

CRESUD INC
Form 20-F
December 29, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: June 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-29190

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 Floor,

(C1091AAQ) Buenos Aires, Argentina

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing	Nasdaq National Market of the
ten shares of Common Stock	Nasdaq Stock Market
Common Stock, par value one Peso per share	Nasdaq National Market of the
	Nasdaq Stock Market*

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Edgar Filing: CRESUD INC - Form 20-F

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of Common Stock of Cresud Sociedad Anónima Comercial, Inmobiliaria, Financiera y Agropecuaria as of June 30, 2004 was:

Shares of Common Stock 150,772,819

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

Table of Contents

TABLE OF CONTENTS

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

<u>Disclosure regarding forward-looking information</u>	4
<u>Certain Measures and Terms</u>	4
<u>Presentation of financial and certain other information</u>	5
<u>Market Data</u>	7
<u>PART I</u>	
<u>Item 1. Identity of directors, Senior Management and Advisers</u>	8
<u>Item 2. Offer statistics and expected timetable</u>	8
<u>Item 3. Key information</u>	8
<u>A. Selected consolidated financial data</u>	8
<u>B. Capitalization and Indebtedness</u>	13
<u>C. Reasons for the offer and use of proceeds</u>	13
<u>D. Risk factors</u>	13
<u>Item 4. Information on the Company</u>	43
<u>A. History and development of Cresud</u>	43
<u>B. Business overview</u>	46
<u>C. Organizational structure</u>	57
<u>D. Property, plant and equipment</u>	60
<u>Item 5. Operating financial review and prospects</u>	63
<u>A. Consolidated operating results</u>	63
<u>B. Liquidity and capital resources</u>	74
<u>C. Research and developments, patents and licenses</u>	104
<u>D. Trend information</u>	104
<u>E. Off-balance sheet arrangement</u>	109
<u>F. Tabular disclosure of contractual obligations</u>	110
<u>G. Safe harbor</u>	110
<u>Item 6. Directors, Senior Management and employees</u>	110
<u>A. Directors and Senior Management</u>	110
<u>B. Compensation</u>	115
<u>C. Board Practices</u>	116
<u>D. Employees</u>	117
<u>E. Share Ownership</u>	117
<u>Item 7. Major shareholders and related party transactions</u>	119
<u>A. Major shareholders</u>	119
<u>B. Related Party Transactions</u>	121
<u>C. Interests of experts and counsel</u>	124

Table of Contents

<u>Item 8. Financial information</u>	125
<u>A. Consolidated statements and other financial information</u>	125
<u>B. Significant changes</u>	126
<u>Item 9. The offer and the listing</u>	126
<u>A. Information on the listing of our stock</u>	126
<u>B. Plan of distribution</u>	128
<u>C. Markets</u>	128
<u>D. Selling shareholders</u>	132
<u>E. Dilution</u>	132
<u>F. Expenses of the issue</u>	132
<u>Item 10. Additional information</u>	132
<u>A. Share capital</u>	132
<u>B. Memorandum and articles of association</u>	133
<u>C. Material contracts</u>	136
<u>D. Exchange controls</u>	136
<u>E. Taxation</u>	139
<u>F. Dividends and paying agents</u>	146
<u>G. Statement by experts</u>	146
<u>H. Documents on display</u>	146
<u>I. Subsidiary information</u>	146
<u>Item 11. Quantitative and qualitative disclosures about market risk</u>	146
<u>Item 12. Description of securities other than equity securities</u>	150
<u>PART II</u>	
<u>Item 13. Defaults, dividend arrearages and delinquencies</u>	151
<u>Item 14. Material modifications to the rights of security holders and use of proceeds</u>	151
<u>Item 15. Controls and procedures</u>	151
<u>Item 16</u>	151
<u>A. Audit committee financial expert</u>	151
<u>B. Code of ethics</u>	152
<u>C. Principal accountant fees and services</u>	152
<u>D. Exemption from the listing standards for audit committees</u>	152
<u>E. Purchasers of equity securities by the issuer and affiliated purchasers</u>	152
<u>PART III</u>	
<u>Item 17. Financial Statements</u>	153
<u>Item 18. Financial Statements</u>	153
<u>Item 19. Exhibits</u>	153

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This annual report contains or incorporates by reference statements that constitute forward-looking 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 from those set forth in the forward-looking statements as a result of various factors (including, without limitations, the actions of competitors, future global economic conditions, market conditions, foreign exchange rates, and operating and financial risks related to managing growth and integrating acquired businesses), many of which are beyond our control. The occurrence of any such factors not currently expected by us would significantly alter the results set forth in these statements.

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 Argentina or Argentine companies;

changes in exchange rates or regulations applicable to currency exchanges or transfers;

unexpected developments in certain existing 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 beginning on page 13.

You should not place undue reliance on such statements, which speak only as of the date that they were made. Our independent public accountants have not examined or compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. 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 Form to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

CERTAIN MEASURES AND TERMS

Edgar Filing: CRESUD INC - Form 20-F

As used throughout this Form 20-F, the terms Cresud , Company , we , us , and our refer to Cresud Sociedad Anónima Comercial, Inmobiliaria Financiera y Agropecuaria, together with our consolidated subsidiaries, except where we make clear that such terms refer only to the parent company.

In this Form 20-F, references to Tons , tons or Tns. are to metric tons, to kgs are to

Table of Contents

kilograms, to ltrs are to liters and Hct are to hectares. A metric ton is equal to 1,000 kilograms. A kilogram is equal to approximately 2.2 pounds. A metric ton of wheat is equal to approximately 36.74 bushels. A metric ton of corn is equal to approximately 39.37 bushels. A metric ton of soybean is equal to approximately 36.74 bushels. One gallon is equal to 3.7854 liter. One hectare is equal to approximately 2.47 acres. One kilogram of live weight beef cattle is equal to approximately 0.5 to 0.6 kilogram of carcass (meat and bones).

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

In this annual report, references to US\$ and U.S. Dollars are to United States Dollars, and references to Ps. , Peso or Pesos are to Argentine Pesos.

This annual report contains our audited consolidated financial statements as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002. Our consolidated financial statements have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. Except as discussed in the following paragraph, we prepare our consolidated financial statements in Pesos and in conformity with Argentine GAAP and the regulations of the *Comisión Nacional de Valores* (CNV), which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in our financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 15 to our consolidated financial statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

As discussed in Note 3.k. to our financial statements, contained elsewhere in this annual report, in order to comply with regulations of the CNV, we recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on the accompanying financial statements.

Additionally, as discussed in Note 2.c) to our consolidated financial statements, contained elsewhere in this annual report, after having considered inflation levels for the first months of 2003, on March 25, 2003, the Argentine government has repealed the provisions of the previous decree related to the inflation adjustment and has 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 has issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. We have complied with the CNV resolution and we have accordingly recorded the effects of inflation until February 28, 2003. Comparative figures have been also restated until that date, using a conversion factor of 1.1232.

Since Argentine GAAP required companies to discontinue inflation adjustments as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the accompanying consolidated financial statements.

Until February 28, 2003 our consolidated financial statements have been prepared on the basis of general price-level accounting which reflects changes in the purchasing power of the Peso in our historical financial statements using changes in the Argentine wholesale price index, as published by the *Instituto Nacional de Estadística y Censos*, as follows:

Edgar Filing: CRESUD INC - Form 20-F

we have adjusted non-monetary items and consolidated statements of income amounts to reflect the then current general purchasing power;

Table of Contents

we have not adjusted monetary items as such items were, by their nature, stated in terms of current general purchasing power in our consolidated financial statements;

we have recognized monetary gains or losses in our consolidated statements of income, reflecting the effect of holding monetary items; and

we have included the gain or loss on exposure to inflation (monetary gain or loss) in our consolidated statements of income within total financing results.

Also contained in this annual report are the consolidated financial statements of IRSA Inversiones y Representaciones Sociedad Anónima (IRSA), an unconsolidated equity investment, as of June 30, 2004 and 2003 and for the years ended June 30, 2004, 2003 and 2002, which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, independent auditors, whose report is included herein. The independent auditors' report on IRSA's consolidated financial statements includes an explanatory paragraph describing uncertainties which might affect the value of its equity interest in Banco Hipotecario S.A. (BHSA). As of June 30, 2004, IRSA's equity investment in BHSA accounts for approximately 7% of IRSA's total consolidated assets.

IRSA's auditors' report on IRSA's Consolidated Financial Statements as of June 30, 2004 and 2003 and for three years ended June 30, 2004 includes an explanatory paragraph describing that the quality of BHSA's financial condition and results of operations depend to a significant extent on macroeconomic and political conditions prevailing from time to time in Argentina. The political and economic crisis of late 2001 and early 2002 and the Argentine government's actions to address such crisis have had a significant adverse effect on BHSA's business activity. Currently, BHSA is significantly dependent on the Argentine Government's ability to perform on its obligations to BHSA and to the entire financial system in Argentina, in connection with Federal secured loans, federal government securities and on its obligation to approve and deliver government securities under various laws and regulations. The future outcome of the uncertainties described before could have an adverse effect in the valuation of IRSA's investments in BHSA.

As mentioned in Note 4.b) to our consolidated financial statements, as of June 30, 2004 we owned a 25.4% equity interest in IRSA.

Except as discussed in the following paragraph, IRSA prepares its financial statements in Pesos and in conformity with Argentine GAAP and the regulation of the CNV, which differ in certain significant respects from U.S. GAAP. Such differences involve methods of measuring the amounts shown in the consolidated financial statements, as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC. See Note 20 to IRSA's consolidated financial statements contained elsewhere in this annual report for a description of the principal differences between Argentine GAAP and U.S. GAAP as they relate to IRSA, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

As discussed in Note 3.n. to IRSA's financial statements, contained elsewhere in this annual report, in order to comply with CNV regulations, IRSA recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on the accompanying financial statements.

Additionally, as discussed in Notes 2.c. to IRSA's financial statements, contained in this annual report, 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

Table of Contents

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. IRSA complied with the CNV resolution and accordingly recorded the effects of inflation until February 28, 2003. Comparative figures were restated until that date, using a conversion factor of 1.1237.

Since Argentine GAAP required companies to discontinue inflation accounting as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles. However, due to the low level of inflation rates during the period from March to September 2003, such a departure has not had a material effect on the accompanying financial statements.

Certain amounts which appear in this annual report (including percentage amounts) may not sum due to rounding. You should not construe the translations as a representation that the amounts shown could have been, or could be, converted into U.S. Dollars at that or any other rate.

References to fiscal years 2000, 2001, 2002, 2003 and 2004 are to the fiscal years ended June 30 of each such year.

MARKET DATA

Market data used throughout this annual report were derived from reports prepared by unaffiliated third-party sources. Such reports generally state that the information contained therein has been obtained from sources believed by such sources to be reliable. Certain market data which appear herein (including percentage amounts) may not sum due to rounding.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

This item is not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

This item is not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data has been derived from our consolidated financial statements as of the dates and for each of the periods indicated below. This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements and the discussion in Operating and Financial Review and Prospects included elsewhere in this annual report. The selected consolidated statement of income data for the years ended June 30, 2004, 2003 and 2002 and the selected consolidated balance sheet data as of June 30, 2004 and 2003 have been derived from our consolidated financial statements included in this annual report which have been audited by Price Waterhouse & Co. S.R.L., member firm of PricewaterhouseCoopers, Buenos Aires, Argentina, independent auditors. The consolidated statements of income data for the years ended June 30, 2001 and 2000 and the selected consolidated balance sheet data as of June 30, 2002, 2001 and 2000 have been derived from our audited consolidated financial statements that are not included herein.

As discussed in Note 3 to our financial statements, contained elsewhere in this annual report, on January 14, 2003, the *Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires* (CPCECABA) and the CNV approved, with certain amendments, Technical Resolutions No. 16, 17, 18, 19 and 20 issued by the *Federación Argentina de Consejos Profesional en Ciencias Económicas* (FACPCE), which establish new accounting and disclosure principles under Argentine GAAP. We adopted such standards on July 1, 2002, except for Technical Resolution No. 20, that we adopted on July 1, 2003. As required by Argentine GAAP, when issuing the 2003 Consolidated Financial Statements, we restate our prior year financial statements to give retroactive effect to the newly adopted accounting standards

Our financial statements are presented in Pesos. Except as discussed in the following paragraph, our financial statements are prepared in accordance with Argentine GAAP, which differs in certain significant respects from U.S. GAAP. Note 15 to our consolidated financial statements provides a description of the principal differences between Argentine GAAP and U.S. GAAP affecting our net income (loss) and shareholders' equity and a reconciliation to U.S. GAAP of net income (loss) reported under Argentine GAAP for the years ended June 30, 2004, 2003 and 2002, and of shareholders' equity reported under Argentine GAAP as of June 30, 2004 and 2003. The differences involve methods of measuring the amounts shown in the financial statements as well as additional disclosures required by U.S. GAAP and Regulation S-X of the SEC.

Edgar Filing: CRESUD INC - Form 20-F

As discussed in Note 3.k. to our financial statements, contained elsewhere in this annual report, in order to comply with regulations of the CNV, we recognized deferred income tax assets and liabilities on a non-discounted basis. This accounting practice represents a departure from generally accepted accounting principles in Argentina. However, such departure has not had a material effect on our financial statements.

Additionally, as discussed in Note 2.c) to our consolidated financial statements, contained

Table of Contents

elsewhere in this annual report, after having considered inflation levels for the first months of 2003, on March 25, 2003, the Argentine government has repealed the provisions of the previous decree related to the inflation adjustment and has 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 has issued a resolution providing for the discontinuance of inflation accounting as of March 1, 2003. We have complied with the CNV resolution and we have accordingly recorded the effects of inflation until February 28, 2003. Comparative figures have also been restated until that date, using a conversion factor of 1.1232.

Since Argentine GAAP required companies to discontinue inflation adjustments as from October 1, 2003, the application of the CNV resolution represents a departure from generally accepted accounting principles. However, due to low inflation rates during the period from March to September 2003, such a departure has not had a material effect on the accompanying consolidated financial statements.

Our consolidated financial statements have been prepared on the basis of general price-level accounting which reflects changes in the purchasing power of the Peso in the historical financial statements using changes in the Argentine wholesale price index, as published by the *Instituto Nacional de Estadística y Censos*, as follows:

we have adjusted non-monetary items and consolidated statements of income amounts to reflect the then-current general purchasing power;

we have not adjusted monetary items, as such items were by their nature stated in terms of current general purchasing power in our consolidated financial statements;

we have recognized monetary gains or losses in our consolidated statements of income, reflecting the effect of holding monetary items; and

we have included the gain or loss on exposure to inflation (monetary gain or loss) in our consolidated statements of income within total financing results.

We have used a conversion factor of 1.1232 to restate our financial statements in constant Pesos as of February 28, 2003.

	As of the year ended June 30 (1)					
	2004 (2)	2004	2003	2002	2001	2000
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
INCOME STATEMENT DATA						
<i>Argentine GAAP</i>						
Sales:						
Crops	9,095,166	26,921,690	50,167,010	47,196,604	41,201,769	40,478,462
Beef cattle	9,246,763	27,370,418	17,311,212	27,609,516	29,332,417	29,378,834
Milk	1,078,361	3,191,948	2,414,992	2,258,210	2,614,583	3,741,621
Other	1,617,206	4,786,930	2,056,625	3,189,850	3,747,545	4,077,779
Net sales	21,037,496	62,270,986	71,949,839	80,254,180	76,896,314	77,676,696

Edgar Filing: CRESUD INC - Form 20-F

Cost of sales:						
Crops	(5,204,524)	(15,405,391)	(39,425,551)	(13,817,006)	(32,078,174)	(30,238,138)
Beef cattle	(7,141,938)	(21,140,135)	(8,746,014)	(22,778,110)	(24,389,078)	(26,177,743)
Milk	(441,879)	(1,307,963)	(1,483,172)	(3,561,830)	(2,266,888)	(5,594,519)
Other	(379,408)	(1,123,049)	(1,387,410)	(2,122,473)	(2,380,039)	(2,747,053)
Total	(13,167,749)	(38,976,538)	(51,042,147)	(42,279,419)	(61,114,179)	(64,757,453)
Gross profit	7,869,746	23,294,448	20,907,692	37,974,761	15,782,135	12,919,243
Selling expenses	(1,656,441)	(4,903,065)	(6,045,309)	(10,248,016)	(11,103,948)	(10,509,886)
Administrative expenses	(1,789,876)	(5,298,032)	(4,309,119)	(8,368,493)	(8,436,876)	(8,697,485)
Net gain on sale of farms	563,767	1,668,751	4,869,484	16,573,853	5,729,612	
Inventory holdings gain (loss)	753,490	2,230,329	12,224,813	(19,603,010)	(1,489,269)	157,346
Operating income (loss)	5,740,686	16,992,431	27,647,561	16,329,095	481,654	(6,130,782)
Financial results, net	69,442	205,548	(10,940,327)	1,506,805	12,246,539	9,694,517

Table of Contents

As of the year ended June 30 (1)

	2004 (2)	2004	2003	2002	2001	2000
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(Ps.)	(Ps.)
Equity gain (loss) from related companies	9,145,684	27,071,225	68,008,820	(41,217,930)	(378,329)	(36,428)
Other (expense) income, net	(160,319)	(474,545)	(2,091,888)	165,073	(339,917)	(256,692)
Management fee	(1,205,069)	(3,567,003)	(7,224,996)		(935,742)	(330,540)
Income (Loss) before income tax and minority interest	13,590,425	40,227,656	75,399,170	(23,216,957)		