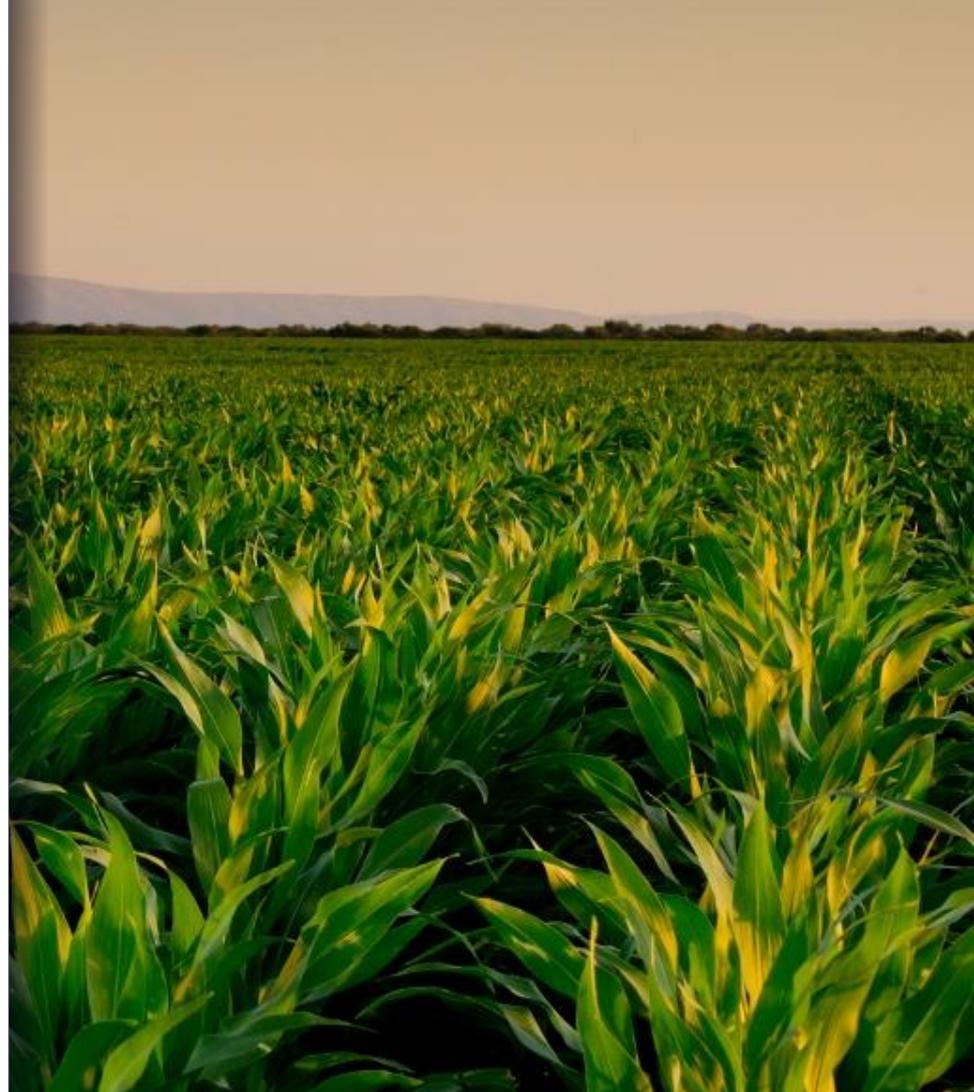




Investor Education

IAS 29

**Financial Statements
adjusted for Inflation**



Disclaimer

The information provided under this presentation of 'Investor Education' is solely for creating awareness and educating research analysts and/or current and potential investors about the impact of inflation adjustment on CRESUD Financial Statements. It is neither a legal interpretation nor a statement of any local or foreign regulatory agency. The information and examples included herein are theoretical and not specifically accurate.

Should you have any queries or concerns, please contact your relevant advisors.

Financial Statements adjusted for inflation

1. **IAS 29** sets out how an entity whose **functional currency** is the currency of a **hyperinflationary** economy should restate its financial statements for inflation.
2. **Functional currency**: is the currency of the primary economic environment in which an entity operates.
3. **Hyperinflation** is indicated by characteristics of an economic environment, such as the following:
 - a. The country's wealth is kept in non-monetary assets or stable currency.
 - b. Prices may be quoted in another more stable currency.
 - c. Key economic variables are linked to a price index.
 - d. Cumulative inflation over three years is ~100% or more.



Argentina fulfills these requirements since July 1st, 2018

4. Entities whose **functional currency** is the **Argentinean peso (ARS)**:
 - a. Must **present its current period** financial statements in terms of the **measuring unit at the end of the reporting period**.
 - b. Must also **restate the comparative figures** for the previous periods in terms of the **measuring unit at the end of the reporting period**.
 - c. Accumulated inflation since 2003 (last period adjusted for inflation) **until June 2018 was ~800%**.

Procedure

1. Selection of a general price index

2. Segregation of non-monetary and monetary items

3. Restatement of non-monetary items

4. Restatement of Shareholders' equity

5. Restatement of all items in the P&L statement

6. Calculation of the monetary gain or loss

7. Presentations & Disclosures

- 1. Selection of a general price index:** in the case of Argentine peso (ARS) it is CPI-based index.
- 2. Segregation of non-monetary and monetary items:**

Non-Monetary examples		Monetary examples	
Assets	Liabilities	Assets	Liabilities
<ul style="list-style-type: none"> Inventories Investments in associates Property, Plant and Equipment (PP&E) Intangible Assets 	<ul style="list-style-type: none"> Deferred revenues Deferred income tax 	<ul style="list-style-type: none"> Cash & Equivalents Marketable debt securities Trade receivables & provision for doubtful receivables Other receivables 	<ul style="list-style-type: none"> Trade payables Accrued expenses and other payables Current income taxes and withholding taxes payable Borrowings and notes payable
	<ul style="list-style-type: none"> Shareholders' equity 		



Already expressed in the measurement unit at the end of the period

- 3. Restatement of non-monetary Assets and Liabilities:** by applying the change in the CPI-based index since the date of acquisition (or revaluation).

Procedure

1. Selection of a general price index
2. Segregation of monetary and non-monetary items
3. Restatement of non-monetary items
4. Restatement of Shareholders' equity
5. Restatement of all items in the P&L statement
6. Calculation of the monetary gain or loss
7. Presentations & Disclosures

4. Restatement of Shareholders' equity:

- a. At the beginning of the first period for which IAS 29 is applied: items (except for Retained Earnings and any revaluation surplus) are restated by applying the CPI-based index from the dates they were contributed or otherwise arose. Any previous periods' revaluation surplus is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.
- b. At the end of the first period and in subsequent: all components are restated by applying the CPI-based index from the beginning of the period or contribution date, if later.

5. Restatement of all items in the statement of comprehensive income:

all items must be expressed in terms of the measuring unit at the end of the reporting period -> restated by applying the change in the CPI-based index from the dates on which income/expenses were initially recorded.

6. Calculation of the monetary gain or loss: Is the difference resulting from:

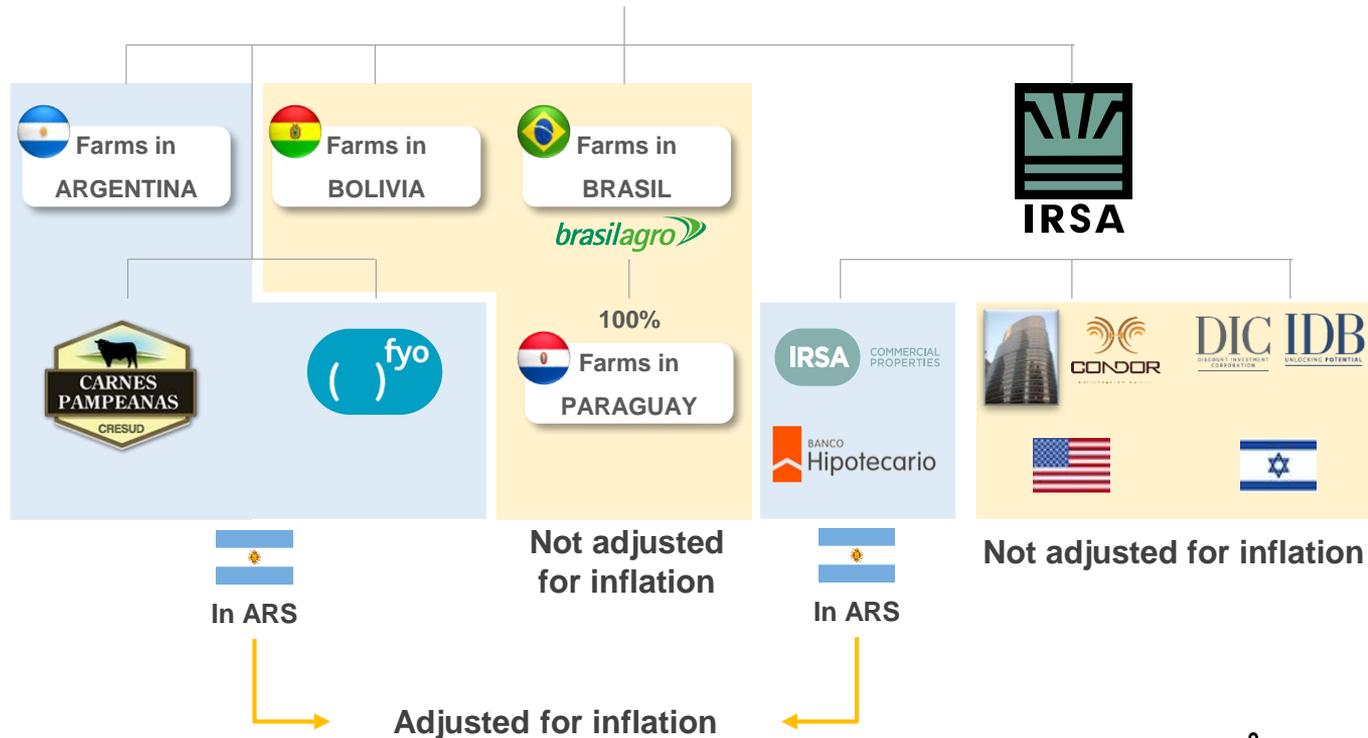
- i. The restatement of non-monetary items
- ii. The restatement of Shareholders' equity
- iii. The restatement of items in the statement of comprehensive income, and
- iv. Adjustment in real terms of index-linked items

The gain/loss is reported in the Income Statement

Also, gain/loss may be estimated by applying the change in the CPI-based index to the weighted average for the period of the difference between monetary assets and monetary liabilities.

7. Presentation & Disclosures: comparative financial statements are restated by applying the CPI-based index in order to be presented in terms of the measuring unit at the end of the current reporting period (as well as information of earlier periods).

Main Impacts
of inflation
adjustment
on CRESUD
Financial
Statements



Main Impacts of inflation adjustment on CRESUD Financial Statements

ASSETS

- **Investment Properties:** Valued at Fair Value

Farms leased to 3rd parties



Shopping Malls
From subsidiary IRSA



Office Buildings
From subsidiary IRSA



Land Reserves
From subsidiary IRSA



- **Inventories (crops) & Biological Assets:** Valued at Fair Value

- **Balance Sheet:** No impact
- **Income Statement:** Segregation of net gain/loss between: (i) real FV adjustment gain/loss, and (ii) inflation adjustment

- Example*: i.a. inflation 30%. FV appreciation 40%



*This example is theoretical and not specifically accurate

Main Impacts of inflation adjustment on CRESUD Financial Statements

ASSETS

- **Property, Plant & Equipment**
Owned farms
Hotels (from subsidiary IRSA)
- **Inventories (Materials and Supplies)**
- **Properties for Sale (From subsidiary IRSA)**
- **Intangibles**
Long-term concession (Agropecuaria Anta)
Goodwill
Software
Rights of use (Distrito Arcos – from subsidiary IRSA)
Right to receive units (Barter agreements – from subsidiary IRSA)

Valued at Historical Cost
Adjusted by Inflation

- **Balance Sheet:** Items are adjusted for inflation since incorporation or the beginning of the period, if later.
- **Income Statement:**
 - a. Annual inflation gain/loss reflected in a separate P&L item “Inflation Adjustment”
 - b. Increased depreciation charge for the year due to PP&E inflation adjustment

Main Impacts of inflation adjustment on CRESUD Financial Statements

LIABILITIES

- **Deferred Revenues (Admission rights and Rent and Service payments received in advance):** Valued at Historical Cost adjusted for inflation
 - **Balance Sheet:** Items are adjusted for inflation since collection.
 - **Income Statement:**
 - a. Annual inflation gain/loss reflected in a separate P&L item “Inflation Adjustment”
 - b. Increased Revenues due to adjusted accrual of Admission rights, Rent and Services collected in advance.

Main Impacts of inflation adjustment on CRESUD Financial Statements

FINANCIAL RESULTS

- Financial Results (Interests, FX Difference, Changes in FV of Financial Assets)**: Segregation of net gain/loss between (i) real finance income/loss, and (ii) inflation adjustment.
 - **FX Differences Example***: i.a. inflation 30%. Currency Depreciation 50% (USD1 = ARS1 to USD1 = ARS1.5)



*This example is theoretical and not specifically accurate

Main Impacts of inflation adjustment on CRESUD Financial Statements

SHAREHOLDERS' EQUITY

- **Shareholders' equity:**
Adjustment by inflation of equity accounts from the beginning until the end of the period generates an impact in P&L reflected in "Inflation Adjustment" line item.

- **Example*:** i.a. inflation 30%



- **Currency translation adjustment from foreign Investments:**

Segregation between inflation and real currency depreciation

- Real currency depreciation -> impact remains in Equity
- Inflation -> impact in **P&L**



Main Impacts
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P&L
EXPOSURE

- **New P&L item: “RECPAM”** (Resultado por exposición a los cambios en el poder adquisitivo de la moneda - Result from exposure to changes in the purchasing power of the currency)

Revenues	
Costs	
Initial recognition and changes in the fair value of biological assets and agricultural produce at point of harvest	
Changes in the net realizable value of agricultural produce after harvest	
Gross profit	
Net gain from fair value adjustment on investment properties	
Gain from disposal of farmlands	
General and administrative expenses	
Selling expenses	
Other operating results, net	
Management fee	
Profit from operations	
Share of profit of associates and joint ventures	
Profit before financial results and income tax	
Finance income	
Finance costs (i)	
Other financial results	
Results from exposure to changes in the purchasing power of the currency	New Line
Financial results, net	
Profit before income tax	
Income tax	
Profit for the period from continuing operations	
Profit / (loss) for the period from discontinued operations	
Profit for the period	