

GCAB

Global Committee of Argentina Bondholders

***Presentation on Occasion of the
IMF/World Bank Annual Meetings***

St. Regis Hotel

4:30 - 5:30 P.M.

October 4, 2004

www.gcab.org

These materials are for discussion purposes only and do not constitute an offer or solicitation of an offer to purchase or sell any security. These materials are not intended to form the basis, in whole or in part, for any investment decision or to provide a rating or recommendation of any kind with respect to any investment opportunity. Factual information contained herein has been obtained from sources believed to be reliable, but its accuracy and completeness cannot be guaranteed. Any financial and economic projections and pricing estimates contained herein are illustrative only and are based on assumptions that may prove inaccurate or incomplete. Actual prices, performance and results may differ substantially. GCAB disclaims any and all liability relating to these materials including, without limitation, any error in or omission from the information contained herein and any duty to update the same in whole or in part. Investors in Argentine securities must make their own analysis and decision with respect to any restructuring, based on such information as they deem appropriate after consultation with their own advisors and without reliance upon these materials or upon GCAB or any of its members, affiliates or advisers. Any such evaluation should be based on, among other matters, the investor's own views as to the financial, economic, legal, regulatory, tax and other risks associated with the transaction, including but not limited to the structure, terms and conditions of any proposed new securities; the Argentine political situation and economy; convertibility and exchange rate risks; and risks posed by developments in other emerging market countries. These materials speak only as of the date hereof and are subject to change without notice. The views expressed herein do not necessarily represent the position of any GCAB member, affiliate or adviser. GCAB and its members, affiliates and advisers may have positions and deal as principal in transactions in securities discussed herein (or options with respect thereto), including positions and transactions inconsistent with the matters discussed herein.

Presenters

Dr. Nicola Stock

Co-Chair, GCAB

Task Force Argentina

Hans Humes

Co-Chair, GCAB

Argentina Bondholders Committee

Makoto Aratake

Steering Committee, GCAB

Bank of Tokyo-Mitsubishi

Dan Celentano

Senior Managing Director

Bear, Stearns & Co. Inc.

Horacio Vazquez

Treasurer

ADAPD

Moderator

AJ Mediratta

Managing Director

Bear, Stearns & Co. Inc.

GCAB Overview

Who is GCAB?

In January 2004, key bondholder groups and committees from around the world formed a global committee, the Global Committee of Argentina Bondholders (GCAB)

Objective

GCAB's Steering Committee seeks to facilitate a good-faith, negotiated, consensual and equitable restructuring of Argentina's defaulted debt

Broad Representation

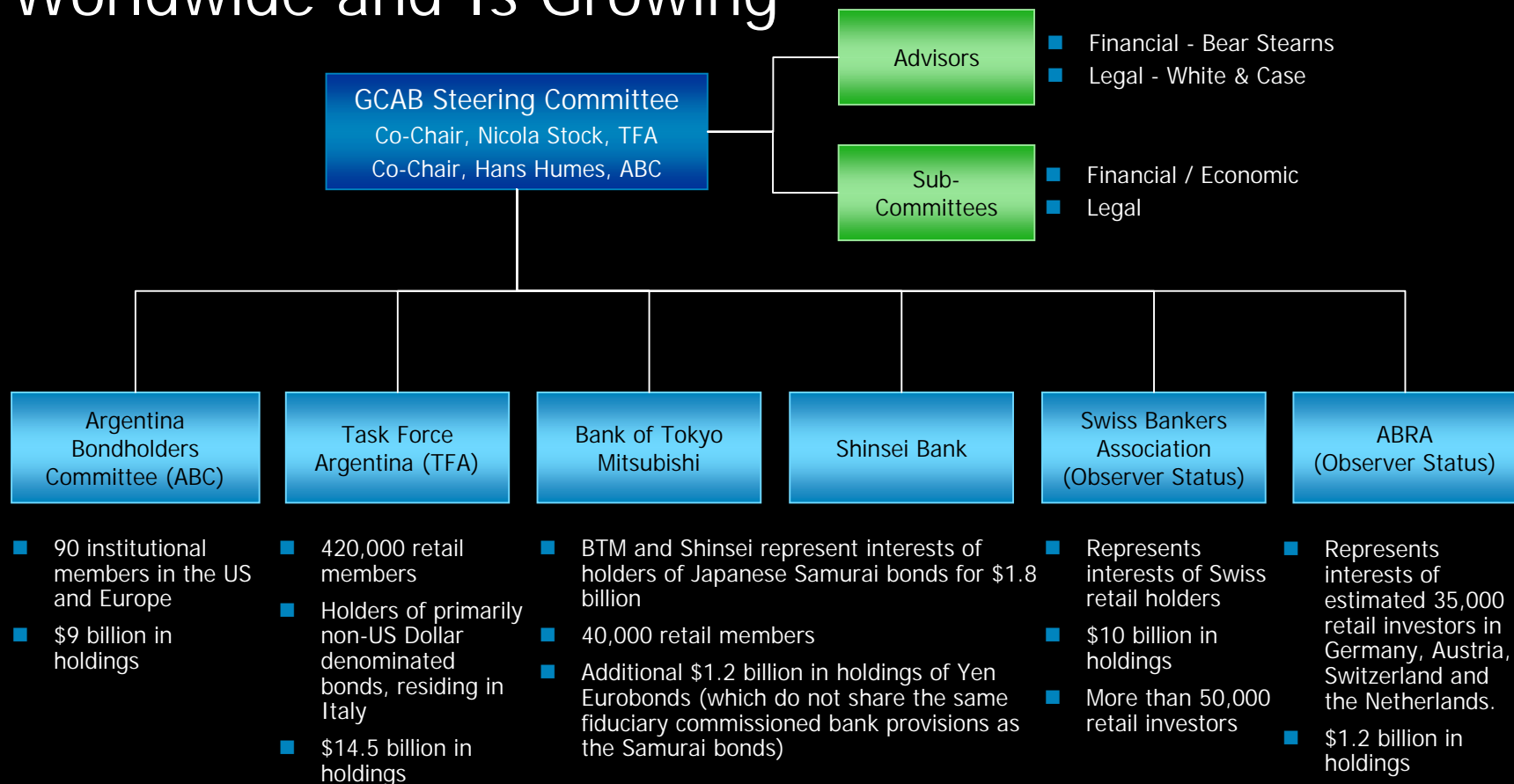
GCAB represents holders of more than US\$38 billion in bond principal claims, and a greater amount of total claims, including:

- More than 500,000 retail investors and more than 100 institutions, banks, partnerships and committees
- More than 100 different issues in seven currencies
- Approximately 75% of Argentine bonds held outside of Argentina
- GCAB is coordinating with other creditor groups, including ones in Argentina

Leadership

The GCAB Steering Committee is confident that a transaction supported by GCAB would be widely accepted by the holders at large

GCAB Represents the Major Bondholder Groups Worldwide and Is Growing



GCAB General Membership Category - Added in July 2004

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

Who is ADAPD?

- The Asociación de Damnificados por la Pesificación y el Default (ADAPD) is a non-profit organization representing Argentine bondholders, which encompasses:
 - ▶ Retail bondholders who purchased Argentine debt
 - ▶ Retirees who received bonds in exchange for retirement debt
 - ▶ Pension fund members
 - ▶ Shareholders in investment funds
- ADAPD and GCAB have recently issued a joint statement of common objectives and have agreed to coordinate in achieving a consensual good faith restructuring of Argentina's defaulted debt
- Total bonds held in Argentina (ADAPD and others) are represented by:
 - ▶ 500,000 retail bondholders
 - ▶ 9,000,000 pension fund members
 - ▶ US\$40 billion in holdings

Recent Developments

■ Argentina Continues Active Avoidance of Negotiations

- ▶ No substantive contact between GCAB and Argentina despite requests by the official sector and promises by the Republic
- ▶ Argentina even has refused to allow its financial advisors to meet with GCAB's financial advisors
- ▶ Capacity to pay improving - GDP, primary surplus and reserves growing above expectations

■ SEC Approach Flawed

- ▶ Current disclosure is grossly inadequate and lacks material information holders are entitled to receive in order to make an informed decision
- ▶ Argentina is attempting to avail itself of SEC shelf registration procedures even though it no longer qualifies as a seasoned foreign issuer due to its long-standing default

■ IMF Stand-By Agreement On Hold

- ▶ Decision to delay the current review of the IMF Stand-By Agreement may reflect growing disenchantment within the G-7 and official sector to Argentina's approach with its creditors

■ Bondholder Organization and Activism Growing

- ▶ Recent court ruling blocking the Province of Mendoza's exchange holds significant implications for the sovereign restructuring

Argentina Understates Its Payment Ability

A Negotiated Process Would Help Define an Equitable Payment Capacity

GCAB's analysis suggests that there are multiple potential sources of significant additional payment capacity: Discussions would lead to a reasonable solution

Reserves

Increased to over US\$18 billion. US\$5 billion would be an equitable allocation to bondholders

Tax Revenues

Surged to US\$2.8 bn during the month of August 2004 on back of 7% GDP growth. Projected at US\$34 bn in 2004

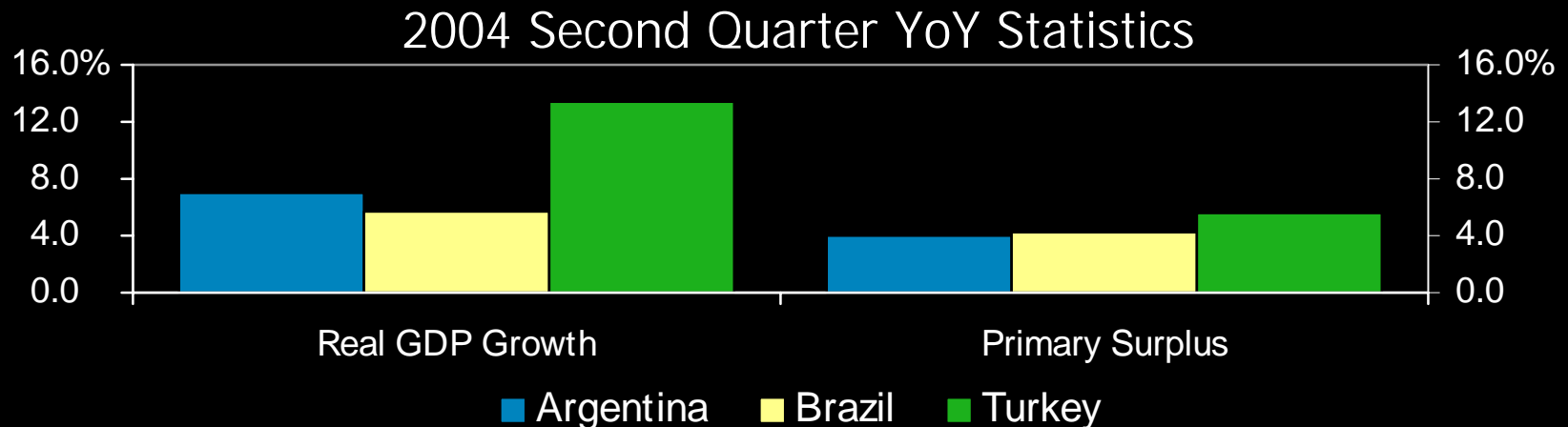
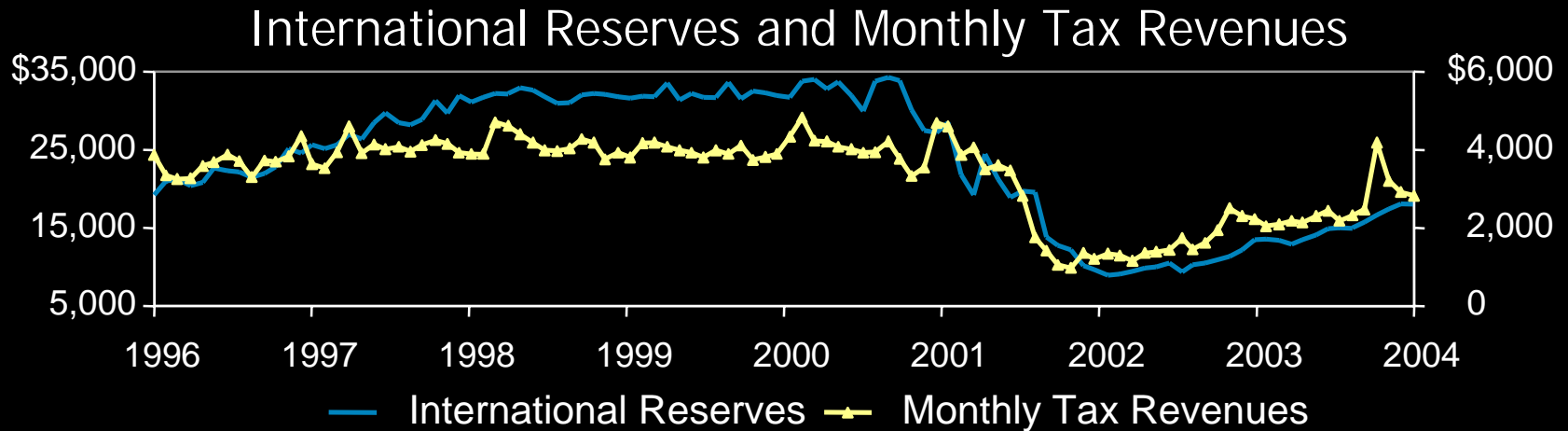
Primary Surplus

The Government's primary surplus target of 3.2% remains lower than its ability to pay

Capital Markets

The capital markets, which represent an enormous pool of capital, will reopen faster than expected if the Republic pursues responsible policies. The Republic has already successfully tapped the domestic markets

Multiple Sources of Funds are Available



IMF Internal Considerations on Argentina's Ability to Pay

The following are direct quotes from an internal IMF document, analyzing Argentina's Debt Sustainability Model

- "...there is no official commitment to policy targets in the model, especially total fiscal effort, which is presented ambiguously..." Pg. 1, PP. 1
- "...actual gross reserves in 2004 are already US\$4 billion above the authorities' projected level for 2008..." Pg. 2, PP. 7
- "...The authorities seem to underestimate significantly the resources available for debt service..." Pg. 3, PP. 11
- "IMF staff assumes that it would be feasible for Argentina to return to the capital markets in a meaningful way by 2009, predicated on the prompt elimination of external arrears upon completion of a successful sovereign restructuring." Pg. 6, PP. 19
- "The consolidated primary fiscal effort needs to be raised to at least 4 - 4.5% of GDP." Pg. 12, PP. 24

Source: Internal IMF report dated July 12, 2004 posted on the Ambito Financiero website. We encourage you to read the report in its entirety.

A Better Approach to Sovereign Debt Restructuring

Argentina's Approach

Refusal to Negotiate with GCAB

- The Argentine government has refused to recognize or negotiate with GCAB or any other creditor group
- The government mischaracterizes one-way briefings with creditors as "negotiations"
- Tenuous legal arguments have been used to avoid entering into substantive negotiations with creditors
- Bondholders are being mischaracterized as "vultures", despite over 50% of bonds being held by individuals, including pensioners

Unilateral Approach

- The government filed what it describes as "final" terms with the US Securities and Exchange Commission (SEC) on June 11, 2004
- GCAB calculates that these terms represent a greater than 80% NPV loss for bondholders, given that PDI continues to accrue

Effective Repudiation

- The government's extremely low target acceptance rate of 50%, combined with its expressed intent not to honor remaining debt, is tantamount to repudiation

Despite the Republic's unilateral approach, GCAB remains committed to achieving a good faith, consensual negotiation

GCAB's Approach and Principles

Negotiated Effort

A successful exchange offer must reflect meaningful negotiations between the Argentine government and GCAB

Transparency

Any negotiation must include:

- (i) A complete disclosure of the government's economic programs and strategies
- (ii) Full and transparent disclosure of all bond holdings by the government and all prior restructuring related transactions
- (iii) Justification for proposed ineligibility of excluded debt

Equivalent Treatment

All bondholders treated equitably regardless of place of domicile, currency, or type of entity (retail versus institutional)

Burden Sharing

Burden sharing on an equitable basis between bondholders and Argentina

Past Due Interest

100% of past due interest must be recognized

Debt Sustainability

A successful solution must be compatible with and provide for Argentina's long-term debt sustainability, economic growth and social goals

Minimum Participation

A successful exchange must be structured to attract at least 90% of bondholders

Elements of Good Faith Negotiations

Argentina Should:

- Terminate the implementation of its unilateral proposal
- Recognize GCAB as a creditor steering committee
- Agree not to negotiate with creditors outside the organized negotiation framework
- Establish an aggressive timetable for negotiations with GCAB
- Welcome the monitoring of negotiations by the IMF and G-7 representatives
- Supply information to, and hold discussions with, GCAB regarding its debt sustainability model, its proposed treatment of all other creditor groups, and the selection of financial instruments being considered for use in the restructuring
- Negotiate with GCAB on the terms and conditions of the financial instruments
- Regularly share information with the creditors at large with respect to the progress of its negotiations with GCAB, within the confines of applicable securities laws
- Agree to a neutral location for meetings with GCAB
- Agree to pay the reasonable costs of GCAB, a well-established market convention for complex restructurings

Ample Precedents Exist for Successful Negotiations

Precedents in sovereign bank debt and public market debt restructurings demonstrate the value of building a consensus with creditors through a dialogue with organized creditor groups

- Between 1980 and 1996, there were 49 sovereign debt restructurings
- Consistent with precedent, defaulted sovereigns engaged in negotiations with Bank Advisory Committees and reimbursed their reasonable fees and expenses
- Past Due Interest (PDI) was recognized in all cases and generally received preferential terms
 - ▶ If PDI does not receive preferential treatment, there will be no incentive for defaulted borrowers to hasten a restructuring
 - ▶ PDI continuing to increase and now represents more than 25% of total principal claims
- In cases where there has been a haircut on principal, average nominal haircuts have ranged from 35% to 45%

Historical data table with more detail on the GCAB web site: www.gcab.org

A High Participation Rate is Absolutely Essential to a Successful Restructuring

- A 90%+ participation rate is essential for the international capital markets to reopen
 - ▶ Potential remaining level of hold-outs would be manageable
 - ▶ This level is consistent with other recent successful restructuring of sovereign bonded debt
- A re-opening of the capital markets will be needed both for Argentina's long-term well-being and for its credit spreads to converge to its historical peer group
- High participation rates have been achieved in restructurings of sovereign bonded debt and are the ultimate test, as well as result, of good faith negotiations

	Ukraine	Pakistan	Russia	Uruguay
Year	<u>1998–2000</u>	<u>1999</u>	<u>1999–2000</u>	<u>2003</u>
Amount (\$Bn)	2.8	0.6	31.6	4.9
Participation Rate (%)	97	99	98	92

The Costs of a Failed Restructuring Are High for All

Argentina

- Litigation has already commenced (not only in the US but also in Germany and Italy), and is certain to increase
- Argentine economy will not regain its potential until the capital markets reopen and capital flows resume to the sovereign and corporate sectors
- Highly needed foreign investment in Argentina will be absent until the debt restructuring is completed

Official Sector

- Will risk losing credibility, particularly if the IMF continues to lend into arrears in the face of effective debt repudiation
- Argentina's actions will have negative long-term political consequences

Emerging Markets

- If Argentina successfully lowers the cost of default, it will negatively impact the emerging markets asset class. Risk premiums for single-B sovereigns will increase significantly and further damage will occur to the sanctity of contract law upon which international commerce is built

It is not too late to negotiate. GCAB's leadership will not endorse Argentina's current unilateral offer, and is evaluating all other options, not excluding litigation, to protect investors' rights

Concluding Points

■ GCAB is Growing

- ▶ With the new "General Membership" category, GCAB now represents US\$38 billion in original principal claims, or more than 75% of bonds outside of Argentina
- ▶ GCAB is increasingly coordinating with other creditor groups, such as ADAPD
- ▶ GCAB has retained sophisticated financial and legal advisors

■ Ability to Pay is Paramount

- ▶ Historically this has been the principal driver in any restructuring
- ▶ Argentina is clearly understating its ability to pay

■ Argentina's Unilateral Approach is Unacceptable

- ▶ Argentina's failure to sustain structural reforms and fiscal effort should not be unfairly borne by a narrow group of creditors
- ▶ GCAB's out-of-pocket expenses must be reimbursed in order to ensure a level negotiating field
- ▶ GCAB leadership will not endorse Argentina's current "final" proposal

■ GCAB Stands Fully Ready to Enter Into Good Faith Negotiations to Achieve a Successful Restructuring

GCAB

**Global Committee of
Argentina Bondholders**

www.gcab.org