



**MENDOZA**  
**GOBIERNO**

# Financial Estimates for Debt Renegotiation

Confidential

June 2020

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THE INFORMATION OR ANY OPINION CONTAINED HEREIN. THE INFORMATION CONTAINED IN THIS PRESENTATION SHOULD BE CONSIDERED IN THE CONTEXT OF THE CIRCUMSTANCES PREVAILING AT THE TIME AND WILL NOT BE UPDATED TO REFLECT MATERIAL DEVELOPMENTS THAT MAY OCCUR AFTER THE DATE OF THE PRESENTATION. NEITHER THE PROVINCE NOR ANY OF ITS AFFILIATES, AGENTS, DIRECTORS, EMPLOYEES, OFFICIALS OR ADVISORS SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS ARISING FROM ANY USE OF THIS PRESENTATION OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION WITH THIS PRESENTATION.

THIS PRESENTATION DOES NOT CONSTITUTE OR FORM PART OF AN OFFER, INVITATION OR RECOMMENDATION TO PURCHASE OR SUBSCRIBE FOR ANY SECURITIES AND NO PART OF IT SHALL FORM THE BASIS OF OR BE RELIED UPON IN CONNECTION WITH ANY CONTRACT, COMMITMENT OR INVESTMENT DECISION IN RELATION TO ANY SECURITIES. NO MONEY, SECURITIES OR OTHER CONSIDERATION ARE BEING SOLICITED, AND, IF SENT IN RESPONSE TO THIS PRESENTATION OR THE INFORMATION CONTAINED HEREIN, WILL NOT BE ACCEPTED. ANY PERSON CONSIDERING MAKING AN INVESTMENT DECISION RELATING TO ANY SECURITIES MUST INFORM ITSELF INDEPENDENTLY BASED SOLELY ON AN OFFERING MEMORANDUM TO BE PROVIDED TO ELIGIBLE INVESTORS IN THE FUTURE IN CONNECTION WITH ANY SUCH SECURITIES BEFORE TAKING ANY SUCH INVESTMENT DECISION.

This presentation may contain statements that reflect the Province's beliefs and expectations about the future. These statements are based on the Province's current plans, estimates and projections, and are based on a number of assumptions about the future, some of which are beyond the Province's control. Therefore, you should not place undue reliance on them. Forward looking statements speak only as of the date they are made. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like "believe," "may," "will," "estimate," "assume", "continue," "anticipate," "intend," "expect" or any other words or phrases of similar meaning. While these forward-looking statements might have been reasonable when formulated, they are subject to certain risks and uncertainties, including the potential effects of current events, such as the COVID-19 pandemic, that are not reasonably foreseeable at this time, that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. Accordingly, the Province gives no assurance that actual events will not differ materially from the information included in this presentation. Any forward-looking statement contained in this presentation reflects the current views of the Province with respect to future events, and the Province assumes no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future, except as otherwise required by applicable law.



# Province of Mendoza financial estimates methodology

## Currency of presentation

- Historical revenues and expenditures are reported in Argentine Pesos (AR\$), and have been converted into US dollars (US\$) for the following exercise, based on Central Bank's Com. A3500 monthly averages.
- Similarly, estimates have been calculated in AR\$ and converted to US\$ estimated by the National Ministry of Economy
  - Exchange rates and inflation (both annual average and end of period values) are assumed to evolve on a similar way, with a 100% inflation differential pass-through, as is derived from the presentation from the National Ministry of Economy disclosed on May 6<sup>th</sup>

## Financial estimates

- Financial estimates for 2020 have been prepared on a monthly basis, including preliminary actual figures from January to April, and projected figures from May to December based on the monthly figures of the previous and adjusting for the expected impact of the COVID-19 pandemic and other macro drivers
- Estimates from 2021 onwards have been prepared on an annual basis, based on figures from the previous year and, in general, adjusted by the expected evolution of different macroeconomic drivers as detailed in the following page
- BADLAR rate based on Relevamiento de Expectativas de Mercado published by the Argentine Central Bank in April 2020<sup>(1)</sup> for the May-20 to Oct-20 period, and held constant until Dec-20, and full year 2021. Estimated with a differential to expected inflation from 2022 onwards.

## Main calculations

- Provincial taxes include four main components:
  - Turnover tax, which is the single largest source of provincial tax revenue, is significantly correlated to economic activity levels, therefore estimated based on Provincial GDP growth and annual average inflation evolution (monthly for the projected 2020 period)
  - Stamp, automobile and property taxes are also expected to evolve with Provincial GDP growth and annual average inflation evolution (monthly for the projected 2020 period)
- Royalties are determined as a percentage of the commercialized oil production valued at the domestic wellhead price in US\$ and payable in AR\$. Production for 2021 onwards is expected to return to historical levels of 25MMbbl per year, and decline at a 2% rate per year from 2022 onwards. Domestic oil price of US\$45 since May 2020 is expected to grow at a ~5% rate per year from 2022 onwards
- Other non-tax revenues are expected to move in line with economic activity and therefore estimated based on Provincial GDP growth and inflation evolution
- Federal transfers, derived from the Federal Co-Participation Regime, are estimated based on the National GDP evolution (as presented by the National Ministry of Economy on May 6<sup>th</sup>, 2020) and average inflation
- Current expenditures include: personnel wages and salaries, goods and services, transfers to municipalities, and subsidies (mainly to public transportation)<sup>(2)</sup>. As from 2022, these expenses are estimated to evolve with the avg. annual inflation, except for transfers to municipalities which are derived in accordance with a provincial co-participation regime<sup>(3)</sup>
- Capital expenditures are related to investments in public works, including hydraulic and waterworks, housing, roads and construction of public buildings, among others. Capital expenditures represent the most discretionary expense, partially driven by the net operating surplus available to invest

Source: Province of Mendoza Ministry of Economy, National Ministry of Economy ([https://www.argentina.gob.ar/sites/default/files/columbia\\_presentation.pdf](https://www.argentina.gob.ar/sites/default/files/columbia_presentation.pdf)), BCRA.

(1) Based on Relevamiento de Expectativas de Mercado published by the Argentine Central Bank in April 2020 (<https://www.bcra.gob.ar/Pdfs/PublicacionesEstadisticas/REM200430%20Resultados%20web.pdf>).

(2) For this exercise interest payments have been excluded from current expenditures.

(3) Municipalities are entitled to receive 18.8% of the funds received by the Province, on account of taxes collected by the Province (property tax, turnover tax and stamp tax) and Federal Co-Participation Regime payments; 12% of the oil and gas royalties; and 70% of the automobile taxes.

# Province of Mendoza macro assumptions

	2020 E	2021 P	2022 P	2023 P	2024 P	2025 P
<b>General Macroeconomic assumptions</b>						
FX (avg.)	<b>\$71.2</b>	\$99.5	\$130.5	\$164.5	\$199.0	\$233.0
FX (eop) <sup>(1)</sup>	<b>\$85.0</b>	\$114.0	\$147.0	\$182.0	\$216.0	\$250.0
Inflation (avg.)	<b>46.6%</b>	36.6%	31.5%	26.4%	21.2%	17.2%
Inflation (eop) <sup>(1) (2)</sup>	<b>39.5%</b>	34.1%	28.9%	23.8%	18.7%	15.7%
Eop real exchange rate index (Dec 19 = 1)	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>
GDP Growth (Argentina) <sup>(1)</sup>	<b>(6.5%)</b>	3.0%	2.5%	1.7%	1.7%	1.7%
GDP Growth (Mendoza)	<b>(7.0%)</b>	3.5%	2.5%	1.7%	1.7%	1.7%
BADLAR (avg.) <sup>(3)</sup>	<b>25.4%</b>	25.5%	34.5%	29.4%	24.2%	20.2%
<b>Specific Key Assumptions</b>						
Medanito oil price reference (\$/bbl, avg) <sup>(4)</sup>	<b>\$44</b>	\$45	\$47	\$50	\$52	\$54
Crude oil production (MMbbl)	<b>16.6</b>	25.0	24.5	24.0	23.6	23.1

P&L item	Main drivers
<b>Current Revenues</b>	
Provincial taxes	GDP Growth, Inflation
Federal transfers	GDP Growth (Argentina), Inflation
Royalties	Crude oil production, Domestic oil price (short-term), Brent reference price (long-term), % royalties
Other non-tax revenues	Inflation
<b>Current Expenditures</b>	
	Inflation
<b>Capital Expenditures</b>	
Public works	Correlates with GDP, Provincial budget
Other capex	Inflation

Source: Province of Mendoza Ministry of Economy, National Ministry of Economy, BCRA.

(1) National Ministry of Economy ([https://www.argentina.gob.ar/sites/default/files/columbia\\_presentation.pdf](https://www.argentina.gob.ar/sites/default/files/columbia_presentation.pdf)).

(2) Calculated assuming no real appreciation based on exchange rate published by the National Ministry of Economy in (1).

(3) Based on Relevamiento de Expectativas de Mercado published by the Argentine Central Bank in April 2020 (<https://www.bcra.gob.ar/Pdfs/PublicacionesEstadisticas/REM200430%20Resultados%20web.pdf>) for the May-20 to Oct-20, and full year 2021.

(4) Based on DCTO-2020-488-APN-PTE - Petróleo Crudo en el Mercado Local. From Jun-20 to Dec-21.

# Province of Mendoza financial estimates

(Millions of USD)	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
Provincial tax revenues	1,349	1,078	821	664	672	692	706	721	735
Provincial non-tax revenues (excl. royalties)	414	381	395	167	163	164	165	166	167
Royalties	199	226	167	109	161	166	170	175	180
Federal transfers	2,000	1,653	1,341	1,152	1,139	1,170	1,192	1,214	1,235
<b>Total current revenues</b>	<b>3,961</b>	<b>3,338</b>	<b>2,723</b>	<b>\$2,091</b>	<b>\$2,135</b>	<b>\$2,191</b>	<b>\$2,234</b>	<b>\$2,277</b>	<b>\$2,317</b>
<b>Total current expenditures (excl Debt)</b>	<b>(\$3,700)</b>	<b>(\$2,729)</b>	<b>(\$2,457)</b>	<b>(\$2,092)</b>	<b>(\$2,032)</b>	<b>(\$2,024)</b>	<b>(\$2,024)</b>	<b>(\$2,040)</b>	<b>(\$2,055)</b>
<b>Operating balance</b>	<b>\$262</b>	<b>\$609</b>	<b>\$266</b>	<b>(\$0)</b>	<b>\$102</b>	<b>\$167</b>	<b>\$210</b>	<b>\$236</b>	<b>\$262</b>
Public works & Capital Expenditures	(180)	(209)	(225)	(60)	(41)	(42)	(116)	(119)	(137)
Other Net Capital Resources / (Expenditures)	(44)	(76)	(32)	(14)	(23)	(24)	(36)	(37)	(49)
Remesas	(44)	(29)	(33)	(26)	(26)	(26)	(26)	(26)	(26)
<b>Primary balance</b>	<b>(\$6)</b>	<b>\$295</b>	<b>(\$23)</b>	<b>(\$101)</b>	<b>\$12</b>	<b>\$75</b>	<b>\$31</b>	<b>\$55</b>	<b>\$50</b>
<b>Interest payments (Original Debt)</b>	<b>(238)</b>	<b>(235)</b>	<b>(200)</b>	<b>(93)</b>	<b>(81)</b>	<b>(61)</b>	<b>(34)</b>	<b>(14)</b>	<b>(6)</b>
Local currency debt				(43)	(30)	(18)	(5)	(0)	(0)
Foreign currency debt				(50)	(50)	(44)	(29)	(14)	(6)
<b>Principal payments (Original Debt)</b>	<b>(232)</b>	<b>(132)</b>	<b>(39)</b>	<b>(86)</b>	<b>(127)</b>	<b>(272)</b>	<b>(273)</b>	<b>(194)</b>	<b>(19)</b>
Local currency debt				(68)	(111)	(80)	(81)	(1)	(0)
Foreign currency debt				(18)	(16)	(192)	(192)	(193)	(19)
<b>Payments of Local Debt Refinancing</b>				-	<b>(53)</b>	<b>(65)</b>	<b>(64)</b>	<b>(50)</b>	<b>(42)</b>
Interest expenses				-	(38)	(49)	(48)	(49)	(41)
Principal Amortizations				-	(16)	(16)	(16)	(1)	(1)
<b>Gross Financial needs</b>	<b>(\$476)</b>	<b>(\$73)</b>	<b>(\$261)</b>	<b>(\$280)</b>	<b>(\$249)</b>	<b>(\$322)</b>	<b>(\$340)</b>	<b>(\$204)</b>	<b>(\$18)</b>
<b>Net effect of debt renegotiation</b>				<b>43</b>	<b>73</b>	<b>177</b>	<b>179</b>	<b>110</b>	<b>(124)</b>
Difference in Interests paid				43	32	19	11	(14)	(18)
Difference in principal paid				-	41	157	168	124	(106)
<b>Financial needs after renegotiation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(\$237)</b>	<b>(\$176)</b>	<b>(\$146)</b>	<b>(\$161)</b>	<b>(\$94)</b>	<b>(\$142)</b>
<b>Cash from / (to) Working Capital</b>				<b>79</b>	<b>65</b>	<b>58</b>	<b>51</b>	<b>43</b>	<b>36</b>
<b>Cash From Local Debt Refinancing</b>				<b>159</b>	<b>113</b>	<b>90</b>	<b>109</b>	<b>56</b>	<b>109</b>
<b>Net Financial needs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$2</b>	<b>\$2</b>	<b>(\$1)</b>	<b>\$5</b>	<b>\$3</b>
<b>Total debt balance</b>	<b>\$1,761</b>	<b>\$1,271</b>	<b>\$1,220</b>	<b>\$1,209</b>	<b>\$1,131</b>	<b>\$1,016</b>	<b>\$948</b>	<b>\$885</b>	<b>\$822</b>
Federal Government/ANSES			218	140	95	44	2	0	0
BID / BIRF			201	186	169	154	139	123	104
BNA			183	133	88	42	0	0	0
Bono USD			530	530	530	530	530	477	371
Bono AR\$			87	61	34	9	-	-	-
Local Debt Refinancing				159	214	237	278	285	347

Source: Province of Mendoza Ministry of Economy, National Ministry of Economy, BCRA.

Note: 2019 figures are preliminary and subject to further adjustments. 2017-2019 figures in Argentine Pesos converted to US Dollars at the monthly average exchange rate of each period based on Argentine Central Bank Com. A3500.