

Investment Properties Valuation

From Historical Cost to Fair Value

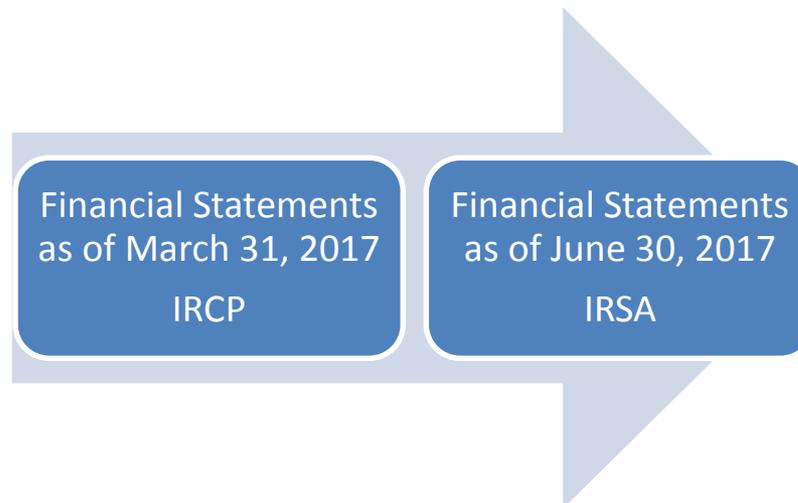


Change of Investment Properties' Valuation Method

From historical cost to fair value

Decision to change the valuation method of the Investment Properties

- In the third quarter of fiscal 2017, the Group's Board of Directors decided to change the accounting policy for investment property **from the cost model to the fair value model**, according to IFRS rules. It was applied to IRCP as of March 31, 2017 and will be applied to IRSA as of June 30, 2017.
- The Group has therefore **retroactively changed** the previously issued consolidated financial statements for the last **3 years**.

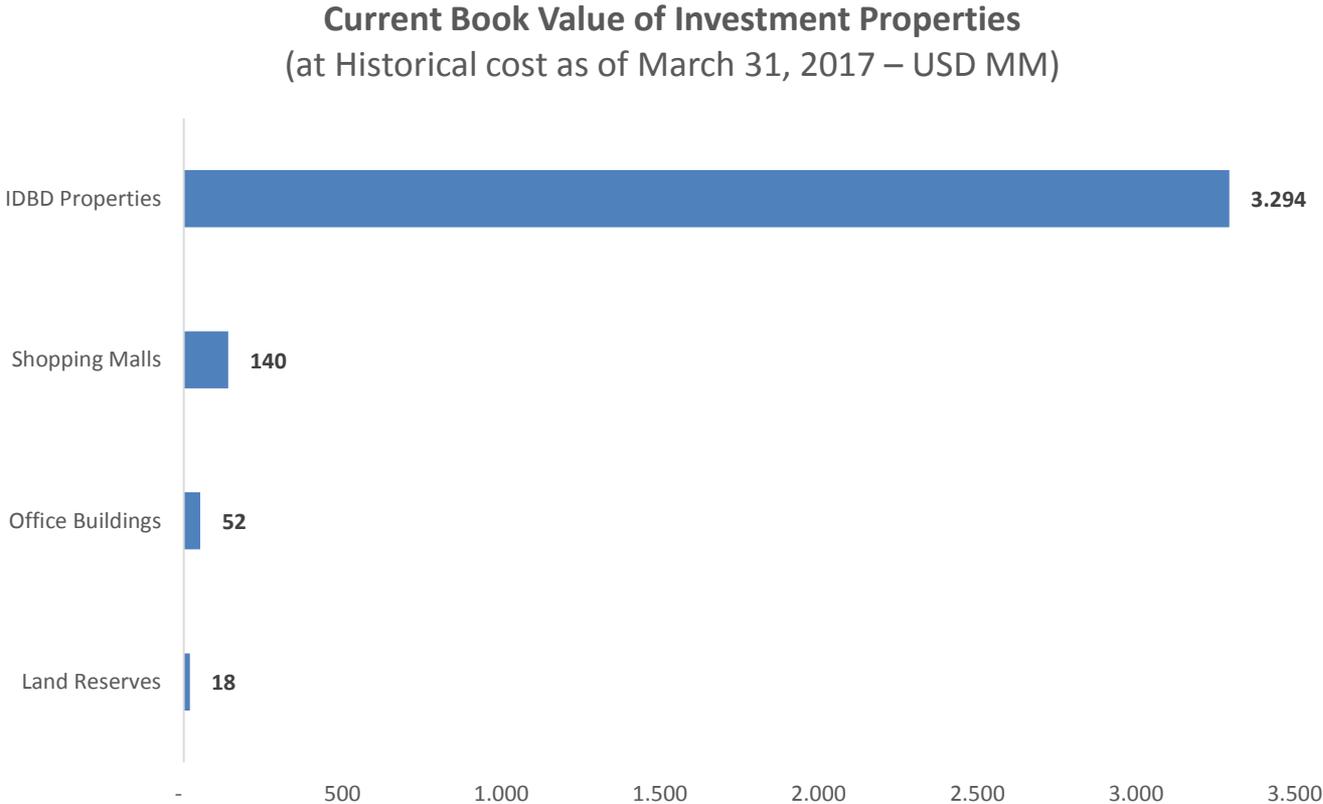


Change of Investment Properties' Valuation Method

From historical cost to fair value

Why we decided to change the valuation method?

The Group believes that this change is justifiable because it **better reflects the reasonable value of its core assets** and therefore provides more relevant information to management and users of our financial statements.



Change of Investment Properties' Valuation Method

From historical cost to fair value

Valuation of Investment Properties at Fair Value



Property, Plant and Equipment at Historical Cost

Hotels



* Includes La Rural S.A. & Lipstick building

Change of Investment Properties' Valuation Method

From historical cost to fair value

ARGENTINA BUSINESS CENTER

Valuation made by 3rd qualified independent party

- The Group's investment properties at Argentina's Business Center were valued at each reporting date by an **independent professionally appraiser**:

NEWMARK GRUBB BACRE

Valuation techniques used for the estimation of fair value of the investment property

- For all **shopping malls**, the valuation will be determined using **discounted cash flow** ("DCF") projections
- For **office properties and undeveloped land**, the valuation will be determined using **market comparable**. These values are adjusted for differences in key attributes such as location, size of the property and quality of the interior design. The most significant contribution to this comparable market approach is the **price per square meter**.
- For **properties under construction**, the valuation will be based on a **cost basis** for all periods indicated. These properties under development comprise works in a building office to be constructed.

Change of Investment Properties' Valuation Method

From historical cost to fair value

ISRAEL BUSINESS CENTER

Valuation made by different independent appraisers

Valuation techniques used for the estimation of fair value of the investment property

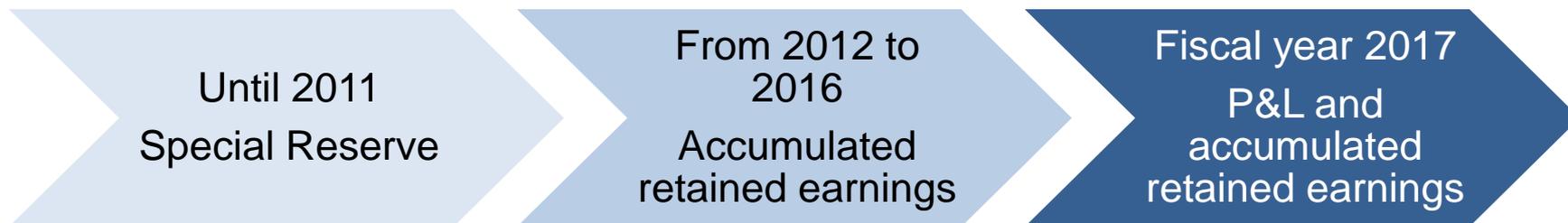
- For **Rental Properties**, fair value is estimated using revenue discount techniques: the valuation model is based on the present value of the estimated Net Operating Income arising from the property. The valuation of real estate is based on net annual cash flows, discounted by a discount rate that reflects the specific risks embodied therein, and, as generally accepted, in comparable assets.
- For **properties under construction**, the valuation is based on the estimated fair value of investment property after the completion of the construction thereof, less the present value of the estimated construction costs expected to be incurred in order to complete the construction, while taking into account a capitalization rate adjusted for the risks and characteristics relevant to the property.
- For **available land**, the fair value is determined while using a comparison technique. The technique is based on the sq.m. value of comparable assets resulting from transactions observable in the market, after various adjustments, such as for dimensions, location, etc

Change of Investment Properties' Valuation Method

From historical cost to fair value

Main impacts in Equity

- The impact of fair value measurement of Investment Properties **since the change of accounting rule from Argentine GAAP to IFRS (2011)** was recognized in a **special reserve** not subject for distribution.
- **Subsequent changes (from 2012 to 2016)** in the fair value measurement of Investment Properties is recognized in **accumulated retained earnings**.
- Changes in the fair value measurement of Investment Properties of the **current fiscal year 2017** is recognized in the **P&L and accumulated retained earnings**.



Change of Investment Properties' Valuation Method

From historical cost to fair value

Main impacts in the next Financial Statement (as of June 30, 2017)

- **Positive impact** on the **Income Statement** under the new line "*Change of fair value of Investment properties*"
- **Positive impact** in **Equity**
- **Elimination** of **D&A** of Investment Properties
- **Elimination** of Gain from sales of Investment Properties
- **No Tax impact** (just accounting registration of a differed income tax)
- According to IFRS rules, there's **no chance to return back to Cost Method**