

**GCAB**

**Global Committee of  
Argentina Bondholders**

**Investor Roadshow Presentation**

**January 2005**

*[www.gcab.org](http://www.gcab.org)*

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# Presenters

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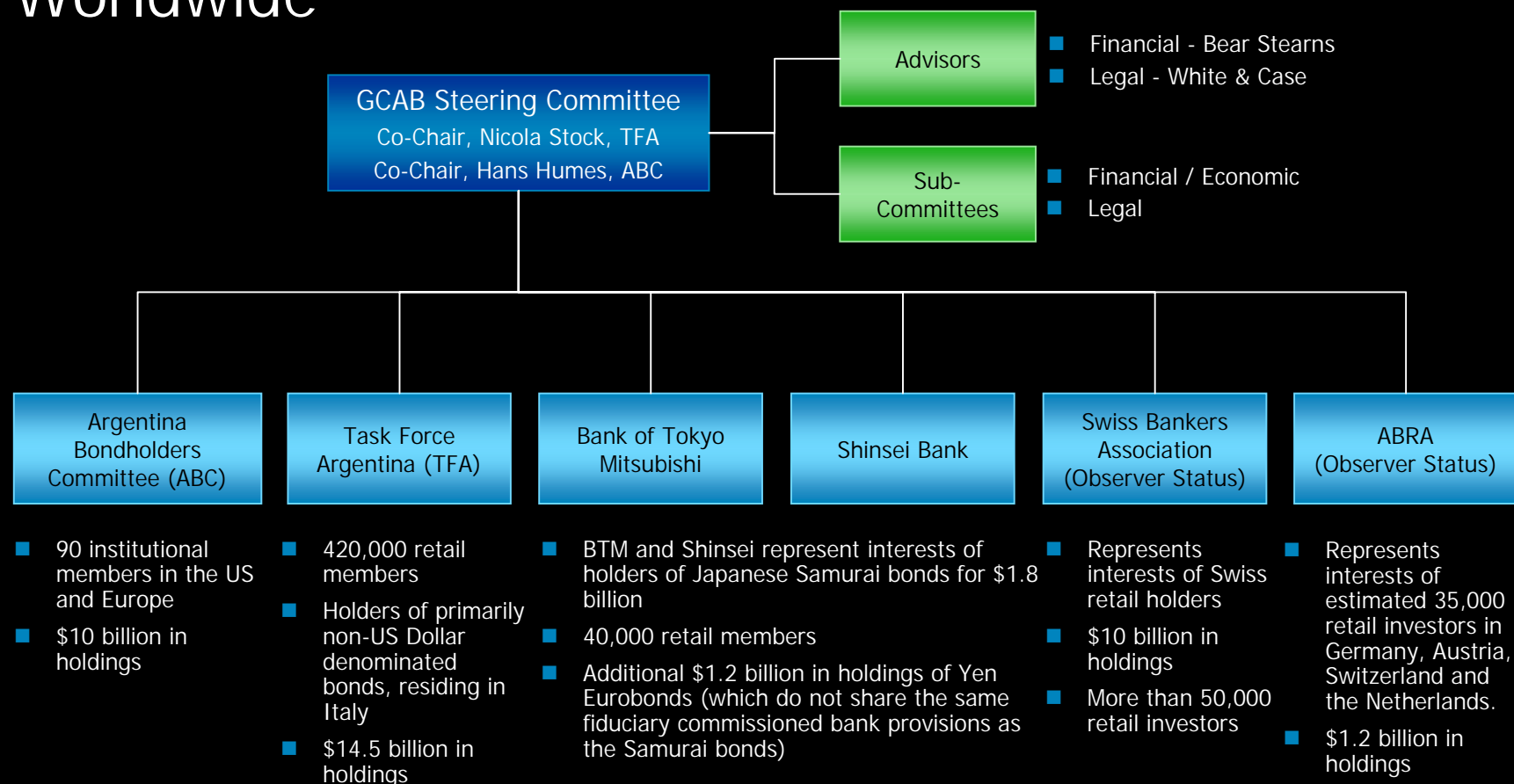
Dr. Nicola Stock

Co-Chair, GCAB  
Task Force Argentina

Hans Humes

Co-Chair, GCAB  
Argentina Bondholders Committee

## GCAB Represents the Major Bondholder Groups Worldwide



GCAB General Membership Category - Added in July 2004

- Institutional and retail investors globally
- More than \$1 billion in holdings

## What All Bondholders Should Know

- Overwhelming consensus is that ARGENTINA CAN PAY MORE
- HOLDOUTS WILL NOT SURRENDER THEIR RIGHTS and may ultimately gain a settlement worth at least the value of the current offer either through a revised offer, negotiations, or court action, which for certain issues could include participation in class actions already underway or which may be started; court action may eventually lead to seizure of assets where available
- If acceptance rate is significantly below precedents, Argentina will be under financial and political pressure to negotiate and improve the exchange offer
- GCAB continues to champion creditors' rights and claims. GCAB is leading the way for holdouts to pursue an outcome much more in line with historical precedents and Argentina's ability to pay

## Argentina Can Afford To Pay More

- Argentina's foreign reserves have grown to approximately \$20 billion, doubling since the default
- Argentina's economy has rebounded strongly, with tax revenues reaching \$36 billion in 2004. Allocating 20% of those revenues to total annual debt service, an amount similar to other emerging economies, would make \$7.2 billion available, compared to the \$4.3 billion implied by Argentina's exchange offer
- Argentina's primary budget surplus likely reached 5% of GDP in 2004. Maintenance of the current, higher fiscal effort would be in line with that of similar indebted countries, and would represent significant value to bondholders
- "Ability to Pay" must continue to be the guiding principle for debt restructurings

## Argentina Can Afford to Pay More

|   | <u>Argentina's Willingness</u> | <u>Argentina's Ability</u> |
|---|--------------------------------|----------------------------|
| Cash Up Front   | \$1.2 billion                  | \$6.0 billion              |
| Average Annual Debt Service<br>on New Debt, 2005-2008 | \$1.3 billion                  | \$3.0 billion              |
| Date to Access Capital Markets                        | No defined goal                | 2009                       |
| Primary Surplus (% of GDP)                            | <3.0%                          | >4.0%                      |
| Target Participation Rate                             | 50.0%                          | >90.0%                     |
| NPV as a % of principal                               | 26.0%                          | 55.2%                      |

## Absence of Good Faith Negotiations

- Argentina has not engaged in constructive dialogue with leading creditor groups. The current proposal does not reflect any input from GCAB
- Argentina has not provided sufficient disclosure; the most recent debt sustainability analysis on the Ministry of Finance's website is dated 2003
- Argentina has cut preferential side deals with domestic creditor groups and has not acted in a transparent manner

*There is widespread consensus that Argentina has not acted in good faith towards creditors, despite its promises to the Official Sector*



## Argentina's Exchange Offer is Inconsistent With Precedents

- No negotiations
- No minimum acceptance level. Prior sovereign restructurings achieved greater than 90%
- No recognition of the majority of the \$26 billion of interest payments (Past Due Interest, or PDI) missed since the default. Historically, PDI has received superior treatment in negotiated sovereign restructurings
- Historically low recovery value
- No support from multilateral organizations. Multilaterals often provide letters of support and, in significant restructurings, financially participate in the success of the offer by providing capital, resulting in a significant increase in the Net Present Value of the offer

## The Official Sector Must Do More

- Despite written commitment by Argentina to the IMF to engage in good faith negotiations, the Republic has not done so
- Due to Argentina's lack of cooperation, the IMF has not succeeded as a neutral intermediary between Argentina and its creditors
- Much of the Official Sector, other than that in Italy, has been noticeably absent in its objection to the coercive and unilateral methods Argentina has undertaken
- The IMF should renew the offer it made to Argentina in 2001 for a \$3 billion line to facilitate a good faith debt restructuring

*GCAB calls upon the IMF and G-7 officials to follow Italy's lead in publicly denouncing Argentina's unilateral approach to this restructuring*

## Recent Comments from the Official Sector

Domenico Siniscalco  
Minister of Economy, Italy  
January 2005

"If the (offer) is not accepted by enough creditors it would open an unprecedented scenario with international lawsuits and consequences difficult to foresee. The Argentine government could be forced to draw up a new offer."

Pierre Carlo Padoan  
Executive Director, IMF  
January 2005

"It should be clear that that if the creditors' participation rate is lower than 75%, it cannot be said that the debt problem is resolved.... The Fund's management always has asked Argentina to act in good faith, and it never has."

J.F. Hornbeck  
U.S. Congressional Report  
October 2004

"Argentina must settle with foreign bondholders if it is to return to the sovereign debt market.... the default is not only unprecedented for its low recovery rate, but also for the process that has stretched ... the guidelines of sovereign debt negotiations."

## Recent Comments from the Official Sector

Jean Pierre Jouyet  
Chairman, Paris Club  
July 2004

"We told [the Secretary of Finance] that it was undoubtedly necessary for the proposal to be improved. It is important that a satisfactory solution for private creditors be found before the public debt is negotiated."

IMF Internal Document  
July 2004

"...The authorities seem to underestimate significantly the resources available for debt service."

## The “Most Favored Creditor” Clause Does Not Protect Creditors

- The exchange offer states: “Argentina reserves the right, in its absolute discretion, to ... enter into a settlement in respect of any Eligible Securities that are not exchanged.... The terms of any such purchases, exchanges, offers or settlements could differ from the terms of the Offer.”
- The existence of this clause and the language it contains is a *de facto* admission by Argentina that it wants to retain the flexibility to cut new deals in the future
- There is no guarantee that Argentina will give those that enter into the initial deal the revised terms
- In fact, Argentina has included a number of exceptions to this clause to protect the country and allow it to lock out those who choose to accept the initial terms of the offer

*Based on Argentina's track record, investors should discount this option*

## Bondholders Who Accept Will Lose Significant Rights

- Bondholders' claims average 135% of original principal and increase daily as interest and penalties accrue
- Argentina is asking bondholders to relinquish 75% of these claims, a write-off historically unprecedented in magnitude
- Since default, Argentina amended and improved the terms of many of its other domestic restructuring offers after failing to gain adequate acceptance
- The Argentine prospectus warns bondholders that "payments in connection with the Offer or to holders of New Securities may be attached, enjoined or otherwise challenged by holders that decline to participate in the Offer."

*Bondholders have considerable leverage. By tendering into the exchange, they "will relinquish significant rights and interests, including the right to bring claims in litigation." <sup>(1)</sup>*

<sup>(1)</sup> Argentina: U.S. Prospectus Supplement

## GCAB's Approach

- Reject Argentina's current offer:
  - ▶ The cost to Argentina of repudiation is high
  - ▶ Argentina cannot realistically repudiate debt to a large block of creditors and will have to improve terms to reach a successful resolution
  - ▶ Demand the Official Sector reassess its policies towards Argentina, including "lending-into-arrears"
  - ▶ GCAB continues to actively promote a more equitable outcome for all bondholders
- Advocate an alternative consistent with Argentina's ability to pay:
  - ▶ Slight modifications to Argentina's proposal will lead to significantly higher NPV benefits to creditors. These are summarized on the following page
  - ▶ GCAB endorses these more favorable terms

## GCAB's Alternative Increases NPV Recovery

- Our calculations employ a 12% discount rate which we believe reflects an appropriate yield for a new long-term bond issued by Argentina
- GCAB's approach can be implemented within the framework of Argentina's current offer simply by:
  - ▶ Fully recognizing the entire PDI claim
  - ▶ Increasing up-front cash by moving the effective date to 12/31/01
- Our analysis is based on bondholders exchanging for new discount bonds; we believe par bonds have a lower value (23.4% total value recovery)
- Except where noted, values below are expressed as a percentage of principal claim

|                             | Principal Tendered | PDI   | Cash | Total Value | Total Value<br>(% of total claims) |
|-----------------------------|--------------------|-------|------|-------------|------------------------------------|
|                             |                    |       |      |             |                                    |
| <b>Argentina's Proposal</b> | 23.9%              | 0.6%  | 1.5% | 26.0%       | 19.2%                              |
| <b>GCAB's Approach</b>      | 23.9%              | 23.8% | 7.5% | 55.2%       | 42.0%                              |



## Bondholders Who Reject the Offer Have Alternatives

- Wait for Argentina to negotiate and/or improve its offer. Historical precedents favor this outcome
- Alternatively, bondholders have legal recourse to enforce their rights, including through obtaining judgments against Argentina and attempting, where available, to seize its assets, or, for certain issues, by choosing to participate in class actions against Argentina
  - ▶ A class has already been certified by a New York court for 2 series of bonds representing USD 3.5 billion
  - ▶ A U.S. federal judge has indicated that he is open to widening the scope of the certified class
- Pending litigation raises legitimate concerns about “attachment risk” for the new bonds Argentina intends to issue. The ratings agencies have already flagged this as a meaningful risk for creditors who accept Argentina’s offer

## Concluding Points

- Legally, Argentina cannot unilaterally repudiate its obligations. Only creditors can sign away their rights
- Argentina's current offer is now the least that creditors should expect
- With numerous large bondholder groups already rejecting Argentina's exchange offer, opposition to the exchange offer is gaining momentum, and GCAB is confident that a critical mass of creditors will stay out of the deal
- Rejecting the exchange offer preserves bondholders' claims of par plus interest; GCAB remains committed to obtaining Argentina's agreement to an equitable, good-faith restructuring in line with its ability to pay

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