

INVEST IN CÓRDOBA

**SUMMARY OF FINANCES
AND INVESTMENT**
THIRD QUARTER 2018



Ministerio de
FINANZAS



GOBIERNO DE
CÓRDOBA

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PUBLIC FINANCE

POSITION

BUDGET EXECUTION

Cordoba is developing the most ambitious infrastructure plan of last decades. In this framework, 2018's third quarter budget execution has two main purposes: having a dynamic budgetary scheme that allows building of schools, hospitals, homes, routes, roads, gas pipelines, aqueducts, sewers and, being prudent by sustaining Province's incomes and savings.

The most relevant indicator to monitor the state of provincial public finances is the "net current result". This variable represents the difference between net resources –of those that are automatically distributed to the municipal states– and current expenses. In other words, it quantifies the surplus generated in the period used to sustain the Province's investment plan. In the first semester of the year, the available current saving

was \$26.819 million (US \$ 1.069 million), which represents 24.9% of net income. In comparison with the same period of last year, when savings represented 22.7% of net income, there is an increase in the surplus available for capital expenditures.

The increase in current available saving is the result of a prudent and humble administration of the province's finances, reflected by –once discounted the transfers to municipal states– Córdoba's net income growing at a higher rate (32.5% year-on-year variation, equivalent to -1.7% in real values) than net current expenses (28.6% nominal, which is equivalent to a -4.6% increase in real terms¹).

The resources that make up the province's savings are directed to an ambitious plan of productive and social infrastructure. This

multi-year plan covers the 2016-2019 period and has four central pillars: trunk gas pipelines (90% already executed), road works (70% already executed), water and sanitation works (56% already executed) and hospitals and schools (40% already executed).

Up to September 2018, the accumulated capital expenditure of the Non-Financial Public Administration (Central Administration plus its Agencies) directed towards the productive and social infrastructure plan was \$ 25,372 million, with a year-on-year growth of 55 %. This value is equivalent to 18.2% of the total expenses of the Province, the highest level registered in the last 8 years.

1 For the computation of variations in real terms, the average inflation of the third quarter of 2018 is used based on the CPI calculated by the Directorate of Statistics and Censuses of the Province of Córdoba.

Table 1. Summary of Income and Expenses

(Millions of AR\$ and US\$)

CONCEPT	2017		BUDGET 2018		ACCUMULATED VALUE 3RD QUARTER 2018	
	\$	US\$(8)	\$	US\$(8)	\$	US\$(8)
Total income (1)	128.667	7.771	150.042	9.062	124.641	4.966
Automatically distributed resources to municipalities and communes (2)	17.357	1.048	20.369	1.230	17.140	683
Net income (3)	111.311	6.723	129.673	7.832	107.501	4.283
Net current expenditure (4)	90.532	5.468	109.610	6.620	80.683	3.215
Net current result	20.779	1.255	20.063	1.212	26.819	1.069
Net current result / net income (%)		19%		15%		24%
Available capital income (5)	1.494	90	4.117	249	1.820	73
Works expenditures (6)	11.164	674	16.787	1.014	9.871	393
Other capital expenditures (7)	5.602	338	6.957	420	3.688	147
Resultado financiero	5.507	333	437	15	15.080	601

Source: Ministry of Finance of the Province of Córdoba. See: <http://www.cba.gov.ar/ejecuciones/>

(1) It includes automatic revenues of national origin (National Coparticipation regime, especial laws and Federal Solidarity Fund), Provincial tax resources, Non-tax income, goods and services sells and current transfers.

(2) Includes currents transfers (Provincial coparticipation regime – Law N° 8,663) and capital transfers (Federal Solidarity Fund) towards Municipalities and Communes.

(3) Resources at the disposal of the Province once discounted the automatically distributed resources to Municipalities and Communes.

(4) Net of current transfers to Municipalities and Communes in Coparticipation concept (Provincial Coparticipation Regime – Law N° 8,663).

(5) Does not include resources received in concept of Federal Solidarity Fund.

(6) It contemplates works carried out by the Central Administration and capital transfers destined to finance of works in charge of ACIF. Excludes resource transfers towards Municipalities and Communes in concept of the Federal Solidarity Fund.

(7) Includes financial assets items and others capital transfers destined to other organizations that make up the Non-Financial Administration. For 2017, it includes loans to the Caja de Jubilaciones destined to cover up the pension deficit.

(8) The exchange rate used for the year 2017 is that of the Central Bank average for the reference period (\$ 16.6); for the 2018 budget, the exchange rate of the Macro Fiscal Framework 2019 (\$ 28.30) was used, while for the accumulated 2018 the average exchange rate was used January-September based on the comA, TCRref of the Central Bank (\$ 25, 10)

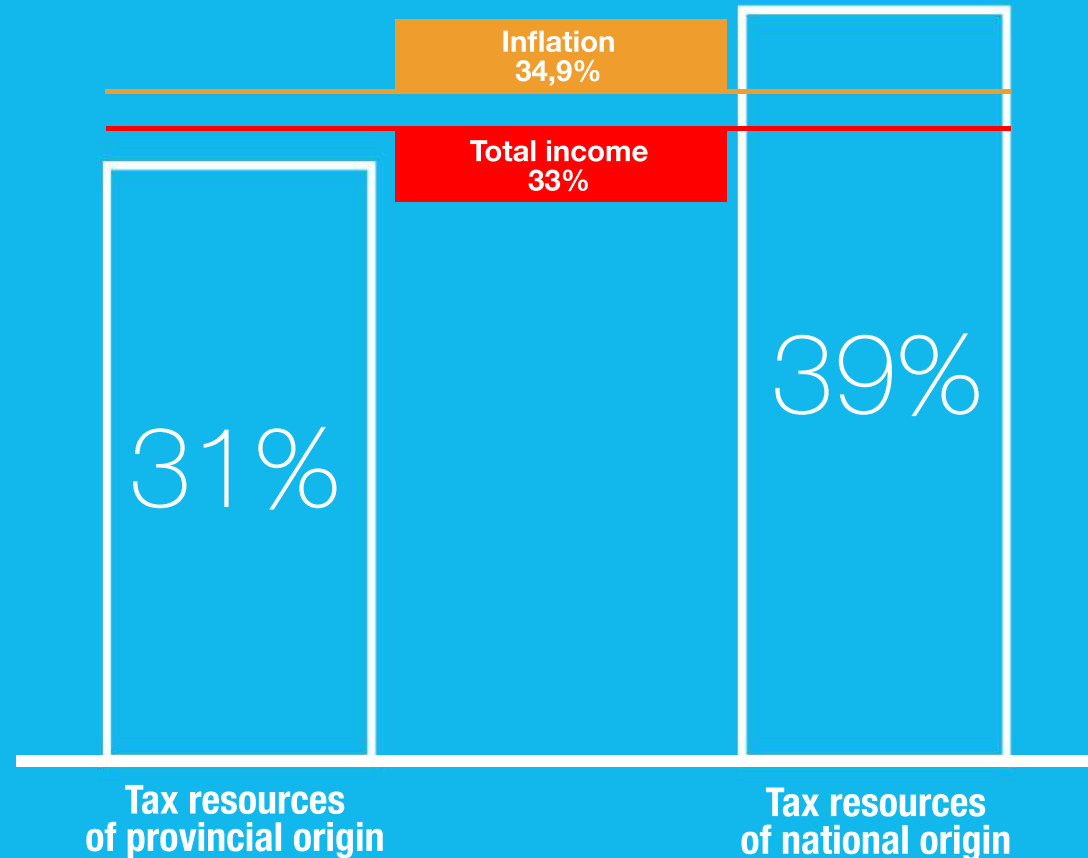
PUBLIC INCOME

During the first three quarters of the year, the Province's total revenues –minus the recovery of loans and other capital transfers– reached \$ 124,641 million (US\$ 4,966 million), which represents an increase of \$ 30,907 million compared to the same period of the previous year, representing a year-on-year fall of 1.4% in real terms (Graph 1).

Considering the income received by the province from the national government, there was a 39% nominal increase (representing an increase of 3% in real terms) due mainly to the good performance of the two main national taxes (VAT and Income Tax).

On the other hand, the income of provincial origin increased 31% (which represents a decrease of 2.8% in real terms). This result is mainly explained by the reforms carried out by the province within the framework of the Fiscal Consensus², which includes a reduction in tax pressure and in the asymmetries in the Sales Tax.

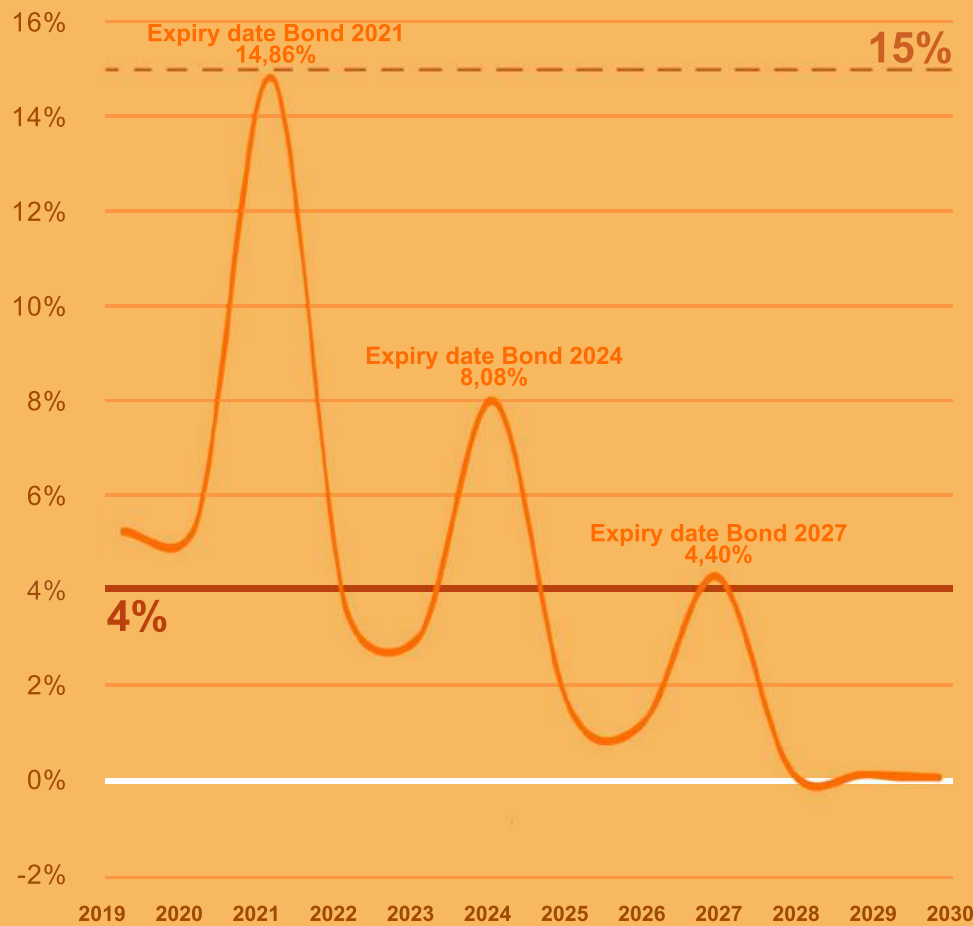
Graph 1. Tax revenues and inflation
(% year-on-year nominal variation to September 2018)



Source: Ministry of Finance of the Province of Córdoba and Federal Administration of Public Revenues.
<http://www.cba.gov.ar/ejecuciones/>

² The Fiscal Consensus is a federal agreement between the Nation, the Provinces and the Autonomous City of Buenos Aires signed in November 2017 in which the parties commit themselves to execute a series of actions in order to better manage the public sector. These include a decrease in tax pressure and the rationalization of the tax system.

Graph 2.
Debt and Current Income Services
(2019-2030)



Source: Ministry of Finance of the Province of Córdoba

PUBLIC DEBT

The dollar-denominated debt stock at September 30, 2018 was US\$ 2,723 million. This amount is equivalent to 65.7% of total revenues for the third quarter of the year. Despite the increase in this ratio, Córdoba's level of indebtedness –measured as the percentage of its total income– has shown significant improvements in recent years (15 years ago the debt represented more than double of the province's total income).

Particularly, during the first three quarters of 2018 no new debt issuances were carried out and the Province still has resources from the debt operations carried out during the 2017 fiscal year. Also, the payment of amortizations were fulfilled in a timely manner for a total of US \$ 25.1 million. Those resources, that were not used

yet, are available as financial resources and placements, with a total of US \$ 132 million at September 30. In this way, the net debt stock of financial loans is US\$ 2,591 million.

One way to estimate the sustainability of the Province's debt over time is by looking at the relationship that debt services have with current revenues (net of transferences to municipalities). This relationship has a threshold of 15% established by the Argentine provinces and the Nation within the framework of the Fiscal Responsibility Law. In the case of Córdoba, debt services only approach the threshold at the 2021 expiration (Graph 2), but remain well below this number: around 4% of revenues until 2027.

MORE NEWS

SUB-SOVEREIGN TITLES OF ARGENTINA

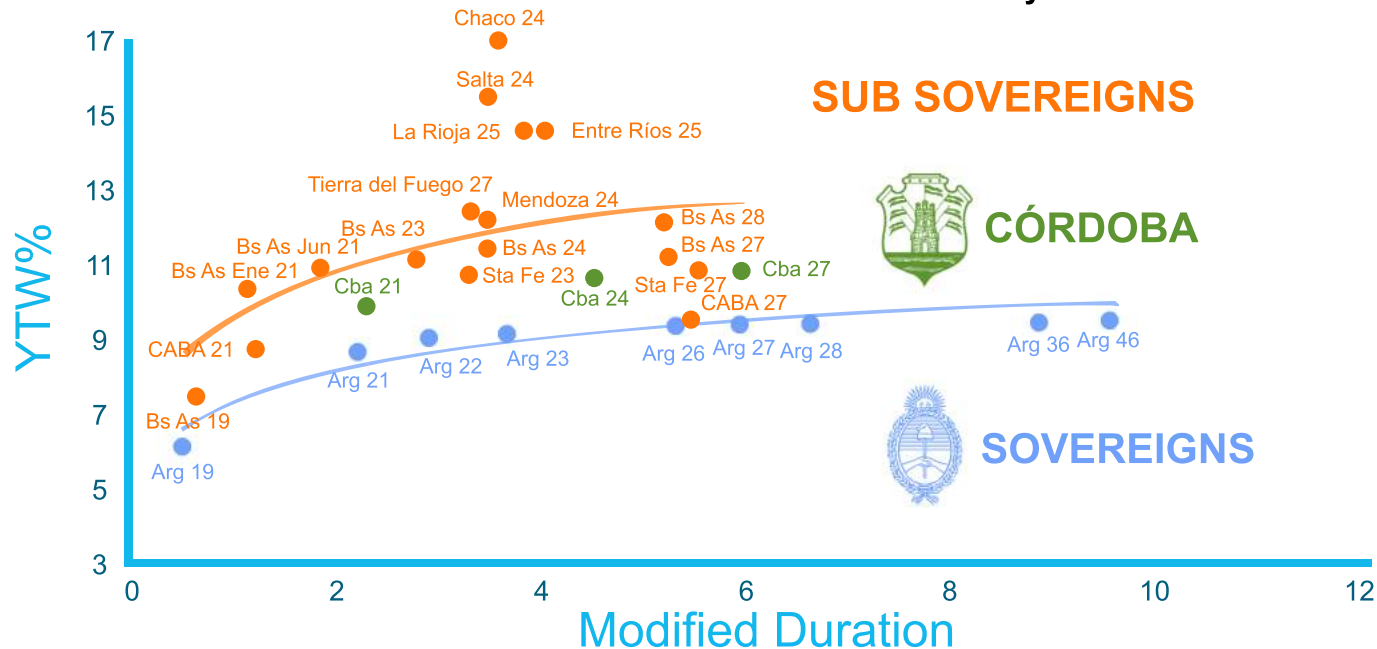
Moody's Investors Service maintained Córdoba Province's rating of B2³. It was first increased from B3 to B2 in December 2017. According to the agency, the current rating of Córdoba Province mainly reflects its sustained positive operating margins and low levels of debt regarding its income. Among its strengths, the report mentions that local economy is relatively prosperous and diversified and it supports the co-

llection of its own revenues, low debt ratios and sustained positive operating margins. Among the risks mentioned are the country's operating environment and the ability to control its operating expenses.

Despite direct impact of the Sovereign's debt's outlook –which changed from 'positive' to 'stable'– in the same direction in sub sovereign

bonds, not all provinces have been affected equally. Córdoba, together with the City of Buenos Aires, is one of provinces with the best track record in the market and therefore have not been severely affected. This is due to the fact that Córdoba has a low level of indebtedness, a high operating surplus and greater flexibility to reduce spending.

Gráfico 3. Curva de rendimiento de los bonos soberanos y sub soberanos



Source: Bloomberg/Reuters to 28/09/2018

3 https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_201143

THE GEARBOX CLUSTER IS LAUNCHED IN CÓRDOBA

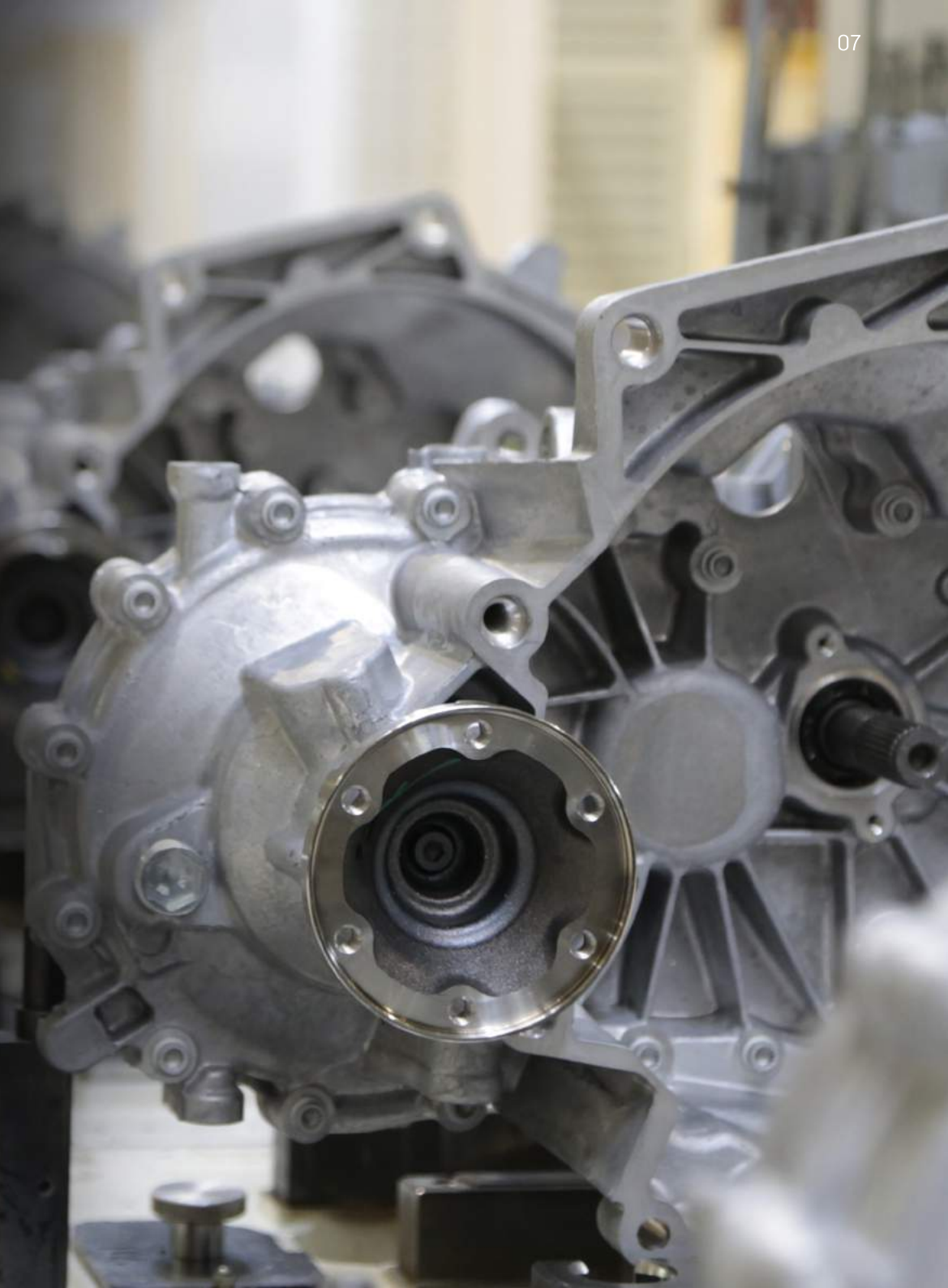
In Córdoba, with the support of Governor Juan Schiaretti, the Gearbox Cluster was launched. The Cluster consists of a group of 20 metallurgical suppliers of parts for transmission systems. The purpose of this cluster is to enhance the synergy between public, private and educational sectors with the aim of positioning Córdoba and the region as one of the most competitive poles in the world for the production of gearboxes for the automotive industry and agricultural machinery.

Most of the companies are suppliers of Córdoba's Industrial Center of Volkswagen Argentina, and there are also suppliers that work for Fiat Chrysler Automobile (FCA), Renault Group, PSA (Peugeot-Citroën) and Toyota Argentina. The group can produce 1.5 million boxes. If the demands of the new Volkswagen and FCA projects happen, the cluster could increase the number of employees to 3,200 and have sales up to 8,600 million pesos.

In this context is that recently, Fiat Chrysler Automobile (FCA) had announced an increase in the pace of

production of gearboxes. Fiat has been producing the C-530 boxes in Córdoba for years, which are used to equip several of their models. In 2017, production was around 30 thousand units per year, while this year it is expected to reach 60 thousand. The increase is due to the demand of the new Fiat Cronos, whose production is around 300 daily units. Then, the idea of Fiat is to take the production of boxes to 150 thousand per year; that is, five times more than those produced in 2017. They will be used not only in the Cronos, but also in other models of the Italian brand.

A month before Fiat did, Volkswagen announced an investment of 150 million dollars for the readjustment of its gearbox plant located in Camino a San Carlos, also in Córdoba. The project is to manufacture, from 2020 onwards, 270 thousand annual units of a new box: the MQ-281. Currently, the German company produces the MQ-200 and MQ-250 in Córdoba. If the forecasts of Volkswagen are fulfilled, that plant could be assembling a total of one million boxes within two years, a horizon that feeds the expectations of the Córdoba hub.



CÓRDOBA IN THE PODIUM OF ARGENTINE EXPORTS

According to data from the Institute of Statistics and Census, during the first half of the year Argentina exported US\$ 29,820 million, and the province of Córdoba ranked third in the provincial ranking, behind Buenos Aires and Santa Fe Province. The percentage share in total Argentine exports was 13.9%. Córdoba's exports go to diverse locations: Mercosur, Southeast Asia (ASEAN), European Union, "Maghreb and Egypt" and the Middle East.

Regarding the exported products, the export structure includes: cereals (26.6%), waste from the food industry (26.6%), land transport material (14.4%), fats and oils (9.1%) and oleaginous seeds and fruits (5.4%). One item that showed great dynamism was ground transport, which registered an increase of 86.9% compared to the first six months of the previous year, determined mainly by the increase in the export of automobiles.

Graph 4. Argentine exports by province
In millions of dollars



Source: Provincial origin of exports, INDEC.

LEAR FINISHES ITS PLANT AND PROVIDES FIAT AUTOPARTS

The auto-part company Lear Corporation, which produces in San Francisco's Industrial Park, confirmed that it will be the supplier of cable harnesses for the Cronos model manufactured by Fiat Chrysler Automobile (FCA) in Ferreyra plant, also in Córdoba. From Lear Argentina they confirmed that the plant produces cables for an average of 300 vehicles per day.

The arrival of Lear in San Francisco involved two investments. The first investment is a 12,700 square meter plant, on the hand of private investors, which will spend US\$ 10 million for the construction –this will be carried out by Dicon. The second investment is the one of Lear Corporation, of about \$ 17 million, to provide technology and equipment for the production plant.

CÓRDOBA AT THE FOREFRONT OF ADMINISTRATIVE MODERNIZATION

Since the month of July, Córdoba has applied Monotributo Unificado (MUC), a system that allows the Sales Tax's small taxpayers to pay in one single time the province's tax (Sales Tax) together with the national tax (the Monotax). Also, from the province's regional perspective progress has been in this sense: Córdoba encourages local governments to include Municipal Sales Tax in the same simplified scheme. The MUC allows to avoid the triple effort made by government levels (national, provincial and municipalities) in collecting taxes. These resources can

instead be used in the task of auditing the large taxpayers.

Córdoba is the first province to put into practice a system of administrative simplification that is the result of coordinated work between the three levels of government: Nation, Province and municipalities. This service constitutes an important progress in the process of state modernization and administrative simplification. This experience, promoted by the Government of Córdoba and implemented by the Ministry of Finance, is being extended to other provinces of the country



THE MINISTRY OF TRANSPORT HIGHLIGHTS THE IMPORTANCE OF HUB CÓRDOBA

A new report from the National Ministry of Transport highlights that Córdoba has become a hub airport for the distribution of flights allowing rapid connections between those arriving from the north and south of the country. Today Córdoba has 18 routes compared to the seven in 2015, and so far in 2018 two million more passengers have flown this year.

In addition, it was announced that the Córdoba airport will have a new system for redesigning its flights programming. This will allow greater connectivity between the north and the south of the country without the need to go through Buenos Aires. Córdoba hub's northern destinations will be Mendoza-Jujuy-Tucumán-Salta-Iguazú and Resistencia; while those on the south will include the cities of Mendoza-Bariloche-Ushuaia-Calafrate and Trelew. Also, Neuquén

and Comodoro Rivadavia are added as new direct routes from Córdoba City.

In this context is that the National Government's Minister of Transport, Guillermo Dietrich, announced that in Córdoba's Ambrosio Taravella Airport there will be investments works for the expansion and remodeling of its terminal. The investment will be of \$ 6,000 million. The works include the expansion of the two current buildings, with new customer service desks or Check-In posts, new passenger boarding bridges, larger waiting areas and boarding areas, new luggage carousels, among other improvements. The track will also be completely resurfaced, there will be triple the amount of parking lots, a new building for firefighters and new air navigation technology.

FLYBONDI OPENS NEW ROUTE FROM CORDOBA

The first low cost airline in Argentina announced that from November onwards, the route between Córdoba and Corrientes will begin operating, a route that has not been operated by any airline for 20 years⁴. In addition, an investment plan of the company, estimated at US\$ 1,100 million for the next five years, was ratified. The CEO, Julian Cook, explained that by 2021 the company's expected to have 28 aircrafts, 2 thousand direct employees, 20 thousand indirect jobs, and to transport

10 million passengers through 85 routes -43 national routes and 42 international routes.

Flybondi recently reached 500,000 passengers transported in less than 8 months of operation. The company carried out 4,186 flights to 13 destinations using 5 Boeing 737-800 NG aircrafts. Additionally to the new Córdoba-Corrientes route, two other regional flights were added: Uruguay (Punta del Este) and Paraguay (Asunción) as of December⁵.



⁴ <https://prensa.flybondi.com/prensa-page/2018/9/6/flybondi-lanza-una-nueva-ruta-de-cabotaje>

⁵ <https://prensa.flybondi.com/prensa-page/2018/9/27/empez-a-volar-ultralowcost-a-punta-del-este>

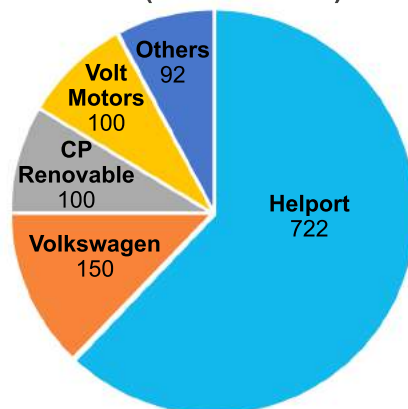
IN THE FIRST EIGHT MONTHS CÓRDOBA ACCUMULATED INVESTMENT ANNOUNCEMENTS FOR ALMOST US\$ 1,164 MILLION

According to data from the Argentine Investment and International Trade Agency, between January and August 2018, 18 new investment projects were announced in the Province of Córdoba, compared to 34 projects in the same period of 2017. However, the announcements this year involved 1,163 million dollars, which implies a 236% growth in the amount invested in them.

The most important plan of the year –until August 2018– was announced by Helpport, which will allocate US\$ 722 million to public

works. It was awarded road works that include the construction of 161 kilometers of highway on National Route 33, between Rufino and Rosario, repairing slabs along 36 kilometers of the Rosario-Córdoba highway, and the construction of 77 Kilometers of highway on National Route 9, between Córdoba and Villa del Totoral. The second most important investment project is carried out by Volkswagen, which announced the production and export of gearboxes. The remaining projects are of CP Renovable and Volt Motors, both investing US \$ 100 millions.

Graph 5. Investment announcements in Córdoba (US\$ millions)



Source: Argentine Agency of Investments and International Trade.

COCA COLA WILL INVEST US\$ 11 MILLION IN A NEW LINE OF CANS

Embotelladora Andina, one of the four Coca-Cola bottling partners in Argentina, will invest US\$ 11 million in a new can processing line, which will be the first in the interior of the country. This first disbursement occurs within an investment plan of US\$ 1.2 billion for the next three years.

The line will be launched in November, with a production capacity of more than 55 million liters per year. It will be installed in the Córdoba plant, where Coca-Cola Andina has its headquarters. The segment represents 1.7% of its total sales for Coca-Cola Argentina.

KWS WILL INVEST US\$ 3 MILLION

The German company KWS, company committed to the research and development of agricultural products, builds in Colonia Caroya an experimental station with the purpose of improving the quality of corn seeds. The research and development that KWS will carry out in Córdoba begins with genetic material brought from China, the United States and Brazil; and will allow the creation of seeds

adapted to the environment of the north of Córdoba. KWS initiated these activities with an investment of US\$ 3 million and the acquisition of a field of 20 hectares where it will carry out the tests.

In the last two years, corn is the agricultural product that has grown the most in the country. Córdoba is the province that provides the greatest volume: more than 30 percent of the total.⁶

6 <http://www.agritotal.com/nota/35979-kws-se-expande-en-genetica-y-territorio/>

CÓRDOBA IS AMONG THE TOP THREE WORLD EXPORTERS OF PEANUT

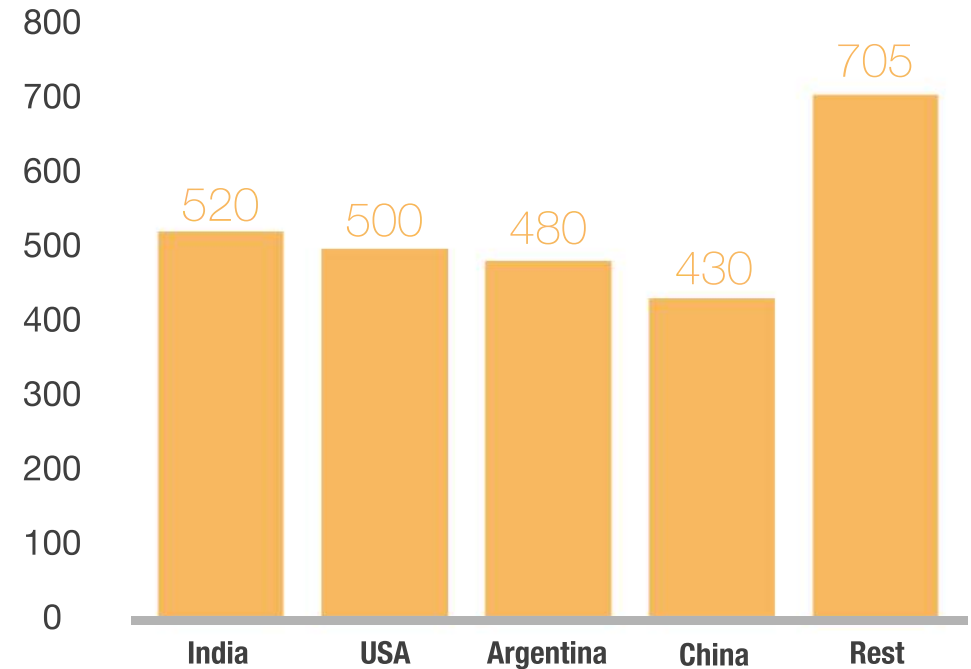
According to Bolsa de Comercio de Rosario or Rosario Stock Exchange, Córdoba is the third largest exporter of peanuts in the world, behind India and the United States. Although Córdoba is the ninth largest producer in the world, low domestic consumption allows that almost all of the crops produced and industrialized to be exported. In addition to peanuts, Córdoba is the leading exporter of peanut oil - with a 32% share-, and is the second largest exporter of flour and pellets - with a 12% share - in world trade.

Of the total peanuts produced at the country level, 90% is produced in Córdoba and here is where the majority of the companies that industrialize it are located.

Additionally, according to data from the Argentine Chamber of Peanuts (CAM), the Peanut Agro-industrial Sector is made up of 21 agro-export companies, among which are SMEs and national capital cooperatives. 50% of the exports of the peanut sector are produced by 4 large companies, 39% by 9 medium-sized companies and the remaining 11% are made by 11 small companies.

In addition, Bolsa de Comercio de Rosario highlights that Córdoba is recognized in the world for the quality of its peanuts and for the technology applied during its production, industrialization and packaging for export. The peanut food chain represents a key part of the country's productive matrix and its exports.

Graph 6.
Export of peanuts in grain campaign 2017/18
Thousands of tons



Source: Own elaboration based on the Rosario Stock Exchange



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