Argentina Investment Outlook:
Winds of Change

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ESTUDIO WILLA
Abogados / Consultores Tributarios

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Contacts

Andrés Willa
awilla@estudiowilla.com

Agustina Roca
aroca@estudiowilla.com

Alejandro Heevel
aheevel@estudiowilla.com

Lorena Conte
lconte@estudiowilla.com

Executive Summary

▸ **Current political situation**

The candidate proposed by the opposite political sector, Mauricio Macri, former Mayor of the City of Buenos Aires, won the presidential elections and took over on December 10th, 2015.

▸ **Country economic overview**

Economic activity: it will remain weak in 2016, but this trend is expected to be reverted and growing at a very dynamic pace from 2017 onwards.

Exchange rate: it was overvalued but recent measures were taken to correct the lag and also for the unification of the foreign exchange market.

Inflation rate: It has been high during the past ten years but, though still high for 2016, is expected to decelerate in 2017.

Sovereign debt: Limited access to external financing due to default impact. This situation is expected to be solved in 2016.

▸ **Potential changes:**

- Reliable national statistics to measure inflation, poverty and unemployment.
- Strengthening regional economies through abolishing taxes on exports, providing them more competitiveness regularizing the exchange rate over-appreciation and helping them with logistic costs through extensive infrastructure investment plans.
- Recovery of the energy sector through rate adjustment that will allow investments.
- Focus on investments promotion for infrastructure, improve service level, increase Central Bank reserves and increase genuine employment.

▸ **Main challenges:**

- Successful resolution of sovereign debt holdouts
- Reduce fiscal deficit and inflation

▸ **Opportunities:**

Current asset values in Argentina are lower compared to local historical figures and to asset values of the region. There are investment opportunities mainly in the following sectors: Infrastructure, Agribusiness, Renewable energy, Oil and gas, Utilities, Knowledge-based services, Meat production, Mining and Banks.

Argentina's political and macroeconomic environment

Current situation: country overview

Argentina's new administration

On November 22nd, 2015 Argentine voters elected a new president who will hold office for the next four years as of December 10th. The elected president represents the opposition to the political cycle that ruled the country for the last twelve years. The incoming administration intends to strengthen local institutions and review policies in different areas: economy, healthcare, security, justice, foreign relations, etc., as well as analyze the implementation of new ones.

The current deteriorated macro-economic environment has conditioned the country's performance in the last few years and, consequently, new regulations are expected to be enacted aimed at promoting the local and foreign investment needed to strengthen employment and improve the country's infrastructure and thus facilitate the production of goods and services.

Economic and financial landscape of Argentina

From 2011 to 2015, coinciding with second mandate of President Cristina Fernández de Kirchner, there was a sub-optimal performance in many of the macroeconomic variables that led to the current economic situation which new elected president will have to deal with:

- a weak economic activity
- a high level of inflation
- a decline in trade surplus, despite the strong control of imports
- an overvalued exchange rate with a foreign exchange control generating a wide gap with the parallel market
- a growing fiscal deficit
- a heavy drop in international reserves
- limited access to external financing

Current situation: economic activity

Economic activity remains weak but is expected to pick up after 2016

Real GDP annual variations (2005 prices)

Source: Econviews

Economic activity: The country has not grown since controls on foreign trade were established and, at the same time, it has not been generating employment in the private sector.

The situation is expected to revert in 2017 after the economy is regularized by new foreign policy and market-oriented measures taken by the new government.

Imports controls: The new Government announced the end of the import permits, (DJAI's), which in practice were used as a mechanism to restrict and even ban some imports. This system is now being replaced by the former well-known and accept ed system of automatic and non-automatic licenses for imports. The non-automatic scheme will apply only for some sensitive sectors: autoparts, textiles, plastics, paper and a few others.

Cross-border Payments: Payments abroad for new imports of goods and services delivered after December 17, 2015, as well as dividend payments, can now be made without any limit through the foreign exchange market. However, in the case of accumulated unpaid dividends to foreign shareholders, companies are starting to cancel them gradually. In addition, for outstanding payables for imports of goods and services the government offered two alternatives: i) subscribe to a bond, this option was available until December 2015; ii) scheduled cash payments.

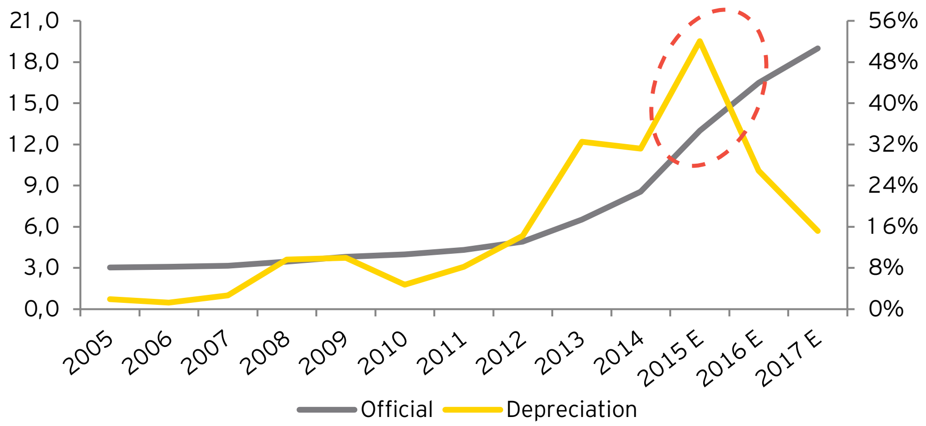
Export taxes: The Government reduced to 0% the export taxes on all agricultural, cattle, fishery and industrial products, with the exception of soybeans, whose tax was reduced by 5 p.p. In this way, export taxes for soybeans are now 30%, while taxes for soybeans derivatives were settled at 27%. At the same time, grain and oilseed exporters agreed to sell USD 400 million weekly in the next weeks.

Current situation: exchange rate

The exchange rate was overvalued eroding competitiveness

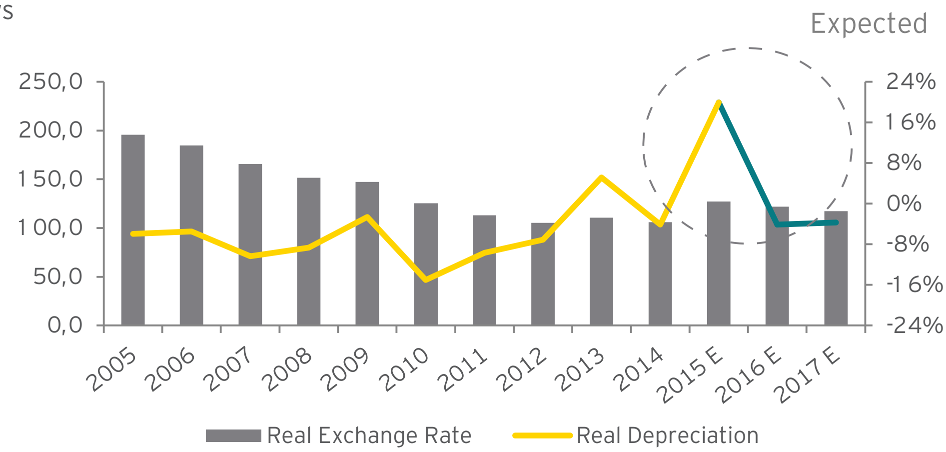
Exchange Rate evolution (USD/ARS)

Source: Econviews



Real Exchange Rate evolution (dec-2001=100)

Source: Econviews



Exchange rate: For the last 4 years, Argentina experienced a foreign exchange control between the official exchange rate, and the parallel market exchange rate (informal market) that created a gap of about 60%, forcing the country to operate under an implicit multiple exchange rate system.

The new Government moved very quickly on the unification of the foreign exchange market by following a shock approach. This happened one day after the Central Bank reached an understanding with the market players about the currency forward contracts, as it was necessary to avoid a significant monetization after the devaluation in order to settle the contracts sold during the last months of the previous goverment.

The Central Bank expects liquid reserves to increase in the short term through loans from commercial banks, oilseed proceeds, the increase in USD bank deposits, Bills of exchange issued by Argentina's Central Bank and the execution of a currency swap agreement with China.

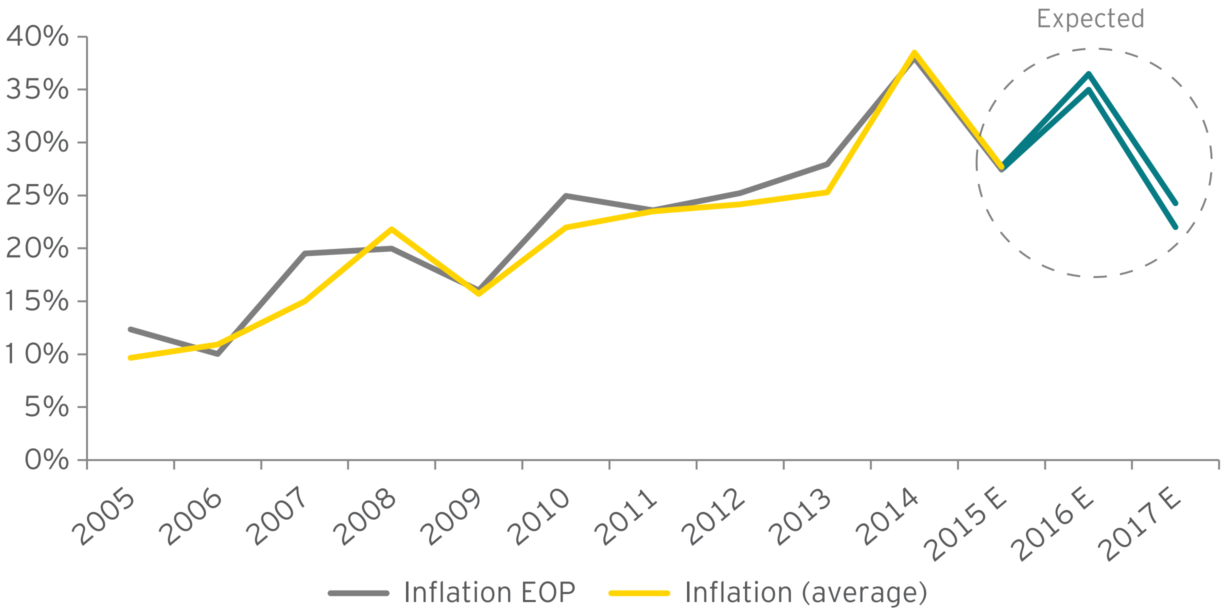
Interest rates: The Central Bank increased interest rates significantly in the more recent Lebac (Central Bank Notes) auction, preparing for the removal of foreign exchange controls that came after. The new auctions changed and removed the pre-fixed rates.

Current situation: inflation

Inflation will remain high in 2016 but it is expected to decelerate the coming years

Inflation

Source: Econviews and INDEC



Inflation: Inflation has become a key concern for the Argentine government as the rate has steadily increased over the past few years.

Inflation has accelerated since 2011, reaching its peak in 2014 when the inflation rate accumulated 38% y/y.

In 2015 inflation rate has been moderate in expectation of a new government to be elected by the end of the year.

For 2016, an increase in inflation rate is expected mainly driven from the need to address existing distortions in related prices from different market segments. Factors that will need to be followed will be: (i) the evolution of the newly liberated exchange rate; (ii) the level of pass-through from devaluation to inflation and (iii) the level of adjustments on utilities rates, energy subsidies and wages.

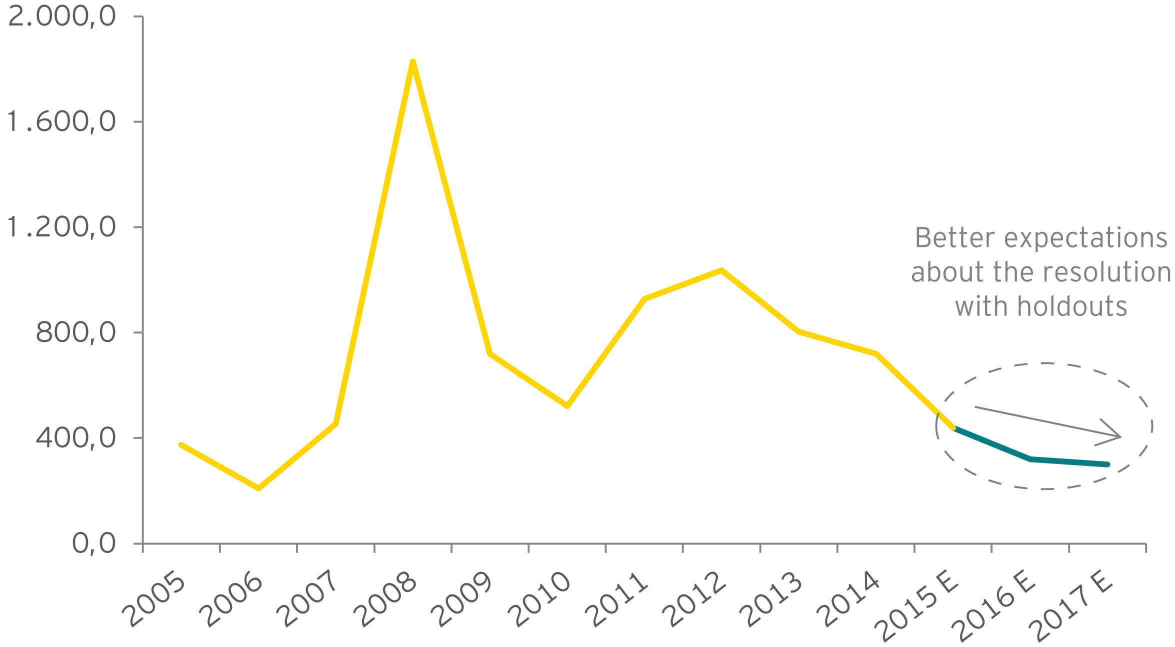
National institute of statistics: Macri announced that they will radically reform the national institute of statistics ("INDEC"), which had been intervened since 2007. The most relevant statistic that will be reviewed is the inflation estimates. It is probable that other estimates, such as external trade and GDP, will be reviewed as well, as the IMF demands better information.

Current situation: sovereign debt

Selective default impacts on sovereign debt rating and limited external financing

EMBI+ evolution (spread basic points)

Source: Reuters



In 2005 the Argentine government negotiated the restructuring of nearly 76% of defaulted sovereign debt with an exchange amount of approximately USD 63 billion. Five years later, in April 2010, Argentina re-opened the debt restructuring process to bondholders who rejected the first exchange. After negotiations 7% of the original bondholders were left pending to be regularized (holdouts).

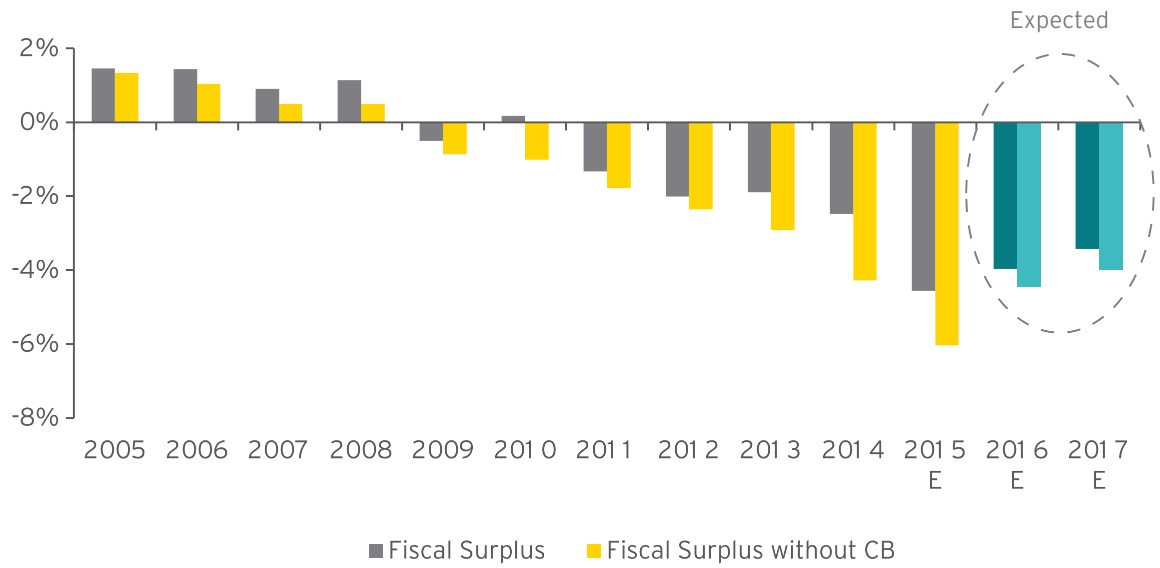
The potential amount to settle the holdouts debt is USD 15 billion, but is expected that this situation will be resolved; in fact, the bond market is rallying betting on a positive resolution in 2016 as seen in the evolution on the EMBI+ Argentina Index.

Current situation: fiscal balance

Besides dollar demand, a growing fiscal deficit is a threat for inflation

Fiscal Balance (as a % of GDP – Central Government)

Source: Econviews



During the last couple of years, a significant part of the public spending was formed by social transfers (pensions through the National Social Security Administration, "ANSES") and subsidies to public services.

In this context, fiscal deficit, which reached 6,0% of GDP (sum that excludes Central Bank's profits, but includes the resources transferred by ANSES), is expected to remain high but to start shrinking progressively over the next years.

As a result of restrictions on external financing caused by the holdouts issue, the government was forced to finance the fiscal deficit with monetary expansion, which along with foreign-exchange controls directly impacts on higher inflation and drop in international reserves.

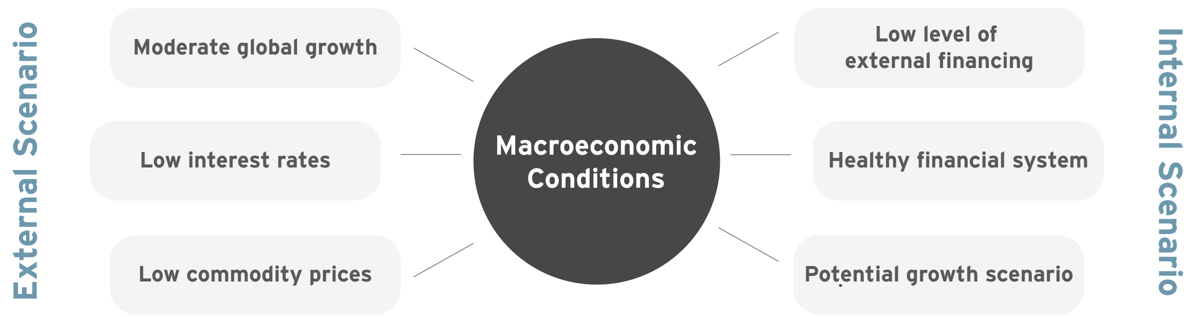
Subsidies and utility rates. The new Government declared the state of "energy emergency" until the end of 2017 throughout the country, and announced a reduction in subsidies and an increase in electricity and natural gas tariffs since January, yet to be defined.

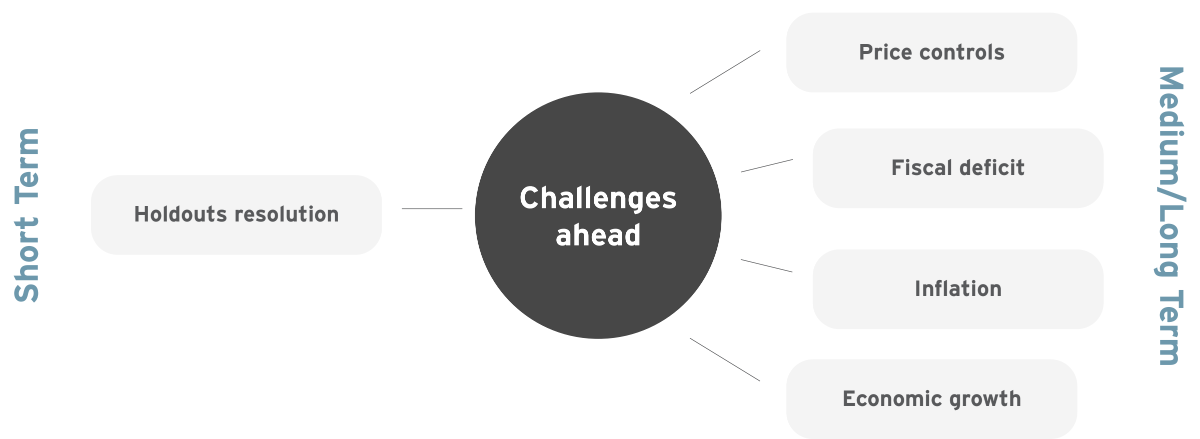
Potential changes and new regulations imposed

- When the Holdouts situation is resolved, which is expected to happen by 2016, International Reserves are expected to improve through the following sources: a) IMF assistance, b) International access to issue new foreign debt (with a lower interest rate close to 6% / 7%), c) credit facilities from Multilateral Agencies, d) increase in agricultural exports and e) FDI from Private Sector. With the exception of the issuance of new foreign debt, the other initiatives could even take place before a resolution with Holdouts.
- Reliable statistics to measure inflation, poverty and unemployment.
- Strengthening regional economies through reducing/ eliminating duties on exports, giving them a more competitive exchange rate and helping them with logistic costs through extensive infrastructure investment plans.
- Recovery of the energy sector through improvements in tariffs that will allow investments.
- Focus on promote investments to build infrastructure, increase Central Bank reserves and increase genuine employment.
- Once regularized, nominal exchange rate would float under a crawling peg regime.
- Focus on reducing fiscal deficit and inflation.

Challenges

Despite the sub-optimal performance observed throughout the key macroeconomic variables mentioned before, the new elected president will count with opportunities to address the imbalances in a short and medium/long term.





Investment Opportunities

Investment Opportunities: Investments and Transactions Overview

High inflation rates, high country risk impacting rates of return and loss of business profitability emerging from the macroeconomic context summarized before, originated underperforming outcomes of the Argentina's assets value ratios compared to the ones existing in the region.

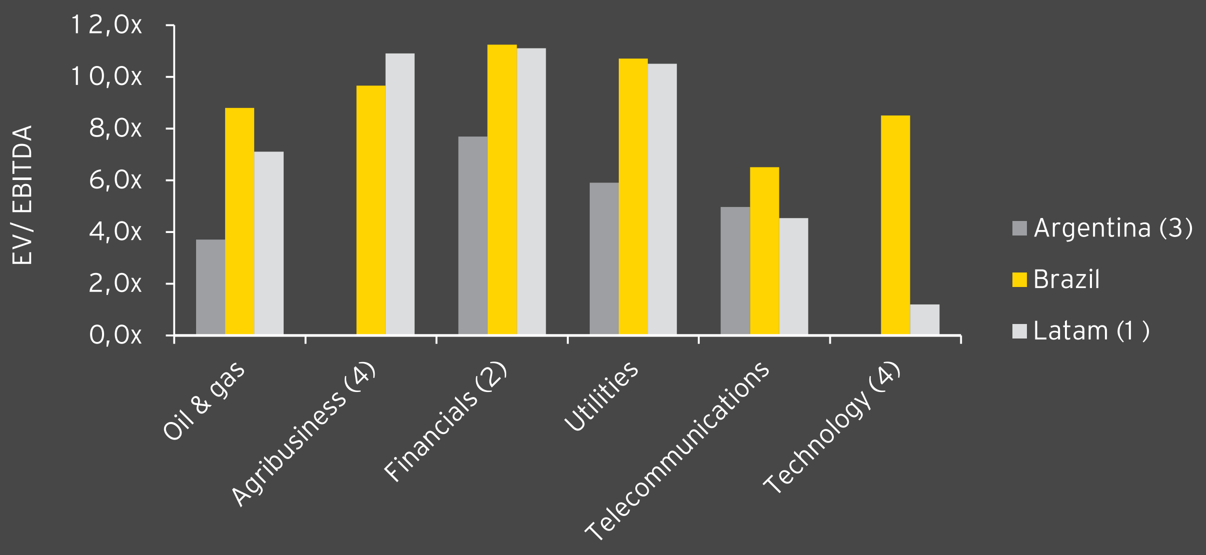
M&A Announced Deals Summary in South America - Deal size average by country:

Target Region /Nation (Rank. Val U$S mm/ deals)	2015[1]	2014	2013
South America	42,6	85,6	71,0
Brazil	52,2	86,4	94,0
Chile	51,3	153,3	52,0
Peru	27,8	140,6	100,9
Colombia	23,1	28,2	44,9
Argentina	**13,2**	**29,9**	**14,7**
Paraguay	3,7	1,0	5,2
Uruguay	0,3	7,7	2,5

Argentina has a deal size average much lower than Brazil, Colombia, Chile and Peru. However, Argentina's GDP is bigger than that of Colombia, Chile and Peru and, also, Argentina's GDP per capita is bigger than that of Brazil, Colombia and Peru and similar to Chile's.

(1) Includes deals from 01/01/2015 to 31/10/2015
Source: ThomsonOne.com

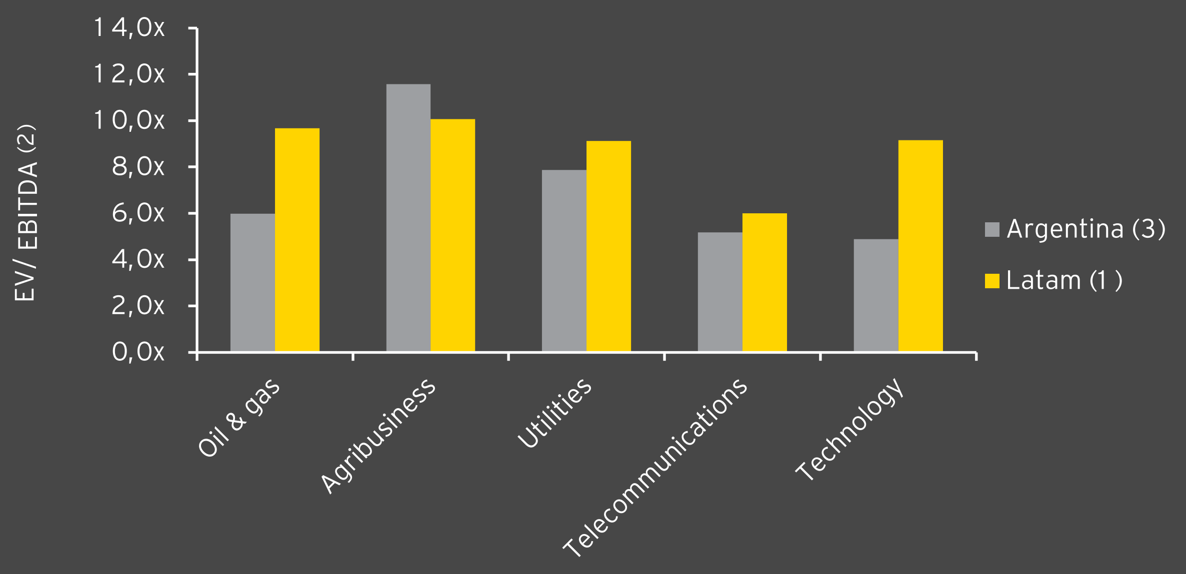
EV/ EBITDA multiples by sector (Similar Transactions Method – 2012-2015 average):



Argentina assets values have been low between 2012-2015. In each of the sectors where deals happened Argentina's multiples were below Brazil's and those of the rest of Latam showing low asset prices.

Source: ThomsonOne.com and CapitalIQ
(1) Includes all countries from South America, Central America and the Caribbean except for Argentina, Brazil and Mexico.
(2) Price / Earnings ratio because it is better to analyze this sector.
(3) For EV/EBITDA multiples was considered blue chip ("contado con liqui") exchange rate to convert the figures into USD.
(4) Some transactions do not disclose values or there are no transactions in that sector.

EV/ EBITDA multiples by sector (Guideline Company Method):



In Argentina, except for Agribusiness industry, all sectors have had a lower EV/EBITDA compared to Latam as of 31/10/2015.

Source: CapitalIQ
(1) Includes all countries from South America, Central America and the Caribbean except for Argentina, Brazil and Mexico.
(2) EV/ EBITDA (median) as of 31/10/2015.
(3) For EV/EBITDA multiples was considered blue chip ("contado con liqui") exchange rate to convert the figures into USD.

Sectors' Outlook

During the last years, the political and economic conditions established an uncertain and risky scenario for businesses in Argentina. As we have seen from recent transactions, this conditions have caused asset prices in Argentina to be very low compared to those of the rest of LATAM region.

In this new scenario of improved conditions and expectations, asset prices that are still underpriced represent a great opportunity for investors.

The following is a summary of the most promising sectors in Argentina.

Infrastructure and Development of Regional economies

Macri has announced considerable investments to be made in the development of infrastructure.

The Belgrano Plan, aimed at building infrastructure and encouraging industry development in ten of Argentina's underdeveloped northern provinces, includes an investment of USD 16 billion over the course of 10 years, an "historical reconstruction fund" of ARS 50 billion to be used in 4 years, housing for 250,000 families, and the construction of 1,400 child care centers. The Inter-American Development Bank (IADB) is going to finance this plan and help the Government meet its goals of improving infrastructure and reducing poverty.

The Government also announced the construction of transport tunnels beneath the Andes seeking to improve the volume of exports from Argentina, Brazil, Paraguay and Uruguay to the Pacific through better logistic connection with Chile. It also announced its commitment to the completion of the civil works such as the path of the oil, Añelo hospital, roads, housing and infrastructure links and the sewage treatment plant effluent of Rincon de los Sauces, agreed upon in the YPF-Chevron agreement, totaling 1,000 million pesos.

Utilities

The subsidy policy, along with the refusal to grant rate increases to utilities' companies became two of the most important political statements for the ''kirchnerismo''. Macri's government is set to gradually raise these prices in order to partially rebuild earnings of companies and promote investments.

Oil and gas

Regardless of low international prices, development of hydrocarbons is still considered a great opportunity for the economy since Argentina has one of the main shale oil and shale gas reservoirs in the world. The discovery of Vaca Muerta and partnerships between YPF and foreign companies further improve the ground for the development of the sector.

Due to current prices, short-term transactions won't be attractive. Interesting investments will be set on larger horizons enabling investor to acquire high potential assets at a good price.

Agribusiness

Agribusiness is considered a critical engine for the country and to ensure the rebound of this sector, the Government eliminated the export taxes on all agricultural, cattle, fishery and industrial products, with the exception of soybeans, whose tax was reduced by 5 p.p. Therefore, export taxes for soybeans are now set at 30%, and taxes for soybeans derivatives at 27%. Meanwhile, grain and oilseed exporters agreed to sell USD 400 million weekly in the next weeks.

In this context, wheat will be one of producers' larger bets. Historically, wheat was seen as the crop to turn into cash at the end of the year.

Knowledge-based services

Knowledge-based services is a field characterized by a highly qualified labor force and the use of advanced technologies, which also enable the provision of long distance services, such as business services (accounting, finance, HR, etc.), health (telemedicine and diagnostics, medical tourism, etc.), creative industries (audiovisual, advertising, architecture, etc.) and computer (software development, computer services, application development, networking, video, animation, etc.), among others.

Sectors' Outlook

These sectors experienced rapid growth by leveraging the services offshoring boom that occurred globally and cheaper labor cost after the devaluation of 2001. It also promised to continue to grow fast and above GDP, taking into account the comparative advantages of Argentina in this sector, a skilled labor with competitive salaries.

Renewable energy

Juan Jose Aranguren, head of the Ministry of Energy and Mining, has stated that subsidies for fossil fuel production should be reduced and those for clean products should increase. Over talks with businessmen, he promised the implementation of a renewable energy law, which has been approved months ago by Congress.

Mining

The industry is calling for the development of the sector under a revision of the tax framework and a fiscal stability law that regulates the activity. The new government appointed Daniel Meilan, the creator of the law that mining companies consider to be the best instrument to attract investments due to tax relief and fiscal stability, as the secretary of Mining. The opportunities are not only in the most traditional metals like gold, silver or copper. Lithium and potassium also offer enormous opportunities for future development.

Banks

Even though Banks are expected to be subjected to new and stricter regulations, they face a favorable scenario for growth. The ratio of loans to GDP is 15% while that of the rest of the region is close to 38%. If Argentina were to equate its leverage ratio to that of the region, it would have to double it's loan value. In other words, is has the potential to double the size of the system.

With interest rates raising above 32% annually, investors are returning to the argentine peso as it offers a positive real rate of return.

Meat production

Meat production, currently underdeveloped, could become a genuine new source of foreign exchange since the sector has a strong orientation towards international trade and is highly reputed around the world. Restrictions imposed by the "kirchnerismo" caused the sector to shrink but new foreign trade policies should enable it to regain previous output levels as it becomes easier to import or retain females.

Investments and Transactions Rationale

Current acquisition rationale for investors in Argentina:

▸ Highly attractive **assets value** compared with other countries in the region. High room to capture value in the future.

▸ Many **family-owned** middle-market companies.

▸ Great need for **infrastructure development.**

▸ A wealth of raw material, workforce highly-skilled and competitive with good level of education and a human development indicator significantly above the Latin American average.

▸ New professional and market-oriented government.

▸ Access to **MERCOSUR:** Non-tariff barriers with other South American countries. Argentina, Brazil, Paraguay and Uruguay – which are plenary members – with associated countries such as Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela.

▸ Certain industries with **high growth potential**. The sectors providing the best opportunities are: Agriculture, Mining, Oil & gas, Renewable energy, Biofuels, Mining, Tourism, Banks, Utilities, Knowledge-based services, Infraestructure.

Why Estudio Willa?

EW's Values

EW`s values are born in our origins. Some of them arise from the closeness among its members and the bond of friendship and trust that joins us to many of our clients. Others are linked to the lived course, to our ideals and to the firm certainty that dedication, passion and joint work are required to achieve a competitive service, of quality and excellence.

At EW we think our values not as a tight list, but as practical principles we apply in our daily work.
At EW we hold up the following values:

EFFICIENCY AND EXCELLENCE

We are aware that success depends on the quality of the service we provide and therefore we devote ourselves daily to ensure the optimization of our resources for its efficient use.

INNOVATION AND FLEXIBILITY

We characterize and distinguish ourselves for the ability to provide innovative and flexible solutions that adapt themselves to each of our customers and their needs. At EW we are close to our customers, we listen to their expectations and goals, we line up with their business and priorities, achieving managing to merge with them.

SERVICE CALLING

We are a service company where the number one priority is our customers and their total satisfaction through the fulfillment in a timely manner. Therefore, EW offers its entire structure to service customers, who direct and guide our decisions.

HONESTY

We believe in honesty in general as a mainstay of trust with our customers, particularly in intellectual honesty in professional life.

GOOD HUMOR

It is good humor and the willingness in the relationships we build up, which allow us to overcome obstacles and always look forward.

TEAMWORK

We prioritize teamwork over individualities, which brings us near to an interdisciplinary and heterogeneous analysis.

COMMITMENT

We are convinced that we will reach our goals only committed to our work and with passion for the work.

PROACTIVE ATTITUDE

We encourage the proactivity of our human resources, creating a dynamic environment for discussion and dialogue, respecting the ideas and proposals that enrich our customer service.