total</b>			<b>667</b>	<b>74.0%</b>	<b>469</b>	<b>122,681</b>	<b>103,763</b>	<b>87,120</b>	<b>191,246</b>

- (1) Accumulated average in the twelve-month period.
- (2) Accumulated average in the twelve-month period.
- (3) Through Nuevas Fronteras S.A.(Subsidiary of Inversora Bolívar S.A.).
- (4) Through Hoteles Argentinos S.A.
- (5) Through Llao Llao Resorts S.A.

**Hotel Llao Llao, San Carlos de Bariloche, Province of Rio Negro.** In June 1997 we acquired the Hotel Llao Llao from Llao Llao Holdings S.A. 50% is currently owned by the Sutton Group. The Hotel Llao Llao is located on the Llao Llao península, 25 kilometers from San Carlos de Bariloche and is one of the most important tourist hotels in Argentina. Surrounded by mountains and lakes, this hotel was designed and built by the famous architect Bustillo in a traditional alpine style and first opened in 1938. The hotel was renovated between 1990 and 1993 and has a total constructed surface area of 15,000 square meters and 158 rooms. The hotel-resort also includes an 18-hole golf course, tennis courts, health club, spa, game room and swimming pool. The hotel is a member of The Leading Hotels of the World, Ltd., a prestigious luxury hospitality organization representing 430 of the world's finest hotels, resorts and spas. The Hotel Llao Llao is currently being managed by Compañía de Servicios Hoteleros S.A. which manages the Alvear Palace Hotel, a luxury hotel located in the Recoleta neighborhood of Buenos Aires.

Currently, the hotel is being expanded at an expected cost of approximately US\$12.7 million. The number of suites in the hotel is being increased to 200 rooms, improvements are being made in the kitchen and laundry room, and a high technology water purifying plant is to be constructed. The first stage of construction is in the final process, and the second stage of the construction, which includes reinforced concrete, masonry and facilities, started in December 2005. As of June 30, 2007 the progress of the works is 70.68% and works are estimated to be completed by the first quarter of fiscal year 2008. The offer of rooms to the public is estimated for the months of November and December of the current calendar year.

**Hotel Intercontinental, City of Buenos Aires.** In November 1997, we acquired 51% of the Hotel Intercontinental from the Pérez Compan S.A. The Hotel Intercontinental is located in the downtown City of Buenos Aires neighborhood of Monserrat, adjacent to the Intercontinental Plaza office building. Intercontinental Hotels Corporation, a United States corporation, currently owns 25% of the Hotel Intercontinental. The hotel's meeting facilities include eight meeting rooms, a convention center and a divisible 588 square meter ballroom. Other amenities include a restaurant, a business center, a spa and a fitness facility with swimming pool. The hotel was completed in December 1994 and has 309 rooms. The hotel is managed by the Intercontinental Hotels Corporation.

**Hotel Sheraton Libertador, City of Buenos Aires.** In March 1998 we acquired 100% of the Hotel Sheraton Libertador from Citicorp Equity Investment for an aggregate purchase price of US\$23 million. This hotel is located in downtown Buenos Aires. The hotel contains 193 rooms and 7 suites, eight meeting rooms, a restaurant, a business center, a spa and fitness facilities with a swimming pool. In March 1999, we sold 20% of our interest in the Sheraton Libertador Hotel for US\$4.7 million to Hoteles Sheraton de Argentina. The hotel is currently managed by Sheraton Overseas Management Corporation, a United States corporation.

The hotel is currently under renovation. We are upgrading the hotel's guest rooms and meeting rooms, and are soliciting bids for the improvement of its elevators. In addition, we are improving the hotel's corridors and the lobby bar and are replacing the carpets in the main reception area. We currently believe that the total cost of these improvements is likely to be approximately US\$5.0 million works are estimated to be completed by the end of year 2008.

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*Terreno Bariloche, El Rancho, San Carlos de Bariloche, Province of Río Negro.* On December 14, 2006, through our hotel operator subsidiary, Llao Llao Resorts S.A., we acquired a land covering 129,533 square meters of surface area in the City of San Carlos de Bariloche in the Province of Río Negro. The total price of the transaction was US\$7.0 million, of which US\$4.2 million were paid cash and the balance of US\$2.8 million was financed by means of a mortgage to be paid in 36 monthly, equal and consecutive installments of US\$0.086 million each. The land is in the border of the Lago Gutiérrez, close to the Hotel Llao Llao in an outstanding natural environment and it has a large cottage covering 1,000 square meters of surface area designed by the architect Ezequiel Bustillo.

### **Our Investment in Banco Hipotecario**

We have a significant investment in Banco Hipotecario which represented 7.3% of our consolidated assets as of June 30, 2007. Established in 1886 by the Argentine government and privatized in 1999, Banco Hipotecario has historically been Argentina's leading mortgage lender, provider of mortgage-related insurance and mortgage loan services. All of its operations and customers are located in Argentina where it operates a nationwide network of 33 branches and 47 sales offices.

Banco Hipotecario is a full-service commercial bank offering a wide variety of banking activities and related financial services to individuals, small- and medium-sized companies and large corporations. As of June 30, 2007, Banco Hipotecario ranked second in the Argentine financial system in terms of shareholders' equity, second in terms of net income and ninth in terms of total assets. As of June 30, 2007, Banco Hipotecario's shareholders' equity was Ps.2,711.3 million, its assets were Ps.10,167.6 million, and its net income for the first six months of 2007 was Ps.149.8 million. Since 1999, Banco Hipotecario's shares have been listed on the Buenos Aires Stock Exchange in Argentina, and since 2006 it has had a Level I GDR program.

Banco Hipotecario's business strategy is focused on leveraging its financial position and developing a diversified banking business built on its existing mortgage franchise. Since its debt restructuring in 2004, it began to make progress in this diversification strategy, growing its lending business and developing new business lines, implementing integrated technological solutions to enable its entry into retail banking, extending its marketing network and creating back-office services to support its new operations.

In 2005, as part of its business diversification strategy, Banco Hipotecario expanded its product offerings and began offering personal loans, resumed mortgage lending and launched pledge loans. It expanded its corporate loan product offerings and implemented certain customer loyalty strategies. In response to demand for retail and wholesale time deposits and savings accounts, Banco Hipotecario started offering personal checking accounts and launched the Visa Banco Hipotecario credit card which has steadily grown in terms of market penetration and transaction size. Banco Hipotecario also continued its strategy of expanding the offering of non-mortgage related insurance products it offers, including combined family, life, unemployment, health, personal accident and ATM theft insurance.

At June 2007, it continued expanding these business lines, as non-financial private sector loans increased to Ps.748.6 million, principally as a result of retail and consumer loan originations which more than doubled compared to June 2006. Commercial loans to the private sector also increased 55.7% during the same period.

Banco Hipotecario seeks to achieve a balanced portfolio of mortgage loans, consumer financing and corporate credit lines, while maintaining an adequate risk management policy. As of June 30, 2007, its portfolio of non-mortgage loans increased to **37.8%** of its total loan portfolio compared to **28.9%** as of June 30, 2006.



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During 2006 and 2007, Banco Hipotecario also experienced continued increases in deposits, including savings accounts and time deposits.

The following table sets forth Banco Hipotecario's sources of funding as of the dates indicated.

	As of December 31,		As of June 30
	2005	2006	2007
Checking accounts	Ps. 21.1	Ps. 18.7	Ps. 39.3
Saving accounts	126.1	165.6	183.9
Time deposits	358.2	428.6	613.4
Other deposit accounts	19.2	23.4	27.9
Accrued interest payable	3.1	3.6	4.1
Total	Ps. 527.7	Ps. 639.9	Ps. 868.6

**Competition****Shopping centers**

In the shopping center sector we compete through our subsidiary Alto Palermo. Because most of our shopping centers are located in developed and highly populated areas, there are competing shopping centers within, or in close proximity to, our targeted areas. The number of shopping centers in a particular area could have a material effect on our ability to lease space in our shopping centers and on the amount of rent that we are able to charge. We believe that due to the limited availability of large plots of land and zoning restrictions in the City of Buenos Aires, it will be difficult for other companies to compete with us in areas through the development of new shopping center properties. Our principal competitor is Cencosud S.A. which owns and operates Unicenter shopping center and the Jumbo hypermarket chain, among others.

The following chart shows certain information relating to the most important owners and operators of shopping centers in Argentina:

Company	Shopping Center	Location <sup>(1)</sup>	Leasable gross area	Shops	% Overall national leasable area <sup>(2)</sup>	% Shop <sup>(2)</sup>
<b>Alto Palermo</b>						
	Alto Avellaneda <sup>(5)</sup>	GBA	49.604	152	3.77%	3.08%
	Abasto de Buenos Aires	BA	39.683	171	3.01%	3.47%
	Mendoza Plaza Shopping <sup>(3)(5)</sup>	Mendoza	39.392	151	2.99%	3.06%
	Paseo Alcorta <sup>(5)</sup>	BA	48.893	116	3.71%	2.35%
	Alto Palermo Shopping.	BA	18.210	150	1.38%	3.04%
	Buenos Aires Design <sup>(4)</sup>	BA	13.988	61	1.06%	1.24%
	Patio Bullrich	BA	10.978	83	0.83%	1.68%
	Alto Noa <sup>(5)</sup>	Salta	18.831	85	1.43%	1.72%
	Córdoba Shopping <sup>(5)</sup>	Córdoba	23.428	108	1.78%	2.19%
	Alto Rosario <sup>(5)</sup>	Rosario	40.415	143	3.07%	2.90%
<b>Subtotal</b>			<b>303.422</b>	<b>1.220</b>	<b>23.04%</b>	<b>24.72%</b>
<b>Cencosud</b>						
	Unicenter Shopping <sup>(5)</sup>	GBA	90.869	287	6.90%	5.82%
	Plaza Oeste Shopping <sup>(5)</sup>	GBA	38.720	138	2.94%	2.80%
	Quilmes Factory <sup>(5)</sup>	GBA	31.373	47	2.38%	0.95%
	Lomas Center Shopping <sup>(5)</sup>	GBA	24.271	50	1.84%	1.01%
	San Martin Factory <sup>(5)</sup>	GBA	24.388	31	1.85%	0.63%
	Parque Brown Factory <sup>(5)</sup>	GBA	23.553	41	1.79%	0.83%

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Las Palmas del Pilar Shopping <sup>(5)</sup>	GBA	37.662	102	2.86%	2.07%
Jumbo Palermo Centro Comercial <sup>(5)</sup>	BA	22.763	46	1.73%	0.93%
El Portal de la Patagonia <sup>(5)</sup>	Neuquén	21.700	45	1.65%	0.91%
El Portal de Escobar <sup>(5)</sup>	GBA	18.886	24	1.43%	0.49%

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Company	Shopping Center	Location <sup>(1)</sup>	Leasable gross area	Shops	% Overall national leasable area <sup>(2)</sup>	% Shop <sup>(2)</sup>
	El Portal de los Andes <sup>(5)</sup>	Mendoza	22,962	40	1.74%	0.81%
	Portal de Madryn <sup>(5)</sup>	Chubut	0	0	0.00%	0.00%
	El Portal de Rosario <sup>(5)</sup>	Rosario	57,419	182	4.36%	3.69%
<b>Subtotal</b>			<b>414,566</b>	<b>1,033</b>	<b>31.48%</b>	<b>20.93%</b>
<b>Other Operators</b>						
	Bahia Blanca		17,887	73	1.36%	1.48%
	Caballito Shopping Center		4,800	75	0.36%	1.52%
	Del Parque Shopping		2,985	61	0.23%	1.24%
	Devoto Shopping		17,615	90	1.34%	1.82%
	El Solar del Abadia		6,825	90	0.52%	1.82%
	Galerias Pacifico		12,647	151	0.96%	3.06%
	Libertad Poeta Lugones		24,000	164	1.82%	3.32%
	Los Gallegos Shopping		12,000	65	0.91%	1.32%
	Nine Shopping		25,295	95	1.92%	1.93%
	Nordelta Centro Comercial		8,808	69	0.67%	1.40%
	Nuevocentro Shopping		25,700	121	1.95%	2.45%
	Palace Garden Centro Comercial		4,230	58	0.32%	1.18%
	Palmares Open Mall		22,570	97	1.71%	1.97%
	Parque Comercial Auchan Quilmes		10,500	14	0.80%	0.28%
	Parque Comercial Avellaneda		57,000	81	4.33%	1.64%
	Parque Comercial Bs As II		26,300	32	2.00%	0.65%
	Paseo del Sol		29,664	73	2.25%	1.48%
	Paseo Diagonal		4,050	24	0.31%	0.49%
	Patio Casey		4,023	41	0.31%	0.83%
	Patio Olmos		13,198	121	1.00%	2.45%
	Plaza Liniers Shopping		5,800	64	0.44%	1.30%
	Posadas Plaza Shopping		5,347	59	0.41%	1.20%
	San Luis Shopping Center		27,754	37	2.11%	0.75%
	Shopping del Jardin		12,521	41	0.95%	0.83%
	Shopping del Siglo		12,540	81	0.95%	1.64%
	Showcenter Haedo		24,644	40	1.87%	0.81%
	Showcenter Norte		39,688	19	3.01%	0.39%
	Spinetto Shopping		15,047	47	1.14%	0.95%
	Tren de la Costa		28,399	102	2.16%	2.07%
	Village Recoleta		0,000	22	0.00%	0.45%
	Boulevard Shopping		0,000	0	0.00%	0.00%
	El Palacio Galerias		1,500	30	0.11%	0.61%
	Estacion Recoleta		0,000	0	0.00%	0.00%
	Paseo Pilar		4,618	65	0.35%	1.32%
	Paseo Shopping		6,921	72	0.53%	1.46%
	Solei Factory		25,330	101	1.92%	2.05%
	Portal Tucumán Shopping		28,050	93	2.13%	1.88%
	Village Caballito		5,471	13	0.42%	0.26%
	Torres del Sol		12,095	163	0.92%	3.30%
	Catamarca Shopping Tucumán		13,040	38	0.99%	0.77%
<b>Subtotal</b>			<b>598,862</b>	<b>2,682</b>	<b>45.48%</b>	<b>54.35%</b>
<b>Total</b>			<b>1,316,850</b>	<b>4,935</b>	<b>100%</b>	<b>100%</b>

(1) GBA means Gran Buenos Aires, the Buenos Aires metropolitan area, and BA means the city of Buenos Aires.

(2) Percentage over total shopping centers in Argentina. Figures may not sum due to rounding.

(3) The effective interest of Alto Palermo in Mendoza Plaza Shopping is 85.4%.

(4) Alto Palermo has an effective interest of 54% in ERSA, a company that operates the concession of this building.

(5) Includes total leaseable area occupied by supermarkets and hypermarkets.

Source: Argentine Chamber of Shopping Centers.

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### ***Credit Card Operations***

The credit card market in Argentina is highly competitive due to (i) the active participation in this market of substantially all international and domestic banks conducting business in Argentina, most of which have substantially greater financial resources than we do and (ii) the strong market position of both Visa and Mastercard in Argentina. Our principal competitors in various segments of the credit card market include:

*International and domestic Cards:* Visa, Master, AMEX, Cabal, Diners and Carta Franca.

*Regional cards:* Naranja, Provencred, Efectivo Sí and Credilogros.

*Zonal cards:* Italcred, Carta Sur, Crédito Actual and Credial.

*Closed cards:* Falabella, Garbarino, Frávega, Musimundo, Carrefour and Century.

*Banks:* Columbia, Itaú, Comafi, Privado and others.

*International financial companies:* GE Capital and Cetelem.

### ***Development and Sale of Properties***

A large number of companies are currently competing with us in the development and sale of properties in Argentina. This segment is highly fragmented, and an increasing number of companies are taking advantage of low construction costs and attractive property values, making this segment highly competitive. In addition, there is a substantial supply of comparable properties in the vicinity of our developed properties which may adversely affect our ability to sell our developed properties at prices that generate a positive return on our investment.

### ***Offices and Other Non-Shopping Center Rentals***

Substantially all of our office and other non-shopping center rentals are located in developed urban areas. There is a great number of office buildings, shopping malls, retail and residential premises in the areas where our properties are located. This is a highly fragmented market, and the abundance of comparable properties in our vicinity may adversely affect our ability to rent or sell office space and other real estate and may affect the sale and lease price of our premises.

In the future, both national and foreign companies may participate in Argentina's real estate development market, competing with us for business opportunities. Moreover, in the future we may participate in the development of real estate in foreign markets, potentially encountering well established competitors.

### ***Hotels***

We own three luxury hotels in Argentina which are managed through strategic alliances by international operators including Sheraton Overseas Management Corporation, Intercontinental Hotels Corporation and the local operator Compañía de Servicios Hoteleros S.A. which manages the Hotel Alvear. The Hotel Llao Llao is unique for its landscape and beauty, and our other two hotels, Hotel Intercontinental and Hotel Sheraton Libertador, are located in the City of Buenos Aires. We compete with many other leading luxury hotels in the City of Buenos Aires including among others: Abasto Plaza, Alvear Palace, Caesar Park, Claridge, Emperador, Feirs Park, Four Seasons, Hilton, Loi Suites, Marriot Plaza, Meliá, NH City, Panamericano, Sheraton, Sofitel, Madero, MayFlower, Etoile, Faena, and Regal Pacific.

### ***Regulation and Government Supervision***

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The laws and regulations governing the acquisition and transfer of real estate, as well as municipal zoning ordinances, are applicable to the development and operation of our properties.

Currently, Argentine law does not specifically regulate shopping center lease agreements. Since our shopping center leases generally differ from ordinary commercial leases, we have created standard provisions that govern the relationship with our shopping center tenants.

### *Leases*

Argentine law imposes certain restrictions on landlords, including:

a prohibition to include price adjustment clauses based on inflation increases in lease agreements; and

the imposition of a three-year minimum lease term for retail property, except in the case of stands and/or spaces in markets and fairs. Although our lease agreements were U.S. dollar-denominated, Decree No. 214/2002, Decree No. 762/2002 and Law N° 25,820 that amended the Public Emergency Law, provided that monetary obligations in force as of January 7, 2002 arising from agreements governed by private law and which provided for payments in U.S. dollars were subject to the following rules:

financial obligations were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CER for commercial leases;

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from October 1, 2002 and until March 31, 2004 for residential leases, the obligations where the tenant is an individual and the dwelling is used as the family residence of permanent use were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CVS;

if because of the application of these provisions, the amount of the installment were higher or lower than the amount at the moment of the payment, any of the parties could require an equitable adjustment of the price. If the parties did not reach an agreement, the judicial courts could decide about the difference in each particular case; and

pursuant to Decree No. 117/2004 and Law No. 25,796 that amends Law No. 25,713, the CVS became unenforceable since April 1, 2004.

Under the Argentine Civil Code and the Lease Law No. 23,091, lease terms may not exceed ten years, except for leases regulated by Law No. 25,248 (which provides that real estate leases containing purchase options *leasing inmobiliario*- are not subject to term limitations). Generally, terms in our lease agreements go from 3 to 10 years.

Lease Law No. 23,091, as amended by Law No. 24,808 provides that tenants may rescind commercial lease agreements after the first six months by sending a written notice at least 60 days before the termination of the contract. Such rescission is subject to penalties which range from one to one and a half months of rent. If the tenant rescinds during the first year of the lease the penalty is one and a half month's rent and if the rescission occurs after the first year of lease the penalty is one month's rent.

While current argentine government policy discourages government regulation of lease agreements, there can be no assurance that additional regulations will not be imposed in the future by the Argentine Congress, including regulations similar to those previously in place. Furthermore, most of our leases provide that the tenants pay all costs and taxes related to the property in proportion to their respective leasable areas. In the event of a significant increase in the amount of such costs and taxes, the argentine government may respond to political pressure to intervene by regulating this practice, thereby negatively affecting our rental income. On August 16, 2006, economy minister Felisa Miceli announced a loosening of requirements on mortgage loans up to Ps.300,000. Banks were enabled to finance 100 percent of house purchases on property valued at up to Ps.200,000 and 90 percent of purchases of property worth up to Ps.300,000. The duration of these loans will be up to 30 years. These measures were taken in response to the escalating cost of leases and the difficulties in accessing the mortgage loan market. These measures became effective in September, 2006.

The Argentine Civil and Commercial Procedure Code enables the lessor to pursue what is known as an *executory proceeding* where lessees fail to pay rent. In *executory proceedings* debtors have fewer defenses available to prevent foreclosure, making these proceedings substantially shorter than ordinary ones. In *executory proceedings* the origin of the debt is not under discussion; the trial focuses on the instrument of the debt itself. The aforementioned code also permits special eviction proceedings, which are carried out in the same way as ordinary proceedings. The Argentine Civil Code enables judges to summon tenants who fall two months in arrears to vacate the property they are renting within 10 days of having received notice to such effect. However, historically, large court dockets and numerous procedural hurdles have resulted in significant delays to evictions proceedings, which generally last from six months to two years from the date of filing of the suit to the time of actual eviction.

On February 4, 2003, the Argentine government enacted Decree No. 204/2003 establishing a mediation procedure for a limited period of 90 days. On May 2003, the Argentine Congress enacted Law No. 25,737 which suspended foreclosures for an additional period of 90 days, which ended in May 2003. On September 2003,

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several financial institutions voluntarily agreed not to foreclose on their mortgage loans. On November 2005, the Argentine congress enacted Law No. 26,062 that extended the foreclosures suspension for an additional 120 days period, which was extended for 90 days more by Law No. 26,084 and for 180 days more by Law No. 26,103. Pursuant to these successive extensions, foreclosure on mortgaged property will be suspended until December 2006.

On November 6, 2003 Law No. 25,798 was enacted. It established a mechanism to reschedule debts resulting from unpaid mortgages, by creating a trust by means of which the Executive Branch will refinance the mortgage debts and reschedule the maturity date. Financial institutions were given until a period of 60 business days from the enactment of the law to accept said terms. This law was partially modified by Law No. 25,908 (enacted on July 13, 2004) which included various conditions referring to the incorporation into this system of the mortgage loans that were in judicial or private execution proceedings. The parties to secured loan agreements were given a term to express their adhesion System. The term for financial institutions to accept the mechanism was extended in several occasions by Decree No. 352/2004, Law No. 26,062, Decree No. 352/2004, Law No. 26,062, Law No. 26,084 and Law No. 26,103.

This term was however extended twice first by Decree No. 352/2004 and then by Law No. 26,062 effective as of November 4, 2005. The above mentioned law extends the term 120 days as of the day of its publication and suspends foreclosure proceedings for an additional 120 days period. In addition, Law No. 26,103 extended the duration of these measures to 180 days from the expiration of the extension established by Law 26,062. Recently enacted Law No. 26,167 established a special proceeding to replace ordinary trials for the enforcement of some mortgage loans. Such special proceedings give creditors ten days to inform to the debtor the amounts owed to them and thereafter agree with the debtor on the amount and terms of payment. In case of failure by the parties to reach an agreement, payment conditions are to be determined by the judge.

### ***Development and Land Use***

*Buenos Aires Urban Planning Code.* Our real estate activities are subject to several municipal zoning, building and environmental regulations. In the city of Buenos Aires, where the vast majority of our real estate properties are located, the Buenos Aires Urban Planning Code (*Código de Planeamiento Urbano de la Ciudad de Buenos Aires*) generally restricts the density and use of property and controls physical features of improvements on property, such as height, design, set-back and overhang, consistent with the city's urban landscape policy. The administrative agency in charge of the Urban Planning Code is the Secretary of Urban Planning of the City of Buenos Aires.

*Buenos Aires Building Code.* The Buenos Aires Building Code (*Código de la Edificación de la Ciudad de Buenos Aires*) complements the Buenos Aires Urban Planning Code and regulates the structural use and development of property in the city of Buenos Aires. The Buenos Aires Building Code requires builders and developers to file applications for building permits, including the submission to the Secretary of Work and Public Services (*Secretaría de Obras y Servicios Públicos*) of architectural plans for review, to assure compliance therewith.

We believe that all of our real estate properties are in material compliance with all relevant laws, ordinances and regulations.

### ***Sales and Ownership***

*Real Estate Installment Sales Law.* The Real Estate Installment Sales Law No. 14,005, as amended by Law No. 23,266 and Decree No. 2015/1985, imposes a series of requirements on contracts for the sale of subdivided plots of land regarding, for example, the sale price which is paid in installments and the deed, which is not conveyed until final payment. The provisions of this law require, among other things:

the registration of the intention to sell the property in subdivided plots in the Real Estate Registry (*Registro de la Propiedad Inmueble*) corresponding to the jurisdiction of the property. Registration



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will only be possible with regards to unencumbered property. Mortgaged property may only be registered where creditors agree to divide the debt in accordance with the subdivided plots. However, creditors may be judicially compelled to agree to the division.

the preliminary registration with the Real Estate Registry of the purchase instrument within 30 days of execution of the agreements. Once the property is registered, the installment sale may not occur in a manner inconsistent with the Real Estate Installment Sales Act, unless seller registers his decision to desist from the sale in installments with the Real Estate Registry. In the event of a dispute over the title between the purchaser and third-party creditors of the seller, the installment purchaser who has duly registered the purchase instrument will obtain the deed to the plot. Further, the purchaser can demand conveyance of title after at least 25% of the purchase price has been paid, although the seller may demand a mortgage to secure payment of the balance of the purchase price.

After payment of 25% of the purchase price or the construction of improvements on the property equal to at least 50% of the property value, the Real Estate Installment Sales Act prohibits the rescission of the sales contract for failure by the purchaser to pay the balance of the purchase price. However, in such event the seller may take action under any mortgage on the property.

Consumer Protection Law No. 24,240, as amended, regulates several issues concerning the protection of consumers in the arrangement and execution of contracts. The Consumer Protection Law purports to prevent potential abuses deriving from the strong bargaining position of sellers of goods and services in a mass-market economy where standard form contracts are widespread. As a result, the Consumer Protection Act deems void and unenforceable certain contractual provisions in consumer contracts, including those which:

warranty and liability disclaimers;

waiver of consumer rights;

extension of seller rights; and

shifting of the burden of proof against consumers.

In addition, the Consumer Protection Act imposes penalties ranging from fines to closing down of establishments in order to induce compliance from sellers.

The Consumer Protection Act defines consumers or users, as the individuals or legal entities that contract for a price for final use or that of their own benefit or their family or social group:

the acquisition or rental of movable property;

the supply of services; and

the acquisition of new real estate intended for housing, including plots of land acquired with the same purpose, when the offer is public and directed to undetermined persons.

It also establishes that those who acquire, store, utilize or consume goods or services to integrate them into a production, transformation, commercialization or supplying to third parties process will not be considered consumers or users.

In addition, the Consumer Protection Law defines the suppliers of goods and services as the individuals or legal entities, either public or private that in a professional way, even occasionally, produce, import, distribute or commercialize goods or supply services to consumers or users.



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The following are excluded from the application of the Consumer Protection Law:

services supplied by professionals that require a college degree and registration in officially recognized professional organizations or by a governmental authority; and

contracts involving used assets, executed between consumers.

The Consumer Protection Act determines that the information contained in the offer addressed to undetermined prospective consumers, binds the offeror during the period in which the offer takes place and until its public revocation. Further, it determines that specifications included in advertisements, announcements, prospectuses, circulars or other media bind the offeror and are considered part of the contract entered into by the consumer. On June 2005, Resolution No. 104/05, which complements the Consumer Protection Act, adopted MERCOSUR's Resolution on which requires that those who engage in commerce over the Internet (E-Business) to disclose in a precise and clear manner the characteristics of the products and/or services offered and the sale terms.

*Buildings Law.* Buildings Law No. 19,724, as amended, sets forth a regime for the construction of buildings for later subdivision into condominium (*Propiedad Horizontal*). Under this law, developers must inform potential purchasers of their intention to sell the building as a condominium, as well as of all sale conditions, and the size of each unit in relation to the whole building. The sale of these units is subject to subdivision approval and in order to be included in Buildings Law regime must be registered with the Real Estate Registry (*Registro de la Propiedad Inmueble*). This law also states that, in the event that construction is not completed, all amounts already deposited must be repaid to the purchasers.

*Mortgage Regulation.* The Argentine Civil Code regulates mortgages both as a contract and as a right over property. There are no special provisions in the Civil Code aimed at protecting mortgagors. Any agreement entered into by a mortgagor and a mortgagee at time of execution of the mortgage or prior to the default of the mortgagor allowing the mortgagee to recover the property without a public auction of the property will not be enforced by the courts as contrary to Argentine public policy.

Until the enactment of Trust Law No. 24,441, the only procedure available to collect unpaid amounts secured by a mortgage was a proceeding regulated by the Civil and Commercial Procedure Code. The heavy caseload on the courts that hear such matters usually delays the proceeding, which currently takes 1 to 2 years to complete.

Chapter V of Trust Law No. 24,441 institutes a new procedure which may expedite collection of unpaid amounts secured by a mortgage. To be applicable, the new rules, which allow an out-of-court auction, need to be expressly agreed to by the parties in the mortgage contract.

Currently, we include in our mortgages a clause enabling the enforcement of Law No. 24,441. However, there can be no assurance that such collection provisions will accelerate the recovery of unpaid amounts under mortgage guarantees.

On the other hand, the Public Emergency Law, as amended, established the suspension for the term of 270 days from the enactment of that law, of all the judicial or non-judicial enforcement procedures, including the enforcement of mortgages and pledges, regardless of their origin. On February 14, 2002, Law No. 25,563 amending the Bankruptcy Law (the New Bankruptcy Law) was enacted. Under the New Bankruptcy Law, certain bankruptcies and foreclosures (including foreclosures on mortgage loans) were suspended for a period of 180 days from the law's effective date. Such period was extended for 90 days more by Law No. 25,640 dated September 2002, expiring on February, 2003.

On February 4, 2003, the Executive Branch enacted Decree No. 204/2003 creating a mediation proceeding, for a limited period of 90 days, to be conducted through the Legal Emergency Units (*Unidades de Emergencias Legales*) depending from the Ministry of Labor, Employment and Social Security and the Ministry of Production. Such Legal Emergency Units shall intervene at the request of debtors or creditors in foreclosure cases.

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The mediation proceeding is voluntary and free. Proposals and negotiations made by the parties during the mediation proceedings are subject to the confidentiality of ordinary mediations. No mediation proceeding will result in the suspension or interruption of the legal terms running in judicial or out-of-court foreclosure proceedings.

The Legal Emergency Units will attempt to facilitate an agreement between the parties, enabling the debtor the performance of his obligations without lessening the creditor's rights. The intervention of the Legal Emergency Units shall conclude with an agreement or with the impossibility of reaching such agreement. The Decree establishes that the conciliation proceeding shall be in force from the day of its publication in the Official Gazette and will have a term of force of 90 days.

Most mortgages executed by us provide that we are empowered to declare the anticipated expiration of the loan upon non-payment of an installment. This enables us to recover the unpaid amounts through the sale of the relevant property pursuant to the Civil and Commercial Procedure Code and Law No. 24,441.

Pursuant to Argentine law, fees and expenses related to collection procedures must be borne by the debtor, and the proceeds from any auction of the property may be used for the settlement of such obligation.

Although our mortgages are U.S. dollar-denominated, Decree No. 214/2002 and Decree No. 762/2002 that amend the Public Emergency Law provide that monetary obligations in force as of January 7, 2002, resulting from agreements governed by private law and which provide for payments in U.S. dollars are subject to the following rules:

financial obligations were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CER for commercial leases;

from October 1, 2002 and until March 31, 2004 for residential leases, the obligations where the tenant is an individual and the dwelling is used as the family residence of permanent use were to be paid in Pesos at the exchange rate of Ps.1.00 = US\$1.00 plus the CVS;

if because of the application of these provisions, the amount of the installment were higher or lower than the amount at the moment of the payment, any of the parties could require an equitable adjustment of the price. If the parties did not reach an agreement, the judicial courts could decide about the difference in each particular case; and

pursuant to Decree No. 117/2004 and Law No. 25,796 that amends Law No. 25,713, the CVS became unenforceable since April 1, 2004.

*Protection for the Disabled Law.* The Protection for the Disabled Law No. 22,431, enacted on March 20, 1981, as amended, provides that in connection with the construction and renovation of buildings, obstructions to access must be eliminated in order to enable access by handicapped individuals. In the construction of public buildings, entrances, transit pathways and adequate facilities for mobility impaired individuals must be provided.

Buildings constructed before the enforcement of the Protection for the Disabled Law must be adapted to provide accesses, transit pathways and adequate facilities for mobility-impaired individuals. Those pre-existing buildings, which due to their architectural design may not be adapted to the use by mobility-impaired individuals, are exempted from the fulfillment of these requirements. The Protection for the Disabled Law provides that residential buildings must ensure access by mobility impaired individuals to elevators and aisles.

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**Credit Cards Law.** Law No. 25,065, amended by Law No. 26,010, regulates different aspects of the business known as credit card system. The regulations impose minimum contractual contents and the approval thereof by the Industry, Commerce and Mining Secretary (*Secretaría de Industria, Comercio y Minería de la Nación*), as well as the limitations on the interest to be collected by users and the commissions to the stores adhering to the system. The Credit Card Law applies to banking and non-banking cards, such as Tarjeta Shopping, issued by Tarshop S.A.

**Antitrust Law.** Law No. 25,156 prevents trust practices and requires administrative authorization for transactions that according to the Antitrust Law constitute an economic concentration. According to this law, mergers, transfers of goodwill, acquisitions of property or rights over shares, capital or other convertible securities, or similar operations by which the acquirer controls or substantially influences a company, are considered as an economic concentration. Whenever an economic concentration involves a company or companies (i) which hold 25% or more of the relevant market or (ii) which exceed the accumulated sales volume by approximately Ps.200.0 million in Argentina or Ps.2,500 million worldwide; then the respective concentration should be submitted for approval to the *Comisión Nacional de Defensa de la Competencia*. The request for approval may be filed, either prior to the transaction or within a week after its completion.

The Antitrust Law provides that economic concentrations in which the transaction amount and the value of the assets absorbed, acquired, transferred or controlled in Argentina, do not exceed Ps.20.0 million are exempted from the administrative authorization. Notwithstanding the foregoing, when the transactions effected during the prior 12-month period exceed in total Ps.20.0 million or Ps.60.0 million in the last 36 months, these transactions must be notified to the Antitrust Authority (*Comisión Nacional de Defensa de la Competencia*). As the consolidated annual sales volume of Alto Palermo and IRSA exceed Ps.200.0 million, we should give notice to the Antitrust Authority (*Comisión Nacional de Defensa de la Competencia*) of any concentration provided for by the Antitrust Law. On January 5, 2007 we submitted before the Antitrust Authority (*Comisión Nacional de Defensa de la Competencia*) an opinion for the ratification of the acquisition of Bouchard Plaza Building due to the fact that such acquisition is not an economic concentration that needs to be notified to the Antitrust Authority (*Comisión Nacional de Defensa de la Competencia*) in terms of the Antitrust Law.

### Credit Cards Law

Law No. 25,065, amended by Law No. 26,010, regulates different aspects of the business known as credit card system. The regulations impose minimum contractual contents and the approval thereof by the Industry, Commerce and Mining Secretary (*Secretaría de Industria, Comercio y Minería de la Nación*), as well as the limitations on the interest to be collected by users and the commissions to the stores adhering to the system. The Credit Card Law applies to banking and non-banking cards, such as Tarjeta Shopping, issued by Tarshop S.A.

### Organizational Structure

The following table presents information relating to our ownership interest and the percentage of our consolidated total net revenues represented by our subsidiaries as of June 30, 2007.

Subsidiary	Activity	Country of Incorporation	Ownership percentage <sup>(1)</sup>	Voting power percentage <sup>(1)</sup>	Total net income percentage
Ritelco S.A.	Investment	Uruguay	100%	100%	0.0%
Patagonian Investment S.A.	Investment	Argentina	100%	100%	0.0%
Palermo Invest S.A.	Investment	Argentina	100%	100%	0.0%
Rummaala S.A.	Real estate	Argentina	100%	100%	0.0%
Solares de Santa María S.A.	Real estate	Argentina	90%	90%	0.01%
CYRSA	Real estate	Argentina	100%	100%	0.00%
Pereiraola S.A.	Real estate	Argentina	100%	100%	0.0%
Inversora Bolivar S.A. <sup>(4)</sup>	Real estate	Argentina	100%	100%	7.75%
Hoteles Argentinos S.A.	Hotel	Argentina	80%	80%	3.97%
Llao Llao Resorts S.A.	Hotel	Argentina	50%	50%	6.51%
Alto Palermo S.A. <sup>(2)</sup>	Shopping Centers	Argentina	62.48%	62.48%	65.41%
Canteras Natal Crespo S.A. <sup>(3)</sup>	Real estate	Argentina	50%	50%	0.01%

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- (1) It does not contemplate irrevocable contributions.
  - (2) Alto Palermo s Consolidated Information.
  - (3) We have joint control of Canteras Natal Crespo S.A., a land reserve for a future development, with ECIPSA. See Note 2.6 to our audited consolidated financial statements.
  - (4) Percentage of total net income based upon Inversora Bolivar s consolidated results which include those of Nuevas Fronteras S.A.
- We have a significant interest in Banco Hipotecario, an Argentine company organized under Argentine Law engaged in banking activity. As of June 30, 2007, we owned 11.76% of Banco Hipotecario, and 5.0% of such ownership was through our subsidiary Ritelco S.A. Also, as of June 30, 2007, the voting power held by IRSA and Ritelco S.A. in Banco Hipotecario was 18.4%.

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**Table of Contents****Employees**

As of June 30, 2007, we had 3,298 employees. Our employees are not represented by any union other than our hotel workers who are members of *Unión de Trabajadores del Turismo, Hoteleros y Gastronómicos de la República Argentina* (UTHGRA). We have not experienced a strike or significant work stoppage in the last ten years and believe that our relations with our employees are good.

The following table sets forth the number of employees in our various businesses at June 30, 2007:

	Argentine Real Estate <sup>(1)</sup>	Shopping Centers <sup>(2)</sup>	Hotels <sup>(3)</sup>	Telecommunication <sup>(4)</sup>	Credit Cards <sup>(5)</sup>	Total
As of June 30, 2002	150	600	618	45	226	1,639
As of June 30, 2003	140	605	628	51	222	1,646
As of June 30, 2004	129	681	688	51	390	1,939
As of June 30, 2005	154	872	861	75	556	2,518
As of June 30, 2006	185	966	1,024	0	979	3,154
As of June 30, 2007	228	983	785	0	1,302	3,298

(1) Argentine Real Estate includes IRSA, Inversora Bolívar, Baldovinos, Madero, Libertador 498.

(2) Starting June 2000, Shopping Centers includes Altocity (e-commerce) and does not include Mendoza Plaza prior to fiscal year 2005.

(3) Hotels include Intercontinental, Sheraton, Libertador and Llao Llao.

(4) Telecommunications include Red Alternativa and Alternativa Gratis.

(5) Credit cards include Tarshop.

**Property**

As of June 30, 2007, all of our property (consisting of rental properties in the office and retail real estate sectors, development properties primarily in the residential real estate sector, and shopping centers) was located in Argentina. We lease our headquarters, located at Bolívar 108, C1066AAD and Moreno 877, piso 22, C1091AAQ Buenos Aires, Argentina, pursuant to two lease agreements that expire on February 28, 2014 and November 30, 2008, respectively. We do not currently lease any material properties other than our headquarters.

The following table sets forth certain information about our properties:

Property	Date of Acquisition	Leaseable/ Salem <sup>2</sup> ( <sup>1</sup> )	Location	Net Book Value Ps./000 <sup>(2)</sup>	Encumbrance	Outstanding principal amount Ps./000	Maturity Date	Balance due at maturity	Rate	Use
Intercontinental Plaza <sup>(3)</sup>			City of Buenos Aires	94,992						Office Rental
Dock del Plata	11/18/97	22,535								
Bouchard 710	11/15/06	7,921	City of Buenos Aires	26,194						Office Rental
Bouchard 551	06/01/05 03/15/07	15,014 33,324	City of Buenos Aires	68,390 241,899	Mortgage <sup>(10)</sup>	14.8	May-08	1.3	8.5%	Office Rental Office Rental



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Libertador 498			Buenos Aires City of								
	12/20/95	10,533	Buenos Aires City of	41,061	Mortgage <sup>(4)</sup>	81.0	Nov-09	10.8	Libor 3M + 200 bps	Office Rental	
Maipú 1300			Buenos Aires City of								
	09/28/95	10,280	Buenos Aires City of	42,347						Office Rental	
Laminar Plaza			Buenos Aires City of								
	03/25/99	6,521	Buenos Aires City of	29,187	Mortgage <sup>(4)</sup>	81.0	Nov-09	10.8	Libor 3M + 200 bps	Office Rental	
Madero 1020			Buenos Aires City of								
	12/21/95	215	Buenos Aires City of	1,694						Office Rental	
Reconquista 823/41			Buenos Aires City of								
	11/12/93	5,016	Buenos Aires City of	19,093						Office Rental	
Suipacha 652/64			Buenos Aires City of								
	11/22/91	11,453	Buenos Aires City of	12,292	Mortgage <sup>(9)</sup>	41.1	Abr-10	41.1		Office Rental	
Edificios Costeros			Buenos Aires City of								
	03/20/97	6,389	Buenos Aires City of	18,471						Office Rental	
Costeros Dique IV			Buenos Aires City of								
	08/29/01	5,437	Buenos Aires City of	20,875	Mortgage <sup>(4)</sup>	81.0	Nov-09	10.8	Libor 3M + 200 bps	Office Rental	
Obras en Curso Dique IV			Buenos Aires City of								
	12/02/97	N/A	Buenos Aires City of	9,684						Office Rental	
Madero 942			Buenos Aires City of								
	08/31/94	768	Buenos Aires City of	2,468						Office Rental	
Av. De Mayo 595/99			Buenos Aires City of								
	08/19/92	1,958	Buenos Aires City of	5,134						Office Rental	
Av. Libertador 602			Buenos Aires City of								
	01/05/96	638	Buenos Aires City of	2,831						Office Rental	
Rivadavia 2774			Buenos Aires City of								
	09/19/91	274	Buenos Aires City of	295						Office Rental	

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Property	Date of Acquisition	Leaseable/ Salem <sup>2(1)</sup>	Location	Net Book Value Ps./000 <sup>(2)</sup>	Encumbrance	Outstanding principal amount Ps./000	Maturity Date	Balance due at maturity	Rate	Use
Sarmiento 517	01/12/94	39	City of Buenos Aires	98						Office Rental
Constitución 1111	06/16/94	312	City of Buenos Aires	777						Commercial Rental
Crucero I	03/20/97	192	City of Buenos Aires	285						Commercial Rental
Santa María del Plata	07/10/97	60,100	City of Buenos Aires	12,494						Others Rentals
Thames <sup>(3)</sup>	11/01/97	33,191	Province of Buenos Aires	3,899						Others Rentals
Constitución 1159	06/16/94	2,072	City of Buenos Aires	2,050						Others Rentals
Other Properties <sup>(5)</sup>	N/A	331	City and Province of Bs. As.	3,209						Office Rental
Alto Palermo Shopping <sup>(5)(6)</sup>	11/18/97	18,210	City of Buenos Aires	175,517						Shopping Center
Abasto <sup>(5)</sup>	07/17/94	39,683	City of Buenos Aires	187,436						Shopping Center
Alto Avellaneda <sup>(5)</sup>	11/18/97	27,336	City of Avellaneda	89,664						Shopping Center
Paseo Alcorta <sup>(5)</sup>	06/06/97	14,403	City of Buenos Aires	64,432						Shopping Center
Patio Bullrich <sup>(5)</sup>	10/01/98	10,978	City of Buenos Aires	103,137						Shopping Center
Alto Noa <sup>(5)</sup>	03/29/95	18,831	City of Salta	27,040						Shopping Center
Buenos Aires Design <sup>(5)</sup>	11/18/97	13,988	City of Buenos Aires	16,082						Shopping Center
Alto Rosario <sup>(5)</sup>	11/09/04	30,261	City of Rosario	84,145						Shopping Center
Mendoza Plaza <sup>(5)</sup>	12/02/94	39,392	City of Mendoza	89,004						Shopping Center
Córdoba Shopping <sup>(5)</sup>	12/27/07	11,056	City of Córdoba	75,508	Mortgage <sup>(10)</sup>	16.3	Oct-37		Libor + 1.5%	Shopping Center
Panamerican Mall <sup>(5)</sup>	06/29/06	28,741	City of Buenos Aires	167,606						Shopping Center (in construction)
Neuquén <sup>(5)</sup>	07/08/99	N/A	Province of Neuquén	12,302						Shopping Center (in construction)
Puerto Retiro <sup>(3)</sup>	05/18/97	82,051	City of Buenos Aires	54,861						Land Reserve

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Caballito	11/03/97	20,968	Aires City of Buenos Aires	9,223						Land Reserve
Santa María del Plata	07/10/97	675,952	City of Buenos Aires	135,785						Land Reserve
Pereiraola <sup>(7)</sup>	12/16/96	1,299,630	Province of Buenos Aires	21,717						Land Reserve
Canteras Natal Crespo	07/27/05	4,320,000	Province of Córdoba	5,559						Land Reserve
Vicente López	01/16/07	29,564	Province of Buenos Aires	115,623						Land Reserve
Others Reserves of Land <sup>(8)</sup>	N/A	14,628,354	City and Province of Bs.As.	80,623						Land Reserve
Residential apartments, communities and others	N/A	80,761	City and Province of Bs.As.	211,497						Residential apartments and others
Hotel Llao Llao	06/01/97	15,000	City of Bariloche	66,992						Hotel
Hotel Intercontinental	11/01/97	37,742	City of Buenos Aires	61,404						Hotel
Hotel Libertador <sup>(11)</sup>	03/01/98	17,463	City of Buenos Aires	40,950	Mortgage	18.6	Mar-10	15.6	Libor 3M+450bps	Hotel
Terrenos Bariloche	12/01/06	N/A	Province of Rio Negro	21,900	Mortgage	7.3	Dic-09	0.3	Libor Rate+700Bps	Hotel

- (1) Total leaseable area for each property. Excludes common areas and parking spaces.
- (2) Cost of acquisition or development (adjusted as discussed in Note 2.c to the consolidated financial statements), plus improvements, less accumulated depreciation, less allowances.
- (3) Through IBSA.
- (4) We have 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. On June 30, 2007 mortgaged properties had a net book value of Ps.91.1 million and an outstanding principal amount of Ps.81.0 million.
- (5) Through Alto Palermo. We own a 54% interest in ERSA. Currently our shares of Emprendimiento Recoleta S.A. are pledged.
- (6) Shopping Alto Palermo ( SAPSA ) is owned by Alto Palermo. On January 18, 2001, (i) Alto Palermo issued Series A Senior Notes for US\$40 million and (ii) Alto Palermo and SAPSA co-issued Series B Senior Notes for US\$80 million that will be severally paid by Alto Palermo and SAPSA. The Series A and B Senior Notes (the Senior Notes ) are due in 2005. The payment of the total amount of the Senior Notes is guaranteed by a Trust Agreement pursuant to which all of Alto Palermo's shares of SAPSA were transferred to a trust. The Trust Agreement was entered into on January 16, 2001 between Alto Palermo and Ritelco, as shareholders of SAPSA and as Trustors, Río Trust S.A., as Trustee, and the holders of the Senior Notes as beneficiaries. At June 30, 2005, we fully cancelled the Senior Notes outstanding.
- (7) Directly through IRSA and indirectly through IBSA.
- (8) Includes the following land reserves: Terrenos Pilar, Padilla 902 and Terreno Torre Jardín IV (through IRSA), Terreno Pontevedra; Isla Sirgadero; Mariano Acosta, Intercontinental Plaza II and Merlo (through IBSA), and Terreno Rosario, Terreno Caballito and the Coto project (through Alto Palermo).

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- (9) As security for compliance with the construction of the future building to be constructed in a plot of land in Vicente Lopez, Province of Buenos Aires and transfer of the future units, the company's property located at Suipacha 652 was mortgaged.
- (10) Right over real property granted by a debtor to a creditor whereby the creditor is authorized to receive the income from such property to cancel interest and/or principal under existing debt.

### **Insurance**

We carry insurance policies with insurance companies we consider to be financially sound. We employ multi-risk insurance for our shopping centers, which covers fire damage and negligence liability, electrical and water damages, theft and business interruption. We have had to make a limited number of claims under our shopping centers' insurance, including a claim for a fire at Alto Avellaneda Shopping on March 5, 2006 and to date we have been able to recover substantially all of those claims from our insurers.

In our Development and Sale of properties segment, we only maintain insurance when we retain ownership of the land under development or when we develop the property ourselves. Our liability and fire insurance policies cover potential risks such as property damages, business interruption, fire, falls, collapse, lightning and gas explosion. Such insurance policies have specifications, limits and deductibles which we believe are customary. We maintain insurance policy for our properties after the end of construction only if we retain ownership, primarily in the Offices and Other Non-Shopping Center Rental Properties segment.

We carry directors and officers' insurance covering management's civil liability, as well as legally mandated insurance, including employee personal injury. We do not provide life or disability insurance for our key employees as benefits. We believe our insurance policies are adequate to protect us against the risks for which we are covered. However, no assurances can be given that the amount of insurance we carry will be sufficient to protect us from material loss. See Risk Factors Risks Related to our Business Some potential losses are not covered by insurance, and certain kinds of insurance coverage may become prohibitively expensive.

### **Legal Proceedings**

Set forth below is a description of certain material legal proceedings to which we are a party. We are not engaged in any other material litigation or arbitration and no other material litigation or claim is known to us to be pending or threatened against us or our subsidiaries. Nevertheless, we may be involved in other litigation from time to time in the ordinary course of business.

#### ***Puerto Retiro***

On November 18, 1997, in connection with our acquisition of our subsidiary Inversora Bolívar S.A. ( Inversora Bolívar ), we indirectly acquired 35.2% of the capital stock of Puerto Retiro. Inversora Bolívar had purchased such shares of Puerto Retiro from Redona Investments Ltd. N.V. in 1996. In 1999, we, through Inversora Bolívar, increased our interest in Puerto Retiro to 50.0% of its capital stock. On April 18, 2000, Puerto Retiro received notice of a complaint filed by the Argentine government, through the Ministry of Defense, seeking to extend the bankruptcy of Inversora Dársena Norte S.A. ( Indarsa ). Upon filing of the complaint, the bankruptcy court issued an order restraining the ability of Puerto Retiro to dispose of, in any manner, the real property it had purchased in 1993 from Tandanor S.A. ( Tandanor ). Puerto Retiro appealed the restraining order which was confirmed by the Court on December 14, 2000.

In 1991, Indarsa had purchased 90% of Tandanor, a former government-owned company, which owned a piece of land near Puerto Madero of approximately 8 hectares, divided into two parcels: Planta 1 and 2. After the purchase of Tandanor by Indarsa, in June 1993, Tandanor sold Planta 1 to Puerto Retiro, for a sum of US\$18 million pursuant to a valuation performed by J.L. Ramos, a well-known real estate brokerage firm in Argentina. Indarsa failed to pay to the Argentine government the price for its purchase of the stock of Tandanor, and as a result the Ministry of Defense requested the bankruptcy of Indarsa. Since the only asset of Indarsa was its holding in Tandanor, the Argentine government is seeking to extend Indarsa's bankruptcy to other companies or individuals which, according to its view, acted as a single economic group. In particular, the Argentine government has requested the extension of Indarsa's bankruptcy to Puerto Retiro which acquired Planta 1 from Tandanor.

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The deadline for producing evidence in relation to these legal proceedings has expired. The parties have submitted their closing arguments and are awaiting a final judgment. However, the judge has delayed his decision until a final judgment in the criminal proceedings against the former Defense Minister and former directors of Indarsa has been delivered. We cannot give you any assurance that we will prevail in this proceeding, and if the plaintiff's claim is upheld by the courts, all of the assets of Puerto Retiro would likely be used to pay Indarsa's debts and our investment in Puerto Retiro, valued at Ps.54.9 million as of June 30, 2007, would be lost. As of June 30, 2007, we had not established any reserve in respect of this contingency.

***Llao Llao Holding S.A.***

Llao Llao Holding S.A. purchased Hotel Llao Llao in November, 1997, from the Argentine National Parks Administration. Llao Llao Holding S.A., the predecessor of Llao Llao Resorts S.A., was sued in 1997 by the National Parks Administration to collect the unpaid balance of the purchase price in Argentine sovereign debt securities amounting to US\$2.9 million. The trial court ruled in favor of the plaintiff. The ruling was appealed, and the court of appeals confirmed the judgment ordering the payment of US\$2.9 million in Argentine sovereign debt securities available at the date of the ruling, plus compensatory and punitive interest and attorneys' fees. On March 2, 2004, we deposited a payment of Ps.7.2 million with Banco de la Ciudad de Buenos Aires in favor of the National Parks Administration and deposited Argentine sovereign debt securities class FRB - FRB L+13/16 2005 having a total principal amount of US\$4.1 million. The total amount deposited on that date was Ps.9.2 million.

On June 30, 2004, the plaintiff filed a brief rejecting our payment as a partial payment and requesting the court to determine the term for the deposit of funds amounting to final payment of the total debt. The trial court pesified the outstanding sum of plaintiff's credit to us and the plaintiff appealed this decision. The court of appeals ruled in favor of the plaintiff maintaining the sum due was payable in U.S. dollars. We have appealed this decision but the appellate court declared it inadmissible. We appealed before the Federal Supreme Court and the final decision is still pending.

The plaintiff filed a petition requesting that the above mentioned deposit amount be transferred to a savings account. We did not oppose this petition agreeing that its obligations would be cancelled upon such payment. As of June 30, 2007 the plaintiff has not filed any petition to have the ruling enforced, nor has it furnished a report of the amount to be paid by us and the amount to be paid remains undetermined.

As of June 30, 2007, we had established a reserve in the amount of Ps.4.6 million which we determined by calculating the difference between the amount claimed for compensatory and punitive interest (US\$3.8 million) and the amount we have deposited in favor of the National Parks Administration (Ps.7.2 million). In addition, as of such date we had established an additional reserve of Ps.1.0 million to cover its possible liability for the fees of the plaintiff's attorneys.

***Legal issues with the City Hall of Neuquén***

In June 2001, Shopping Neuquén requested that the City Hall of Neuquén allow it to transfer certain parcels of land to third parties so that each participant in the commercial development to be constructed would be able to build on its own land. The City Hall Executive Branch previously rejected this request under Decree No. 1437/2002 which also established the expiration of the rights arising from Ordinance 5178, including the loss of any improvement and expenses incurred. As a result, Shopping Neuquén had no right to claim indemnity charges and annulled its buy-sell land contracts.

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Shopping Neuquén submitted a written appeal to this decision on January 21, 2003. It also sought permission to submit a revised schedule of time terms, taking account of the current situation and including reasonable short and medium term projections. The City Hall Executive Branch rejected this request in Decree 585/2003. Consequently, on June 25, 2003, Shopping Neuquén filed an Administrative Procedural Action with the High Court of Neuquén requesting, among other things, the annulment of Decrees 1,437/2002 and 585/2003 issued by the City Hall Executive Branch. On December 21, 2004, the High Court of Neuquén communicated its decision that the administrative procedural action that Shopping Neuquén had filed against the City Hall of Neuquén had expired. Shopping Neuquén filed an extraordinary appeal for the case to be sent to the Argentine Supreme Court, which is yet to be decided.

On December 13, 2006, Shopping Neuquén signed an agreement with both the City Hall and the Province of Neuquén stipulating a new timetable for construction of the commercial and housing enterprises (the Agreement). Also, Shopping Neuquén was permitted to transfer certain parcels to third parties so that each participant in the commercial development to be constructed would be able to build on its own land, with the exception of the land in which the shopping center will be constructed. The Legislative Council of the City Hall of Neuquén duly ratified the Agreement. The City Hall Executive Branch promulgated the ordinance issued on February 12, 2007.

The Agreement also provides that Shopping Neuquén will submit, within 120 days after the Agreement is signed, a new urban project draft with an adjustment of the environmental impact survey, together with a map of the property subdivision, which the City Hall of Neuquén will approve or disapprove within 30 days. If the project is approved, Shopping Neuquén will submit the final maps of the works to the City Hall within 150 days of this decision and construction must commence within a maximum period of 90 days thereafter. The first stage of construction (including minimum construction of 21,000 square meters of the shopping center and 10,000 square meters of the hypermarket) is expected to be completed within a maximum period of 22 months. The Agreement is conditional upon the City Hall declaring the feasibility of the draft project submitted, and upon the terms and conditions of this decision being accepted by Shopping Neuquén S.A. The City Hall of Neuquén reserves its right to rescind the Agreement and file the legal actions it deems pertinent if its conditions are contravened.

On March 28, 2007, Shopping Neuquén submitted the new project draft and revised environmental impact survey to the City Hall of Neuquén. On May 10, 2007, the City Hall of Neuquén, requested certain explanations and made recommendations for our consideration before issuing an opinion on the feasibility of the draft project. On July 17, 2007, Shopping Neuquén answered the City Hall's requests and on September 20, 2007, the City Hall approved the feasibility of the project.

### ***Other Litigation***

As of July 5, 2006, the AFIP filed a preliminary injunction with the Federal Court for Administrative Proceedings for an aggregate amount of Ps.3,689,485.5, plus an added amount, provisionally estimated, of Ps.900,000 for legal fees and interest. The main dispute is about the capital gains tax due for admission rights. In the first instance, AFIP pleaded for a general restraining order. On November 29, 2006, the Federal Court issued an order substituting such restraining order for an attachment on the parcel of land located in Caballito neighborhood, City of Buenos Aires, where Alto Palermo is planning to develop a shopping center.

**Table of Contents****MANAGEMENT****Board of Directors**

We are managed by a board of directors. Our by-laws provide that our board of directors will consist of a minimum of eight and a maximum of fourteen full directors and eight to fourteen alternate directors. Currently our board of directors is composed of thirteen directors and three alternate directors. Our directors and alternate directors are elected for three-year terms by a majority vote of our shareholders at a general ordinary shareholders meeting. Our directors and alternate directors may be reelected indefinitely.

Alternate directors will be summoned to exercise their functions in case of absence, vacancy of death of a full director up to a new director were designated.

The table below shows information about our directors and alternate directors:

Name	Date of birth	Position	Date of current appointment	Term expiration	Current position held since
Eduardo S. Elsztain	01/26/1960	Chairman	2006	2009	1991
Saúl Zang	12/30/1945	First Vice-Chairman	2006	2009	1994
Alejandro G. Elsztain	03/31/1966	Second Vice-Chairman	2004	2007	2001
Oscar P. Bergotto	06/19/1943	Director	2006	2009	1994
Fernando A. Elsztain	01/04/1961	Director	2005	2008	1999
Ricardo Esteves	05/25/1949	Director	2005	2008	2005
Cedric D. Bridger	11/09/1935	Director	2006	2009	2003
Marcos Fischman	04/09/1960	Director	2006	2009	2003
Fernando Barenboim	09/02/1960	Director	2004	2007	2004
Fernando Rubín	06/20/1966	Director	2004	2007	2004
Gary S. Gladstein	07/07/1944	Director	2004	2007	2004
Mario Blejer	07/07/1944	Director	2005	2008	2005
Mauricio Wior	10/23/1956	Director	2006	2009	2006
Juan C. Quintana Terán	06/11/1937	Alternate director	2005	2008	1996
Emilio Cárdenas	08/13/1942	Alternate director	2006	2009	2003
Salvador D. Bergel	04/17/1932	Alternate director	2005	2008	1996

Ricardo Esteves, Cedric Bridger, Mario Blejer, Mauricio Wior and Emilio Cárdenas are independent directors, pursuant to *Comisión Nacional de Valores* Resolution No. 400/2002.

The following is a brief biographical description of each member of our board of directors:

**Eduardo S. Elsztain.** Mr. Elsztain studied economic sciences at the Universidad de Buenos Aires. He has been engaged in the real estate business for more than twenty years. He is the chairman of the board of directors of Alto Palermo, Shopping Alto Palermo S.A., Cresud, Consultores Asset Management and BACS Banco de Crédito & Securitización among others. He is also vice-chairman of Banco Hipotecario, E-Commerce Latina S.A. and Director of BrasilAgro, among other companies. He is Fernando A. Elsztain's cousin and Alejandro G. Elsztain's brother.

**Saúl Zang.** Mr. Zang obtained a law degree from the Universidad de Buenos Aires. He is a member of the International Bar Association and the Interamerican Federation of Lawyers. He is a founding partner of Zang, Bergel & Viñes law firm. He is also vice-chairman of Alto Palermo, the first vice-chairman of Shopping Alto Palermo S.A. and Cresud and vice-chairman of Puerto Retiro, Alto Palermo and Fibesa, and a director of Banco Hipotecario, Nuevas Fronteras S.A., Tarshop, Palermo Invest S.A. and BrasilAgro.

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**Alejandro G. Elsztain.** Mr. Elsztain obtained a degree in agricultural engineering from the Universidad de Buenos Aires. Currently he is chairman of BrasilAgro, second vice-chairman of Cresud and executive vice-chairman of Alto Palermo and SAPSA. He is also vice-chairman of Nuevas Fronteras and Hoteles Argentinos and director of IBOSA. He is the brother of Chairman Eduardo S. Elsztain and a cousin of Director Fernando A. Elsztain.

**Oscar P. Bergotto.** Mr. Bergotto has been our Chief Treasury Officer since 1991. He has also worked in various other real estate companies. He is director of Alto Palermo.

**Fernando A. Elsztain.** Mr. Elsztain studied architecture at the Universidad de Buenos Aires. He has been engaged in the real estate business as a consultant and as managing officer of a family-owned real estate company. He is chairman of the board of directors of Llao Llao Resorts S.A., Palermo Invest S.A. and Nuevas Fronteras S.A. He is also a director of Alto Palermo, SAPSA, Hoteles Argentinos and Tarshop and an alternate director of Banco Hipotecario and Puerto Retiro, among others. He is Alejandro Elsztain's and Eduardo S. Elsztain's cousin.

**Ricardo Esteves.** He has a degree in Political Science from the Universidad El Salvador. He was a member of the Boards of Directors of Banco Francés del Río de la Plata, Bunge & Born Holding, Armstrong Laboratories, Banco Velox and Supermercados Disco. He was one of the founders of CEAL (*Consejo Empresario de América Latina*) and is a member of the board of directors of Encuentro de Empresarios de América Latina (padres e hijos) and is co-President of Foro Iberoamericano.

**Cedric D. Bridger.** Mr. Bridger is qualified as a certified public accountant in the United Kingdom. From 1992 through 1998, he served as chief financial officer of YPF S.A. Mr. Bridger was also financial director of Hughes Tool Argentina, chief executive officer of Hughes Tool in Brazil and Hughes' corporate vice-president for South American operations. He is also a director of Banco Hipotecario.

**Marcos Fischman.** Mr. Fischman studied at the Hebrew University of Jerusalem. He is a pioneer in individual and corporate coaching in Argentina. He provides consulting services to businessmen, scholars and artists. Since 1993, he has provided us with consulting services in organizational communication and development.

**Fernando Barenboim.** Mr. Barenboim graduated as architect at Universidad de Buenos Aires. He also attended post-graduate courses in the same university and the UNESCO. He has a master's degree from the Universidad Católica Argentina. He joined IRSA in 1991 and is manager of the real estate portfolio of Banco Hipotecario and is currently our development manager.

**Fernando Rubín.** Mr. Rubin has a degree in psychology from the Universidad de Buenos Aires and attended a post-graduate course in Human Resources and Organizational Analysis at E.P.S.O. Since July 2001, he has been the manager of organizational development at Banco Hipotecario. He served as corporate manager of human resources for IRSA, director of human resources for Moët Hennessy Louis Vuitton (LVMH) in Argentina and Bodegas Chandon in Argentina and Brazil. He also served as manager of the human resources division for the international consulting firm Roland Berger & Partners-International Management Consultants.

**Gary S. Gladstein.** Mr. Gladstein has a degree in economics from the University of Connecticut and a master's degree in business administration from Columbia University. He was operations manager in Soros Fund Management LLC and is currently a senior consultant of Soros Fund Management LLC.

**Mario Blejer.** Dr. Blejer obtained a degree from Hebrew University and a Ph.D. from the University of Chicago. He lectured courses at Hebrew University, Boston University and New York University. He has published several articles on macroeconomic and financial stability subjects. He served for twenty years in different departments of the IMF. In 2002, he was appointed chairman of the Central Bank and during 2003 was appointed director of the Center for Studies of Central Banks of the Bank of England.



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**Salvador D. Bergel.** Mr. Bergel obtained a law degree and a PhD from the Universidad del Litoral. He is a founding partner of Zang, Bergel & Viñes law firm and a consultant at Repsol YPF S.A. He is also an alternate director of Cresud.

**Mauricio Wior.** Mr. Wior obtained a masters degree in finance, as well as a bachelors degree in economics and accounting from Tel Aviv University in Israel. Mr. Wior is currently a director of Ertach S.A. and Banco Hipotecario. He has held positions at Bellsouth where he was Vice President for Latin America from 1995 to 2004. Mr. Wior was also CEO of Movicom Bellsouth from 1991 to 2004. In addition, he led the operations of various cellular phone companies in Uruguay, Chile, Peru, Ecuador and Venezuela. He was president of the *Asociación Latinoamericana de Celulares (ALCACEL)*; U.S. Chamber of Commerce in Argentina and the Israeli-Argentine Chamber of Commerce. He was a director of *Instituto para el Desarrollo Empresarial de la Argentina (IDEA)*, *Fundación de Investigaciones Económicas Latinoamericanas (FIEL)* and Tzedaka.

**Juan C. Quintana Terán.** Mr. Quintana Terán obtained a law degree from the Universidad of de Buenos Aires. He is a consultant at Zang, Bergel & Viñes law firm. He has been chairman and Judge of the National Commercial Court of Appeals of the City of Buenos Aires (*Cámara Nacional de Apelaciones en lo Comercial*). He is an alternate director of Cresud, Alto Palermo and Nuevas Fronteras S.A.

**Emilio J. Cárdenas.** Mr. Cárdenas obtained a law degree from the Universidad de Buenos Aires and a Ph.D. from University of Michigan. He has been a member of our board of directors since 1996. He was chairman of ABRA, founding partner of Cárdenas, Cassagne & Asociados law firm, Argentina's Permanent Representative to the United Nations, member of United Nations Security Council and is currently a member of the board of directors of HSBC Bank S.A (Bank Roberts).

***Employment contracts with our directors***

We do not have written contracts with our directors. However, Mr. Eduardo Elsztain, Saúl Zang, Alejandro Elsztain, Fernando Elsztain, Fernando Baremboin, Oscar Bergoto, Marcos Fischman and Fernando Rubín are employed by us under the Labor Contract Law No. 20.744. This law governs certain conditions of the labor relationship, including remuneration, protection of wages, hours of work, holidays, paid leave, maternity protection, minimum age requirements, protection of young workers and suspension and termination of the contract.

**Executive Committee**

Pursuant to our by-laws, our day-to-day business is managed by an executive committee consisting of five directors and one alternative director, among which there should be the chairman, first vice-chairman and second vice-chairman of the board of directors. The current members of the Executive Committee are Messrs. Eduardo S. Elsztain, Saúl Zang, Alejandro Elsztain and Fernando Elsztain as members, and Mr. Oscar P. Bergoto as alternative member. The executive committee meets as needed by our business, or at request of one or more of its members.

The executive committee is responsible for the management of the day to day business delegated by the Board of Directors in accordance with applicable law and our by-laws. Our by-laws authorize the executive committee to:

designate the managers and establish the duties and compensation of such managers;

grant and revoke powers of attorney on behalf of us;

hire, discipline and fire personnel and determine wages, salaries and compensation of personnel;

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enter into contracts related to our business;

manage our assets;

enter into loan agreements for our business and set up liens to secure our obligations; and

perform any other acts necessary to manage our day-to-day business.

**Senior Management**

The board of directors appoints and removes senior management. Senior management performs its duties in accordance with the instructions of the board of directors. The following table shows information about our current senior management, appointed by the board of directors at the meeting held on October 31, 2006:

<b>Name</b>	<b>Date of birth</b>	<b>Position</b>	<b>Current position held since</b>
Eduardo S. Elsztain	01/26/1960	Chief Executive Officer	1991
Gabriel Blasi	11/22/1960	Chief Financial Officer	2004
Fernando Barenboim	09/02/1960	Chief Commercial Officer	2004
David A. Perednik	11/15/1957	Chief Administrative Officer	2002

The following is a description of each of our senior managers who are not directors:

**Gabriel Blasi.** Mr. Blasi obtained a degree in business administration and carried out post graduate studies in Finance at CEMA University (*Universidad del CEMA Centro de Estudios Macroeconómicos Argentinos*) and in the IAE (*Universidad Austral*). He formerly worked as a senior securities trader in Citibank. He also held several management positions related to investment banking and capital markets at Banco Río (BSCH) and was financial director of the Argentine Carrefour Group and Goyaique SACIFIA (Grupo Perez Companc). Currently, he also serves as chief financial officer of Alto Palermo and Cresud.

**David A. Perednik.** Mr. Perednik obtained a degree in accounting from the Universidad de Buenos Aires. He has worked for several companies such as Marifran Internacional S.A., a subsidiary of Louis Dreyfus Amateurs where he worked as financial manager from 1986 to 1997. He also worked as a senior consultant in the administration and systems department of Deloitte & Touche. He also serves as chief administrative officer of Alto Palermo and Cresud.

**Supervisory Committee**

Our supervisory committee (*Comisión Fiscalizadora*) is responsible for reviewing and supervising our administration and affairs and verifying compliance with our by-laws and resolutions adopted at the shareholders' meetings. The members of the supervisory committee are appointed at our annual general ordinary shareholders' meeting for a one-year term. The supervisory committee is composed of three members and three alternate members and pursuant to Section 294 of the Argentine Corporations Law No. 19,550, as amended, must meet at least every three months.

The following table shows information about the members of our supervisory committee, who were elected at the ordinary and extraordinary shareholders' meeting, held on October 31, 2006:

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Name	Date of birth	Position	Expiration Date	Current position held since
José D. Abelovich	07/20/1956	Member	2007	1992
Marcelo H. Fuxman	11/30/1955	Member	2007	1992
Roberto Murmis	04/07/1959	Member	2007	2005
Silvia De Feo	10/07/1958	Alternate member	2007	2003
Sergio Kolaczyk	11/28/1964	Alternate member	2007	2005
Alicia Rigueira	12/02/1951	Alternate member	2007	2006

Set forth below is a brief biographical description of each member of our supervisory committee:

**José D. Abelovich.** Mr. Abelovich obtained a degree in accounting from the Universidad de Buenos Aires. He is a founding member and partner of Abelovich, Polano & Asociados/SC International, a public accounting firm in Argentina. Formerly, he had been a manager of Harteneck, López y Cía/Coopers & Lybrand and has served as a senior advisor in Argentina for the United Nations and the World Bank. He is a member of the supervisory committees of Alto Palermo, Cresud, SAPSA, Hoteles Argentinos and Inversora Bolívar, among other companies.

**Marcelo H. Fuxman.** Mr. Fuxman obtained a degree in accounting from the Universidad de Buenos Aires. He is a partner of Abelovich, Polano and Associates/SC International, a public accounting firm in Argentina. He is also a member of the supervisory committee of Alto Palermo, Cresud, SAPSA and Inversora Bolívar.

**Roberto Murmis.** Mr. Murmis holds a degree in accounting from the Universidad de Buenos Aires. Mr. Murmis is a partner at Abelovich, Polano & Asociados / SC International. Mr. Murmis worked as an advisor to the Secretaría de Ingresos Públicos. Furthermore, he is a member of the supervisory committee of SAPSA, Cresud, Futuros y Opciones S.A. and Llao Llao Resorts S.A.

**Silvia De Feo.** Mrs. De Feo obtained a degree in accounting from the University of Belgrano. She is a manager at Abelovich, Polano & Asociados/ SC International, an accounting firm in Argentina and former manager at Harteneck, Lopez & Cía./Coopers & Lybrand. She is also a member of the supervisory committees of SAPSA, Cresud, Inversora Bolivar S.A. and Baldovinos S.A.

**Sergio Leonardo Kolaczyk.** Mr. Kolaczyk obtained a degree in accounting from the Universidad de Buenos Aires. He is a professional of Abelovich, Polano & Asociados SC International. He is also an alternate member of the supervisory committee of Alto Palermo and Cresud.

**Alicia Graciela Rigueira.** Mrs. Rigueira holds a degree in accounting from the Universidad de Buenos Aires. Since 1998 she has been a manager at Estudio Abelovich, Polano & Asociados, affiliated with SC International. From 1974 to 1998, Mrs. Rigueira performed several functions in Harteneck, Lopez y Cia affiliated with Coopers & Lybrand. Mrs. Rigueira lectured at the Facultad de Ciencias Económicas de la Universidad de Lomas de Zamora.

**Audit Committee**

Pursuant to the System governing the Transparency of Public Offers established through Decree No. 677/2001, the rules of the *Comisión Nacional de Valores*, its Resolution No. 400 and 402, the board of directors established that the Audit Committee shall be a committee of the board of directors. The main function of the Audit Committee is to assist the board of directors in performing its duty of exercising due care, diligence and competence in issues relating to us, specifically in the enforcement of the accounting policy and in the issue of accounting and financial information, the management of business risk and of internal control systems, the conduct and ethical soundness of the company's business, the supervision of the integrity of our financial

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statements, the compliance by our company with the legal provisions, the independence and capability of the independent auditor and the performance of the internal audit function of our company and of the external auditors.

The Audit Committee must meet at least once a year.

On May 27, 2004, the board of directors officially notified the *Comisión Nacional de Valores* of the establishment of the Audit Committee, as required by article 15 of the Regime for Transparency in Public Offering approved by Decree No. 677/2001 and section 13 of Resolution No. 400/2002. The current members of the Audit Committee are: Marcos Fishman, Cedric D. Bridger and Gabriel Adolfo Reznik.

In accordance with Decree No. 677/2001 and with the Regulations of the *Comisión Nacional de Valores* our Audit Committee is conformed by three independent directors, two of which are independent directors under Argentine Law Standards. The NYSE Regulations establish that as of July 31, 2005, foreign companies listing securities in the United States must have an Audit Committee fully formed by independent directors.

Therefore, our board of directors appointed three independent members, Messrs. Mario Blejer (independent), Cedric Bridger (independent) and Ricardo Esteves (independent), which were appointed by the board of directors meeting held on December 21, 2005.

Pursuant to Resolution No. 400/2002 of the *Comisión Nacional de Valores*, a director will be considered independent if it does not possess any of the following characteristics:

Dependency on shareholders having a significant stake in the company, or being a director in another company in which said shareholders, directly or indirectly hold a significant stake, or in which said shareholders have significant influence;

Being employed by the company, or having been employed by the company during the three previous fiscal years;

Maintain a business relationship with, participating in a professional association that maintains a business relationship with, or receive honoraries or fees from (other than compensation received for acting as director for the company) the company or any shareholder that, directly or indirectly, holds a significant stake in the company;

Directly or indirectly holding a significant stake in the company, or in a company holding a significant stake in the company or possessing significant influence over the company;

Directly or indirectly providing goods or services to the company, or to shareholders directly or indirectly holding a significant stake in the company or having a significant influence over the company, which is substantially greater than the fees received as compensation for serving as a director for the company; and

Being married to, or a blood relative up to the fourth degree or an in-law relative up to the second degree of, a person that, were she or he to be a director, would not be an independent.

Resolution No. 400/2002 defines significant stake as holding at least 35% of the company's equity, or a lesser percentage in those cases where the held shares entitle a shareholder to appoint more than one director per share class, or where an agreement with other shareholders exists regarding the governance or administration of the issuer or its controlling company. Significant influence has the meaning set forth by Argentine professional accounting rules.

**Table of Contents****Share Ownership**

The following tables set forth the amount and percentage of our shares beneficially owned by our directors, as of June 30, 2007.

Name	Position	Share Ownership	
		Number of Shares	Percentage(*)
Eduardo S. Elsztain	Chairman	5,952,672 <sup>(1)</sup>	1.3%
Saúl Zang	First Vice-Chairman	359,763	0.1%
Alejandro G. Elsztain	Second vice-chairman / chief executive officer	598,505	0.1%

(1) Includes (i) 5,495,297 common shares beneficially owned by Inversiones Financieras del Sur S.A., for which Mr. Eduardo S. Elsztain may be deemed beneficial owner by virtue of his voting power to control Inversiones Financieras del Sur S.A. and (ii) 457,375 common shares owned directly by Eduardo S. Elsztain

**Compensation*****Directors***

Under Argentine law, if the compensation of the members of the board of directors is not established in the by-laws of the company, it should be determined by the shareholders meeting. The maximum amount of total compensation to the members of the board of directors, including compensation for technical or administrative permanent activities, cannot exceed 25% of the earnings of the company. That amount should be limited to 5% when there is no distribution of dividends to shareholders and will be increased proportionally to the distribution.

When one or more directors perform special commissions or technical or administrative activities, and there are no earnings to distribute, or they are reduced, the shareholders meeting may approve compensation in excess of the above mentioned limits. The compensation of our directors for each fiscal year is determined pursuant to Argentine Law and taking into consideration whether the directors performed technical or administrative activities and our fiscal year's results. Once the amount is determined, they are considered at the shareholders meeting.

At our shareholders meeting held on October 31, 2006, the shareholders approved an aggregate compensation of Ps.7.4 million for all of our directors for the fiscal year ended June 30, 2006.

Under the executive employment agreements entered into with Messrs. Eduardo S. Elsztain, Saúl Zang and Oscar P. Bergotto, if we terminate any of these executive employment agreements without cause, we will be liable to the relevant executive for two years of compensation.

***Senior Management***

We pay our senior management pursuant to a fixed amount, established by taking into consideration their background, capacity and experience and an annual bonus which varies according to their individual performance and our overall results. The total and aggregate cash compensation of our senior management for the fiscal year ended June 30, 2007 was Ps.4.05 million.

***Supervisory Committee***

The shareholders meeting held on October 31, 2006, approved by majority vote the decision not to pay any compensation to our Supervisory Committee.

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***Audit Committee***

The members of our Audit Committee do not receive compensation in addition to that received for their service as members of our board of directors.

***Benefit Plans***

*Compensation plan for executive management*

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

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 15.0% of their annual bonus.

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.

Our 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.

Contributions made by us under the Plan are transferred to another separate and independent vehicle (eg., trust fund).

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

ordinary retirement in accordance with applicable labor regulations;

total or permanent incapacity or disability; and

death.

In case of resignation or termination without legal justification, the participant will get the amounts arising out of our contribution only if he or she has participated in the Plan for at least 5 years.

As of June 30, 2007 we and our subsidiaries contributions amounted to Ps.0.9 million.

**Table of Contents****PRINCIPAL SHAREHOLDERS**

The following table sets forth information regarding ownership of our capital stock by each person known to us to own beneficially at least 5% of our common shares and all our directors and officers as a group.

Shareholder	Share Ownership as of June 30, 2007	
	Number of Shares	Percentage
Cresud(1)	116,305,767	25.0%
IFISA(2)	5,495,297	1.2%
Directors and officers including Eduardo Elsztain(3)	1,415,643	0.3%
Argentine pension funds in the aggregate(4)	22,487,648	4.8%
<b>Total</b>	<b>145,704,555</b>	<b>31.3%</b>

- (1) Eduardo S. Elsztain is the beneficial owner of 101,509,172 shares of Cresud, representing 32.8% of its total share capital. As a result of his 32.8% interest in Cresud, Mr. Elsztain has an 8.2% indirect economic interest in us. Although Mr. Elsztain does not own a majority of the shares of Cresud, he exercises substantial influence over Cresud. If Mr. Elsztain were considered the beneficial owner of Cresud due to his substantial influence over it, he would be the beneficial owner of 25.0% of our shares by virtue of his investment in Cresud, without taking into account his indirect interest in us through IFISA.
- (2) Eduardo S. Elsztain is the Chairman of the board of directors of IFIS Limited ( IFIS ), a corporation organized under the laws of Bermuda and IFISA, a corporation organized under the laws of Uruguay. Mr. Elsztain, by virtue of his position and voting power in IFIS, is the beneficial owner of 43.5% of the shares of IFIS. Although Mr. Elsztain does not own a majority of shares of IFIS, he exercises effective control over IFIS, which in turn controls IFISA. As a result, Mr. Elsztain may be deemed to be the beneficial owner of an additional 1.2% of our shares due to IFISA's 1.2% interest in us, without taking into account his indirect interest in us through Cresud).
- (3) As described in notes (1) and (2) above, Mr. Elsztain may be deemed to be the beneficial owner of 26.2% of our outstanding shares consisting of (i) 116,305,767 shares held by Cresud and (ii) 5,495,297 shares held by IFISA. In addition, Mr. Elsztain is the beneficial owner of an additional 0.71% of our outstanding shares consisting of (i) 761,000 shares held by Consultores Venture Capital Limited, a stock corporation organized under the laws of Cayman Islands, (ii) 2,060,279 held by Dolphin Fund PLC, a limited liability company organized under the laws of Isle of Man and (iii) 457,375 shares held directly by Eduardo Elsztain. As a result, Mr. Elsztain's aggregate beneficial ownership of our outstanding shares may be as high as 125,079,718 common shares, representing 26.9% of our outstanding shares, without taking into account any increase in his beneficial ownership that would result from (i) the conversion by Cresud of its current holding of our 8% convertible notes and (ii) the exercise by Cresud and IFISA of their respective holdings of warrants to purchase additional common shares.
- (4) Based on estimates from the Superintendency of AFJP ( *Administradora de Fondos de Jubilaciones y Pensiones* ). None of the pension funds individually own more than 4.8% of our common stock. The highest percentage owners of the shares are *Consolidar* with approximately 1.1%, *Met* with approximately 0.9% and *Orígenes* with approximately 0.8%.

Cresud is a leading Argentine producer of basic agricultural products. Cresud's shares began trading on the *Bolsa de Comercio de Buenos Aires* on December 12, 1960, under the trading symbol CRES and on March 1997 its ADSs began trading on the Nasdaq Stock Market under the trading symbol CRESY.

As of June 30, 2007, Cresud owned US\$12.0 million of our 8% convertible notes and 33.0 million of our warrants entitling it to purchase additional common shares. If Cresud converts all such convertible notes into our common shares and exercises all such warrants, it will acquire an aggregate of 82,491,763 additional common shares. If Cresud does so, its shareholding in us would increase from 25.0% to 36.0% (assuming no such conversion or exercise by any of the other holders of our convertible notes or warrants) or from 25.0% to 34.3% (assuming all of our outstanding convertible notes and warrants are converted or exercised, as appropriate, by the other holders thereof).

As of June 30, 2007, IFISA owned 2.5 million warrants entitling it to purchase additional common shares. If IFISA exercises all such warrants, it will acquire an aggregate of 4,587,155 additional common shares. If IFISA does so, its shareholding in us will increase from 1.2% to 2.1% (assuming no such conversion or exercise by any of the other holders of such convertible notes and warrants) or from 1.2% to 1.7% (assuming all of our outstanding convertible notes and warrants are converted or exercised, as appropriate, by the other holders thereof).

The number of shares beneficially owned by Mr. Elsztain would increase by 88,193,235 upon full conversion of our convertible notes and warrants.

## Edgar Filing: INNOSPEC INC. - Form 8-K

Cresud, our largest shareholder and a company of which Eduardo Elsztein, our director, is the largest beneficial owner, has indicated that it intends to exercise all of its statutory preemptive rights in connection with this offering.



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Parque Arauco is a significant shareholder in our subsidiary Alto Palermo. Parque Arauco is a Chilean commercial real estate developer engaged in the acquisition, development and operation of shopping centers, and its shares are listed and traded on the Santiago Stock Exchange.

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**RELATED PARTY TRANSACTIONS**

***We increased our investment in Banco Hipotecario in fiscal year 2004***

Several of our directors are also directors of Banco Hipotecario.

On December 30, 2003, we purchased 4,116,267 shares of Banco Hipotecario at US\$2.3868 per share and 37,537 warrants at US\$33.86 each with the right to purchase 3,753,700 additional shares. We paid US\$11.1 million for such securities. On February 2, 2004, we exercised a substantial portion of the warrants acquired. As a result, we acquired 4,774,000 shares of Banco Hipotecario for a total consideration of Ps.33.4 million. During the last quarter of fiscal year 2004, we sold 2,487,571 shares of Banco Hipotecario to IFIS Ltd. (indirect shareholders) for a total consideration of US\$6.1 million (market value equivalent to Ps.7.0 per share). We recognized a loss in connection with the sale amounting to Ps.1.6 million. See Note 3.c. to our consolidated financial statements for details on the accounting for this investment.

As of June 30, 2007, we owned directly and indirectly Class D shares representing 11.8% of Banco Hipotecario and currently affording us the right to cast 18.4% of the total votes that may be cast at a shareholders' meeting of Banco Hipotecario.

As of June 30, 2007, other companies affiliated with our chairman, Eduardo Elsztain (including IFIS Limited, to which IFISA is a wholly owned subsidiary.), owned Class D shares representing 13.7% of Banco Hipotecario and currently affording such holders the right to cast 21.3% of the total votes that may be cast at a shareholders' meeting of Banco Hipotecario.

As a result, as of June 30, 2007, we and other affiliated companies owned in the aggregate Class D shares representing 25.4% of Banco Hipotecario's shares, currently affording us and such other affiliated companies the right to cast, in the aggregate, 39.7% of the total votes that may be cast at a shareholders meeting and to nominate 6 of Banco Hipotecario's 12 directors.

***Free space for Fundación IRSA and Fundación Museo de los Niños***

On October 31, 1997, our subsidiary Alto Palermo approved the execution of an agreement granting Fundación IRSA the free right to use 3,800 square meters of constructed area in the Abasto Shopping Center for a 30-year period.

Moreover, on November 29, 2005, Alto Palermo approved the execution of an agreement granting Fundación Museo de los Niños, the free right to use approximately 2,670.11 square meters of constructed area in the Shopping Rosario for a 30-year period.

Fundación IRSA is a charitable, non-profit organization whose Chairman is Eduardo S. Elsztain and whose Secretary, is Mariana Carmona de Elsztain, Mr. Elsztain's wife. Fundación IRSA has used the available area to house a museum called Museo de los Niños, Abasto, an interactive learning center for children and adults, which opened to the public in April 1999. On September 27, 1999, Fundación IRSA assigned and transferred for free, the entirety of Museo de los Niños, as well as Abasto's rights and obligations to Fundación Museo de los Niños.

Fundación Museo de los Niños is a charitable non-profit organization established by the same founders of Fundación IRSA and run by the same members of the administration committee as Fundación IRSA. Fundación Museo de los Niños acts as special vehicle for the development of Museo de los Niños, Abasto and Museo de los Niños, Rosario. On October 29, 1999, Alto Palermo approved the assignment of Museo de los Niños, Abasto's agreement to Fundación Museo de los Niños. In addition, on December 12, 2005, an agreement granting the free right to use of the space designated for Museo de los Niños, Rosario was signed.

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### ***Donations for Fundación IRSA and Fundacion Museo de los Ninos***

During the fiscal years ended June 30, 2005, 2006 and 2007, we made donations to Fundación IRSA and Fundación Museo de los Niños for a total amount of Ps.4.1 million, Ps.4.3 million and Ps.2.5 million, respectively. Eduardo S. Elsztain is the chairman of Fundación IRSA and Fundación Museo de los Niños.

### ***Our Shares***

As of June 30, 2007, IFISA owned 5.5 million of our common shares, representing 1.2% of our total outstanding common shares. As of June 30, 2007 IFISA converted all of its convertible notes. Concerning the warrants, IFISA had 2.5 million until June 30, 2007. On a fully diluted basis, considering the full conversion of outstanding convertible notes and the full exercise of the warrants, total ownership of IFISA in us was 1.7% as of June 30, 2007.

### ***Cresud s acquisition of our convertible notes and warrants***

Eduardo S. Elsztain and Saúl Zang are, respectively, Chairman and Vice Chairman of our board of directors and are also shareholders of our company. They are also, respectively, chairman and vice-chairman of the board of directors of Cresud and are also shareholders of Cresud.

During November and December 2002, Cresud purchased US\$49.7 million of our 8% convertible notes due 2007 and during July and November 2003, Cresud purchased an additional US\$0.25 million of such convertible notes.

Our convertible notes, which were offered on October 15, 2002 for 100 million units consisting of US\$100.0 million of 8% convertible notes due 2007, 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.

In May 2004, Cresud decided to exercise their option to convert 5.0 million aggregate principal amount of our Convertible Notes as part of our long term strategy, in order to revert the reduction of Cresud ownership percentage, which was diluted by the conversion of notes and the exercise of warrants by third parties. As a result of this conversion, Cresud has received 9.2 million of our common shares.

In July 2004, Cresud converted 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 million ordinary shares at a total cost of US\$6 million. In February 2006, Cresud converted 5.0 million of convertible notes issued by us for 9.2 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 25.0% of our common shares. Assuming Cresud exercise their conversion rights of all ours Convertible Notes and no exercise of such rights by any of other IRSA s bondholders as of that date, Cresud would own 28.4% of our common shares. In the case all bondholders exercise their conversion rights and Cresud exercise them as well, Cresud would own 27.7% of our common stock.

Assuming Cresud exercise all of their IRSA s warrants and convertibles notes and no other noteholders exercise such rights, as of June 30, 2007, Cresud would own 36.3% or our common shares. In the case all bondholders exercise their warrants and Convertibles Notes and Cresud exercise them as well, Cresud would own 34.3% of our common stock.

### ***Lease of our Headquarters***

Our headquarters are located at Bolívar 108, 1st floor, City of Buenos Aires. We lease this property from Elsztain e Hijos S.C.A., a company controlled by relatives of Eduardo S. Elsztain, and from Hamonet S.A., a

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company controlled by Fernando A. Elsztain, one of our directors, and several of his relatives. A lease agreement was signed among us, Alto Palermo, Cresud and Isaac Elsztain e Hijos S.C.A., in March 2004. This lease establishes a term of 120 months and monthly rental payments of Ps.8,490. We, Alto Palermo and Cresud each pay one-third, or Ps.2,830, of such rent.

### ***Office Space Lease***

In December 2003, Alto Palermo, Fibesa S.A. (a wholly owned subsidiary of Alto Palermo) and Cresud leased their administrative headquarters in the Intercontinental Plaza tower, located at Moreno 877, City of Buenos Aires, from our subsidiary Inversora Bolívar S.A. The lease agreements' initial term is 60 months, subject to an optional extension for 36 additional months. Alto Palermo, Fibesa S.A. and Cresud pay a monthly rent of US\$0.011 million, US\$0.003 million and US\$0.003 million, respectively, to Inversora Bolivar S.A. In addition, IRSA, Cresud and Alto Palermo split between them the rent for the twenty-fourth floor of the above mentioned building, which amounts to US\$0.003 million per month.

Tarshop, a company which is 80% owned by Alto Palermo, leases the second floor of the Intercontinental Plaza tower from Inversora Bolivar S.A. for a monthly rent of US\$0.004 million. In addition, Tarshop leases from us floors five and seven of the building located at Suipacha 664 for a monthly rent of US\$0.007 million.

### ***Legal Services***

During the fiscal years ended June 30, 2005, 2006 and 2007 we paid the law firm Zang, Bergel & Viñes an aggregate amount of approximately Ps.1.1 million, Ps.1.9 million and Ps.3.3 million, respectively, as payments for legal services. Our director, Saúl Zang, and our alternate director, Salvador D. Bergel, are partners of this law firm. Juan C. Quintana Terán, our alternate director, is of counsel of this law firm. Ernesto Manuel Viñes, a partner of the firm, is a member of the board of directors of our equity investee Banco Hipotecario.

### ***Dolphin Fund***

Since 1996, we have invested in Dolphin Fund Plc, an open-ended investment fund which is related to our director and principal shareholder Eduardo Elsztain. These investments are carried at market value as of year-end. Unrealized gains and losses relating to investment funds are included in financial results, net, in the consolidated statements of income. The amounts relating to our net gain on holding Dolphin Fund Plc for the years ended June 30, 2005, 2006 and 2007 are Ps.16.3 million, Ps.2.5 million and Ps.46.8 million, respectively.

### ***Options to Purchase Shares of Comercializadora Los Altos S.A. (successor of Altocity.com)***

In January 2000, E-Commerce Latina, a company owned 50% by us and 50% by Telefónica Argentina, granted Consultores Internet Managers Ltd. an option to purchase certain of its class B shares of Altocity.Com S.A. 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 S.A. 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 S.A. by E-Commerce Latina, 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 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 Altocity.Com S.A. 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. sole asset will be its 15% interest in Altocity.Com S.A.

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On October 26, 2006 Alto Palermo acquired 808,354 outstanding ordinary shares of E-commerce latina S.A. and 11 outstanding ordinary shares of Altocity.com S.A. for a total amount of Ps.85,876.

***Loan agreements with members of the Senior Management of Banco Hipotecario***

As of June 30, 2007, several members of the senior management of Banco Hipotecario had loans from Banco Hipotecario for a total amount of approximately Ps.0.021 million with an average interest rate of 25%. We believe that each of these loans was made by Banco Hipotecario in the ordinary course of its consumer credit business, is of a type generally made available by Banco Hipotecario to the public and was made on market terms.

***Agreement for Shared Corporate Services with Cresud and Alto Palermo***

In order to reduce administrative expenses and to achieve a more efficient allocation of corporate resources, we entered into an Exchange of Operating Services Agreement with Cresud and Alto Palermo, on June 30, 2004. This agreement has a term of two years (being renewed for an equal period of time unless any of the parties decide to terminate it) by which tasks are performed by one or more of the companies for the benefit of one or more of other companies in exchange for a fee to be paid primarily through the provision of services in other areas. Through this agreement, each company continues to maintain its strategic and commercial independence while increasing operating efficiency. This agreement will not affect the independence of each company's record and accounting systems or adversely affect internal control systems or external audit tasks. Each company will continue to maintain separate assets and liabilities.

Alejandro Gustavo Elsztain is the General Coordinator of the program and Gabriel Adolfo Gregorio Reznik is responsible for the implementation of the agreement. The main duties for implementation of the project are (a) monitoring the project's implementation in accordance with the agreement; (b) reviewing the billing report on a monthly basis to analyze and check it against the provisions of the agreement, and, in the event of discrepancies or deviations, preparing a report to submit for the consideration of the General Coordinator, and by each company's boards of directors and (c) assessing, on a permanent basis the, results derived from the project's implementation and proposing to the General Coordinator changes in the event of a conflict with the agreement or, if appropriate, the possibility of establishing cost or benefit allocation mechanisms or criteria more consistent with the goals of the agreement. The areas now involved are Shared Corporate Services, Human Resources, Finance, Institutional Relations, Administration, Systems, Insurance, Purchasing, Contracts, Operations and Internal Audit, among others. This program was implemented to reduce operating costs by optimizing the individual administrative efficiencies of each company.

The areas originally involved were Human Resources, Finance, Institutional Relations, Administration, Systems, Insurance, Purchasing, Messenger Services, Contracts, Operations and Directors' Assistants, among others. This program was implemented to reduce operating costs by optimizing the individual administrative efficiencies of each company.

Currently, the program includes Internal Audit and the other Shared Corporate Services, while the sharing of Directors' Assistants has been dropped.

In the future and in order to continue our policy of achieving a more efficient allocation of corporate resources, we may extend the areas in which we share corporate services with Cresud and Alto Palermo. Our chairman is also chairman of Cresud and Alto Palermo and our vice-chairman is also vice-chairman of Cresud and Alto Palermo. We believe that the terms and conditions of these transactions are consistent in all material respects with those prevailing in the market at the relevant time for agreements between unaffiliated parties.

The Share Services Agreement was filed with the SEC in a report on Form 6-K dated July 1, 2004 and an amendment to this agreement was filed in a report on Form 6-K dated September 19, 2007. See Note 8 to our audited consolidated financial statements contained elsewhere in this prospectus.

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*Convertible Notes of Alto Palermo*

At a noteholders' meeting held on May 2, 2006, the holders of Alto Palermo's Series I convertible notes unanimously approved an extension to July 19, 2014 of the maturity date of such notes which had initially been scheduled to mature in June 2006.

On June 30, 2007, the outstanding principal amount of such convertible notes was US\$47.2 million, and we owned US\$31.7 million principal amount of such convertible notes on such date. If all the holders of Alto Palermo's convertible notes were to exercise their conversion rights, the amount of Alto Palermo's shares outstanding would be increased from 782.0 million to 2,237.5 million.

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**DESCRIPTION OF CAPITAL STOCK**

Set forth below is certain information relating to our capital stock, including brief summaries of certain provisions of our by-laws, the Argentine corporate law and certain related laws and regulations of Argentina, all as in effect as at the date hereof. The following summary description of our capital stock does not purport to be complete and is qualified in its entirety by reference to our by-laws, the Argentine corporate law and the provisions of other applicable Argentine laws and regulations, including the *Comisión Nacional de Valores* and the *Bolsa de Comercio de Buenos Aires* rules.

**Stock Exchanges in which our securities are listed**

Our common shares are listed on the *Bolsa de Comercio de Buenos Aires* under the trading symbol *IRSA* and our Global Depositary Shares are listed and traded on the NYSE under the trading symbol *IRS*. As of August 30, 2007 our authorized capital stock consists of 469,868,577 common shares, Ps.1.00 par value per share.

As of June 30, 2007, our outstanding capital stock consisted of 464,969,156 common shares. As of that date (1) we had no other shares of any class or series issued and outstanding and (2) 18.9 million of convertible Notes and 43.2 million of warrants outstanding. Our common shares have one vote per share. All outstanding shares of the common shares are validly issued, fully paid and non assessable. As of June 30, 2007, there were approximately 1,112 holders of all of our common shares. We believe that all the conversion rights and warrants are going to be exercised prior to the maturity by their owners. In this case the total outstanding shares will increase to 578,971,642.

As of August 30, 2007, our 8% convertible notes due 2007 were outstanding in an aggregate principal amount of US\$16.2 million. These convertible notes are convertible, at any time at the option of the holder thereof, into our common shares at a conversion ratio of US\$0.545 principal amount equal to one common share. In addition, the convertible notes contain a warrant that allows holders to acquire 1.83486 shares of par value Ps.1.0 per share at a price of US\$0.6541 each per share. As of August 31, 2007, the price for our common shares on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*) was Ps.5.35 per common share, so on that date holders of our convertible notes were entitled to acquire common shares through conversion at a price per share below the price for such common shares on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*). To the extent that the conversion ratio in our convertible notes remains in the money, we expect all such notes to be converted into common shares. If all such convertible notes are in fact converted and in consequence all warrants are exercised, as we currently expect, we will issue an additional 109,103,059 common shares in satisfaction of such conversion rights and warrants exercise.

**General**

The number of issued shares has increased over the past three fiscal years due to ongoing conversions and exercise of warrants of our Convertible Notes. In the fiscal years 2005, 2006 and 2007, 108.5 million, 78.2 million and 29.5 million new shares were issued, respectively.

Shareholders' rights in an Argentine stock corporation are governed by its by-laws and by the Argentine Corporation Law No. 19,550. All provisions of the Argentine Corporation Law No. 19,550 take precedence over any contrary provision in a corporation's by-laws.

The Argentine securities markets are principally regulated by the *Comisión Nacional de Valores* under *Resolución General* N° 368/2001 as amended, the Public Offering of Securities Law N° 17,811, the Negotiable Obligations Law N° 23,576, Decree 677/2001 and the Argentine Corporation Law No. 19,550. These laws govern disclosure requirements, restriction on insider trading, price manipulation and protection of minority investors.

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### **Corporate Purpose**

Our legal name is IRSA Inversiones y Representaciones Sociedad Anónima. We were incorporated under the laws of Argentina on April 30, 1943 as a sociedad anónima (stock corporation) and were registered with the Public Registry of Commerce of the City of Buenos Aires (*Inspección General de Justicia* or IGI) on June 23, 1943 under number 284, on page 291, book 46 of volume A. Pursuant to our by-laws, our term of duration expires on April 5, 2043.

Pursuant to article 4 of our by-laws our purpose is to perform the following activities:

Invest, develop and operate real estate developments;

Invest, develop and operate personal property, including securities;

Construct and operate works, services and public property;

Manage real or personal property, whether owned by us or by third parties;

Build, recycle, or repair real property whether owned by us or by third parties;

Advise third parties with respect to the aforementioned activities;

Finance projects, undertakings, works and/or real estate transactions of third parties.

### **Limited liability**

Shareholders' liability for losses are limited to their shareholdings in the Company. Notwithstanding the foregoing, under the Argentine Corporation Law No. 19,550, shareholders who voted in favor of a resolution that is subsequently declared void by a court as contrary to Argentine law or a company's by-laws (or regulation, if any) may be held jointly and severally liable for damages to such company, other shareholders or third parties resulting from such resolution. In addition, a shareholder who votes on a business transaction in which the shareholder's interest conflicts with that of the Company may be liable for damages under the Argentine companies law, but only if the transaction would not have been validly approved without such shareholder's vote.

### **Capitalization**

We may increase our share capital upon authorization by our shareholders at an ordinary shareholders' meeting. Capital increases must be registered with the Argentine public business, registry referred to as the Argentine public business, registry referred to as the *Registro Público de Comercio*, and published in the Boletín Oficial. Capital reductions may be voluntary or mandatory and must be approved by the shareholders at a special shareholders' meeting (*asamblea extraordinaria*). Reductions in capital are mandatory when losses have depleted reserves and exceed 50% of capital. At June 30, 2007 our share capital consisted of 464,969,156 common shares.

Our by-laws provide that preferred stock may be issued when authorized by the shareholders at a special shareholders' meeting (*asamblea extraordinaria*) and in accordance with applicable regulations. Such preferred stock may have a fixed cumulative dividend, with or without additional participation in our profits, resolved by the shareholders' meetings. Our company currently has no outstanding preferred stock.

### **Preemptive Rights and Increases of Share Capital**



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Pursuant to our by-laws and Argentine Corporation Law No. 19,550, in the event of an increase in our share capital, each of our existing holders of our common shares has a preemptive right to subscribe for new common shares in proportion to such holder's share ownership pursuant to our by-laws and the Argentine Corporation Law No. 19,550. For any shares of a class not preempted by any holder of that class, the remaining

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holders of the class will be entitled to accretion rights based on the number of shares they purchased when they exercised their own preemptive rights. Rights and accretion rights must be exercised simultaneously within 30 days following the time in which notices to the shareholders of a capital increase and of the rights to subscribe thereto are published for three days in the Boletín Oficial and a widely circulated newspaper in Argentina. Pursuant to the Argentine Companies Law, such 30-day period may be reduced to 10 days by a decision of our shareholders adopted at a special shareholders meeting (*asamblea extraordinaria*).

Additionally, the Argentine Corporations Law No. 19,550 permits shareholders at a special shareholders meeting (*asamblea extraordinaria*) to suspend or limit the preemptive rights relating to the issuance of new shares in specific and exceptional cases in which the interest of our company requires such action and, additionally, under the following specific conditions:

the issuance is expressly included in the list of matters to be addressed at the shareholders meeting; and

the shares to be issued are to be paid in-kind or in exchange for payment under pre-existing obligations. Furthermore, Article 12 of the Negotiable Obligations Law permits shareholders at a special shareholders meeting (*asamblea extraordinaria*) to suspend preemptive subscription rights for the subscription of convertible bonds under the above-mentioned conditions. Preemptive rights may also be eliminated, so long as a resolution providing so has been approved by at least 50% of the outstanding capital stock with a right to decide such matters and so long as the opposition to such resolution does not surpass 5% of the share capital.

### **Shareholders Meetings and Voting Rights**

Our by-laws provide that shareholders meetings may be called by our board of directors or by our Supervisory Committee or at the request of the holders of shares representing no less than 5% of the common shares. Any meetings called at the request of shareholders must be held within 30 days after the request is made. Any shareholder may appoint any person as its duly authorized representative at a shareholders meeting, by granting a proxy. Co-owners of shares must have single representation.

In general, the following matters can be considered only at a special shareholders meeting (*asamblea extraordinaria*):

matters that may not be approved at an ordinary shareholders meeting;

the amendment of our by-laws;

reductions in our share capital;

redemption, reimbursement and amortization of our shares;

mergers, and other corporate changes, including dissolution and winding-up;

limitations or suspensions to preemptive rights to the subscription of the new shares; and

issuance of debentures, convertible negotiable obligations and bonds that not qualify as notes (*obligaciones negociables*).

In accordance with our by-laws, ordinary and special shareholders meetings (*asamblea extraordinaria*) are subject to a first and second quorum call, the second to occur upon the failure of the first. The first and second notice of ordinary shareholders meetings may be made simultaneously.

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In the event that both are made on the same day, the second must occur at least one hour after the first. If simultaneous notice was not given, the second notice must be given within 30 days after the failure to reach quorum at the first. Such notices must be given in compliance with applicable regulations.

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A quorum for an ordinary shareholders' meeting on the first call requires the presence of a number of shareholders holding a majority of the shares entitled to vote and, on the second call, the quorum consists of the number of shareholders present, whatever that number. Decisions at ordinary shareholders' meetings must be approved by a majority of the votes validly exercised by the shareholders.

A quorum for a special shareholders' meeting (*asamblea extraordinaria*) on the first call requires the presence of persons holding 60% of the shares entitled to vote and, on the second call, the quorum consists of the number of shareholders present, whatever that number. Decisions at special shareholders' meetings (*asamblea extraordinaria*) generally must be approved by a majority of the votes validly exercised.

However, pursuant to the Argentine Companies Law, all shareholders' meetings, whether convened on a first or second quorum call, require the affirmative vote of the majority of shares with right to vote in order to approve the following decisions:

advanced winding-up of the company;

transfer of the domicile of the company outside of Argentina;

fundamental change in the purpose of the company;

total or partial mandatory repayment by the shareholders of the paid-in capital; and

a merger or a spin-off, when our company will not be the surviving company.

Holders of common shares are entitled to one vote per share. Owners of common shares represented by GDRs exercise their voting rights through the GDR Depositary, who acts upon instructions received from such shareholders and, in the absence of instructions, votes in the same manner as our majority of the shareholders present in the shareholders' meeting.

The holders of preferred stock are not entitled to voting rights. However, in the event that no dividends are paid to such holders for their preferred stock, the holders of preferred stock are entitled to voting rights. Holders of preferred stock are also entitled to vote on certain special matters, such as a transformation of the corporate type, early dissolution, change to a foreign domicile, fundamental change in the corporate purposes, total or partial replacement of capital losses, mergers in which our company is not the surviving entity, and spin-offs. The same exemption will apply in the event the preferred stock is traded on any stock exchange and such trading is suspended or canceled.

## **Dividends and Liquidation Rights**

The Argentine Corporations Law No. 19,550 establishes that the distribution and payment of dividends to shareholders is valid only if they result from realized and net earnings of the company pursuant to an annual balance sheet approved by the shareholders. Our board of directors submits our financial statements for the previous financial year, together with the reports of our Supervisory Committee, to the Annual Ordinary Shareholders' Meeting. This meeting must be held by October 30 of each year to approve the financial statements and decide on the allocation of our net income for the year under review. The distribution, amount and payment of dividends, if any, must be approved by the affirmative vote of the majority of the present votes with right to vote at the meeting.

The shareholders' meeting may authorize payment of dividends on a quarterly basis provided no applicable regulations are violated. In that case, all and each of the members of the board of directors and the supervisory committee will be jointly and severally unlimitedly liable for the refund of those dividends if, as of the end of the respective fiscal year, the realized and net earnings of the Company are not sufficient to allow the payment of dividends.

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When we declare and pay dividends on the common shares, the holders of our GDRs, each representing the right to receive ten ordinary shares, outstanding on the corresponding registration date, are entitled to receive the dividends due on the common shares underlying the GDRs, subject to the terms of the Deposit Agreement dated March 18, 1997 executed by and between us, The Bank of New York, as depositary and the eventual holders of GDRs. The cash dividends are to be paid in Pesos and, except under certain circumstances, are to be converted by the Depositary into U.S. dollars at the exchange rate prevailing at the conversion date and are to be paid to the holders of the GDRs net of any applicable fee on the dividend distribution, costs and conversion expenses, taxes and public charges. Since January 2002 and due to the devaluation of the Peso, the exchange rate for the dividends will occur at a floating market rate, which, at the date of this prospectus is 3.145 for each U.S. dollar. To be updated at the date of the filing.

Our dividend policy is proposed from time to time by our board of directors and is subject to shareholders' approval at an ordinary shareholders meeting. Declarations of dividends are based upon our results of operations, financial condition, cash requirements and future prospects, as well as restrictions under debt obligations and other factors deemed relevant by our board of directors and our shareholders.

Dividends may be lawfully paid only out of our retained earnings determined by reference to the financial statements prepared in accordance with Argentine GAAP. In accordance with the Argentine Companies Law, net income is allocated in the following order: (i) 5% is retained in a legal reserve until the amount of such reserve equals 20% of the Company's outstanding capital; (ii) dividends on preferred stock or common shares or other amounts may be retained as a voluntary reserve, contingency reserve or new account, or (iii) for any other purpose as determined by the Company's shareholders at an ordinary shareholders' meeting.

Our legal reserve is not available for distribution. Under the applicable regulations of the *Comisión Nacional de Valores*, dividends are distributed pro rata in accordance with the number of shares held by each holder within 30 days of being declared by the shareholders for cash dividends and within 90 days of approval in the case of dividends distributed as shares. The right to receive payment of dividends expires three years after the date on which they were made available to shareholders. The shareholders' meeting may authorize payment of dividends on a quarterly basis provided no applicable regulations are violated. In such case, all and each of the members of the board of directors and the supervisory committee will be jointly and severally liable for the refund of those dividends if, at the end of the respective fiscal year, the realized and net earnings of the Company are not sufficient to allow for the payment of dividends.

In the event of liquidation, dissolution or winding-up of our company, our assets are:

to be applied to satisfy its liabilities; and

to be proportionally distributed among holders of preferred stock in accordance with the terms of the preferred stock. If any surplus remains, our shareholders are entitled to receive and share proportionally in all net assets available for distribution to our shareholders, subject to the order of preference established by our by-laws.

### **Approval of Financial Statements**

Our fiscal year ends on June 30 of each year, after which we prepare an annual report which is presented to our board of directors and Supervisory Committee. The board of directors submits our financial statements for the previous financial year, together with the reports of our Supervisory Committee, to the annual ordinary shareholders' meeting, which must be held within 120 days of the close of our fiscal year, in order to approve our financial statements and determine our allocation of net income for such year. At least 20 days before the ordinary shareholders meeting, our annual report must be available for inspection at our principal office.

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### **Right of Dissenting Shareholders to Exercise Their Appraisal Right**

Whenever certain actions are approved at a special shareholders meeting (*asamblea extraordinaria*) (such as the approval of a merger, a spin-off (except when the shares of the acquired company are publicly traded), a fundamental change of corporate purpose, a transformation from one type of corporation to another, a transfer of the domicile of our company outside of Argentina or, as a result of the action approved, the shares cease to be publicly traded) any shareholder dissenting from the adoption of any such resolution may withdraw from our company and receive the book value per share determined on the basis of our latest financial statements, whether completed or to be completed, provided that the shareholder exercises its appraisal rights within ten days following the shareholders meeting at which the resolution was adopted.

In addition, to have appraisal rights, a shareholder must have voted against such resolution or act within 15 days following the shareholders meeting if the shareholder was absent and can prove that he was a shareholder of record on the day of the shareholders meeting. Appraisal rights are extinguished with respect to a given resolution if such resolution is subsequently overturned at another shareholders meeting held within 75 days of the previous meeting at which the original resolution was adopted. Payment on the appraisal rights must be made within one year of the date of the shareholders meeting at which the resolution was adopted, except where the resolution involved a decision that our stock cease to be publicly traded, in which case the payment period is reduced to 60 days from the date of the resolution.

### **Ownership Restrictions**

Section 9 of our by-laws provides that the acquisition by any person or group, directly or indirectly of our shares, convertible securities, rights to receive any of those securities that may grant that person the control of our company or 35% or more of our capital stock may only be done by complying with certain tender offer rules for all of our shares, except for:

acquisitions by persons holding or controlling shares or convertible securities which represent more than 50% of our capital stock, notwithstanding the provisions of the *Comisión Nacional de Valores*; and

holdings of more than 35%, which derive from the distribution of shares or dividends paid in shares approved by the shareholders, or the issuance of shares as a result of a merger approved by the shareholders; in both cases, the excess holding shall be disposed of within 180 days of its registration in the relevant shareholder's account, or prior to the holding of our shareholders meeting, whatever occurs first.

The *Comisión Nacional de Valores* regulations require that transactions which cause a person's holdings of capital stock of a registered Argentine company, to hold 5% or more of the voting power, should be immediately notified to the *Comisión Nacional de Valores*. Thereafter, every change in the holdings that represents a multiple of 5% of the voting power should also be notified.

Directors, senior managers, executive officers, members of the supervisory committee, and controlling shareholders of an Argentine company whose securities are publicly listed, should notify the *Comisión Nacional de Valores* on a monthly basis, of their beneficial ownership of shares, debt securities, and call and put options related to securities of such companies and their controlling, controlled or affiliated companies.

In addition, the *Comisión Nacional de Valores* must be immediately notified of transactions which cause a person's holdings of capital stock of an Argentine company whose securities are publicly listed to hold 5% or more of the voting power and of every change in the holdings of such person that represents a multiple of 5% of the voting power. Holders of more than 50% of the common shares of a company or who otherwise have voting control of a company, as well as directors, officers and members of the supervisory committee, must provide the *Comisión Nacional de Valores* with annual reports setting forth their holdings in the capital stock of such companies and monthly reports of any change in their holdings.

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### **Tender Offers**

Tender offers under Argentine law may be voluntary or mandatory. In either case, the offer must be made addressed to all shareholders. In the case of a mandatory tender offer, the offer must also be made to the holders of subscription rights, stock options or convertible debt securities that directly or indirectly may grant a subscription, acquisition or conversion right on voting shares.

Decree No. 677/2001 establishes that a person or entity wishing to acquire a significant holding ( *participaciones significativas* ) shall be required to launch a mandatory tender offer.

A mandatory tender offer will not be required in those cases in which the purpose of the acquisition of the significant holding is not to acquire the control of a company.

The *Comisión Nacional de Valores* defines a significant holding as holdings that represent an equal or a higher percentage than 35% and 51% of the voting shares as the case may be.

When a person or an entity intends to acquire more than 35% of the shares of a company, a mandatory tender offer to purchase 50% of the corporate voting capital is required by law.

If a person or an entity owns between 35% and 51% of the shares of a company, and wishes to increase its holdings by at least 6% within a 12 month period, a mandatory tender offer to acquire shares representing at least 10% of the voting capital will be legally required.

When a person or an entity wishes to acquire more than 51% of the shares of a company, a mandatory tender offer to acquire 100% of the voting capital will be legally required.

Finally, when a shareholder controls 95% or more of the outstanding shares of a company, (i) any minority shareholder may, at any time, demand that the controlling party make an offer to purchase all of the remaining shares of the minority shareholders and (ii) the controlling party can issue a unilateral statement of intention to acquire all of the remaining shares owned by the other stockholders.

Pursuant to the Argentine Corporations Law No. 19,550 we may redeem our outstanding common shares only under the following circumstances:

to cancel such shares and only after a decision to reduce our capital stock (with shareholder approval at a special shareholders meeting (asamblea extraordinaria));

to avoid significant damage to our company under exceptional circumstances, and then only using retained earnings or free reserves that have been fully paid, which action must be ratified at the following ordinary shareholders meeting; or

in the case of the acquisition by a third-party of our common shares.

The Public Offering of Securities Law provides for other circumstances under which our company, as a corporation whose shares are publicly listed, can repurchase our shares. The following are necessary conditions for the acquisition of our shares:

the shares to be acquired shall be fully paid,

there shall be a board of directors resolution containing a report of our supervisory committee or audit committee. Our board of directors resolution must provide the purpose of the acquisition, the maximum amount to be invested, the maximum number of shares or the maximum percentage of capital that may be acquired and the maximum price to be paid for our shares. Our board of directors must give complete and detailed information to both shareholders and investors,





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the purchase shall be carried out with net profits or with free or optional reserves, and we must prove to the Comisión Nacional de Valores that we have the necessary liquidity and that the acquisition will not affect our solvency,

under no circumstances may the shares acquired by our company, including those that may have been acquired before and held by us as treasury stock, be more than 10% of our capital stock or such lower percentage established by the Comisión Nacional de Valores after taking into account the trading volume of our shares.

Any shares acquired by us that exceed 10% of our capital stock must be disposed of within 90 days from the date of acquisition originating the excess without prejudice of the liability corresponding to our board of directors.

Transactions relating to the acquisition of our own shares may be carried out through open market transactions or through a public offering:

in the case of acquisitions in the open market, the amount of shares purchased daily cannot exceed 25% of the mean daily traded volume of our shares during the previous 90 days.

in either case, the *Comisión Nacional de Valores* can require that the acquisition be carried out through a public offering if the shares to be purchased represent a significant percentage in relation to the mean traded volume.

General Resolution No. 368/2001 of the *Comisión Nacional de Valores* as amended, provides general requirements that any company must comply with in the case of the acquisition of its shares under the Corporations Law or under the Public Offering of Securities Law. The acquisition of its shares by a company must be:

approved by a resolution of the board of directors with a report of its supervisory committee,

notice must be given to the *Comisión Nacional de Valores* and the *Bolsa de Comercio de Buenos Aires*, and notice must be published in the *Boletín* of the *Bolsa de Comercio de Buenos Aires* or in a widely circulated newspaper in Argentina,

be carried out with net profits or free reserves from the last financial statements and approved by the board of directors,

the board of directors has to prove to the *Comisión Nacional de Valores*, that the company has the necessary liquidity and that the acquisition does not affect its solvency,

all shares acquired by the company, including those that may have been acquired before and held by it as treasury stock, may not exceed 10% of its capital stock.

There are no legal limitations to ownership of our securities or to the exercise of voting rights pursuant to the ownership of our securities, by non-resident or foreign shareholders.

## **Registrations and Transfers**

Our common shares are held in registered, book-entry form. The registry for our shares is maintained by Caja de Valores S.A. at its executive offices located at 25 de Mayo 362, (C1002ABH) Buenos Aires, Argentina. Only those persons whose names appear on such share registry are recognized as owners of our common shares. Transfers, encumbrances and liens on our shares must be registered in our share registry and are only enforceable against us and third parties from the moment registration takes place.



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**Compliance with NYSE listing standards on corporate governance**

**New York Stock Exchange and Argentine Corporate Governance Requirements**

Our corporate governance practices are governed by the applicable Argentine law; particularly, the Corporations Law, Decree N°677/01 and the Standards of the CNV, as well as by our corporate by-laws. We have securities that are registered with the Securities and Exchange Commission and are listed on the New York Stock Exchange (the NYSE), and is therefore subject to corporate governance requirements applicable to NYSE-listed non-US companies (a NYSE-listed company).

NYSE-listed non-US companies that are categorized as Foreign Private Issuers may, in general, follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance requirements (the NYSE Sections) codified in Section 303A of the NYSE Listed Company Manual. However, Foreign Private Issuers must comply with NYSE Sections 303A.06, 303A.11 and 303A.12(b) and 303A.12(c). Foreign Private Issuers must comply with Section 303A.06 prior to July 31, 2005 and with Sections 303A.11 and 303A.12(b) prior to the first annual meeting of shareholders held after January 15, 2004, or by October 31, 2004.

NYSE Section 303A.11 requires that Foreign Private Issuers disclose any significant ways in which their corporate governance practices differ from US companies under NYSE standards. A Foreign Private Issuer is simply required to provide a brief, general summary of such significant differences to its US investors either 1) on the company's website (in English) or 2) in Form 20-F as distributed to their U.S. investors. In order to comply with Section 303A.11, we have prepared and have updated the comparison in the table below.

The most relevant differences between our corporate governance practices and NYSE standards for listed companies are as follows:

**NYSE Standards for US companies Listed Companies Manual Section 303.A**

Section 303A.01 A NYSE-listed company must have a majority of independent directors on its board of directors.

Section 303A.02 This section establishes general standards to evaluate directors' independence (no director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company)), and emphasizes that the concern is independence from management. The board is also required to express an opinion with regard to the independence or lack of independence, on a case by case basis, of each individual director.

**IRSA's Corporate Practices**

IRSA follows Argentine law which does not require that a majority of the board of directors be comprised of independent directors. Argentine law instead requires that public companies in Argentina have a sufficient number of independent directors to be able to form an audit committee of at least three members, the majority of which must be independent pursuant to the criteria established by the CNV.

CNV's standards (General Resolution N° 400) for purposes of identifying an independent director are substantially similar to NYSE's standards. CNV standards provide that independence is required with respect to the Company itself and to its shareholders with direct or indirect material holdings (35% or more). To qualify as an independent director, such person must not perform executive functions within the company. Close relatives of any persons who would not qualify as independent directors shall also not be considered independent. When directors are appointed, each shareholder that nominates a director is required to report at the meeting whether or not such director is independent.

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**NYSE Standards for US companies Listed Companies Manual  
Section 303.A**

Section 303A.03 Non-management directors must meet at regularly scheduled executive meetings not attended by management.

Section 303A.05(a) Listed companies shall have a Compensation Committee comprised entirely of independent directors.

Section 303A.05(b). The Compensation Committee shall have a written charter addressing the committee's purpose and certain minimum responsibilities as set forth in Section 303A.05(b)(i) and (ii).

Section 303A.06 Listed companies must have an Audit Committee that satisfies the requirements of Rule 10 A-3 under the 1934 Exchange Act (the Exchange Act). Foreign private issuers must satisfy the requirements of Rule 10 A-3 under the Exchange Act as of July 31, 2005.

Section 303A.07(a) The Audit Committee shall consist of at least three members. All of its members shall be financially literate or must acquire such financial knowledge within a reasonable period and at least one of its members shall have experience in accounting or financial administration.

**IRSA's Corporate Practices**

Neither Argentine law nor IRSA's by-laws require that any such meetings be held.

IRSA's board of directors as a whole is responsible for monitoring the company's affairs. In addition, under Argentine law, the Board of Directors may approve the delegation of specific responsibilities to designated directors or non-director managers of the Company. Also, it is mandatory for public companies to form a supervisory committee (composed of syndics) which is responsible for monitoring legal compliance by the Company under Argentine law and compliance with its by-laws.

Neither Argentine law nor IRSA's by-laws require the formation of a Compensation Committee. Under Argentine law, if the compensation of the members of the board of directors and the supervisory committee is not established in the by-laws of a company, it should be determined at the shareholders meeting.

Neither Argentine law nor IRSA's by-laws require the formation of a Compensation Committee.

Pursuant to Decree N° 677/01 and CNV Standards, as from May 27, 2004 IRSA has appointed an Audit Committee composed of three of the members of the Board of Directors. Since December 21, 2005 all of its members are independent as per the criteria of Rule 10 A-3 under the Exchange Act.

In accordance with Argentine law, a public Company must have an Audit Committee with a minimum of three members of the board of directors, the majority of which shall be independent pursuant to the criteria established by the CNV. There is no requirement related to the financial expertise of the members of the Audit Committee. However, our Audit Committee has a financial expert. The committee creates its own written internal code that addresses among others: (i) its purpose; (ii) an annual performance evaluation of the committee; and (iii) its duties and responsibilities.

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**DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS**

The following is a summary of certain provisions of the deposit agreement dated as of May 24, 1994 among us, the GDS depositary, all owners and holders from time to time of GDRs issued under the deposit agreement. Such summary does not purport to be complete and is qualified in its entirety by reference to the form of deposit agreement, incorporated as an exhibit to our Form 20-F, Registration Number 001-13542 as filed with the Securities and Exchange Commission. Copies of the deposit agreement are also available for inspection at the principal office of the GDS depositary, currently located at 101 Barclay Street, 22nd Floor West, New York, New York 10286. Terms used in this prospectus and not otherwise defined shall have the respective meanings set forth in the deposit agreement.

**Global depositary shares**

GDRs evidencing GDSs are issuable by the GDS depositary pursuant to the deposit agreement. One GDS represents the right to receive 10 common shares. The shares represented by GDSs will be deposited with the *Caja de Valores* for the account of The Bank of New York S.A., as custodian and agent of the GDS depositary in Argentina. A GDR may evidence any number of GDSs and represents all other securities, property and cash received in respect of shares in accordance with the deposit agreement. Only persons in whose names GDRs are registered on the books of the GDS depositary will be treated by us as owners and holders of GDRs.

**Deposit and withdrawal of shares and Issuance of GDRs**

Subject to the terms and conditions of the deposit agreement, the GDS depositary has agreed that upon deposit with the custodian of our common shares by delivery of certificates of such shares to the custodian, by electronic transfer of such shares to the account maintained by the custodian, or delivery to the custodian of evidence, reasonably satisfactory to the custodian that irrevocable instructions have been given to cause such shares to be transferred to such account, together with appropriate issuance instructions and instruments of transfer or endorsement, satisfaction of all laws and regulations, payments of the fees and expenses of the GDS depositary and the certifications referred to below, and subject to the terms of the deposit agreement, the GDS depositary will execute and deliver at the GDS depositary's principal corporate trust office, to the person or persons certified entitled thereto, a GDR or GDRs evidencing the number of GDSs issuable in respect of such deposit.

Upon surrender of GDRs at the principal corporate trust office of the GDS depositary, and upon payment of the fees, taxes and governmental charges specified in the deposit agreement, subject to the terms and conditions of the deposit agreement, our corporate charter and deposited securities (as defined below) and Argentine laws and regulations, owners are entitled to electronic delivery through the *Caja de Valores* or, if available, to physical delivery at the office of the custodian in Buenos Aires or the principal corporate trust office of the GDS depositary of the deposited securities and any other securities and property represented by the GDSs so surrendered. Such delivery will be made to the GDR holder or upon the GDR holder's order without unreasonable delay. The forwarding of shares and other documents of title for such delivery to a GDR holder, or as ordered by such GDR holder, will be at its risk and expense or the risk and expense of the person submitting such written instruction for delivery.

Under the deposit agreement, the GDS depositary may not lend shares or GDRs. The GDS depositary is not authorized to deliver shares except upon the receipt and cancellation of GDRs. However, the GDS depositary, subject to the limitations and conditions specified in the deposit agreement and any limitations established by the GDS depositary, may from time to time execute and deliver GDRs prior to receipt of shares in respect of which such issuance is made (referred to in this document as deposited securities) (such transaction referred to as a pre-release) and may receive GDRs in lieu of shares. Each pre-release shall (a) be preceded or accompanied by a written representation and agreement from the person to whom GDRs are to be delivered that such person, or its customer, (i) owns the shares or GDRs to be remitted, as the case may be, (ii) assigns all beneficial right, title and interest in such shares or receipts, as the case may be to GDS depositary for the benefit of the owners, and (iii) will not take any action with respect to such shares or receipts, as the case may be, that is inconsistent with the

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transfer of beneficial ownership (including, without the consent of the depository, disposing of such shares or receipts, as the case may be), other than in satisfaction of such pre-release; (b) at all times be fully collateralized with cash, U.S. government securities or such other collateral as the GDS depository determines, in good faith, will provide substantially similar liquidity and security; (c) be terminable by the GDS depository on not more than five (5) business days' notice; and (d) be subject to such further indemnities and credit regulations as the GDS depository deems appropriate. The GDS depository will limit the number of GDRs issued by pre-release involved in transactions to be done in accordance with the terms described in this paragraph with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in clause (b) above shall be held by the GDS depository for the benefit of the owners as security for the performance of the obligations to deliver shares set forth in clause (a) above, and such collateral shall not constitute deposited securities under the deposit agreement. The number of GDSs which are outstanding at any time as a result of pre-releases will not normally exceed 30% of the shares deposited under the deposit agreement; *provided*, that the GDS depository reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with our prior written consent, change such limit for purposes of general application. Neither us or the custodian shall incur any liability to owners as a result of such transactions.

Subject to the foregoing, the GDS depository may own and deal in any class of securities of us or of our affiliates and in GDRs.

**Dividends, Other Distributions and Rights**

Subject to applicable Argentine laws, regulations and approvals, to the extent that the GDS depository can in its judgment convert Pesos (or any other foreign currency) into U.S. dollars on a reasonable basis and transfer the resulting U.S. dollars to the United States, the GDS depository will promptly as practicable convert or cause to be converted all cash dividends and other cash distributions received by it on the deposited securities into U.S. dollars and distribute the resulting U.S. dollars after deduction of the fees of the GDS depository and any amount charged by the GDS depository in connection with the conversion of Pesos (or other foreign currency) into U.S. dollars, to the owners in proportion to the number of GDSs representing such deposited securities held by each of them. The amounts distributed will be reduced by any amounts required to be withheld by us, the GDS depository or the custodian on account of taxes or other governmental charges. If the GDS depository determines that in its judgment any foreign currency received by it cannot be so converted on a reasonable basis (including, as a result of applicable Argentine laws, regulations and approval requirements), the GDS depository may distribute the foreign currency received by it or in its discretion hold such currency uninvested for the respective accounts of the owners entitled to receive the same (without liability for interest).

In the event that the custodian or the GDS depository receives any distribution upon any deposited securities in securities or property (other than cash or shares or rights upon any deposited securities), the GDS depository will distribute such securities or property to the owners entitled thereto, after deduction or upon payment of the fees and expense of the GDS depository, in proportion to their holdings, in any manner that the GDS depository deems equitable and practicable. If in the opinion of the GDS depository, however, the distribution of such property cannot be made proportionately among such owners, or if for any other reason (including any requirement that we or the GDS depository withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed to such owners) the GDS depository deems such distribution not feasible, the GDS depository may, upon consultation with us, adopt such method as it may deem equitable or practicable in order to effect such distribution, including the sale (public or private) of all or any part of such property and securities and the distribution to owners of the net proceeds of any such sale, as in the case of a distribution received in cash.

If we declare a dividend in, or free distribution of, additional shares, the GDS depository may, and shall if we so request, instruct us to deposit or cause such shares to be deposited with the account of the custodian at *Caja de Valores* and distribute to the owners in proportion to their holdings, additional GDRs for an aggregate number of GDSs representing the number of shares received as such dividend or free distribution, subject to the terms and conditions of the deposit agreement and after deduction or payment of any amounts required to be withheld on account of taxes or other governmental charges and the fees and expenses of the GDS depository. If additional

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GDRs are not so distributed, each GDS shall thereafter also represent the additional shares distributed with respect to the shares represented thereby. In lieu of issuing GDRs for fractions of GDSs, in any such case, the GDS depository shall sell the number of shares represented by the aggregate of such fractions and distribute the new proceeds in U.S. dollars, all in the manner and subject to the conditions set forth in the deposit agreement.

Owners will be entitled, in proportion to the number of deposited securities represented by the GDSs held by the owner, to rights to subscribe to any new shares issued by us of the same class as the deposited securities represented by the GDSs, or any security convertible into such shares. Owners are also entitled to the right to exercise a purchase option over new shares of the same class as the deposited securities represented by the GDSs held by the owner, or any security convertible into such shares issued by us, which has not been purchased by other shareholders pursuant to their rights.

If we offer or cause to be offered to the holders of shares any rights to subscribe for additional shares or any rights of any other nature, the GDS depository shall have discretion as to the procedure to be followed in making such rights available to owners. The GDS depository may

to the extent that the GDS depository determines, at the time of the offering of any such rights, that it is lawful and feasible, and upon provision of any documents or certifications requested by the GDS depository, take such action as is necessary for all or certain of the rights to be made available to or exercised by or on behalf of certain or all of the owners; or

to the extent that the GDS depository determines that taking of any such action is not lawful or feasible, sell such rights, and, after deduction or upon payment of all amounts required to be withheld on account of taxes or other governmental changes and the fees and expenses of the GDS depository, allocate the new proceeds of such sales for the accounts of such owners otherwise entitled thereto upon an averaged or other practical basis without regard to any distinctions among such owners because of exchange restrictions or the date of delivery of any GDR or GDRs, or otherwise.

The GDS depository will not make available to owners any right to subscribe for or to purchase any securities unless a registration statement under the Securities Act is in effect as to both the rights and the securities to which such rights relate or unless the offer and sale of such securities to such owners is exempt from registration under the provisions of the Securities Act.

## **Record Dates**

Whenever any cash dividend or other cash distribution becomes payable or any distribution other than cash is made, or whenever rights are issued with respect to the deposited securities, or whenever, for any reason, the GDS depository causes a change in the number of shares that are represented by each GDS or whenever the GDS depository shall receive notice of any meeting of holders of deposited securities, the GDS depository will fix a record date (which, to the extent practicable, shall be the same as the corresponding record date set by us, or otherwise shall be the earliest practicable date thereafter) for the determination of the owners who are entitled to receive such dividend, distributions or rights or the net proceeds of the sale thereof, or to give instructions for the exercise of voting rights at any such meeting, or for fixing the date on or after which each GDS will represent the changed number of shares, subject to the provisions of the deposit agreement.

*Voting.* If requested in writing by us, as soon as practicable after receipt of notice of a meeting of holders of shares, or other deposited securities, and to the extent permitted by law, the GDS depository will mail to the owners the information contained in such notice of meeting. Owners at the close of business on the record date specified by the GDS depository are entitled, subject to Argentine law, or our by-laws and the provisions affecting the deposited securities, to instruct the GDS depository as to the exercise of the voting rights, if any, pertaining to the shares, or other deposited securities, underlying the GDRs held by such owners. Upon written request, the GDS depository will endeavor to vote or cause to be voted the shares, or other deposited securities, represented by the GDSs held by such owners in accordance with such instructions, *provided* that if, after complying with the foregoing procedures, the GDS depository does not receive instructions from an owner on or before the date

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established by the GDS depositary for such purpose, the GDS depositary will exercise such owner's voting rights relating to the shares or other deposited securities represented by the GDSs in the same manner as our management, and if the latter does not provide any recommendation, in the same manner as the majority of such shares or other deposited securities not held in the depositary receipt facility under the deposit agreement, *provided further* that the GDS depositary shall only be required to vote shares or other deposited securities in accordance with the foregoing procedures if it is satisfied that the actions to be voted upon are not contrary to Argentine law or regulations of our by-laws.

### **Inspection of Transfer Books**

The GDS depositary will keep books at its transfer office in the City of New York for the registration and transfer of GDRs, which at all reasonable times will be open for inspection by the owners, provided that such inspection shall not be for the purpose of communicating with owners in the interest of a business or object other than our business or a matter related to the deposit agreement or the GDRs.

### **Reports and Notices**

We will furnish to the GDS depositary copies in English of all notices of shareholders' meetings, its annual reports to shareholders and other reports and communications that are made generally available to shareholders. Upon receipt thereof, the GDS depositary will, upon our request, promptly mail such reports to all owners. The GDS depositary will make available for inspection by owners at its principal office any reports and communications received from us that are made generally available to shareholders.

On or before the first date on which we give notice, by publication or otherwise, of any shareholders' meeting or of any adjourned shareholders meeting, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of deposited securities, we agree to transmit to the GDS depositary and the custodian a copy of the notice thereof in the form given to owners. If requested by us, the GDS depositary will, at our expense, arrange for the prompt mailing of such notices to all owners.

We will be required to file certain reports with the Securities and Exchange Commission pursuant to the Exchange Act. Such reports will be available for review and copying at the public reference facilities of the Securities and Exchange Commission. We are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements.

### **Changes Affecting Deposited shares**

Upon any change in par value, split-up, consolidation or any other reclassification of deposited securities or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting us or to which it is a party, any securities which shall be received by the GDS depositary or the custodian in exchange for, in conversion of or otherwise in respect of deposited securities shall be treated as new deposited securities under the deposit agreement, and the GDS depositary may execute and deliver new GDRs, or call for the surrender of outstanding GDRs to be exchanged for additional GDRs specifically describing such new deposited securities.

### **Amendment and Termination of the Deposit Agreements**

The form of GDRs and the deposit agreement may at any time be amended by agreement between us and the GDS depositary and, except as provided in the next sentence, such amendment shall require no consent from owners. Any amendment which imposes or increases any fees or charges (other than taxes and other governmental charges and expenses of the GDS depositary), or which otherwise prejudices any substantial existing rights of owners, will not take effect as to outstanding GDRs until the expiration of 30 days after notice of such amendment has been given to the owners. Each owner, at the time such amendment becomes effective, will be deemed, by continuing to hold such GDR or GDRs, to consent and agree to such amendment and to be bound by the deposit agreement as amended thereby.



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Whenever so directed by us, the GDS depositary will terminate the deposit agreement by mailing notice of such termination to the owners of all GDRs then outstanding at least 90 days prior to the date fixed in such notice for such termination. The GDS depositary may likewise terminate the deposit agreement if, at any time 90 days after the GDS depositary shall have delivered to us a notice of its election to resign, a successor depositary shall not have been appointed and accepted its appointment as provided in the deposit agreement. If any GDRs remain outstanding after the date of termination, the GDS depositary thereafter will discontinue the registration of transfers of GDRs, will suspend the distribution of dividends to the owners thereof, will not give any further notices or perform any further acts under the deposit agreement except the collection of dividends and other distributions pertaining to the deposited securities, the sale of property and rights as provided in the deposit agreement and the delivery of deposited securities together with dividends or other distributions, in exchange for surrendered GDRs upon payment of the GDS depositary's fee for such cancellations.

At any time after the expiration of one year from the date of termination, the GDS depositary may sell the deposited securities and hold the net proceeds, together with any cash then held, unsegregated and without liability for interest, for the pro rata benefit of the owners of GDRs which have not theretofore been surrendered and such owners will thereupon become general creditors of the GDS depositary with respect to such net proceeds.

### **Governing Law**

The deposit agreement and the GDRs, and all the rights thereunder, are governed by and will be interpreted in accordance with the laws of the State of New York; *provided, however*, that all matters relating to the due authorization, execution, issuance and delivery of the convertible notes, our capacity and matters relating to the legal requirements necessary to qualify as *obligaciones negociables* under Argentine law (including the conversion right, its readjustment and protection rules), will be governed by the Argentine negotiable obligations law and other applicable laws and regulations in Argentina.

### **Charges of GDS Depositary**

The following charges shall be incurred by any party depositing or withdrawing shares or by any party surrendering GDRs or to whom GDRs are issued (including without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the GDRs or deposited securities), whichever applicable:

taxes and other governmental charges,

such registration fees as may from time to time be in effect for the registration of transfers of shares generally on our register (or our appointed agent for transfer and registration of the shares) and applicable to transfers of shares to the name of the GDS depositary or its nominee or the custodian or its nominee on the making of deposits or withdrawals hereunder,

such cable, telex and facsimile transmission expenses as are expressly provided in the deposit agreement to be at the expense of persons depositing shares or owners,

such expenses as are incurred by the GDS depositary in the conversion of foreign currency,

a fee not in excess of US\$5.00 per 100 GDS (or portion thereof) for the execution and delivery of GDRs pursuant to the deposit of shares or other deposited securities or distribution in shares or other deposited securities and the surrender of GDRs for withdrawal of shares and other deposited securities,

a fee not in excess of US\$0.02 per GDS (or portion thereof), for any cash distribution made pursuant to the deposit agreement, and



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a fee for the distribution of shares or Rights, such fee being an amount equal to the fee for the execution and delivery of GDSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares), but which securities are instead distributed by the depositary to owners.

**General**

Neither the GDS depositary nor us nor any of their directors, employees, agents or affiliates shall incur any liability to any owner if, by reason of any present or future provision of any law or regulation of the United States, Argentina or of any other country, or any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of our by-laws, or by reason of any provision of or governing any deposited securities, or by reason of an act of God or war or other circumstances beyond its control, the GDS depositary or us or any of their directors, employees, agents or affiliates shall be prevented, delayed or forbidden from, or subjected to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the deposit agreement or the deposited securities it is provided shall be done or performed. Our obligations and those of the GDS depositary under the deposit agreement are expressly limited to performing their respective duties specified therein without negligence or bad faith.

The GDRs are transferable on the books of the GDS depositary, *provided* that the GDS depositary may close the transfer books at any time or from time to time, after consultation with us, when deemed expedient by it in connection with the performance of its duties under the deposit agreement or at our written request. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any GDR or the transfer or withdrawal of any deposited securities, we, the GDS depositary or the custodian may require payment from the presenter of the GDRs or the depositor of the shares of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto and payment of any applicable fees payable by the owners.

The GDS depositary may refuse to deliver GDRs, register the transfer of any GDRs, make any distributions or deliver any deposited securities until it has received such proof of citizenship, residence, exchange control approval, legal or beneficial ownership or other information as it may deem necessary or proper or as we may require. The delivery of GDRs against deposits of shares or the registration of transfers of GDRs may be suspended during any period when the transfer books of the GDS depositary or we are closed if such action is deemed necessary or advisable by the GDS depositary or us, in good faith, at any time or from time to time in accordance with the deposit agreement.

**Table of Contents****DESCRIPTION OF THE WARRANTS**

The warrants will be issued pursuant to a warrant agreement between us and the Bank of New York, as warrant agent. The following summary of certain provisions of the warrant agreement and the warrants does not purport to be complete and is qualified in its entirety by reference to the warrant agreement and the warrants, including the definitions of certain terms contained in the warrant agreement and warrants.

**General**

The warrants are freely transferable and each warrant will be exercisable during the 17th through the 22nd days of each February, May, September and November (to the extent that such dates are business days in Buenos Aires and in New York City), commencing with the 17th through the 22nd days of February, 2008. The warrants will automatically expire on \_\_\_\_\_, 2012. Prior to its expiration, each warrant will entitle its holder to purchase 0.3334 common shares for an exercise price of \_\_\_\_\_ per common share. As a result, three warrants must be exercised to purchase each common share. The exercise price will be determined by our board of directors and will be published by us together with the subscription price on \_\_\_\_\_, 2007. If as of the payment date of the warrant exercise price payment in U.S. dollars is legally prevented in Argentina, holders of warrants will be entitled to pay the exercise price in Argentine pesos in an amount equal to the Argentine peso equivalent (determined on the basis of the seller's reference exchange rate (*tipo de cambio vendedor*) published by Banco de la Nación Argentina and if such information is not available, by Bloomberg, for the purchase of pesos in exchange of U.S. dollars on the business day preceding the payment date of the exercise price of the warrants of the U.S. dollar exercise price of the warrants. The exercise price and the number of common shares issuable on exercise of a warrant are both subject to adjustment in certain cases. See \_\_\_\_\_ Changes Affecting Warrants below.

We have agreed that until the earlier to occur of the exercise or expiration of all the warrants, we will keep a registration statement current with respect to the issuance of our common shares from time to time upon exercise of the warrants. We will apply for the listing of the warrants in the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*).

The warrants may be exercised by surrendering to us the warrant certificates evidencing such warrants, if any, with the accompanying form of election to exercise, properly completed and executed, together with payment of the exercise price. Payment of the exercise price may be made in the form of cash or a certified or official bank check payable to the order of us. Within five days that are business days in both Buenos Aires and New York City, after the submission to us of a properly completed and duly executed election to exercise, and payment in full of the exercise price, we will register new common shares the warrant agent will deliver or cause to be delivered, to or upon the written order of such holder, stock certificates representing the number of whole warrant shares. Certificates for warrants will be issued in registered form as definitive warrant certificates. We or the warrant agent may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration or transfer or exchange of warrants.

**Fractional Shares**

No fractional common share will be issued upon exercise of the warrants. We will accept exercises of warrants for whole, new common shares only and will round down any warrant exercise submitted for fractional, new common shares to the nearest whole number of new common shares. As a result, you must exercise three warrants to purchase each common share.

**Unexercised Warrants**

Unexercised warrants will not entitle their holders to any rights to vote at or attend our shareholders meetings or to receive any dividends in respect of our common shares. The holders of the warrants have no right to vote on matters submitted to our stockholders and have no right to receive cash dividends until such time as they are registered holders of the common shares or GDSs underlying such warrants. The holders of the warrants are not entitled to share in our assets in the event of the liquidation, dissolution or winding up of our affairs.

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**Changes Affecting Warrants**

***Adjustment of the exercise price and the number of our common shares that may be purchased pursuant to the warrants.***

If any corporate restructuring or action regarding our common shares is approved, different from any of those mentioned herein and which may have an impact on or represent a reduction of rights to the holders of the warrants, we will use our best efforts to negotiate with the holders of the warrants to set forth new exercise conditions, seeking to preserve the rights originally granted to the warrant, its economic and corporate value, the amount of underlying shares and their exercise price.

Both the exercise price and the number of our common shares that may be purchased by exercising the warrants shall be subject to adjustments in order to preserve the value of the warrants.

(a) Stock splits, combinations, etc. If at any time after the date of issuance of the common shares issued pursuant to this offering, split, subdivide or combine our common shares, the exercise price prevailing at that time shall be reduced pro rata in the event of split or subdivision and increased pro rata in the event of combination.

(b) Reclassification, mergers, etc. In case of any reclassification or change of our outstanding common shares issuable upon exercise of the warrants, or in case of any consolidation or merger with or into another corporation (other than a merger in which we are the continuing corporation and which does not result in any reclassification or change of the then outstanding common shares or other stock issuable upon exercise of the warrants) or in case of any sale or conveyance to another corporation of all or substantially all of our assets, then, as a condition of such reclassification, change, consolidation, merger, sale or conveyance, we or such a successor or purchasing corporation, as the case may be, shall forthwith make lawful and adequate provision whereby the holder of warrants then outstanding shall have the right thereafter to receive on exercise of the warrants a number of shares of the successor or purchasing corporation equal to that resulting from application of the exchange relation established for the reclassification, combinations or merger with respect to the underlying shares acquired pursuant to the exercise of the warrants.

(c) Issuance of options or convertible securities. If we shall, at any time or from time to time after the date hereof, issue, sell, distribute or otherwise grant in any manner to all holders of our common shares any rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares, whether or not such any rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares are immediately exercisable, and the price per share at which common shares are issuable upon the exercise of such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares determined by dividing (i) the aggregate amount, if any, received or receivable by us as consideration for the issuance, sale, distribution or granting of such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares, plus the minimum aggregate amount of additional consideration, if any, payable to us upon the exercise of all such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares, plus, in the case of our common shares or any stock or securities convertible into or exchangeable for our common shares, the minimum aggregate amount of additional consideration, if any, payable upon the conversion or exchange of all such of our common shares or any stock or securities convertible into or exchangeable for our common shares, by (ii) the total maximum number of our common shares issuable upon the exercise of all such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares shall be less than the Current Market Price per common share on the record date for the issuance, sale, distribution or granting of such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares (the Distribution ) then, effective upon such Distribution, the exercise price shall be reduced to the price

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determined by multiplying the exercise price in effect immediately prior to such Distribution by a fraction, the numerator of which shall be the sum of (i) the number of our common shares outstanding (exclusive of any treasury shares) immediately prior to such Distribution multiplied by the Current Market Price per common share of on the date of such Distribution plus (ii) the consideration, if any, received by us upon such Distribution, and the denominator of which shall be the product of (A) the total number of our common shares outstanding (exclusive of any treasury shares) immediately after such Distribution multiplied by (B) the Current Market Price per common share on the record date for such Distribution. For purposes of the foregoing, the total maximum number of common shares issuable upon exercise of all such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares shall be deemed to have been issued as of the date of such Distribution and thereafter shall be deemed to be outstanding and we shall be deemed to have received as consideration therefore such price per share, determined as provided above.

The Current Market Price per common share at any date shall be the average of the daily closing prices for the shorter of (i) the 20 consecutive trading days ending on the last full trading day on the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires) prior to the time and date of the earlier to occur of (A) the date as of which the Current Market Price is to be computed and (B) the last full trading day on such exchange or market before the commencement of ex dividend trading in our common shares relating to the event giving rise to the adjustments required by paragraph (a), (b), (c) or (d) (the Time of Determination); and (ii) the period commencing on the date next succeeding the first public announcement of the issuance, sale, distribution or granting in question through such last full trading day prior to the Time of Determination; provided that in the case of a firm commitment underwritten public offering, the Current Market Price shall mean the closing price of our common shares on the day of the pricing of such offering. The closing price for any day shall be the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the closing bid and asked prices regular way for such day, in each case on the Buenos Aires Stock Exchange (Bolsa de Comercio de Buenos Aires).

(d) Dividends and Distributions. If we shall, at any time or from time to time after the date hereof, distribute to all holders of our common shares, any dividend as provided for under section 234 of the Argentine Corporations Law, in cash or in kind, or other distribution of cash, evidences of our indebtedness, other securities or other properties or assets, or any options, warrants or other rights to subscribe for or purchase any of the foregoing, then (A) the exercise price shall be decreased pro rata by the percentage in which the distribution exceeds 3% of the Current Market Price as defined above; and (B) the number of common shares purchasable upon the exercise of each warrant shall be increased to a number determined by multiplying the number of common shares so purchasable immediately prior to the record date for such distribution by a fraction, the numerator of which shall be the exercise price in effect immediately prior to the adjustment required by clause (A) of this sentence and the denominator of which shall be the exercise price in effect immediately after such adjustment. The adjustments required by this paragraph (d) shall be made whenever any such distribution occurs retroactive to the record date for the determination of stockholders entitled to receive such distribution.

(e) Issuance of additional common shares. If at any time we shall (except as hereinafter provided) issue or sell any additional of our common shares for consideration in an amount per additional common share less than the Current Market Price (as defined above), then the number of our common shares for which the warrants are exercisable shall be adjusted to equal the product obtained by multiplying the number of common shares for which the warrants are exercisable immediately prior to such issue or sale by a fraction (A) the numerator of which shall be the number of our common shares outstanding immediately after such issue or sale, and (B) the denominator of which shall be the sum of (1) the number of our common shares outstanding immediately prior to such issue or sale, and (2) the aggregate consideration received from the issuance or sale of the additional common shares divided by the Current Market Price (as defined above). No adjustment shall be made under this paragraph (e) for issuances of shares of our common stock (i) with respect to options issued under stock options plans as currently in effect or in effect from time to time or (ii) upon exercise of the warrants.

(f) Deferral of certain adjustments. No adjustment to the exercise price (including the related adjustment to the number of shares of our common shares purchasable upon the exercise of each warrant) shall be required

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hereunder unless such adjustment, together with other adjustments carried forward as provided below, would result in an increase or decrease of at least two percent (2%) of the exercise price; provided that any adjustments which by reason of this paragraph (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. No adjustments need to be made for a change in the par value of our common shares.

(g) Changes in options and convertibles securities. If the exercise price provided for in any rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares referred to in paragraph (c) above, the additional consideration, if any, payable upon the conversion or exchange of any stock or securities convertible into or exchangeable for our common shares, or the rate at which any stock or securities convertible into or exchangeable for our common shares are convertible into or exchangeable for our common shares shall change at any time (other than under or by reason of provisions designed to protect against dilution upon an event which results in a related adjustment), the exercise price then in effect and the number of common shares purchasable upon the exercise of each warrant shall forthwith be readjusted (effective only with respect to any exercise of any warrant after such readjustment) to the exercise price and number of our common shares so purchasable that would then be in effect had the adjustment made upon the issuance, sale, distribution or granting of such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares been made based upon such changed purchase price, additional consideration or conversion rate, as the case may be, but only with respect to such rights to subscribe for or to purchase, or any warrants or options for the purchase of, our common shares or any stock or securities convertible into or exchangeable for our common shares as then remain outstanding.

(h) Other adjustments. In the event that at any time, as a result of an adjustment, the holders of the warrants shall become entitled to receive any of our securities other than our common shares, thereafter the number of such other securities so receivable upon exercise of the warrants and the exercise price applicable to such exercise shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to our common shares contained herein.

## **Reservation of Common Shares**

We have authorized and reserved for issuance such number of shares of our common shares as shall be issuable upon the exercise of all outstanding warrants. Such common shares, when paid for and issued, will be duly and validly issued, fully paid and non-assessable, free of preemptive rights and free from all taxes, liens, charges and security interests with respect to the issue thereof.

## **Amendment of the Warrant Agreement**

From time to time, we and the warrant agent, without the consent of the holders of the warrants, may amend or supplement the warrant agreement for certain purposes, including, without limitation, curing defects or inconsistencies or making any change that does not materially and adversely affect the interests of the holders of the warrants. Any amendment or supplement to the warrant agreement that has a material and adverse effect on the interests of the holders of the warrants shall require the written consent of the holders of a majority of the then outstanding warrants. The consent of each holder of the warrants affected shall be required for any amendment pursuant to which the exercise price would be increased or the number of warrant shares purchasable upon exercise of warrants would be decreased (other than pursuant to adjustments provided in the warrant agreement).

## **Governing Law**

The warrant agreement and the warrants, and all the rights thereunder, are governed by and will be interpreted in accordance with the laws of the State of New York, except for the rights relating to the underlying common shares which will be governed by the laws of Argentina.

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**TAXATION**

**Certain United States Federal Income Tax Consequences**

The following summary describes certain United States federal income tax consequences of the ownership of GDS rights, common share rights, common shares, GDSs and warrants (collectively, "Equity Securities") by U.S. Holders (as defined below) as of the date hereof. Except where noted, it deals only with Equity Securities held as capital assets and does not deal with special situations, such as those of dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, traders in securities that elect to use the mark-to-market method of accounting for their securities, persons holding Equity Securities as part of a hedging, integrated, conversion or constructive sale transaction or a straddle, persons owning 10% or more of our voting stock, persons liable for alternative minimum tax, investors in pass-through entities or persons whose functional currency is not the U.S. dollar.

As used herein, the term "U.S. Holder" means a beneficial holder of an Equity Security that is for United States federal income tax purposes:

an individual citizen or resident of the United States;

a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust:

if it is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust; or

that has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the GDS depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

**PERSONS CONSIDERING THE PURCHASE, OWNERSHIP OR DISPOSITION OF EQUITY SECURITIES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IN LIGHT OF THEIR PARTICULAR SITUATIONS AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.**

If a partnership holds Equity Securities, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. U.S. Holders that are partners of a partnership holding Equity Securities should consult their own tax advisors.



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*Issuance of GDS Rights or Common Share Rights*

A U.S. Holder will not be subject to United States federal income taxation with respect to the receipt of GDS rights or common share rights.

*Basis and Holding Period of the GDS Rights and Common Share Rights*

Except as provided in the following sentence, the basis of the GDS rights or common share rights distributed to a U.S. Holder will be zero. However, if either (i) the fair market value of the GDS rights or common share rights is 15% or more of the fair market value (on the date of distribution ) of the GDSs or common shares with respect to which they are distributed or (ii) the U.S. Holder of the GDS rights or common share rights irrevocably elects, in such holder's United States federal income tax return for the taxable year in which the GDS rights or common share rights are received, to allocate part of the basis of such GDSs or common shares to such GDS rights or common share rights, then upon exercise or sale of the GDS rights or common share rights the U.S. Holder's basis in such GDSs or common shares will be allocated between such GDSs or common shares and the GDS rights or common share rights in proportion to the fair market values of each on the date of distribution of the GDS rights or common share rights. No basis will be allocated to any such GDS rights or common share rights that lapse. A U.S. Holder will include its holding period in GDSs or common shares with respect to which the GDS rights or common share rights were distributed in determining the holding period of the GDS rights or common share rights.

*Sale of Common Share Rights*

Subject to the discussion under *Passive Foreign Investment Company* below, for United States federal income tax purposes, a U.S. Holder will recognize taxable gain or loss upon the sale or other disposition of common share rights (including the sale by the GDS rights agent of common share rights corresponding to unexercised GDS rights of a U.S. Holder) in an amount equal to the difference between the amount realized for the common share rights (or, in the case of unexercised GDS rights, distributions by the depositary with respect to the sale of the underlying common share rights) and the U.S. Holder's tax basis in the GDS rights or common share rights. Such gain or loss will generally be treated as capital gain or loss. Capital gain of individuals derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations under the Code. Gain or loss recognized by a U.S. Holder on a sale of common share rights generally will be treated as United States source gain or loss for United States foreign tax credit purposes.

*Expiration of the GDS Rights or Common Share Rights*

If a U.S. Holder does not exercise GDS rights prior to the end of the subscription period, such U.S. Holder generally will recognize no gain or loss, except to the extent of gains from distributions by the depositary with respect to the sale of common share rights represented by unexercised GDS rights, as discussed in *The Rights Offering*. If a U.S. Holder does not exercise common share rights prior to the end of the subscription period, it will recognize no gain or loss.

*Exercise of the GDS Rights or Common Share Rights*

U.S. Holders of GDS rights or common share rights will not recognize any gain or loss upon the exercise of the GDS rights or common share rights. The aggregate basis of GDSs or common shares and warrants acquired upon exercise of GDS rights or common share rights will be equal to the sum of such U.S. Holder's basis in the GDS rights or common share rights exercised and the amount paid upon exercise of those GDS rights or common share rights. The basis of the GDSs or common shares and warrants will be determined by allocating such aggregate basis among the GDSs or common shares and the warrants received in proportion to the relative fair market values of these securities on the date the GDS rights or common share rights are exercised. The holding period of GDSs or common shares and warrants acquired upon exercise of GDS rights or common share rights will begin on the date the GDS rights or common share rights are exercised.

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### *GDSs*

If you hold GDSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying common shares that are represented by such GDSs. Accordingly, deposits or withdrawals of common shares for GDSs will not be subject to United States federal income tax.

The United States Treasury has expressed concerns that intermediaries in the chain of ownership between holders of GDSs and the issuer of the securities underlying the GDSs may be taking actions that are inconsistent with the claiming of foreign tax credits for holders of GDSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of Argentinean taxes and the availability of the reduced rate of tax for dividends received by certain non-corporate holders, each as described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an GDS and our company.

### *Taxation of Warrants*

The exercise of a warrant to purchase common shares generally will not constitute a taxable event. Accordingly, a U.S. Holder generally will not recognize gain or loss upon the exercise of a warrant. Rather, a U.S. Holder will recognize taxable gain or loss if and when such U.S. Holder disposes of the common shares received pursuant to the exercise of the warrant in a taxable transaction. A U.S. Holder's aggregate tax basis in the common shares received pursuant to the exercise of the warrant will be equal to the amount paid upon the exercise of the warrant plus the U.S. Holder's basis in the warrant. The holding period of the common shares received pursuant to the exercise of the warrant would begin on the day that the warrant is exercised.

If a warrant is allowed to lapse unexercised, a U.S. Holder will recognize a capital loss equal to such U.S. Holder's basis in the warrant. Such loss will be long-term if the warrant has been held for more than one year. The deductibility of capital losses is subject to limitations under the Code.

The exercise price of the warrants will be adjusted in certain circumstances. Under Section 305(c) of the Code, adjustments (or failures to make adjustments) that have the effect of increasing a holder's proportionate interest in our assets or earnings may in some circumstances result in a deemed distribution to such holder. Adjustments to the exercise price made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing the dilution of the interest of the holders of the warrants, however, will generally not be considered to result in a deemed distribution to holders. Certain of the possible exercise price adjustments provided in the warrants (including, without limitation, adjustments in respect of taxable dividends to holders of our common shares) may not qualify as being pursuant to a bona fide reasonable adjustment formula. If such adjustments are made, a holder of a warrant will be deemed to have received a distribution even though such holder has not received any cash or property as a result of such adjustments. Any deemed distributions will be taxable as a dividend, return of capital, or capital gain in accordance with the earnings and profits rules under the Code. U.S. Holders should consult their own tax advisors regarding the possible application of Section 305(c) of the Code.

### *Taxation of Dividends*

Subject to the discussion under "Passive Foreign Investment Company" below, distributions on our common shares or GDSs (including amounts withheld to reflect Argentinean withholding taxes) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such dividends will be includable in your gross profit as ordinary income on the day actually or constructively received by you, in the case of our common shares, or by the depository, in the case of our GDSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations. With respect to United States non-corporate investors, certain dividends received before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on common shares (or GDSs backed by such common shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our GDSs (which are listed on the

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NYSE), but not our common shares, are readily tradable on an established securities market in the United States. Thus, we do not believe that dividends that we pay on our common shares that do not underlie GDSs currently meet the conditions required for these reduced tax rates. Furthermore, there can be no assurance that our GDSs will be considered readily tradable on an established securities market in later years. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Non-corporate U.S. Holders should consult their own tax advisors regarding the application of these rules given their particular circumstances.

The amount of any dividend paid in Pesos will equal the U.S. dollar value of the Pesos received calculated by reference to the exchange rate in effect on the date the dividend is actually or constructively received by you, in the case of our common shares, or by the depositary, in the case of our GDSs, regardless of whether the Pesos are converted into U.S. dollars. If the Pesos received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a tax basis in the Pesos equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Pesos will be treated as United States source ordinary income or loss.

Subject to certain complex conditions and limitations, Argentinean withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on our common shares or GDSs will be treated as income from sources outside the United States and will generally constitute passive income. If you do not elect to claim a credit for any foreign taxes paid during a taxable year, you may instead claim a deduction in respect of such foreign taxes. Further, in certain circumstances, if you:

have held our common shares or GDSs for less than a specified minimum period during which you are not protected from risk of loss, or

are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our common shares or GDSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution (including amounts withheld to reflect Argentinean withholding taxes) exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of our common shares or GDSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of our common shares or GDSs), and thereafter as capital gain recognized on a sale or exchange (as discussed below under Taxation of Capital Gains ). Consequently, such distributions in excess of our current and accumulated earnings and profits would generally not give rise to foreign source income and you would generally not be able to use the foreign tax credit arising from any Argentinean withholding tax imposed on such distributions unless such credit can be applied (subject to applicable limitations) against United States federal income tax due on other foreign source income in the appropriate category for foreign tax credit purposes. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Distributions of our common shares or GDSs that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to United States federal income taxes.

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*Passive Foreign Investment Company*

Based on the current and projected composition of our income and the valuation of our assets, including goodwill, we do not believe we were a passive foreign investment company ( PFIC ) for United States federal income tax purposes for the taxable year ending June 30, 2007, and we do not currently expect to become a PFIC, although there can be no assurance in this regard.

In general, we will be a PFIC for any taxable year in which:

at least 75% of our gross profit is passive income; or

at least 50% of the value (determined based on a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, cash is a passive asset and passive income generally includes dividends, interest, royalties, and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% by value of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of that other corporation's assets and receiving our proportionate share of its income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in the fair market value of our assets or income composition. If we are a PFIC for any taxable year during which you hold our Equity Securities, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our Equity Securities, you will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition, including a pledge, of Equity Securities. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the common shares or GDSs will be treated as excess distributions. Under these special tax rules:

the excess distribution or gain will be allocated ratably over your holding period for the Equity Securities;

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we become a PFIC, will be treated as ordinary income; and

the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

If we are a PFIC for any taxable year during which you hold our Equity Securities and any of our non- United States subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the common shares of the lower tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In addition, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us prior to January 1, 2011, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our Equity Securities in any year in which we are classified as a PFIC.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on our Equity Securities as ordinary income under a mark-to-market method,

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provided that our common shares or GDSs are regularly traded on a qualified exchange or other market. Our common shares are listed on the Buenos Aires Stock Exchange (*Bolsa de Comercio de Buenos Aires*), which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable United States Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the common shares are or will continue to be regularly traded for purposes of the mark-to-market election. Our GDSs are currently listed on the NYSE, which constitutes a qualified market, although there can be no assurance that the GDSs are or will be regularly traded.

If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of our Equity Securities at the end of the year over your adjusted tax basis in our Equity Securities. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in our Equity Securities over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in our Equity Securities will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless our common shares or GDSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

In some cases, holders of Equity Securities in a PFIC may be able to avoid the rules described above by electing to treat the PFIC as a qualified electing fund under Section 1295 of the Code. This option will not be available to you because we do not intend to comply with certain calculation and reporting requirements necessary to permit you to make this election.

You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding our Equity Securities if we are considered a PFIC in any taxable year.

*Taxation of Capital Gains*

Subject to the discussion under *Passive Foreign Investment Company* above, for United States federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange, redemption or other taxable disposition of our common shares or GDSs in an amount equal to the difference between the amount realized for the common shares or GDSs and your tax basis in the common shares or GDSs. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate shareholders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations under the Code. Any gain or loss recognized by you will generally be treated as United States source gain or loss for United States foreign tax credit purposes.

*Information Reporting and Backup Withholding*

In general, information reporting will apply to dividends in respect of our common shares or GDSs and the proceeds from the sale, exchange or redemption of our common shares or GDSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

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### **Argentine Taxation**

The following discussion is a summary of certain Argentine tax considerations associated with an investment in, ownership or disposition of common share rights, GDS rights, common shares, GDSs and warrants by (i) an individual holder that is resident in Argentina, (ii) an individual holder that is neither domiciled nor resident in Argentina, (iii) a legal entity organized under the laws of Argentina and (iv) a legal entity that is not organized under the laws of Argentina that does not have a permanent establishment in Argentina and is not otherwise doing business in Argentina on a regular basis. The discussion is for general information only and is based on current Argentine tax laws. Moreover, while this summary is considered to be a correct interpretation of existing laws in force as of the date of this prospectus, no assurance can be given that the courts or administrative authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws or interpretations will not occur.

PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES ARISING UNDER ANY TAXING JURISDICTION.

#### *Taxation of Dividends*

Dividends, either in cash, common shares or kind approved by our shareholders are currently exempt from Argentine withholding or other taxes.

Notwithstanding the foregoing, according to Argentine law, income tax will be applied to the amount of dividends distributed in excess of a company's net taxable income determined in accordance with general income tax regulations for the fiscal years preceding the date of the distribution of such dividends. The legislation requires that companies withhold 35% of the amount of distributed dividends in excess of the net taxable income of such distribution, as determined in accordance with the income tax law. The withholding would not be applied to the payment of future dividends derived out of retained earnings obtained in the fiscal years ended prior to December 30, 1998. Dividends distributed by an Argentine company are not subject to this tax to the extent that those dividends arise from dividend income or other distributions received by such company from other Argentine companies.

#### *Taxation of Capital Gains*

Due to certain amendments made to the Argentine Income Tax Law, it is not entirely clear whether certain amendments concerning payment of income tax on capital gains arising from the sale, exchange or other disposition of common shares are in effect or not. Although Opinion No. 351 of the National Treasury General Attorney Office clarified the legal status of certain matters affecting the tax treatment of capital gains certain issues still remain unclear.

#### *Resident individuals*

Under what we believe to be a reasonable interpretation of existing applicable tax laws and regulations: (i) income derived from the sale, exchange or other disposition of common share rights, GDS rights, common shares, GDSs and warrants by resident individuals who do not sell or dispose of Argentine common shares on a regular basis would not be subject to Argentine income tax, and (ii) although there still exists uncertainty regarding this issue, income derived from the sale, exchange or other disposition of common share rights, GDS rights, common shares, GDSs and warrants by resident individuals who sell or disposes of Argentine common shares on a regular basis should be exempt from Argentine income tax.

#### *Foreign beneficiaries*

Capital gains obtained by non residents or foreign entities from the sale, exchange or other disposition of common share rights, GDS rights, common shares, GDSs and warrants are exempt from income tax. Pursuant to a

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reasonable interpretation of existing applicable laws and regulations, and although the matter is not completely free from doubt, such treatment should also apply to those foreign beneficiaries that qualify as offshore entities for Argentine tax law purposes. For this purpose, an offshore entity is any foreign legal entity which pursuant to its by-laws or to the applicable regulatory framework: (i) its principal activity is to invest outside the jurisdiction of its incorporation and/or (ii) cannot perform in such jurisdiction certain transactions.

### *Local entities*

Capital gains obtained by Argentine entities (generally entities organized or incorporated under Argentine law, certain traders and intermediaries, local branches of non Argentine entities, sole proprietorships and individuals carrying on certain commercial activities in Argentina) derived from the sale, exchange or other disposition of common share rights, GDS rights, common shares, GDSs and warrants are subject to income tax at the rate of 35%.

Losses arising from the sale, exchange or other disposition of common share rights, GDS rights, common shares and GDSs can be applied only to offset such capital gains arising from the sale, exchange or other disposition of these securities.

As warrants could qualify as speculative derivative financial instruments within the meaning of Argentine Income Tax Law, losses arising from the sale, exchange or other disposition of warrants could be applied only to offset such capital gains arising from the sale, exchange or other disposition of these types of securities.

**WE RECOMMEND PROSPECTIVE INVESTORS TO CONSULT THEIR OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES CONCERNING THE SALE OR OTHER DISPOSITIONS OF COMMON SHARES, GDSs, COMMON SHARE RIGHTS, GDS RIGHTS AND WARRANTS.**

### *Value Added Tax*

The sale, exchange, disposition, or transfer of common share rights, GDS rights, common shares, GDSs and warrants is not subject to Value Added Tax.

### *Personal Assets Tax*

#### *Shares and GDSs*

Law No. 25,585 issued on April 24, 2002 and published in the Official Gazette on May 15, 2002 (and applicable to personal assets held as of December 31, 2002) introduces amendments to Law No. 23,966 and imposes the personal assets tax on common shares and GDSs held by individuals and undivided estates domiciled or located in Argentina or abroad and legal entities not domiciled in Argentina, separately from other assets.

This amendment imposes the obligation to pay the personal assets tax on the Argentine private issuer of the common shares and GDSs, and authorizes it to seek recovery of the amount so paid, without limitation, by way of withholding or by foreclosing on the assets that gave rise to such payment. The tax is levied on the proportional equity value of the common shares as reflected in the most recent balance sheet closed as of December 31 of the taxable year, at the rate of 0.5% without any non-taxable minimum being applicable.

Our shareholders approved the absorption of personal asset tax for the years 2002 to 2006. There can be no assurance that in the future this tax will be absorbed by the Company.

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### ***Warrants***

#### ***Resident individuals***

Individuals domiciled in Argentina whose personal assets exceed a total amount of Ps.102,300 are subject to an Argentine personal assets tax. The personal assets tax would be levied on the holders of the warrants. The tax is determined by applying a 0.5% rate on any amount over Ps.102,300. However, if the total value of such assets exceeds the sum of Ps.302,300 the applicable rate is 0.75% on any amount over Ps.102,300.

#### ***Foreign beneficiaries***

Individuals domiciled or located abroad are subject to this tax at a rate of 0.75% of all their assets located in Argentina, in accordance with a special system of rules for payment of the tax by substitute obligors. Under this system, there is no tax liability if the amount payable is equal to or less than Ps.255,750. The personal assets tax would be levied on the holders of the warrants.

Foreign entities that are holders of warrants are not subject to the personal assets tax.

#### ***Local entities***

Argentine entities, generally entities organized or incorporated under Argentine law, are not subject to the personal assets tax.

### ***Tax on Minimum Notional Income (Impuesto a la Ganancia Mínima Presunta, IGMP)***

Companies domiciled in Argentina, partnerships, foundations, sole proprietorships, trusts, certain mutual funds organized in Argentina, and permanent business establishments owned by foreign persons, among other taxpayers, shall apply a 1% rate to the total value of assets held by such persons, above an aggregate nominal amount of Ps.200,000. Nevertheless, common shares and GDSs issued by entities subject to such tax are exempt from paying the IGMP.

### ***Gross Profit Tax***

The gross profit tax is a local tax; therefore, the rules of the relevant provincial jurisdiction should be considered, which may levy this tax on the customary purchase and sale, exchange or other disposition of common shares, GDSs, common shares rights, GDS rights, warrants and/or the collection of dividends at an average rate of 3%, unless an exemption is applicable. In the particular case of the City of Buenos Aires, any transaction involving common shares, GDSs, common share rights, GDS rights and warrants and/or the collection of dividends and revaluations is exempt from this tax.

There is no gross profit tax withholding system applicable to the payments made to foreign beneficiaries.

### ***Stamp Tax***

The stamp tax is a local tax that is generally levied on the instrumentation of onerous acts executed within a certain territorial jurisdiction or outside a certain territorial jurisdiction but with effects in such jurisdiction.

In the City of Buenos Aires, the stamp tax has been repealed for all those acts that do not imply an onerous conveyance of real property or the lease of real property. However, most provincial tax authorities maintain this tax in effect for all acts in general; therefore, the instruments which implement onerous transactions (including issuance, subscription, placement and transfer) involving common share rights, GDS rights, common shares, GDSs and warrants, executed in other jurisdictions, or with effects in those jurisdictions, could be deemed to be subject to this tax.



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### ***Tax on Credits and Debits in Bank Accounts***

This tax is levied upon debits and credits in bank accounts and upon other transactions which, due to their special nature and characteristics, are similar or could be used in substitution for a checking account, such as payments on behalf of or in the name of third parties, procedures for the collection of securities or documents, drafts and transfers of funds made by any means, when these transactions are performed by local banks.

The tax law and its regulations provide several exemptions to this tax. For example, it does not apply to entities recognized as exempt from income tax, to debits and credits relating to salaries, to retirement and pension emoluments credited directly by banking means and withdrawals made in connection with such credits and to credits in checking accounts originating from bank loans.

The general rate of the tax is 0.6%. An increased rate of 1.2% applies in cases in which there has been a substitution for the use of a checking account.

### ***Court and Other Taxes***

In the event that it becomes necessary to institute legal actions in relation to the common shares, GDSs and warrants in Argentina, a court tax (currently at a rate of 3.0%) will be imposed on the amount of any claim brought before the Argentine courts sitting in the City of Buenos Aires.

Argentina imposes neither an estate nor gift tax on a decedent, donor, legatee or donee. No Argentine tax is imposed on the deposit or withdrawal of common shares in exchange for GDSs. Other than the taxes discussed above, no other Argentine taxes are applicable to an investment in common shares or GDSs. At present, there is no national tax specifically applicable to the transfer of securities.

### ***Tax Treaties***

Argentina has entered into tax treaties with several countries. There is currently no tax treaty or convention in effect between Argentina and the United States.

**Table of Contents****EXPENSES OF THE OFFERING**

We estimate that our expenses in connection with this offering and the Argentine offering, other than underwriting discounts and commissions, will be as follows:

<b>Expenses</b>	<b>Amount (in US\$)</b>	<b>Percentage of net proceeds of this offering (%)</b>
Securities and Exchange Commission registration fee	US\$	
NYSE listing fee		
National Association of Securities Dealers, Inc. filing fee		
Printing and engraving expenses		
Legal fees and expenses		
Accountant fees and expenses		
Miscellaneous costs <sup>(1)</sup>		
<b>Total</b>	<b>US\$</b>	

(1) Includes the fees of the *Comisión Nacional de Valores* and the *Bolsa de Comercio de Buenos Aires*.

All amounts in the table are estimated except the Securities and Exchange Commission registration fee, the NYSE listing fee, the NYSE filing fee and the *Comisión Nacional de Valores* and *Bolsa de Comercio de Buenos Aires* fees.

The depositary has agreed to pay some of these expenses on our behalf, subject to certain conditions.

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**LEGAL MATTERS**

The validity of the GDSs will be passed upon for us by Simpson Thacher & Bartlett LLP, New York, New York. The validity of the rights, common shares and other matters governed by Argentine law will be passed upon for us by the law firm Zang, Bergel & Viñes, Buenos Aires, Argentina.

Saúl Zang and Salvador D. Bergel are partners of the law firm of Zang, Bergel & Viñes. Juan C. Quintana Terán is a consultant of the law firm of Zang, Bergel & Viñes. Saúl Zang serves as first vice-chairman of our board of directors. Salvador D. Bergel and Juan C. Quintana Terán serve as an alternative members of our board of directors.

**EXPERTS**

The consolidated financial statements of IRSA Inversiones y Representaciones Sociedad Anónima as of June 30, 2006 and 2007 and for each of the three years in the period ended June 30, 2007 included in this prospectus have been so included in reliance on the report of Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, member firm of PricewaterhouseCoopers, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Banco Hipotecario as of June 30, 2006 and 2007 and for each of the three years in the period ended June 30, 2007 included in this prospectus have been so included in reliance on the report of Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, member firm of PricewaterhouseCoopers, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited statement of revenue and certain expenses of the Bouchard Building for the year ended June 30, 2006, included in this prospectus has been so included in reliance on the report of Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, member firm of PricewaterhouseCoopers, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited statement of revenue and certain expenses of the Bank Boston Tower Building for the year ended June 30, 2007, included in this prospectus has been so included in reliance on the report of Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, member firm of PricewaterhouseCoopers, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The audited statement of revenue and certain expenses of the República Building for the year ended June 30, 2007, included in this prospectus has been so included in reliance on the report of Price Waterhouse & Co. S.R.L., Buenos Aires, Argentina, member firm of PricewaterhouseCoopers, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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**FORWARD LOOKING STATEMENTS**

This prospectus contains statements that constitute forward-looking statements, in that they include statements regarding the intent, belief or current expectations of our directors and officers with respect to our future operating performance. Such statements include any forecasts, projections and descriptions of anticipated cost savings or other synergies. Words such as anticipate, expect, intend, plan, believe, seek, variations of such words, and similar expressions are intended to identify such forward-looking statements. You should be aware that any such forward-looking statements are not guarantees of future performance and may involve risks and uncertainties, and that actual results may differ materially and adversely from those set forth in the forward-looking statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. However, you should carefully review the risk factors set forth in other reports and documents that we may file from time to time with the Securities and Exchange Commission.

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

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

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

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

unexpected developments in pending litigation;

increased costs;

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

the factors discussed under Risk Factors .

You should not place undue reliance on such statements which speak only as of the date that they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we might issue in the future. We do not undertake any obligation to release publicly any revisions to such forward-looking statements after filing of this prospectus to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

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**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a Registration Statement on Form F-3 with the SEC regarding this offering. This prospectus, which is part of the registration statement, does not contain all the information included in the registration statement, and you should refer to the registration statement and its exhibits to read that information. Reference in this prospectus to any of our contract or other documents are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. We are subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended, and under such act, we file reports, proxy statements and other information with the SEC. You can read our SEC filings, including the registration statement, over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC at the following SEC location:

Public Reference Room

Station Place

100 F Street, N.E., Room 1580

Washington, DC 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. You may also obtain copies of this document by mail from the Public Reference Section of the SEC, located at the address above, at prescribed rates. You may also request a copy of those filings, at no cost, by writing to Maria Cecilia Poch at our office at Bolívar 108, 1 Piso, (C1066AAD), Buenos Aires, Argentina or calling +54 (11) 4323-7449. Our website is [www.irsa.com.ar](http://www.irsa.com.ar).

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

IRSA Inversiones y Representaciones Sociedad Anónima

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders equity and of cash flows present fairly, in all material respects, the financial position of IRSA Inversiones y Representaciones Sociedad Anónima and its subsidiaries at June 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2007 in conformity with accounting principles generally accepted in Argentina. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in Argentina vary in certain significant respects from accounting principles generally accepted in the United States of America and as allowed by Item 18 to Form 20-F. Information relating to the nature and effect of such differences is presented in Note 28 to the consolidated financial statements.

PRICE WATERHOUSE & Co. S.R.L.

By /s/ Andrés Suarez (Partner)  
Andrés Suarez  
Buenos Aires, Argentina

August 31, 2007

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Balance Sheets****as of June 30, 2007 and 2006**

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

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and banks (Notes 4.a. and 29.e.)	Ps. 218,356	Ps. 103,018
Investments (Notes 4.b. and 29.e.)	638,351	130,420
Mortgages and leases receivable, net (Notes 4.c. and 29.e.)	169,623	114,911
Other receivables and prepaid expenses (Notes 4.d. and 29.e.)	114,085	52,159
Inventories (Note 4.e.)	35,375	81,280
<b>Total current assets</b>	<b>1,175,790</b>	<b>481,788</b>
<b>Non-Current Assets</b>		
Mortgages and leases receivable, net (Notes 4.c. and 29.e.)	42,442	33,044
Other receivables and prepaid expenses (Notes 4.d. and 29.e.)	81,202	97,882
Inventories (Note 4.e.)	220,828	80,830
Investments (Notes 4.b. and 29.e.)	673,273	647,981
Fixed assets, net (Note 29.a.)	2,027,311	1,413,212
Intangible assets, net (Note 29.b.)	2,822	3,599
<b>Subtotal</b>	<b>3,047,878</b>	<b>2,276,548</b>
Negative goodwill, net	(78,769)	(18,215)
<b>Total non-current assets</b>	<b>2,969,109</b>	<b>2,258,333</b>
<b>Total Assets</b>	<b>Ps. 4,144,899</b>	<b>Ps. 2,740,121</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade accounts payable (Notes 4.f. and 29.e.)	Ps. 195,870	Ps. 127,369
Mortgages payable (Notes 4.l. and 29.e.)	17,538	18,407
Customer advances (Notes 4.g. and 29.e.)	88,810	64,847
Short-term debt (Notes 4.i. and 29.e.)	196,655	123,733
Salaries and social security payable (Note 4.h.)	26,841	14,823
Taxes payable (Notes 4.j. and 29.e.)	64,712	33,928
Other liabilities (Notes 4.k. and 29.e.)	61,656	36,121
<b>Total current liabilities</b>	<b>652,082</b>	<b>419,228</b>
<b>Non-Current Liabilities</b>		
Trade accounts payable (Notes 4.f. and 29.e.)	40,942	1,196
Mortgages payable (Notes 4.l. and 29.e.)	4,557	14,722
Customer advances (Note 4.g.)	63,908	41,482



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Long-term debt (Notes 4.i. and 29.e.)	1,217,866	280,560
Taxes payable (Note 4.j.)	29,556	14,926
Other liabilities (Notes 4.k. and 29.e.)	38,864	32,252
<b>Total non-current liabilities</b>	<b>1,395,693</b>	<b>385,138</b>
<b>Total Liabilities</b>	<b>2,047,775</b>	<b>804,366</b>
Minority interest	450,410	449,989
<b>SHAREHOLDERS EQUITY</b>	<b>1,646,714</b>	<b>1,485,766</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>Ps. 4,144,899</b>	<b>Ps. 2,740,121</b>

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

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Income****for the years ended June 30, 2007, 2006 and 2005**

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenues	Ps. 738,756	Ps. 577,680	Ps. 369,889
Costs (Note 29.d)	(311,647)	(243,831)	(168,074)
<b>Gross profit</b>	<b>427,109</b>	<b>333,849</b>	<b>201,815</b>
Gain from recognition of inventories at net realizable value	20,737	9,063	17,317
Selling expenses	(113,709)	(60,105)	(36,826)
Administrative expenses	(141,427)	(96,882)	(70,670)
<b>Subtotal</b>	<b>(234,399)</b>	<b>(147,924)</b>	<b>(90,179)</b>
Net income from retained interest in securitized receivables (Note 16)	3,254	2,625	423
Gain from operations and holdings of real estate assets, net (Note 7)	2,568	12,616	27,938
<b>Operating income</b>	<b>198,532</b>	<b>201,166</b>	<b>139,997</b>
Amortization of goodwill	(1,472)	(1,080)	(1,663)
Gain on equity investees	40,026	41,657	67,207
Financial results, net (Note 8)	4,099	(40,926)	(11,848)
Other expenses, net (Note 9)	(14,100)	(18,263)	(14,089)
<b>Income before taxes and minority interest</b>	<b>227,085</b>	<b>182,554</b>	<b>179,604</b>
Income tax and MPIT	(87,539)	(58,791)	(53,207)
Minority interest	(32,449)	(27,190)	(23,152)
<b>Net income</b>	<b>Ps. 107,097</b>	<b>Ps. 96,573</b>	<b>Ps. 103,245</b>
<b>Earnings per share (Note 18):</b>			
Basic net income per share	Ps. 0.24	Ps. 0.25	Ps. 0.37
Diluted net income per share	Ps. 0.20	Ps. 0.23	Ps. 0.23

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

**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Changes in Shareholders' Equity****for the years ended June 30, 2007, 2006 and 2005**

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

	Common stock (Note 5.a.)	Inflation adjustment of common stock (Note 5.c.)	Shareholders' contributions		Legal reserve (Note 5.d.)	Reserve for new developments (note 5.c)	Retained earnings (Accumulated deficit)	Shareholders equity
			Additional paid-in-capital (Note 5.a.)	Total				
<b>Balances as of June 30, 2004</b>	Ps. 248,803	Ps. 274,387	Ps. 595,505	Ps. 1,118,695	Ps. 19,447	Ps.	Ps. (178,288)	Ps. 959,854
Conversion of debt into common shares	52,449		31,001	83,450				83,450
Exercise of warrants	56,015		49,665	105,680				105,680
Net income for the year							103,245	103,245
<b>Balances as of June 30, 2005</b>	Ps. 357,267	Ps. 274,387	Ps. 676,171	Ps. 1,307,825	Ps. 19,447	Ps.	Ps. (75,043)	Ps. 1,252,229
Conversion of debt into common shares	55,961		37,360	93,321				93,321
Exercise of warrants	22,220		21,423	43,643				43,643
Accumulated losses absorption of approved by shareholders meeting held 11/29/05			(75,043)	(75,043)			75,043	
Net income for the year							96,573	96,573
<b>Balances as of June 30, 2006</b>	Ps. 435,448	Ps. 274,387	Ps. 659,911	Ps. 1,369,746	Ps. 19,447	Ps.	Ps. 96,573	Ps. 1,485,766
Conversion of debt into common shares	16,641		11,252	27,893				27,893
Exercise of warrants	12,880		13,078	25,958				25,958
Appropriation of retained earnings approved by shareholders meeting held 10/31/06					4,829	91,744	(96,573)	

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Net income for the year								107,097	107,097
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<b>Balances as of June 30, 2007</b>	Ps. 464,969	Ps. 274,387	Ps. 684,241	Ps. 1,423,597	Ps. 24,276	Ps. 91,744	Ps. 107,097	Ps. 1,646,714
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The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2007, 2006 and 2005**

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

**IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Cash Flows****for the years ended June 30, 2007, 2006 and 2005**

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

	2007	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income for the year	Ps. 107,097	Ps. 96,573	Ps. 103,245
Adjustments to reconcile net income to net cash flows from operating activities:			
Income tax and MPIT	87,539	58,791	53,207
Depreciation and amortization	98,299	81,313	74,961
Minority interest	32,449	27,190	23,152
Accruals for director's fees	14,464	13,778	13,700
Allowances and provisions	38,612	23,916	14,538
Gain on equity investees	(40,026)	(41,657)	(67,207)
Gain from operations and holdings of real estate assets, net	(2,568)	(12,616)	(27,938)
Financial results	(39,716)	24,252	(27,605)
Gain from recognition of inventories at net realizable value	(20,737)	(9,063)	(17,317)
Goodwill impairment	635		
Gain from sale of inventories		(44,020)	(15,501)
Changes in certain assets and liabilities, net of non-cash transactions and the effects of acquisitions:			
(Increase) decrease in current investments	(29,833)	10,279	(4,532)
Increase in non-current investments	(35,587)	(26,433)	
Increase in mortgages and leases receivables	(79,732)	(80,339)	(49,189)
(Increase) decrease in other receivables	(79,555)	8,128	8,763
Decrease (increase) in inventories	28,967	25,070	(7,418)
(Increase) decrease in intangible assets	(762)	112	(2,323)
Increase in trade accounts payable	65,148	55,980	21,048
(Decrease) increase in customer advances, salaries and social security payable and taxes payable	(12,759)	(28,378)	11,975
Increase (decrease) in other liabilities	9,622	(2,157)	(17,667)
Increase in accrued interest	21,542	13,966	5,598
<b>Net cash provided by operating activities</b>	<b>163,099</b>	<b>194,685</b>	<b>93,490</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Credit default swap agreement			(11,733)
Payment for acquisition of subsidiary net of cash acquired	(56,093)	(4,231)	(4,163)
Acquisition of undeveloped parcels of land	(9,297)	(62,082)	(681)
Acquisition of fixed assets	(410,080)	(54,119)	(79,316)

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Increase in non-current investments		(2,302)	(13,772)
Decrease in minority interest	(40,420)	(7,251)	(17,017)
Guarantee deposit	9,111	(8,610)	
Sale of IRSA Telecommunications N.V.		1,719	
Loans granted to third parties	(3,995)		
Increase in goodwill		684	
Loans granted to related parties		(375)	
<b>Net cash used in investing activities</b>	<b>(510,774)</b>	<b>(136,567)</b>	<b>(126,682)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from settlement of swap agreement		1,190	15,840
Proceeds from short-term and long-term debt	1,199,675	45,066	117,241
Payment of short-term and long-term debt	(292,158)	(82,474)	(167,255)
Collateral deposit			(5,822)
Exercise of warrants	25,958	43,642	105,680
Payment of cash dividends by subsidiaries to minority shareholders	(23,175)	(12,715)	(10,300)
Payment of seller financing of Mendoza Plaza Shopping S.A.		(5,150)	
Decrease in mortgages payable	(18,042)	(25,561)	
Settlement of debt with related companies		(765)	(2,516)
<b>Net cash provided (used in) by financing activities</b>	<b>892,258</b>	<b>(36,767)</b>	<b>52,868</b>
Net increase in cash and cash equivalents	544,583	21,351	19,676
Cash and cash equivalents as of the beginning of the year	163,940	142,589	122,913
Cash and cash equivalents as of the end of the year	Ps. 708,523	Ps. 163,940	Ps. 142,589

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2007, 2006 and 2005**

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

**IRSA Inversiones y Representaciones Sociedad Anónima****Consolidated Statements of Cash Flows****for the years ended June 30, 2007, 2006 and 2005 (continued)**

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

	2007	2006	2005
<b>Supplemental cash flow information:</b>			
<b>Cash paid during the year for:</b>			
Interest	Ps. 43,968	Ps. 51,342	Ps. 47,768
Income tax	17,603	11,440	1,452
<b>Non-cash investing and financing activities:</b>			
Conversion of debt into common shares	Ps. 27,893	Ps. 93,322	Ps. 83,450
Increase in inventory through a decrease in undeveloped parcels of land		33,006	25,979
Liquidation of interest in credit card receivables	8,873	10,364	3,348
Increase in fixed assets through a decrease in undeveloped parcels of land	66,958	1,626	13,371
Increase in inventory through a decrease in fixed assets		1,422	6,084
Increase in fixed assets through an increase in other receivables and prepaid expenses	12,161	348	
Increase in fixed assets through a decrease in inventory	1,521	293	123
Increase in other receivables through a decrease in fixed assets		71	
Increase in other receivables through a decrease in intangible assets		12	
Increase in fixed assets through a decrease in other investments		8	
Increase in intangible assets through a decrease in fixed assets		6	2,126
Increase in fixed assets through an increase in mortgages payable			49,749
Increase in credit card receivables			7,501
Increase in fixed assets through a decrease in other receivables			103
Increase in fixed assets through a decrease in non-current investments			596
Increase in fixed assets through a decrease in trade accounts payable			926
Increase in costs of issuance of debt through an increase in trade accounts payables	1,691		
Increase in short-term and long-term debt through a decrease in other liabilities	2,614		
Decrease in inventory through a decrease in mortgages payables	3,632		
Seller financing for acquisition of Palermo Invest S.A.	27,522		
Increase in fixed assets through an increase in mortgages payable	8,649		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Acquisitions of subsidiary companies:</b>			
Cash and cash equivalents	29,417		1,238
Fair market value of inventories	66,057		
Fair market value of fixed assets acquired	158,549		85,675
Fair market value of other assets acquired (1)	5,661	4,320	11,902
Fair market value of liabilities assumed	(47,491)	(89)	(67,516)

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Net assets acquired	212,193	4,231	31,299
Minority interest	(36,029)		(16,310)
Goodwill	(10,036)		
Purchase price	166,128	4,231	14,989
Seller financing	(80,618)		(9,587)
Purchase price paid	85,510	4,231	5,402
Less: cash and cash equivalents acquired	(29,417)		(1,238)
Net cash paid for the acquisition	56,093	4,231	4,164

**2007**

**Acquisitions of minority interest:**

Fair market value of inventories acquired	2,111		
Fair market value of fixed assets acquired	42,599		
Fair market value of other assets acquired	24,615		
Fair market value of liabilities assumed	(1,098)		
Net assets acquired	68,227		
Minority interest	47,689		
Goodwill	(48,004)		
Purchase price	67,912		
Seller financing	(27,492)		
Purchase price paid	40,420		

(1) In 2006, includes fair market value of undeveloped parcels of lands for 4,222.



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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**

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

**1. Organization and description of business**

IRSA Inversiones y Representaciones Sociedad Anónima ( IRSA ), is a real estate company incorporated under the laws of Argentina which, through its investments in subsidiaries and joint ventures (IRSA and subsidiaries are collectively referred hereinafter as IRSA or the Company ), is primarily involved in (i) the acquisition and development of residential properties primarily for sale and the acquisition of undeveloped land reserves either for future development or sale, (ii) the acquisition, development and operation of office and other non-shopping center properties primarily for rental purposes, (iii) the acquisition, development and operation of shopping center properties, (iv) the acquisition and operation of luxury hotels, (v) credit card operations and (vi) other non-core activities. The Company is the only Argentine real estate company whose shares are listed and traded on both the Buenos Aires Stock Exchange ( BASE ) and the New York Stock Exchange ( NYSE ).

**2. Preparation of financial statements**

**a. Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles used in Argentina, as set forth by the Federación Argentina de Consejos Profesionales de Ciencias Económicas ( FACPCE ) and implemented, adapted, amended, revised and/or supplemented by the Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires ( CPCECABA ) (collectively Argentine GAAP ). In addition, the Company must comply with the regulations of the *Comisión Nacional de Valores* ( CNV ), the National Securities Commission in Argentina. Argentine GAAP and the regulations of the CNV, as applicable, differ in certain significant respects from generally accepted accounting principles in the United States of America ( US GAAP ). Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by US GAAP and Regulation S-X of the Securities and Exchange Commission ( SEC ). A description of the significant differences between Argentine GAAP and US GAAP as they relate to the Company are set forth in Note 28 to these consolidated financial statements.

Additionally as discussed in Note 3.m. in order to comply with the regulations of the CNV, the Company recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represented a departure from Argentine GAAP but did not have a material effect on the consolidated financial statements for the years ended June 30, 2006 and 2005. As further discussed in Note 2.d., in December 2005 and January 2006, 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 as from January 1, 2006, there is no longer a difference on this subject between Argentine GAAP and the CNV regulations.

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

**b. Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries over which the Company has effective control. Investments in companies in which the Company exercises significant influence, but not control, are accounted for under the equity method. Investments in joint ventures and/or jointly controlled operations in which the company exercises joint control are accounted for under the proportionate consolidation method. All significant intercompany balances and transactions have been eliminated in consolidation.

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In accordance with Argentine GAAP, the presentation of the parent company's individual financial statements is mandatory. Consolidated financial statements are to be included as supplementary information to the individual financial statements. For the purpose of these financial statements, individual financial statements have been omitted since they are not required for SEC reporting purposes.

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**Table of Contents****IRSA Inversiones y Representaciones Sociedad Anónima****Notes to the Consolidated Financial Statements****for the years ended June 30, 2007, 2006 and 2005**

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

**2. Preparation of financial statements (continued)****b. Principles of consolidation (continued)**

A description of the subsidiaries over which the Company has effective control, with their respective percentage of capital stock owned, is presented as follows:

	Percentage of capital stock owned as of June 30, (i)		
	2007	2006	2005
<b>Controlled companies</b>			
Ritelco S.A. ( Ritelco )	100.00%	100.00%	100.00%
Palermo Invest S.A. ( Palermo Invest ) (v)	100.00%	66.67%	66.67%
Abril S.A. ( Abril ) (ii)		83.33%	83.33%
Pereiraola S.A. ( Pereiraola ) (ii)	100.00%	83.33%	83.33%
Baldovinos S.A. ( Baldovinos ) (ii)		83.33%	83.33%
Hoteles Argentinos S.A. ( Hoteles Argentinos )	80.00%	80.00%	80.00%
Patagonian Investment S.A. (Patagonian Investment) (iii) and (vi)	100.00%		
Buenos Aires Trade & Finance Center S.A. ( BAT&FCSA ) (iv)			100.00%
Alto Palermo S.A. ( Alto Palermo or APSA )	62.48%	61.54%	60.69%
Llao Llao Resorts S.A. ( Llao Llao Resorts or LLR )	50.00%	50.00%	50.00%
Rummaala S.A. ( Rummaala ) (iii) and (Note 27)	100.00%		
Canteras Natal Crespo S.A. ( Canteras Natal Crespo )	50.00%	43.18%	
CYRSA S.A. ( CYRSA ) (vii)	100.00%		
Solares de Santa María S.A. ( Solares de Santa María ) (iii)	90.00%		
Inversora Bolívar S.A. ( Inversora Bolívar )	100.00%	66.67%	

- (i) Percentage of equity interest owned has been rounded and does not contemplate the effects of the potential conversion of irrevocable contributions into common shares.
- (ii) Equity interest in Abril, Pereiraola and Baldovinos were held 50% directly by the Company and 50% indirectly through its subsidiary Palermo Invest. In fiscal year 2007, Baldovinos was merged with and into Inversora Bolívar, subsidiary consolidated with Palermo Invest. See Note 2.f. for details.
- (iii) See Note 2.f. for details.
- (iv) Merged with and into the Company effective December 1, 2005.
- (v) Equity interest in Palermo Invest was held 98% directly by the Company and 2% indirectly through its wholly owned subsidiary Patagonian Investment.
- (vi) Formed on July 21, 2006.
- (vii) Formed on April 13, 2007 to develop specific projects.

**Proportionate consolidation**

The Company exercises joint control over Metroshop (through APSA) and Canteras Natal Crespo. As required by Technical Resolution No. 21 Equity Method of Accounting, Consolidation of Financial Statements and Related Party Transactions ( RT No. 21 ), under Argentine GAAP, the

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Company accounted for this investment under the proportionate consolidation method. Accordingly, these financial statements reflect the Company's pro rata equity interest in these investments on a line-by-line basis.

### **c. Presentation of financial statements in constant Argentine pesos**

On August 22, 1995, the Argentine government issued Decree No. 316/95 discontinuing the requirement that financial information be restated for inflation for any date or period after August 31, 1995. Effective September 1, 1995 in accordance with CNV resolutions and Argentine GAAP, the Company began accounting for its financial transactions on a historical cost basis, without considering the effects of inflation. Prior to September 1, 1995, the financial statements were prepared on the basis of general price level accounting, which reflected changes in purchasing power of the Argentine Peso in the historical financial statements. The financial statement information of periods prior to August 31, 1995 was restated to pesos of general purchasing power as of August 31, 1995. The August 31, 1995 balances, adjusted to the general purchasing power of the Peso at that date, became the historical cost basis for subsequent accounting and reporting.

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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**

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

**2. Preparation of financial statements (continued)**

**c. Presentation of financial statements in constant Argentine pesos (continued)**

However, as a result of the inflationary environment in Argentina in 2002, the CPCECABA approved on March 6, 2002, a resolution reinstating the application of inflation accounting in financial statements as from January 1, 2002. This resolution provided that all recorded amounts restated for inflation through August 31, 1995, as well as those arising between that date and December 31, 2001 are to be considered stated in currency as of December 31, 2001.

On July 16, 2002, the Argentine government issued a decree, instructing the CNV to issue the necessary regulations for the acceptance of financial statements prepared in constant currency. On July 25, 2002, the CNV reinstated the requirement to submit financial statements in constant currency.

However, after considering inflation levels for the second half of 2002 and the first months of 2003, on March 25, 2003, the Argentine government repealed the provisions of the previous decree related to the inflation adjustment and instructed the CNV to issue the necessary regulations to preclude companies under its supervision from presenting price-level restated financial statements. Therefore, on April 8, 2003, the CNV issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. The Company complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003.

Since Argentine GAAP required companies to discontinue inflation accounting as from October 1, 2003, the application of the CNV resolution represented a departure from Argentine GAAP. However, due to the low level of inflation rates during the period from March to September 2003, such a departure did not have a material effect on the consolidated financial statements.

**d. Adoption by the CNV of CPCECABA accounting standards**

The CNV issued General Resolutions 485 and 487 on December 29, 2005 and January 26, 2006, respectively adopting, with certain modifications, the new accounting standards previously issued by the CPCECABA through its Resolution CD 93/2005. These standards are to be mandatorily applied for fiscal years or interim periods corresponding to fiscal years beginning as from January 1, 2006. The standards were effective for the Company for the year ended June 30, 2007.

The most significant changes included in the accounting standards adopted by the CNV relate to (i) changes in the impairment test of long-lived assets, (ii) changes to deferred income tax accounting and (iii) accounting of deferred income taxes on a non-discounted basis.

Under the new standards, the carrying value of a long-lived asset is considered impaired by a company when the expected cash flows from such asset is separately identifiable and less than its carrying value. Expected cash flows are determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

The new standards provide for the accounting treatment of differences between the tax basis and book basis of non-monetary items for deferred income tax calculation purposes when companies prepare price-level restated financial statements. The new accounting standard mandates companies to treat these differences as temporary differences but allows a one-time accommodation to continue treating these differences as permanent at the time of adoption of the standard. As a result, the Company elected to continue treating differences as permanent. As of June 30, 2007, the estimated effect of treating the differences as temporary would have been an increase in total liabilities of Ps. 176.0 million against

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(i) a decrease in retained earnings of Ps. 188.4 million and (ii) an additional gain of Ps. 12.4 million for the year ended June 30, 2007.

### **e. Reclassifications**

Certain reclassifications of prior year's information have been made to conform to the current year presentation.

### **f. Significant acquisitions, dispositions and development of businesses**

In the preparation of these consolidated financial statements, unless otherwise indicated, the operating results of all acquired businesses have been included in the Company's consolidated financial statements since the date of the respective acquisition.

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**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2007, 2006 and 2005**

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

**2. Preparation of financial statements (continued)**

**f. Significant acquisitions, dispositions and development of businesses (continued)**

Year ended June 30, 2007

Acquisition of plots of land in Bariloche

In December 2006, the Company's subsidiary, LLR acquired from an unrelated party a 129,533 square meters plot of land located in Colonia Nahuel Huapi, Bariloche in the Province of Rio Negro, Argentina, for an aggregate purchase price of US\$ 7 million. The transaction was financed US\$ 4.2 million in cash and US\$ 2.8 million through the assumption of a first-degree mortgage on the property. The mortgage, bearing interest at a fixed rate of 7% per annum, will be payable in 36 monthly installments of US\$ 86 each, beginning on January 14, 2007.

Acquisition of additional interest in Palermo Invest

In October 2006, the Company acquired the remaining 33.33% of Palermo Invest from GSEM/AP Holdings, L.P. for an aggregate purchase price of US\$ 18 million. Palermo Invest is a corporation whose main activity is the purchase and holding of equity securities of entities whose principal businesses are real estate and investment in equity securities and other form of investment. The transaction was financed US\$ 9.0 million in cash and US\$ 9.0 million through a note payable in three annual installments of US\$ 3.0 million each, beginning on October 4, 2007. The note will accrue interest at a fixed rate of 9% per annum.

Purchase of additional 50% of E-Commerce Latina S.A. shares

On January 2007, the Company's subsidiary APSA acquired the remaining 50% in E-commerce Latina S.A., through which the Company offered its products via internet on the altocity.com website. Effective March 1<sup>st</sup>, 2007, the website was deactivated. However, E-commerce Latina S.A. started new business activities. E-commerce Latina S.A. restructured its business activities away from internet-based operations. Activity was not significant as of June 30, 2007.

Bid for the acquisition of Patio Olmos

In November 2006, the Company's subsidiary APSA submitted a bid for the acquisition of a property known as Edificio Ex Escuela Gobernador Vicente de Olmos ( Olmos ) located in Cordoba, Argentina for Ps. 32.5 million. The Company made a down payment of Ps. 9.7 million under the terms of the bidding process. The property, which is located in the City of Cordoba, is a 5,147 square meter four-story building comprising commercial space, parking lots and movie theatres. The property is subject to a 40-year concession contract granted to an unrelated party for the commercial use of the building. Pursuant to the concession granted in 1990 from the Provincial Government of Cordoba, the licensee should pay the owner of the building a monthly concession fee actually amounting to Ps. 10.1 increasing in Ps. 2.5 every 47 months. The closing of the purchase is subject to several regulatory approvals. On January 15, 2007, the Company was served notice of certain objections from the Argentine Antitrust Authority seeking to enjoin the Company from completing the bid. In addition, in January 2007, the National Commission for the Defense of Competition notified the Company of two claims filed against it. One claim was filed by an individual and the other by the actual licensee of the concession. As of the date of these financial statements, these claims are still pending resolution.

Acquisition of Rummaala

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On January 16, 2007, the Company acquired the total shares of the company named Rummaala, the main asset of which is a plot of land located in Vicente Lopez, Province of Buenos Aires. The purchase price was US\$ 21,172, payable as follows: (i) US\$ 500 in cash paid in April 2006; (ii) US\$ 3,752 in cash and (iii) by delivering certain units of the building to be constructed in the land owned by Rummaala in the amount of US\$ 16,920, within a 4-year term as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever last occurs. As security for compliance with the construction of the future building and transfer of the future units, the shares acquired were pledged. Simultaneously with the former transaction, Rummaala acquired a plot of land adjacent to its own property in the amount of US\$ 15,000, payable as follows: (i) US\$ 500 in cash paid in April 2006; (ii) by delivering certain units of buildings Cruceros I and II owned by the Company in the amount of US\$ 1,247 and (iii) by delivering certain units of the building to be constructed in the land acquired in the amount of US\$ 13,253, within a 40-month term considered as from the approval date of the plans by the related authorities or when the facilities be vacated, whichever last occurs. As security for compliance with the construction of the future building and transfer of the future units, the Company's property located at Suipacha 652 was mortgaged.

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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**

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

**2. Preparation of financial statements (continued)**

**f. Significant acquisitions, dispositions and development of businesses (continued)**

**Panamerican Mall Project**

In June 2006, the Company acquired from an unrelated party, Phillips Argentina S.A., a 28,741 square meters plot of land (the Phillips land ) located in Saavedra, a neighborhood in the northern area of Buenos Aires, for an aggregate purchase price of US\$ 17.9 million. The Company developed a project for the construction of a mall including a hypermarket, a movie theatre complex and office and/or residential buildings. For that purpose, in December 2006, the Company entered into a Construction, Management and Commercialization Agreement with an unrelated party, Centro Comercial Panamericano S.A. ( CCP ) to partner in the project. The Company incorporated Panamerican Mall S.A. ( PAMSA ) for this purpose. The Company contributed cash and the Phillips land to PAMSA amounting to Ps. 158.3 million. PAMSA acquired from CCP an adjacent property amounting to Ps. 36.9 million through cash and 20% of the stock of PAMSA. In addition, the Company and CCP committed to make capital contributions amounting to US\$ 37.8 million and US\$ 9.4 million, respectively, to complete the project.

**Córdoba Shopping**

On December 27, 2006, the Company acquired 100% interest in the Cordoba Shopping Villa Cabrera located in Cordoba, Argentina owned by Empalme S.A.I.C.F.A.I.G. ( Empalme ). The property, which is located in the Villa Cabrera neighborhood of the city of Cordoba, is a 35,000 square meter shopping center comprising 106 stores, a 12 movie theatre complex and a 1,500-vehicle parking lot. The interest was acquired for US\$ 13.3 million. The Company paid US\$ 7.3 million in cash and financed the remaining portion of the purchase price in three equal installments of US\$ 2 million each due every six months as from December 2007. This financing accrues interest at a fixed rate of 6% per annum. Governmental approval was obtained in December 2006.

**Incorporation of Solares de Santa Maria – Sale of Santa Maria del Plata and sale of shares**

In May 2007, the Company formed Solares de Santa Maria ( Solares ) and contributed cash in the amount of Ps. 310,000. Solares acquired the Ex Ciudad Deportiva Boca Juniors (Santa Maria del Plata) plot of land located in Buenos Aires for US\$ 100,000. On June 26, 2007, the Company sold in commission a 10% interest in Solares to Israel Sutton Dabbah.

**Transfer of the administration of Abril**

On May 24, 2006, the Company, together with its subsidiaries, Inversora Bolívar and Baldovinos revised the May 4, 2005 proposal submitted to the Residents Committee of Abril Club de Campo (the Club ) pursuant to which the Company would transfer the Club s management and shares of Abril to the residents (the Letter of Offer ). Under the Letter of Offer, the Company and its subsidiary Inversora Bolívar, will:

- 1- Contribute cash to Abril for Ps. 650 and repave the Club s roads and streets;
- 2- Transfer to Abril of two plots of land;

- 3- Pay severance to one dismissed employee of Abril;
- 4- Grant Abril a free and perpetual right of way and covenant not to build on certain premises;
- 5- Settle unpaid municipal taxes claimed by the Municipality where the Club is located if higher than amounts recognized as of September 30, 2005.

In June 2007, after compliance of the letter of Office, the Company transferred the Class A and Class B shares of Abril to a trust. The trustee, as instructed by the residents of the Club, elected three directors of the Board of Directors of Abril.

**Acquisition of additional shares of Canteras Natal Crespo**

In a series of transactions between December 2006 and January 2007, the Company increased its ownership interest in Canteras Natal Crespo to 55.93% for an aggregate purchase price of US\$ 645. Subsequently, in April 2007, the Company sold 5.93% to ECIPSA for US\$ 312. The Company's interest in Canteras Natal Crespo is 50% as of the date of these financial statements.

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**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2007, 2006 and 2005**

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

**2. Preparation of financial statements (continued)**

**f. Significant acquisition, dispositions and development of businesses (continued)**

**Acquisition of the Bouchard Building**

On March 15, 2007, the Company acquired from an unrelated party a 33,324 square meter office building known as Bouchard Building for an aggregate purchase price of US\$ 84,100. The transaction was fully paid in cash as of the date of these financial statements. The Argentine Antitrust Authority issued a resolution requiring the Company to inform the transaction as one of concentrating interests. The Company rejected this requirement and the case is still pending resolution.

**Purchase option of Edificio República**

On December 22, 2006, the Company entered into a Put and Call Option Agreement (the Agreement) with Banco Comafi S.A., as trustee of the Fideicomiso República ( República Trust ), for the acquisition of an office building known as Tucuman 1 República Building, located in Buenos Aires. The exercise of the call and put option is subject to certain conditions for closing and is exercisable within 60 days as from the fulfillment of those conditions. Upon transfer of title, the Company has to pay 50% of the purchase price of US\$ 74,000, while the remaining 50% has to be paid semi-annually in 5 installments accruing interest at a fixed rate of 8% per annum. The balance will be secured by a mortgage on the property.

**Acquisition of the Dock Del Plata Building**

In June 2005, the Company entered into a Credit Default Swap Agreement (the Agreement) with Credit Suisse International ( CSI ) pursuant to which the Company, provided certain conditions were met, would acquire a mortgage receivable for US\$ 10,000 on a 8,900 square meter office building known as Dock del Plata Building located in Puerto Madero, Buenos Aires. As guarantee for the Agreement, the Company paid a deposit US\$ 4,000. The Agreement was rescinded in November 2006 and the guarantee deposit was released. The Company executed the mortgage and acquired the building for US\$ 8,800 (using US\$ 4,000 of the deposit guarantee plus available cash of US\$ 4,800).

**Year ended June 30, 2006**

**Investment in IRSA Telecomunicaciones N.V. (ITNV)**

On August, 2005, a share purchase agreement was entered into by and between ITNV, Ritelco and Dolphin Fund PLC (another shareholder of ITNV) whereby ITNV acquired all the common shares held by those shareholders for US\$ 0.1470333852 per share. The amount of this transaction is US\$ 850, of which US\$ 604 correspond to Ritelco. On that date, ITNV cancelled the total amount of the transaction.

**Acquisition of Canteras Natal Crespo**

During the fiscal year ended June 30, 2006, the Company acquired from Ecipsa Holding S.A. (ECIPSA), a 43.18% equity interest in Canteras Natal Crespo. Such shares have equal percentage of votes. The total amount agreed for such purchase was US\$ 1,541.

Canteras Natal Crespo is a company located in the Province of Cordoba, Argentina, which primary operations are the development of own or third-party plots, countries, sale or rent of plots of land, real estate and house-building.

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### General Paz plot of land

On June 29, 2006 the Company's subsidiary, APSA acquired from Philips Argentina S.A. a plot of land located in the northern area of Buenos Aires, covering 28,741 square meters of surface area. The purchase price was US\$ 17.9 million, which was fully paid.

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**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2007, 2006 and 2005**

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

**2. Preparation of financial statements (continued)**

**f. Significant acquisition, dispositions and development of businesses (continued)**

**Purchase of additional shares and convertible notes of APSA**

During the fiscal year ended June 30, 2006 the Company acquired 759,393 shares of APSA for a total amount of Ps. 4.3 million. As a result of this transaction, the Company's ownership interest in APSA increased from 60.69% to 61.54%.

**Sale of the Alcorta Plaza plot of land**

On December 22, 2005, the Company subscribed a preliminary purchase contract with possession, by which the Company sold to RAGHSA S.A. the plot of land denominated Alcorta Plaza for a total price of US\$ 7.7 million. On March 13, 2006 the deed title of the building was registered and a first privilege degree mortgage guarantee was established on certain functional units to be used as offices and garages of the building property of RAGHSA S.A., located in Buenos Aires. The mortgage amounted to US\$ 4.4 million. The agreed terms and conditions of payment were determined in four installments of US\$ 1.9 million and 7.5% annual interest on the balance. The first three installments have been collected at the date of these financial statements.

**Year ended June 30, 2005**

**Purchase of additional shares and convertible notes of APSA**

On November 30, 2004, the Company purchased from GSEM/AP, a Goldman Sachs subsidiary, 3,061,450 units of APSA Convertible Notes with a nominal value of US\$ 1 per note and 4,458,080 shares of APSA, for a total consideration of US\$ 15.3 million. At the same time, in accordance with the shareholders agreement entered into with Parque Arauco S.A., the Company sold to Parque Arauco S.A. 1,004,866 units of APSA Convertible Notes and 1,463,284 shares at the same price paid to Goldman Sachs, totaling US\$ 5.1 million. As a result of this transaction, the Company's ownership interest in APSA increased from 53.81% to 60.69%.

**Mendoza Plaza Shopping**

On September 29, 2004, the Company's subsidiary, APSA, entered into a purchase agreement pursuant to which APSA acquired an additional 49.9% ownership interest in Mendoza Plaza Shopping for US\$ 5.3 million. APSA paid US\$ 1.77 million on December 2, 2004 and the remaining balance was paid in two equal annual installments of US\$ 1.77 million each on September 29, 2005 and 2006. Through this acquisition, APSA became the holder of record of 68.8% of the capital stock of Mendoza Plaza Shopping, the main activity of which is the operation of the Mendoza Plaza Shopping center in the city of Mendoza. APSA also entered into the following contracts in connection with debt owed by Mendoza Plaza Shopping:

(i) Put option with Banco de Chile S.A. ( Banco de Chile ), whereby Banco de Chile was entitled, although not obliged, to assign to APSA two defaulted credit agreements amounting to US\$ 18 million originally granted to Mendoza Plaza Shopping. As a result of the economic measures issued in Argentina in 2002, these financial agreements had been converted into Argentine pesos at the exchange rate of Ps. 1.0 per US Dollar and indexed based on the reference stabilization index (CER). On March 30, 2005 Banco de Chile executed the put option, transferring all the rights of the credit facilities to APSA in exchange for US\$ 8.5 million (Ps. 24.8 million).

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(ii) Call option with HSBC Bank Argentina S.A., whereby APSA was entitled, although not obliged, to acquire, and HSBC Bank Argentina S.A. was obliged to transfer, a defaulted loan agreement originally granted to Mendoza Plaza Shopping amounting to US\$ 7.0 million. As a result of the economic measures issued in Argentina in 2002, this financial agreement was converted into Argentine pesos at the exchange rate of Ps. 1.0 per US Dollar and indexed by the reference stabilization index (CER). On March 29, 2005 APSA transferred the purchase option to Mendoza Plaza Shopping, which exercised the option paying Ps. 6.8 million for the settlement of the loan (corresponding to the exercise price of Ps. 7.2 million net of rental fees collected by HSBC Bank Argentina S.A. as guarantee amounting to Ps. 0.4 million). This cash payment was funded through a loan granted by APSA.

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**for the years ended June 30, 2007, 2006 and 2005**

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

**2. Preparation of financial statements (continued)**

**f. Significant acquisition, dispositions and development of businesses (continued)**

(iii) APSA also entered into an agreement with Inversiones Falabella Argentina S.A. ( Falabella ), the remaining minority shareholder of Mendoza Plaza Shopping, pursuant to which, among other things, Falabella has the irrevocable right to sell to APSA (put option) its ownership interest in Mendoza Plaza Shopping for a total consideration of US\$ 3.0 million. The put option can be exercised until the last business day of October 2008. As of the date of issuance of these financial statements, such option has not been exercised.

On May 31, 2005 the shareholders of Mendoza Plaza Shopping approved the conversion of debt owed to APSA totaling Ps. 36.1 million into common shares. As a result of this transaction, APSA increased its ownership interest in Mendoza Plaza Shopping from 68.8% to 85.4%.

**Alto Rosario Shopping**

On November 9, 2004, the Company's subsidiary, APSA opened a new developed shopping center, Alto Rosario, in the city of Rosario, Province of Santa Fe, Argentina.

**g. Use of estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting years. Significant estimates include those required in the accounting for barter transactions, gain from recognition of inventories at net realizable value, provisions and allowances for contingencies, impairment of long-lived assets, debt restructuring, deferred income asset and asset tax credit. Future actual results could differ from those estimates and evaluations made at the date of preparation of these financial statements.

**3. Significant accounting policies**

The following is a summary of significant accounting policies followed by the Company in the preparation of these consolidated financial statements.

**a. Revenue recognition**

The Company primarily derives its revenues from domestic office and shopping center leases and services operations, credit card operations, the development and sale of properties, hotel operations and other non-core activities. See Note 6 for details on the Company's business segments.

Development and sale of properties

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The Company records revenue from the sale of properties when all of the following criteria are met:

- (i) the sale has been consummated;
- (ii) the Company has determined that the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
- (iii) the Company's receivable is not subject to future subordination; and

(iv) the Company has transferred to the buyer the risk of ownership, and does not have a continuing involvement in the property. The Company uses the percentage-of-completion method of accounting with respect to sales of development properties under construction effected under fixed-priced contracts. Under this method, revenue is recognized based on the ratio of costs incurred to total estimated costs applied to the total contract price. The Company does not commence revenue and cost recognition until such time as the decision to proceed with the project is made and construction activities have begun.

The percentage-of-completion method of accounting requires company's management to prepare budgeted costs (i.e. the estimated costs of completion) in connection with sales of properties and/or units. All changes to estimated costs of completion are incorporated into revised estimates during the contract period.



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

**3. Significant accounting policies (continued)**

**a. Revenue recognition (continued)**

**Leases and services from office and other buildings**

Leases with tenants are accounted for as operating leases. Tenants are charged a monthly rent. Rental income is recognized on a straight-line basis over the term of the lease and unpaid rents are included in accounts receivable in the accompanying consolidated balance sheets.

**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.

For the years ended June 30, 2007, 2006 and 2005, the majority of the tenants were charged with the Percentage Rent.

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.

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 earned.

In addition to rent, tenants are generally charged **admission rights**, a non-refundable admission fee that tenants may be required to pay upon entering into a lease and 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.

The Company also derives revenues for parking lot fees charged to visitors. Parking revenues are recognized as services are performed.

**Lease agent operations**

The Company's subsidiaries FIBESA S.A. and Comercializadora Los Altos S.A. (formerly Altocity.com S.A.), wholly owned APSA's subsidiary act as leasing agents for the retail space available in certain of the Company's shopping centers. FIBESA's and Comercializadora Los Altos S.A. revenues are derived primarily from collected fees calculated as a percentage of the final rental income value. Revenues are recognized at the

time that the transaction is successfully concluded. A transaction is considered successfully concluded when both parties have signed the related lease contract.

#### Credit card operations

The Company, through its indirect subsidiary through APSA, Tarshop S.A. ( Tarshop ), derives revenues from credit card transactions which primarily are comprised of (i) merchant discount fees which are recognized when transactional information is received and processed by the Company; (ii) data processing services which consist of processing and printing cardholders statement of accounts, and which are recognized as services are provided; (iii) life and disability insurance charges to cardholders which are recognized on an accrual basis and (iv) interest income generated by financing by financing and lending activities.

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**for the years ended June 30, 2007, 2006 and 2005**

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

**3. Significant accounting policies (continued)**

**a. Revenue recognition (continued)**

Hotel operations

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

**b. Cash and cash equivalents**

For purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalent consist of time deposits with original maturities of less than three months at date of purchase and mutual funds. 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.

**c. Investments**

(i) Current

Current investments primarily include mutual funds, time deposits and mortgage and government bonds. Time deposits are valued at cost plus accrued interest at year-end. Mutual funds and mortgage and government bonds are carried at market value at year-end.

Unrealized gains and losses on these investments are included within Financial results, net in the accompanying consolidated statements of income.

Current investments also include the current portion of the retained interests in transferred receivables pursuant to the securitization programs of Tarshop (See Note 16) and the retained interest in transferred mortgage receivables (See Note 15).

(ii) Non-current

a) Equity investments

The Company has an 11.76% investment in Banco Hipotecario S.A. ( BHSA ). This investment is accounted for under the equity method due to the significant influence of the Company on the decisions of BHSA and to the intention of holding the investment permanently. In accordance with regulations of the *Banco Central de la República Argentina* ( BCRA ) and also as imposed by the agreements signed by BHSA as a result of its financial debt restructuring process, there are certain restrictions on the distribution of profits by BHSA. The Company also has a 5.10% investment in Banco de Crédito y Securitización S.A. ( BACSA ).

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The financial statements of BHSA and BACSA are prepared in accordance with BCRA standards. For the purpose of valuation of the investment in the Company adjustments necessary to adequate the financial statements to Argentine GAAP have been considered.

The Company's purchase of Empalme, Palermo Invest and certain other businesses have been accounted for following the guidance in Technical Resolution No. 18, Specific Considerations for the Preparation of Financial Statements as explained in Note 2.f. The purchase price was allocated based on the fair value of each component. However, since the sum of the individual fair values of the identifiable tangible and intangible assets exceeded the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases and tenant relationships, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line method over the remaining weighted average useful life at the main tangible assets acquires Accordingly, pursuant to Argentine GAAP, the amount of negative goodwill was fully allocated to reduce the value of intangible assets acquired to zero and the remaining unallocated amount is amortized.

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

**3. Significant accounting policies (continued)**

**c. Investments (continued)**

b) Retained interests in securitization programs

Non-current investments also include the retained interests in transferred receivables pursuant to the securitization programs of APSA's subsidiary, Tarshop (see Note 16).

Also include the Company's retained interests in securitized mortgage receivables pursuant to the securitization programs entered into by the Company (see Note 15).

c) Undeveloped parcels of land

The Company acquires undeveloped land in order to provide an adequate and well-located supply for its residential and office building operations. The Company's strategy for land acquisition and development is dictated by specific market conditions where the Company conducts its operations.

Land held for development and sale and improvements are stated at cost (adjusted for inflation as described in Note 2.c.) or estimated fair market value, whichever is lower. Land and land improvements are transferred to inventories or fixed assets, as appropriate, when the Company determines that the properties are to be marketed for sale, when construction commences or the land is leased.

The carrying amount does not exceed their respective estimated recoverable value at the end of this year.

During year ended June 30, 2002 and due to Argentina's crisis, the Company had recognized significant impairment losses in connection with certain parcels of undeveloped land (identified as Santa Maria del Plata, Torres Jardín IV, Caballito Project, Alcorta Plaza, Coto air space and Neuquén). In addition, during the years ended June 30, 2003 and 2007, the Company also recognized additional impairment losses totaling Ps. 9,628 and Ps. 20, respectively, in connection with other parcels of undeveloped land (mainly Padilla 902, Pilar, Constitución 1111, Benavidez and Rosario Project and Torres Jardín IV). As a result of an increase in their respective fair market values, during the years ended June 30, 2004, 2005, 2006 and 2007, the Company partially reversed these impairment losses, recognizing gains of Ps. 15,146 (Caballito Project, Alcorta Plaza, Coto Air Space, Neuquén, Torres de Caballito, Pilar, Torres Jardín IV and Constitución 1111), Ps. 3,585 (Torres Jardín IV, Padilla 902, Neuquén, Caballito Project, Alcorta Plaza and Coto air space), Ps. 6,421 (primarily Caballito Project, Coto air space and Merlo), and Ps. 20 (primarily Conil and Padilla 902) respectively. The impairment losses and gains associated with the reversal of previously recognized impairment charges have been included within Gain from operations and holdings of real estate assets, net in the accompanying consolidated statements of income.

**d. Inventories**

Inventories are comprised primarily of properties held for development and sale and to a lesser extent other minor inventories from hotel operations. A property is classified as held for sale upon determination by the Board of Directors that the property is to be marketed for sale in the normal course of business.

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Residential, office and other non-retail properties completed or under construction are stated at acquisition or construction cost (adjusted for inflation as described in Note 2.c.) less allowances for impairment or estimated fair market value, whichever is lower. The Company records impairment losses for certain inventories which have market values lower than costs. Costs include land and land improvements, direct construction costs, interest on indebtedness and real estate taxes. During the year ended June 30, 2006, the Company capitalized interest costs amounting to Ps. 222, in connection with the development of San Martin de Tours project.

Inventories on which the Company received down payments that fix the sales price and the terms and conditions of the contract assure reasonably the closing of the transaction and realization of the gain, are valued at net realizable value. See Gain from recognition of inventories at net realizable value in the consolidated statements of income.

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**for the years ended June 30, 2007, 2006 and 2005**

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

**3. Significant accounting policies (continued)**

**d. Inventories (continued)**

Properties held for sale are classified as current or non-current based on the estimated date of sale and the time at which the related receivable is expected to be collected by the Company.

In addition, inventory includes receivables representing the rights to receive certain property units. The units relating to the buildings called Torres Caballito, Benavidez and Dique III have been valued at acquisition or construction cost, as applicable.

During the years ended June 30, 2002 and due to Argentina's crisis, the Company had recognized significant impairment losses and during the years ended June 30, 2003 and 2006 the Company also recognized additional impairment losses totaling Ps. 844 and Ps. 206, respectively, in connection with certain properties classified as inventories (identified as Av. Madero 1020, Rivadavia 2768, Minetti D, Torres Jardín, Sarmiento 517, parking lots in Dock 13, Constitución 1111, Terrenos de Caballito, Padilla 902 and Torres de Abasto). As a result of an increase in their fair market values, during the years ended June 30, 2004, 2005, 2006 and 2007 the Company partially reversed previously recognized impairment losses, recognizing a gain of Ps. 6 (Rivadavia 2768), Ps. 297 (primarily in connection with Torres Jardín, Minetti D and parking lots in Dock 13), Ps. 11 (primarily in connection with Minetti D and Torres Jardín), and Ps. 101 (only Torres de Abasto). The impairment losses and gains associated with the reversal of previously recognized impairment charges have been included within Gain (loss) from operations and holdings of real estate assets, net in the consolidated statements of income.

**e. Fixed assets, net**

Fixed assets, net are comprised primarily of rental properties (including shopping centers), hotels and other property and equipment held for use by the Company.

**Rental properties (including shopping centers)**

Rental properties are carried at cost (adjusted for inflation as described in Note 2.c.), less accumulated depreciation and allowances for impairment. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, which are estimated between 10 to 30 years for office buildings and related improvements and between 19 and 31 years for shopping centers. Expenditures for maintenance and repairs are charged to expense as incurred. Significant renewals and improvements are capitalized and depreciated over their estimated remaining useful lives. At the time depreciable assets are retired or otherwise disposed of, the cost and the accumulated depreciation and allowances for impairment of the assets are removed from the accounts and any profit or loss is recognized. The Company capitalizes interest on long-term construction projects. During the year ended June 30, 2007 and 2005 APSA capitalized financial costs amounting to Ps. 7.1 million and Ps. 2.1 million, in connection with the construction of the Panamerican Mall and Shopping Alto Rosario.

During the year ended June 30, 2002 and due to Argentina's crisis the Company had recognized significant impairment losses in connection with certain properties (identified as Libertador 498, Maipú 1300, Avda. Madero 1020, Suipacha 652, Laminar Plaza, Reconquista 823, Constitución 1111, Dique 2 M10- Edificio C-, Libertador 602, Dock 2 M10 -Building A-, Avda. Madero 942, Avda. De Mayo 595, Costeros Dique IV and Sarmiento 517, Intercontinental Plaza, Alto Palermo Park, Alto Palermo Plaza, Thames, Hotel Intercontinental, Alto Avellaneda, Alto Noa, Abasto and other properties). In addition, during the years ended June 30, 2003 and 2005, the Company also recognized impairment losses

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totaling Ps. 1,892 in connection with certain properties (identified as Avda. Madero 1020, Reconquista 823, Avda. Madero 942, and Sarmiento 517) and Ps. 245 in connection with certain properties (identified as Lotes Abril Club de Campo), respectively. As a result of increases in their fair market values, during the years ended June 30, 2003, 2004, 2005, 2006 and 2007 the Company partially reversed the impairment losses, recognizing gains of Ps. 15,532, Ps. 47,880, Ps. 24,301, Ps. 6,390 and 2,467 (primarily Neuquén, Suipacha 654, Av. de Mayo 589, Reconquista 823, Constitución 1111, Torre Constitución 1159, and Sarmiento 517), respectively. The impairment losses and gains associated with the reversal of previously recognized impairments have been included within Gain from operations and holdings of real estate assets, net in the accompanying consolidated statements of income.

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

**3. Significant accounting policies (continued)****e. Fixed assets, net (continued)**

## Other property and equipment

Other property and equipment are carried at cost (adjusted for inflation as described in Note 2.c.), less accumulated depreciation at the end of the year. Accumulated depreciation is computed under the straight-line method over the estimated useful lives of the assets, as specified below:

Asset	Estimated useful life (years)
Leasehold improvements	Lesser of lease term or asset useful life
Facilities	Between 10 and 20
Machinery and equipment	10
Vehicles	Between 3 and 5
Software	Between 3 and 5
Computer equipment	Between 3 and 4
Furniture and fixtures	Between 5 and 10
Other	10

During the year ended June 30, 2007, independent appraisals reassessed the appropriateness of the useful lives of the Company's office buildings and other properties. As a result of the work, the Company changed the useful lives of these properties and recognized an additional depreciation of Ps. 8.6 million related to these assets.

**f. Intangible assets, net**

Intangible assets are carried at cost, adjusted for inflation (as described in Note 2.c.), less accumulated amortization.

## Preoperating and organization expenses

Represents primarily expenses incurred relating to pre-opening activities of certain shopping centers. These expenses are amortized on a straight-line basis over a three-year period commencing upon the opening of the shopping center.

## Trademarks

Fees and expenses related to the registration of trademarks are amortized on a straight-line basis over 10 years.

**g. Negative goodwill, net**

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Goodwill represents the excess of cost over the fair value of net identifiable assets. Goodwill is being amortized under the straight-line method over a period not to exceed 10 years.

When the sum of the individual fair values of the identifiable tangible and intangible assets exceeds the purchase price paid, negative goodwill exists. Under Argentine GAAP, when negative goodwill exists after an acquiring entity initially assigns values to all assets acquired and liabilities assumed, RT No. 18 states that the entity must first reassess whether all acquired assets and assumed liabilities have been identified and properly valued. If an amount of negative goodwill still results after this reassessment, intangible assets acquired (including above and below market leases, in-place leases and tenant relationships, as applicable), are subject to reduction. If after all of these intangible assets are reduced to zero and an amount of negative goodwill still remains, the remaining unallocated negative goodwill is amortized under the straight-line method over the weighted average useful life of the main tangible assets acquired.

Assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rates as of year-end. Transactions denominated in foreign currencies are translated into pesos at the prevailing exchange rates on the date of transaction settlement. Foreign currency transaction gains and losses are recorded within Financial results, net in the accompanying consolidated statements of income.

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

**3. Significant accounting policies (continued)**

**h. Other receivables and liabilities**

Certain other receivables and liabilities (value added tax, cash reserves and guarantee deposits) have been measured based on the best estimate of the amount receivable and payable, respectively, discounted at the interest rate that reflect the time-value of money and the estimate specific transactions risks at the time of incorporation to assets and liabilities, respectively. The remaining other receivables and liabilities have been valued at their nominal value plus interest, if any.

**i. Financial receivables and liabilities**

Financial receivables and payables have been valued at the amount deposited and collected, respectively, net of operating costs, plus accrued interests based on the interest rate estimated at the time of the transaction. In the case, the Company has the intention and feasibility of selling financial receivables after the year-end, those receivables are valued at their net realizable value.

**j. Mortgages and leases receivable and trade accounts payable**

Mortgages and leases receivable and trade accounts payable have been valued at the price applicable to spot operations at the time of the transaction plus accrued interest based on the internal rate of return.

**k. Related party balances and other transactions**

Receivables and payables with related parties generated by financial transactions and other sundry transactions have been valued in accordance with the terms agreed by the parties.

**l. Income tax**

The subsidiaries of the Company calculate their income taxes on a separate basis. The Company did not either calculate or pay income taxes on a consolidated basis for any of the years presented. The statutory income tax rate was 35% for all the years presented.

The Company records income taxes using the deferred tax method required by Technical Resolution No. 17 Overall Considerations for the Preparation of Financial Statements ( RT 17 ). Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recorded or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized for that component of net deferred tax assets which is not recoverable.

As discussed in note 2.d the Company has treated the differences between the price-level restated amounts of assets and liabilities and their historical basis as permanent differences for deferred income tax calculation purposes.

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In accordance with CNV regulations, deferred tax assets and liabilities have not been discounted. Since Argentine GAAP required (for the Company's fiscal years ended June 30, 2006 and 2005) the accounting for deferred tax assets and liabilities on a discounted basis, the application of the CNV resolution represented a departure from generally accepted accounting principles until the Company's fiscal year ended June 30, 2006. However, such a departure did not have a significant effect on the 2006 and 2005 consolidated financial statements. As from July 1, 2006, there is no such difference between CNV regulations and Argentine GAAP, as discussed in Note 2.d.

### **m. Minimum Presumed Income Tax**

The company and its subsidiaries are subject to the Minimum Presumed Income Tax Law ( Impuesto a la Ganancia Mínima Presunta or MPIT ). The MPIT is calculated on an individual entity basis at the statutory tax rate of 1%, and is based upon the taxable assets of each Argentine entity as of the end of the year. This tax is complementary to Income Tax and the Company is required to pay the greater of the income tax or the MPIT. Any excess of the MPIT over the income tax may be carried forward and recognized as a payment on account of any excess of income tax over MPIT occurring within the subsequent ten years. In the opinion of that the Company will utilize

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

**3. Significant accounting policies (continued)**

**m. Minimum Presumed Income Tax (continued)**

such asset against future taxable income charges within the next ten years and, as a result, the Company has recognized the accumulated MPIT charge within Other current and non-current receivables, as appropriate, in the accompanying consolidated balance sheet. This tax credit has been recorded at its nominal value.

**n. Customer advances**

Customer advances represent payments received in advance in connection with the sale and lease of properties.

**o. Mortgage payables**

Mortgage payables includes the debt assumed in the acquisition of Bouchard 710 and LLR (see Notes 13 for details). For the year ended June 30, 2006 also included the debt assumed in the purchase of a plot of land where the Company constructed *San Martin de Tours* project.

**p. Provisions for allowances and contingencies**

The Company provides for losses relating to mortgage, lease and other accounts receivable. The allowance for losses is recognized when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the terms of the agreements. The allowance is determined on a one-by-one basis considering the present value of expected future cash flow or the fair value of collateral if the loan is collateral dependent, when applicable. While management uses the information available to make evaluations, future adjustments to the allowance may be necessary if future economic conditions differ substantially from the assumptions used in making the assessments. Management has considered all events and/or transactions that are subject to reasonable and normal methods of estimations, and the consolidated financial statements reflect that consideration.

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor and other matters. The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and the Company's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs, which could have a material effect on the Company's future results of operations and financial condition or liquidity.

**q. Advertising expenses**

The Company generally expenses advertising and promotion costs as incurred with the exception of advertising and promotion expenses incurred to market real estate projects and to launch new shopping centers.

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Advertising and promotion expenses were approximately Ps. 31.7 million, Ps. 19.5 million and Ps. 12.2 million for the years ended June 30, 2007, 2006 and 2005, respectively.

Advertising and promotion expenses to market real estate projects and to launch new shopping centers are capitalized as advertising expenses and preoperating expenses, respectively, within intangible assets.

### **r. Pension information**

The Company does not maintain any pension plans. Argentine laws provide for pension benefits to be paid to retired employees from government pension plans and/or privately managed funds plan to which employees may elect to contribute. The Company does not sponsor any employee stock ownership plans.

### **s. Impairment of long-lived assets**

The Company periodically evaluates the carrying value of its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying value of a long-lived asset is considered impaired by the Company when the expected cash flows, from such asset is separately identifiable and less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved or based on independent appraisals.

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**Notes to the Consolidated Financial Statements**

**for the years ended June 30, 2007, 2006 and 2005**

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

**3. Significant accounting policies (continued)**

**s. Impairment of long-lived assets (continued)**

Under Argentine GAAP, the impairment loss is recorded in the income statement against a liability account. This liability account is a contra account to fixed assets, which means that it is presented on the balance sheet as a direct reduction from the book value of the fixed assets to arrive at the fixed assets carrying value at any particular point in time. The liability account is depreciated over the useful life of the related asset decreasing depreciation expense each period. Under Argentine GAAP, a previously recognized impairment loss should only be reversed when there is a subsequent change in estimates used to compute the fair market value of the asset. In that event, the new carrying amount of the asset should be the lower of its fair market value or the net carrying amount the asset would have had if no impairment had been recognized. Both the impairment charge and the impairment reversal are recognized in earnings.

**t. Vacation expenses**

Vacation expenses are fully accrued in the period the employee renders services to earn such vacation.

**u. Derivative financial instruments**

As part of its risk management, the Company may use financial instruments. The Company also engages in trading of certain financial instruments. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counter parties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. The Company applies Technical Resolution No. 20 ( RT No. 20 ), Accounting for Derivative Instruments and Hedging Activities , which establishes accounting and reporting standards for derivative instruments and for hedging activities. RT No. 20 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and how it is designated. RT No. 20 prescribes that changes in the fair value of effective cash flow hedges are deferred as a separate component of the balance sheet and subsequently reclassified into earnings when the hedged items affect earnings. Gains and losses from fair value hedges are recognized in earnings in the period of any changes in the fair value of the related recognized asset or liability. Gains and losses on derivative instruments that are not designated as a hedging instrument are recognized in earnings in the period of change. For details on the Company's derivative instruments activity, see Note 14.

**v. Monetary assets and liabilities**

Monetary assets and liabilities are disclosed at their face value, adding or deducting the corresponding financial results.

**w. Earnings per share**

The Company is required to disclose earnings per share information for all years presented. Basic earnings per share ( basic EPS ) are computed by dividing the net income available to common shareholders for the years by the weighted-average number of common shares outstanding during the year. Diluted earnings per share ( diluted EPS ) are computed by dividing the adjusted net income for the year by the weighted-average

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number of common shares and potential common shares outstanding during the year.

In computing diluted EPS, income available to common shareholders used in the basic EPS calculation is adjusted to add back the after-tax amount of interest recognized for the year with respect to any debt convertible to common stock. Additional adjustments are made for any other income or loss items that would result from the assumed conversion of potential common shares. The weighted-average number of common shares outstanding is adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Diluted EPS is based on the most advantageous conversion rate or exercise price over the entire term of the instrument from the standpoint of the security holder. The calculation of diluted EPS excludes potential common shares if their effect is anti-dilutive. The Company has considered the dilutive effect of outstanding warrants and convertible debt in calculating diluted EPS.

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

**3. Significant accounting policies (continued)****x. Deferred debt issuance costs**

Expenses incurred in connection with the issuance of debt are amortized over the term of the debt, applying effective interest method. Deferred financing costs are classified within short-term or long-term debts, as appropriate. Amortization of deferred financing costs is included within Financial results, net in the accompanying statements of income as a greater financing expense.

**4. Details of balance sheet accounts****a. Cash and banks:**

	As of June 30,	
	2007	2006
Bank accounts	Ps. 213,478	Ps. 97,194
Cash on hand	4,067	4,760
Checks to be deposited	811	1,064
	Ps. 218,356	Ps. 103,018

**b. Investments:**

	As of June 30,	
	2007	2006
<b>Current</b>		
Mutual funds (iv)	Ps. 600,919	Ps. 108,732
Retained interests in securitized receivables (i)	22,104	10,319
Time deposits	5,024	6,431
Mortgage bonds issued by BHSA (Note 11)	2,073	2,704
Government bonds	6,620	1,287
TDFs		324
Retained interest in securitized mortgage receivables (ii)	106	184
Other investments	1,505	439
	Ps. 638,351	Ps. 130,420

**Non-Current**

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**Equity investments:**

BHSA	Ps. 301,672	Ps. 260,300
BACSA	5,181	4,782
E-Commerce Latina S.A. (Note 2.f.)		129

**Retained interests in securitization programs:**

Retained interests in securitized receivables (i)	55,683	37,814
TDFs		752
Retained interest in securitized mortgage receivables (ii)	687	2,126

**Undeveloped parcels of land (iii):**

Santa María del Plata	135,785	114,397
Puerto Retiro (Note 13)	54,861	46,518
Caballito (v)	36,681	36,622
Pereiraola	21,717	21,875
Torres Rosario	16,111	16,079
Air space Supermercado Coto Agüero 616	13,143	13,143
Caballito plot of land	9,223	9,223
Canteras Natal Crespo	5,559	4,427
Pilar	3,408	3,408
Torre Jardín IV	3,010	3,030
Share s purchase advances	1,108	
Padilla 902	94	92
General Paz plot of land (vi)		59,837
Dique IV		6,704
Others	9,310	5,319
<b>Others</b>	40	1,404

	Ps. 673,273	Ps. 647,981
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(Amounts in thousands, except share data and as otherwise indicated)

**4. Details of balance sheet accounts (continued)****b. Investments (continued):**

- (i) As part of its credit card securitization programs, Tarshop transfers credit card receivables to trusts in exchange for cash and certificates representing undivided interests in such receivables. Trusts debt securities represent debt certificates (TDFs) issued by trusts which are valued at amortized cost. Retained interests in transferred credit card receivables represent equity certificates (CPs) issued by trusts which are accounted for under the equity method of accounting (See Note 16 for details).
- (ii) Represents retained interests in the Company's securitization program described in Note 15.
- (iii) Shown net of allowances for impairment losses mentioned in Note 3.c.
- (iv) As of June 30, 2007 includes: Ps. 96,687 corresponding to common investment fund Dolphin Fund PLC, Ps. 3,085 corresponding to NCH Development Partner fund, Ps. 1,749 corresponding to Goal Capital Plus - Class B - Banco Itau fund, Ps. 3,056 corresponding to Premier Renta Plus - Banco Superville fund, Ps. 6,280 corresponding to Delta Ahorro Pesos - Raymond James Argentina fund, Ps. 1,813 corresponding to Fima Ahorro - Banco Galicia fund, Ps. 2,603 corresponding to 1784 Ahorro Pesos - Class A - Standard Bank fund, Ps. 503 corresponding to Gainvest fund not considered as cash for the purpose of the statement of cash flows, and as of June 30, 2006: Ps. 3,174 corresponding to NCH Development Partner fund, Ps. 49,976 corresponding to common investment fund Dolphin Fund PLC and Ps. 1,091 corresponding to Gainvest funds not considered as cash for the purpose of the statement of cash flows.
- (v) Encumbered in relation with a tax claim from the Federal Administration of Public Revenues ( AFIP )
- (vi) Transferred to fixed assets

**c. Mortgages and leases receivable, net:**

	As of June 30,	
	2007	2006
<b>Current</b>		
Credit card receivables	Ps. 86,333	Ps. 58,316
Leases and services receivables	51,079	24,119
Checks to be deposited	31,626	26,155
Debtors under legal proceedings (i)	24,905	25,202
Pass-through expenses receivables (ii)	15,342	10,014
Hotel receivables	7,910	5,595
Receivables from the sale of properties (iv)	6,735	8,313
Related parties (Note 11)	910	295
Mortgage receivables (iii)	859	945
Less:		
Allowance for doubtful accounts (Note 29.c.)	(56,076)	(44,043)
	Ps. 169,623	Ps. 114,911
<b>Non-Current</b>		
Credit card receivables	Ps. 43,509	Ps. 21,076
Mortgage receivables (iii)	888	1,088

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Receivables from the sale of properties		12,213
Less:		
Allowance for doubtful accounts (Note 29.c.)	(1,955)	(1,333)
	Ps. 42,442	Ps. 33,044

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- (i) Comprised of Ps. 1.3 million and Ps. 2.0 million related to mortgage receivables and Ps. 23.6 million and Ps. 23.3 million related to leases receivables, as of June 30, 2007 and 2006, respectively.
  - (ii) Represents receivables for common area maintenance and other operating expenses passed through to tenants of shopping centers.
  - (iii) Mortgage receivables consist of fixed-rate mortgage receivables from several borrowers. At June 30, 2007, the amount due from the largest individual borrower was Ps. 478 at a contractual interest rate of 10%.
  - (iv) Mainly relates to one pending installment of US\$ 1.9 million accruing interest at a rate of 7.5% per annum from the sale of Alcorta Plaza land.

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**4. Details of balance sheet accounts (continued)****d. Other receivables and prepaid expenses:**

	As of June 30,	
	2007	2006
<b>Current</b>		
Related parties (Note 11)	Ps. 38,904	Ps. 6,542
Prepaid expenses and services	20,028	7,322
Value Added Tax ( VAT )	17,640	5,344
MPIT	16,595	7,321
Loans Granted	4,290	
Miscellaneous debtors	3,303	8,164
Receivable from trust guarantee fund (v) and (Note 16)	2,926	1,100
Gross revenue tax prepayment	1,242	790
Guarantee deposits (i)	1,208	10,252
Income tax prepayment	978	1,638
Guarantee of defaulted credits (Note 23)	785	280
Tax on personal assets to be recovered	287	836
Future contracts receivable	129	
Down payments for acquisitions (ii)		2,064
Debtors under legal proceedings		470
Others	5,770	36
	Ps. 114,085	Ps. 52,159
<b>Non-Current</b>		
Deferred income tax (Note 17)	Ps. 25,402	Ps. 47,936
MPIT	21,250	26,000
Receivable from trust guarantee fund (v) and (Note 16)	18,976	5,586
VAT	10,637	1,186
Guarantee of defaulted credits (Note 23)	3,096	3,655
Mortgage receivable (iv)	2,208	2,208
Allowance for doubtful mortgage receivable (iv) and (Note 29 c.)	(2,208)	(2,208)
Gross revenue tax prepayment.	1,153	883
Guarantee deposits	606	434
Related parties (Note 11)	84	51
Credit default swap agreements (iii)		12,234
Others	781	669
Less:		
Present value other receivables	(783)	(752)

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- (i) As of June 30, 2006 the balance relates to a guarantee deposit held by Deutsche Bank in favor of the owner of an undeveloped land, Argentimo S.A. amounting to US\$ 3 million. The deposit was part of an agreement between APSA, Argentimo S.A. and a developer, Constructora San José S.A., pursuant to which the Company acquired a parcel of land to build a commercial center and a dwelling and/or office buildings. The guarantee deposit was released on December 26, 2006 (See Note 2.f.). At June 30, 2007 the balance is mainly comprised of restricted cash of Ps. 0.3 million related to deposits required as collateral for certain labor lawsuits of the Company and Ps. 0.9 million related to attached funds in connection with Llao Llao Litigation (See Note 21 for details).
  - (ii) Represents advances paid for the acquisition of Rummaala (see Note 2.f.).
  - (iii) As of June 30, 2006, represents a guarantee deposit payment of US\$ 4 million under a credit default swap agreement (the Agreement ). (See Note 2.f. for details).
  - (iv) Corresponds to a loan granted to an unaffiliated third party, which is collateralized by a mortgage on certain properties. During fiscal year 2001, this debtor filed for bankruptcy. As a result, the Company recognized an allowance for the entire balance based on the opinion of its legal counsel.
  - (v) The accounts receivable financial trusts as credit protection for investors include the contingency funds of financial trust that as of June 30, 2007 amounted to Ps. 11.9 million. They are restricted availability credits until settlement in accordance with the respective prospectuses.

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**4. Details of balance sheet accounts (continued)****e. Inventories:**

	As of June 30,	
	2007	2006
<b>Current</b>		
Plot 1 c) Dique III (ii)	Ps. 13,068	Ps. 15,587
Torres de Rosario (vii)	6,338	7,325
San Martín de Tours	3,929	14,211
Abril / Baldovinos	2,646	5,670
Benavidez (iv)	2,722	2,329
Dock 13 Puerto Madero	1,595	1,605
Edificios Cruceros (iii)	487	3,629
Plot 1 d) Dique III (i)		25,549
Down payment (v)		1,773
Other inventories	4,590	3,602
	Ps. 35,375	Ps. 81,280
<b>Non-Current</b>		
Rummaala plot of land (Vicente Lopez) (v)	Ps. 115,623	Ps.
Plot 1 e) Dique III (ii)	41,808	41,808
Plot 1 c) Dique III (ii)	26,799	7,274
Caballito (vi)	22,663	22,663
Benavidez (iv)	7,273	6,213