

CRESUD INC  
Form 6-K  
September 21, 2009  
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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN ISSUER**

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

**THE SECURITIES EXCHANGE ACT OF 1934**

For the month of September, 2009

**CRESUD SOCIEDAD ANONIMA COMERCIAL INMOBILIARIA  
FINANCIERA Y AGROPECUARIA**

(Exact name of Registrant as specified in its charter)

**CRESUD INC.**

(Translation of registrant's name into English)

**Republic of Argentina**

(Jurisdiction of incorporation or organization)

**Moreno 877, 23<sup>rd</sup> Floor, (C1091AAQ)**

**Buenos Aires, Argentina**

(Address of principal executive offices)

Form 20-F  Form 40-F

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

Yes  No



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**CRESUD S.A.C.I.F. and A**

**(THE COMPANY )**

**REPORT ON FORM 6-K**

Attached is an English translation of the Annual Report and Financial Statements corresponding to the fiscal year ended on June 30, 2009 and 2008.

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**Cresud Sociedad Anonima**

**Comercial, Inmobiliaria,**

**Financiera y Agropecuaria**

Annual Report and Free Translation of the Financial Statements

for the fiscal years ended

June 30, 2009 and 2008

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**Cresud Sociedad Anónima,  
Comercial, Inmobiliaria, Financiera y Agropecuaria**

**Financial Statements**

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We are a leading Argentine agricultural company engaged in the production of basic agricultural commodities with a growing presence in the Brazilian agricultural sector, through our investment in BrasilAgro Companhia Brasileira de Propriedades Agrícolas ( BrasilAgro ), and in other Latin American countries. We are currently involved in a range of activities including crop production, beef cattle raising and milk production. Our business model, which is in process of expansion abroad, taking into account the specific conditions of each country, focuses on the acquisition, development and exploitation of properties having attractive prospects for agricultural production and/or value appreciation and the selective disposition of such properties where appreciation has been realized. Our shares are listed on the Buenos Aires Stock Exchange and the NASDAQ.

As of June 30, 2009, we owned 25 farms with approximately 484,246 hectares. About 41,740 hectares of the land we own are used for crop production, approximately 96,064 hectares are for beef cattle production, 100,911 hectares are for sheep production, 4,334 hectares are for milk production and approximately 3,185 hectares are leased to third parties for crop and beef cattle production. The remaining 238,012 hectares of land reserve are primarily natural woodlands. In addition, through our subsidiary Agropecuaria Anta S.A. we have the right to hold approximately 132,000 hectares of land under concession for a 35-year period that can be extended for another 29 years. Also, during fiscal year ended on June 30, 2009, we leased 57,938 hectares from third parties for crop production and 32,795 hectares for beef cattle production.

During the fiscal years ended June 30, 2008 and 2009, we had consolidated sales of Ps. 185.6 million and Ps. 1,254.7 million, production income of Ps. 159.8 million and Ps. 172.5 million, and consolidated net income of Ps. 22.9 million and Ps. 124.6 million, respectively. During the fiscal years ended June 30, 2008 and June 30, 2009, our total consolidated assets increased 188.7% from Ps. 2,069.8 million to Ps. 5,976.1 million, and our consolidated shareholders' equity increased 2.9% from Ps. 1,762.3 million to Ps. 1,812.9 million.

The following table sets forth, at the dates indicated, the amount of land used for each production activity (including owned and leased land and land under concession):

	Uses of land				
	Fiscal Year ended June 30,				
	2005	2006	2007	2008	2009
	(1) (6)	(1) (7)	(1) (7) (8)	(1) (7) (8) (9)	(1) (7) (8) (9) (10)
	<i>(in hectares)</i>				
Crops <sup>(2)</sup>	39,831	41,283	53,579	63,900	115,411
Beef Cattle <sup>(3)</sup>	96,380	129,946	114,097	123,935	128,859
Milk	1,776	1,698	2,609	4,320	4,334
Sheep			90,000	90,000	100,911
Natural woodlands <sup>(4)</sup>	263,177	418,477	393,677	385,573	356,796
Owned farmlands leased to others	9,978	14,229	13,771	8,467	8,317
<b>Total <sup>(5)</sup></b>	<b>411,142</b>	<b>605,633</b>	<b>667,733</b>	<b>674,195</b>	<b>714,628</b>

(1) Includes 35.723% of approximately 8,299 hectares owned by Agro-Uranga S.A., an affiliated Argentine company in which we own a non-controlling 35.7% interest.

(2) Includes wheat, corn, sunflower, soybean, sorghum and others.

(3) Breeding and fattening.

(4) We use part of our land reserves to produce charcoal, rods and fence posts.

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- (5) During fiscal year 2005, 16,299 hectares were leased for agricultural production. As of June 30, 2006, farmlands were leased in which 17,004 hectares were assigned to agricultural production and 32,647 to beef cattle production (including the Ñacurutú farm). As of June 30, 2007, 25,307 hectares were leased for agricultural production and 29,208 hectares were leased for beef cattle production. As of June 30, 2008, 30,449 hectares were leased for agricultural production and 32,895 were leased for beef cattle production. As of June 30, 2009, 59,615 hectares were leased for agricultural production and 32,795 were leased for beef cattle production.

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- (6) Includes 977 hectares of San Enrique farm and 30,350 hectares of Ñacurutú farm, sold in fiscal year 2005.
- (7) Includes 6,022 hectares of San Pedro farm purchased on September 1, 2005 and approximately 162,000 hectares through our 99.99% interest in Agropecuaria Anta S.A. which holds, among other assets and rights, the concession for the start-up of production pertaining to a comprehensive development project. Does not include 5,727 hectares of El Gualicho farm sold on July 25, 2005.
- (8) Does not include 20,833 hectares of Tapenagá farm, 14,516 hectares of Los Pozos farm and 50 hectares of El Recreo farm, which were sold in fiscal year 2007. Includes 24% of 170 hectares owned by Cactus Argentina S.A.
- (9) Does not include 4,974 hectares of Los Pozos farm and 2,430 hectares of La Esmeralda farm, which were sold in fiscal year 2008.
- (10) Includes 12,166 hectares of San Cayetano , San Rafael , La Fon Fon and Las Londras farms, which are located in Santa Cruz de la Sierra, Bolivia. Includes 50% of the 41,931 hectares of Jerovia farm located in the District of Boquerón, Paraguay, owned by Cresca S.A. through our equity interest in Agrology S.A. Does not include 1,658 hectares of Los Pozos farm sold in April 2009. Does not include 30,000 hectares of Agropecuaria Anta S.A. which were returned due to the reduction in the concession scope established by Decree No. 3766 of the Executive Branch of Salta. Includes 48% of the 170 hectares owned by Cactus Argentina S.A. Does not include rental for 1,829 hectares of El Recreo.

We are also directly engaged in the Argentine real estate business through our subsidiary Inversiones y Representaciones S.A. (IRSA), one of Argentina's largest real estate companies. IRSA is engaged in a range of diversified real estate activities including the development of residential properties, the development, acquisition and exploitation of office buildings for rental, shopping centers and luxury hotels in Argentina. A majority of our directors are also directors of IRSA. As of June 30, 2009, Cresud held a 55.64% interest in IRSA.

In September 2005, we, together with certain Brazilian partners, founded BrasilAgro, a startup company organized to exploit opportunities in the Brazilian agricultural sector. In April 2006, BrasilAgro increased its capital through a global and domestic offering of common shares, and as of June 30, 2009, we owned 19.14% of the outstanding common shares of BrasilAgro. As of June 30, 2009, our investment in BrasilAgro represented approximately 3.6% of our total consolidated assets.



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### **LETTER TO SHAREHOLDERS**

To our shareholders:

During fiscal year 2009 the world economy has faced one of the most challenging financial crises of the last 80 years, which has cast doubts on the rate of expansion of the world economy that markets took for granted a year ago. This has affected the valuation of physical and financial assets worldwide and, within this context, the prices of agricultural commodities, which bear an impact on the current performance and future growth of our business, have been lower than expected.

In addition, agricultural and livestock activities throughout Argentina have been seriously impaired during the current campaign due to one of the most severe droughts of the last decades, leading to smaller yields of the main crops produced in the country. According to the US Department of Agriculture ( USDA ), harvests of wheat, corn and soybean for the 2008/2009 campaign would have decreased 49%, 43% and 30% compared to the previous year. The drop in prices and production volumes has affected margins in the agricultural and livestock business in general, and our operations have not been an exception.

Despite the adverse scenario of the last campaign, long-term demand for food remains stable, as evidenced by the sharp upturn in soybean international prices after successive drops during the last quarter of calendar year 2008. The USDA forecasts growth in the demand for agricultural commodities in a 10-year term, which require 45 million hectares to be put into production in a base case. Consequently, we believe that the prospects for agricultural and livestock production and development of agricultural land in the long term are favorable and, accordingly, we will maintain the direction of our strategy. In addition, if we consider that investment in real estate and farmland has historically represented a protection against inflation in times of monetary expansion, the prospects for value appreciation of these assets are even more attractive, given the volume of financial resources that the major governments in the world have injected into the market in recent months in order to promote recovery in the short term.

The current context of unprecedented volatility in the financial markets, has found our Company in an excellent position thanks to its liquidity arising from the placement of shares carried out during March 2008. This liquidity has allowed us to consolidate growth strategies and strengthen Cresud's equity through actions conducted in various areas. Firstly, we have made progress with our regional expansion plan in Latin America by increasing our equity interest in our subsidiary Brasilagro to 19.14%, acquiring over 12,000 hectares of productive land in Bolivia at attractive prices, and launching an agricultural, cattle breeding and forestry project involving the future development of 140,000 hectares with a strategic partner in the Republic of Paraguay. Secondly, we have increased our equity interest in IRSA Inversiones y Representaciones Sociedad Anónima to 57.12% as of the date of this letter. This decision has had a significant impact on annual results.

Regarding other opportunities that emerged in the new context and that we took to strengthen our financial position, in August 2008, as a result of the evident distortion in the price of Cresud's share compared to the quality of the Company's assets, we announced a share repurchase plan. The result of this decision has been successful, as we have repurchased 5.98% of outstanding capital stock at an average price of US\$ 7.18 per ADR, below current market levels, for the benefit of our shareholders. In addition, at year-end Cresud, IRSA and Alto Palermo had acquired, on a consolidated basis, US\$ 102.7 million in nominal value of Notes issued by IRSA and Alto Palermo S.A. in 2007. Through these purchases we have invested our surplus in instruments for which the low prices at the time of acquisition reflected an excessive risk perceived by the market. This has also allowed the Company to reduce its consolidated debt held by third parties. For these reasons, the above mentioned purchases of Notes have clearly contributed to improving Cresud's solvency indicators.

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In prior years, farms sales have allowed us to realize the land value appreciation inherent in the Company's strategy. Global uncertainty prevailing in the market coupled with the conditions for production during the last campaign have affected the volume of transactions on farmlands in the Argentine market. During the current year, however, we have sold a small undeveloped parcel of 1,658 hectares of our Los Pozos farm in Salta at US\$ 320 per hectare, 32 times higher than its acquisition cost, which reveals the value appreciation potential of these hectares when developed.

We continued with our development efforts over Los Pozos, where we have already put into production more than 43,000 hectares for livestock activities and approximately 4,400 hectares for agricultural activities. Hosting about 55,000 heads of cattle, Los Pozos is thus the largest beef cattle farm in Argentina with high efficiency indicators per hectare.

During the current fiscal year, our subsidiary Brasilagro has increased the number of sown hectares by 52% compared to the previous year, with 33,504 hectares being sown from its total portfolio of 165,373 hectares. These hectares are distributed among 8 farms and have been assigned to the production of soybean, corn, rice, sorghum and sugar cane. Brasilagro's liquidity enables it to take any new acquisition or development opportunities that may arise.

As concerns our agricultural, livestock and forestry project in the Republic of Paraguay, we have made progress through our subsidiary Cresca S.A., where we hold a 50% interest. We intend to complete the development of the 41,930 hectares within a term of approximately 5 years, while maintaining about 50% of these hectares in reserve as required by environmental regulations of Paraguay. For such purpose, we have developed 3,000 hectares that will be used for agricultural production during the next campaign, and next year we expect to continue developing another 5,000 hectares.

The farms purchased in the Republic of Bolivia are in an advanced stage of operation. We have harvested approximately 10,000 hectares of summer crops, and have already sown over 11,000 hectares of winter crops. This possibility of annual double harvesting on the same surface area not only provides better yields in terms of adding summer results, but also increases soil productivity through appropriate crop rotation and fertilization techniques.

We aspire to have the best property portfolio in Latin America where low population density and hence larger number of hectares available for production result in a unique capacity for exporting commodities. We will continue to work for Cresud to attain the position as best vehicle for tapping opportunities in the region leading to the consolidation of a regional property portfolio with major appreciation potential. Based on the land available for agricultural production and the excess of food production per capita in Latin America, we believe that Cresud has a unique expertise and regional position that will ensure a successful implementation of its strategy, by anticipating the land appreciation cycle both within and outside Argentina.

These times of major challenges find us involved in projects with demanding objectives. I would hence like to thank our shareholders, investors, customers and suppliers for their trust and unremitting support, and to our directors and employees for their unconditional efforts and unfailing commitment, without which it would be impossible to achieve our goals year after year.

City of Buenos Aires, September 8, 2009.

Saúl Zang  
Vice-president I  
Acting as President

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**OUR STRATEGY**

We seek to maximize our return on assets and overall profitability by (i) identifying, acquiring and exploiting agricultural properties having attractive prospects for agricultural production and/or long-term value appreciation and selectively disposing of properties as appreciation is realized, (ii) optimizing the yields and productivity of our agricultural properties through the implementation of state-of-the-art technologies and agricultural techniques and (iii) preserving the value of our significant long-term investment in the urban real estate sector held through our affiliate IRSA.

**Focus on maximizing value of our agricultural real estate assets**

We conduct our agricultural activities with a focus on maximizing the value of our real estate assets. We seek to rotate our portfolio of properties over time by purchasing large parcels of land which we believe have a high potential for appreciation and selling them selectively as opportunities arise to realize attractive capital gains. We believe that our ability to realize gains from appreciation of our farmlands is based on the following principles:

*Acquiring under-utilized properties and enhancing their land use.* We seek to purchase under-utilized properties at attractive prices and develop them to achieve more productive uses. We seek to do so by (i) transforming non-productive land into cattle feeding land, (ii) transforming cattle feeding land into land suitable for more productive agricultural uses, (iii) enhancing the value of agricultural lands by changing their use to more profitable agricultural activities; and (iv) reaching to the final stage of the real estate development cycle by transforming rural properties into urban areas as the boundaries of urban development continue to extend into rural areas. To do so, we generally focus on acquisitions of properties outside of highly developed agricultural regions and/or properties whose value we believe is likely to be enhanced by proximity to existing or expected infrastructure.

*Applying modern technologies to enhance operating yields and property values.* We believe that an opportunity exists to improve the productivity and long-term value of inexpensive and/or underdeveloped land by investing in modern technologies such as genetically modified and high yield seeds, direct sowing techniques, machinery, crop yield optimization through land rotation, irrigation and the use of fertilizers and agrochemicals. To enhance our cattle production, we use genetic technology and have a strict animal health plan controlled periodically through traceability systems. In addition, we have introduced a feedlot to optimize our beef cattle management and state-of-the-art milking technologies in our dairy business.

*Anticipating market trends.* We seek to anticipate market trends in the agribusiness sector by (i) identifying opportunities generated by economic development at local, regional and worldwide levels, (ii) detecting medium- and long-term increases or decreases in supply and demand caused by changes in the world's food consumption patterns and (iii) using land for the production of food and energy, in each case in anticipation of such market trends.

*International expansion.* Although most of our properties are located in different areas of Argentina, we have begun a process of expansion in other Latin American countries. We believe that an attractive opportunity exists to acquire and develop agricultural properties outside Argentina, and our objective is to replicate our business model in such other countries which include, among others, Brazil, Bolivia, Paraguay and Uruguay. For example, in 2005 we and several Brazilian partners founded BrasilAgro. As of June 30, 2009, BrasilAgro had 8 properties totaling 165,373 hectares, purchased at highly attractive values compared to the average prices prevailing in the respective regions, all of which have a huge appreciation potential. In addition, during the fiscal year 2009, Cresud entered into a number of agreements to formalize its positioning in South American countries. At June 30, 2009, the Company owned 12,166 hectares located in the Republic of Bolivia, and 50% of 41,931 hectares located in the Republic of Paraguay.

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**Increase and optimize production yields**

We seek to increase and improve our production yields through the following initiatives:

*Implementation of technology.* We seek to continue using state-of-the-art technology to increase production yields. We plan to make further investments in machinery and the implementation of agricultural techniques such as direct sowing to improve cereal production. We believe that we may improve crop yields by using high-potential seeds (GMOs) and fertilizers and by introducing advanced land rotation techniques. In addition, we intend to continue installing irrigation equipment in some of our farms to achieve higher output levels.

We seek to continue improving beef cattle production through the use of advanced breeding techniques and technologies related to animal health. We plan to improve the use of pastures and expect to make further investments in infrastructure, including installation of watering troughs and electrical fencing.

We have implemented an individual animal identification system, using plastic tags for our beef cattle and RFID tags for our dairy cattle, to comply with national laws on traceability. Also, we acquired software from Westfalia Co. which enables us to store individual information about each of our dairy cows. In the beef cattle business, we initiated Argentina's first vertically integrated beef cattle processing operation by entering into a partnership with Tyson Foods (through its controlled subsidiary Provemex Holdings LLC), hereinafter "Tyson Foods", to set up Cactus Argentina S.A. ("Cactus"), a feedlot and slaughterhouse operator.

In connection with our milk production, we plan to continue developing our activities through the use of state-of-the-art technology and advanced feeding and techniques relating to animal health.

*Increased production.* We seek to increase our crop, beef cattle and milk production in order to achieve economies of scale by:

Increasing our owned land in various regions of Argentina by taking advantage of attractive land purchase opportunities as they arise.

Leasing productive properties to supplement our expansion strategy, using our liquidity to make productive investments in our principal agricultural and livestock activities. We believe that leasing enhances our ability to diversify our production and geographic focus, in particular in areas not offering attractive prospects for appreciation of land value.

Developing properties in areas where agricultural and livestock production is not developed to its full potential. As of June 30, 2009, we owned 238,012 hectares of land reserves and held approximately 132,000 hectares under concession located in under-utilized areas where agricultural and livestock production is not yet fully developed. We believe that technological tools are available to improve the productivity of such land and enhance its long-term value.

Diversifying market and weather risk by expanding our product and land portfolio. We seek to continue diversifying our operations to produce a range of different agricultural commodities in different markets, either directly or in association with third parties. We believe that a diversified product mix mitigates our exposure to seasonality, commodity price fluctuations, weather conditions and other factors affecting the agricultural and livestock sector. To achieve this objective in Argentina, we expect to continue to own and lease farmlands in various regions with



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differing weather patterns and to continue to seed a range of diversified products. Moreover, we believe that continuing to expand our agricultural operations outside of Argentina will enhance our ability to produce new agricultural products, further diversifying our mix of products, and mitigate further our exposure to regional weather conditions and country-specific risks.

**Preservation of long-term value of our investment in IRSA**

We seek to maintain the long-term value of our significant investment in the urban real estate sector through IRSA. We believe that IRSA is an ideal vehicle through which to participate in the urban real estate market due to its substantial and diversified portfolio of residential and commercial properties, the strength of its management and what we believe are its attractive prospects for future growth and profitability.

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***MACROECONOMIC CONTEXT***

**The International Context**

The global economy has been severely affected by the financial crisis and the slow-down in the level of global activity. According to IMF estimates, the actual GDP of the developed economies shrank by 7.5% in the fourth quarter of 2008 and it is estimated that in the first quarter of 2009 GDP continued to decrease at a similar rate, which would turn this into the most severe global recession in five decades.

Since the beginning of the financial crisis until June 2009, the IMF calculates that GDP per capita at the global level has decreased by 3.68% on a weighted basis, industrial production fell by 6.23%, total imports and exports shrank by 11.75%, the consumption of oil shrank by 1.5%, unemployment (in percentage changes and only in the developed economies) rose by 2.56%, capital flows (as a percentage of GDP) diminished by 6.18%, consumption per capita fell by 1.11% and that there has been an 8.74% decrease in investments.

With the global economic activity cooling fast, inflationary pressures sustained an equally rapid dissipation. The prices of raw materials fell considerably compared to the peaks posted in midst-2008, which brought about a loss of revenues in the economies that export these products, mainly in Latin America and Africa. At present, and despite a recovery, the prices have not yet returned to the peaks reached in the year 2008.

Although this recession is driven by a major drop in the level of activity in the developed economies, emerging economies have sustained its impact as well due to the high degree of contagiousness and synchronicity that prevails in today's world.

Most probably, it is the US economy that has taken the hardest blow from the financial strains and the deceleration in the home sector. However, Western Europe and the developed economies of Asia have been seriously affected by the collapse in global trade and their worsening financial difficulties. The economies in the emerging markets have also encountered problems and in aggregate numbers, they have shrunk by 4% in the fourth quarter of 2008.

The varying policy measures adopted in connection with this situation range from expansive monetary measures, capital injections by some governments and a broad range of liquidity supply services to fiscal stimulus programs. These would seem to be yielding a positive outcome in stabilizing the situation in the medium term, although existing prospects are uncertain.

Even though trust in the financial markets is still scarce, since the G-20 meeting in early April 2009, there have been encouraging signs of economic recovery. Both France and Germany have recently announced that they are no longer in recession as GDP had grown by 0.3% in the second quarter of 2009 whereas China announced that its industrial production had grown by 8.9% in May compared to 7.3% in April.

Subsequent to the close of the fiscal year, signs of recovery such as increases in the level of economic activity started to show in some developed economies, and a decrease in the unemployment rate as well as improvements in the prices of homes in the U.S.

**The Argentina's Economy**

Within this international context, Argentina's GDP has succeeded in maintaining favorable performance during the year 2008, with 6.8% economic growth according to official sources. In the year 2009 to date, however, a slow-down has been perceived in the level of activity: the EMAE indicator, a monthly estimate of economic activity, has picked up that May 2009 did not show variations compared to May 2008, which is read as a sign of recession. Besides, Estudio Broda & Asoc. forecasts negative growth, at 4%, for the whole calendar 2009.

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As regards the Aggregate Demand, Total Consumption continues to be its main component. In this respect, during the first 3 months of calendar 2009, the relative weight of Total Consumption was about 70%.

In late 2008, consumption showed to be growing at slower rates, driven mainly by Private Consumption. According to Centro de Economía Regional y Experimental (CERX), in the first quarter of 2009 consumption dropped by 1.4% year-on-year and it is estimated that for calendar year 2009, private consumption would drop by 2.2% as a consequence of the reduction in real wages, the difficulties encountered by borrowers to honor their debts and the existence of uncertainty.

The drop in real wages would be due to an inflation rate that according to private sources would exceed the 16.43% salary raise in the course of fiscal 2009. It is worth noting that a comparison of March 2009 to December 2008 points to a 15% increase in unemployment. However, it is important to note that this increase was due to the rise in the Economically Active Population (EAP) as the level of activity remained constant during the period under consideration.

Gross Domestic Fixed Investment (GDFI) appears to be one of the components of demand that shrank the most during the period (it posted a 14.2% drop in the first quarter of 2009) according to official sources. This decrease is explained by the reduction in investments in construction and the drop in durable production equipment (mainly imported components).

The use of installed capacity in the industrial sector stood at 70.8% in June 2009. This entails a 1.4% reduction compared to the situation a year earlier. The sectors that were most adversely affected were the basic metal industries and the car-making, textile and oil refining sectors. Despite the drop in the general level, there were sectors that performed favorably, including chemical substances and products, rubber and plastics production, tobacco and the food and beverages sectors.

As regards constructions, according to the Summary Indicator of Construction Activities (ISAC, in Spanish), this sector has accumulated a 2% decrease year-on-year during the first six months of the year.

In spite of the international crisis, during the first six months of this year the external sector showed a US\$ 9,861 million surplus in the trade balance, with a 93% positive variation year-on-year, according to official sources, continuing with the trend shown in 2008. Total exports amounted to US\$ 27,250 million compared to the US\$ 17,389 million disbursed in exchange for imports. This means that during the first six months of 2009 exports fell by 19% year-on-year whereas imports fell by 38%.

As regards exports, the decrease in their amount would be explained by a drop in the export prices that could not be offset by the increase in the quantities sold. As regards imports, the decline would be explained by a decrease in the prices and the quantities imported.

As concerns public finances, according to the Ministry of Economy, in the year 2008 the primary result yielded by the Public Sector was Ps. 28,148 million, i.e., 33% above the figure posted for 2007.

In November 2008 and as set forth in Section 1 of Law No. 26245, the Comprehensive Pension and Retirement System was unified into a single government-run social security system that has been named Argentine Integrated Social-Security System (SIPA, in Spanish) to be funded through a solidarity-based pay-as-you-go system that guarantees that the members and beneficiaries of the capitalization system that had been in place until the enactment of Law No. 26245 will receive identical coverage and treatment as that afforded by the government-run social security system. With this reform, the funds accumulated by the pension fund managers in



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the privately-run pension fund management system have been transferred to Argentina's social security authorities (*Administración Nacional de Seguridad Social* - ANSeS), an autarchic government agency that has been entrusted with managing the balances previously held by pension fund managers.

According to Estudio Broda & Asoc., in the year 2009 to date, tax collections have been adversely affected and surpluses have shrunk. From a year-on-year 34.8% growth in the first six-month period of 2008, tax collections only grew by 8% year-on-year in the same period of 2009 without considering the effect of the transfer of pension fund managers; if this effect were considered, the growth in tax revenues would be 14.6%. The growth in tax revenues in this six-month period was driven by the Social Security revenues. During the period, the government has not significantly curbed its Primary Expenditures (they grew by 30.9% year-on-year).

In connection with inflation, it is to be noted that there are discrepancies amongst analysts and pundits as regards the criteria used to measure the Consumer Price Index as published by the Argentine Institute of Statistics and Censuses (INDEC).

According to INDEC, the Consumer Price Index for Greater Buenos Aires would show inflation at approximately 2.17% in the period January through June 2009, whereas the Consumer Price Index for the rest (INDEC's approach to underlying inflation excluding prices that are regulated and prices that vary according to the season, such as food, apparel, tourism and education) showed a 1.5% increase. Likewise, there are discrepancies as regards the set of available indicators, as follows: Wholesale Domestic Price Indices (IPIM) (3.1% since December 2008) and Production Cost Index (ICC) (4.4% since December 2008).

For the year 2008, the Consumer Price Index for Greater Buenos Aires would show a year-on-year variation at December 2008 of 7.23%. Besides, the Consumer Price Index for the rest shows an 8.69% increase for the same period. The other indicators show again major discrepancies, as follows: Wholesale Domestic Price Indices (IPIM) (8.4% for 2008), Production Cost Index (ICC) (20.71% for 2008) and Index of GDP Implied Prices (IPI) (19.1% for 2008).

Finally, it is worth noting that amongst private estimates, the Consumer Price Index for 7 Provinces which had been showing significant correlation to the Consumer Price Index for Greater Buenos Aires until the year 2007, is now at around 20%. Other private consultants estimated prices to have risen by no less than 13% in the year to date and there were some others that calculated inflation to be about 23% for the year 2008 on the basis of their own surveys.

Closely related to monetary decisions is the Country Risk issue. During the period under analysis, Argentina has exhibited the greatest volatility as measured by this indicator compared to the other countries in the region. As a result, access to external financing has been restricted during the past year. Towards the end of 2008 and as a result of the domestic and international contexts, this indicator skyrocketed due to the scarcely favorable expectations for Latin America as a whole. During the last quarter of fiscal 2009, the indicator pointed to a downward trend as a result of expectations that already assumed that the international financial crisis would adversely affect the region.

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As a result of Country Risk volatility in October and November 2008, there was no access to external financing. On top of the heavy restrictions upon liquidity in the domestic market, the situation described had a bearing on the private bank deposit rate at 30 days, which exhibited major peaks in October and November 2008 and hit all-time highs close to 25% thus placing severe limitations on local funding during fiscal 2009. This notwithstanding, the Central Bank's strategy consisted in allowing the rate to fluctuate until it reached the levels fixed by market expectations and by the end of fiscal 2009 the rate was close to 13%.

As concerns the currency and terms of deposits, in the last month of fiscal 2009 a preference was perceived for assets with higher liquidity and for deposits in foreign currency. The latter rose by 77.06% during fiscal 2009.

As a consequence of the symptoms of the international financial crisis, the remittance of foreign currency abroad amounted to US\$ 11,195 million for the first six months of calendar 2009.

Besides, in connection with the nominal foreign exchange rate, the policy that entailed a preventative accumulation of foreign currency, which reached US\$ 46,026 million as of June 30, 2009, dispelled any doubts about the ability of the Central Bank to maintain the value of the currency.

During fiscal 2009 the actual multilateral exchange rate was also affected by the decrease in the level of exports discussed above. However, the index started to recover in December and reached the end of fiscal 2009 with a value that was 2.5% higher than the index at June 30, 2008.

Within this context, the monetary policy implemented by the Central Bank consisted in using the money in circulation plus deposits in checking accounts and savings accounts (which represent the monetary aggregate known as M2) to exert indirect influence on the interest rate. In the year 2009 to date, the Central Bank attained the objectives established in its Monetary Program 2009 exerting influence over the level of money in circulation through purchases and sales of treasury securities, purchases and sales of foreign currency, transactions with the public sector and repo transactions.

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The following table shows the main indicators that summarize the performance of the Argentine economy since the 2001 crisis.

**Main Indicators**

	2001	2002	2003	2004	2005	2006	2007	2008
Actual GDP Growth (in %)	-4.40%	-10.90%	8.80%	9.00%	9.20%	8.50%	8.50%	7.00%
Inflation (Combined prices) in % *	-1.70%	49.40%	16.00%	5.90%	9.10%	9.80%	8.50%	6.80%
Unemployment Rate ***	20.50%	20.70%	14.50%	13.00%	10.10%	8.70%	7.60%	7.30%
Primary Surplus (w/o privatizations) in % of GDP	0.50%	0.70%	2.30%	3.90%	3.70%	3.50%	3.20%	3.10%
Exports - FOB (US\$ million)	26,610	25,710	29,565	34,550	40,107	46,569	55,779	70,021
Imports - CIF (US\$ million)	20,320	8,991	13,834	22,447	28,688	33,500	44,706	57,423
Trade balance (US\$ million)	6,289	16,719	15,731	12,103	11,419	12,410	11,073	12,598
Balance of Payments Current Account (US\$ billion) **	-3,291	8,673	7,659	3,349	5,705	8,053	7,466	7,034

*Source* INDEC

(\*) **Consumer Price Index Greater Buenos Aires - INDEC**

(\*\*) **On an accrual basis**

(\*\*\*) **Country average (as a % of Economically Active Population)**

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***AGRICULTURE AND CATTLE RAISING SECTORS IN ARGENTINA***

Argentina has positioned itself over the years as one of the world's leading food producers and exporters. It is the second largest country in South America after Brazil and has particularly favorable natural conditions for diversified agricultural production: vast extensions of fertile land and varied soil and weather patterns.

During the decade of the nineties, the Argentine agriculture and cattle raising industry experienced sweeping changes, such as a significant increase in production and yield (thanks to a sustained agricultural modernization process), relocation of production (crops vs. livestock) and a significant restructuring process within the industry, as well as land concentration. Taking advantage of a favorable international context, the agriculture and cattle raising sector has been one of the major drivers of the Argentine recovery after the economic and financial crisis of 2002.

***Agriculture Sector***

According to estimates of the Argentine Secretary of Agriculture, Cattle Raising, Fisheries and Food Industries (SAGPyA in Spanish), the 2007/2008 farm season represented another record hit for Argentina, with total production estimated at over 96 million tons, 2.7% higher than the previous season. Total production of oilseeds for the 2007/08 campaign reached 51.5 million tons, 0.3% lower than the previous campaign, while total production of cereals during 2007/2008 amounted to 44.5 million tons, 6.5% higher than the previous campaign.

*Source: Agricultural Estimates - SAGPyA.*

This increase in the total grain production during 2007/2008 compared to the previous season is explained mainly by the increase in sown area, which rose 6.1%, as yields were affected by various weather problems.

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*Source: Agricultural Estimates SAGPyA.*

However, in the last months one of the most significant droughts in the last 70 years has affected the main productive regions of the country, with a negative impact on the agriculture and livestock sector in the 2008/2009 farm season as well as on the prospects for the next season in terms of yields and sown areas. According to estimates of the Argentine Secretary of Agriculture, Cattle Raising, Fisheries and Food Industries (SAGPyA in Spanish), the production of sunflower is expected to drop by approximately 48.4% during this season compared to the previous season. In the case of wheat, from the 16.3 million tons produced in the previous season, the output for the 2008/2009 season is expected to be 8.3 million tons. In connection with corn, the output is expected to be between 12.5 and 13.8 million tons, compared to approximately 22.0 million tons for the previous season. As concerns soybean, according to the United States Department of Agriculture ( USDA ), production in Argentina will reach 32.0 million tons compared to 46.2 million tons in the previous season. Crop prices have improved after the drop caused by the global financial and economic crisis, mostly due to the decrease in the production of crops in South America as a result of the drought.

As regards export taxes, in November 2007 the Argentine government raised the withholding rates applied on exports of soybean and soybean by-products (from 27.5% to 35%), wheat (from 20% to 28%) and corn (from 20 to 25%). Through this scheme, the government withheld a fixed percentage over the FOB price of grains, which meant that any future price increase would have had an impact on both the farmers and the government's revenues. Given the structure of export taxes, the other side of the significance of the agriculture and livestock sector in terms of exports is the impact it has on the fiscal area. In 2008, exports of agriculture and livestock products (crops and beef without an integrated industrial process) accounted for 32% of total revenues from export taxes, which in turn represented 13.4% of the Argentine State's total revenues.

Since 1994, agricultural production has been growing significantly as a result of changes in production systems with the extension of direct sowing, biotechnology and the larger use of agrochemicals, fertilizers and irrigation. In addition, the increase in sown areas with the incorporation of marginal areas to production and the expansion of agricultural activity into traditionally cattle raising areas, added to higher yields, have been the major drivers of growth.

Along with this production process, exports of crops and by-products have also shown a sustained growth in the last years. From the total of US\$ 70,589 million of foreign sales during 2008, US\$ 24,157 million resulted from sales of beans, soybean oil, flour and pellets, corn and wheat exclusive for sowing and oil, sunflower seeds and pellets, which represents 34.2% of total foreign sales. Argentina is the third worldwide exporter of soybean crops and the largest global supplier of soybean oil and flour, the second worldwide exporter of corn, and is positioned among the five largest exporters of wheat despite the estimated decrease in the number of tons of crops exported during the 2008/09 season.

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According to the report prepared by the United States Department of Agriculture, USDA Agricultural Baseline Projections to 2018, the Argentine agricultural production continues to have very good prospects, and the country is positioned as a strong competitor of the US in the agriculture and cattle raising sector.

According to the USDA's report, as a general framework, a slowdown in worldwide economic growth is anticipated for the first period of the 2009-2018 projections, but with a recovery after 2010, to stay above the historical growth average during the second part of the above mentioned period. This recovery is the basis for growth in global demand for agriculture and livestock products. The average rate of growth of the global economy is expected to be 3.4% per year between 2009 and 2018. The higher growth expected in developing countries is the basis for the strong demand for food anticipated for the coming years, as their populations obtain higher revenues.

In the last eight years the world consumption of cereals and oilseeds has exceeded production, resulting in a substantial reduction of stocks and a strong rise in prices between 2003 and 2008. Consequently, there was an increase in the global sown area during 2008 and, coupled with good weather conditions, world production of cereals and oilseeds grew by 5%.

According to the USDA's report, the main expansion of sown area will occur in countries with available land reserves such as Brazil, other Latin American countries, some countries of Eastern Europe and Ukraine.

According to the USDA, world production of crops (corn, wheat, soybean, sorghum, cotton, barley and rice) is expected to increase by approximately 18% in the period between the 2007/08 and 2018/19 seasons. The increase in the number of tons produced reflects the increase in the harvested area and expected yields. The USDA estimates that, from the approximately 650 million hectares harvested worldwide for the production of crops (corn, wheat, soybean, sorghum, cotton, barley and rice), for the 2018/19 season there will be approximately 695 million harvested hectares. Near two thirds of the growth in world production will result, however, from higher crop yields.

In relation to prices, due to the anticipated strong demand for agricultural products combined with the continuing demand for ethanol and biodiesel in the United States, it is expected that cereal and oilseed prices will stay above the price levels prevailing before 2007.

Traditional exporters of agricultural commodities such as Argentina, Australia, Canada, member states of the European Union and the United States will continue to have a leading role during the next decade. However, a growing presence is expected from countries that are making large investments in their agricultural sectors, such as Brazil, Russia, Ukraine and Kazakhstan.

According to the USDA, the production of biofuels is experiencing a swift expansion in several countries. Projections assume that over the next years the most significant increase in biofuel production will occur in the European Union, Brazil, Argentina and Canada, pushing up the already growing demand for seeds used for the production of oils. Argentina is the first exporter of soybean oil and by-products, showing its large milling capacity, small domestic demand for these products and export tax policy that favors the export of soybean by-products and biodiesel as compared to soybeans. Biodiesel production in Argentina is expected to double during the period under analysis.

In addition, ethanol production in the United States has rapidly increased in the last years. The expansion of this industry will continue, although estimated growth rates will be lower than those of previous years. Biodiesel production in the United States is expected to reach a billion gallons in 2012.

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Due to the increase in the production of ethanol from corn in the United States, the USDA expects an increase in the production and export of corn for countries such as Argentina, Brazil, Ukraine and European Union countries. Argentina is expected to maintain its leadership position as second worldwide exporter of corn.

***Beef Cattle Sector***

In the past years, the worldwide beef market has experienced sweeping changes and great dynamism due to international supply and demand conditions.

On the side of demand, in a context of more restrictive commercial policies, deteriorating economic conditions at international level and changing market conditions, there was a decrease in beef consumption worldwide during 2008.

On the other hand, according to Food and Agriculture Organization of the United Nations (FAO) estimates, the world production of cattle beef decreased by 0.3% in 2008 as a result of the reduction of stocks, higher costs of supplies and lower yields.

Argentina, with a stock near 55 million cattle heads, is one of the main worldwide producers and exporters of beef. Approximately 85% of the country's production is sold in the domestic market where Argentines lead the list of beef consumers with 68.7kg per capita per year in 2008.

As a result of the strong demand in recent years -both domestic and foreign- and stagnated supply, an exponential increase in consumer prices was generated. To counteract this effect a minimum weight of slaughtered animals was established, and a number of quantity and administrative restrictions were applied to foreign sales of cattle beef. The number of slaughtered animals in 2008 reached 14.5 million head compared to 14.9 million head recorded in 2007. Production in 2008 went down by 3.3% compared to the previous year, reaching 3.1 million tons of dressed carcasses. The decrease in the slaughtering and production of beef was partially prompted by the scarce rainfall in Argentina's producing areas, which has had an impact on beef cattle, causing their death and affecting the production of beef and by-products. In addition, the levels of slaughtered animals and beef production were prompted by the liquidation of stocks, which will result in higher constraints in the medium term.

*Source: SAGPyA*

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According to data from the SAGPyA, during 2008, 429 thousand tons of cattle beef were exported (in terms of dressed carcasses). This meant a 20.3% drop compared to export volumes in 2007. In monetary terms, foreign sales generated revenues of US\$ 1,486 million, 16.0% higher than in 2007, due to the increase in prices of dressed carcass tons, which represented 45%. In 2008, the principal destinations of Argentine cattle beef exports were Russia, Germany, Chile, Israel and the Netherlands, which together purchased nearly 60% of total beef exports. For the first five months of 2009, cattle beef exports reached 223,972 tons (in terms of dressed carcasses), 43.8% higher than the volume exported in the period from January to May 2008.

The development of the livestock sector in Argentina has always been closely linked to the control of foot-and-mouth disease (FMD). Having been declared free of the disease with vaccination in 2002, in February 2006 there was an outbreak that affected this status. The outbreak was quickly brought under control and the country regained the status of FMD-free country in early 2007.

BSE still affects livestock at the worldwide level. Argentina is one of the world producers, together with Australia, Finland, Iceland, Norway, New Zealand, Paraguay, Singapore, Sweden and Uruguay, that has been recognized as a BSE-free country. The SENASA (Argentine Sanitation and Quality Service Agency) has played a major role in this issue, as it soon imposed sanitation control measures to isolate the country and prevent the disease.

### ***Milk Sector***

According to the FAO, the world production of milk rose 1.7% in 2008, reaching 687.7 million tons. Total milk production has remained relatively constant, whereas a deceleration in the growth of major milk producers and exporters has been observed. In Oceania, the adverse weather conditions affected the performance of Australia and New Zealand where a 3.2% decrease in the production of milk was observed during the period 2007-2008. In Asia, production was affected by the detection of melamine in dairy products from China. This situation, however, has led to the improvement of the regulatory framework for the sector and, according to estimates, Asian production of dairy products will increase by 3.5% in 2009. This is one of the largest producing regions in the world and is also a substantial importer of milk products and absorbs a considerable portion of world production. In Latin America and the Caribbean many countries have emerged as exporters or have started to replace imports with domestic production in recent years, and a strong growth of supply is forecast for this region.

In 2008, total milk production in Argentina was 10,010.0 million liters, 4.8% above the total recorded in 2007. Despite this increase, production was impacted by drought and higher production costs.



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*Source: SAGPyA*

In regard to exports, the principal destinations of Argentine milk exports in 2008 were Venezuela, Brazil and Argelia. According to official data, in 2008, 280,374 tons of milk products were exported, representing revenues of US\$ 1,068,910. These figures represented drops of 11.2% in volume and of almost 42.2% in value compared to the previous year. It should be noted that milk product prices experienced a significant decrease in the international market.

***Appreciation of Land Value***

From 2002 to 2008, Argentine land values accounted for a very significant rise mainly as a consequence of the attractive international prices of grains. Besides, the technological package consisting of direct sowing, the application of fertilizers, soil humidity handling and agrochemicals have helped extend agricultural borders in many areas. The increase in productivity has driven prices in many regions that were formerly regarded as marginal areas for agriculture purposes.

The chart below shows the changes in average prices for nucleus, mixed and breeding farm areas since 1990, as per the survey conducted by *Márgenes Agropecuarios* magazine:

*Source: Márgenes Agropecuarios magazine*

During 2008, the value of land appreciated approximately 29.0% as concerns corn fields, 25.3% as concerns winter grazing pastures, and approximately 41.8% as concerns cattle breeding fields. However, during the first semester of 2009, the value of land decreased by 13.7% for fields in core areas, 16.2% for winter grazing pastures and 17.9% for cattle breeding fields.

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### **Product Prospects <sup>(1)</sup>**

The sources of the following information are the SAGPyA, the USDA, the Instituto Interamericano de Cooperación para la Agricultura, Márgenes Agropecuarios, the Food and Agriculture Organization of the United Nations and internal data.

#### **Wheat**

USDA projections for the 2009/2010 campaign at global level estimate a production of approximately 656.48 million tons of wheat, 3.8% lower than the previous campaign, that is 25.8 million tons less than in the 2008/2009 campaign when crop growing conditions were excellent in most producing countries. Most of the reduction is expected among the largest producers, particularly the European Union, the Russian Federation and the United States. Recovery is expected in other countries such as the Islamic Republic of Iran, Argentina and Syria; however, this recovery will not be sufficient to offset the reduction at global level.

As regards Argentina, the USDA projects a 9.5 million ton production for the 2009/2010 season, 13.1% higher than the prior year campaign, but 47.2% lower than the amount harvested in the 2007/2008 campaign. The rising prices of supplies required for wheat implantation, coupled with the effect of taxes on grain exports, have had an impact on the incentive to grow this crop. In addition, the FAO forecasts that in the event that normal weather conditions return for the rest of the season, improved yields could lead to a larger harvest in 2009 compared to that of the previous year, which was affected by adverse weather conditions.

#### **Corn**

Globally, the USDA estimates a 0.15% rise in corn production for the 2009/2010 campaign, totaling 789.83 million tons compared to 788.64 million tons in the previous cycle. The sown area is estimated in 157.25 million hectares, which remained relatively unchanged compared to the previous campaign.

For Argentina, the USDA estimates that corn production would reach approximately 15.0 million tons, 15.4% higher than in the 2008/09 campaign.

#### **Soybean**

In the case of soybean, for the 2009/2010 campaign, the USDA projects a world production of 243.73 million tons, 15.7% more than the previous year. Most of this increase arises from the estimation that a recovery will take place in Argentina and Brazil, which are undergoing a severe drought in the major productive regions.

For Argentina, the USDA estimates project a production of 51.0 million tons for the 2009/10 campaign, 59.4% higher than that of 2008/09, and 10.4% higher than the 2007/08 campaign.

#### **Sunflower**

Globally, sunflower production for the 2009/2010 campaign is projected at approximately 31.88 million tons compared to 32.78 million tons in the previous year.

In Argentina, the interest in sunflower has increased, resulting in a larger sown area totalin