

OFFERING MEMORANDUM



The Province of Buenos Aires

(A Province of Argentina)

U.S.\$475,000,000

9.375% Notes due 2018

The Province will pay interest on the notes on March 14 and September 14 of each year, beginning March 14, 2007. The notes will mature on September 14, 2018.

The notes will be direct, unconditional, unsecured and unsubordinated obligations of the Province, ranking *pari passu*, without any preference, among themselves and with all other present and future unsecured and unsubordinated indebtedness from time to time outstanding of the Province, except as otherwise provided by law.

The Province will apply to list the notes on the Luxembourg Stock Exchange, and to have the notes admitted to trading on Euro MTF, market of the Luxembourg Stock Exchange, and to list the notes on the Buenos Aires Stock Exchange and the Argentine *Mercado Abierto Electrónico*.

Investing in the notes involves risks that are described in the “Risk Factors” section beginning on page 9 of this offering memorandum.

	<u>Per Note</u>	<u>Total</u>
Price to investors ⁽¹⁾	97.417%	U.S.\$462,730,750
Initial purchaser’s discount15%	U.S.\$712,500
Proceeds, before expenses, to the Province	97.267%	U.S.\$462,018,250

(1) Plus accrued interest from October 31, 2006, if settlement occurs after that date.

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction. Unless they are registered, the notes may be offered only in transactions that are exempt from registration under the Securities Act or the securities law of any other jurisdiction. Accordingly, the notes are being offered only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and persons outside the United States in reliance on Regulation S of the Securities Act. For further details about eligible offerees and resale restrictions, see “Notice to Investors.”

The notes will be ready for delivery on or about October 31, 2006.

Merrill Lynch & Co.

The date of this offering memorandum is October 24, 2006

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You should rely only on the information contained in this offering memorandum. The Province has not, and the initial purchaser has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Province is not, and the initial purchaser is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum and may have changed since that date.

The Province is relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements described under the heading “Notice to Investors” in this offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

The Province has not authorized the use of this offering memorandum for any purpose other than for prospective investors to consider a purchase of the notes. This offering memorandum may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See “Notice to Investors.”

This offering memorandum is based on information provided by the Province and other sources that the Province believes are reliable. The Province cannot assure you that this information is accurate or complete. This offering memorandum summarizes certain documents and other information and the Province refers you to them for a more complete understanding of what the Province discusses in this offering memorandum. In making an investment decision, you must rely on your own examination of the Province and the terms of the offering and the notes, including the merits and risks involved.

After having made all reasonable inquiries, the Province confirms that it accepts responsibility for the information it has provided in this offering memorandum and assumes responsibility for the correct reproduction of the information contained herein.

The Province is not making any representation to any purchaser of notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

You should contact the initial purchaser with any questions about this offering or for additional information to verify the information contained in this offering memorandum.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

In connection with the issue of the notes, the initial purchaser (or persons acting on behalf of the initial purchaser) may over-allot notes or effect transactions with a view to supporting the market price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the initial purchaser (or persons acting on its behalf) will undertake stabilisation action. Such stabilising, if commenced, may be discontinued at any time and, if begun, must be brought to an end after a limited period. Any stabilisation action will be undertaken in accordance with applicable laws and regulations.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under RSA 421-B with the state of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the secretary of state that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or transaction means that the secretary of state has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security, or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client, any representation inconsistent with the provisions of this paragraph.

ENFORCEMENT OF CIVIL LIABILITIES

The Province is a political subdivision of a sovereign state. Consequently, it may be difficult for investors to obtain, or realize in the United States or elsewhere upon, judgments against the Province. To the fullest extent permitted by applicable law, the Province will irrevocably submit to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in The City of New York, Borough of Manhattan, and any appellate court thereof, in any suit, action or proceeding arising out of or relating to the notes or the Province's failure or alleged failure to perform any obligations under the notes, and the Province will irrevocably agree that all claims in respect of any such suit, action or proceeding may be heard and determined in such New York state or U.S. federal court. The Province will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any suit, action or proceeding and any objection to any proceeding whether on the grounds of venue, residence or domicile. To the extent that the Province has or hereafter may acquire any sovereign or other immunity from jurisdiction of such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), the Province will, to the fullest extent permitted under applicable law, including the U.S. Foreign Sovereign Immunities Act of 1976, irrevocably waive such immunity in respect of any such suit, action or proceeding. However, under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the Province a judgment based on such a U.S. judgment, and under the laws of Argentina any attachment or other form of execution (before or after judgment) on the property and revenues of the Province will be subject to the applicable provisions of the Code of Civil and Commercial Procedure of Argentina. See "Description of Notes—Governing Law" and "—Submission to Jurisdiction."

DEFINED TERMS AND CONVENTIONS

Certain Defined Terms

All references in this offering memorandum to:

- the "Province" are to the issuer,
- "Banco Provincia" are to Banco de la Provincia de Buenos Aires,
- the "Central Bank" are to the Central Bank of the Republic of Argentina,
- "Argentina" are to the Republic of Argentina, and
- the "federal government" are to the non-financial sector of the central government of Argentina, excluding the Central Bank.

The terms set forth below have the following meanings for purposes of this offering memorandum:

- *Boden* are bonds that the federal government began to issue in 2002 originally to compensate individuals and financial institutions affected by some of the emergency measures adopted by the federal government during the recent economic crisis.
- *Boconba* are bonds that the Province began to issue in 1991 to claimants who have prevailed in legal actions brought against the Province or its municipalities in satisfaction of their legal claims. The terms of these bonds vary depending on the dates on which the events giving rise to a claimant's legal action occur. These bonds were originally denominated in pesos or dollars at the option of the claimant. The dollar-denominated *Boconba* were converted to CER-adjusted pesos at a rate of Ps.1.40 per U.S.\$1.00 as part of the pesification process in 2002. *Boconba* issued after the pesification process are denominated in pesos. The laws pursuant to which the *Boconba* were issued established payment priority classes according to the nature of the right giving rise to the credit, determining also that claims within the same class would be cancelled according to the dates on which they were definitively recognized by court or administrative procedure.

- *Bogar* are bonds issued by the federally administered *Fondo Fiduciario para el Desarrollo Provincial* (Provincial Development Fund) in order to restructure debt obligations of Argentina's provinces, including the Province. The Province indirectly guarantees payments on these bonds, up to an amount equal to 15% of the federal tax co-participation revenues to which it is entitled, through an assignment to the Provincial Development Fund of such portion of those revenues. Although the federal government instructs the trustee of the Provincial Development Fund to make any remaining payments due on these bonds, the Province has an obligation to reimburse the Provincial Development Fund for any amounts paid on these bonds.
- CER, or *Coficiente de Estabilización de Referencia*, is a unit of account adopted on February 3, 2002, the value in pesos of which is indexed to consumer price inflation. The nominal amount of a CER-based financial instrument is converted to a CER-adjusted amount, and interest on the financial instrument is calculated on the CER-adjusted balance.
- The *Conurbano Bonaerense* is an industrialized and heavily populated urban area surrounding the City of Buenos Aires. The scope and coverage of this area are defined by federal government agencies to represent a diverse demographic sample of Argentina's urban population based upon selected socio-economic variables for use in the development and implementation of national public policies. The area consists of several municipalities of the Province that surround the City of Buenos Aires and does not include the City of Buenos Aires. Approximately 63% of the Province's population resides within the *Conurbano Bonaerense*.
- *Exchange Bonds* are the three series of bonds—Step-Up Long Term Par Bonds due 2035, Step-Up Medium Term Par Bonds due 2020, and Discount Bonds due 2017—issued by the Province pursuant to the restructuring exchange offer launched in November 2005 to holders of its then outstanding Eurobonds (as defined below). Approximately 94.7% of the principal amount of the then outstanding Eurobonds were tendered and cancelled pursuant to the exchange offer, which expired in December 2005.
- *Exports* are calculated based upon statistics reported to Argentina's customs agency upon departure of goods originated in the Province on a free-on-board (FOB) basis.
- *Eurobonds* are bonds issued by the Province in the international capital markets since 1995, including securities issued under the Province's U.S.\$3.2 billion Euro Medium-Term Note program ("EMTN Program") established in 1998.
- *Gross domestic product*, or GDP, is a measure of the total value of final products and services produced in Argentina or the Province, as the case may be, in a specific year.
- The *rate of inflation* or *inflation rate* provides an aggregate measure of the rate of change in the prices of goods and services in the economy. The inflation rate is generally measured by the rate of change in the consumer price index or CPI, between two periods unless otherwise specified. The annual percentage rate of change in the CPI as of a particular date is calculated by comparing the index as of that date against the index as of the date 12 months prior. The CPI is calculated on a weighted basket of consumer goods and services that reflects the pattern of consumption of Argentine households using a monthly averaging method. The federal government also compiles statistics on the wholesale price index, or WPI. The annual percentage rate of change in the WPI as of a particular date is calculated by comparing the index as of that date against the index as of the date 12 months prior. The WPI is based on a basket of goods and services that reflects the pattern of consumption of Argentine retailers. The CPI measures changes in the price level of goods and services to the final consumer and therefore tends to reflect changes in the cost of living in Argentina. While the WPI also provides a measure of inflation, it is more limited in scope since it measures changes in the price of goods and services paid by retailers and not the end consumers. Beginning in November 2005, the Province has reported CPI within its territory. The provincial CPI has registered a rate of change substantially similar to the rate of change of the national CPI during the same period. For consistency, all references in this offering memorandum to CPI are to the national CPI.
- *Patacones* are quasi-currency treasury bonds issued by the Province in 2001 and 2002 to finance its fiscal deficits during Argentina's economic crisis.

- The *underemployment rate* represents the percentage of the Province’s labor force that has worked fewer than 35 hours during the week preceding the date of measurement and seeks to work more.
- The *unemployment rate* represents the percentage of the Province’s labor force that has not worked a minimum of one hour with compensation or 15 hours without compensation during the week preceding the date of measurement. The *labor force* refers to the sum of the population of the four main urban centers of the Province (La Plata, Bahía Blanca, Mar del Plata and the *Comurbano Bonaerense*) that has worked a minimum of one hour with compensation or 15 hours without compensation during the week preceding the date of measurement plus the population that is unemployed but actively seeking employment.

Currency of Presentation and Exchange Rates

Unless otherwise specified, references in this offering memorandum to “dollars,” “U.S. dollars,” “U.S.\$” and “\$” are to the currency of the United States of America, references to “euros” or “€” are to the currency of the European Union and references to “pesos” and “Ps.” are to Argentine pesos.

The Province publishes most of its economic indicators and other statistics in pesos. From April 1, 1991 through January 6, 2002, the amounts presented to reflect economic indicators were the same in dollars and in pesos due to the fixed one-to-one dollar/peso exchange rate that prevailed during this period. For figures reflecting flows of peso amounts during a specified period, the average dollar-peso exchange rate for that period is used. For figures reflecting amounts as of a specific date, the exchange rate applicable on that date is used.

During the period from January 6, 2002, through February 11, 2002, the following two separate peso-dollar exchange rates were in place:

- the official rate, set at Ps.1.40 per U.S. dollar, used for export transactions, selected imports and capital payments, and
- the unofficial rate (or market exchange), a floating rate that applied to all other transactions.

Since February 2002, the peso floats against other currencies, although the Central Bank purchases or sells U.S. dollars on the currency exchange market on a regular basis in order to minimize fluctuations in the value of the peso. The table below sets forth nominal exchange rate figures:

Nominal Exchange Rates (pesos per U.S. dollar)

	Average	Period-end
2000	1.00	1.00
2001	1.00	1.00
2002	3.07	3.36
2003	2.95	2.94
2004	2.94	2.98
2005	2.92	3.03
2006		
January	3.05	3.07
February	3.07	3.07
March	3.08	3.08
April	3.07	3.05
May	3.06	3.08
June	3.08	3.09
July	3.08	3.07
August	3.10	3.08
September	3.10	3.10

Source: Central Bank

Currency conversions, including conversions of pesos into U.S. dollars, are included for the convenience of the reader only and should not be construed as a representation that the amounts in question have been, could have been or could be converted into any particular denomination, at any particular rate or at all.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All annual information presented in this offering memorandum is based upon January 1 to December 31 periods, unless otherwise indicated. Totals in some tables in this offering memorandum may differ from the sum of the individual items in those tables due to rounding.

Unless otherwise stated, prices and figures are stated in current values of the currency presented.

Certain statistical information included in this offering memorandum is preliminary in nature and reflects the most recent reliable data readily available to the Province as of the date of this offering memorandum.

FORWARD-LOOKING STATEMENTS

This offering memorandum may contain forward-looking statements, which are statements that are not historical facts, including statements about the Province's beliefs and expectations. These statements are based on the Province's current plans, estimates and projections. Therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. The Province undertakes no obligation to update any of them in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties, including, but not limited to, those set forth in "Risk Factors" in this offering memorandum. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. The information contained in this offering memorandum identifies important factors that could cause such differences. Such factors include, but are not limited to:

- adverse domestic factors, such as increases in inflation, high domestic interest rates and exchange rate volatility, any of which could lead to lower economic growth;
- adverse external factors, such as changes in international prices (including commodity prices) for goods produced within the Province, changes in international interest rates, recession or low economic growth in Argentina's trading partners, which could decrease the value of exports from the Province, induce a contraction of the Province's economy and, indirectly, reduce tax revenues and other public sector revenues and adversely affect the Province's accounts; and
- other adverse factors, such as climatic or political events, international or domestic hostilities and political uncertainty.

SUMMARY

This summary highlights selected economic and financial information about the Province. It is not complete and may not contain all of the information you should consider before purchasing the notes. You should carefully read the entire offering memorandum, including "Risk Factors," before purchasing the notes.

Selected Economic Information (in billions of pesos unless otherwise indicated)

	For the year ended as of December 31,					For the six months ended as of June 30,	
	2001	2002	2003	2004	2005	2005	2006
ECONOMY							
Real GDP (in billions of 1993 pesos) ..	Ps. 88.8	Ps. 79.4	Ps. 89.0	Ps. 98.3	Ps. 109.2	n.a.	n.a.
Rate of change from prior year	(5.0)%	(10.6)%	12.1%	10.5%	11.0%	n.a.	n.a.
Provincial GDP as a % of National							
GDP	33.7%	33.8%	34.8%	35.2%	35.8%	n.a.	n.a.
Nominal GDP	93.8	109.1	135.0	161.6	192.1	n.a.	n.a.
Inflation (as measured by CPI).....	(1.5)%	41.0%	3.7%	6.1%	12.3%	6.1%	4.9%
Unemployment rate ⁽¹⁾	20.8%	20.4%	17.8%	14.9%	12.7%	14.8%	12.7%
PUBLIC SECTOR FINANCES							
Total Revenues.....	Ps. 7.7	Ps. 9.5	Ps. 11.3	Ps. 14.9	Ps. 18.4	Ps. 8.5	Ps. 10.5
As a % of nominal GDP.....	8.2%	8.7%	8.3%	9.2%	9.6%	n.a.	n.a.
Total Expenditures (excluding interest expenses).....	11.5	9.9	10.9	14.1	18.2	8.1	10.5
As a % of nominal GDP.....	12.2%	9.1%	8.1%	8.7%	9.5%	n.a.	n.a.
Primary Fiscal Balance ⁽²⁾	(3.8)	(0.5)	0.3	0.8	0.2	0.4	0.0.
As a % of nominal GDP.....	(4.0)%	(0.4)%	0.2%	0.5%	0.1%	n.a.	n.a.
Total Surplus/(Deficit) ⁽³⁾	(4.4)	(0.8)	(0.2)	0.3	(0.3)	0.1	(0.4)
As a % of nominal GDP.....	(4.7)%	(0.7)%	(0.1)%	0.2%	(0.1)%	n.a.	n.a.
Overall Financial Result ⁽⁴⁾	(1.4)	1.6	0.2	0.5	0.3	(0.4)	(0.5)
As a % of nominal GDP.....	(1.6)%	1.5%	0.2%	0.3%	0.0%	n.a.	n.a.
PUBLIC SECTOR DEBT⁽⁵⁾							
Peso-denominated debt ⁽⁶⁾	Ps. 1.8	Ps. 14.7	Ps. 15.8	Ps. 17.2	Ps. 19.2	Ps. 17.8	Ps. 20.3
Foreign-currency-denominated debt ⁽⁷⁾	9.1	12.1	11.6	12.0	10.5	10.8	11.0
Total debt ⁽⁷⁾	10.9	26.8	27.4	29.2	29.7	28.6	31.3
Total debt (in billions of U.S.\$) ⁽⁷⁾	10.9	7.9	9.3	9.8	9.8	9.9	10.2
Debt as a % of nominal GDP ⁽⁷⁾	11.6%	24.6%	20.3%	18.1%	15.5%	n.a.	n.a.
Debt as a % of total revenues ⁽⁷⁾	141.8%	283.1%	242.9%	196.6%	162.0%	n.a.	n.a.

(1) As of October of each of 2001 and 2002, and for the second half of each of 2003, 2004 and 2005.

(2) Excluding interest payments.

(3) Represents the Primary Fiscal balance minus interest payments.

(4) Represents total surplus/(deficit) plus borrowings, minus debt repayments.

(5) Figures at December 31, 2005 reflect the effect of the Province's external public debt restructuring. In November 2005, the Province launched an offer to eligible holders of its foreign-currency-denominated bonds (on which the Province had ceased making payments) to cancel these bonds in exchange for three new series of U.S. dollar- and Euro-denominated bonds. As of December 16, 2005, the expiration date of the exchange offer, holders of approximately 94% of the aggregate principal amount of the Province's outstanding bonds had consented to cancel these bonds in exchange for the new bonds, which is reflected in the table above.

(6) Includes debt denominated in CER-adjusted pesos.

(7) Excluding past due interest payments.

Sources: Provincial Office of Statistics; Ministry of Economy of the Province; Federal Ministry of Economy and Production.

The Province

General

The Province is the largest of the 23 provinces of Argentina, with a population of approximately 13.8 million inhabitants. It is located in the central-eastern part of the country, in a region known as the “Pampas.” The capital of the Province is the city of La Plata.

The provincial government consists of an executive branch, a legislative branch and a judicial branch. The executive branch consists of a Governor and a Vice Governor, both of whom are elected by popular vote, and a number of ministries, secretariats and other provincial governmental agencies. The legislative branch consists of the Senate and the House of Representatives. The judicial branch consists of trial courts, courts of appeals and the Supreme Court, which have jurisdiction over civil, commercial, administrative, labor, family and criminal matters within the Province. In addition, the provincial constitution provides for the existence of certain provincial agencies that do not fall under any of the three branches of government.

Each of the Province’s 134 municipalities has its own government, responsible for providing basic local services. Pursuant to provincial law, the Province’s municipalities are entitled to receive a percentage of the taxes collected by the Province and the federal government. In addition, several municipalities are entitled to collect certain provincial taxes.

Historically, the two largest and most traditional political parties in Argentina have been the *Partido Justicialista*, or the PJ Party and the *Unión Cívica Radical*, or the UCR Party, which have broad-based support across the country, followed by the *Afirmación para una República Igualitaria*, or the ARI Party, and *Recrear para el Crecimiento*, or the Rebuild for Growth Party. Recently, however, former members of the PJ Party led by the President of Argentina, Néstor Kirchner, and the Governor of the Province, Felipe Solá, formed a new rival political party known as *Frente para la Victoria*, or Front for Victory, which obtained the most votes in the national and provincial legislative elections held in October 2005. Currently, members of the Front for Victory hold a greater number of seats (although not a majority) in both the provincial House of Representatives and the provincial Senate than those held by members of other political parties.

The current terms of the President of Argentina and the Governor of the Province expire in December 2007. The next general elections for the President of Argentina and Governor of the Province will be held in October 2007.

The Provincial Economy

The Province has a diversified economy. The most significant of the Province’s economic production sectors are manufacturing, real estate and other business activities, wholesale and retail commerce, transportation, storage and communications, education, health and social services, agriculture, livestock, hunting and forestry, and construction. Historically, the Province’s manufacturing sector is the single largest contributor to provincial GDP. The manufacturing sector is highly diversified and, historically, food and beverage production and chemicals have been the most significant contributors to production within this sector. Although all areas of manufacturing were severely affected by the economic crisis in 2001, beginning in 2003 the Province’s manufacturing sector has recovered significantly and manufacturing output has increased in each of 2003, 2004 and 2005 as compared to prior year levels.

The economy of the Province represents a significant part of the overall Argentine economy and has tracked growth and recessionary cycles in the larger Argentine economy. In 1991, the federal legislature enacted the Convertibility Law, which established a fixed peso-dollar exchange rate at Ps.1.00 per U.S.\$1.00 in order to stabilize the inflation rate. Although the Convertibility regime and other free-market initiatives of the federal government temporarily achieved price stability, increased the efficiency and productivity of the economies of Argentina and the Province and attracted significant foreign investment to Argentina, including the Province, the dependence of Argentina’s economy on the inflow of foreign capital increased its vulnerability to external shocks, led to over-reliance on certain economic sectors, and restricted the Central Bank’s ability to provide credit.

During the second half of 2001, the Province, along with all of Argentina, entered a state of severe economic crisis. During the months leading up to the onset of the crisis, the Province took measures intended to brace its economy for the impending crisis, including the issuance of *Patacones*. As a consequence of this highly unstable political and economic situation, the Province's real GDP declined in 2001 and 2002 and its unemployment rate increased. In 2002, the federal government abandoned the Convertibility regime in response to Argentina's economic crisis, which resulted in the peso losing significant value, compulsorily and unilaterally froze bank deposits and converted dollar-denominated deposits held by Argentine banks to pesos. The period was marked by a total absence of any domestic and external credit.

The Province's economy began to stabilize in the third quarter of 2002 as a result of favorable adjustments in Argentina's foreign trade balance and an expansionary federal monetary policy. Since 2003, the economic recovery broadened and accelerated and the Province has experienced growth in its GDP, employment rates and wages. Economic activity in the Province since 2003, in constant pesos, has been superior to levels recorded in 2000, immediately prior to the crisis. Preliminary figures indicate that the Province's real GDP registered a 12.1% increase in 2003, a 10.5% increase in 2004 and an 11.0% increase in 2005, in each case as compared to the prior year. This economic recovery has also alleviated the social tensions that arose during the economic crisis, as increased production gave rise to higher employment rates and wages.

Public Sector Finances

The Province's fiscal policy since the national economic crisis has focused on preserving the financial liquidity of the Province. The Province recorded primary balance deficits (excluding interest expenses) in 2001 and 2002, as Argentina's economic recession, which began in 1998, deepened and Argentina entered a state of severe economic crisis in 2001. The Province's primary balance deficit declined in 2002 and the Province recorded increasing primary balance surpluses in each of 2003 and 2004 as Argentina's economic recovery, which began in the second half of 2002, broadened and accelerated, despite an increase in the Province's expenditures during this period. In 2005, however, the Province recorded a decline in its primary balance surplus (excluding interest expenses), as compared to 2004, despite a significant increase in revenues during 2005, as the Province's expenditures grew at a faster rate than its revenues during this period. Personnel expenditures, in particular, increased significantly in 2005 compared to prior years due to the cumulative effect of the implementation in 2005, and to a lesser extent, to measures adopted in each of 2003 and 2004, intended to alleviate the situation of the Province's employees following the salary freeze and subsequent devaluation and inflation that resulted from the economic crisis. These measures, taken together with similar measures adopted in March 2006, have succeeded in realigning the compensation of provincial employees with pre-crisis levels, measured in terms of purchasing power.

The 2006 budget law, as recently amended, forecasts a Ps.294 million primary balance deficit (excluding interest expenses) for 2006, due mainly to the effect of the compensation measures adopted in March 2006 and the cumulative effect of similar measures adopted from 2003 through 2005 to realign provincial employee compensation with pre-crisis levels.

Main Sources of Revenues

Approximately 85% of the Province's revenues are derived from taxes, either federal or provincial. On average, from 2001 to 2005, provincial tax collections represented 47.6% of total revenues, while federal tax transfers represented 39.1% of such revenues.

Federal transfers. The federal government is required by law to transfer to a federal co-participation fund 100% of all revenues from consumption taxes levied on various non-basic goods, 89% of value-added tax revenues, 64% of income tax revenues and 30% of financial transactions tax revenues. Under the federal tax co-participation law, 15% of all funds eligible for co-participation are allocated to the federal social security system. The balance of these funds is distributed among the federal government, the City of Buenos Aires and the provinces, with 41.6% of the balance being allocated to the federal government for its other needs and for transfers to the City of Buenos Aires and 57.4% being allocated to the provinces to be shared among them according to percentages set forth in the federal tax co-participation law. The Province is currently entitled to 21.7% of funds allocated to the provinces under the co-participation regime.

The Province is also entitled to receive specified additional amounts of federal tax transfers pursuant to special laws intended to address the greater needs of the Province, which are funded with designated sources of federal tax revenues. These transfers, however, are capped or subject to limits that have been reached over time, and the remainder of these tax revenues is distributed among all the provinces in accordance with the co-participation law, leading to a further dilution in the Province's share of total federal tax transfers (including tax co-participation transfers). Accordingly, although the Province receives 21.7% of distributable co-participation tax revenues, the Province receives a relatively smaller percentage of the total federal tax transfers to the provinces. Although the Province has repeatedly requested an increase in the funds allocated to the provinces under the tax co-participation regime to ensure that each province is able to offer essential public services to its population, its efforts to increase its allocation of tax co-participation funds have met with little success.

In addition, the Province records other, non-refundable payments or transfers from the federal government as federal contributions. These contributions consist primarily of discretionary transfers to the provinces, known as *Aportes del Tesoro Nacional*, to meet special or emergency needs or to finance certain expenditures of national interest. Before 2005, these contributions also included fees paid by the federal government to the provincial Institute of Lotteries and Casinos for the operation of national lottery and other gaming activities within the territory of the Province, which fees ceased to be paid when the Province assumed control of these activities in 2004. Moreover, the Province is entitled to receive transfers from the federal government from time to time to finance deficits in the provincial pension system, in exchange for a commitment on the part of the Province to harmonize its social security system with the federal social security system. The Province has also relied on these contributions from the federal government to fill its budget gaps, in particular, funds from the federal government, to bolster the provincial pension system.

Provincial Revenues. Historically, the main source of provincial tax revenues has been the collection of the following five main taxes:

- gross revenues tax, which is the single largest source of provincial tax revenue,
- real estate tax,
- tax on automobiles registered in the Province,
- stamp tax levied on several categories of agreements and transactions entered into within the territory of the Province, and
- energy tax.

The Province also derives non-tax revenues from various provincial sources, including transfers of net profits or surpluses from such provincial entities as the Institute of Lotteries and Casinos and the Loan Recovery Committee, fees collected by the provincial judicial system, and interest accrued on the Province's deposits with Banco Provincia.

Composition of Expenditures

The Province's expenditures are allocated to education, health programs, social programs, municipalities, investments in public infrastructure and services, police, courts, prisons and general provincial administration. Combined spending on education, health programs, social programs and police, courts and prisons accounted for approximately 70% of the Province's total expenditures in 2005.

Current expenditures consist of costs of personnel, goods and services and current transfers. Personnel expenditures comprise the largest component of the Province's total expenditures, representing approximately one half of total expenditures in each year since 2001. Personnel expenditures have increased significantly in recent periods due to the cumulative effect of the implementation in 2005, and to a lesser extent, to measures adopted in each of 2003 and 2004, intended to alleviate the situation of the Province's employees following the salary freeze and subsequent devaluation and inflation that resulted from the economic crisis. These measures, taken together

with similar measures adopted in March 2006, have succeeded in realigning the compensation of provincial employees with pre-crisis levels, measured in terms of purchasing power.

Capital expenditures include real direct investment, loans and capital contributions to provincial enterprises and loans and transfers to municipalities for public works.

The 2006 Budget

Pursuant to the constitution of the Province, the executive branch must submit a draft budget law for each upcoming year during the prior year. The budget represents an estimation of future revenues and also constitutes an authorization of, and a limit on, expenditures and indebtedness by the Province for the budgeted period. The provincial legislature has broad powers to amend or reject the draft budget law submitted by the executive branch.

The executive branch of the Province submitted its proposed budget for 2006 to the legislature on December 12, 2005. On December 27, 2005, the provincial legislature passed the 2006 budget into law (Law No. 13,403) as proposed by the executive branch. On August 25, 2006, the executive branch submitted a revised budget to the provincial legislature with updated estimates for provincial revenues and expenditures, as well as an authorization for up to Ps.990 million in additional indebtedness. The revised 2006 budget law was approved on September 7, 2006 (Law No. 13,526).

The revised 2006 budget forecasts a primary balance deficit of Ps.294 million, as compared to a Ps.179 million primary balance surplus in 2005, and a total deficit of Ps.1.1 billion in 2006, as compared to a total deficit of Ps.276 million in 2005. The Province expects to finance the projected total deficit, plus Ps. 2.7 billion in scheduled debt repayments in 2006, with borrowings of Ps.3.7 billion. These borrowings include drawings under the AF 2006 of Ps.2.0 billion, the proceeds of this offering, Ps.174 million in drawings under multilateral programs and Ps.52 million in other domestic debt. The Province intends to cover the remaining amount of its financing needs in 2006, if any, with any cash resources then available, including the remaining amount of overall financial surpluses recorded in prior years, and by seeking new borrowings.

Public Sector Debt

Prior to 2001, the Province financed the vast majority of its needs through the domestic and international capital markets and through loans from multilateral, bilateral and commercial lenders, including Banco Provincia. As of December 31, 2000, the total outstanding indebtedness of the Province amounted to approximately U.S.\$6.9 billion, of which 41.4% was owed to domestic and international bondholders, 34.8% to Banco Provincia and 12.7% to multilateral creditors. During the economic crisis of 2001, however, the Province was unable to access these sources of financing and, since then, the federal government has become the Province's largest creditor and its main source of financing. As of June 30, 2006, the total outstanding indebtedness of the Province amounted to approximately U.S.\$10.2 billion, of which 62.7% was owed to the federal government, 26.6% to domestic and international bondholders, 7.9% to multilateral creditors, 1.3% to bilateral creditors, 0.1% to Banco Provincia and 1.4% to other creditors.

Evolution of Debt: 2001-2006

Because of the economic crisis, the Province suspended principal and interest payments on its indebtedness with effect as of December 31, 2001. The Province eventually adopted the federal government's policy of rescheduling debt obligations.

Beginning in mid-2002, the Province took part in a debt restructuring process implemented by the federal government, in which the federal government issued *Bogar*. Pursuant to this restructuring process, approximately half of the Province's indebtedness was converted into long-term debt owed to the federal government. In October 2002, in accordance with provincial Law No. 12,973, the Province mandated the pesification of all dollar-denominated provincial and municipal debt obligations governed by Argentine law at a rate of Ps.1.4 per one U.S. dollar, but provided creditors with the alternative option to exchange such debt obligations for a new dollar-denominated provincial bond known as the Law No. 12,973 Bond.

Also in 2002, the federal government created the *Programa de Financiamiento Ordenado* (Orderly Financing Program), or PFO, as part of a broader initiative to assist the provinces and the City of Buenos Aires, pursuant to which the federal government signed bilateral fiscal agreements with a number of provinces, including the Province, in 2002, 2003 and 2004. Among other things, the PFO agreement for 2004 provides for the restructuring of the Province's indebtedness to the federal government that resulted from the federal government's payments from 2002 through 2004 of certain debt obligations to multilateral lenders on behalf of the Province and financial assistance to the Province in exchange for various commitments from the Province in respect of its fiscal policies.

In 2003, the Province participated in the *Programa de Unificación Monetaria* (Monetary Unification Program or "PUM"), pursuant to which various federal and provincial quasi-currency instruments were redeemed and withdrawn from circulation, including *Patacones* issued by the Province, and holders were compensated in pesos using the proceeds of the issuance of federal government bonds, known as *Boden 2011*. Approximately 99% of the aggregate outstanding principal amount of *Patacones* were redeemed in exchange for *Boden 2011*. The Province is required to reimburse the federal government for any payments made by the federal government in respect of *Boden 2011* issued in exchange for *Patacones*.

In 2005, the Province and the federal government entered into the *Acuerdo de Asistencia Financiera 2005* (2005 Financial Assistance Agreement or AF 2005), which is the successor to the PFO. Under the AF 2005, as was the case under the PFO, the federal government agreed to provide, through the Provincial Development Fund, financial assistance to the Province. Pursuant to the AF 2005, the federal government granted the Province a Ps.1.3 billion loan for purposes of making debt service payments in 2005. The loan will be repaid in 83 consecutive monthly installments with a one-year grace period, and interest will accrue at a rate of 2% per annum and will be payable on a monthly basis from June 2005, except for interest accrued through December 31, 2005, which has been capitalized.

In January 2006, the Province completed a comprehensive debt restructuring of its Eurobonds, which had been subject to the suspension of payments since December 2001. The Province had been issuing these Eurobonds in different currencies in the international capital markets since 1995, including those issued under its U.S.\$3.2 billion euro medium-term note program ("EMTN Program") established in 1998. Following a process that began in 2003 which led to the launch of an exchange offer in November 2005, holders of approximately 94.7% of the aggregate principal amount of the Province's Eurobonds consented to exchange these bonds for three series of new bonds—Step-Up Long Term Par Bonds due 2035, Step-Up Medium Term Par Bonds due 2020, and Discount Bonds due 2017.

In April 2006, the federal government and the Province entered into the *Acuerdo de Asistencia Financiera 2006* (2006 Financial Assistance Agreement or "AF 2006"), pursuant to which the federal government has agreed to grant the Province an additional Ps.2.0 billion loan for purposes of making debt service payments in 2006. The terms of the AF 2006, including the amortization schedule, are identical to those of the AF 2005, except that principal under the AF 2006 will not be adjusted for CER and interest will accrue at a rate of 6% per annum. In addition, the AF 2006 amended the terms of the AF 2005 to eliminate CER adjustments under the AF 2005 effective January 1, 2006 and to increase the rate at which interest accrues under the AF 2005 to 6%. During 2006, however, interest will continue to be payable at a rate of 2% per annum, and the 4% difference will be capitalized through December 31, 2006. As of June 30, 2006, the aggregate principal amount outstanding under the AF 2006 was Ps.1.0 billion.

The World Bank and the IADB have extended several credit facilities to the Province, under which the latest final maturity occurs in 2022. In most cases, these facilities are extended to the federal government, which makes the proceeds available to the relevant provincial agencies or entities. As of June 30, 2006, the Province had obtained 25 such multilateral credit facilities, of which four are direct loans to the Province with the federal government acting as guarantor, and the remaining 21 are subsidiary lending arrangements through credit facilities granted to the federal government.

Member states of the OECD have also extended loans or credit facilities to the Province for various purposes. The Province is currently in default on these loans and credit facilities, which have not been serviced

since December 2001. The Province has authorized the federal government to conduct negotiations on its behalf to restructure these loans and facilities.

The Province has recently indicated its desire to renegotiate the terms of certain of its outstanding debt with the federal government, particularly the debt incurred by the Province under the Monetary Unification Program, the Orderly Financing Programs and the Financial Assistance Agreements. The relatively shorter maturities (compared to other debt of the Province) and CER adjustments to principal (which increase outstanding principal for inflation) of this debt have created increasingly onerous debt service obligations for the Province, which in turn have contributed to the decline in the Province's fiscal balance and have required the Province to seek greater amounts of financing to cover this debt service, including roll-overs of amortizations on debt owed to the federal government. Based on its current fiscal projections, the Province believes that this situation will become unsustainable over time if it continues to receive financing from the federal government on the same terms and conditions as the AF 2005 and AF 2006. Accordingly, the Province has indicated that it is seeking to negotiate with the federal government an extension of the maturities of this debt (including an initial grace period for amortizations of principal) and the elimination of CER adjustments to principal. The federal Ministry of Economy is currently evaluating possible debt renegotiations with all of the provinces and the recently proposed federal bill containing the 2007 federal budget would authorize the federal government to renegotiate this debt, if such bill is approved by the federal legislature as currently proposed. If the federal legislature grants the federal government the authorization to renegotiate provincial debt, the Province expects that negotiations with the federal government will start, at the earliest, in 2007, if at all.

Banco Provincia

Banco Provincia is the oldest bank in Latin America, the second largest bank in Argentina in terms of total deposits and the third largest in terms of assets, with deposits of Ps.13.7 billion (representing 9.5% of the total deposit base of Argentina) and total assets of Ps.21.3 billion at March 31, 2006. The Province is the sole owner of Banco Provincia.

Banco Provincia is a self-administered public institution (*entidad autárquica*) governed by a board of directors appointed by the Governor of the Province with the approval of the provincial Senate. Banco Provincia acts as the financial agent of the Province and collects provincial taxes and duties on the Province's behalf. The Province guarantees all deposits and other liabilities of Banco Provincia. However, creditors of Banco Provincia that seek to enforce the guarantee must exhaust all legal remedies against Banco Provincia before requesting payment from the Province under the guarantee.

Although Banco Provincia is exempt from compliance with Argentine financial and banking regulations, it voluntarily adheres to the regulatory framework of the Argentine financial sector and is, therefore, subject to the banking regulations and rules adopted by the Central Bank, including minimum capital, solvency and liquidity requirements and the supervisory powers of the Central Bank. Because of its special status as a provincial self-administered public institution, Banco Provincia is not subject to any federal income or other tax liability.

As a result of the measures adopted by the federal government in 2002 and 2003, Banco Provincia's asset structure has changed with respect to periods preceding the crisis, which has resulted primarily in a larger exposure to the Argentine public sector and, particularly, the federal government. At March 31, 2006, Banco Provincia's exposure to the public sector totaled approximately Ps.11.1 billion, accounting for approximately 52.1% of its total assets at that date.

The Offering

The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the notes, see “Description of Notes” in this offering memorandum.

Issuer	The Province of Buenos Aires
Notes offered.....	U.S.\$475,000,000 aggregate principal amount of 9.375% notes due 2018.
Maturity.....	September 14, 2018.
Interest payment dates.....	March 14 and September 14, beginning March 14, 2007.
Ranking	The notes are direct, unconditional, unsecured and unsubordinated obligations of the Province, ranking, except as otherwise provided by law, <i>pari passu</i> , without any preference, with all other present and future unsecured and unsubordinated indebtedness (as defined in “Negative Pledge Covenant”) from time to time outstanding of the Province.
Covenants.....	<p>The indenture governing the notes will contain covenants that, among other things, will limit the Province’s ability to assume any indebtedness secured by a lien on any of its property or assets without making effective provision to secure the notes equally and ratably (or prior to) such indebtedness:</p> <p>These covenants are subject to important exceptions and qualifications, which are described under the heading “Description of the Notes” in this offering memorandum.</p>
Use of proceeds	The net proceeds from the offering, before expenses, will be approximately U.S.\$462,018,250. The Province intends to use these proceeds to make scheduled amortization payments on its outstanding debt and for capital expenditures.
Risk Factors.....	See “Risk Factors” and the other information in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the notes.
Further Issues	The Province may from time to time, create and issue additional notes ranking <i>pari passu</i> with the notes and having the same terms and conditions as any series of such notes, or the same except for the amount of the first payment of interest on such additional notes. The Province may also consolidate the additional notes to form a single series with any outstanding series of notes.
Form and Settlement	The Province will issue the notes in fully registered form, without interest coupons attached, only in denominations of U.S.\$100,000 and in integral multiples of U.S.\$1,000 in excess thereof. The notes will be registered in the name of a common depository of Euroclear and Clearstream, Luxembourg. See “Description of Notes—Registration and Book-Entry System.”

RISK FACTORS

An investment in the notes involves a significant degree of risk. Before deciding to purchase the notes, you should read carefully all of the information contained in this offering memorandum, including, in particular, the following risk factors.

Risk Relating to the Province

The Province is a political subdivision of Argentina and, as a result, the Province's economic performance is subject to general economic conditions in Argentina and to decisions and measures adopted by the federal government, which it does not control.

Because the Province is a political subdivision of Argentina, the Province's economic performance and public finances are subject to general economic conditions in Argentina and may be significantly affected by national events, such as the most recent national economic crisis and resulting political and social instability, and by decisions and measures adopted by the federal government, including those related to inflation, monetary policy and taxation. The Province does not control any of these events or decisions. As a result, you should also carefully consider the economic and other information periodically made public by Argentina, in respect of which the Province makes no representation regarding its accuracy or completeness.

Moreover, because a significant part of the national population resides in the Province's territory and the Province's economy represents a significant part of the national economy, the Province and the federal government have established close political and economic ties (including significant financing provided by the federal government to the Province), which may lead the Province to adopt economic decisions or measures that are in line with those adopted by the federal government. The interests of the Province, however, may not always be aligned with those of the federal government or other Argentine provinces and, as a result, the Province cannot assure you that decisions or measures adopted by the federal government will not have an adverse effect on the Province's economy and its ability to service its outstanding debt.

Increases in personnel expenditures in response to labor unrest and social tensions could have a material adverse effect on the Province's public finances and its ability to service its debt.

Following the elimination of the Convertibility regime in February 2002, the salaries and wages of the Province's public employees remained constant in nominal terms and declined in real terms as a result of a significant increase in inflation since 2002. In response to pressure from labor unions to realign, in real terms, the compensation and benefits of public employees to pre-crisis levels, the Province adopted various measures in each of 2003, 2004 and 2005 and in the first half of 2006 to, among others, increase public employees' salaries and other benefits. The cumulative effect of these measures have led to a significant increase in the Province's expenditures during this period and have caused the Province's primary balance to decline significantly since 2003. The Province currently expects to record a primary balance deficit in 2006. Although these measures have succeeded in realigning the compensation of the Province's public employees with pre-crisis levels, measured in terms of purchasing power, the Province cannot assure you that public employees will not request further increases, or that further increases will not be granted. If the growth of the Province's expenditures, including personnel expenditures, continues to outpace growth in the Province's revenues, the Province's primary balance will continue to deteriorate, which may have an adverse effect on the Province's public finances and its ability to service its debt.

If the Federal Council of Fiscal Responsibility were to determine that the revised 2006 budget did not comply with the Fiscal Responsibility Law, the Province could be subject to sanctions.

In August 2004, the federal congress adopted Law No. 25,917, the *Ley de Responsabilidad Fiscal* (Fiscal Responsibility Law), which became effective on January 1, 2005. This law establishes a fiscal regime for the federal government, the provinces, and the City of Buenos Aires relating to transparency in public administration, expenditures, fiscal balances and indebtedness and, in particular, requires balanced budgets. The law also created the *Consejo Federal de Responsabilidad Fiscal* (the Federal Council of Fiscal Responsibility), which is comprised of representatives from the federal and provincial governments and is responsible for controlling compliance by the

provinces and the federal government with the Fiscal Responsibility Law. On January 13, 2005, the Province adopted into provincial law the operative provisions of the Fiscal Responsibility Law. All provincial budgets are required to comply with the provisions of the Fiscal Responsibility Law. The Federal Council of Fiscal Responsibility reviews provincial budgets when adopted and reviews the actual results of each province upon finalization of annual accounts following the close of the fiscal year. The Council reviewed the 2006 budget as originally adopted in December 2005 and found it to be generally in compliance with the Fiscal Responsibility Law. However, the Fiscal Responsibility Law does not contemplate a specific regime for review of budget revisions (which occur rarely), and, as a result, the Province has not submitted the revised 2006 budget to the Council. If the Council decides to review the revised 2006 budget and determines that it does not comply with the Fiscal Responsibility Law, the Province may be subject to sanctions, including restrictions on federal tax benefits for the provincial private sector, limitations on guaranties from the federal government, denial of authorizations for further borrowings and limitations on federal transfers (other than federal tax transfers mandated by law, including co-participation transfers).

The Province has relied on the federal government to finance its fiscal deficit in recent periods and if the federal government does not renew its financing or if the Province is unable to secure financing elsewhere, the Province may not be able to meet its debt service obligations.

The Province's primary fiscal balance (which excludes interest payments) has in recent periods been, and may continue to be, insufficient to meet the Province's debt service obligations. During the recent economic crisis, the Province defaulted on a significant part of its debt obligations and, as a result, was unable to obtain financing from private domestic and international lenders, including capital markets. During this period, the Province relied on the federal government for financing and other financial support to cover its funding shortfalls. As a result, the federal government is currently the Province's largest creditor, and the Province continues to rely on the federal government for financing and other support, including with respect to any funding shortfalls that it may experience from time to time. For example, the revised 2006 budget contemplates Ps.3.7 billion in borrowings to finance its fiscal deficit, which includes Ps.2.0 billion in committed financing from the federal government, the proceeds of this offering, Ps.174 million in drawings under multilateral programs and Ps.52 million in other domestic debt. The Province intends to cover the remaining amount of its financing needs in 2006, if any, with any cash resources available at such time, including any cash available from overall financial surpluses recorded in prior years, and, if necessary, by seeking new borrowings. If the Province does not have sufficient cash and is not able to secure other funding for the entire amount of its financing needs, it may need to request additional financing from the federal government to cover the resulting funding shortfall. If the federal government is not able or willing to extend such financing and other financial support to the Province at such time, and the Province is not able to secure alternative sources of financing on satisfactory terms, the Province may not be able to meet its debt service obligations, including the notes.

The Province is seeking to renegotiate the terms of certain of its debt with the federal government and, if it is not successful, it could record increasing fiscal deficits in future periods, which could materially adversely affect its ability to service its other debt obligations, including the notes.

A significant portion of the Province's outstanding indebtedness is owed to the federal government. The Province has recently indicated its desire to renegotiate the terms of certain of its outstanding debt with the federal government, particularly the debt incurred by the Province under the Monetary Unification Program, the Orderly Financing Programs and the Financial Assistance Agreements. The relatively shorter maturities (compared to other debt of the Province) and CER adjustments to principal (which increase outstanding principal for inflation) of this debt have created increasingly onerous debt service obligations for the Province, which in turn have contributed to the decline in the Province's fiscal balance and have required the Province to seek greater amounts of financing to cover this debt service, including roll-overs of amortizations on debt owed to the federal government. Because the Province believes that this situation is overly burdensome over the medium-term, it is seeking to negotiate with the federal government an extension of the maturities of this debt (including an initial grace period for amortizations of principal) and the elimination of CER adjustments to principal. The federal Ministry of Economy is currently evaluating possible debt renegotiations with all of the provinces and the recently proposed federal bill containing the 2007 federal budget would authorize the federal government to renegotiate this debt, if such bill is approved by the federal legislature as currently proposed. If the federal legislature grants the federal government the authorization to renegotiate provincial debt, the Province expects that negotiations with the federal government will start, at the

earliest, in 2007, if at all. If the Province is unable to renegotiate the terms of this debt with the federal government, it could record increasing fiscal deficits in future periods, which could materially adversely affect its ability to service its other debt obligations, including the notes.

The Province's economy may not continue to grow at current rates or may contract in the future, which could have a material adverse effect on the Province's public finances and its ability to service its debt.

The economy of the Province, in line with the economy of Argentina, has experienced significant volatility in recent decades, including numerous periods of low or negative growth and high and variable levels of inflation and devaluation. The Province's economy has recovered since the most recent economic crisis (which reached its peak in 2001 and 2002) and experienced significant growth in each of 2003, 2004 and 2005. However, the Province can offer no assurance that its economy will continue to grow at current rates, or at all, in the future. Economic growth is dependent on a variety of factors, including (but not limited to) international demand for provincial exports, the stability and competitiveness of the peso against foreign currencies, confidence among provincial consumers and foreign and domestic investors and their rates of investment in the Province, the willingness and ability of businesses to engage in new capital spending and a stable and relatively low rate of inflation. For example, in recent years Argentina has experienced energy shortages, which have constrained its economic growth. In most cases, these factors are outside the control of the Province. If the Province's economic growth slows, stops or contracts, the Province's revenues may decrease materially, the market price of notes may be adversely affected and the Province's ability to service its public debt, including the notes, may be materially adversely affected.

An increase in inflation could have a material adverse effect on the Province's economic prospects.

The devaluation of the peso created pressures on the domestic price system that generated high rates of inflation in 2002 before substantially stabilizing in 2003. Inflation rates increased, however, in each of 2004 and 2005, and the federal government has recently adopted a series of measures intended to control inflation in 2006. Growth in inflation contributes to significant uncertainty regarding future economic growth. The Province cannot assure you that inflation rates will remain stable in the future or that the measures adopted or that may be adopted by the federal government to control inflation will be effective or successful. Significant inflation could have a material adverse effect on the Province's economic growth and its ability to service its debt obligations, including the notes.

The Province's economy remains vulnerable to external shocks that could be caused by significant economic difficulties of Argentina's major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on the Province's economic growth and its ability to service its public debt.

A significant decline in the economic growth of any of Argentina's major trading partners, such as Brazil, could adversely affect Argentina's balance of trade and, consequently, the Province's economic growth. Brazil is the Province's largest export market. A decline in Brazilian demand for imports could have a material adverse effect on the Province's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to follow a "contagion" phenomenon, in which an entire region or investment class is disfavored by international investors, Argentina, including the Province, could be adversely affected by negative economic or financial developments in other emerging market countries. In the past, the Province has been adversely affected by such contagion effects on a number of occasions, including following the 1994 Mexican financial crisis, the 1997 Asian financial crisis, the 1998 Russian financial crisis, the 1999 devaluation of the Brazilian real and the 2001 collapse of Turkey's fixed exchange rate regime. The Province cannot assure you that similar events in the future will not have an adverse effect on its economic growth and its ability to service its public debt.

The Province may also be affected by conditions in countries with developed economies, such as the United States, that are significant trading partners of Argentina or have influence over world economic cycles. For example, if interest rates increase significantly in developed economies, including the United States, Argentina's emerging markets trading partners, such as Brazil, could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries. Decreased growth on the

part of Argentina's trading partners could have a material adverse effect on the markets for the Province's exports and, in turn, adversely affect the Province's economic growth.

Fluctuations in the value of the peso could have a material adverse effect on the Province's economy and its ability to service its debt obligations.

Following the collapse of the dollar-peso parity under the Convertibility regime and the implementation of a floating exchange rate system in early 2002, the peso depreciated significantly and continues to fluctuate significantly, despite regular Central Bank intervention in the foreign exchange market. Additional depreciation of the peso would increase the cost of servicing the Province's public debt, while an appreciation in the value of the peso could make exports from the Province less competitive with goods from other countries and lead to a decrease in exports from the Province. Because the Province's exports represent a material portion of the Province's GDP, decreased export earnings could have a material adverse effect on the Province's economic growth and its ability to service its debt obligations, including the notes.

A modification of the federal tax transfer regime in a manner that is unfavorable to the Province may have a material adverse effect on the Province's public finances and its ability to meet its debt service obligations.

Federal tax transfers from the federal government represent a significant part of the Province's revenues. Because the amount of tax revenues collected by the federal government within the Province's territory is significantly greater than the amount of federal tax transfers to the Province, the Province has emphatically requested that this regime be modified to follow more equitable distribution principles. However, a modification of this regime is subject to the consent of all of the provinces of Argentina, the City of Buenos Aires and the federal government. As a result, the Province cannot assure you that this regime will be modified in a way that is not unfavorable to the Province, which could have a material adverse effect on the Province's public finances and its ability to meet its debt service obligations, including in respect of the notes.

Liquidity or other problems faced by Banco Provincia may have an adverse effect on the Province's economic growth and cause the Province to incur extraordinary, unbudgeted expenditures.

Banco Provincia is one of the largest financial institutions in Argentina and a major source of financing for consumers and businesses in the Province. During Argentina's recent economic crisis, Banco Provincia's liquidity was significantly reduced as a result of the run on deposits and its inability to attract new deposits following the federally mandated freeze on deposits, as well as the increase in its portfolio of non-performing loans. In addition, following the crisis, Banco Provincia's asset portfolio reflects a substantial exposure to debt instruments of the federal government. These assets are recorded at their technical value, which is calculated according to regulations of the Central Bank, as opposed to their market value, which may further reduce the liquidity and solvency of Banco Provincia. If these assets were carried at their market value, Banco Provincia would have recorded negative total net equity at December 31, 2005. Although Banco Provincia's liquidity has improved during the past three years due to Argentina's economic recovery, if Banco Provincia were to experience further liquidity or other problems, the amount of financing available to the private sector might be reduced, which could adversely affect the Province's economic growth.

In addition, the Province, pursuant to law, is the guarantor of all liabilities of Banco Provincia, including deposits and indebtedness. While Banco Provincia's deposits are also guaranteed by the federal deposit insurance system, Banco Provincia's indebtedness does not benefit from any other guarantee, and, as result, the Province could be required to make payments to Banco Provincia's creditors if Banco Provincia fails to meet its payment obligations to these creditors. In the past, the Province has made contributions and provided support to, and entered into transactions with Banco Provincia to ensure the solvency of, Banco Provincia. The Province cannot assure you that it will not be required to provide further financial or other support to Banco Provincia, which could lead to substantial unbudgeted expenditures and liabilities, undermine the Province's public finances and adversely affect its ability to service its debt obligations, including the notes.

The Province is a defendant in various lawsuits relating to its default on its public external indebtedness.

Holders of defaulted provincial bonds have initiated lawsuits against the Province in the United States, Germany and Switzerland for failure to make payments. In the United States, eight individual lawsuits have been filed seeking repayment of approximately U.S.\$1.4 million and €201,000 in bonds issued by the Province that were subject to the suspension of payments announced in January 2002 and judgments have been entered against the Province in four of these suits for unpaid interest and matured principal in a total amount of approximately U.S.\$1.8 million and €111,760.19. The Province appealed the first of these rulings entered by the District Court, which the United States Court of Appeals for the Second Circuit subsequently affirmed in July 2005. The plaintiff in that case has sought post-judgment execution discovery concerning the existence of commercial property of the Province and its agencies and instrumentalities. The Province last responded to this discovery request on July 2, 2004 and has not received any response from the judgment creditor concerning the discovery request. The total amount claimed in bondholder proceedings against the Province in Germany is €418,635, plus interest, and in Switzerland Sfr.400,000, plus interest. The Province can give no assurance that further litigation will not result in even more substantial judgments against the Province. Present or future litigation could result in the attachment or injunction of assets of the Province that it intends for other uses, including payments due under the notes, and could have a material adverse effect on the Province's public finances.

Any revisions to the Province's official financial or economic data resulting from a subsequent review of such data by the Provincial Office of Statistics, the General Accounting Office of the Province or any other provincial entity could reveal a different economic or financial situation in the Province, which could affect your evaluation of the market value of the notes.

Certain financial, economic and other information presented in this offering memorandum may subsequently be materially revised to reflect new or more accurate data as a result of the review by the Provincial Office of Statistics, the General Accounting Office or any other provincial entities of the Province's official financial and economic data and statistics. These revisions could reveal that the Province's economic and financial condition as of any particular date are materially different from those described in this offering memorandum. These differences could affect your evaluation of the market value of the notes.

Risks Relating to the Notes

There is no established trading market for the notes, and the price at which the notes will trade in the secondary market is uncertain.

The notes will be new issues of securities with no established trading market. The Province does not know the extent to which investor interest will lead to the development of an active trading market for the notes or how liquid that market may become. If the notes are traded after their initial issuance, they may trade at a price lower than their principal amount, depending upon prevailing interest rates, the market for similar securities and general economic conditions in the United States, Argentina, the Province and elsewhere. The Province cannot assure you that a trading market for the notes will develop or that the price at which the notes will trade in the secondary market will be sustainable. If an active market for any series of the notes fails to develop or continue, this failure could harm the trading price of the notes.

The ability of holders to transfer notes in the United States and certain other jurisdictions will be limited.

The notes will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the notes may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions in respect of the notes.

It may be difficult for you to obtain or enforce judgments against the Province.

The Province is a political subdivision of a sovereign entity. Consequently, while the Province has irrevocably submitted to the jurisdiction of U.S. state or federal courts sitting in the Borough of Manhattan, The City of New York, with respect to the notes, which are governed by New York law, it may be difficult for holders of notes or the trustee in respect of the notes to obtain or enforce judgments of courts in the United States or elsewhere against the Province. See “Enforcement of Civil Liabilities.”

USE OF PROCEEDS

The net proceeds from the sale of the notes, before expenses, will be approximately U.S.\$462,018,250. See “Plan of Distribution.” The net proceeds will be deposited in the general accounts of the Province (which are used for general purposes) for purposes of scheduled debt amortization payments and budgeted capital expenditures, as they become due or are incurred, during the last quarter of 2006. See “Public Sector Finances—The 2006 Budget.”

THE PROVINCE OF BUENOS AIRES

General

The Province is the largest of the 23 provinces of Argentina with an area of 307,571 square kilometers (approximately 118,000 square miles). It is located in the central-eastern part of the country, a region known as the “Pampas.” The geographic area of the Province is slightly larger than that of Italy and two and a half times larger than that of the State of New York. It has a coastline of approximately 1,800 kilometers (approximately 1,125 miles), including its shoreline on the Río de la Plata, and encompasses mild-climate fertile agricultural areas suitable for raising cattle and a wide variety of agricultural activities. The Province also contains the most industrialized area of Argentina. The capital of the Province is the city of La Plata.

With approximately 13.8 million inhabitants according to the 2001 national census, the Province’s population represents 38.1% of the total population of Argentina and is almost equal to the combined population of the seven next-highest populated provinces of the country. Approximately 63% of the Province’s population is concentrated in the *Comurbano Bonaerense*. The City of Buenos Aires is the capital of Argentina and has an estimated population of 2.8 million people. It is not part of the Province and constitutes a politically autonomous jurisdiction.

Constitutional Framework and Relationship between Federal and Provincial Governments

The Argentine federal constitution sets forth a division of powers between the federal and provincial governments. Each province has its own constitution, which establishes its governmental structure and provides for the election of a provincial Governor and Vice Governor and a provincial legislative branch. The provinces have general jurisdiction over matters of purely provincial or local concern, including, among others:

- health and education,
- provincial police and courts, and
- the borrowing of money on its own credit, subject to a federal approval and control mechanism.

The jurisdiction of the federal government is limited to those matters that are expressly delegated to it by the federal constitution. These areas include, among others:

- the regulation of trade and commerce,
- the issuance of currency,
- the regulation of banks and banking activities,
- national defense and foreign affairs, and
- customs and the regulation of shipping and ports.

The federal government does not guarantee, nor is it responsible for, the financial obligations of any province.

Under the Argentine federal system, each province retains significant responsibility for the rendering of public services and other functions within its territory that require public expenditure, while relying primarily on a centralized tax-collection system run by the federal government as a source of public revenues. This centralized system, which is called the federal tax co-participation regime, dates back to 1935, when the provinces agreed to delegate their constitutional power to collect several categories of taxes to the federal government in exchange for transfers of a portion of the related tax revenues. This coordinated taxation regime has been amended several times, and currently the “shared” or “co-participated” taxes include income tax, value-added tax, a tax on financial

transactions and several specific excise taxes levied on consumption. See “Public Sector Finances—Federal Tax Co-Participation Regime.”

Provincial Government

Executive Branch

The executive branch consists of a Governor and a Vice Governor, who are elected together for a maximum of two four-year terms, and a number of ministries and secretariats.

Ministers are appointed, and may be dismissed, by the Governor. The Governor also oversees a number of provincial governmental agencies, including the *Asesoría General de Gobierno* (General Legal Adviser’s Office), which provides legal advice to the executive branch, including the interpretation of laws, decrees and regulations. The *Asesor General del Gobierno* (General Legal Adviser) is appointed, and may be removed, by the Governor.

Legislative Branch

The legislative branch of the Province is composed of two bodies: the Senate and the House of Representatives. The Vice Governor serves as President of the Senate. The members of both bodies are elected to four-year terms by popular vote. Half of the members of each of these bodies face election every two years. The most recent elections took place in October 2005, in which half of the members of the legislature were elected. See “—Political Parties.”

Judicial Branch

The judicial branch of the Province consists of trial courts, courts of appeals and the Supreme Court, which have jurisdiction over civil, commercial, administrative, labor, family and criminal matters within the Province. The Governor appoints Supreme Court justices with the Senate’s approval. The Governor appoints other judges from a list of candidates proposed by the *Consejo de la Magistratura* (the Counsel of Magistrates), with the approval of the Senate. Judges serve for life and can be removed only by impeachment proceedings. Argentina also has a federal judiciary that has jurisdiction over federal matters within the territory of the Province.

Other Agencies

The provincial constitution provides for the existence of four provincial agencies that are not part of any of the three branches of government: the *Contaduría General de la Provincia* (the General Accounting Office), the *Tribunal de Cuentas* (the Audit Tribunal), the *Tesorería General* (the General Treasury) and the *Fiscalía de Estado* (Attorney General’s office).

The Province’s General Accounting Office prepares and keeps the books and records of the Province and prepares the Province’s annual financial statements, which are subject to the approval of the Province’s Audit Tribunal. The General Accounting Office also advises the executive branch on matters relating to the Province’s finances, controls the collection of revenues and authorizes expenditures. The Audit Tribunal examines the books and records of the Province, its public enterprises and its municipalities.

The Province’s General Treasury makes payments that have been approved by the General Accounting Office and manages the Province’s bank accounts, all of which are with Banco Provincia.

The Attorney General represents the Province in any lawsuits that could affect the Province’s assets and reviews any governmental contracts, settlements, laws or decrees that call for the use of public funds. The Attorney General also has the authority to challenge in court any provincial laws or decrees that he or she considers unconstitutional. The Attorney General is appointed for life by the Governor, with the approval of the Senate, and may be removed from office only through an impeachment proceeding. The current attorney general was appointed in the 1980s by a prior administration controlled by the *Unión Cívica Radical* (the UCR Party).

Municipalities

There are 134 municipalities located within the Province, several of which are more populous than some Argentine provinces. Each municipality has its own government, which is responsible for providing basic local services, such as sanitation, public lighting and road maintenance. Some municipal governments also supplement provincial public health and social welfare services.

Municipalities finance their activities through revenues derived from services rendered, such as garbage collection, health and hygiene inspections of businesses, and through funds transferred by the Province. Pursuant to provincial law, the Province's municipalities are entitled to receive, in the aggregate, 16.14% of the taxes collected by the Province (other than energy taxes and a small portion of real estate tax collections) and the federal co-participation payments received by the Province. The overall percentage of funds transferred by the Province to its municipalities and the portion of such funds to be allocated to each municipality are defined by the provincial legislature and may also be changed by it. See "Public Sector Finances—Expenditures—Current Transfers."

In addition, several municipalities are entitled to collect certain provincial taxes. In 1988, the Province established a decentralized municipal tax collection program in order to improve municipal administration. This program, which was modified in 2003, entrusts participating municipal governments with the collection of a number of taxes within their corresponding municipalities, such as rural real estate taxes, certain gross revenues taxes and certain automobile taxes. A portion of the revenues from these taxes is transferred to the Province based on allocation criteria that vary for each tax. Also, a portion of these revenues is allocated to funds to provide public services within the corresponding municipality, such as the maintenance of rural roads and schools.

Political Parties

Traditionally, the two largest political parties in Argentina have been the PJ Party and the UCR Party, which have broad-based support across the country. In 2005, however, a faction within the PJ Party led by the President of Argentina and the Governor of the Province formed a separate political party known as the Front for Victory. See "—Recent Political History."

The following are Argentina's principal political parties:

- *Partido Justicialista*, or the PJ Party, which evolved from former President Juan Perón's efforts in the 1940s to expand the role of labor in the political process;
- *Unión Cívica Radical*, or the UCR Party, founded in 1890;
- *Frente para la Victoria*, or Front for Victory, formed in 2005 by former members of the PJ Party under the leadership of the current President of Argentina;
- *Afirmación para una República Igualitaria*, or Affirmation for an Equitable Republic or ARI Party, founded in 2001 by former UCR party leaders; and
- *Recrear para el Crecimiento*, or the Rebuild for Growth Party, founded in 2002 by Ricardo López Murphy, a former Minister of Defense and former Minister of Economy and Infrastructure during the De la Rúa administration.

Following the provincial legislative elections held in October 2005, in which the lists of candidates proposed by the Front for Victory obtained the most votes, members of the Front for Victory hold a greater number of seats (although not a majority) in both the provincial House of Representatives and the provincial Senate than those held by members of other political parties. See “Recent Political History.”

The tables below show, by political party, the composition of the provincial legislature:

Party Composition of the House of Representatives 2005-2007

Parties	Number of Seats	%
Front for Victory	44	47.8%
PJ Party	24	26.1%
UCR Party	16	17.4%
ARI Party	4	4.4%
Other	4	4.3%
Total	<u>92</u>	<u>100.0%</u>

Source: Legislature of the Province.

Party Composition of the Senate 2005-2007

Parties	Number of Seats	%
Front for Victory	20	43.5%
PJ Party	18	39.1%
UCR Party	8	17.4%
Total	<u>46</u>	<u>100.0%</u>

Source: Legislature of the Province.

At the federal level, members of the Front for Victory hold 45.5% of seats in the federal House of Representatives and 56.9% of seats in the federal Senate. The next federal legislative election is scheduled for October 2007.

Recent Political History

In October 1999, Dr. Fernando De la Rúa of the UCR Party took office as President of Argentina under a political coalition. From 1999 through 2002, Argentina’s economy contracted significantly and poverty and unemployment reached record levels. The administration of President De la Rúa was unable to restore economic growth. In December 2001, the federal government imposed restrictions on the withdrawal of bank deposits to safeguard the viability of the banking system. These restrictions triggered widespread social unrest that resulted in the resignation of President De la Rúa. As a result of his resignation, the political coalition through which he was elected was dissolved in 2002. De la Rúa was succeeded by four interim presidents: Ramón Puerta, Adolfo Rodríguez Saa, Eduardo Camaño and Eduardo Duhalde, who governed until the national presidential elections of May 2003. Nestor Kirchner was elected President of the Republic in the May 2003 elections and took office in December of that year. President Kirchner is a member of the PJ Party, and his current term expires in December 2007.

The current Governor of the Province, Mr. Felipe Solá took office in January 2002 as a member at that time of the PJ Party, following the resignation of Dr. Carlos Ruckauf from the office in the midst of Argentina’s political and economic crisis. Governor Solá was re-elected in September 2003 along with current Vice Governor María Graciela Gianettasio. Their current term expires in December 2007.

In December 2004, Governor Solá formed an opposition faction within the provincial PJ Party, leading to increasingly divisive disputes within the provincial PJ Party between supporters of former president Eduardo Duhalde, who at the time was the leader of the provincial PJ Party, and of Governor Solá. As a result of these

disputes, in January 2005 Governor Solá vetoed the Province's 2005 budget law after the provincial legislature, which was at the time controlled by supporters of Mr. Duhalde, amended the Governor's proposed bill to eliminate the Governor's power to make a number of specific modifications to the budget during the course of the year, as had been the case in prior annual budgets in the past two decades.

Disagreements within the ranks of the PJ Party grew deeper over the course of 2005, at both the national and provincial levels. Following a dispute involving the list of candidates for the provincial legislature and the provincial representatives in the national congress that the PJ Party intended to present in the 2005 national and provincial legislative elections, President Kirchner and Governor Solá together founded Front for Victory as a political party separate from the PJ Party. The lists of candidates presented by Front for Victory in the December 2005 elections obtained a greater number of votes than any other political party at both the national and provincial levels. In the Province, Front for Victory's list of candidates to the provincial Senate obtained approximately 40.80% of total votes, followed by the UCR Party with approximately 10.19% and the PJ Party with approximately 9.74%, while Front for Victory's list of candidates for the provincial House of Representatives obtained 42.65% of total votes, followed by the PJ Party with approximately 14.05% and the ARI Party with approximately 8.52%. Front for Victory achieved similar results in the national congressional elections. The new members took office in December 2005 and their terms expire in December 2007. In December 2005, the newly elected provincial legislature approved the Province's 2005 budget law as originally proposed by Governor Solá's administration, subject to adjustments made to reflect actual revenues and expenditures in 2005 as of the date of approval.

The current political environment in the Province is marked by the growing closeness of President Kirchner and Governor Solá, both with respect to government matters and in the political arena. With the political support of President Kirchner, Governor Solá has publicly stated his intentions to run for re-election in 2007. In order to participate in the upcoming 2007 elections, Governor Solá has further indicated that he plans to file a petition before the provincial Supreme Court seeking a declaratory judgment as to whether he would be legally prevented from running for re-election, taking into consideration that he spent part of his first mandate as Vice-Governor of the Province. Although there are other members of the Front for Victory that have expressed an interest in running for Governor of the Province in the 2007 elections, Governor Solá currently has the express backing of President Kirchner, which he expects to continue to enjoy if he obtains a favorable ruling on his declaratory motion. To date, none of the members of the other political parties in the Province have publicly expressed the intention of running for Governor of the Province in the 2007 elections.

THE PROVINCIAL ECONOMY

Introduction

Historically, the economy of the Province has represented a significant part of the overall Argentine economy and has tracked growth and recessionary cycles in the larger Argentine economy.

The Convertibility Regime and Economic Performance through the 1990s

In 1991, the federal legislature enacted the Convertibility Law, which established a fixed exchange rate. The goal of this system was to stabilize the inflation rate by requiring that Argentina's monetary base be fully backed by the Central Bank's gross international assets. This restrained the Central Bank's ability to effect changes in the monetary supply by issuing additional pesos and fixed the exchange rate of the peso and the dollar at Ps.1.00 per U.S.\$1.00.

The Convertibility regime and the other free-market initiatives of the federal government temporarily achieved price stability, increased the efficiency and productivity of the economies of Argentina and the Province and attracted significant foreign investment to Argentina, including the Province. At the same time, Argentina's monetary policy was tied to the flow of foreign capital into the Argentine economy, which increased the vulnerability of the economy to external shocks and led to over-reliance on certain economic sectors. In addition, related measures restricted the Central Bank's ability to provide credit, particularly to the public sector.

From the time that the Convertibility regime was implemented in 1991 through early 1995, the Province experienced real GDP growth as Argentina recorded decreased inflation, real growth in GDP and net inflows of foreign capital. In 1995, however, both the Province and Argentina experienced an economic downturn triggered by the devaluation of Mexico's currency in December 1994.

From 1996 through 1998, despite the Asian financial crisis in 1997, both the Province and Argentina experienced renewed economic growth. This growth slowed in 1998, however, as a result of the Russian financial crisis and the devaluation of Brazil's currency, which led to the widespread withdrawal of investors' funds from emerging markets, increased interest rates and a decline in exports to Brazil, the Province's principal export market. The Province's economy continued to contract through 2000, despite an increase in exports, due primarily to the recovery of the Brazilian economy in 2000, which offset lower domestic demand and investment.

Economic Crisis

During the second half of 2001, the Province, along with all of Argentina, entered a state of severe economic crisis, due to the various external shocks that had occurred since the last quarter of 1997. Domestic structural barriers to economic growth also contributed to the crisis, including the rigidity of the Convertibility regime, which limited the federal government's ability to adjust Argentina's monetary policy in order to stimulate the economy.

During the months leading up to the onset of the economic crisis, the Province took measures intended to brace its economy for the impending crisis, including the declaration in July 2001 of an official state of administrative, economic and financial emergency in the Province. This declaration permitted the Province to implement policies intended to slow the decline in its financial liquidity, such as the issuance of *Patacones*, a provincial quasi-currency bond, to pay its suppliers and employees, and to limit provincial expenditures. As a consequence of this highly unstable political and economic situation, the Province's real GDP declined in 2001 by 5.0% as compared to 2000. Moreover, in October 2001, the four main urban areas of the Province registered a weighted average unemployment rate of 20.8%, as compared to 16.7% in October 2000, while the percentage of individuals in the *Conurbano Bonaerense* living below the poverty line increased to 43.2% in October 2001, from 35.0% in 2000. See “—Economically Active Population and Employment” and “—Poverty.”

In 2002, in response to Argentina's economic crisis, the federal government abandoned the Convertibility regime, which resulted in the peso losing significant value, both against foreign currencies and in terms of

purchasing power, depreciating by 74.2% against the U.S. dollar during the first half of 2002. Related measures implemented by the federal government in late 2001 and 2002 included the compulsory and unilateral freezing of bank deposits, which came to be known as the “*corralito*,” and the conversion into pesos of dollar-denominated deposits held by Argentine banks at specific rates. The period was marked by a total absence of any domestic and external credit. As the measures adopted by the federal government exacerbated the Province’s economic crisis in 2002, the Province experienced a further decline in real GDP of 10.6%, as compared to 2001. Similarly, unemployment and poverty rates increased further within the Province, as the weighted average unemployment rate in the four main urban areas of the Province initially rose to 24.0% in May 2002 before dropping back to 20.4% in October 2002, while the percentage of individuals in the *Conurbano Bonaerense* living below the poverty line increased to 64.4% in October 2002. See “—Economically Active Population and Employment” and “—Poverty.”

Economic Recovery

Despite the destabilizing effects of the devaluation of the peso and various other emergency measures adopted by the Province and the federal government in response to the crisis, the Province’s economy began to stabilize in the third quarter of 2002 as a result of favorable adjustments in Argentina’s foreign trade balance and an expansionary federal monetary policy. Beginning in the last quarter of 2002, the Province experienced economic growth driven primarily by exports and import-substitution, both facilitated by the lasting effect of the devaluation of the peso in January 2002, in the broader context of a general economic recovery in Argentina. While this devaluation had significant adverse consequences, it also fostered a reactivation of domestic production in the Province as the sharp decline in the peso’s value against foreign currencies made Argentine products relatively inexpensive in the export markets. At the same time, the cost of imported goods increased significantly due to the lower value of the peso, forcing Argentine consumers to substitute their purchase of foreign goods with domestic products, substantially boosting domestic demand for domestic products.

The Province’s economy has registered strong growth in each of the past three years, allowing the provincial economy to achieve levels of economic activity, in constant pesos, that are superior to those recorded in 2000, immediately prior to the crisis. Preliminary figures indicate that the Province’s real GDP registered a 12.1% increase in 2003, a 10.5% increase in 2004 and an 11.0% increase in 2005, in each case as compared to the prior year. This economic recovery also alleviated the social tensions that arose during the economic crisis, as increased production gave rise to higher employment rates and wages. The weighted average unemployment rate of the four main urban areas of the Province fell continuously during this period, from 20.4% in October 2002 to 17.8% in the second half of 2003, 14.9% in the second half of 2004 and 12.7% in the second half of 2005. The weighted average unemployment rate remained stable at 12.7% during the first half of 2006. See “—Economically Active Population and Employment.” In addition, the percentage of individuals in the *Conurbano Bonaerense* living below the poverty line decreased from 64.4% in October 2002 to 53.5% in the second half of 2003, 44.4% in the second half of 2004, 36.9% in the second half of 2005 and 34.5% in the first half of 2006. See “—Poverty.”

Gross Domestic Product

Gross Domestic Product (2001-2005)

	2001	2002	2003⁽¹⁾	2004⁽¹⁾	2005⁽¹⁾
Real GDP (in millions of 1993 constant pesos) ⁽²⁾	88,849	79,432	89,007	98,344	109,184
Real GDP growth.....	(5.0)%	(10.6)%	12.1%	10.5%	11.0%
National real GDP growth.....	(4.4)%	(10.9)%	8.8%	9.0%	9.2%
Provincial real GDP/National real GDP.....	33.7%	33.8%	34.8%	35.2%	35.8%
Population (inhabitants) ⁽³⁾	13,827,203	13,956,870	14,087,754	14,219,864	14,353,214
Real GDP per capita.....	6,426	5,691	6,318	6,916	7,607

(1) Preliminary data.

(2) Market prices, including value added tax and specific taxes.

(3) Calculated based on the rate of population growth according to the 2001 census, as published by the *Instituto Nacional de Estadística y Censos* (the National Institute of Statistics and Census, or INDEC).

Source: Provincial Office of Statistics; Ministry of Economy of the Province; INDEC.

Principal Sectors of the Economy

The Province has a diversified economy. The most significant of the Province's economic production sectors are the following:

- Manufacturing, which accounted for 24.6% of the Province's total real GDP in 2005;
- Real Estate and Other Business Activities, which accounted for 16.1% of the Province's total real GDP in 2005;
- Transportation, Storage and Communications, which accounted for 13.1% of the Province's total real GDP in 2005;
- Wholesale and Retail Commerce, which accounted for 12.1% of the Province's total real GDP in 2005;
- Education, Health and Social Services, comprising the Education sector and the Social Services and Health sector, which collectively accounted for 6.4% of the Province's total real GDP in 2005;
- Construction, which accounted for 6.0% of the Province's total real GDP in 2005; and
- Agriculture, Livestock, Hunting and Forestry, which accounted for 4.8% of the Province's total real GDP in 2005.

The following table shows the evolution of the Province's GDP by economic sector for 2001 through 2005, in 1993 constant pesos:

Gross Domestic Product by Sector (2001-2005)⁽¹⁾ (in millions of pesos, at constant 1993 prices)

Sector	2001		2002		2003 ⁽²⁾		2004 ⁽²⁾		2005 ⁽²⁾	
Primary production:										
Agriculture, livestock, hunting and forestry	Ps. 4,104	5.1%	Ps. 3,905	5.3%	Ps. 4,078	5.0%	Ps. 4,272	4.8%	Ps. 4,794	4.8%
Fishing and related services	102	0.1	106	0.1	104	0.1	116	0.1	131	0.1
Mining, petroleum and gas	47	0.1	32	—	48	0.1	61	0.1	69	0.1
Total primary production	4,253	5.3	4,043	5.5	4,230	5.2	4,449	5.0	4,994	5.0
Secondary production:										
Manufacturing	19,292	23.9	16,830	22.9	19,865	24.3	22,072	24.6	24,341	24.6
Construction	4,085	5.1	3,141	4.3	4,278	5.2	5,016	5.6	5,985	6.0
Electricity, gas and water	2,248	2.8	2,269	3.1	2,446	3.0	2,688	3.0	2,793	2.8
Total secondary production	25,625	31.7	22,240	30.2	26,589	32.5	29,776	33.2	33,119	33.4
Services:										
Real estate and other business activities	14,767	18.3	14,371	19.5	15,045	18.4	15,499	17.3	15,955	16.1
Transportation, storage and communications	8,652	10.7	8,007	10.9	8,757	10.7	10,561	11.8	13,031	13.1
Wholesale and retail commerce	10,233	12.7	8,420	11.4	9,603	11.8	10,927	12.2	12,011	12.1
Education, social services and health	6,168	7.6	6,195	8.4	6,198	7.6	6,309	7.0	6,387	6.4
Public administration, defense and social security	3,184	3.9	3,089	4.2	3,138	3.8	3,195	3.6	3,357	3.4
Financial services	1,887	2.3	1,663	2.3	1,984	2.4	1,985	2.2	2,361	2.4
Hotels and restaurants	1,945	2.4	1,677	2.3	1,753	2.1	1,932	2.2	2,039	2.1
Other services	4,104	5.1	3,941	5.4	4,405	5.4	4,919	5.5	5,871	5.9
Total services	50,940	63.0	47,363	64.3	50,883	62.3	55,327	61.8	61,012	61.6
Total	Ps. 80,816	100.0%	Ps. 73,648	100.0%	Ps. 81,703	100.0%	Ps. 89,553	100.0%	Ps. 99,125	100.0%

(1) Considered in terms of producer's prices, excluding value added taxes.

(2) Preliminary data.

Source: Provincial Office of Statistics; Ministry of Economy of the Province.

The following table shows the evolution of the participation of the Province's GDP in the national GDP by economic sector for 2001 through 2005, in 1993 constant pesos:

Participation of Provincial GDP in National GDP by Sector (2001-2005)⁽¹⁾
(in millions of pesos, at constant 1993 prices)

Sector	2001			2002			2003 ⁽²⁾			2004 ⁽²⁾			2005 ⁽²⁾		
	Provincial GDP	National GDP	Provincial GDP/National GDP	Provincial GDP	National GDP	Provincial GDP/National GDP	Provincial GDP	National GDP	Provincial GDP/National GDP	Provincial GDP	National GDP	Provincial GDP/National GDP	Provincial GDP	National GDP	Provincial GDP/National GDP
Primary production:															
Agriculture, livestock, hunting and forestry	Ps. 4,104	Ps. 14,612	28.1%	Ps. 3,905	Ps. 14,370	27.2%	Ps. 4,078	Ps. 15,382	26.5%	Ps. 4,272	Ps. 15,224	28.1%	Ps. 4,794	Ps. 17,029	28.2%
Fishing and related services	102	536	19.0	106	433	24.5	104	438	23.8	116	354	32.7	131	299	43.8
Mining, petroleum and gas	47	5,107	0.9	32	4,916	0.7	48	5,099	0.9	61	5,078	1.2	69	5,044	1.4
Total primary production.....	4,253	20,255	21.0	4,043	19,722	20.5	4,230	20,919	20.2	4,449	20,656	21.5	4,994	22,372	22.3
Secondary production:															
Manufacturing.....	19,292	40,627	47.5	16,830	36,176	46.5	19,865	41,952	47.4	22,072	46,977	47.0	24,341	50,573	48.1
Construction	4,085	12,627	32.4	3,141	8,410	37.4	4,278	11,300	37.9	5,016	14,623	34.3	5,985	17,605	34.0
Electricity, gas and water	2,248	7,407	30.4	2,269	7,182	31.6	2,446	7,681	31.8	2,688	8,183	32.9	2,793	8,595	32.5
Total secondary production.....	25,625	60,661	42.2	22,240	51,768	43.0	26,589	60,933	43.6	29,776	69,783	42.6	33,119	76,773	43.1
Services:															
Real estate and other business activities	14,767	39,441	37.4	14,371	37,238	38.6	15,045	38,702	38.9	15,499	40,364	38.4	15,955	42,150	37.9
Transportation, storage and communications	8,652	22,446	38.5	8,007	20,664	38.7	8,757	22,363	39.2	10,561	25,370	41.6	13,031	29,132	44.7
Wholesale and retail commerce	10,233	33,514	30.5	8,420	27,325	30.8	9,603	30,861	31.1	10,927	35,050	31.2	12,011	38,528	31.2
Education, social services and health	6,168	22,471	27.4	6,195	22,400	27.7	6,198	23,016	26.9	6,309	23,695	26.6	6,387	24,679	25.9
Public administration, defense and social security.....	3,184	14,131	22.5	3,089	14,004	22.1	3,138	14,158	22.2	3,195	14,415	22.2	3,357	14,896	22.5
Financial services.....	1,887	8,940	21.1	1,663	8,087	20.6	1,984	7,716	25.7	1,985	7,917	25.1	2,361	9,270	25.5
Hotels and restaurants.....	1,945	6,708	29.0	1,677	6,152	27.3	1,753	6,522	26.9	1,932	6,978	27.7	2,039	7,530	27.1
Other services.....	4,104	15,485	26.5	3,941	13,960	28.2	4,405	14,610	30.1	4,919	15,945	30.9	5,871	17,502	33.5
Total services.....	50,940	163,136	31.2	47,363	149,830	31.6	50,883	157,948	32.2	55,327	169,734	32.6	61,012	183,687	33.2
Total GDP	Ps. 80,816	Ps. 244,052	33.1%	Ps. 73,648	Ps. 221,317	33.3%	Ps. 81,703	Ps. 239,800	34.1%	Ps. 89,533	Ps. 260,172	34.4%	Ps. 99,125	Ps. 282,832	35.0%

(1) Considered in terms of producers' prices, excluding value added taxes.

(2) Preliminary data.

Source: Provincial Office of Statistics; Ministry of Economy of the Province.

Manufacturing

The Province's manufacturing sector is historically the single-largest contributor to provincial GDP and is highly diversified. Manufactured products include refined petroleum products, cereals and food products, steel, chemicals, electrical machinery, aluminum, piping, automobiles and automobile parts, oil drilling tools and equipment, computer printers, cement, pharmaceuticals and textiles. Historically, food and beverage production and chemicals have been the most significant contributors to production within this sector. The manufacturing sector represented approximately 24.6% of the Province's total real GDP in 2005. The Province's 2005 manufacturing output of Ps.24.3 billion in constant 1993 pesos represents 48.1% of Argentina's total manufacturing output in the same period.

Although all areas of manufacturing were severely affected by the economic crisis, as evidenced by the sharp decline in 2001 and 2002 in the Province's total manufacturing output, in 2003 the Province's manufacturing sector began to recover as the Province's economy recovered from the crisis. In 2003, manufacturing activity within the Province registered an output of Ps.19.9 billion in constant 1993 pesos, representing an 18.0% increase as compared to 2002 levels. This growth was attributable to an increase in both domestic consumption and exports, as economic activity improved following the crisis, leading to increased investment in the manufacturing sector. Chemical and metal manufacturing registered the most significant production increases in 2003. In 2004, manufacturing activity within the Province registered an output of Ps.22.1 billion in constant 1993 pesos, representing a 11.1% increase as compared to 2003 levels, with the automobile and food production industries registering the most significant increases as compared to 2003 levels. In 2005, manufacturing activity within the Province registered an output of Ps.24.3 billion in constant 1993 pesos, representing a 10.3% increase as compared to 2004 levels, with the automobile, food production and electronic and communications equipment sub-sectors registering the most significant increases as compared to 2004 levels.

Real Estate and Other Business Activities

The real estate and other business activities sector is historically the second-largest contributor to provincial GDP. This sector encompasses a wide range of services rendered to businesses and individuals, including real estate transactions, leases of machinery and equipment without operating personnel, computer services, research and development and other business and professional services. Real estate transactions, which include both sales and rentals, account for the vast majority of the Province's total production of this sector, which has represented between one-fifth and one-sixth of provincial GDP within the past five years, with a peak of 19.5% in 2002 and a low of 16.1% in 2005. Total production in this sector in 2005 amounted to Ps.16.0 billion in constant 1993 pesos and represented 37.9% of Argentina's total output in this sector in the same period.

Measured in real terms, the Province's total production in this sector has steadily grown over the last three years, following a decline in each of 2001 and 2002 attributable to reduced demand in the real estate market due to the lack of available credit during the economic crisis. The Province's total production in this sector increased from Ps.14.4 billion in constant 1993 pesos in 2002 to Ps.16.0 billion in constant 1993 pesos in 2005, as the Province's improved general economic performance has led to increasing availability of credit, which in turn has stimulated demand in the real estate market.

Transportation, Storage and Communications

This sector includes land, air and water transportation of passengers and cargo, and postal and telecommunications services. It also includes other services rendered in connection to transportation, such as terminal and parking services, handling and storage of cargo, operation of toll road concessions and other infrastructure, and other related services.

Telecommunications and freight land transportation together typically account for a vast majority of the Province's production within this sector. This sector, which experienced a sharp drop in activity in 2002 due to the economic crisis, has grown significantly over the last three years because of growth in industrial production associated with the Province's economic recovery, as well as increases in the rates charged by providers of communications and freight transportation services as a result of increased demand for these services. The Province's total production in this sector increased from Ps.8.0 billion in constant 1993 pesos in 2002 to Ps.13.0

billion in constant 1993 pesos in 2005. Total production in this sector in 2005 represented 44.7% of Argentina's total output in this sector in the same period.

Wholesale and Retail Commerce

Approximately half of this sector's total production is typically derived from retail and wholesale sales of food, beverages and tobacco, as well as wholesale sales of agricultural products. The wholesale and retail commerce sector has traditionally represented more than one-tenth of provincial GDP, with a peak of 12.7% in 2001 and a low of 11.4% in 2002. Total production in this sector in 2005 amounted to Ps.12.0 billion in constant 1993 pesos and represented 31.2% of Argentina's total output in this sector in the same period.

Measured in real terms, the Province's total production in this sector has steadily grown over the last three years, following a decline in each of 2001 and 2002 attributable to the reduction in consumer purchasing power that resulted from the economic crisis. The Province's total production in this section increased from Ps.8.4 billion in 2002 to Ps.12.0 billion in 2005, as the Province's improved general economic performance has led to higher levels of employment and increased salaries, which in turn have generated higher disposable income levels.

Education, Health and Social Services

The Province records production in this sector from two activities: education services, which typically represent slightly more than one half of total provincial real GDP in this sector, and health and social services. Despite the effects of the economic crisis, the contribution of education, health and social services to provincial GDP has, in absolute terms, slightly increased over the past five years, from Ps.6.2 billion in constant 1993 pesos in 2001 to Ps.6.4 billion in constant 1993 pesos in 2005, although its contribution has slightly declined in relative terms, accounting for approximately 6.4% of total provincial real GDP in 2005 compared to approximately 7.6 % of total provincial real GDP in 2001. Total provincial real GDP in this sector represented 25.9% of total Argentine GDP in this sector in 2005, compared to 27.4% in 2001. The Province's share of total Argentine GDP in this sector is relatively lower than the Province's share of total Argentine population due to different cost levels between the provinces. For example, the annual cost of education per student in the Province is Ps.1,371, while the cost per student at the national level is Ps.1,815. Similarly, the annual cost of health and social services per person is Ps.156 in the Province, while this cost is Ps.221 at the national level. This disparity between health and social services costs is primarily attributable to greater economies of scale available to the Province for the provision of these services.

Public education typically accounts for a majority of the Province's total GDP derived from education services. Education services contributed Ps.3.5 billion to total provincial GDP in 2005, accounting for approximately 3.5% of the Province's total GDP in 2005, compared to 4.3% in 2001.

Private health services typically account for a majority of total provincial GDP derived from social and health services. Social services and health services contributed Ps.2.9 billion to total provincial GDP in 2005, representing approximately 2.9% of total provincial GDP in 2005, compared to 3.3% in 2001.

Construction

Housing construction typically accounts for approximately half of the Province's total production in this sector. The construction sector has traditionally represented around 5% of total provincial real GDP, with a peak of 6.0% in 2005 and a low of 4.3% in 2002. Although this sector was severely affected by the economic crisis, decreasing from Ps.4.1 billion in constant 1993 pesos in 2001 to Ps.3.1 billion in constant 1993 pesos in 2002, the Province's total production in this sector has grown significantly over the last three years, as the Province's general economic performance has improved. In 2003, the construction sector grew by approximately 36.2% in real terms, to Ps.4.3 billion in constant 1993 pesos. This growth was primarily the result of an increase in the construction of small buildings, particularly in areas frequented by tourists. In 2004, the sector grew approximately 17.2%, to Ps.5.0 billion in constant 1993 pesos, due primarily to an increase in public works and, to a lesser extent, an increase in private sector construction. In 2005, construction output in the Province increased by approximately 19.3%, to Ps.6.0 billion in constant 1993 pesos, primarily due to large and mid-size public works and an increase in private

sector construction for industrial, commercial and residential purposes. Total production in this sector in 2005 represented 34.0% of Argentina's total output in this sector in the same period.

Agriculture, Livestock, Hunting and Forestry

Agriculture and livestock typically account for the vast majority of the Province's total production within this sector. The Province's main agricultural products include oil-producing crops, vegetables, soybeans and fodder. Livestock includes meat, dairy, wool and hide production.

The main activities that compose this sector are cereals and oil-producing crops, which, together with livestock and dairy products, typically account for most of the Province's production within this sector. Corn, soybeans, wheat and sunflower are the most widely produced crops. Argentina is the worldwide leader in the production of crop-derived oils, accounting for approximately 28.7% of total world production, with a share of approximately 65.2% of the world commercial market for crop-derived oils in 2005. The Province is Argentina's main producer of crop-derived oils, with approximately 65% of Argentina's sunflower mills located in the Province. The Province is Argentina's leading producer of wheat (accounting for approximately 61.5% of the country's total wheat production in 2005) and one of Argentina's main producers of corn (accounting for approximately 30.6% of the country's total corn production in 2005).

With a total output of Ps.4.8 billion in constant pesos in 2005, agriculture, livestock, hunting and forestry together accounted for 4.8% of the Province's GDP and represented 28.2% of total Argentine production. From 2001 to 2005, the contribution of agriculture, livestock, hunting and forestry production to total real Provincial GDP has remained relatively constant at around 5%.

Following the devaluation of the peso, this sector became more competitive internationally and was further buoyed by favorable global economic conditions, including increased international commodities prices. The price of soybeans rose 78.2% to its peak in 2004 and has since decreased 21.1%, the price of wheat rose 19.6% and the price of corn rose 13.5% in the international markets between 2001 and 2005. In 2003, this sector experienced growth of approximately 4.4% as compared to 2002 levels, due primarily to growth in livestock production. In 2004, this sector experienced growth of 4.8% as compared to 2003 levels, due primarily to growth in the production of cereals, oil-producing crops and fodder. In 2005, this sector experienced growth of 12.2% as compared to 2004 levels, due primarily to growth in the production of cereals, oil-producing crops and fodder, livestock and milk.

Exports Originating in the Province

In Argentina, information relating to exports is collected and released by *Instituto Nacional de Estadística y Censos* (the National Institute of Statistics and Census, or INDEC), and is based mainly on data collected in connection with the issuance of shipping permits by the Argentine Federal Customs Bureau. Since 1995, export data has also been collected in connection with the export of goods that require no such permits, such as energy. Provincial exports include exports of all goods produced within the territory of the Province, either by growth, extraction or collection, and all goods processed or elaborated completely in the Province, including those made entirely from raw materials produced outside of the Province and transformed within the Province into a different product (as classified under the Mercosur rules).

In the period from 2001 to 2005 the value of provincial exports increased by 52.7%, from U.S.\$10.1 billion in 2001 to U.S.\$15.4 billion in 2005. In 2001, the Province's exports accounted for 38.0% of Argentina's total exports, compared to 38.6% of Argentina's total exports in 2005.

Classification of Main Exported Items

In 2005, manufactured goods of industrial origin accounted for approximately 50.3% of total provincial exports and manufactured goods of agricultural origin accounted for approximately 21.0%. The balance consists of exports of primary products, which consist mainly of agricultural products, and fuel and electrical energy. Manufactured goods of industrial origin exported by the Province in 2005 accounted for approximately 65.2% of Argentina's total exports of these goods, and provincial exports of manufactured goods of agricultural origin

accounted for approximately 24.6% of Argentina's total exports of these goods. The Province's exports of primary products equaled approximately 25.9% of national exports of such products in 2005, and the Province's exports of electrical energy and fuel represented approximately 34.3% of such products' national exports.

The following table sets forth the breakdown of the Province's exports by product category for the periods indicated:

Exports by Product Category (in millions of U.S. dollars and percentages)															
	2001		2002		2003		2004		2005						
Primary products:															
Cereals	U.S.\$	1,254	12.4%	U.S.\$	904	9.8%	U.S.\$	887	8.7%	U.S.\$	1,287	9.8%	U.S.\$	1,261	8.2%
Seeds and oilseeds		295	2.9		268	2.9		411	4.0		449	3.4		636	4.1
Fish and seafood		80	0.8		48	0.5		59	0.6		58	0.4		72	0.5
Honey		37	0.4		55	0.6		77	0.8		58	0.4		62	0.4
Vegetables		19	0.2		17	0.2		22	0.2		28	0.2		27	0.2
Live animals		15	0.1		7	0.1		8	0.1		9	0.1		12	0.1
Fruit		8	0.1		7	0.1		8	0.1		17	0.1		20	0.1
Other		6	0.1		5	0.1		5	—		7	0.1		7	—
Total		1,715	17.0		1,312	14.3		1,476	14.5		1,914	14.6		2,097	13.6
Manufactured goods of agricultural origin:															
Meat		178	1.8		295	3.2		367	3.6		634	4.8		867	5.6
Oils and fats		478	4.7		529	5.8		609	6.0		737	5.6		782	5.1
Hides and skins		437	4.3		377	4.1		390	3.8		441	3.4		441	2.9
Food industry residue and waste		262	2.6		227	2.5		263	2.6		273	2.1		258	1.7
Processed fish and seafood		163	1.6		142	1.5		151	1.5		196	1.5		210	1.4
Mill products		120	1.2		103	1.1		80	0.8		85	0.6		88	0.6
Eggs and dairy products		71	0.7		64	0.7		52	0.5		97	0.7		81	0.5
Prepared vegetables		53	0.5		47	0.5		42	0.4		60	0.5		61	0.4
Other products of animal origin		10	0.1		11	0.1		16	0.2		20	0.2		26	0.2
Beverages, alcohol and vinegars		21	0.2		14	0.1		15	0.1		20	0.2		26	0.2
Sugar and candy products		21	0.2		22	0.2		23	0.2		23	0.2		22	0.1
Processed wool		16	0.2		14	0.2		18	0.2		19	0.1		20	0.1
Dried and frozen fruit		—	—		—	—		1	—		1	—		4	—
Coffee, tea, herbs and spices		1	—		1	—		1	—		2	—		2	—
Dyes and extracts		1	—		—	—		—	—		—	—		—	—
Other		178	1.8		187	2.0		256	2.5		307	2.3		341	2.2
Total		2,007	19.9		2,032	22.1		2,284	22.4		2,915	22.3		3,230	21.0
Manufactured goods of industrial origin:															
Transportation materials		1,353	13.4		981	10.7		810	7.9		1,259	9.6		1,969	12.8
Chemical products		940	9.3		888	9.7		1,128	11.1		1,485	11.4		1,644	10.7
Metals		950	9.4		1,051	11.4		1,009	9.9		1,093	8.4		1,600	10.4
Plastics		517	5.1		520	5.7		567	5.6		792	6.1		959	6.2
Machinery and electric materials		482	4.8		370	4.0		379	3.7		468	3.6		548	3.6
Textiles		216	2.1		168	1.8		167	1.6		201	1.5		210	1.4
Paper, cardboard, printing and publications		115	1.1		108	1.2		132	1.3		169	1.3		193	1.2
Rubber		111	1.1		131	1.4		119	1.2		138	1.1		190	1.2
Stone and plaster products		73	0.7		77	0.8		81	0.8		90	0.7		103	0.7
Leather goods		56	0.6		41	0.4		45	0.4		87	0.7		101	0.7
Footwear and related materials		7	0.1		6	0.1		11	0.1		14	0.1		19	0.1
Navigation		6	0.1		9	0.1		17	0.2		6	—		15	0.1
Precious stones and metals		5	0.1		1	—		2	—		2	—		3	—
Others		289	2.9		260	2.8		244	2.4		237	1.8		203	1.3
Total		5,120	50.7		4,611	50.1		4,710	46.2		6,041	46.2		7,756	50.3
Fuel and energy:															
Fuel		752	7.5		862	9.4		1,179	11.6		1,457	11.1		1,525	9.9
Petroleum gas and others		199	2.0		231	2.5		375	3.7		514	3.9		513	3.3
Grease and oil lubricants		68	0.7		54	0.6		88	0.9		105	0.8		131	0.9
Electrical energy		138	1.4		31	0.3		8	0.1		25	0.2		49	0.3
Other		93	0.9		64	0.7		80	0.8		115	0.9		108	0.7
Total		1,249	12.4		1,243	13.5		1,730	17.0		2,214	16.9		2,326	15.1
TOTAL	U.S.\$	10,092	100.0%	U.S.\$	9,198	100.0%	U.S.\$	10,200	100.0%	U.S.\$	13,084	100.0%	U.S.\$	15,410	100.0%

Source: Undersecretariat of International Economic Relations of the provincial Ministry of Production based on data provided by INDEC.

Destination of Exports

Historically, the main destinations for exports from the Province have been Mercosur (which comprises Argentina, Brazil, Uruguay, Paraguay and, as from July 2006, Venezuela), the United States and Chile. Exports to Brazil constitute the vast majority of exports to Mercosur, accounting for more than 80% of these exports in each of the last five years. Over the last five years, however, the participation of exports to Mercosur in total exports originated within the Province has gradually declined, from 42.8% of total provincial exports in 2001 to 29.8% of total provincial exports in 2005. Exports to Brazil, in particular, have dropped from 35.7% of total exports originated within the Province in 2001 to 24.5% of these exports in 2005. The participation of the Province's other main export destinations, however, has increased during this period, with the participation of the United States growing from 11.4% in 2001 to 12.2% in 2005 and the participation of Chile increasing from 6.0% in 2001 to 9.2% in 2005. Other countries that have significantly increased their participation in the Province's total export market during this period are Mexico, whose participation increased from 2.7% in 2001 to 5.0% in 2005, China, whose participation increased from 3.1% in 2001 to 4.6% in 2005, and Russia, whose participation increased from 0.6% in 2001 to 1.8% in 2005. Bolivia is the only non-Mercosur country whose participation in the Province's total exports between 2001 and 2005 has decreased (from 1.4% to 1.0%), while the relative participation of other non-Mercosur countries in the Province's total exports has either increased or remained stable during this period.

The following table sets forth the breakdown of the Province's exports by geographic destination for 2001-2005:

Geographic Distribution of Exports (2001-2005) (in millions of U.S. dollars and percentages)

	2001		2002		2003		2004		2005	
Brazil.....	U.S.\$ 3,602	35.7%	U.S.\$ 2,744	29.8%	U.S.\$ 2,746	26.9%	U.S.\$ 3,375	25.8%	U.S.\$ 3,773	24.5%
United States.....	1,153	11.4	1,100	12.0	1,303	12.8	1,640	12.5	1,876	12.2
Chile.....	604	6.0	705	7.7	908	8.9	1,123	8.6	1,413	9.2
México.....	268	2.7	386	4.2	453	4.4	648	5.0	764	5.0
China.....	312	3.1	286	3.1	520	5.1	534	4.1	710	4.6
Uruguay.....	443	4.4	292	3.2	335	3.3	422	3.2	515	3.3
Netherlands.....	201	2.0	329	3.6	320	3.1	409	3.1	436	2.8
Spain.....	176	1.7	231	2.5	259	2.5	253	1.9	314	2.0
Paraguay.....	274	2.7	178	1.9	237	2.3	283	2.2	306	2.0
Italy.....	201	2.0	216	2.3	242	2.4	261	2.0	303	2.0
Russia.....	56	0.6	52	0.6	65	0.6	138	1.1	270	1.8
Peru.....	168	1.7	201	2.2	171	1.7	225	1.7	268	1.7
Venezuela.....	132	1.3	91	1.0	77	0.8	171	1.3	242	1.6
Germany.....	99	1.0	174	1.9	226	2.2	218	1.7	238	1.5
Egypt.....	86	0.8	106	1.1	110	1.1	221	1.7	231	1.5
Colombia.....	88	0.9	84	0.9	106	1.0	145	1.1	201	1.3
South Africa.....	97	1.0	82	0.9	93	0.9	217	1.7	166	1.1
Bolivia.....	140	1.4	166	1.8	111	1.1	139	1.1	162	1.0
Ecuador.....	67	0.7	93	1.0	64	0.6	89	0.7	147	1.0
Other.....	1,925	19.1	1,682	18.3	1,852	18.2	2,573	19.7	3,075	20.0
Total.....	U.S.\$ 10,092	100.0%	U.S.\$ 9,198	100.0%	U.S.\$ 10,200	100.0%	U.S.\$ 13,084	100.0%	U.S.\$ 15,410	100.0%

Source: Undersecretariat of International Economic Relations of the provincial Ministry of Production based on data provided by INDEC.

Economically Active Population and Employment

INDEC prepares a series of indexes used to measure the social, demographic and economic characteristics of the Argentine population based on data collected in the *Encuesta Permanente de Hogares* (Permanent Household Survey or “EPH”). Prior to 2003, the EPH was conducted in May and October of each year. In 2003, however, the EPH was reformulated into a continuous survey in order to better track labor market trends and its results are presented periodically.

The EPH is conducted in the four main urban areas within the territory of the Province, the largest of which is the *Conurbano Bonaerense*.

The four main urban areas located within the territory of the Province are:

- the *Conurbano Bonaerense*, which contains approximately 63% of the Province’s population,
- the metropolitan area of La Plata, which contains approximately 4% of the Province’s population,
- Mar del Plata, which contains approximately 4% of the Province’s population, and
- Bahía Blanca, which contains approximately 2% of the Province’s population.

High rates of unemployment persisted in the Province throughout the 1990s. During the early 1990s, several factors contributed to high unemployment rates, including a shift from labor-intensive to capital-intensive production and slower growth in labor-intensive sectors relative to other sectors.

In 1997, the Province implemented the following three social programs to address unemployment:

- *Barrios Bonaerenses* (Buenos Aires Neighborhood Program) was developed with the goal of improving the income of poor households by providing public service employment to heads of households over 18 years of age.
- *Programa Bonus* (Bonus Program) provides one-year scholarships to unemployed or inexperienced 18- to 25-year-old individuals for trainee programs with small- and medium-sized businesses.
- *Plan Segunda Oportunidad* (Second Opportunity Program) provides unemployed heads of households aged 45 to 55 who have lost their jobs within the prior year with a subsidy to enable them to reenter the workforce and update their job skills by working with small- and medium-sized firms.

Although these programs provide additional employment opportunities, the positions they offer are often part-time with low wages and without health insurance or other benefits. The revised 2006 budget forecasts that the Province will spend approximately Ps.1.1 billion in connection with these and other social programs and the Province currently estimates that it will spend approximately Ps.1.1 billion in 2007 on such programs.

In 1998 and 1999, however, economic recession further aggravated the unemployment rates experienced in prior years. The Province’s average unemployment rate (measured as the weighted average of the unemployment rates in the four main urban areas) increased from 20.8% in October 2001 to 24.0% in May 2002, as the economic crisis caused a decline in the Province’s overall economic activity. By October 2002, however, the Province’s average unemployment rate declined to 20.4%, due in large part to the implementation of a number of provincial and federal employment programs designed to reduce unemployment. Unemployment continued to decline in each of 2003, 2004 and 2005 as the Province’s economic recovery during this period led to increased demand for labor in the industrial, commercial (including hotels and restaurants) and construction sectors. The average unemployment rate decreased from 21.2% during the first half of 2003 to 12.7% during the second half of 2005, which is the Province’s lowest average unemployment rate since 2000. The average unemployment rate remained stable at 12.7% during the first six months of 2006, reflecting a decline in unemployment in many of the Province’s urban sectors, which was offset by a 1.5% increase in unemployment in La Plata over the same period.

The following tables set forth employment figures for the periods indicated:

Labor Participation Rate of the Main Urban Centers of the Province⁽¹⁾
(as a percentage of total population)

		Conurbano Bonaerense	La Plata	Bahía Blanca	Mar del Plata	Weighted Average
2001	May	43.4	44.1	42.6	43.6	43.4
	October	42.3	44.2	41.1	46.2	42.6
2002	May	42.1	44.1	41.2	45.7	42.4
	October	43.5	43.4	40.3	45.4	43.5
2003⁽²⁾	First Half	46.3	45.9	47.5	49.8	46.5
	Second Half	46.3	48.7	46.9	46.6	46.5
2004⁽²⁾	First Half	45.9	48.8	47.2	49.6	46.3
	Second Half	47.2	48.6	47.7	48.3	47.4
2005⁽²⁾	First Half	45.5	47.2	46.4	49.0	45.8
	Second Half	46.7	48.9	44.7	49.5	46.9
2006⁽²⁾	First Half	47.5	46.1	45.8	48.4	47.4

(1) Calculated by dividing the portion of the population employed or actively seeking employment (“economically active population”) by the total population.

(2) Corresponds to information obtained by the new methodology applied since the first half of 2003.

Source: INDEC.

Unemployment Rate of the Main Urban Centers of the Province⁽¹⁾
(as a percentage of economically active population)

		Conurbano Bonaerense	La Plata	Bahía Blanca	Mar del Plata	Weighted Average
2001	May	18.7	16.8	16.7	19.0	18.6
	October	21.0	16.3	20.3	22.8	20.8
2002	May	24.2	22.1	22.3	24.6	24.0
	October	21.0	15.3	18.0	17.9	20.4
2003⁽²⁾	First Half	21.8	17.4	18.0	17.3	21.2
	Second Half	18.2	14.5	14.7	16.3	17.8
2004⁽²⁾	First Half	16.4	16.4	17.1	13.4	16.3
	Second Half	15.2	12.0	15.0	12.8	14.9
2005⁽²⁾	First Half	15.2	12.8	11.6	12.5	14.8
	Second Half	12.9	11.3	9.8	12.7	12.7
2006⁽²⁾	First Half	12.9	12.8	8.4	11.0	12.7

(1) Calculated by dividing the unemployed population seeking employment by the economically active population.

(2) Corresponds to information obtained by the new methodology applied since the first half of 2003.

Source: INDEC.

Underemployment Rates of the Main Urban Centers of the Province⁽¹⁾
(in percentages)

		<u>Conurbano Bonaerense</u>	<u>La Plata</u>	<u>Bahía Blanca</u>	<u>Mar del Plata</u>	<u>Weighted Average</u>
2001	May	10.6	10.8	9.2	10.7	10.6
	October	12.2	9.3	8.6	9.3	11.8
2002	May	14.2	11.3	7.8	11.6	13.7
	October	16.1	11.3	9.9	11.7	15.4
2003⁽²⁾	First Half	14.6	6.8	10.9	9.3	13.8
	Second Half	13.6	11.1	11.0	9.3	13.2
2004⁽²⁾	First Half	12.6	9.1	10.5	8.8	12.1
	Second Half	11.9	9.3	7.5	8.5	11.4
2005⁽²⁾	First Half	10.6	10.5	8.2	7.9	10.4
	Second Half	10.4	8.9	8.6	7.1	10.1
2006⁽²⁾	First Half	9.2	7.8	7.0	6.6	8.9

(1) Calculated by dividing the portion of the population working 25 hours or less per week and with the intent to work more by the economically active population.

(2) Corresponds to information obtained by the new methodology applied since the first half of 2003.

Source: INDEC.

Poverty

Because the Province's only source of data relating to poverty consists of statistics compiled by INDEC as part of the EPH, the following discussion relates primarily to poverty in the *Conurbano Bonaerense*.

Poverty assessments are based on the value of a basket of goods and services (consisting principally of food, clothing, transportation, health care, housing and education), which is considered the minimum necessary to sustain a household. The basket is valued at market prices and the resulting threshold is called the "poverty line."

Based on the percentage of individuals recorded by INDEC to be living below the poverty line in the *Conurbano Bonaerense* in the first half of 2006, the Province estimates that approximately 41.9% of the total population of Argentina living below the poverty line during that period resided within the Province.

Rising unemployment resulting from the application of the Convertibility regime during the 1990s and the economic recession that started in 1998 led to increasingly higher levels of poverty in the Province prior to the 2001 economic crisis. This situation worsened significantly during the economic crisis, as the percentage of households living below the poverty line in the *Conurbano Bonaerense* jumped from 29.9% of total households in May 2001 to 53.5% in October 2002 and the percentage of people living below the poverty line in this area went from 39.4% of total population in May 2001 to 64.4% in October 2002.

Beginning in 2003, however, as the Province's economic recovery took hold, the number of individuals and households living below the poverty line in the *Conurbano Bonaerense* declined, falling to 27.3% of total households and 34.59% of total population in the *Conurbano Bonaerense* in the first half of 2006. This decline resulted primarily from rising employment rates and higher income during this period attributable to the economic recovery.

The following table sets forth the percentage of households and the population in the *Conurbano Bonaerense* with annual incomes below the poverty line for the periods indicated:

Poverty in the *Conurbano Bonaerense*
(in percentages)

Period	Poverty		
	Households	Persons	
2001	May.....	29.9	39.4
	October	33.3	43.2
2002	May.....	48.1	59.2
	October	53.5	64.4
2003 ⁽¹⁾	First Half.....	51.1	61.3
	Second Half.....	43.2	53.5
2004 ⁽¹⁾	First Half.....	39.8	50.9
	Second Half.....	34.7	44.4
2005 ⁽¹⁾	First Half.....	35.1	45.5
	Second Half.....	28.7	36.9
2006 ⁽¹⁾	First Half.....	27.3	34.5

(1) Corresponds to information obtained by the new methodology applied since the first six months of 2003.
Source: INDEC.

In recent years, the federal government has increased spending on poverty reduction programs throughout Argentina, including the following social welfare programs:

- *Plan Manos a la Obra* (Hands to Work Program), which provides economic and technical support to the municipalities and various non-governmental organizations that provide training and other assistance to unemployed individuals seeking employment;
- *Plan Mayores* (Seniors' Plan), which provides stipends for individuals over 70 years of age without a pension; and
- *Plan Jefes y Jefas de Hogar* (Heads of Households Program), which provides Ps.150 per month and training to eligible unemployed heads of households with disabled or minor dependents as compensation for community service work performed.

Because a significant proportion of Argentina's population living in poverty resides within the Province, federal poverty reduction measures and programs have a more significant impact in the Province than in other Argentine provinces.

In addition to federally funded poverty reduction programs, the Province has established a series of social welfare programs intended to assist those members of its population who are most vulnerable to poverty and other socioeconomic hardship. These programs include the following:

- *Plan Vida* (Life Plan) and *Servicio Alimentario Familiar* (Family Nutrition Service) provide health services and nutritional and other basic support to pregnant or nursing mothers and newborn children;
- *Unidad de Desarrollo Infantil* (Child Development Unit) provides funding to institutions that provide social, psychological and health support services to children ages 14 and under or other social services intended to promote the integration of families within their communities;
- *Servicio Alimentario Escolar* (School Nutrition Service) provides school lunches and snacks to children throughout the Province ages 3 to 14 who lack adequate housing or who come from families with unemployed heads-of-household;

- *Plan Huertas Bonaerenses* (Buenos Aires Home Gardens Plan) provides training and supplies to low-income families to enable them to cultivate vegetable gardens as an affordable source of additional nutrition;
- *Plan Emergencia Habitacional* (Emergency Housing Plan) and *Plan Prohábitat* (Plan for Housing) provide construction materials and home construction consulting services to individuals lacking adequate housing;
- *Proyecto Adolescentes* (Adolescents Project) provides monthly grants of Ps.150 for a one-year period to eligible individuals ages 14 to 21 to enable them to participate in educational, cultural or athletic activities or to acquire training or other experience tending to improve their qualifications for employment;
- *Programa de la Tercera Edad* (Program for Senior Citizens) provides assistance payments to infirm or disabled persons over the age of 60 who do not receive social security benefits; and
- *Integración de Personas con Capacidades Diferentes* (Integration of Persons with Disabilities) provides funding and technical assistance to municipalities and non-governmental organizations that provide services for severely disabled individuals of all ages, such as day treatment centers, occupational workshops and group homes, as well as direct benefits and services for those individuals, including assistance payments, dietary support, rehabilitation and individual and family psychological services.

Environment

The constitution of the Province grants all residents of the Province the right to a clean environment. Specifically, the constitution forbids dangerous or potentially dangerous or radioactive waste to be introduced into the territory of the Province. Although the federal and provincial governments have concurrent power over environmental matters, until recently, legislation on environmental protection existed primarily at the provincial level.

Among the significant environmental issues facing Argentina and the Province are the regulation and remediation of water and air pollution and the disposal of hazardous wastes. The federal government and the Province have undertaken programs to improve drinking water and sewer services in the *Conurbano Bonaerense*. A particular area of concern is the pollution of the Río de la Plata and other of its smaller tributaries in the Buenos Aires area, including the Matanza and Reconquista rivers. In June 2006, the national Supreme Court ruled in a claim brought by a group of environmentally-concerned citizens that the Province, together with the federal government, the City of Buenos Aires and the *Comisión Federal de Medio Ambiente* (the Federal Environmental Commission or “COFEMA”), is required to develop an environmental plan for the clean-up of the Matanza River. In addition, these citizens have brought a claim against 44 companies located in the Matanza River basin in connection with the contamination of the Matanza River. In response to the ruling, the federal Congress has been presented with a draft bill relating to the clean-up of the river, but no further action has been taken as of the date of this offering memorandum. In addition, industrial air emissions, primarily in the highly populated *Conurbano Bonaerense* and other urban centers, have also become the focus of environmental improvement efforts. Argentina and the Province have obtained funding from international and multilateral organizations in order to further their environmental programs.

Federal, provincial and municipal authorities are moving towards a stricter enforcement of environmental laws. The federal government and the Province have adopted regulations requiring that certain industrial companies meet strict environmental standards comparable to those in effect in the United States and countries within the European Union. These regulations establish the general framework for environmental protection requirements, including the imposition of fines and criminal penalties for the violation thereof; however, additional regulations that are necessary to implement this legislation are only in the initial stages of their formulation. The federal government and the Province have also established a national registry of producers and conveyors of hazardous wastes to help control the risk of contamination from such waste.

Litigation

Concession Dispute

In May 1999, the Province awarded a concession to Azurix Buenos Aires (“Azurix”), an indirect subsidiary of Enron, for the provision of water and wastewater services in 48 of the Province’s 134 municipalities. In January 2001, Azurix alleged that the Province had failed to comply with certain provisions of the concession. Following several months of unsuccessful negotiations, in October 2001 Azurix gave notice of termination of the concession to the Province, and its parent company, Azurix Corp., filed a request for arbitration against the federal government with the International Centre of Settlement of Investment Disputes (“ICSID”) on the grounds that Argentina had violated the 1991 Treaty Concerning the Reciprocal Encouragement and Protection of Investment between the Republic of Argentina and the United States of America (the “BIT”), seeking approximately U.S.\$555 million in compensation for its alleged damages and requesting the adoption by Argentina of all necessary measures to avoid further damages to its investment. In July 2006, the ICSID rendered a decision in the arbitration proceedings in favor of Azurix Corp. and ordered the federal government to pay U.S.\$165 million in damages. The federal government may request the annulment of the ICSID’s decision within 120 days following the date of the decision and, with the assistance of the Province’s government, is preparing a petition of annulment. If such a request is submitted to the ICSID, the ICSID’s arbitration decision may not be enforced until the ICSID renders a decision on the petition. Although the Province does not have an obligation to reimburse the federal government for any damages sustained as a result of a ruling by the ICSID tribunal, the Province cannot assure you that the federal government will not seek to recover a portion of these damages from the Province.

In addition, the Province, by executive decree, rejected the notice of termination of the concession delivered by Azurix in October 2001 and informed Azurix that it remained subject to its obligations under the concession. In December 2001, Azurix challenged the validity of the Province’s executive decree before the provincial Supreme Court, arguing that it had validly terminated the concession as from October 2001. In March 2002, the Province, by executive decree, revoked Azurix’s concession and declared a public sanitary and social emergency in the 48 municipalities that were subject to the concession, pursuant to which the Province assumed the provision of water and wastewater services in these municipalities through the newly created *Agua Bonaerense S.A.*, which is jointly owned by the Province (90%) and its employees (10%). This executive decree was ratified by the provincial legislature in February 2003. Following the revocation of the concession, Azurix amended its pending proceedings before the provincial Supreme Court to include a challenge of the validity of the revocation of its concession. In addition, Azurix has challenged before the provincial Supreme Court certain monetary penalties imposed by the Province on Azurix related to the services provided pursuant to the concession prior to its revocation. All legal proceedings before the provincial Supreme Court relating to the concession, including those related to monetary penalties, remain pending.

Bondholder Claims

Bondholders have initiated lawsuits against the Province in the United States, Germany and Switzerland relating to the Province’s default on its public external debt obligations.

In the United States, as of the date of this offering memorandum, eight individual lawsuits have been filed seeking repayment of approximately U.S.\$1.4 million and €201,000 in bonds issued by the Province that were subject to the suspension of payments announced in January 2002. These suits are pending in the United States District Court for the Southern District of New York before Judge Thomas P. Griesa. As of the date of this offering memorandum, judgments have been entered against the Province in four of these suits for unpaid interest and matured principal in a total amount of approximately U.S.\$1.8 million and €111,760.19. The Province appealed the first of these rulings entered by the District Court, which the United States Court of Appeals for the Second Circuit subsequently affirmed in July 2005. The plaintiff in that case, along with other judgment creditors of Argentina, has sought post-judgment execution discovery concerning the existence of commercial property of Argentina, the Province and their agencies and instrumentalities. The Province last responded to this discovery request on July 2, 2004 and has not received any response from the judgment creditor concerning the discovery request.

In Germany, seven individual lawsuits have been filed by bondholders against the Province, of which two have been dismissed and two desisted. As of the date of this offering memorandum, the total principal amount claimed in bondholder proceedings against the Province in Germany is €418,635, plus interest.

In Switzerland, the total principal amount claimed in one bondholder proceeding against the Province is Sfr.400,000 plus interest. The Province answered the Swiss suit on July 4, 2005. The Zurich District Court is currently reviewing this lawsuit and may request additional information, open a discovery period or render a decision.

Provincial Enterprises

The Province participates in the provincial economy through various enterprises, including Banco Provincia, one of the largest banking and financial services companies in Argentina. Until the end of the 1980s, these provincial enterprises, which ranged from manufacturing and industrial companies to financial services companies, constituted an important part of the economy of the Province. During the 1990's, however, in the context of the free-market reforms adopted by the federal government during this period, the Province privatized most of its enterprises, substantially reducing its participation in the private sector. Banco Provincia, which historically has been and continues to be the Province's most important provincial enterprise, was not privatized during this period, and the Province currently has no plans to privatize all or any portion of this enterprise. See "Banco Provincia."

Institute of Lotteries and Casinos

On January 1, 1996, the provincial Institute of Lotteries and Casinos, formerly a part of the general administration of the Province, began operating as a self-administered public institution (*entidad autárquica*). As a result, the Province no longer consolidates the results of the Institute in its consolidated financial statements. The Institute is required to transfer its annual net profits to the Province each year, which are recorded as revenues in the financial statements of the Province.

The Institute operates lottery activities within the Province, as well as casinos, racetracks and certain other gaming activities. The Institute also regulates the sale of lottery tickets by authorized agents and a number of private bingo and slot machine operators. The Institute collects revenues generated by all these activities, which constitute an important source of non-tax revenues for the Province.

There are currently no plans for the privatization of the provincial Institute of Lotteries and Casinos.

Loan Recovery Committee

In 2001, pursuant to a provincial law enacted to improve Banco Provincia's balance sheet, Banco Provincia transferred to the Province approximately Ps.1.9 billion in non-performing loans in exchange for a bond issued by the Province to Banco Provincia in a principal amount equal to the face value of the loans, less approximately Ps.600 million in allowances for loan losses. Banco Provincia subsequently exchanged the Ps.1.3 billion bond for *Bogar* in the provincial debt exchange. See "Public Sector Debt—Debt Denominated in CER-adjusted Pesos—Provincial Debt Exchange (*Bogar*)."

In order to recover the transferred loans, the Province created, by provincial statute, the *Fondo Fiduciario de Recuperación Crediticia* (the Loan Recovery Committee), a provincial *entidad autárquica* (self-administered public entity). The Loan Recovery Committee, which functions as a trust (*fideicomiso*), is required to transfer all of its profits (calculated as amounts recovered on the transferred loans less the entity's expenses) to the Province for purposes of funding a portion of the payments due by the Province to the federal government in respect of *Bogar*. As of June 30, 2006, the Province had received Ps.406.9 million from the Loan Recovery Committee.

Río Santiago Shipyard

In June 1994, the federal government transferred the Río Santiago shipyard to the Province in anticipation of its privatization. Despite the loss-generating nature of the shipyard, the Province accepted the transfer and has been subsidizing the operations of the shipyard in order to preserve an important source of employment for the city of Ensenada. This subsidy amounted to approximately Ps.39.5 million in 2001, Ps.53.1 in 2002, Ps.41.6 million in 2003, Ps.58.6 million in 2004 and Ps.72.4 million in 2005.

The Province is currently working to improve the shipyard's performance, mainly through greater utilization of excess capacity. The shipyard recently signed contracts to build ships for the Government of Venezuela, which the Province believes will improve the shipyard's economic performance. The Province is now focused on transforming the Río Santiago shipyard into a profitable state-owned enterprise and does not have any current plans to privatize this enterprise.

Ferrobaires

From August through December 1993, the federal government and the Province entered into three separate agreements pursuant to which the federal government delegated to the Province the operation of passenger railway routes within the Province's territory. The Province operates this service through Ferrobaires, a provincial agency within the purview of the provincial Ministry of Infrastructure, Housing and Public Services. The principal activity of Ferrobaires is the operation of a passenger railway service between the cities of Buenos Aires and Mar del Plata, the most important coastal city in Argentina.

Due to the difficult conditions affecting the provincial rail transportation sector, Ferrobaires has taken several measures since February 2002 to improve its condition, including policies to reduce costs, restore equipment, improve operating performance and reopen various service lines. In March 2004, the Province issued Decree No. 315 inviting private sector companies, in the context of the provincial private initiative regime, to present non-binding proposals analyzing the problems afflicting the Province's rail transportation sector and offering operational solutions to optimize Ferrobaires' performance. The Province received several proposals to operate the provincial rail system, which are currently under review by a commission comprised of representatives of the Province and the federal government. The commission may accept one or more of these proposals. In this case, the Province will hold a public tender to select a private company to implement the proposal and operate the provincial rail system. In accordance with the provincial private initiative regime, companies whose proposals in this initial phase are accepted by the commission will enjoy certain benefits in the subsequent public tender in respect of other competing companies.

PUBLIC SECTOR FINANCES

Scope and Methodology

The public sector of the Province consists of the general administration of the Province, provincial agencies that carry out specific functions delegated to them, such as the *Instituto de Previsión Social* (Social Security Institute, or “IPS”) and the *Instituto Obra Médico Asistencial* (Institute for Medical Service), and provincial *entidades autárquicas* (self-administered public institutions), including provincial enterprises such as Banco Provincia, the Institute of Lotteries and Casinos and the Loan Recovery Committee. The general administration of the Province comprises the institutions of the executive, legislative and judicial branches of the government of the Province, including provincial ministries and certain agencies within the provincial government.

The Province’s budgets and accounts reflect the consolidated results of the institutions and agencies that comprise the general administration of the Province. The Province does not consolidate the results of its municipalities, provincial enterprises and other agencies that do not participate in the general administration of the Province. Under provincial law, however, the Province is required to transfer a portion of its tax revenues to its municipalities, and certain provincial enterprises and agencies are required to transfer their profits or surpluses to the Province. The Province records transfers to these unconsolidated entities (including contributions, loans and advances to provincial enterprises) as expenditures, and transfers from these entities as revenues.

The Province maintains its books and records in pesos and prepares its budgets, statements of revenues and expenditures in accordance with accounting principles set forth in the provincial Accounting Law No. 7,764. These accounting principles differ materially from generally accepted accounting principles, or GAAP, in Argentina and in other jurisdictions, including the United States, but are generally in line with the accounting principles followed by other Argentine provinces. The principal features of the Province’s accounting principles are:

- revenues are not accounted for on an accrual basis, but are recognized in the period in which they are received;
- expenditures are accounted for on an accrual basis and not when paid, except for interest expense, which is accounted for when paid;
- capital investments are carried at cost, without reduction for depreciation or amortization, and, accordingly, the Province does not record any charges for depreciation or amortization in its accounts;
- capital expenditures and investments in tangible assets are not capitalized, but are expensed in the period in which they are incurred;
- construction contracts are expensed using the percentage of completion method; and
- revenues, expenditures and public debt are not adjusted for inflation in the Province’s accounts.

The financial records and statements of the Province are prepared and examined by the *Contaduría General de la Provincia* (the General Accounting Office of the Province) and approved by the provincial *Tribunal de Cuentas* (the Audit Tribunal). Each year, the General Accounting Office has until April 30 to publish the financial statements of the previous fiscal year. The 2005 budget law, however, extended this period to June 30, 2006 for the publication of financial statements for the 2005 fiscal year. This extension, however, only applies to the publication of financial statements for the 2005 fiscal year.

Overview of Provincial Accounts

The Province’s fiscal policy since the national economic crisis has focused on preserving the financial liquidity of the Province, particularly during 2001-2002, and improving its financial position, particularly following the crisis. The Province recorded primary balance deficits (excluding interest expenses) in 2001 and 2002, as Argentina’s economic recession, which began in 1998, deepened and Argentina entered a state of severe economic

crisis in 2001. The Province's primary balance deficit declined in 2002 and the Province recorded increasing primary balance surpluses in each of 2003 and 2004 as Argentina's economic recovery, which began in the second half of 2002, broadened and accelerated, despite an increase in the Province's expenditures during this period. In 2005, however, the Province recorded a decline in its primary balance surplus, as compared to 2004, despite a significant increase in revenues during 2005, as the Province's expenditures grew at a faster rate than its revenues during this period. Personnel expenditures, in particular, increased significantly in 2005 compared to prior years due to the cumulative effect of the implementation in 2005, and to a lesser extent, to measures adopted in each of 2003 and 2004, intended to alleviate the situation of the Province's employees following the salary freeze and subsequent devaluation and inflation that resulted from the economic crisis. These measures, taken together with similar measures adopted in March 2006, have succeeded in realigning the compensation of provincial employees with pre-crisis levels, measured in terms of purchasing power.

The 2006 budget law, as recently amended, forecasts a significant decline in the Province's primary balance for 2006 as compared to 2005, to a deficit of Ps.294 million in 2006 from a surplus of Ps.179 million in 2005. The primary balance deficit in 2006 is attributable mainly to the effect of the measures adopted in March 2006 to continue to realign provincial employee compensation with pre-crisis levels and the cumulative effect of similar measures adopted from 2003 through 2005. The estimated additional expenditures in 2006 resulting from the measures adopted in 2006 amount to Ps.1.3 billion.

Economic Emergency Act

In July 2001, the provincial legislature passed the *Ley de Emergencia Económica* (Economic Emergency Act), which declared an administrative, economic and financial state of emergency in the Province through June 2002. This law, among other things, authorized the Province to issue quasi-currency instruments (*Patacones* and *Bocanoba*) to pay amounts owed to suppliers and salaries to public employees, which instruments were either exchanged for pesos under the *Programa de Unificación Monetaria* (Monetary Unification Program, or "PUM") in December 2003 (*Patacones*) or redeemed at maturity in July 2004 (*Bocanoba*). See "Public Sector Debt."

The state of emergency declared by the Economic Emergency Act expired at the end of 2003.

Fiscal Responsibility Law

In August 2004, the federal congress adopted the Fiscal Responsibility Law, which became effective on January 1, 2005. The Fiscal Responsibility Law sets forth general rules of fiscal behavior and transparency for Argentina's national, provincial and municipal public sectors. On January 13, 2005, the Province adopted into provincial law the operative provisions of the Fiscal Responsibility Law. As a result of this law:

- the Province is required to prepare annual fiscal programs for each upcoming year that set forth specific fiscal policies, targets and projections;
- the growth rate of the Province's public expenditures (excluding interest payments, expenditures financed by certain multilateral institutions, certain infrastructure investments and other designated expenditures) may not exceed the federal government's projections for the national nominal GDP growth rate;
- proceeds from new borrowings or from the sale of provincial assets will not be available to finance current expenditures, except for any refinancing on more favorable terms; and
- the Province will have to maintain a balanced budget.

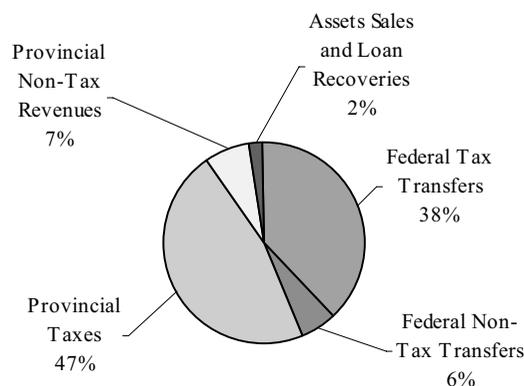
In addition, if the Province's debt service obligations exceed 15% of its current revenues (net of transfers to its municipalities), it must implement a transition plan to reduce debt service levels to permitted levels, which must include a freeze on new borrowings (except for refinancings on more favorable terms and financing granted by multilateral agencies or national programs).

See “Risk Factors—If the Federal Council of Fiscal Responsibility were to determine that the revised 2006 budget did not comply with the Fiscal Responsibility Law, the Province could be subject to sanctions.”

Main Sources of Revenues

Approximately 85% of the Province’s revenues are derived from taxes, either federal or provincial. On average, during the period from 2001 to 2005, provincial taxes represented 47.6% of total revenues, while federal tax transfers represented 39.1% of such revenues.

Total Revenues by Source for the Year Ended December 31, 2005
(Total = Ps.18.4 billion)



Source: Ministry of Economy of the Province.

Federal Tax Co-Participation Regime

Under the federal constitution, both the federal and provincial governments are authorized to levy taxes. In 1935, the federal and provincial governments entered into a coordinated tax arrangement (also called “tax co-participation”) pursuant to which the federal government agreed to collect certain taxes on an exclusive basis and to distribute a portion of those tax revenues among the provinces. In exchange, the provincial governments agreed to limit the types of taxes they collected. This coordinated taxation regime has been extended and modified several times since its inception. Currently, the “shared” or “co-participated” taxes are income taxes, value-added taxes and several excise taxes levied on consumption.

The federal tax co-participation law that was enacted in 1988 currently governs the tax co-participation system. Under this law, the federal government is currently required to transfer 100% of revenues from consumption taxes levied on various non-basic goods (such as cigarettes and alcohol), 89% of value-added tax revenues, 64% of income tax revenues and, as from February 2002, 30% of financial transactions tax revenues, to a federal co-participation fund created for this purpose.

Under the federal tax co-participation law, approximately 41.6% of these funds is withheld by the federal government for its own needs and for transfers to the City of Buenos Aires (which until 1996 was under the administration of the federal government) and approximately 1% is retained in a special reserve for emergency situations and financial difficulties of the provinces. The remaining 57.4% of these funds is allocated to the provinces to be shared among them according to percentages set forth in the 1988 law, which were established following negotiations among the federal government and the provinces and which do not reflect any objective distribution criteria. Under this law, the Province is entitled to 21.7% of the funds allocated to the provinces. The Province’s use of these federal tax co-participation payments is discretionary, subject to transfers it is required by provincial law to make to its municipalities.

In 1992 and 1993, the federal and provincial governments entered into two agreements (the “Fiscal Pacts”) that amended the tax revenue distribution system set forth in the 1988 tax co-participation law. Pursuant to the Fiscal Pacts, the federal government is authorized to withhold 15% of all funds eligible for co-participation prior to their allocation to the provinces, and to apply such funds towards the federal social security system. The Fiscal Pacts also authorize the federal government to withhold a further Ps.43.8 million per month prior to allocation, and to distribute such funds on a fixed basis among all provinces, other than the Province. The balance of the funds subject to the co-participation regime is distributed among the federal government, the special reserve and the provinces in accordance with the percentages set forth in the 1988 tax co-participation law, as described above. Under the Fiscal Pacts, the federal government guaranteed that the portion of that balance that was to be distributed among the provinces would always be equal to at least Ps.740.0 million per month, regardless of any shortfalls in actual tax collection. Any such shortfall would be covered with funds from the federal government, for which the federal government would then be entitled to reimbursement when tax collection exceeded the minimum guaranteed amount of co-participation funds. In recent years, however, the monthly amount to be allocated among the provinces has been approximately three times the guaranteed amount or more, rendering the guarantee irrelevant.

The provinces, in turn, undertook to implement tax reforms that include the gradual replacement of provincial gross revenues taxes with more economically neutral taxes, generally aimed at consumption, and the repeal of provincial stamp taxes on certain transactions, as well as certain taxes on the transfer of fuels, gas and electricity. The federal government agreed to waive its right to be reimbursed for any shortfall payments made to the provinces that are in compliance with their tax reform obligations under the Fiscal Pact of 1993. Several of these tax reform obligations are still pending implementation.

The 1994 amendments to the federal constitution granted constitutional recognition to the tax co-participation system (which until then was only reflected in federal laws and in agreements among the federal government and the provinces) and established an allocation of taxing powers between the federal government and the provinces as follows:

- federal and provincial governments are both authorized to levy taxes on consumption and impose other indirect taxes;
- the federal government may also levy direct taxes (such as income taxes) in exceptional cases;
- taxes collected by the federal government (except those collected for specific purposes) are to be shared between the federal and provincial governments;
- the federal government has the exclusive right to levy taxes on foreign trade, which are excluded from the tax co-participation regime; and
- the provinces retain all taxing and other powers that are not expressly delegated to the federal government in the federal constitution.

In addition, the 1994 amendments to the federal constitution provided that the federal tax co-participation system would be revised to provide for the distribution of funds among the federal government and the provinces on the basis of objective distribution criteria. The 1994 amendments originally provided that the revised tax co-participation system would have to be approved by the end of 1996. However, because the amendments did not specify the criteria on which the new distribution system should be based, differences between the federal government and the provinces and among the provinces on the appropriate criteria have prevented an agreement to date.

Between 1999 and 2002, the federal government, the provinces and the City of Buenos Aires entered into several agreements with a goal towards approving a new federal tax co-participation system and encouraging the provinces and the City of Buenos Aires to approve policies aimed at reducing their budget deficits, limiting public expenditures, imposing limits on the level of indebtedness and ensuring fiscal transparency. Pursuant to these agreements, in 2000 the federal government committed to transfer to the provinces a fixed monthly amount, regardless of the actual amount of tax revenues collected by the federal government. However, as a result of the

economic crisis in 2001, the federal government was unable to meet its payment obligations in that year and, in November 2001, the federal government and the provinces agreed that unpaid differences in favor of the provinces would be cancelled by the Provincial Development Fund using federal treasury notes called *Letras de Cancelación de Obligaciones Provinciales* (Provincial Obligation Cancellation Notes or “LECOPS”). In addition, the parties agreed that transfers to the provinces would be reduced by 13%. These measures, however, were insufficient to overcome the crisis and, in February 2002, the federal government and the provinces agreed to abandon the system of fixed monthly transfers and to return to the prior tax co-participation regime that had been established under the 1988 federal tax co-participation law. Thus, pursuant to the agreement entered into on February 27, 2002 by the federal government, the provinces and the City of Buenos Aires, ratified by Law No. 25,570 and effective as of May 3, 2002 (the “2002 Agreement”), it was agreed, among other things, that 30.0% of the revenues from the federal tax on financial transactions created during 2001 would be added to the aggregate of federal tax revenues available for distribution to the provinces.

The 2002 Agreement had an expiration date of December 31, 2002, yet it provided for automatic one-year renewals and it has been renewed each year.

The Province has repeatedly requested an increase in the funds allocated to the provinces under the tax co-participation regime to ensure that each province is able to offer essential public services to its population. In addition, the Province has requested that the allocation of funds among the provinces follow objective criteria, such as population and the amount of taxes collected within each provincial territory, as set forth in the 1994 amendments to the federal constitution. According to INDEC, approximately 38% of the total population of Argentina resides in the Province and according to the Ministry of Economy of the Province approximately 37% of total federal tax revenues are collected within the Province. The Province, however, is entitled to only 21.7% of distributable revenues pursuant to the 1988 law. Moreover, although the Province is entitled to receive specified amounts of federal transfers pursuant to special laws intended to address the greater needs of the Province, these transfers are funded with designated sources of revenues and are capped or subject to limits. These caps or limits have been reached over time and the remainder of these designated revenues is distributed among all the provinces in accordance with the 1988 law, leading to a further dilution in the Province’s share of federal tax transfers (including tax co-participation transfers). For example, the federal government is required to transfer up to 10% of federal income tax collection to the Conurbano Fund, subject to an annual cap of Ps.650 million, pursuant to a 1996 special law (Law No. 24,621). This percentage of federal income taxes has consistently exceeded the cap on transfers to the fund every year (except 2001 and 2002) and, as a result, the Province has received Ps.650 million each year and the excess has been distributed among all of the provinces pursuant to the 1988 law. In 2005, the amount transferred to the Conurbano Fund (Ps.650 million) represented approximately 2.3% of federal income tax collections in that year, which is significantly less than the 10% originally contemplated by the 1996 special law. Accordingly, although the Province receives 21.7% of distributable co-participation tax revenues, the Province receives a relatively smaller percentage of the total federal tax transfers to the provinces.

The following table sets forth the Province’s share of total federal tax transfers to the Argentine provinces compared to that of other provinces with a similar level of relative development (in terms of per capita GDP):

Provincial Share of Total Federal Tax Transfers
(in percentages)

	2001	2002	2003	2004	2005
Province of Buenos Aires	22.7%	23.3%	21.7%	21.0%	20.6%
Santa Fe	8.0%	8.7%	8.7%	8.8%	8.9%
Cordoba	8.3%	7.8%	8.4%	8.6%	8.7%
Mendoza	4.1%	3.9%	4.1%	4.1%	4.2%

Source: Ministry of Economy of the Province.

The following table sets forth the Province's federal tax co-participation revenues per capita (based on the 2001 national census) compared to that of other provinces with a similar level of relative development:

Provincial Per Capita Tax Co-Participation Revenues
(in pesos)

	2001	2002	2003	2004	2005
Province of Buenos Aires	148.2	134.4	199.0	305.7	379.5
Santa Fe.....	277.2	250.6	371.0	569.4	705.6
Cordoba.....	269.5	243.6	360.7	553.5	685.9
Mendoza	245.7	220.1	328.9	504.7	625.4
Average of Provinces.....	281.0	253.4	375.1	574.8	711.2

Source: Ministry of Economy of the Province.

As of the date of this offering memorandum, the Province has not made significant progress in its efforts to increase its allocation of tax co-participation funds. Despite recent efforts by the Province, the federal government and the other provinces have not shown any interest in modifying the federal tax co-participation regime.

The Province has pledged a part of its federal tax transfers, including a part of its federal tax co-participation payments, to secure its obligations under certain of its outstanding indebtedness, most of which is owed to the federal government. Pursuant to these security arrangements, the federal government is entitled to withhold a portion of the Province's federal tax transfers to cover principal and interest payments on the secured debt. In 2005, the federal government withheld approximately 23.6% of the Province's federal tax transfers pursuant to these arrangements. See "Public Sector Debt—Evolution of Debt: 2001-2006."

Other Federal Tax Transfers

The federal government also distributes to the Province other tax revenues that are not included in the tax co-participation regime described above. The principal tax transfers include the following:

- *School Transfers.* The federal government is required to transfer an annual fixed sum (Ps.411 million) to the Province as partial compensation for provincial expenditures incurred in the administration of the public schools within the provincial territory following the delegation of these administrative responsibilities to the Province in November 1994. The federal government, however, has failed to pay the full amount in every year since 1999. The Province has not been successful in obtaining the payment of the balance owed by the federal government.
- *Conurbano Fund.* In July 1996, the federal congress modified the *Fondo para Obras de Carácter Social*, which was originally established in 1992 and is also known as the Conurbano Fund. Under the modified system, the federal government is required to transfer to this fund an annual amount equal to 10% of all federal income tax revenues (up to a maximum amount of Ps.650 million). The Province uses these funds to finance hospitals, schools, roads and other infrastructure projects and various social welfare programs in the *Conurbano Bonaerense*.
- *Housing Fund.* The federal government is required to transfer 42% of revenues from the federal tax on fuels to the *Fondo Nacional de la Vivienda* (the National Housing Fund, or "FONAVI") for purposes of funding the construction of low-income housing around the country. Under current federal law, the Province is entitled to 14.5% of the funds transferred to FONAVI.
- *Highway Fund.* The federal government is required to transfer 14% of revenues from the federal tax on fuels to the *Fondo de Vialidad* (the Highway Fund). The Highway Fund distributes these funds to the provinces on the basis of road construction and maintenance expenditures of each province, as well as other factors that include population size and fuel consumption.

Federal Contributions

The Province records other, non-refundable payments or transfers from the federal government as federal contributions. These contributions consist primarily of discretionary transfers to the provinces, known as *Aportes del Tesoro Nacional*, to meet special or emergency needs or to finance certain expenditures of national interest. Before 2005, these contributions also included fees paid by the federal government to the provincial Institute of Lotteries and Casinos for the operation of national lottery and other gaming activities within the territory of the Province, which fees ceased to be paid when the Province assumed control of these activities in 2004.

In addition, pursuant to a 1999 agreement among the federal government and the provinces, the federal government offered to assume responsibility for provincial pension obligations within the national pension system and agreed to fund deficits in any provincial pension systems that were not transferred to it. Because the Province elected not to transfer its pension system to the federal government, it is entitled to receive transfers from the federal government from time to time to finance projected deficits in the provincial pension system. In exchange, the Province committed to harmonize its social security system with the federal social security system. The federal government did not make any transfers from 2001 through 2003, but transferred Ps.300 million in 2004 as compensation for deficits recorded by the provincial pension system during those years. The federal government transferred Ps.550 million to the Province in 2005 as compensation for deficits recorded by the provincial pension system in previous years. In addition, the revised 2006 budget law forecasts that the federal government will transfer Ps.700 million to the Province in 2006 as compensation for these deficits. Because the Province provisionally funded these deficits using general provincial revenues, there are no restrictions on the Province's use of such transferred amounts.

Provincial Tax Revenues

Historically, the largest source of the Province's revenues has been the collection of provincial taxes. The Province currently collects the following five main taxes:

- *Gross Revenues Tax.* The gross revenues tax is the single largest source of provincial tax revenue. Gross revenues of most commercial or business activities carried out within the jurisdiction of the Province are taxed at fixed rates that range from 1% for primary economic activities (such as agriculture) to 3.5% for service activities.
- *Real Estate Tax.* The real estate tax is determined by applying a tax assessment on the appraised value (a percentage of the market value) of urban and rural real estate located in the Province. All real estate owned by federal, provincial and municipal governments, religious temples, non-profit organizations, universities, historical monuments, public libraries, health care organizations and free social assistance and fire fighting services, among others, are exempt from the real estate tax. The Province has delegated to a number of municipalities the right to collect real estate taxes in rural areas in order to increase efficiency in the administration and collection of this tax. Proceeds from such taxes are transferred to the Province, except for 25% of such proceeds, which are retained by the municipalities. See "The Province of Buenos Aires—Municipalities." In addition, in 2005, urban properties and rural productive properties were reappraised at higher rates, resulting in higher revenues to the Province.
- *Automobile Tax.* The Province charges a tax on automobiles registered in the Province. The rate of this tax is determined by taking into consideration the model, year, type, category and appraised value of the vehicle, and is set forth annually in a provincial tax law. The appraised value of each vehicle is calculated as a percentage of the valuation determined by an insurance company controlled by Banco Provincia as of January 1 of each year.
- *Stamp Tax.* The Province levies a stamp tax on several categories of agreements and transactions entered into within its territory or that have effects in the Province and that are documented in private or public instruments. The rate of this tax ranges from 0.1% to 4% (or, in the case of lottery tickets, 20%) of the value of the underlying agreement or transaction, depending on the subject of the transaction.

- *Energy Tax.* The Province levies a tax on the companies that distribute electricity within its territory, either by means of a concession of the federal or the provincial government. The rate of this tax is 0.6% on the gross revenues attributable to the sale of electricity to final consumers. Companies that are subject to the energy tax are exempt from the gross revenues tax, the stamp tax, the automobile tax and the real estate tax. A significant portion of the revenues derived from this tax is allocated to service payments on provincial debt incurred with the federal government in connection with the construction of the *Comandante Luis Piedrabuena* power plant, which has since been privatized.

Tax Amnesty Plans. Historically, the Province has experienced difficulties in collecting taxes, particularly from 1998 through 2002 as the economic recession and crisis reduced the provincial tax base. During this time, reduced disposable income levels made it difficult for taxpayers to meet their obligations for taxes that are not linked to income, such as real estate and automobile taxes, and the Province experienced difficulties in tax administration, which limited tax compliance and collections. Tax compliance rates tend to vary by tax category, ranging from as low as 65% in the case of the gross revenues tax and real estate taxes to approximately 80% in the case of the automobile tax and the stamp tax during the recession and crisis. Since the beginning of the Province’s economic recovery in 2002, however, increased disposable income levels have led to an improvement in provincial tax collection rates.

The Province has established several tax amnesty and incentive plans for the collection of overdue taxes since 2002, which, along with other efforts of the Province to strengthen tax enforcement, have provided significant additional funds to the Province in recent periods. These programs provide attractive features to taxpayers, including discounts on the interest rate applicable to past-due tax obligations and flexible payment plans. In 2004, the Province launched two new tax amnesty programs, the *Plan de Sinceramiento Fiscal* (Fiscal Sincerity Plan) and the *Plan Aguinaldo* (Year-End Bonus Plan). Pursuant to these plans, taxpayers were able to satisfy past-due tax liabilities at a discount and under payment schedules tailored to each taxpayer’s financial situation. During 2005, the Province launched several new tax amnesty programs with similar benefits and varying levels of discounts, which generated significant revenues in 2005. The Province anticipates that collections under these plans will decline over time due to the decrease in unpaid taxes resulting from the implementation of these plans and the implementation of other programs to increase the efficiency of collection of current taxes and reduce the difference between the amount of taxes due and the amount of taxes actually collected. See “—The 2006 Budget—2006 Projected Fiscal Result as Compared to Fiscal Result of 2005” for further discussion of the expected levels of tax collections in 2006 as a result of the tax amnesty programs.

Provincial Non-Tax Revenues

The Province derives non-tax revenues from various sources, including:

- transfers of net profits or surpluses from unconsolidated provincial agencies and enterprises, including the provincial Institute of Lotteries and Casinos (see “The Provincial Economy—Provincial Enterprises”);
- fees collected by the provincial judicial system; and
- interest accrued on the Province’s deposits with Banco Provincia.

Revenues from Asset Sales and Loan Recoveries

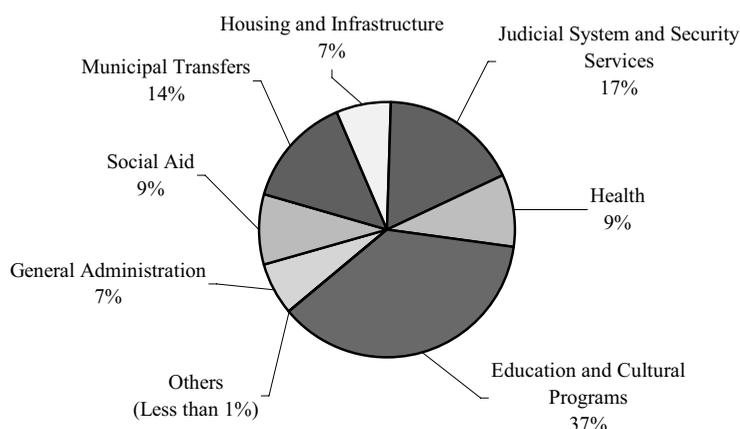
The Province records revenues from repayments on loans made by it to municipalities and from proceeds from the sale of assets. These revenues have historically represented a small portion of the Province’s total revenues, though the proceeds from the occasional sale of a significant financial or physical asset has increased this portion in certain years. The Province also records revenues from recoveries on loans transferred as a result of the efforts of the Loan Recovery Committee. See “The Provincial Economy—Provincial Enterprises—Loan Recovery Committee.”

Composition of Expenditures

The Province's expenditures are classified as current and capital expenditures. Current expenditures consist of costs of personnel, goods and services and current transfers, which are net payments made by the Province to its municipalities in accordance with a provincial tax co-participation regime and to unconsolidated provincial agencies and enterprises. Capital expenditures include real direct investment, loans and capital contributions to provincial enterprises and loans and transfers to municipalities for public works.

The Province's expenditures consist of spending on education, health programs, social programs, municipalities, investments in public infrastructure and services, police, courts and prisons, and general provincial administration. Combined spending on education, health programs, social programs and police, courts and prisons accounts for approximately 70% of the Province's total expenditures (excluding interest expenses).

Total Expenditures (Excluding Interest Expenses) for the Year Ended December 31, 2005 (Total = Ps.18.2 billion⁽¹⁾)



(1) Excluding debt service. Interest expenses amounted to Ps.455 million in 2005.
Source: Ministry of Economy of the Province.

Current Expenditures

Personnel. Personnel expenditures, which consist mainly of wages and other benefits paid to employees of the general administration of the Province, make up the largest component of the Province's total expenditures, representing approximately one half of total expenditures (excluding interest expenses) in each year since 2001. Personnel expenditures include contributions made by the Province to the provincial pension system and the provincial medical insurance programs for its employees, but do not include direct transfer payments by the Province to cover any pension system deficits. These current deficit transfers are recorded under "Current Transfers" in the Province's accounts. Provincial public employees contribute to, and receive benefits from, IPS. Employees of Banco Provincia and members of the provincial police force are covered by separate pension systems.

Provincial Employees (2001-2005)
(number of employees)

	At December 31,									
	2001		2002		2003		2004		2005	
Education.....	206,459	60.2%	206,461	60.2%	206,467	60.3%	205,260	59.0%	205,256	58.0%
Security Services	56,407	16.5	56,622	16.5	56,961	16.6	59,784	17.2	62,613	17.7
Health and Social Aid...	40,155	11.7	41,227	12.0	41,457	12.1	42,043	12.1	40,956	11.6
Judicial System.....	15,151	4.4	15,171	4.4	15,390	4.5	15,619	4.5	16,608	4.7
Other.....	<u>24,536</u>	<u>7.2</u>	<u>23,365</u>	<u>6.8</u>	<u>22,330</u>	<u>6.5</u>	<u>25,046</u>	<u>7.2</u>	<u>28,474</u>	<u>8.0</u>
Total	<u>342,709</u>	<u>100.0%</u>	<u>342,847</u>	<u>100.0%</u>	<u>342,606</u>	<u>100.0%</u>	<u>347,753</u>	<u>100.0%</u>	<u>353,907</u>	<u>100.0%</u>

Source: Ministry of Economy of the Province.

The Province's employee base remained stable from the economic crisis in 2001 through 2003. The number of provincial employees increased by 1.5% in 2004, as compared to 2003, and by 1.8% in 2005, as compared to 2004. These increases were due mainly to new appointments in the provincial judicial system, reflecting the creation of new criminal and family courts and new prosecutor and public defender positions and the reinforcement of existing criminal courts and auxiliaries, as well as new appointments in the security services to reinforce Buenos Aires, communal and district police forces. The revised 2006 budget authorized up to 30,262 new appointments in the provincial education system.

Goods and Services. The Province purchases a wide variety of goods and services from the private sector in connection with the provision of education, health, security and other public services, and the administration and general maintenance of the provincial government.

Current Transfers. Pursuant to provincial law, the Province is required to transfer to its municipalities 16.14% of the funds received by the Province under the federal tax co-participation regime and of the provincial tax revenues collected by the Province, except for those relating to energy taxes and a portion of the real estate tax. These transfers to municipalities typically represent more than one half of the total current transfers made by the Province. The balance represents transfers to finance, among others, deficits of the provincial police retirement and pension fund, various social programs, subsidies for private schools and health-related scholarships. However, pursuant to provincial law, the Province is entitled to withhold a portion of amounts to be transferred to the municipalities to capitalize a special fund for social programs.

The Province's pension system functions on a "pay-as-you-go" basis, meaning that it does not maintain funds that are invested to meet future pension obligations. Instead, it receives stipulated contributions from employees and from the Province on behalf of its employees and uses those funds as needed to meet current payment obligations to beneficiaries. If required payments exceed the funds contributed to the pension system by employees and by the Province on behalf of the employees, the Province is required by provincial law to cover the deficit.

Capital Expenditures

Capital Investments. Capital investments have historically constituted an important component of total capital expenditures. Most capital investments reflect the funding of public works, such as hydraulic and waterworks, housing plans, roads and construction of public buildings. Other capital investments include the purchase of new capital goods such as hospital equipment, automobiles and computers.

Loans and Capital Contributions. This category comprises loans to municipalities, principally for municipal public works and low-cost housing plans, as well as capital contributions to provincial enterprises. Loans and capital contributions fluctuate in accordance with the economic conditions and budgetary constraints of the Province.

Transfers for Public Works. Under the *Programa para el Fortalecimiento de los Municipios* (Program for the Strengthening of Municipalities, or “PFM”), the Province allocates loan proceeds received through the federal government from multilateral organizations, such as the World Bank, to municipalities for purposes of public works. Recipient municipalities must eventually reimburse the PFM for the amount of such transfers and the PFM, in turn, repays borrowed amounts to the multilateral lenders through the federal government.

Evolution of Fiscal Results: 2001-2006

Fiscal Results (in millions of pesos, except as otherwise indicated)

	For the year ended December 31,						For the six months ended June 30,		
	2001	2002	2003	2004	2005	2005 ⁽⁹⁾	2005	2006	2006 ⁽⁷⁾
Current Account									
Current Revenues ⁽¹⁾									
Federal Tax Co-Participation	Ps. 2,049	Ps. 1,876	Ps. 2,803	Ps. 4,346	Ps. 5,447	U.S.\$ 1,867	Ps. 2,658	Ps. 3,235	U.S.\$ 1,055
Other Federal Tax Transfers ⁽²⁾	1,458	1,635	1,490	1,478	1,526	523	1,118	1,160	378
Federal Contributions	19	161	136	573	1,045	358	123	291	95
Total Federal Transfers	3,525	3,673	4,429	6,396	8,017	2,748	3,900	4,686	1,528
Provincial Taxes	3,565	4,298	5,681	7,158	8,592	2,945	4,116	5,015	1,635
Provincial Non-Tax Revenues ⁽³⁾⁽⁴⁾	518	617	1,006	1,065	1,352	464	435	699	228
Total Provincial Revenues	4,083	4,915	6,687	8,222	9,944	3,409	4,551	5,713	1,863
Total Current Revenues	7,608	8,588	11,116	14,619	17,961	6,158	8,452	10,400	3,391
Current Expenditures									
Personnel ⁽²⁾	5,642	5,298	5,425	6,611	9,250	3,171	4,160	5,652	1,843
Goods and Services	1,211	1,091	1,384	1,651	2,007	688	905	1,002	327
Current Transfers ⁽²⁾	2,752	2,945	3,517	4,507	5,517	1,891	2,645	3,177	1,036
Miscellaneous ⁽⁵⁾	—	—	—	8	32	11	2	1	—
Total Current Expenditures	9,606	9,334	10,326	12,777	16,806	5,761	7,712	9,832	3,206
Current Account Balance	(1,997)	(747)	790	1,842	1,155	396	739	568	185
Capital Account									
Revenues from Asset Sales and Loan Recoveries ⁽⁴⁾									
	87	882	150	237	393	135	43	104	34
Capital Expenditures									
Capital Investments	197	69	214	734	719	247	166	350	114
Loans and Capital Contributions	1,538	374	114	270	222	76	72	119	39
Transfers for Public Works	106	167	283	317	429	147	170	166	54
Total Capital Expenditures	1,841	610	610	1,320	1,369	469	408	635	207
Total Capital Account	(1,754)	272	(460)	(1,083)	(976)	(334)	(365)	(531)	(173)
Total Revenues	7,695	9,469	11,266	14,855	18,354	6,292	8,495	10,504	3,425
Total Expenditures	11,447	9,945	10,935	14,097	18,175	6,231	8,121	10,466	3,413
Primary Balance ⁽⁶⁾	(3,752)	(476)	330	758	179	61	375	38	12
Interest Expense ⁽⁵⁾⁽⁷⁾	(640)	(293)	(471)	(449)	(455)	(156)	(224)	(395)	(129)
Total Surplus /(Deficit)	(4,392)	(769)	(141)	309	(276)	(95)	150	(357)	(117)
Overall Financial Result⁽¹⁾⁽¹²⁾									
Total Surplus /(Deficit)	(4,392)	(769)	(141)	309	(276)	(95)	150	(357)	(117)
Borrowings (Repayments) ⁽⁸⁾									
Borrowings ⁽⁹⁾	3,275	2,877	699	1,392	2,054	704	311	1,065	347
Repayments ⁽⁴⁾⁽⁵⁾⁽¹⁰⁾	(365)	(476)	(351)	(1,158)	(1,751)	(600)	(822)	(1,199)	(391)
Total, Net	2,910	2,402	347	234	303	104	(511)	(134)	(44)
Overall Financial Result ⁽¹¹⁾	Ps. (1,482)	Ps. 1,633	Ps. 206	Ps. 543	Ps. 27	U.S.\$ 9	Ps. (361)	Ps. (491)	U.S.\$ (160)

- (*) Peso amounts for the year ended December 31, 2005 have been translated into U.S. dollars solely for the convenience of the reader at a rate of Ps.2.9169 per one U.S. dollar, which was the average rate published by the Central Bank in 2005. Peso amounts for the six months ended June 30, 2006 have been translated into U.S. dollars solely for the convenience of the reader at the average rate of Ps.3.0663 per one U.S. dollar, which was the rate published by the Central Bank for the first six months of 2006. The U.S. dollar equivalent information should not be construed to imply that the peso amounts represent or could have been or could be converted into U.S. Dollars at such rates or any other rate.
- (1) Excludes revenues and transfers related to social security.
 - (2) Excludes federal transfers and current expenditures related to the *Fondo de Incentivo Docente* (Teachers' Incentive Fund).
 - (3) Excludes "expired residual liabilities" or expenditures accrued and not effectively disbursed, which are recorded as revenues by the General Accounting Office. See "—Scope and Methodology."
 - (4) Revenues from the Loan Recovery Committee (Law No. 12,726) in 2004 and 2005 are recorded under "Revenues from Asset Sales and Loan Recoveries," except for loan repayments made using provincial bonds, which are recorded as "Repayments." The General Accounting Office records these revenues (including loan repayments made using provincial bonds) as "Provincial Non-tax Revenues."
 - (5) Excludes exchange losses on foreign currency debt service, which are recorded by the General Accounting Office under "Miscellaneous" because the underlying debt, when incurred, was recorded at an exchange rate of Ps.1.00 to U.S.\$1.00. Actual debt service payments are recorded under "Interest expense" and "Repayments," as applicable.
 - (6) Does not reflect adjustments made by the General Accounting Office relating to revenues earmarked for specific expenditures that are made in future periods. The General Accounting Office reallocates these revenues from the period in which they are received to the period in which the related expenditures are made. The General Accounting Office reallocated Ps.160 million in revenues from 2003 to 2004, Ps.852 million in revenues from 2004 to 2005 and Ps.470 million in revenues from 2005 to 2006. The amount of revenues reallocated in each of 2001 and 2002 was not material.
 - (7) Excludes interest payments on debt subject to the suspension of debt payments as from December 31, 2001. Following the restructuring of the Province's Eurobonds in 2005, as of June 30, 2006 approximately Ps.891 million of foreign-currency debt remains subject to this suspension of payment.
 - (8) Borrowings and repayments of debt with a maturity of more than one year.
 - (9) Includes Ps.263 million under the November 2005 refinancing agreement related to the 2004 PFO. See "Public Sector Debt—Orderly Financing Program (PFO)."
 - (10) Excludes payments to multilateral institutions made by the federal government for the Province. See "Public Sector Debt—Orderly Financing Program (PFO)."
 - (11) Excludes surplus from prior periods, as applicable.
 - (12) Total Surplus/(Deficit) plus net borrowings.

Source: Ministry of Economy of the Province.

Fiscal Results
(in millions of constant pesos)^(*)

	For the year ended December 31,					For the six months ended June 30,	
	2001	2002	2003	2004	2005*	2005	2006
Current Account							
Current Revenues ⁽¹⁾							
Federal Tax Co-Participation	Ps. 3,349	Ps. 2,437	Ps. 3,209	Ps. 4,765	Ps. 5,447	Ps. 2,694	Ps. 3,235
Other Federal Tax Transfers ⁽²⁾	2,383	2,124	1,705	1,619	1,526	1,247	1,160
Federal Contributions.....	31	209	156	628	1,045	137	291
Total Federal Transfers	5,763	4,770	5,071	7,013	8,017	4,348	4,686
Provincial Taxes	5,828	5,581	6,503	7,848	8,592	4,588	5,015
Provincial Non-Tax Revenues ⁽³⁾⁽⁴⁾	846	801	1,152	1,167	1,352	485	699
Total Provincial Revenues	6,674	6,383	7,655	9,015	9,944	5,074	5,713
Total Current Revenues	12,437	11,153	12,726	16,028	17,961	9,422	10,400
Current Expenditures							
Personnel ⁽²⁾	9,223	6,881	6,210	7,249	9,250	4,638	5,652
Goods and Services.....	1,980	1,417	1,584	1,810	2,007	1,009	1,002
Current Transfers ⁽²⁾	4,499	3,825	4,026	4,941	5,517	2,948	3,177
Miscellaneous ⁽⁵⁾	—	—	—	8	32	2	1
Total Current Expenditures	15,703	12,123	11,821	14,009	16,806	8,597	9,832
Current Account Balance	(3,266)	(970)	905	2,019	1,155	824	568
Capital Account							
Revenues from Asset Sales and Loan Recoveries ⁽⁴⁾							
	142	1,145	171	259	393	48	104
Capital Expenditures							
Capital Investments.....	322	89	245	805	719	185	350
Loans and Capital Contributions....	2,515	486	130	296	222	80	119
Transfers for Public Works	173	217	324	347	429	190	166
Total Capital Expenditures.....	3,010	793	698	1,448	1,369	455	635
Total Capital Account	(2,868)	352	(527)	(1,189)	(976)	(407)	(531)
Total Revenues	12,579	12,298	12,897	16,287	18,354	9,470	10,504
Total Expenditures	18,713	12,916	12,519	15,456	18,175	9,052	10,466
Primary Balance ⁽⁶⁾	(6,134)	(618)	378	831	179	418	38
Interest Expense ⁽⁵⁾⁽⁷⁾	(1,047)	(381)	(540)	(493)	(455)	(250)	(395)
Total Surplus/(Deficit)	(7,180)	(999)	(162)	338	(276)	168	(357)
Overall Financial Result⁽¹⁾⁽¹²⁾							
Total Surplus/(Deficit)	(7,180)	(999)	(162)	338	(276)	168	(357)
Borrowings (Repayments) ⁽⁸⁾							
Borrowings ⁽⁹⁾	5,354	3,737	800	1,526	2,054	346	1,065
Repayments ⁽⁴⁾⁽⁵⁾⁽¹⁰⁾	(597)	(618)	(402)	(1,269)	(1,751)	(916)	(1,199)
Total, Net.....	4,757	3,119	398	257	303	(570)	(134)
Overall Financial Result ⁽¹¹⁾	Ps. (2,423)	Ps. 2,120	Ps. 236	Ps. 595	Ps. 27	Ps. (402)	Ps. (491)

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- (*) Constant peso values for all annual periods are calculated on the basis of the annual average CPI for 2005. Constant peso values for the six-month periods are calculated on the basis of the average CPI for the first six months of 2006.
- (1) Excludes revenues and transfers related to social security.
 - (2) Excludes federal transfers and current expenditures related to the *Fondo de Incentivo Docente* (Teachers' Incentive Fund).
 - (3) Excludes "expired residual liabilities" or expenditures accrued and not effectively disbursed, which are recorded as revenues by the General Accounting Office. See "—Scope and Methodology."
 - (4) Revenues from the Loan Recovery Trust (Law No. 12,726) in 2004 and 2005 are recorded under "Revenues from Asset Sales and Loan Recoveries," except for loan repayments made using provincial bonds, which are recorded as "Repayments." The General Accounting Office records these revenues (including loan repayments made using provincial bonds) as "Provincial Non-tax Revenues."
 - (5) Excludes exchange losses on foreign currency debt service, which are recorded by the General Accounting Office under "Miscellaneous" because the underlying debt, when incurred, was recorded at an exchange rate of Ps.1.00 to U.S.\$1.00. Actual debt service payments are recorded under "Interest expense" and "Repayments," as applicable.
 - (6) Does not reflect adjustments made by the General Accounting Office relating to revenues earmarked for specific expenditures that are made in future periods. The General Accounting Office reallocates these revenues from the period in which they are received to the period in which the related expenditures are made. The General Accounting Office reallocated Ps.160 million in revenues from 2003 to 2004, Ps.852 million in revenues from 2004 to 2005 and Ps.470 million in revenues from 2005 to 2006. The amount of revenues reallocated in each of 2001 and 2002 was not material.
 - (7) Excludes interest payments on debt subject to the suspension of debt payments as from December 31, 2001. Following the restructuring of the Province's Eurobonds in 2005, as of June 30, 2006 approximately Ps.891 million of foreign-currency debt remains subject to this suspension of payment.
 - (8) Borrowings and repayments of debt with a maturity of more than one year.
 - (9) Includes Ps.263 million under the November 2005 refinancing agreement related to the 2004 PFO. See "Public Sector Debt—Orderly Financing Program (PFO)."
 - (10) Excludes payments to multilateral institutions made by the federal government for the Province. See "Public Sector Debt—Orderly Financing Program (PFO)."
 - (11) Excludes surplus from prior periods, as applicable.
 - (12) Total Surplus/(Deficit) plus net borrowings.
- Source: Ministry of Economy of the Province.

The following tables set forth the composition of the Province's tax revenues for the periods indicated:

Composition of Tax Revenues
(in millions of pesos)

	For the year ended December 31,					For the six months ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
Federal Tax Transfers							
Federal Tax Co-Participation.....	Ps. 2,049	Ps. 1,876	Ps. 2,803	Ps. 4,346	Ps. 5,447	Ps. 2,658	Ps. 3,235
School Transfers ⁽¹⁾	380	251	368	368	368	184	184
Conurbano Fund.....	626	637	650	650	650	650	657
FONAVI.....	101	72	82	80	85	42	46
Highway Fund.....	65	52	55	56	58	26	28
LECOPS Transfers ⁽²⁾	70	437	—	—	—	—	—
Others.....	216	186	335	324	365	216	245
Total Federal Tax Transfers.....	<u>3,507</u>	<u>3,512</u>	<u>4,293</u>	<u>5,824</u>	<u>6,972</u>	<u>3,777</u>	<u>4,395</u>
Provincial Taxes							
Gross Revenues Tax.....	1,791	2,085	3,106	4,142	5,174	2,448	3,077
Real Estate Tax.....	588	632	805	1,019	1,212	656	618
Automobile Tax.....	364	327	369	403	552	277	361
Stamp Tax.....	303	295	425	509	685	305	409
Energy Tax.....	201	210	203	208	231	91	121
Tax Amnesty Plans.....	318	748	773	877	737	339	429
Total Provincial Taxes.....	<u>Ps. 3,565</u>	<u>Ps. 4,298</u>	<u>Ps. 5,681</u>	<u>Ps. 7,158</u>	<u>Ps. 8,592</u>	<u>Ps. 4,116</u>	<u>Ps. 5,015</u>

(1) Excludes transfers to the *Fondo de Incentivo Docente* (Teachers' Incentive Fund).

(2) In September 2001, the federal government agreed to issue, on behalf of the Province, new quasi-currency bonds known as LECOPS in exchange for the Province's commitment to remove *Patacones* from circulation. Pursuant to a series of subsequent agreements, the federal government agreed to compensate the Province for unpaid federal co-participation tax transfers accrued between July 1, 2001 and February 28, 2002, and other amounts owed to the Province, by assuming an equal amount of the Province's obligations under the LECOPS issued on its behalf. Accordingly, the Province recorded the amount of its LECOPS debt obligations assumed by the federal government in each of 2001 and 2002 under "Other Federal Tax Transfers."

Source: Ministry of Economy of the Province.

Composition of Tax Revenues
(in millions of constant pesos)^(*)

	For the year ended December 31,					For the six months ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
Federal Tax Transfers							
Federal Tax Co-Participation.....	Ps. 3,349	Ps. 2,437	Ps. 3,209	Ps. 4,765	Ps. 5,447	Ps. 2,964	Ps. 3,235
School Transfers ⁽¹⁾	622	325	421	403	368	205	184
Conurbano Fund.....	1,023	828	744	713	650	725	657
FONAVI.....	165	94	94	87	85	47	46
Highway Fund.....	106	67	63	61	58	29	28
LECOPS Transfers ⁽²⁾	114	568	—	—	—	—	—
Others.....	353	242	383	355	365	241	245
Total Federal Tax Transfers.....	<u>5,732</u>	<u>4,561</u>	<u>4,915</u>	<u>6,385</u>	<u>6,972</u>	<u>4,211</u>	<u>4,395</u>
Provincial Taxes							
Gross Revenues Tax.....	2,928	2,708	3,556	4,541	5,174	2,728	3,077
Real Estate Tax.....	960	821	922	1,117	1,212	731	618
Automobile Tax.....	596	424	422	442	552	309	361
Stamp Tax.....	495	384	487	558	685	340	409
Energy Tax.....	328	273	232	228	231	101	121
Tax Amnesty Plans.....	520	971	885	962	737	378	429
Total Provincial Taxes.....	<u>Ps. 5,828</u>	<u>Ps. 5,581</u>	<u>Ps. 6,503</u>	<u>Ps. 7,848</u>	<u>Ps. 8,592</u>	<u>Ps. 4,588</u>	<u>Ps. 5,015</u>

(*) Constant peso values for all annual periods are calculated on the basis of the annual average CPI for 2005. Constant peso values for the six-month periods are calculated on the basis of the average CPI for the first six months of 2006.

(1) Excludes transfers to the *Fondo de Incentivo Docente* (Teachers' Incentive Fund).

(2) In September 2001, the federal government agreed to issue, on behalf of the Province, new quasi-currency bonds known as LECOPS in exchange for the Province's commitment to remove *Patacones* from circulation. Pursuant to a series of subsequent agreements, the federal government agreed to compensate the Province for unpaid federal co-participation tax transfers accrued between July 1, 2001 and February 28, 2002, and other amounts owed to the Province, by assuming an equal amount of the Province's obligations under the LECOPS issued on its behalf. Accordingly, the Province recorded the amount of its LECOPS debt obligations assumed by the federal government in each of 2001 and 2002 under "Other Federal Tax Transfers."

Source: Ministry of Economy of the Province.

Fiscal Result of 2002 as Compared to Fiscal Result of 2001

Primary Balance. The Province's primary deficit declined in 2002 by a total of Ps.3.3 billion, or 87.3%, to Ps.476 million, from Ps.3.8 billion in 2001, primarily as a result of a 23.1% increase in total revenues and a 13.1% reduction in total expenditures (excluding interest expense).

Total Revenues. In 2002, total revenues increased by 23.1%, to Ps.9.5 billion, from Ps.7.7 billion in 2001. This increase was attributable primarily to:

- an increase of revenues from asset sales and loan recoveries, to Ps.882 million in 2002, from Ps.87 million in 2001, reflecting proceeds of Ps.860 million from the sale of U.S. treasury bonds to Banco Provincia pursuant to a debt offsetting agreement. In 1999, the Province pledged to Banco Provincia zero-coupon U.S. Treasury Bonds, maturing in 2024 and 2025, with an aggregate nominal value of U.S.\$1.9 billion, as collateral for two restructured loans originally extended by Banco Provincia to the former provincial electric utility company and the provincial highway authority. Because these two debt obligations were tendered for *Bogar* in the provincial debt exchange, the Province and Banco Provincia entered into a Debt Offsetting Agreement in November 2002 pursuant to which the collateral was released and Banco Provincia acquired these U.S. treasury bonds from the Province for Ps.1.0 billion, their market value at February 4, 2002. In exchange, Banco Provincia agreed to cancel certain debt and other obligations of the Province to Banco Provincia and certain debt obligations of the Province to third parties guaranteed by Banco Provincia, in a total amount of Ps.860 million. The Debt Offsetting Agreement also provided for Banco Provincia's transfer to the Province of certain claims against the municipalities as well as certain real properties;
- a 20.5% increase in provincial tax revenues to Ps.4.3 billion, from Ps.3.6 billion in 2001, consisting of the following:
 - a 16.4% increase in gross revenues tax collections, to Ps.2.1 billion from Ps.1.8 billion in 2001;
 - a 135.2% increase in revenues derived from provincial tax amnesty plans, to Ps.748 million from Ps.318 million in 2001, due in large part to an increase in taxpayer disposable income levels; and
 - a 7.6% increase in revenues from real estate taxes, to Ps.632 million from Ps.588 million in 2001; and
- a 4.2% increase in total federal transfers to the Province, to Ps.3.7 billion, from Ps.3.5 billion in 2001, despite an 8.4% decrease in federal tax co-participation transfers, to Ps.1.9 billion, from Ps.2.0 billion in 2001. This decrease resulted from the federal government's acceptance of federal bonds in satisfaction of tax payments, which were not transferred to the provinces under the federal tax co-participation regime. See "Public Sector Debt—Debt Offsetting Agreement and Supplemental 2004 PFO Agreement."

Total Expenditures. In 2002, the Province's total expenditures (excluding interest expense) declined by 13.1%, to Ps.9.9 billion from Ps.11.4 billion in 2001, primarily as a result of a 66.9% decrease in capital expenditures and, to a lesser extent, a 2.8% reduction in current expenditures. These decreases, which resulted directly from the economic crisis, reflect the following:

- a 75.7% decrease in loans and capital contributions, to Ps.374 million, from Ps.1.5 billion in 2001 (reflecting a return to normal levels following an atypical high in 2001), and a 65% decline in capital contributions, to Ps.69 million, from Ps.197 million in 2001, which were partly offset by a 57.5% increase in transfers for public works, to Ps.167 million, from Ps.106 million in 2001, due to the resumption of certain municipal infrastructure projects that had been suspended during the crisis; and
- a 6.1% decrease in expenditures on personnel, to Ps.5.3 billion, from Ps.5.6 billion in 2001, due to reductions of the salaries and benefits of certain employees in response to the crisis, and a 9.9%

decrease in spending on goods and services, to Ps.1.1 billion, from Ps.1.2 billion in 2001, which were partly offset by a 7.0% increase in current transfers, to Ps.2.9 billion, from Ps.2.8 billion in 2001, reflecting increased provincial tax transfers to the municipalities due to increased tax collections.

Total Surplus/(Deficit). In 2002, the Province recorded a total deficit of Ps.769 billion, compared to a total deficit of Ps.4.4 billion in 2001, reflecting the decline in the Province's primary balance deficit, and a 54.2% decrease in interest expense, to Ps.293 million, from Ps.640 million in 2001, attributable to the suspension of interest payments on the Province's public debt.

Overall Financial Result. In 2002, the Province recorded an overall financial surplus (total deficit plus net borrowings) of Ps.1.6 billion, compared to an overall financial deficit of Ps.1.6 billion in 2001, reflecting the improvement in the total deficit and a 17.5% decline in the Province's net borrowings, to Ps.2.4 billion, from Ps.2.9 billion in 2001.

Fiscal Result of 2003 as Compared to Fiscal Result of 2002

Primary Balance. In 2003, the Province recorded a primary surplus for the first time since 1993. This surplus was equal to Ps.330 million, compared to a primary deficit of Ps.476 million in 2002. This increase resulted from a 19.0% increase in total revenues, which was partly offset by a 10.0% increase in total expenditures (excluding interest expense).

Total Revenues. In 2003, total revenues increased by 19.0%, to Ps.11.3 billion from Ps.9.5 billion in 2002. This increase was attributable in large part to:

- a 32.2% increase in provincial tax revenues, to Ps.5.7 billion, from Ps.4.3 billion in 2002, due to increased taxpayer liquidity amid the Province's economic recovery and increased taxpayer compliance that resulted from improvements in provincial tax law enforcement. Tax revenue increases included the following:
 - a 49.0% increase in gross revenues tax collections, attributable to the growth in the Province's overall tax base during its general economic recovery;
 - a 27.4% increase in revenues from real estate taxes, due partly the appreciation of real property in the Province and changes in the valuations of certain agricultural properties, which increased the tax base, and partly to the Province's delegation to the municipalities of the authority to collect this tax; and
 - a 43.9% increase in revenues from stamp taxes, reflecting the increase in real property values as well as an extension of the stamp tax to certain agricultural transactions;
- a 20.6% increase in total federal transfers, to Ps.4.4 billion, from Ps.3.7 billion in 2002, due to a 49.4% increase in federal tax co-participation transfers, which was partially offset by a combined 9.5% decline in other federal transfers; and
- a 63.1% increase in provincial non-tax revenues, to Ps.1.0 billion, from Ps.617 million in 2002, attributable mainly to increased revenues from the Institute of Lotteries and Casinos, which resulted mainly from fees charged for the operation of slot machines starting in 2003, and to revenues from the Loan Recovery Committee.

The increase in total revenues was offset partly by an 83.0% decline in revenues from asset sales and loan recoveries in 2003, reflecting a return to normal levels following the one-time sale of U.S. treasury bonds to Banco Provincia in 2002.

Total Expenditures. In 2003, the Province's total expenditures (excluding interest expense) increased by 10.0%, to Ps.10.9 billion, from Ps.9.9 billion in 2002, as a result of a 10.6% increase in current expenditures, to Ps.10.3 billion from Ps.9.3 billion in 2002. The increase in current expenditures reflects the following:

- a 19.4% increase in current transfers, to Ps.3.5 billion from Ps.2.9 billion in 2002, (including a 39.0% increase in transfers to the municipalities, to Ps.1.3 billion from Ps.963 million in 2002) reflecting increases in the municipalities' allocation of co-participated tax revenues in proportion with increases in overall tax revenues, as well as increased spending on social programs intended to reduce unemployment;
- a 26.8% increase in spending on goods and services, to Ps.1.4 billion from Ps.1.1 billion in 2002, representing a return to normal spending levels following an atypical low in 2002 attributable to the economic crisis; and
- a 2.4% increase in personnel expenditures, to Ps.5.4 billion from Ps.5.3 billion in 2002, due to the adoption of a minimum salary for public employees, which had the practical effect of increasing the salaries of approximately 20% of the Province's employees.

Total Deficit. In 2003, the Province recorded a total deficit of Ps.141 million, compared to a total deficit of Ps.769 million in 2002, as a result of the improvement in the Province's primary balance, which more than offset a 60.8% increase in interest expense, to Ps.471 million, from Ps.293 million in 2002, attributable to the normalization of interest payments on certain domestic bonds, which had been suspended during the crisis.

Overall Financial Result. In 2003, the overall financial result declined from a surplus of Ps.1.6 billion in 2002 to a surplus of Ps.206 million. This decline reflected an 85.5% decrease in net borrowings, from Ps.2.4 billion in 2002 to Ps.347 million in 2003, and an improvement in the total deficit.

Fiscal Result of 2004 as Compared to Fiscal Result of 2003

Primary Balance. The Province's primary balance continued to improve during 2004, with a 129.5% increase in the primary surplus, to Ps.758 million, from Ps.330 million in 2003. This increase resulted from a 31.9% increase in total revenues, which was partly offset by a 28.9% increase in total expenditures (excluding interest expense).

Total Revenues. In 2004, total revenues increased by 31.9%, to Ps.14.9 billion, from Ps.11.3 billion in 2003. This increase, which resulted largely from an overall increase in tax revenues due to the ongoing economic recovery and the Province's efforts to promote tax compliance, reflects the following:

- a 26.0% increase in provincial tax revenues, to Ps.7.2 billion, from Ps.5.7 billion in 2003, reflecting continued improvements in tax enforcement, as well as:
 - a 33.4% increase in gross revenues tax collections, reflecting the continuation of the Province's economic recovery;
 - a 26.5% increase in revenues from real estate taxes, reflecting the continued appreciation of real property and the increased payment capacity of taxpayers as economic conditions continued to improve; and
 - a 13.5% increase in revenues derived from provincial tax amnesty plans; and
- a 44.4% increase in total federal transfers, to Ps.6.4 billion, from Ps.4.4 billion in 2003, due to:
 - a 55.0% increase in federal tax co-participation transfers, reflecting the continuation of Argentina's economic recovery and increased consumption; and

- a 320.7% increase in other federal contributions, reflecting primarily a Ps.300 million transfer to finance a deficit in the provincial pension system as well as a Ps.114 million transfer to fund federal social programs administered by the Province.

Total Expenditures. In 2004, the Province's total expenditures (excluding interest expense) increased by 28.9%, to Ps.14.1 billion from Ps.10.9 billion in 2003, reflecting the following increases in primary expenditures:

- a 21.9% increase in personnel expenditures, to Ps.6.6 billion, from Ps.5.4 billion in 2003, reflecting the following measures intended to increase the compensation of public employees:
 - the restoration in February 2004 of the salaries of public employees (which had been progressively reduced beginning in July 2001 pursuant to the Economic Emergency Law) to their June 2001 levels, as well as increases in public employee pension benefits and the monthly salaries of the Province's lowest-paid public employees; and
 - the implementation in July 2004 of:
 - a further increase in the monthly salaries of the Province's lowest-paid employees,
 - a retroactive increase in family dependent benefits paid to provincial employees, the accrual of which was suspended in 2001, in order to reinstate the rate at which this benefit would have accrued absent such a freeze and to compensate provincial employees accordingly, and
 - a further increase in family dependent benefits in order to make this benefit commensurate with that offered to federal employees;
- a 28.1% increase in current transfers, to Ps.4.5 billion, from Ps.3.5 billion in 2003 (including a 34% increase in transfers to the municipalities, to Ps.1.8 billion from Ps.1.3 billion in 2003), reflecting continued increases in the municipalities' allocation of co-participated tax revenues in proportion with increases in overall tax revenues and continued increased spending on social programs intended to reduce unemployment;
- a 19.3% increase in spending on goods and services, to Ps.1.7 billion, from Ps.1.4 billion in 2003; and
- a 116.5% increase in capital expenditures, resulting in large part from a 243.5% increase in real direct investments to Ps.734 million, from Ps.214 million in 2003, reflecting primarily the resumption of a number of infrastructure projects that had been suspended during the crisis as well as increased spending on new school construction, law enforcement and penal institutions.

Total Surplus/(Deficit). In 2004, the Province achieved a total surplus of Ps.309 million, compared to a total deficit of Ps.141 million 2003, reflecting the improvement of the Province's primary balance and a 4.7% decline in interest expense, to Ps.449 million, from Ps.471 million in 2003.

Overall Financial Result. The Province's overall financial result increased in 2004 to a surplus of Ps.543 million, compared to a surplus of Ps.206 million in 2003. This increase reflects the total surplus recorded in 2004, and a 32.5% decline in the Province's net borrowings, to Ps.234 million, from Ps.347 million in 2003.

Fiscal Result of 2005 as Compared to Fiscal Result of 2004

Primary Balance. The Province's primary surplus declined by 76.4% in 2005, to Ps.179 million from Ps.758 million in 2004. This significant decline in the primary balance resulted from a 28.9% increase in total expenditures (excluding interest expense), which more than offset a 23.6% increase in total revenues.

Total Revenues. In 2005, total revenues increased by 23.6%, to Ps.18.4 billion, from Ps.14.9 billion in 2004. This increase reflects the following:

- a 25.3% increase in total federal transfers, to Ps.8.0 billion in 2005 from Ps.6.4 billion in 2004, due primarily to a 19.7% increase in federal tax co-participation transfers (to Ps.5.5 billion in 2005 from Ps.4.4 billion in 2004) attributable to the continuation of Argentina's economic recovery and increased consumption; and
- a 20.0% increase in provincial tax revenues, to Ps.8.6 billion in 2005 from Ps.7.2 billion in 2004, due primarily to:
 - a 24.9% increase in gross revenues tax, to Ps.5.2 billion in 2005 from Ps.4.1 billion in 2004, attributable to the ongoing economic recovery and changes in the rules to enhance the taxable revenue base, as well as the Province's efforts to promote tax compliance and enforcement;
 - a 19.0% increase in real estate tax revenues, to Ps.1.2 billion in 2005 from Ps.1.0 billion in 2004, attributable in part to the continued efforts for early and effective detection of tax-noncompliance, as well as payment plans offered to taxpayers to regularize undeclared taxable home improvements;
 - a 36.8% increase in automobile tax collections, to Ps.552 million in 2005 from Ps.403 million in 2004, attributable to improved overall economic conditions and a comprehensive reform of the automobile tax system, including changes to enhance the taxable base, improvements in the valuation of vehicles subject to taxation and enhancements in the tax assessment system; and
 - a 34.5% increase in stamp tax collection, to Ps.685 million in 2005 from Ps.509 million in 2004, attributable to increased economic activity as well as changes in the tax base to extend the tax to transactions previously classified as tax exempt based on their nature or value, particularly real estate transactions within a certain value range and passenger transportation services;

which more than offset a 15.9% decline in revenues from tax amnesty plans, to Ps.737 million in 2005 from Ps.877 million in 2004.

Total Expenditures. In 2005, the Province's total expenditures (excluding interest expense) increased by 28.9%, to Ps.18.2 billion, from Ps.14.1 billion in 2004. This increase reflects the following:

- a 39.9% increase in personnel expenditures, to Ps.9.3 billion, from Ps.6.6 billion in 2004, reflecting the implementation in 2005 of various measures intended to continue to alleviate the situation of the Province's employees following the salary freeze and subsequent devaluation and inflation that resulted from the economic crisis, as well as the continuing effect of similar measures adopted in 2003 and 2004. The 2005 measures include:
 - further increases in salaries for provincial employees adopted in each of January, April and August 2005 (which also resulted in an equivalent decrease in the non-taxable portion of these salaries),
 - bonuses paid to provincial employees in January and August 2005 (which varied based on hours worked) in line, in the case of the January bonus, with similar bonuses paid by the federal government to its employees,
 - changes in payroll categories and reclassification of employees within the new categories in the provincial police, penitentiary and education systems, which was effective retroactively to January 1, 2005 and in practice resulted in salary increases for these employees,
 - the adoption in January 2005 of a Ps.600 minimum guaranteed amount of take-home pay for all employees (raised to Ps.640 in August 2005), which requires the Province to cover any payroll

taxes or charges that would result in an employee receiving less than the minimum guaranteed amount of take-home pay,

- a cumulative 30% increase in contributions to provincial employee pension systems, which was effected in July and October 2005, and
- a rise in the salary threshold for eligibility for additional compensation for family providers (in line with a similar increase adopted by the federal government);
- a 22.4% increase in current transfers, to Ps.5.5 billion, from Ps.4.5 billion in 2004, reflecting continued increases in the municipalities' allocation of co-participated tax revenues in proportion with increases in overall tax revenues and continued increased spending on social programs intended to reduce unemployment; and
- a 21.6% increase in spending on goods and services, to Ps.2.0 billion, from Ps.1.7 billion in 2004.

Total Surplus/(Deficit). In 2005, the Province recorded a total deficit of Ps.276 million, compared to the Ps.309 million total surplus in 2004, reflecting the significant decline in the primary balance, while the Province's interest expenses remained relatively stable in 2005.

Overall Financial Result. The overall financial result decreased to a surplus of Ps.27 million in 2005, compared to a Ps.543 million surplus in 2004. This decline was due to the total deficit, recorded in 2003 which was only partially offset by an increase in net borrowings to Ps.303 million in 2005, compared to Ps.234 million in net borrowings in 2004.

Fiscal Result of the First Six Months of 2006 as Compared to Fiscal Result of the First Six Months of 2005

Primary Balance. The Province's primary balance surplus declined by 90.0% in the first six months of 2006, to Ps.38 million from Ps.375 million in the first six months of 2005. This significant decline in the primary balance resulted from a 28.9% increase in total expenditures (excluding interest expense), which more than offset a 23.6% increase in total revenues.

Total Revenues. In the first six months of 2006, total revenues increased by 23.6%, to Ps.10.5 billion from Ps.8.5 billion in the first six months of 2005. This increase reflects the following:

- a 25.5% increase in provincial revenues, to Ps.5.7 billion in the first six months of 2006 from Ps.4.6 billion in the first six months of 2005, reflecting:
 - a 21.8% increase in provincial tax revenues, to Ps.5.0 billion in the first six months of 2006 from Ps.4.1 billion in the first six months of 2005, due primarily to a 25.7% increase in gross revenues tax (to Ps.3.1 billion in the first six months of 2006 from Ps.2.5 billion in the first six months of 2005), attributable to the sustained increase in provincial economic activity and the implementation of tax enforcement measures, as well as increases in collections of automobile taxes and stamp taxes and collections under tax amnesty plans, which more than offset a slight decline in real estate tax revenues, and
 - a 60.4% increase in provincial non-tax revenues, to Ps.699 million in the first six months of 2006 from Ps.435 million in the first six months of 2005, due primarily to an increase in transfers of net profits by the provincial Institute of Lotteries and Casinos;
- a 20.1% increase in total federal transfers, to Ps.4.7 billion in the first six months of 2006 from Ps.3.9 billion in the first six months of 2005, due primarily to:

- a 21.7% increase in federal tax co-participation transfers (to Ps.3.2 billion in the first six months of 2006 from Ps.2.7 billion in the first six months of 2005) attributable to an increase in federal tax collections due to the sustained increase in national economic activity, and
- a 136.5% increase in federal contributions, to Ps.291 million in the first six months of 2006 from Ps.123 million in the first six months of 2005, mainly due to a Ps.100 million increase in contributions to fund the provincial pension deficit and a Ps.60 million increase in contributions to FONAVI.

Total Expenditures. In the first six months of 2006, the Province's total expenditures (excluding interest expense) increased by 28.9%, to Ps.10.5 billion from Ps.8.1 billion in the first six months of 2005. This increase reflects primarily the following:

- a 35.8% increase in personnel expenditures, to Ps.5.7 billion from Ps.4.2 billion in the first six months of 2005, reflecting the effect in the first half of 2006 of the implementation in each of August 2005 and March 2006 of compensation and realignment measures intended to continue to alleviate the situation of provincial employees, as well as, to a lesser extent the cumulative effect of similar compensation measures adopted in 2003 and 2004; and
- a 20.1% increase in current transfers, to Ps.3.2 billion from Ps.2.6 billion in the first six months of 2005, reflecting the increases in provincial tax revenues and federal tax transfers, which led to an increase in tax co-participation transfers to municipalities.

Total Surplus/(Deficit). In the first six months of 2006, the Province recorded a total deficit of Ps.357 million, compared to a total surplus of Ps.150 million in the first six months of 2005. This decline is attributable to the significant decrease in the primary balance surplus and a 76.3% increase in the Province's interest expenses in the first six months of 2006 (to Ps.395 million), reflecting the resumption of interest payments on the Province's foreign-currency bonds following the successful completion of the Province's Eurobond debt restructuring in 2005.

Overall Financial Result. The overall financial result declined to a Ps.491 million deficit in the first six months of 2006, compared to a Ps.361 million deficit in the first six months of 2005, due to the total deficit, despite a significant decline in net repayments in the first six months of 2006 (attributable to a significant increase in borrowings during this period).

The 2006 Budget

Overview of Budget Process

Pursuant to the constitution of the Province, the executive branch must submit a draft budget law for each upcoming year to the provincial legislature by August 31 of the prior year, though submissions typically occur towards the end of each year. The budget represents an estimation of future revenues during the period covered by the budget based on projections and estimates regarding Argentina's and the Province's economy, revenues and expenditures and inflation. The budget also constitutes an authorization of, and a limit on, expenditures and indebtedness by the Province during that period. The provincial legislature has broad powers to amend or reject the draft budget law submitted by the executive branch.

The 2006 Budget—Laws No. 13,403 and 13,526

The executive branch of the Province submitted its proposed budget for 2006 to the legislature on December 12, 2005, accompanied by the proposed budget for 2005 (reflecting estimated results for 2005), which had been previously submitted to the legislature in December 2004 and vetoed by the Governor in January 2005 because of amendments made by the legislature to withdraw the executive branch's customary powers to modify, among other things, the amount and allocation of budget expenditures within specific parameters. Following this disagreement between the executive and legislative powers, the effectiveness of the 2004 budget was automatically extended through 2005 and the provincial government operated under the extended 2004 budget through December

2005. On December 27, 2005, the provincial legislature passed the 2005 budget into law (Law No. 13,402) as proposed by the executive branch, and the following day passed the 2006 budget into law (Law No. 13,403) as proposed by the executive branch.

On August 25, 2006, the executive branch submitted a revised 2006 budget to the provincial legislature with updated estimates for provincial revenues and expenditures, as well as an authorization for up to Ps.990 million in additional indebtedness. The revised 2006 budget contemplates a Ps.1.5 billion increase in total expenditures compared to the original 2006 budget approved in December 2005. This increase is attributable primarily to a Ps.1.2 billion increase in personnel expenditures, reflecting the impact of the compensation measures adopted in the first half of 2006. The Province expects to finance this increase in expenditures with a forecasted Ps.465.4 million increase in total revenues, attributable to a Ps.687.3 million increase in federal tax transfers (which more than offset an estimated Ps.222 million decline in provincial tax revenues), and an estimated Ps.990 million in additional borrowings, both of which are reflected in the revised 2006 budget.

On September 7, 2006, the provincial legislature passed the revised 2006 budget into law (Law No. 13,526) as proposed by the executive branch.

Actual and Projected Revenues and Expenditures (2005-2006)
(in millions of pesos, except for percentages)⁽¹⁾

	2005			2006		% of Revised Budget
	Budget	Actual	Variation	Revised Budget ^(*)	Actual (through June 30) ^(**)	
Current Account						
Current Revenues ⁽¹⁾						
Federal Tax Co-Participation	Ps. 5,404	Ps. 5,447	0.8%	Ps. 6,246	Ps. 3,235	51.8%
Other Federal Tax Transfers ⁽²⁾	2,130	1,526	(28.4%)	2,041	1,160	56.8%
Federal Contributions.....	977	1,045	7.0%	1,941	291	15.0%
Total Federal Transfers	8,511	8,017	(5.8%)	10,228	4,686	45.8%
Provincial Taxes	8,644	8,592	(0.6%)	10,753	5,015	46.6%
Provincial Non-Tax Revenues ⁽³⁾⁽⁴⁾	1,558	1,352	(13.2%)	1,553	699	45.0%
Total Provincial Revenues	10,202	9,944	(2.5%)	12,306	5,713	46.4%
Total Current Revenues	18,713	17,961	(4.0%)	22,534	10,400	46.2%
Current Expenditures						
Personnel ⁽²⁾	9,654	9,250	(4.2%)	12,193	5,652	46.4%
Goods and Services.....	1,985	2,007	1.1%	2,049	1,002	48.9%
Current Transfers ⁽²⁾	5,737	5,517	(3.8%)	6,780	3,177	46.9%
Miscellaneous ⁽⁵⁾	—	32	n.a.	39	1	2.6%
Total Current Expenditures	17,375	16,806	(3.3%)	21,061	9,832	46.7%
Current Account Balance	1,337	1,155	(13.6%)	1,473	568	38.6%
Capital Account						
Revenues from Asset Sales and Loan Recoveries ⁽⁴⁾						
	344	393	14.4%	247	104	42.1%
Capital Expenditures						
Capital Investments.....	893	719	(19.5%)	1,172	350	29.9%
Loans and Capital Contributions.....	300	222	(26.1%)	424	119	28.0%
Transfers for Public Works	434	429	(1.3%)	419	166	39.6%
Total Capital Expenditures.....	1,628	1,369	(15.9%)	2,015	635	31.5%
Total Capital Account	(1,284)	(976)	24%	(1,768)	(531)	30.0%
Total Revenues	19,056	18,354	(3.7%)	22,781	10,504	46.1%
Total Expenditures (excluding interest)	19,003	18,175	(4.4%)	23,075	10,466	45.4%
Primary Balance ⁽⁶⁾	54	179	233.5%	(294)	38	n.m.
Interest payments ⁽⁵⁾⁽⁷⁾	(491)	(455)	(7.4%)	(798)	(395)	49.5%
Total Surplus/ (Deficit)	(438)	(276)	(36.9%)	(1,093)	(357)	32.7%
Overall Financial Result⁽¹⁾⁽¹²⁾						
Total Surplus/ (Deficit)	(438)	(276)	(36.9%)	(1,093)	(357)	32.7%
Net Borrowings (Repayments) ⁽⁸⁾						
Borrowings ⁽⁹⁾	1,488	2,054	38.1%	3,716	1,065	28.7%
Repayments ⁽⁵⁾⁽¹⁰⁾	(1,779)	(1,751)	(1.6%)	(2,651)	(1,199)	45.2%
Total, Net	(291)	303	n.m.	1,066	(134)	n.m.
Overall Financial Result ⁽¹¹⁾	Ps. (729)	Ps. 27	n.m.	Ps. (27)	Ps. (491)	n.m.

n.m.= not meaningful.

(*) Including revisions approved by the provincial legislature on September 7, 2006 pursuant to Law No. 13,526.

(**) Percentages represent portion of budgeted revenues and expenditures realized through June 30, 2006.

- (1) Excludes revenues and transfers related to social security.
- (2) Excludes federal transfers and current expenditures related to the *Fondo de Incentivo Docente* (Teachers' Incentive Fund).
- (3) Excludes "expired residual liabilities" or expenditures accrued and not effectively disbursed, which are recorded as revenues by the General Accounting Office. See "—Scope and Methodology."
- (4) Revenues from the Loan Recovery Committee (Law No. 12,726) in 2004 and 2005 are recorded under "Revenues from Asset Sales and Loan Recoveries," except for loan repayments made using provincial bonds, which are recorded as "Repayments." The General Accounting Office records these revenues (including loan repayments made using provincial bonds) as "Provincial Non-tax Revenues."
- (5) Excludes exchange losses on foreign currency debt service, which are recorded by the General Accounting Office under "Miscellaneous" because the underlying debt, when incurred, was recorded at an exchange rate of Ps.1.00 to U.S.\$1.00. Actual debt service payments are recorded under "Interest expense" and "Repayments," as applicable.
- (6) Does not reflect adjustments made by the General Accounting Office relating to revenues earmarked for specific expenditures that are made in future periods. The General Accounting Office reallocates these revenues from the period in which they are received to the period in which the related expenditures are made. The General Accounting Office reallocated Ps.852 million in revenues from 2004 to 2005 and Ps.470 million in revenues from 2005 to 2006.
- (7) Excludes interest payments on debt subject to the suspension of debt payments from December 31, 2001. Following the restructuring of the Province's Eurobonds in 2005, as of June 30, 2006, approximately Ps.891 million of the Province's foreign-currency debt remains subject to this suspension of debt payment.
- (8) Borrowings and repayments of debt with a maturity of more than one year.
- (9) Includes Ps.263 million under the November 2005 refinancing agreement related to the 2004 PFO. See "Public Sector Debt—Orderly Financing Program (PFO)."
- (10) Excludes payments to multilateral institutions made by the federal government for the Province. See "Public Sector Debt—Orderly Financing Program (PFO)."
- (11) Excludes surplus from prior periods, as applicable.

Source: Ministry of Economy of the Province.

2006 Projected Fiscal Result as Compared to Fiscal Result of 2005

The revised 2006 budget forecasts a significant decline in the primary balance, with an estimated deficit of Ps.294 million in 2006 compared to a Ps.179 million surplus in 2005. This decline reflects a projected 27.0% increase in total expenditures (excluding interest expense) in 2006 (compared to 2005), which more than offsets a projected 24.1% increase in total revenues in 2006 (compared to 2005).

The anticipated increase in total revenues in the revised 2006 budget reflects an expected 25.2% increase in provincial tax revenues, an 18.9% increase in federal tax transfers and, to a lesser extent, an 85.7% increase in federal contributions, in each case as compared to 2005. The increase in provincial tax revenues is mainly attributable to a forecasted 26.0% increase in collections of gross revenues taxes, to Ps.6.5 billion in 2006 from Ps.5.2 billion in 2005. Collections of other taxes, including automotive taxes and stamp taxes, are also expected to increase in 2006, except for real estate taxes, which are expected to remain stable.

The increase in federal tax transfers is mainly attributable to a forecasted 14.7% increase in federal tax co-participation transfers, to Ps.6.3 billion in 2006 from Ps.5.5 billion in 2005, and, to a lesser extent, a forecasted 124.4% increase in other tax transfers, to Ps.819 million for 2006 from Ps.365 million in 2005. Although the revised 2006 budget anticipates an increase in absolute terms in federal tax co-participation transfers, the Province expects that these transfers will represent approximately 20.9% of total federal tax transfers to the provinces in 2006, compared to 21.3% in 2005, further widening the gap in federal tax transfer revenues between the Province and other Argentine provinces. See “—Federal Tax Co-Participation Regime.” In addition, the revised 2006 budget reflects an anticipated 85.7% increase in federal contributions, to Ps.1.9 billion in 2006 from Ps.1.1 billion in 2005, due primarily to an expected increase in transfers from the federal government to the Federal Housing Program and, to a lesser extent, an increase in financing of projected deficits.

The increase in total expenditures foreseen in the revised 2006 budget reflects a projected 31.8% increase in personnel expenditures, a projected 22.9% increase in current transfers and a projected 47.2% increase in capital expenditures. The increase in personnel expenditures, to Ps.12.2 billion in 2006 from Ps.9.3 billion in 2005, is attributable to the cumulative effect in 2006 of salary increases implemented from 2003 through 2005 and the implementation in the first half of 2006 of further measures intended to alleviate the situation of the Province’s employees following the salary freeze and subsequent devaluation and inflation that resulted from the economic crisis.

The increase in current transfers, to Ps.6.8 billion in 2006 from Ps.5.5 billion in 2005, reflects a significant increase in transfers to municipalities, which is mainly attributable to the anticipated increase in tax co-participation transfers by the Province due to the significant growth in tax collections expected both at the provincial and national levels in 2006.

The increase in capital expenditures, to Ps.2.0 billion in 2006 from Ps.1.4 billion in 2005, reflects a projected 63.0% increase in capital investments, which is mainly attributable to increased transfers from the federal government under the *Plan Federal de Construcción y Mejoramiento de Viviendas* (Federal Construction and Housing Improvement Plan), representing approximately Ps.400 million, as well as, to a lesser extent, increased capital expenditures in a number of ongoing projects including:

- the *Programa de Desarrollo de Inversión Sustentable en Infraestructura* (Sustainable Infrastructure Investment Program), financed by the World Bank, which includes various infrastructure improvement projects such as the building and reconstruction of various roads in the Province;
- the *Operatoria por Emergencia Habitacional* (Emergency Housing Plan);
- the expansion and remodeling of the busiest port in the Province (the Escollera Sur Puerto de Quequen Necochea);
- the implementation of an environmental administration program in the Matanza Riachuelo Basin;

- the implementation of a flood control plan for the Río Reconquista Basin;
- the *Plan de Infraestructura Obras de Seguridad* (Infrastructure Security Plan), including the construction of new prison facilities; and
- the completion of various other road construction and/or repair projects.

The revised 2006 budget reflects an anticipated total deficit of Ps.1.1 billion, reflecting the anticipated primary balance deficit and an estimated 75.4% increase in interest expenses (to Ps.798 million in 2006 from Ps.455 million in 2005) attributable to the resumption in 2006 of debt service payments on the Province's foreign currency bonds, which had been subject to a suspension of payments since December 2001. The Province intends to finance the total deficit almost completely with Ps.1.1 billion in net borrowings in 2006.

PUBLIC SECTOR DEBT

General

Prior to 2001, the Province financed the vast majority of its needs through the domestic and international capital markets and through loans from multilateral, bilateral and commercial lenders, including Banco Provincia. At December 31, 2000, the total outstanding indebtedness of the Province amounted to U.S.\$6.9 billion (using the exchange rates of that date), of which 41.4% was owed to domestic and international bondholders, 34.8% to Banco Provincia and 12.7% to multilateral creditors. Following the economic crisis of 2001, however, the Province was unable to access its traditional sources of financing and defaulted on its external debt. Since then, the federal government has become the Province's largest creditor and its main source of financing. At June 30, 2006, the total outstanding indebtedness of the Province amounted to approximately U.S.\$10.2 billion, of which 62.7% was owed to the federal government, 26.6% to domestic and international bondholders, 7.9% to multilateral creditors, 1.3% to bilateral creditors, 0.1% to Banco Provincia and 1.4% to other creditors. The Province has recently indicated its desire to renegotiate the terms of certain of its outstanding debt with the federal government because of the increasingly onerous service obligations of this debt, which in turn have contributed to the decline in the Province's fiscal balance and have required the Province to seek greater amounts of financing to cover this debt service. The federal Ministry of Economy is currently evaluating possible debt renegotiations with all of the provinces and the recently proposed federal bill containing the 2007 federal budget would authorize the federal government to renegotiate this debt, if such bill is approved by the federal legislature as currently proposed. If the federal legislature grants the federal government the authorization to renegotiate provincial debt, the Province expects that negotiations with the federal government will start, at the earliest, in 2007, if at all.

Evolution of Debt: 2001-2006

In July 2001, in anticipation of Argentina's developing economic crisis, the Province implemented a number of emergency economic measures, including the issuance of two new debt instruments to enable the Province to meet its financial obligations at a time of unprecedented illiquidity in the Argentine financial system and to enable it to continue providing essential public services, such as health, education and security services. These instruments consisted of:

- a quasi-currency treasury bond, known as *Patacones*, used to meet certain short-term provincial payment obligations (see “—Debt Denominated in CER-adjusted Pesos—Monetary Unification Program (*Boden 2011*)”); and
- a debt cancellation bond, known as *Bocanoba*, issued to compensate contractors and suppliers of the Province for unpaid debts in connection with the provision of various essential goods and services. These bonds, issued in an original aggregate principal amount equal to approximately U.S.\$138 million, were originally denominated in dollars with a semi-annual interest rate of 6% and were scheduled to mature on July 25, 2004. As part of the pesification process, the *Bocanoba* were converted to CER-adjusted pesos at a rate of Ps.1.4 per U.S.\$1.00, and their interest rate was reduced to 4% per annum. On July 25, 2002, the Province suspended interest payments on the *Bocanoba*. As of July 25, 2004, however, the Province had redeemed the principal of this bond and paid all accrued interest amounts, including past-due interest, plus interest accruing on such interest amounts at a rate of 2% per annum. The redemption amount of this bond was equivalent to approximately U.S.\$19.3 million, which was substantially less than its original aggregate principal amount because the Province accepted *Bocanoba* as payment of certain provincial taxes.

By the end of 2001, Argentina's economic crisis had sharply reduced provincial revenues and, consequently, impaired the Province's ability to service its debt obligations. The Province's foreign currency-denominated debt burden proved especially unsustainable as a result of both the devaluation of the peso and the inability of the Province to access the international capital markets. Because of the crisis, the Province suspended payments of principal and interest on its indebtedness with effect as of December 31, 2001. The Province eventually adopted the federal government's policy of rescheduling debt obligations under a sustainable development plan.

In mid-2002, as the national economy began to show signs of recovery, the Province took part in a debt restructuring process implemented by the federal government, in which the Provincial Development Fund issued *Bogar*. See “—Debt Denominated in CER-adjusted Pesos—Provincial Debt Exchange (*Bogar*).” Pursuant to this restructuring process, approximately half of the Province’s indebtedness was converted into long-term debt owed to the federal government with lower interest rates. Although all provincial indebtedness was eligible to participate in this exchange offer, only 10% of the Province’s Eurobonds were exchanged pursuant to this restructuring process, and a substantial portion of the Eurobond debt remained outstanding at that time.

In October 2002, in accordance with federal law, the Province mandated the conversion into pesos (“pesification”) of all dollar-denominated provincial and municipal debt obligations governed by Argentine law at a rate of Ps.1.4 per one U.S. dollar, but provided creditors with the alternative option to exchange such debt obligations for a new dollar-denominated provincial bond known as the Law No. 12,973 Bond.

Also in 2002, the federal government created the *Programa de Financiamiento Ordenado* (Orderly Financing Program, or “PFO”) as part of a broader initiative to provide financial assistance to the provinces and the City of Buenos Aires. Pursuant to this program, in 2002, 2003 and 2004, the federal government signed bilateral fiscal agreements with a number of provinces, including the Province. (See “—Debt Denominated in CER-adjusted Pesos—Orderly Financing Program (PFO).”) The PFO agreement for 2004 also provides for the restructuring of the Province’s indebtedness to the federal government that resulted from the federal government’s payments on behalf of the Province from 2002 through 2004 of certain debt obligations to multilateral lenders.

In 2003, the Province participated in the PUM, pursuant to which various federal and provincial quasi-currency instruments were redeemed and withdrawn from circulation, including *Patacones* issued by the Province. (See “—Monetary Unification Program (*Boden 2011*).”)

In 2004, the Province authorized the federal government to negotiate on its behalf with members of the Organization for Economic Co-operation and Development (“OECD”) in connection with the restructuring of certain of the Province’s debt obligations to bilateral lenders that were suspended with effect as of December 31, 2001. This authorization was ratified pursuant to *Ley de Presupuesto Provincial para el año 2005* (2005 Provincial Budget Law) (See “—Debt Denominated in Foreign Currencies—Bilateral Lending and Credit Facilities”).

In 2005, the Province and the federal government entered into the *Acuerdo de Asistencia Financiera 2005* (2005 Financial Assistance Agreement, or “AF 2005”), which is the successor to the *Programa de Financiamiento Ordenado* (Orderly Financing Program, or “PFO”) for 2002, 2003 and 2004. See “Public Sector Debt—Debt Denominated in CER-adjusted Pesos—Orderly Financing Program (PFO).” Under the AF 2005, as was the case under the PFO, the federal government agreed to provide, through the Provincial Development Fund, financial assistance to the Province in exchange for various commitments from the Province in respect of its fiscal policies in accordance with the Fiscal Responsibility Law.

In January 2006, the Province completed a comprehensive debt restructuring of its Eurobonds, which had been subject to the suspension of payments since December 2001. Following a process that began in 2003 and that led to the launch of an exchange offer in November 2005, holders of approximately 94% of the aggregate principal amount of the Province’s Eurobonds consented in December 2005 to exchange these bonds for three series of new bonds—Step-Up Long Term Par Bonds due 2035, Step-Up Medium Term Par Bonds due 2020, and Discount Bonds due 2017. See “—Exchange Bonds.”

In April 2006, the federal government and the Province entered into the *Acuerdo de Asistencia Financiera 2006* (2006 Financial Assistance Agreement, or “AF 2006”), pursuant to which the federal government has agreed to grant the Province an additional Ps.2.0 billion loan for purposes of making debt service payments in 2006. The terms of the AF 2006, including the amortization schedule, are identical to those of the AF 2005, except that principal under the AF 2006 will not be adjusted for CER and interest will accrue at a rate of 6% per annum. In addition, the AF 2006 amended the terms of the AF 2005 to eliminate CER adjustments under the AF 2005 effective January 1, 2006 and to increase the rate at which interest accrues under the AF 2005 to 6%. During 2006, however, interest will continue to be payable at a rate of 2% per annum, and the 4% difference will be capitalized through December 31, 2006. As of June 30, 2006, the aggregate principal amount outstanding under the AF 2006 was Ps.1.0 billion.

The Province has recently indicated its desire to renegotiate the terms of certain of its outstanding debt with the federal government, particularly the debt incurred by the Province under the Monetary Unification Program, the Orderly Financing Programs and the Financial Assistance Agreements. The relatively shorter maturities (compared to other debt of the Province) and CER adjustments to principal (which increase outstanding principal for inflation) of this debt have created increasingly onerous debt service obligations for the Province, which in turn have contributed to the decline in the Province's fiscal balance and have required the Province to seek greater amounts of financing to cover this debt service, including roll-overs of amortizations on debt owed to the federal government. Because the Province believes that this situation is overly burdensome over the medium-term, it is seeking to negotiate with the federal government an extension of the maturities of this debt (including an initial grace period for amortizations of principal) and the elimination of CER adjustments to principal. The federal Ministry of Economy is currently evaluating possible debt renegotiations with all of the provinces and the recently proposed federal bill containing the 2007 federal budget would authorize the federal government to renegotiate this debt, if such bill is approved by the federal legislature as currently proposed. If the federal legislature grants the federal government the authorization to renegotiate provincial debt, the Province expects that negotiations with the federal government will start, at the earliest, in 2007, if at all. See "Risk Factors— The Province is seeking to renegotiate the terms of certain of its debt with the federal government and, if it is not successful, it could record increasing fiscal deficits in future periods, which could materially adversely affect its ability to service its other debt obligations, including the notes."

The following tables sets forth the evolution of the Province's total outstanding indebtedness by creditor, by currency, by type of interest rate and by term:

Total Gross Debt by Creditor⁽¹⁾
(in millions of U.S. dollars)

	At December 31,						At June 30,											
	2001		2002		2003		2004		2005		2006							
Federal government.....	U.S.\$	818	7.0%	U.S.\$	3,290	41.3%	U.S.	\$5,077	54.5%	U.S.\$	5,541	56.5%	U.S.\$	6,116	62.4%	U.S.\$	6,368	62.7%
Bondholders.....		3,856	35.3		3,495	43.9		3,094	33.2		3,161	32.2		2,579	26.3		2,702	26.6
Multilateral Creditors ...		981	9.0		934	11.7		884	9.5		837	8.5		823	8.4		799	7.9
Bilateral Creditors		90	0.8		91	1.1		139	1.5		140	1.4		135	1.4		137	1.3
Banco Provincia ⁽²⁾		4,440	40.7		0.3	0.0		—	—		17	0.2		14	0.1		13	0.1
Commercial Banks		234	2.1		—	—		—	—		—	—		—	—		—	—
Other		493	4.5		146	1.8		129	1.4		109	1.1		142	1.4		138	1.4
Total	U.S.\$	10,911	100.0%	U.S.\$	7,956	100.0%	U.S.\$	9,322	100.0%	U.S.\$	9,805	100.0%	U.S.\$	9,808	100.0%	U.S.\$	10,157	100.0%
Exchange rate ⁽³⁾		1.00		3.37		2.94		2.98		3.03		3.08						
CER ⁽³⁾		n/a		1.41		1.46		1.54		1.72		1.81						

(1) Excluding interest arrears.

(2) Includes bonds held by Banco Provincia in aggregate principal amounts equal to approximately U.S.\$1.9 billion in 2001. Banco Provincia tendered these bonds for *Bogars* in the Provincial Debt Exchange. See "—Debt Denominated in CER-adjusted Pesos—Provincial Debt Exchange (*Bogar*)."

(3) Exchange rate and CER used to calculate public debt totals for the end of each period.

Source: Ministry of Economy of the Province.

Total Gross Debt by Currency⁽¹⁾
(in millions of U.S. dollars, unless otherwise indicated)

	At December 31,						At June 30,											
	2001		2002		2003		2004		2005		2006							
CER-adjusted pesos.....	U.S.\$	—	—%	U.S.\$	3,408	42.8%	U.S.\$	5,213	55.9%	U.S.\$	5,578	56.9%	U.S.\$	6,143	62.6%	U.S.\$	5,624	55.4%
U.S.\$.....		7,394	67.8		1,744	21.9		1,697	18.2		1,645	16.8		1,853	18.9		1,836	18.1
Euro ⁽²⁾		1,509	13.8		1,636	20.6		1,961	21.0		2,096	21.4		1,555	15.9		1,678	16.5
Other ⁽³⁾		2,008	18.4		1,168	14.7		452	4.8		485	4.9		258	2.6		1,019	10.0
Total	<u>U.S.\$</u>	<u>10,911</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>7,956</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,322</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,805</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,808</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>10,157</u>	<u>100.0%</u>
Total debt in nominal pesos																		
	Ps.	10,911		Ps.	26,812		Ps.	27,359		Ps.	29,208		Ps.	29,738		Ps.	31,344	
Total debt in constant pesos ⁽⁴⁾																		
	Ps.	19,929		Ps.	34,744		Ps.	34,203		Ps.	34,414		Ps.	31,194		Ps.	31,344	
Exchange rate ⁽⁵⁾																		
		1.00			3.37			2.94			2.98			3.03			3.08	
CER ⁽⁵⁾																		
		n/a			1.41			1.46			1.54			1.72			1.81	

(1) Excluding interest arrears.

(2) Following the introduction of the euro in 1999, debts owed in a variety of European currencies were converted to euro.

(3) Figures include Swiss franc, peso and provincial quasi-currency (*Patacones*).

(4) Constant peso values are calculated on the basis of the CPI at June 30, 2006.

(5) Exchange rate and CER used to calculate public debt totals for the end of each period.

Source: Ministry of Economy of the Province.

Total Gross Public Debt by Type of Interest Rate⁽¹⁾
(in millions of U.S. dollars)

	As of December 31,														
	2001		2002		2003		2004		2005						
Fixed rate ⁽²⁾	U.S.\$	6,330	58.0%	U.S.\$	3,496	43.9%	U.S.\$	3,139	33.7%	U.S.\$	3,248	33.1%	U.S.\$	219	2.2%
Fixed rate + CER adjustment.....		—	—		3,295	41.4		5,081	54.5		5,528	56.4		6,260	63.8
Fixed step-up rate.....		—	—		—	—		—	—		—	—		2,294	23.4
Variable rate.....		4,581	42.0		1,165	14.6		1,103	11.8		1,029	10.5		1,035	10.6
IADB and World Bank ⁽³⁾		827	7.6		788	9.9		737	7.9		706	7.2		673	6.9
LIBOR.....		1,444	13.2		119	1.5		167	1.8		155	1.6		176	1.8
Tasa Encuesta ⁽⁴⁾		1,756	16.1		35	0.4		28	0.3		45	0.5		38	0.4
Other.....		555	5.1		223	2.8		172	1.8		124	1.3		147	1.5
Total Gross Public Debt.....	<u>U.S.\$</u>	<u>10,911</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>7,956</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,322</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,805</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,808</u>	<u>100.0%</u>

(1) Includes past-due principal and interest payments.

(2) Consists primarily of Eurobonds and CER-adjusted debt owed to the federal government.

(3) Includes multilateral debt.

(4) Consists primarily of debt owed to commercial banks, domestic debt and other debt. The applicable Tasa Encuesta is the local Argentine interest rate applied to deposits in savings accounts denominated in pesos pursuant to Central Bank Communication "A" 1828, Point 1, of April 25, 1991.

Source: Ministry of Economy of the Province.

Total Gross Public Debt by Term⁽¹⁾
(in millions of U.S. dollars)

	As of December 31,														
	2001		2002		2003		2004		2005						
Short-term ⁽²⁾	U.S.\$	1,262	11.6%	U.S.\$	141	1.8%	U.S.\$	126	1.3%	U.S.\$	107	1.1%	U.S.\$	122	1.2%
Long-term ⁽³⁾		9,649	88.4		7,815	98.2		9,197	98.7		9,698	98.9		9,686	98.8
Total Gross Public Debt	<u>U.S.\$</u>	<u>10,911</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>7,956</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,322</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,805</u>	<u>100.0%</u>	<u>U.S.\$</u>	<u>9,808</u>	<u>100.0%</u>

(1) Excluding interest arrears.

(2) Debt with original maturity of one year or less.

(3) Debt with original maturity of more than one year.

Source: Ministry of Economy of the Province.

The following table sets forth the Province's total outstanding indebtedness at the dates indicated:

	Total Outstanding Indebtedness								
	At December 31, 2005				At June 30, 2006				Maturity
	Outstanding Principal		Outstanding Principal		Outstanding Principal		Outstanding Principal		
(in millions of pesos)	(in millions of U.S. dollars)⁽¹⁾	(in millions of pesos)	(in millions of U.S. dollars)⁽¹⁾	(in millions of pesos)	(in millions of U.S. dollars)⁽¹⁾	(in millions of pesos)	(in millions of U.S. dollars)⁽¹⁾		
Debt in CER-adjusted Pesos⁽²⁾									
Provincial Debt Exchange (<i>Bogar</i>) ⁽³⁾	Ps. 12,520	U.S.\$ 4,129	Ps. 12,963	U.S.\$ 4,201				2018	
Monetary Unification Program (<i>Boden</i> 2011) ⁽⁴⁾	2,395	790	2,295	744				2011	
Orderly Financing Program 2004 ⁽⁵⁾	818	270	721	233				2008	
Orderly Financing Program 2003	411	136	326	106				2007	
Refinancing Agreement OFP 2004 ⁽⁶⁾	893	294	828	268				2008	
Orderly Financing Program 2002	122	40	64	21				2006	
Financial Assistance 2005	1,311	432	—	—				2013	
PYMES Bonds (Law No. 12,421)	148	49	154	50				2015/2020/2025	
Other	8	3	3	1				2007	
Total Debt in CER-adjusted Pesos	18,625	6,143	17,354	5,624					
Debt in Pesos									
Financial Assistance 2005	—	—	1,337	433				2013	
Financial Assistance 2006	—	—	1,036	336				2014	
Social Security Treasury Notes ⁽⁷⁾	369	122	369	119				2005	
<i>Boconba</i>	67	22	51	17				2007/2016	
<i>Patacones</i> ⁽⁸⁾	48	16	48	15				2005/2006	
Others	129	43	131	43				2011/2012	
Total Debt in Pesos	613	202	2,972	963					
Debt in Foreign Currencies									
Exchange Bonds:									
Dollar-denominated Long Term Par Bond	1,418	468	1,494	484				2035	
Euro-denominated Long Term Par Bond	1,782	588	2,003	649				2035	
Dollar-denominated Medium Term Par Bond	193	64	197	64				2020	
Euro-denominated Medium Term Par Bond	2,053	677	2,257	731				2020	
Dollar-denominated Discount Bond	1,012	334	1,030	334				2017	
Euro-denominated Discount Bond	497	164	546	177				2017	
Eurobonds (Holdouts) ⁽⁹⁾⁽¹⁰⁾	511	169	468	152				n.a.	
Total Bonds	7,467	2,463	7,997	2,591					
Multilateral loans (IADB-World Bank)	2,494	823	2,465	799				2025	
Bilateral loans⁽¹⁰⁾									
Dollar	254	84	259	84				n.a.	
Yen	122	40	127	41				n.a.	
Euro	33	11	36	12				n.a.	
Total bilateral loans	409	135	422	137					
Law No. 12,973 Bond	131	43	133	43				2012	
Total Debt in Foreign Currencies	10,500	3,463	11,017	3,570					
Total Indebtedness	Ps. 29,738	U.S.\$ 9,808	Ps. 31,344	U.S.\$ 10,157					

- (1) Non-dollar-denominated debt has been translated into U.S. dollars for purposes of this table using the exchange rates in effect on December 31, 2005 and June 30, 2006, as applicable.
- (2) CER-peso debt amounts include accumulated CER, which was equal to 1.72 as of December 31, 2005 and 1.81 as of June 30, 2006.
- (3) Reflects amounts owed to the federal government following the issuance of *Bogar* by the Provincial Development Fund to creditors of the Province. See “—Debt Denominated in CER-adjusted Pesos—Provincial Debt Exchange (*Bogar*).”
- (4) Reflects amounts owed to the federal government following the issuance of *Boden* to redeem quasi-currency bonds issued by the Province. See “—Debt Denominated in CER-adjusted Pesos—Monetary Unification Program (*Boden*).”
- (5) Includes cash disbursements made by the federal government during 2004 (capitalized as of December 31, 2004 pursuant to OFP 2004).
- (6) Reflects the effect of the refinancing of net amounts owed to the federal government for the debt service payments on multilateral loans made by the federal government on the behalf of the Province in 2002, 2003 and 2004 pursuant to the 2004 PFO Agreement. See “Debt Offsetting Agreement and Refinancing Agreement.”
- (7) Represents notes issued by the Province to the IPS. The Province is obligated by law to consolidate this entity in its financial statements beginning no later than January 1, 2007, at which time these notes will cease to appear as consolidated indebtedness.
- (8) Information provided by Banco de la Provincia de Buenos Aires.

(9) Represents Eurobonds that remain subject to the suspension of payments declared by the Province as from December 2001 and that were not tendered in the Province's offer to exchange these bonds for newly-issued Long Term Par Bonds, Medium Term Par Bonds and Discount Bonds. The exchange offer expired on December 16, 2005. The aggregate principal amount of Eurobonds outstanding at the time of the offer was approximately U.S.\$2.7 billion, denominated in dollars, euros, yen and Swiss francs, of which approximately 95% were tendered in the exchange offer.

(10) Excluding interest arrears.

Source: Ministry of Economy of the Province.

The following tables set forth the Province's estimated debt service from 2006 through 2010 by creditor and by currency, in each case in millions of U.S. dollars:

Estimated Debt Service by Creditor (2006-2010)⁽¹⁾
(in millions of U.S. dollars)

Creditor	July – December 2006⁽²⁾	2007	2008	2009	2010
Federal Government					
Principal.....	U.S.\$ 339	U.S.\$ 699	U.S.\$ 714	U.S.\$ 519	U.S.\$ 607
Interest.....	62	162	142	122	105
Total.....	401	861	856	641	713
Bondholders					
Principal.....	10	6	3	3	3
Interest.....	40	80	92	91	110
Total.....	50	86	95	94	113
Multilateral Credit Agencies					
Principal.....	49	97	96	97	95
Interest.....	20	36	31	27	22
Total.....	69	133	127	125	118
Bilateral Credit Agencies⁽³⁾					
Principal.....	—	—	—	—	—
Interest.....	—	—	—	—	—
Total.....	—	—	—	—	—
Other					
Principal.....	16	1	33	32	32
Interest.....	7	2	2	1	1
Total.....	24	3	35	34	33
Total Principal.....	414	803	846	652	738
Total Interest.....	130	281	266	242	238
Total.....	U.S.\$ 544	U.S.\$ 1,084	U.S.\$ 1,113	U.S.\$ 893	U.S.\$ 976

(1) Calculated based on the stock of debt, exchange and interest rates as of June 30, 2006. Does not include any adjustment for inflation with respect to debt denominated in CER-adjusted pesos or any other debt.

(2) Estimated debt service from July 1 through December 31, 2006.

(3) As of June 30, 2006, the Province's bilateral debt remained subject to the suspension of debt payments declared by the Province in 2001. The Province has authorized the federal government to conduct negotiations on its behalf to restructure this debt.

Source: Ministry of Economy of the Province.

Estimated Debt Service by Currency (2006-2010)⁽¹⁾
(in millions of U.S. dollars)

Currency	July – December 2006 ⁽²⁾	2007	2008	2009	2010
CER-adjusted pesos					
Principal.....	U.S.\$ 338	U.S.\$ 632	U.S.\$ 562	U.S.\$ 366	U.S.\$ 455
Interest.....	56	100	86	76	68
Total.....	394	733	648	443	523
U.S.\$					
Principal.....	49	97	96	97	95
Interest.....	42	80	80	76	76
Total.....	91	176	176	173	172
Euros⁽³⁾					
Principal.....	—	—	—	—	—
Interest.....	18	35	42	42	56
Total.....	18	35	42	42	56
Other⁽⁴⁾					
Principal.....	27	74	188	188	188
Interest.....	14	66	59	48	38
Total.....	41	139	247	235	226
Total Principal.....	414	803	846	652	738
Total Interest.....	130	281	266	242	238
Total.....	U.S.\$ 544	U.S.\$ 1,084	U.S.\$ 1,113	U.S.\$ 893	U.S.\$ 976

(1) Calculated based on the stock of debt, exchange and interest rates as of June 30, 2006. Does not include any adjustment for inflation with respect to debt denominated in CER-adjusted pesos or any other debt.

(2) Estimated debt service from July 1 through December 31, 2006.

(3) Following the introduction of the euro in 1999, debts owed in a variety of European currencies were converted to euro.

(4) Figures include Swiss franc, peso and provincial quasi-currency (*Patacones*).

Source: Ministry of Economy of the Province.

The Province has pledged a part of its federal tax transfers, including a part of its federal tax co-participation payments, to secure its obligations under certain of its outstanding indebtedness, most of which is owed to the federal government. Pursuant to these security arrangements, the federal government is entitled to withhold a portion of the Province's federal tax transfers to cover principal and interest payments on the secured debt. The following table sets forth the amount of federal tax transfers withheld to cover debt service payments by the Province in each of the periods indicated:

Withheld Federal Tax Transfers (2001-2005)
(in millions of pesos)

	2001	2002	2003 ⁽¹⁾	2004	2005
Federal Tax Transfers.....	Ps. 3,506.6	Ps. 3,512.1	Ps. 4,293.0	Ps. 5,823.8	Ps. 6,971.7
Withholdings					
Federal Government ⁽¹⁾	210.3	55.8	411.4	668.5	1,610.2
Other Debt ⁽²⁾	35.1	43.3	—	—	34.5
Total.....	Ps. 245.4	Ps. 99.1	Ps. 411.4	Ps. 668.5	Ps. 1,644.7
Percentage Withheld.....	7.0%	2.8%	9.6%	11.5%	23.6%

(1) In 2001, secured debt consisted primarily of short term financing provided by the Provincial Development Fund. From 2002 through 2005, secured debt consisted mainly of financing provided pursuant to the Provincial Debt Exchange (*Bogar*), the Monetary Unification Program, the Orderly Financing Programs and the Financial Assistance Agreements, which are repaid primarily through withholdings on federal tax co-participation payments, and financing by the Provincial Development Fund, the Federal Trust Fund for Regional Infrastructure and the Fund for the Transformation of the Provincial Public Sectors.

(2) Consists mainly of withholdings to make debt service payments to multilateral creditors.

Sources: Ministry of Economy of the Province and Banco Nación.

Debt Denominated in CER-adjusted Pesos

Provincial Debt Exchange (Bogar)

In August 2002, the federal government issued a decree setting forth procedures for the restructuring of debt obligations of all provinces, including the Province, and the terms and conditions of *Bogar* to be issued by the Provincial Development Fund to provincial creditors. In this manner, the Province was able to benefit from the more favorable terms of the *Bogar* compared to its then outstanding debt obligations, including longer maturities (2018), change of currency to pesos, lower interest rates (2%) and repayment in more installments (156, after a 36-month grace period). The Province indirectly guarantees payments on *Bogar* up to an amount equal to 15% of the co-participation revenues to which it is entitled.

In 2003, the Province and the federal government entered into two agreements for the exchange of debt of the Province amounting to approximately Ps.7.5 billion for an equivalent amount of *Bogar*. The first of these two agreements, which was signed in April 2003, related to debt of the Province held by financial and banking entities, as well as a portion of outstanding provincial bonds. The second agreement, signed in July 2003, related to all remaining provincial bonds. In April 2004, the Province entered into an additional agreement with the federal government, pursuant to which the Province, acting on behalf of several of its municipalities, exchanged municipal debt amounting to approximately Ps.34 million for an equivalent amount of *Bogar*. In the context of these exchanges, Banco Provincia tendered Ps.1.3 billion in provincial bonds it had received in July 2001 in connection with the transfer of a portion of its loan portfolio to the Province pursuant to Law No. 12,726. See “The Provincial Economy—Provincial Enterprises—Loan Recovery Committee.”

The federal government is entitled to withhold up to 15% of federal tax co-participations transfers to the Province to cover 98% of payments made under the *Bogar* issued in these three exchanges, and up to 100% of those transfers to cover the remaining 2% of payments.

As of June 30, 2006, the aggregate principal amount of *Bogar* issued for the Province’s debt tendered in these exchanges amounted to approximately Ps.12.9 billion (including accumulated CER as of that date).

Monetary Unification Program (Boden 2011)

In 2001, lacking sufficient resources to fund its current expenditures due to the dramatic reductions in the monetary base resulting from the economic crisis, the Province issued the first series of a new quasi-currency treasury bond, *Patacones*, in an amount totaling approximately Ps.614.7 million. These quasi-currency instruments were widely accepted as a substitute for legal currency, including for the payment of federal and provincial taxes. Beginning in November 2001, the Province issued a new series of *Patacones* in an amount totaling approximately Ps.2.7 billion, in order to fund the redemption of the original series of *Patacones* as well as certain additional payment obligations.

In March 2003, the federal government implemented a program, known as the *Programa de Unificación Monetaria* (Monetary Unification Program, or “PUM”), for the redemption of various federal and provincial quasi-currency instruments, including *Patacones* issued by the Province. The redemption of *Patacones* took place throughout 2003 by one of the following two means:

- Provincial tax authorities accepted *Patacones* in satisfaction of provincial tax obligations; or
- The federal government redeemed *Patacones* and compensated holders with pesos by issuing bonds, known as *Boden 2011*, to the Central Bank.

As of December 31, 2003, which was the deadline established by the federal government for the quasi-currency redemption process, 99% of the aggregate outstanding principal amount of Ps.2.7 billion of *Patacones* had been redeemed in exchange for *Boden 2011*. The Province is required to reimburse the federal government for any payments made by the federal government in respect of *Boden 2011* issued in exchange for *Patacones*. The federal government is entitled to withhold the amount of any reimbursement payments due by the Province from federal tax

co-participation transfers to be made to the Province. As of June 30, 2006, the aggregate outstanding principal amount of *Boden 2011* was approximately Ps.2.3 billion.

Orderly Financing Program (PFO)

In February 2002, the federal government, the provinces, including the Province, and the City of Buenos Aires signed a national agreement on financial relations and foundations of the federal tax co-participation system, pursuant to which the provinces committed to reduce their respective fiscal imbalances and to achieve orderly finances. Under this agreement, the federal government committed to providing financial assistance to the provinces under the PFO, pursuant to which the federal government has signed bilateral fiscal agreements with a number of provinces, including the Province. Under these bilateral agreements:

- the federal government provided loans from the Provincial Development Fund to provinces that agree to adopt spending controls and other administrative reforms, which loans may be used, among other things, to reduce provincial fiscal deficits;
- the provinces agreed to comply with all financial conditions to which the federal government is subject under its financing arrangements with multilateral lending institutions; and
- the provinces committed to:
 - not incur any new public indebtedness except in connection with debt restructuring processes approved by the federal government;
 - not issue any new quasi-currency debt instruments;
 - reduce their non-financial indebtedness (*e.g.*, trade receivables or other receivables);
 - establish monthly or quarterly fiscal targets; and
 - guarantee loan repayments by assigning to the federal government their rights to receive federal tax co-participation payments.

The Province signed bilateral PFO agreements with the federal government in each year from 2002 through 2004. Pursuant to these agreements, the Province borrowed Ps.295.0 million from the Provincial Development Fund in 2002, Ps.510.5 million in 2003 and Ps.707.1 million in 2004. The terms and conditions of each of these loans include the following:

- the principal amount is adjusted by CER and amortized in 36 consecutive monthly installments following a 12-month grace period;
- interest accrues at fixed annual interest rates determined on the basis of annual levels of fiscal deficit reduction ranging from 2% to 3%; and
- interest is payable monthly and interest accrued during the year of disbursement is capitalized until December 31 of that year.

The PFO agreements also provided for the refinancing of provincial debt obligations to multilateral lenders. Under such arrangements, the federal government repays multilateral lenders on behalf of the Province. Although the Province is obligated to repay the federal government for these payments on terms substantially similar to those of the 2004 PFO, the Province did not reimburse the federal government for amounts paid to multilateral lenders on its behalf in each of 2002, 2003 and 2004. In respect of payments made by the federal government in each of 2002 and 2003, the federal government and the Province set off the Province's repayment obligation by past-due federal tax co-participation transfers owed to the Province. See “—Debt Offsetting Agreement and Refinancing Agreement.” In respect of payments made by the federal government to multilateral lenders in 2004, the Province

will repay, together with the net amount resulting from such set off, the federal government in accordance with the 2004 PFO terms described above, except for interest, which will accrue at a rate of 4% per annum.

Debt Offsetting Agreement and Refinancing Agreement

In June 2004, the Province signed a debt offsetting agreement with the federal government setting forth their mutual debt obligations as of December 31, 2002, except for the Province's obligations to the federal government in respect of debt payments to multilateral lenders, which were set forth as of August 31, 2002. According to this agreement, the federal government owed the Province approximately Ps.192.6 million, consisting primarily of past-due federal tax co-participation transfers relating to taxes collected by the federal government in federal bonds, and the Province owed the federal government approximately Ps.157.6 million, consisting of advance federal tax co-participation payments and debt repayments to multilateral lenders made by the federal government on behalf of the Province. This resulted in a net amount owed by the federal government to the Province of approximately Ps.35.0 million.

Following the execution of the debt offsetting agreement in June 2004, in November 2005 the federal government and the Province entered into a supplemental agreement to the 2004 PFO Agreement. Pursuant to this supplemental agreement, the parties set off their mutual debt obligations for 2002 and 2003 that were not included in the June 2004 debt offsetting agreement, taking into account the net Ps.35.0 million owed by the federal government to the Province pursuant to the June 2004 debt offsetting agreement (which was increased to Ps.37.0 million under the supplemental agreement). This set-off resulted in a net debt of Ps.334 million owed by the Province to the federal government, the repayment of which is subject to the terms and conditions set forth in the 2004 PFO Agreement.

In April 2006, the Province and the federal government entered into a refinancing agreement in respect of the following:

- debt service payments on multilateral loans made by the federal government on the behalf of the Province in 2004, which amounted to Ps.410 million; and
- the Ps.334 million net debt owed to the federal government pursuant to the November 2005 supplemental agreement.

As a result, the total amount refinanced was Ps.744 million, the repayment of which is subject to the terms and conditions of the 2004 PFO Agreement.

Pursuant to the April 2006 refinancing agreement, the federal government is entitled to periodically deduct the amount of debt service due under the refinancing agreement from federal tax co-participation payments that it is required to make to the Province. In this manner, as of June 30, 2006, the Province had met all of its refinancing debt service obligations on the financial terms set forth in the 2004 PFO Agreement. As of June 30, 2006, the aggregate principal amount outstanding under the 2004 PFO Agreement was Ps.828 million.

PyMEs Bond

In May 2000, the Province implemented a financial support program for small- and medium-sized businesses ("PyMEs") in financial difficulties with outstanding bank loans from Banco Provincia. Through this program, an eligible PyME could extend the term of its loans to 15, 20 or 25 years by purchasing zero-coupon dollar-denominated provincial bonds issued by the Province ("PyMEs Bonds") and depositing these bonds at Banco Provincia as collateral for its loans. At maturity, the Province would redeem PyMEs Bonds collateralizing the principal amount of the loans, which would be cancelled. Participating PyMEs may be excluded from this program in the event of two consecutive payment defaults on their loans. In this case, the PyMEs Bonds that serve as collateral for the defaulted loans will be redeemed by the Province at their then-current value.

At June 30, 2006, the aggregate nominal amount of outstanding PyMEs Bonds was Ps.154 million, which, if all participating PyMEs were to be excluded and all PyMEs Bonds redeemed on June 30, 2006, would require the Province to pay approximately Ps.15.5 million to Banco Provincia on that date.

Debt Consolidation Bond (Boconba 11,192)

In 1991, the Province issued bonds to a number of claimants who had prevailed in legal actions brought against the Province or its municipalities prior to April 1, 1991, in satisfaction of their legal claims. These bonds, known as *Boconba* 11,192, have 16-year maturities and were denominated in either pesos or dollars at the option of the claimant. *Boconba* 11,192 denominated in dollars accrue interest at a rate based on LIBOR and those denominated in pesos accrue interest at the *Tasa Encuesta*. The applicable *Tasa Encuesta* is the local Argentine interest rate applied to deposits in savings accounts denominated in pesos pursuant to Central Bank Communication “A” 1828, Point 1, of April 25, 1991. In exchange for payments that the Province makes on any *Boconba* issued for obligations of its municipalities, the Province withholds a corresponding amount of funds from provincial tax co-participation transfer to be made to the relevant the municipalities.

As a result of the pesification process, the outstanding principal amount of dollar-denominated *Boconba* 11,192 were converted into CER-adjusted pesos at the exchange rate of Ps.1.4 per U.S.\$1, and the interest rate was fixed at 4%. Holders of dollar-denominated *Boconba* 11,192 had the option to exchange those bonds for a new dollar-denominated floating-rate provincial bond with a 10-year maturity. Under this option, original obligations for the payment of interest and principal would be rescheduled. See “—Debt Denominated in Foreign Currencies— Law No. 12,973 Bond.”

Boconba 11,192 in an aggregate principal amount equal to Ps.95.8 million (consisting of Ps.91.6 million of peso-denominated *Boconba* 11,192 and Ps.4.2 million of pesified *Boconba* 11,192) were exchanged for *Bogar* pursuant to the provincial debt exchange.

The Province suspended payments on both peso-denominated and pesified *Boconba* with effect as of December 31, 2001. The Province resumed payments on peso-denominated *Boconba* in August 2003 and on pesified *Boconba* in February 2005.

The Province estimates that, as of June 30, 2006, the aggregate outstanding principal amount of *Boconba* 11,192 was equal to approximately Ps.35 million, consisting of Ps.3 million in pesified *Boconba* 11,192 and Ps.32 million in *Boconba* 11,192 originally denominated in pesos.

Debt Denominated in Pesos

Financial Assistance Program (AF)

In August 2004, the federal government created the *Régimen Federal de Responsabilidad Fiscal* (the Federal Fiscal Responsibility Regime), which went into effect as of January 1, 2005. The new regime establishes general rules of fiscal behavior and transparency for Argentina’s national, provincial and municipal public sectors. In addition, the federal government established, pursuant to various bilateral agreements, financing programs for those provinces that do not have other sources of funds and are in compliance with the fiscal responsibility rules established under the new regime.

In June 2005, the Province and the federal government entered into the 2005 AF, pursuant to which the federal government granted the Province a Ps.1.3 billion loan for purposes of making debt service payments in 2005. The loan will be repaid in 83 consecutive monthly installments with a one-year grace period, and interest will accrue at a rate of 2% per annum and will be payable on a monthly basis from June 2005, except for interest accrued through December 31, 2005, which has been capitalized. As of June 30, 2006, the aggregate principal amount outstanding under the 2005 AF was Ps.1.3 billion.

In April 2006, the federal government and the Province entered into the 2006 AF, pursuant to which the federal government has agreed to grant the Province an additional Ps.2.0 billion loan for purposes of making debt

service payments in 2006. The terms of the 2006 AF, including the amortization schedule, are identical to those of the 2005 AF, except that principal under the 2006 AF will not be adjusted for CER and interest will accrue at a rate of 6% per annum. In addition, the AF 2006 amended the terms of the AF 2005 to eliminate CER adjustments under the AF 2005 effective January 1, 2006 and to increase the rate at which interest accrues under the AF 2005 to 6%. During 2006, however, interest will continue to be payable at a rate of 2% per annum, and the 4% difference will be capitalized through December 31, 2006. As of June 30, 2006, the aggregate principal amount outstanding under the 2006 AF was Ps.1.0 billion.

Social Security Treasury Notes

From 1996 to 2002, the IPS registered surpluses equal, in the aggregate, to approximately Ps.474 million. The Province retained these surplus amounts to finance its deficits and, in exchange, issued notes to the IPS (“Social Security Treasury Notes”) representing the Province’s financial obligation to the IPS in respect of retained surplus amounts. Although the Province records these notes as short-term debt because they have a one-year maturity, the unredeemed portion of these notes is automatically renewed every 365 days pursuant to provincial law.

In order to cover operating deficits of the IPS resulting from increased expenditures associated with an early retirement program implemented in 2001, the Province redeemed approximately Ps.104 million of Social Security Treasury Notes in 2003 and Ps.51 million in 2004. During 2005, the IPS had an operating surplus and, as a result, it was unnecessary to redeem notes to cover expected payments for the year, and the Province currently anticipates that this will also be the case in 2006. The Province believes that the remaining Social Security Treasury Notes will be redeemed by 2008. However, the Province is obligated under the Fiscal Responsibility Law to consolidate the results of the IPS in its financial statements beginning no later than January 1, 2007. As of June 30, 2006, the aggregate principal amount outstanding of the Social Security Treasury Notes was Ps.\$369 million.

Debt Consolidation Bond (Boconba 12,836, as amended by Law 13,436)

In 2001, the Province established procedures for the consolidation of the Province’s obligations to claimants who have prevailed in legal actions brought against the Province or its municipalities arising from events that occurred from April 1, 1991 through November 30, 2001. These procedures permit the issuance by the Province of a bond (“Boconba 12,836”). Boconba 12,836 was issued in November 2001 with a 16-year maturity. The bonds are denominated in pesos and accrue interest at the *Tasa Encuesta*. Accrued interest is capitalized during the 72-month period immediately following the interest date and payable monthly thereafter. Principal amounts (including capitalized interest) will be payable in 120 consecutive monthly installments, beginning on December 30, 2007.

However, on October 26, 2004, the Supreme Court of Argentina declared this debt consolidation process inapplicable because it differed from the national debt consolidation regime in the following respects:

- it provided no cash payment option;
- the provincial bonds have a longer maturity than the national debt consolidation bond; and
- the aggregate amount of the provincial bonds is capped.

In response to the Supreme Court ruling, the provincial legislature amended the provincial debt consolidation process by establishing a cash payment option, prioritizing the payments by source, reducing the maturity on the provincial bonds to 170 months and the amortization schedule to 98 monthly installments and eliminating the 15% cap. In addition, the provincial legislature established a voluntary early redemption option at technical value for the original holders of the Boconba 12,836 who received their bonds when no cash payment option was available. As a result of the modifications by the provincial legislature, the provincial executive power has implemented both procedures for the Boconba 12,836.

Provision for a cash payment option and redemption procedures were included in the annual budget in the amount of Ps.4.1 million and Ps.12.3 million, respectively, plus amounts needed to pay accrued interest. The

redemption option for the *Boconba* 12,836 was exercisable from April 3 through May 31, 2006, and all redemption requests were satisfied for a total amount of Ps.7.73 million.

Quarterly budgetary provisions in the amount of Ps.1.025 million are allotted to the procedure related to the cash payment option. Requests for cash payments are organized according to the established criteria for the regulation of all cash payments. Amounts are cancelled in the quarter in which payment is made until the quarterly budget is exhausted. Any payments that are not made during a particular quarter are added to those requests for cash payments submitted in the following quarter until all payments are made in a particular year. During the first three months of 2006, the cash payment procedure was not yet implemented, and the budgeted amount was allocated to the second quarter. During the second quarter of 2006, 27 out of 97 cash payment requests submitted were satisfied for a total of Ps.1.8 million, plus accrued interest, and the remaining requests were added to those of the third quarter. As of June 30, 2006, the aggregate outstanding principal amount of these bonds was approximately Ps.18.9 million.

Federal Trust Fund for Regional Infrastructure

In 1997, the federal government created the *Fondo Fiduciario Federal de Infraestructura Regional* (the Federal Trust Fund for Regional Infrastructure, or “FFFIR”) to finance provincial infrastructure projects and other public works in order to promote regional economic development and to increase national economic productivity. The Province has entered into four agreements with the FFFIR for a total amount of approximately Ps.74.5 million to finance the improvement of public roadways and the renovation and expansion of a port within the Province. This amount reflects the increases in indebtedness authorized by the Federal Government under the Fiscal Responsibility Law. In December 2005 and March 2006, three of the four agreements of the Province with the FFFIR were amended, resulting in a total increase of Ps.7.8 million, to Ps.82.9 million, of the total amount owed to the FFFIR.

As of June 30, 2006, the Province had received approximately Ps.78.7 million under these agreements and the estimated aggregate outstanding amount was equal to approximately Ps.76.9 million.

Fund for the Transformation of the Provincial Public Sectors

In 1993, the federal government created the *Fondo para la Transformación del Sector Público* (Fund for the Transformation of the Provincial Public Sectors, or “FTSP”) for the purpose of extending loans to finance tax reforms, personnel restructuring and improvements of public sector functions. In 2003, the FTSP extended the Province a Ps.6 million 10-year loan, which is secured by federal co-participation tax revenues owed to the Province, for purposes of investments in public health, security and education services. As of June 30, 2006, the FTSP had disbursed 100% of this loan and the aggregate outstanding principal amount owed to the FTSP was equal to Ps.5.3 million.

Banco Municipal de La Plata Bond

Pursuant to provincial law, in December 2004 the Province issued a Ps.50 million 8-year provincial bond to Banco Provincia to compensate Banco Provincia for its acquisition of the liabilities of Banco Municipal de la Plata in connection with Banco Provincia’s acquisition of Banco Municipal de la Plata. See “Banco Provincia—Acquisitions and Divestitures—Banco Municipal de La Plata.” Under this arrangement, the Province will make payments on these bonds using provincial tax co-participation payments to which the municipality of La Plata is entitled. If payments on these bonds exceed such co-participated amounts, the municipality of La Plata will be required to reimburse the Province for the excess paid by the Province from its own resources.

As of the date hereof, the payments on the bond were completely funded from the provincial tax co-participation payments to which the municipality of La Plata was then entitled. The Province anticipates, based on current and estimated future provincial tax co-participation payments, that these amounts will be sufficient to fund future payments of principal and interest on these bonds.

As of June 30, 2006, the aggregate outstanding principal amount of these bonds was equal to Ps.38.7 million.

Debt Denominated in Foreign Currencies

Exchange Bonds

In November 2005, the Province launched an offer to the holders of its outstanding Eurobonds, which had been subject to the suspension of payments as from December 2001, to exchange these bonds for three series of newly issued bonds at a specified exchange ratio that recognized a portion of the accrued and unpaid interest on the Eurobonds. The aggregate principal amount of Eurobonds outstanding at the time of the offer was approximately U.S.\$2.7 billion, denominated in dollars, euros, yen and Swiss francs.

Holders of approximately 94% of the aggregate outstanding principal amount of Eurobonds tendered their bonds in the offer, which expired in December 2005. As a result, in January 2006 the tendered Eurobonds were cancelled and, in exchange, the Province issued to the tendering holders:

- U.S.\$500,000,000 aggregate principal amount of Discount Bonds due April 15, 2017, denominated in both dollars and euros, with semi-annual payments of principal commencing on October 15, 2012 and bearing interest from December 1, 2005 at an annual rate of 9.25% for the series in dollars and 8.50% for the series in euros, payable every six months on April 15 and October 15, calculated on the basis of a 360 day year of 12 30-day months;
- U.S.\$750,000,000 aggregate principal amount of Medium Term Par Bonds due May 1, 2020, denominated in both dollars and euros, with semi-annual payments of principal commencing on November 1, 2018, and bearing interest at an annual rate on the outstanding principal amount from December 1, 2005 until November 1, 2009, 1%, 2% from November 2, 2009 to November 1, 2013, 3% from November 2, 2013 to November 1, 2017, and 4% until maturity, payable every six months on May 1 and November 1, calculated on the basis of a 360 day year of 12 30-day months; and
- €478,827,372 and U.S.\$462,975,944 aggregate principal amount of Long Term Par Bonds due May 15, 2035, denominated in dollars and euros, with semi-annual payments of principal commencing on November 15, 2020, and bearing interest from December 1, 2005 until November 15, 2007, at an annual rate of 2%, 3% from November 16, 2007 to November 15, 2009, and 4% thereafter, payable every six months on May 15 and November 15, calculated on the basis of a 360 day year of 12 30-day months.

In April 2006, the Province issued an additional U.S.\$29.7 million aggregate principal amount of Long Term Par Bonds, denominated in dollars and euros, to holders of an additional U.S.\$26.2 million aggregate principal amount of Eurobonds, at the same exchange ratio as the initial exchange. As of the date of this offering memorandum, holders of approximately 94.7% of the aggregate outstanding principal amount of Eurobonds have tendered their Eurobonds for cancellation in exchange for Exchange Bonds.

Multilateral Loans

The International Bank for Reconstruction and Development (“World Bank”) and the Inter-American Development Bank (“IADB”) have extended several credit facilities to finance various projects in the Province such as road construction, water and wastewater infrastructure and public administration, education and health reforms. The latest final maturity under these credit facilities occurs in 2022. In most cases, these facilities are extended to the federal government, which makes the proceeds available to the relevant provincial agencies or entities.

As of June 30, 2006, the Province had obtained 25 multilateral credit facilities, of which four are direct loans to the Province with the federal government acting as guarantor, and the remaining 21 are subsidiary lending arrangements through credit facilities extended to the federal government. Under the subsidiary lending

arrangements, the federal government is the direct obligor rather than the guarantor, and the Province has a subsidiary obligation to reimburse the federal government for repayments made under the facilities. Under either arrangement, the Province's obligation to reimburse the federal government for any payments made to multilateral lenders (whether as a direct obligor or as a guarantor) is secured by a portion of the federal tax co-participation transfers to which the Province is entitled. In addition, the proceeds of four credit facilities extended by the IADB and the World Bank have been made available to the municipalities through further subsidiary lending arrangements.

In March 2005, the World Bank extended the Province an additional direct loan, in a total amount equal to U.S.\$200 million, with an option for the Province to increase the total loan amount by an additional U.S.\$150 million. This additional loan amount is conditioned upon the Province's achievement of specific fiscal benchmarks and its successful completion of the first stage of a comprehensive provincial infrastructure project, consisting of improvements to the Province's water supply, urban drainage systems and public highways, which is to be financed with the proceeds of the loan. In addition, the Province is currently negotiating a new direct loan with the IADB in the amount of U.S.\$230 million with the objective of financing further investment in the basic social infrastructure of the Province.

As of June 30, 2006, the outstanding principal amount owed to the World Bank and the IADB totaled U.S.\$799 million.

Bilateral Lending and Credit Facilities

Member states of the OECD have extended loans or credit facilities to the Province for various purposes. These loans or facilities include:

- bilateral loans from the governments of Italy and Spain;
- credit facilities provided by Credit Lyonnais and guaranteed by COFACE, the French export import agency; and
- financing obtained from the Export-Import Bank of Japan ("JEXIM") and the Japan Bank for International Cooperation ("JBIC"), both of which are agencies of the government of Japan.

Each of these loans and credit facilities has been extended to the Province to finance equipment imports necessary for essential public services.

The federal government guarantees the Province's payment obligations under these loans and credit facilities. Any payments made by the federal government pursuant to this guarantee are secured by federal tax co-participation revenues owed to the Province.

The Province is currently in default on these loans and credit facilities, which have not been serviced since December 2001. The Province has authorized the federal government to conduct negotiations on its behalf to restructure these loans and facilities. As of June 30, 2006, the outstanding principal amount owed under these loans or credit facilities totaled U.S.\$137 million.

Law No. 12,973 Bond

In 2002, following the pesification of dollar-denominated provincial and municipal debt obligations governed by Argentine law, the Province provided holders of such debt instruments with the option to exchange these obligations for a new dollar-denominated bond with a 10-year maturity, known as the Law No. 12,973 Bond. Pursuant to this option, all of the outstanding *Caja de Profesionales* bonds (issued by the Province in 2000), 29.6% of outstanding *Boconba* and less than one percent of outstanding *Bocanoba* were exchanged for Law No. 12,973 Bonds. As of June 30, 2006, the aggregate outstanding principal amount of the Law No. 12,973 Bond was Ps.133 million.

Authorizations under the Fiscal Responsibility Regime

Under the Fiscal Responsibility Regime established in 2004, and adopted by the Province in 2005, all of the provincial and municipal governments, as well as the City of Buenos Aires, are required to obtain the authorization of the federal government before incurring any indebtedness or granting any liens. See “Public Sector Finances.”

The Province has obtained the federal government’s authorization for the increases in the financing obtained from the FFFIR in December 2005 and March 2006, the new U.S.\$230 million IADB loan, a loan from the *Agencia Nacional de Promoción Científica y Tecnológica* (National Agency for the Promotion of Science and Technology), an increase of a subsidiary loan from the IADB (*Puerto Quequén*) and a new issuance of *Boconba* 11,192.

BANCO PROVINCIA

Overview

Banco Provincia was founded in 1822 and is the oldest bank in Latin America. It is also the second largest bank in Argentina in terms of total deposits and the third largest in terms of assets, with deposits of Ps.14.6 billion (representing 9.25% of the total deposit base of Argentina) and total assets of Ps.22.0 billion at June 30, 2006. The Province is the sole owner of Banco Provincia.

Banco Provincia is a self-administered public institution (*entidad autárquica*) governed by a board of directors appointed by the Governor of the Province with the approval of the provincial Senate. Banco Provincia acts as the financial agent of the Province and collects provincial taxes and duties on the Province's behalf. Banco Provincia is also the exclusive paying agent of the Province, handling payments of civil servants' wages and salaries and pension and retirement benefits, as well as payments to the Province's creditors.

In accordance with Banco Provincia's charter approved by Provincial decree-law N° 9,434/79, the Province guarantees all deposits and other liabilities of Banco Provincia. However, because the specific nature, scope and procedural aspects of the Province's obligations under the guarantee are not expressly defined under provincial decree-law, the Province believes that the guarantee is an indirect and subsidiary obligation of the Province under general provincial legal principles. As a result, creditors of Banco Provincia that seek to enforce the guarantee must exhaust all legal remedies against Banco Provincia before requesting payment from the Province under the guarantee.

Banco Provincia is one of the largest providers of general, commercial and retail banking services in Argentina, with corporate offices in the cities of La Plata and Buenos Aires and a local retail network of 359 branch offices located throughout the provincial territory and in the City of Buenos Aires. Banco Provincia also offers trade finance and international products through its network of foreign offices in Brazil, Uruguay, Panama, Chile, Spain, the United States (New York) and the Cayman Islands, in cooperation with approximately 150 correspondent banks around the world.

Banco Provincia's activities are mainly focused on individuals and small and mid-sized enterprises, but it also offers a wide variety of products to large companies in the agricultural, industrial, commercial and services sectors. It offers traditional credit services to businesses, including foreign trade, project and commercial financing, as well as consumer and mortgage loans and a broad range of other products and services to individuals, including credit and debit cards and ATM and other cash dispenser facilities. Through Grupo Bapro S.A. and its subsidiaries, Banco Provincia also offers a range of other financial and investment products and services, such as insurance, leasing, securities investments and mutual funds.

Regulatory Framework

Banco Provincia is exempt from compliance with Argentine financial and banking regulations under an agreement entered into by the Province and the federal government in 1859. However, Banco Provincia voluntarily adheres to the regulatory framework of the Argentine financial sector and is, therefore, subject to the banking regulations and rules adopted by the Central Bank, including regulations and rules relating to minimum capital, solvency and liquidity requirements and the supervisory powers of the Central Bank. Because of its special status as a provincial self-administered public institution, Banco Provincia is not subject to any federal income or other tax liability.

Law No. 24,485, as amended by Law No. 25,089 and Decree No. 540/95, enacted on April 12, 1995, created the *Sistema de Seguro de Depósitos* (Bank Deposit Insurance System, or "SSGD"), which is overseen by the Central Bank. The SSGD was implemented by the *Fondo de Garantía para los Depósitos* (Deposit Insurance Fund, or "FGD") and is managed by the private company *Seguros de Depósitos S.A.* (SEDESA). The shareholders of SEDESA are the federal government (through the Central Bank) and a trust established by the financial institutions that participate in the system. These entities are required to pay monthly contributions to FGD as determined

pursuant to the BCRA rules. The SSGD is financed through regular and supplemental contributions by the participating financial institutions.

The SSGD covers all peso and foreign currency deposits held in accounts with the participating financial institutions, including demand deposit accounts, savings accounts and time deposits, limited to Ps.30,000 per depositor, and subject to various other limitations and exceptions. The capital ratio for Banco Provincia as of June 30, 2006 was 5.20%. This ratio represents the quotient of regulatory capital over risk-weighted assets, both of which values are determined as of June 30, 2006 in accordance with the regulations of the Central Bank. Banco Provincia has been a voluntary participant of SSGD since 1997. Banco Provincia limits its participation in the SSGD to private sector deposits and has communicated such decision to both SEDESA and the Central Bank.

Selected Financial Information

The following selected financial information has been derived from Banco Provincia's audited financial statements for the periods indicated below.

	As of and for the year ended December 31,					As of and for the six months ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
Balance Sheet Data							
Assets							
Cash and due from banks.....	Ps. 220	Ps. 437	Ps. 1,791	Ps. 1,528	Ps. 1,134	Ps. 1,717	Ps. 2,150
Government and corporate securities ⁽¹⁾	2,071	6,106	9,533	9,927	10,066	10,504	10,100
Net loans.....	6,923	8,150	3,396	4,223	5,579	4,927	6,182
Other receivables from financial brokerage activities ⁽²⁾ ..	1,400	4,534	3,094	2,566	1,163	1,329	1,265
Property, equipment and miscellaneous assets.....	426	906	867	822	771	807	767
Other assets ⁽³⁾	1,066	1,341	2,238	1,980	1,755	1,673	1,547
Total assets.....	12,106	21,474	20,919	21,046	20,468	20,957	22,011
Liabilities							
Deposits.....	6,095	7,826	10,207	11,693	13,264	13,005	14,605
Liabilities from financial brokerage activities ⁽²⁾	4,052	10,160	9,037	7,720	5,561	6,455	5,599
Miscellaneous liabilities.....	61	55	45	36	52	55	69
Provisions.....	29	406	157	134	88	123	107
Subordinated loans ⁽⁴⁾	488	—	—	—	—	—	0
Items for which classification is pending.....	216	184	401	337	221	201	233
Total Liabilities.....	10,941	18,631	19,847	19,920	19,186	19,839	20,613
Total Net Equity.....	1,165	2,843	1,072	1,126	1,282	1,118	1,397
Total Net Equity and Liabilities.....	Ps. 12,106	Ps. 21,474	Ps. 20,919	Ps. 21,046	Ps. 20,468	Ps. 20,957	Ps. 22,011
Income Statement Data							
Financial Income.....	Ps. 1,052	Ps. 5,249	Ps. 1,003	Ps. 1,418	Ps. 1,899	Ps. 915	Ps. 1,069
Financial Expenditure.....	(782)	(3,682)	(1,649)	(838)	(1,024)	(551)	(579)
Provision for loan losses.....	(76)	(990)	(205)	(9)	(155)	(44)	(53)
Net Income from Services.....	336	365	304	291	334	158	182
Monetary gain (loss) on financial brokerage activities ...	—	360	108	—	—	—	—
Administrative Expenses.....	(654)	(856)	(780)	(763)	(902)	(426)	(536)
Monetary gain (loss) on administrative expenses.....	—	21	—	—	—	—	—
Net income (loss) on financial brokerage activities.....	(124)	467	(1,219)	100	152	52	83
Net miscellaneous income.....	26	(672)	(444)	(38)	98	22	33
Monetary gain (loss) on other operations.....	—	(136)	2	—	—	—	—
Net Income (loss).....	Ps. (98)	Ps. (341)	Ps. (1,661)	Ps. 62	Ps. 250	Ps. 74	Ps. 116

(1) Includes *Boden* 2012 received from the federal government in 2002 and *Bogar* received in connection with the Provincial Debt Exchange in 2003 equal, as of June 30, 2006, to Ps.1.3 billion and Ps.8.5 billion, respectively. See "Public Sector Debt—Debt Denominated in CER-adjusted Pesos—Provincial Debt Exchange (*Bogar*)."

(2) During 2005, Banco Provincia completed the sale of its portfolio of U.S. Treasury bonds, and simultaneously cancelled the related derivative transactions (repurchase contracts or Repos) to eliminate the effect of volatility in the value of these instruments on the bank's results.

(3) Includes intangible assets, investments in other entities, various other loans and asset items for which classification is pending.

(4) Represents U.S. treasury bonds (recorded at market value) held by Banco Provincia as collateral for two subordinated loans extended by Banco Provincia to the Province's electricity utility and highway authority. Banco Provincia assumed the ownership of these bonds pursuant to the Debt Offsetting Agreement entered into in November 2002 between the Province and Banco Provincia. See "—Funding and Liquidity—Debt Offsetting Agreement."

Source: Banco Provincia.

Impact of Measures Adopted During the Economic Crisis

Restrictions on Deposit Withdrawals

As Argentina's economic crisis deepened and speculation of a potential devaluation mounted in 2001, confidence in the banking sector began to erode, triggering a significant run on deposits during that year. By December 31, 2001, Banco Provincia's total deposits (peso and dollar) had declined 35.8% from December 31, 2000 levels. To reduce the threat of a collapse of the banking sector, in December 2001 and February 2002 the federal government imposed strict limits on bank withdrawals.

The restrictions imposed by the *corralito* and the *corralón* shielded banks from further massive withdrawals and reduced capital flight. However, these restrictions also led to a severe reduction in all commercial and financial activities in the country, greatly aggravating the economic downturn and sparking increased social unrest and a political crisis that ended President De La Rúa's administration.

Pesification

As a result of the pesification of deposits and loans at different rates (known as "asymmetric pesification"), Argentine banks, including Banco Provincia, recorded losses reflecting the difference between their pesified assets and their pesified liabilities. To compensate banks for these losses, the federal government issued to these banks a new type of financial instrument, known as the *Boden Compensation* (*Boden 2007* and *Boden 2012*). In addition, in May 2002, the federal government issued a new type of bond, known as the *Boden Coverage* (*Boden 2012*), to compensate banks for losses incurred (based on their balance sheets as of December 31, 2001), reflecting any amounts by which their remaining foreign-currency denominated liabilities not subject to pesification exceeded their remaining foreign-currency denominated assets not subject to pesification.

As of June 30, 2006, Banco Provincia had recorded *Boden 2007* that it is entitled to receive at a technical value (according to Central Bank regulations) of Ps.236 million, and had received *Boden 2012* with a technical value of Ps.1.3 billion.

The different exchange rates applied to the conversion of foreign-currency denominated deposits and loans, resulting in a substantial decrease of banks' assets relative to their liabilities, caused banks to suffer heavy losses. This exchange rate disparity, along with increases in the banks' bad-loan portfolios and the decline in value of their substantial holdings of federal government debt, left much of the sector virtually insolvent.

Easing of Restrictions During Economic Recovery

As the demand for pesos recovered in the fall of 2002, easing the pressure of capital flight from the Argentine economy and its banking system, the federal government was able to lift all restrictions on withdrawals of demand deposits in November 2002. Similarly, in April 2003, depositors were permitted to withdraw their term deposits.

As a result of Decree No. 739/2003, restrictions on withdrawals are no longer in effect. The decree allowed depositors to withdraw their deposits at a rate of Ps.1.4 per U.S.\$1.00, adjusted for CER, and to be compensated for the difference between that rate and the then current exchange rate by receiving bonds denominated in U.S. dollars (*Boden 2013* or *Boden 2006*). However, some depositors chose not to withdraw their deposits in order to preserve the original value of the account in its original currency in hopes of pursuing a lawsuit against the federal government and the financial institutions. See "—Source of Funds— Judicial Decisions (*Amparos*)."

Consolidated Assets

As a result of the measures adopted by the federal government in 2002 and 2003, Banco Provincia's asset structure has changed with respect to periods preceding the crisis, which has resulted primarily in a larger exposure to the Argentine public sector and, particularly, the federal government.

The following table shows the total exposure of Banco Provincia to the Argentine public sector, both national and provincial, at the dates indicated.

Public Sector Exposure of Banco Provincia

	At December 31,		At June 30,	
	2004	2005	2006	
	(in millions of pesos)			
Government Securities				
<i>Bogar</i>	Ps. 7,687	Ps. 8,221	Ps. 8,489	
<i>Boden</i> 2012.....	1,262	1,248	1,279	
Par Brady Bonds ⁽¹⁾	192	—	—	
Discount Brady Bonds ⁽¹⁾	40	—	—	
Dollar-denominated Discount Bonds.....	—	35	36	
Euro-denominated Discount Bonds.....	—	17	17	
Peso-denominated Discount Bonds.....	—	19	20	
Banco Municipal de La Plata Bonds.....	—	49	44	
Other.....	109	18	17	
Total Government Securities.....	9,290	9,607	9,902	
Other Receivables from Financial Brokerage Activities				
<i>Boden</i> 2007.....	442	247	251	
<i>Boden</i> 2012.....	15	14	15	
Par Brady Bonds ⁽¹⁾	144	—	—	
Dollar-denominated Discount Bonds.....	—	240	242	
Total Other Receivables.....	601	501	508	
Public Sector Loans				
Municipalities ⁽²⁾	430	—	—	
National Guaranteed Loans.....	594	641	670	
Other Loans.....	49	15	10	
Total Public Sector Loans.....	1,073	656	680	
Other Assets				
<i>Bogar</i> ⁽³⁾	174	188	194	
<i>Boden</i> 2012 ⁽³⁾	75	67	68	
Total Other Assets.....	249	255	262	
Total.....	Ps. 11,213	Ps. 11,019	Ps. 11,352	

- (1) Par and Discount Brady Bonds were tendered in January 2005 pursuant to the federal government's exchange offer in exchange for U.S.\$83.5 million in cash and new dollar-denominated federal discount bonds governed by New York law. As of June 30, 2006, the aggregate principal amount of the new discount bonds received in exchange for Par and Discount Brady Bonds was U.S.\$30.2 million.
- (2) On November 30, 2005, Banco Provincia and the Province entered into a credit rights assignment agreement for the transfer of these assets within the framework of the Debt Set Off Agreement with the Province.
- (3) Because these bonds secure a portion of Banco Provincia's indebtedness to BICE through a collateral trust pursuant to a restructuring agreement between Banco Provincia and BICE, they are recorded separately from Government Securities. See "—Sources of Funds—Other Liabilities."

Source: Banco Provincia.

Bogar are recorded at their technical value in Banco Provincia's financial statements, which is calculated as the outstanding principal amount of the security plus accrued interest. In September 2004, the Province established the *Fondo de Sostén del Valor de los Bonos Garantizados (Bogar)* (Fund to Support the Value of the Guaranteed Bonds (*Bogar*)) pursuant to provincial law to assure that the present value of the *Bogar*, discounted at the rates established by the Central Bank, would be equal to its technical value. The Fund receives cash flows financed with the revenues of the Province and transferred to Banco Provincia as capital. In accordance with provincial law,

Banco Provincia offset the amount that the Province was obligated to transfer to it in 2004 by allocating to its capitalization Ps.50 million of Banco Provincia's net profit of Ps.62 million for 2004, and the Province will transfer to the Fund an additional Ps.168 million in 2007, Ps.156 million in 2008, Ps.144 million in each year from 2009 through 2015 and Ps.120 million in 2016. In addition, Banco Provincia will transfer to the Province a portion of its net income in an amount equal to the cash flows provided by the Fund.

Loan Portfolio

The following table shows the loan portfolio of Banco Provincia by type of client at the indicated dates:

Loan Portfolio of Banco Provincia by Client Type

	At December 31,					At June 30,
	2001	2002	2003	2004	2005	2006
	(in millions of pesos)					
Public ⁽¹⁾	Ps. 3,049	Ps. 5,100	Ps. 1,067	Ps. 1,073	Ps. 656	Ps. 680
Financial	146	319	237	147	216	255
Private.....	3,977	3,361	2,796	3,705	5,303	5,732
Total.....	7,172	8,780	4,100	4,925	6,175	6,667
Allowances	(249)	(630)	(704)	(702)	(596)	(485)
Total Net Loans	Ps. 6,923	Ps. 8,150	Ps. 3,396	Ps. 4,223	Ps. 5,579	Ps. 6,182

(1) Reflects the transfer of loans made by the provincial public sector to the federal government in exchange for *Bogar* as part of the provincial debt exchange process in 2003, as described below.

Source: Banco Provincia.

The portfolio of loans before the allowance for loan losses grew by 22.4% at December 31, 2002 compared to its December 31, 2001 level (despite a 15.5% drop in loans to the private sector), due primarily to the 67.3% increase in the peso value of loans to the public sector at December 31, 2002, as compared to December 31, 2001, that resulted from the pesification of such loans at a rate of Ps.1.4 per U.S.\$1.00, adjusted for CER.

The 15.5% decrease in loans to the private sector from December 31, 2001 to December 31, 2002 resulted largely from the following:

- the near absence of new loan origination during that period attributable to Argentina's economic crisis; and
- the increased collection by Banco Provincia of outstanding loans and credits during that period through various debt-cancellation plans intended to address the liquidity crisis affecting Argentina's entire financial system.

Banco Provincia experienced a 53.3% decline in its portfolio of gross loans in 2003, as compared to 2002, reflecting primarily the transfer of its portfolio of public sector loans in the context of the provincial debt exchange program implemented by the federal government. See "Public Sector Debt—Debt Denominated in CER-adjusted Pesos—Provincial Debt Exchange (*Bogar*)."

In 2004, Banco Provincia's gross loan portfolio increased by 20.1% from its December 31, 2003 level, reflecting primarily a 32.5% increase in loans to the private sector at December 31, 2004 compared to December 31, 2003 levels. The increase in private sector loans was due mainly to an increase in lending to individuals through flexible consumer loans, particularly in the second half of the year, as Argentina's economic recovery accelerated. Approximately 170,000 consumer loans were granted in an aggregate amount of Ps.751 million in 2004. In addition, Banco Provincia entered into two agreements with the Province in 2004 to provide credit assistance to the industrial and manufacturing sector and the agricultural sector at subsidized rates. Under these programs, known as *Fuerza Pyme* and *Fuerza Campo*, the Province subsidizes a portion of the interest that Banco Provincia charges to businesses in these sectors, effectively reducing the interest rate for borrowers. The Province records these subsidies as "Current Transfers."

In 2005, the portfolio of total loans increased by 25.4% as compared to December 2004, primarily due to a 43.1% increase in private sector loans. The increase in private sector loans was due mainly to an increase in lending to individuals and to small and mid-sized businesses. The growth in loans to individuals reflects an increase in consumer loans, particularly as a result of improvements to the credit qualification process, and mortgage and home equity, particularly following the launch in April 2005 of a new line of mortgage loans, known as “Procasa” loans, with favorable terms, which was accompanied by improvements in the application and granting process. In 2005, the “Fuerza PyMEs” program was increased by Ps.150 million due to increased demand for credit assistance (with over 6,400 credit applications under the program). In addition, Ps.344 million in credit assistance was granted at a promotional rate, as a result of significant efforts by Banco Provincia and a rate subsidy funded by the Ministry of Economy and Production of the Province, which has resulted in a substantial stimulation of investment in the PyMEs.

In 2005, public sector loans decreased by 38.8% as compared to the previous year, primarily as a result of the credit rights assignment agreement entered into in November 2005 by the Province and Banco Provincia within the framework of the Debt Set Off Agreement with the Province, resulting in a decrease of approximately Ps.349 million in “Public Sector Loans” and “Other Receivables from Financial Brokerage Activities.”

Sources of Funds

Historically, Banco Provincia’s main source of funds has been deposits, particularly from the private sector. However, as a result of Argentina’s economic crisis, Banco Provincia has had to rely on other sources of funds, including financing from the Central Bank. See “—Impact of Measures Adopted During the Economic Crisis.” As a result of the crisis, the proportion of total liabilities represented by deposits declined from 73.1% at December 31, 2000 to 42.0% at December 31, 2002, while other liabilities, comprising mainly temporary financing mechanisms offered by the Central Bank during the crisis and financing provided by foreign banks, increased from 21.4% of total liabilities at December 31, 2000 to 54.5% of total liabilities at December 31, 2002. This trend began to reverse during the second half of 2002, with a gradual increase in deposits over the past three years. At June 30, 2006, deposits represented 70.9% of total liabilities and Other Receivables from Financial Brokerage Activities represented 27.16% of total liabilities.

Deposits

The table below shows the evolution, by sector, of Banco Provincia’s total deposits.

Evolution of Deposits at Banco Provincia

	At December 31,					At June 30,
	2001	2002	2003	2004	2005	2006
	(in millions of pesos)					
Non-Financial Public Sector.....	Ps. 862	Ps. 1,378	Ps. 2,523	Ps. 4,410	Ps. 4,680	Ps. 5,008
Financial Sector.....	75	45	86	60	37	40
Non-Financial Private Sector.....	5,158	6,403	7,598	7,223	8,547	9,557
Checking Accounts ⁽¹⁾	715	861	1,228	1,635	1,765	1,924
Savings Accounts.....	1,114	600	919	1,498	2,163	2,450
Fixed-term deposits.....	2,937	2,053	3,246	2,959	3,827	4,402
Other ⁽²⁾	352	2,255	1,705	1,034	678	634
Accrued interest, adjustments and quotation differences payable ⁽³⁾	40	634	500	97	113	147
Total.....	Ps. 6,095	Ps. 7,826	Ps. 10,207	Ps. 11,693	Ps. 13,264	Ps. 14,605

(1) Non-interest bearing accounts.

(2) As from December 31, 2002, includes deposits rescheduled pursuant to the “corralón.”

(3) As from December 31, 2002, includes CER adjustment on rescheduled deposits.

Source: Banco Provincia.

Despite the measures taken in late 2001 and early 2002 to preserve the liquidity of Argentine banks, Argentine financial institutions, including Banco Provincia, continued to experience a decline in deposits during this period attributable mainly to expedited judicial decisions (“*amparos*”) ordering the return of deposits denominated in foreign currencies and the swaps of deposits for federal bonds established by the federal government. Beginning in the second half of 2002, however, Banco Provincia’s deposits significantly increased in a macroeconomic context of greater confidence as a result of stabilization of inflation.

At December 31, 2005, deposits totaled Ps.13.3 billion, which represented an increase of 13.4% as compared to December 2004. This increase was due primarily to the Ps.1.3 billion increase in deposits by the non-financial private sector, representing an increase of 18.3% as compared to the previous year, reflecting strong growth in each of fixed term deposits, checking accounts and savings accounts. The increase in deposits reflects higher confidence in the banking system as a whole and improvements in the macroeconomic context, as well as efforts by Banco Provincia to market new products, such as its CER-Adjusted Term Deposits, which were widely accepted by the market and resulted in an increase in these deposits from Ps.747.9 million as of December 31, 2004 to Ps.1.2 billion as of December 31, 2005. The participation of Banco Provincia in the total deposits in the Argentine banking system represented 9.5% at December 31, 2005, as compared to 9.8% at December 31, 2004.

The resulting increase in Banco Provincia’s liquidity in 2005 allowed it to increase its lending capacity, which resulted in a significant increase in its active loan portfolio, and to prepay a portion (Ps.179.7 million) of its outstanding debt with the Central Bank, as well as to comply with its scheduled payments (Ps.889.0 million) on such debt in 2005.

At June 30, 2006, the participation of Banco Provincia in the total deposits in the Argentine banking system represented 9.25%.

Judicial Decisions (Amparos)

As of June 30, 2006, Banco Provincia had refunded Ps.2.0 billion to depositors seeking the original value of their deposits from their financial institutions pursuant to judicial orders finding that the restrictions on bank withdrawals were unconstitutional. Because Banco Provincia was required to return these deposits using currency exchange rates in effect on the date of refund, in accordance with Central Bank rules, Banco Provincia has recorded in aggregate Ps.791 million as “Intangible Assets” for the difference between the refund amounts stated in the judicial orders and the deposit balance booked at the conversion rate of U.S.\$1 to Ps.1.40, adjusted for CER. This amount is amortized over a 60-month period and, at June 30, 2006, the outstanding balance of these intangible assets amounted to Ps.319 million.

Compensation of Depositors

To compensate depositors for the pesification and rescheduling of their deposits, during the course of 2002 and 2003 the federal government gave depositors the option of exchanging their rescheduled deposits for various kinds of financial instruments issued by the federal government.

If a depositor chose to receive these financial instruments in exchange for his or her deposits, the financial institution was required to purchase the corresponding amount of the relevant financial instruments from the federal government and deliver them to the depositor. Financial institutions were allowed to pay for these financial instruments with specific types of assets (securities or loans to the public sector) or through funds provided by the Central Bank under a temporary financial assistance mechanism secured by the same types of assets. Under this exchange program, Banco Provincia purchased from the federal government, in the aggregate, U.S.\$666 million in dollar-denominated *Boden* (*Boden 2005*, *Boden 2006*, *Boden 2012* and *Boden 2013*) and Ps.6.4 million in peso-denominated *Boden* (*Boden 2007*) and delivered them to depositors.

In April 2003, the federal government lifted emergency restrictions on deposit withdrawals, offering the remaining depositors (who had not elected to receive financial instruments in exchange for their rescheduled deposits) the option to withdraw these deposits in whole or in part, but only in pesos at specified rates.

Financing from the Central Bank

During the crisis, the Central Bank used its power to provide temporary financial assistance to Argentine financial institutions to address the liquidity shortages of these institutions resulting from the run and subsequent freeze on deposits and the asymmetric pesification of financial assets and liabilities. Banco Provincia is required to repay the amount of any temporary financial assistance received on or before March 28, 2003 (which amounts to Ps.4.4 billion) in 70 monthly installments in CER-adjusted pesos. At June 30, 2006, Banco Provincia's total outstanding indebtedness to the Central Bank in connection with temporary financial assistance was equal to approximately Ps.3.9 billion (of which Ps.804 million consisted of adjustments for CER). The outstanding amounts accrue interest at a 3.5% annual rate and are secured by an aggregate amount of guaranteed loans received under the federal debt exchange program and *Bogar* equal to 125% of the outstanding amount.

The Central Bank is entitled to extend this repayment schedule to up to 120 months with the consent of a new committee appointed by the federal government in 2003 to oversee the complete restructuring of the financial system. The repayment schedule, however, cannot exceed the average useful life of the assets securing repayment. In June 2003, Banco Provincia requested an extension of the repayment schedule of its temporary financial assistance obligations to 120 months. To date, no extension has been approved and, as a result, since March 2004, Banco Provincia has been making installment payments of principal and interest on its temporary financial assistance obligations in accordance with the initial 70-month schedule.

External Indebtedness

The table below shows, by source, the amounts of foreign currency financing provided by financial institutions outside of Argentina to Banco Provincia.

Foreign Currency Financing Provided to Banco Provincia

	At December 31,					At June 30,
	2001	2002	2003	2004	2005	2006
	(in millions of U.S. dollars)					
Overnight and short-term funds.....	U.S.\$196	U.S.\$142	U.S.\$125	U.S.\$ 9	U.S.\$ 7	U.S.\$ 7
Euro-certificates of deposit (short-term).....	—	—	—	—	—	—
Trade finance (short-term).....	129	134	115	13	—	1
Interbank lines (medium-term).....	3	—	—	—	—	—
Secured financing (short-term) ⁽¹⁾	591	558	570	425	21	21
Secured financing (medium-term).....	—	—	—	—	—	—
Floating rate interest bonds (long-term) ⁽²⁾ ...	16	13	12	7	6	5
U.S. Commercial Paper	40	26	25	14	12	11
Medium-Term Financing.....	—	—	—	113	78	78
Total	<u>U.S.\$975</u>	<u>U.S.\$873</u>	<u>U.S.\$847</u>	<u>U.S.\$581</u>	<u>U.S.\$124</u>	<u>U.S.\$123</u>

(1) Financing obtained through repurchase transactions in which U.S. Treasury Bonds are used as collateral.

(2) Net present value of obligations for a U.S.\$122 million notional principal amount.

Source: Banco Provincia.

As a result of the cancellation or restructuring of various financial and commercial liabilities of Banco Provincia during the period following the economic crisis, Banco Provincia's external indebtedness decreased by approximately 87.4% between December 2001 and June 2006.

Debt Offsetting Agreement

In November 2002, the Province and Banco Provincia entered into a Debt Offsetting Agreement pursuant to which the parties set off reciprocal debt obligations in an amount equal to approximately Ps.1.0 billion. See "Public Sector Finances—Evolution of Fiscal Results: 2001-2005—Fiscal Result of 2002 as Compared to Fiscal Result of 2001."

Other Liabilities

Banco de Inversión y Comercio Exterior S.A.—Debt Rescheduling Agreement. Banco de Inversión y Comercio Exterior S.A. (“BICE”) has extended several loans to Banco Provincia to provide financing for various investment projects by clients of Banco Provincia. In July 2003, in order to reduce the interest rates and extend the terms of these loans, Banco Provincia and BICE entered into an agreement to restructure Banco Provincia’s outstanding indebtedness to BICE, a portion of which is secured by *Bogar* and *Boden* through a collateral trust. The agreement provides that Banco Provincia will repay amounts owed to BICE in line with the average life of the collateral assets. However, in July 2004, Banco Provincia prepaid a portion of such debt and, at June 30, 2006, the aggregate amount of debt owed by Banco Provincia to BICE amounted to Ps.273 million.

Debt Restructuring Agreement—Commodity Credit Corporation. In June 2005, the Board of Directors of Banco Provincia approved the restructuring of the U.S.\$112.6 million of debt Banco Provincia had with the Commodity Credit Corporation through a cash payment in the amount of U.S.\$34.2 million. The total amount pending repayment on the restructured loan in dollars will be paid in 11 semi-annual consecutive installments beginning on January 1, 2009. In addition, Banco Provincia recorded in “Other Income” an amount of Ps.15.5 million from interests waived by Commodity Credit Corporation pursuant to such restructuring. As of June 30, 2006, the aggregate outstanding amount of restructured debt was Ps.247 million.

Liquidity and Financial Position

The table below shows Banco Provincia’s liquidity ratios at the indicated dates:

	At December 31,					At June 30,
	2001	2002	2003	2004	2005	2006
	(in percentages)					
Cash and cash equivalents / Deposits	3.61	5.58	17.55	13.07	8.55	14.72
Net Loans / Assets	57.19	37.95	16.24	20.07	27.26	28.09

Source: Banco Provincia.

The table below shows Banco Provincia’s solvency ratios at the indicated dates:

	At December 31,					At June 30,
	2001	2002	2003	2004	2005	2006
	(in percentages)					
Net Equity / Assets	9.62	13.24	5.12	5.35	6.26	6.35
Net Equity / Loans	16.83	34.88	31.56	26.67	22.97	22.60

Source: Derived from the audited financial statement of Banco Provincia.

The national crisis had a strong effect on the whole Argentine financial system, including Banco Provincia, with a significant reduction in the number of transactions and overall turnover. As a result, Banco Provincia recorded net losses every year from 2001 through 2003. The net losses recorded in 2003, which included adjustments for prior years, prevented Banco Provincia from complying with certain technical ratios required by the Central Bank in that year. In 2004, Banco Provincia implemented a short-term plan to reduce financial costs and non-wage expenses, increase income through the adoption of an aggressive commercial policy for services and loans and significantly increase loan recoveries. This plan began to produce results in May 2004, as Banco Provincia began to record monthly profits, and allowed Banco Provincia to record net income of Ps.62 million in 2004 and Ps.250 million in 2005.

Acquisitions and Divestitures

Banco Municipal de La Plata

In April 2003, Banco Provincia agreed with Banco Municipal de La Plata and the Municipality of La Plata to take over certain assets and liabilities of Banco Municipal de La Plata. The Municipality of La Plata has agreed to compensate Banco Provincia for any losses that it may incur as a result of this acquisition. The Central Bank has authorized Banco Provincia to acquire the 18 operating branches of Banco Municipal de La Plata. See “Public Sector Debt—Banco Municipal de La Plata Bond.”

DESCRIPTION OF NOTES

This section of this offering memorandum is only an overview of the material provisions of the notes and the trust indenture. The Province urges you to read the trust indenture for a complete description of the Province's obligations and your rights as a holder of the notes. Copies of the trust indenture are available free of charge at the offices of the trustee and the Luxembourg listing agent.

The notes will be issued pursuant to a trust indenture between the Province and The Bank of New York as trustee.

General

Basic Terms

The notes will:

- be direct, unconditional, unsecured and unsubordinated obligations of the Province;
- be initially issued in an aggregate principal amount of U.S.\$475,000,000;
- mature on September 14, 2018;
- not be redeemable before maturity at the option of the Province or repayable at the option of the holder and not be entitled to the benefit of any sinking fund. The Province may at any time, however, purchase notes and hold or resell them or surrender them to the trustee for cancellation;
- be represented by one or more registered notes in global form;
- be eligible for settlement in Euroclear and Clearstream;
- be issued in denominations of U.S.\$100,000 and in integral multiples of U.S.\$1,000 in excess thereof; and
- represent a claim to their full principal at maturity (plus accrued and unpaid interest) or upon earlier acceleration in accordance with their terms.

Interest on the notes will:

- accrue at the rate of 9.375% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually in arrears on March 14 and September 14 of each year, beginning March 14, 2007, to persons in whose names the notes are registered at the close of business on the fifteenth calendar day preceding the corresponding payment date (the "Record Date"); and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

The trustee will make payments to the registered holders of the notes.

While the notes are held in global form, holders of beneficial interests in the notes will be paid in accordance with the procedures of the relevant clearing system and its direct participants, if applicable. Neither the Province nor the trustee shall have any responsibility or liability for any aspect of the records of, or payments made

by, the relevant clearing system or its nominee or direct participants, or any failure on the part of the relevant clearing system or its direct participants in making payments to holders of the notes from the funds they receive.

If any date for an interest or principal payment is not a business day, the Province will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the notes will accrue as a result of the delay in payment. As used herein, “business day” means any day that is not a Saturday or Sunday, and that is not a day on which banking or trust institutions are authorized generally or obligated by law, regulation or executive order to close in New York City or Buenos Aires.

Claims against the Province for the payment of principal of, or interest on, the notes (including additional amounts) must be made within ten and four years, respectively, from the due date for payment thereof.

Paying Agents and Transfer Agents

The trustee will maintain a trustee paying agent and a transfer agent in a Western European city (which, so long as the notes of a series are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, will be Luxembourg) and in such other places where it would be necessary or convenient for the payment of the notes. The trustee will also, as described further under “Additional Amounts,” maintain a trustee paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the European Council Directive regarding taxation of savings income while such Directive or any similar Directive is in force. The trustee will also give prompt notice to all holders of notes of any future appointment or any resignation or removal of any trustee paying agent or transfer agent or of any change by any trustee paying agent or transfer agent in any of its specified offices.

Registration and Book-Entry System

The notes will be initially issued and held in certificated form by Merrill Lynch Argentina S.A. The certificated notes will be subsequently transferred as a global note, in fully registered form, without interest coupons attached, to, and registered in the name of, a nominee of a common depository of Euroclear and Clearstream, Luxembourg. Financial institutions, acting as direct and indirect participants in either Euroclear or Clearstream, Luxembourg, will represent your beneficial interests in the global security. These financial institutions will record the ownership and transfer of your beneficial interests through book-entry accounts, eliminating the need for physical movement of securities.

If you wish to hold securities through the Euroclear or the Clearstream, Luxembourg system, you must either be a direct participant in Euroclear or Clearstream, Luxembourg or hold securities through a direct participant in Euroclear or Clearstream, Luxembourg. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations that have accounts with Euroclear or Clearstream, Luxembourg. Indirect participants are securities brokers and dealers, banks, trust companies and trustees that do not have an account with Euroclear or Clearstream, Luxembourg, but that clear through or maintain a custodial relationship with a direct participant. Thus, indirect participants have access to the Euroclear or Clearstream, Luxembourg system through direct participants.

The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in these notes to such persons.

As an owner of a beneficial interest in the global securities, you will generally not be considered the holder of any notes under the trust indenture.

Definitive Securities

The Province will issue securities in definitive form in exchange for interests in a global security only if:

- a clearing system for such series of notes is closed for a continuous period of 14 days, announces an intention permanently to cease business or does in fact do so, or is not registered or ceases to be exempt from registration under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”);
- at any time the Province decides it no longer wishes to have all or part of such notes represented by global securities; or
- the trustee determines, upon the advice of counsel, that it is necessary to obtain possession of such notes in definitive form in connection with any proceedings to enforce the rights of holders of such notes.

In connection with the exchange of interests in a global security for securities in definitive form under any of the conditions described above, such global security will be deemed to be surrendered to the trustee for cancellation, and the Province will execute, and will instruct the trustee to authenticate and deliver, to each beneficial owner identified by the relevant clearing system, in exchange for its beneficial interest in such global security, an equal aggregate principal amount of definitive securities.

If the Province issues definitive securities, they will have the same terms and authorized denominations as the notes. You will receive payment of principal and interest in respect of definitive securities at the offices of the trustee in New York City and, if applicable, at the offices of any other trustee or paying agent appointed by the trustee. You may present definitive securities for transfer or exchange according to the procedures in the trust indenture at the corporate trust office of the trustee in New York City and, if applicable, at the offices of any other transfer agent appointed by the trustee.

The Luxembourg Stock Exchange will be informed before the Province issues definitive securities in exchange for the global security held by the common depository. If the Province issues such definitive securities, it will publish notices in a newspaper with general circulation in Luxembourg (which the Province expects to be the *d’Wort* or the *Tageblatt*), or, alternatively, on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>, announcing procedures for payments of principal and interest in respect of or transfer of definitive securities in Luxembourg.

You may be charged for any stamp, tax or other governmental or insurance charges that must be paid in connection with the transfer, exchange or registration of transfer of notes. The Province, the trustee and any other agent appointed by the trustee or the Province may treat the person in whose name any note is registered as the owner of such note for all purposes.

If any note becomes mutilated, destroyed, stolen or lost, you can replace it by delivering the note or evidence of its loss, theft or destruction to the trustee. The Province and the trustee may require you to sign an indemnity under which you agree to pay the Province, the trustee or any other agent appointed by the trustee for any losses they may suffer relating to the note that was mutilated, destroyed, stolen or lost. The Province and the trustee may also require you to present other documents or proof. After you deliver these documents, if neither the Province nor the trustee has notice that a bona fide purchaser has acquired the note that you are exchanging, the Province will execute, and the trustee will authenticate and deliver to you, a substitute note with the same terms as the note you are exchanging. You will be required to pay all expenses and reasonable charges associated with the replacement of this definitive security.

In case any mutilated, destroyed, stolen or lost note has become or will become due and payable within 15 calendar days following its delivery to the trustee for replacement, the Province may pay such note instead of replacing it.

Ranking

The notes are direct, unconditional, unsecured and unsubordinated obligations of the Province, ranking, except as otherwise provided by law, *pari passu*, without any preference, among themselves and with all other present and future unsecured and unsubordinated Indebtedness (as defined in “Negative Pledge Covenant” below) from time to time outstanding of the Province.

Further Issuances

Under the terms of the trust indenture, the Province may from time to time, without the consent of the holders of the notes, create and issue additional notes ranking *pari passu* with the notes and having the same terms and conditions as any series of such notes, or the same except for the amount of the first payment of interest on such additional notes. The Province may also consolidate the additional notes to form a single series with any outstanding series of notes. In order for the Province to consolidate additional notes to form a single series, any such additional notes, however, may not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the relevant series of such notes have as of the date of the issuance of such additional notes.

Additional Amounts

The Province will make payments in respect of the notes without withholding or deduction for or on account of any present or future taxes, duties, levies, or other governmental charges withheld or assessed by Argentina or the Province or any authority therein (such jurisdictions, “Relevant Jurisdictions” and such taxes, “Relevant Taxes”) unless the withholding or deduction is required by law. If the Province is required to make any withholding or deduction of this nature, it will pay holders the additional amounts necessary to ensure that they receive the same amount as they would have received without this withholding or deduction.

The Province will not, however, pay any additional amounts with respect to any note in connection with any tax, duty, levy, or other governmental charge that is imposed because:

- (1) the holder has some connection with the Relevant Jurisdiction other than merely holding the note, the receipt of payments on the note or enforcing rights under the notes; or
- (2) the holder has failed to present for payment the note (where presentation is required by the terms of the notes) within 30 days from when holders receive notice in accordance with the trust indenture that the payment is available.

All references in this offering memorandum to principal of or interest on the notes will include any additional amounts payable by the Province in respect of such principal or interest.

The Province undertakes that while European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is in force, the Province will ensure that it maintains a paying agent in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

Negative Pledge Covenant

The Province has agreed that, subject to the exceptions described below, it will not, for so long as any note remains outstanding or any amount payable by the Province under the indenture shall remain unpaid, incur, issue or assume any Indebtedness secured by a Lien on any property or assets of the Province without making effective provision to secure the notes equally and ratably (or prior to) such Indebtedness for so long as such Indebtedness shall be so secured, unless, after giving effect thereto, the aggregate amount then outstanding of all such Indebtedness so secured would not exceed 8% of the Province’s annual revenues for the fiscal year most recently ended prior to the incurrence of the Lien.

The Province may, however, create or permit to subsist:

- (a) any Lien in existence on the date of the indenture;
- (b) any Lien upon bank accounts, deposits or proceeds thereof (or arising from the existence of rights of set-off against such accounts, deposits or proceeds) securing Indebtedness of the Province incurred in connection with letters of credit issued by, or trade finance transactions with, a bank to which such Lien is granted or holding such rights, and which Indebtedness has a final maturity of not greater than 180 days from the date on which payment under such letter of credit or in connection with such trade finance transactions is due and payable;
- (c) any Lien upon any property to secure Indebtedness of the Province incurred specifically for the purpose of financing the acquisition of the property subject to such Lien;
- (d) any Lien existing on any property at the time of its acquisition to secure Indebtedness of the Province;
- (e) any Lien securing Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that the property over which such Lien is granted consists solely of the assets and revenues of such project or the ownership interest therein;
- (f) any Lien securing Indebtedness incurred for the purpose of financing all or part of the cost of personal property sold or services provided to the Province;
- (g) any replacement, renewal or extension of any Lien permitted by clauses (a) through (f) above upon the same property theretofore subject to such Lien, including any replacement, renewal or extension of such Lien resulting from the refinancing (without increase in the principal amount) of the Indebtedness secured by such Lien; provided that the Province shall not be permitted to replace, renew or extend any Lien in respect of Indebtedness to the federal government unless the federal government remains the creditor;
- (h) any Lien to secure public or statutory obligations or otherwise arising by law to secure claims other than for borrowed money;
- (i) any Lien securing Indebtedness of the Province to the federal government encumbering the right of the Province to receive Co-Participation Payments, provided that the incurrence of such Indebtedness so secured will not cause the Co-Participation Secured Indebtedness Ratio to exceed 50% in any fiscal year;

provided that any Lien described in clauses (a) through (i) above may not secure any payment obligation, including any contingent liability of any Person, arising from bonds, debentures, notes or other securities which are, or were intended at the time of issue to be, quoted, listed or traded on any stock exchange, automated trading system, or over-the-counter or other securities market or sold in whole or in part pursuant to a private placement exemption in any jurisdiction.

As used herein, the term “Co-Participation Payments” means any transfers made by the federal government to the Province pursuant to federal law No. 23,548, as amended or replaced from time to time and any other law, decree or regulation governing the obligation of the federal government to distribute taxes collected by it to the Argentine provinces.

As used herein, the term “Indebtedness” means, with respect to any person, whether outstanding on the original issuance date of a series of notes or at any time thereafter: (i) all indebtedness of such person for borrowed money; (ii) all reimbursement obligations of such person (to the extent no longer contingent) under or in respect of letters of credit or bankers’ acceptances; (iii) all obligations of such person to repay deposits with or advances to

such person; (iv) all obligations of such person (other than those specified in clauses (i) and (ii) above) evidenced by bonds, debentures, notes or similar instruments; and (v) to the extent no longer contingent, all direct guarantees, endorsements, *avales* or similar obligations of such person in respect of, and all direct obligations of such person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of any other person specified in clause (i), (ii), (iii) or (iv) above.

As used herein, the term “Lien” means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance on or with respect to, or any preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligation with or from the proceeds of, any currently existing or future asset or revenues of any kind under the laws of Argentina.

As used herein, the term “Co-Participation Secured Indebtedness Ratio” is the percentage that is equal to (A) in any fiscal year, the aggregate amount of payments of principal and interest that will become due in such fiscal year (after giving pro forma effect to the incurrence of Indebtedness secured by a Lien on the Province’s right to receive Co-Participation Payments), in respect of Indebtedness that is secured by a Lien on the Province’s right to receive Co-Participation Payments, divided by (B) the aggregate amount of Co-Participation Payments actually received by the Province for the fiscal year most recently ended prior to the incurrence of the Lien, multiplied by (C) 100; provided that, with respect to the calculation of payments to be made in respect of principal and interest, inflation adjustment accrued through the most recent fiscal year on such principal and interest shall be given effect, but no effect shall be given for inflation adjustment for the current and any future fiscal years, and provided further, that the Co-Participation Secured Indebtedness Ratio is to be calculated for each future fiscal year on a standalone basis and not by aggregating the principal and interest payments for more than one fiscal year.

Notification of Events or Conditions Under Other Indebtedness

So long as any notes remain outstanding, the Province shall promptly:

- notify the trustee in writing of any meeting or communication (whether written or oral) with any creditor under any instrument or agreement evidencing any Indebtedness of the Province regarding any default in the payment of principal of, or interest on, any such Indebtedness; and
- deliver to the trustee a copy of any written notice sent or received by the Province to or from any creditor which describes any default in the payment of principal of, or interest on, any such Indebtedness.

Events of Default

Each of the following is an event of default under any series of notes:

- (a) The Province fails to pay any principal due on the notes when due and payable for 10 days after the applicable payment date; or
- (b) The Province fails to pay any interest or additional amounts due on the notes when due and payable for 30 days after the applicable payment date; or
- (c) The Province fails to duly perform or observe any term or obligation contained in the notes or the trust indenture, which failure continues unremedied for 60 days after written notice thereof has been given to the Province by the trustee; or
- (d) The Province fails to make any payment when due, after any applicable grace periods, on any of its Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount greater than or equal to U.S.\$15,000,000 (or its equivalent in other currencies); or

- (e) Any Indebtedness of the Province (other than Excluded Indebtedness) having an aggregate principal amount greater than or equal to U.S.\$15,000,000 (or its equivalent in other currencies) is accelerated due to an event of default, unless the acceleration is rescinded or annulled; or
- (f) The Province declares a moratorium of payment of its Indebtedness (other than Excluded Indebtedness); or
- (g) There has been entered against the Province or a provincial agency a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be or is taken for the payment of money in excess of U.S.\$15,000,000 (or the equivalent thereof in another currency or currencies) (other than a final judgment, decree or order in respect of any Excluded Indebtedness) and 90 days shall have passed since the entry of such final judgment, decree or order without it having been satisfied or stayed; or
- (h) The validity of the notes or the trust indenture is contested by the Province; or
- (i) (A) Any constitutional provision, law, regulation, ordinance or decree necessary to enable the Province to perform its obligations under the notes or the trust indenture, or for the validity or enforceability thereof, shall expire, is withheld, revoked or terminated or otherwise ceases to remain in full force and effect, or is modified in a manner which materially adversely affects, or may reasonably be expected to materially adversely affect, any rights or claims of any of the holders of the notes, or (B) any final decision by any court in Argentina having jurisdiction from which no appeal may be or is taken shall purport to render any material provision of the notes or any material provision of the trust indenture invalid or unenforceable or purport to prevent or delay the performance or observance by the Province of its obligations under the notes or under the trust indenture, and, in each case, such expiration, withholding, revocation, termination, cessation, invalidity, unenforceability or delay shall continue in effect for a period of 90 days.

If any of the events of default described above occurs and is continuing, the holders of not less than 25% of the aggregate principal amount of the notes then outstanding may declare all of the notes then outstanding to be immediately due and payable by a notice in writing to the Province, with a copy to the trustee. Upon any declaration of acceleration, the principal of, together with accrued interest (including any additional amounts) to the date of acceleration, the affected series of notes shall become immediately due and payable, without any further action or notice of any kind, unless prior to the date of delivery of such notice all events of default in respect of the notes have been cured.

If, at any time after notes shall have been declared due and payable, the Province shall pay or shall deposit with the trustee a sum sufficient to pay all matured amounts of interest and principal upon all the notes (with interest on overdue amounts of interest, to the extent permitted by law, and on such principal of each note at the rate of interest specified in the note, to the date of such payment) and the expenses, and reasonable compensation of the trustee, and any and all events of default under the notes, other than the non-payment of principal on the notes which shall have become due solely by declaration, shall have been remedied, then, and in every such case, the holders of a majority in principal amount of the notes then outstanding, by written notice to the Province and to the trustee, may, on behalf of the holders of all of the notes, waive all defaults and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent on any subsequent default.

As used herein, "Excluded Indebtedness" means (i) any series of Existing Bonds and (ii) any indebtedness incurred prior to the issue date of the notes under credit facilities extended or guaranteed by member states of the OECD or any agency or instrumentality thereof.

As used herein, "Existing Bonds" means (a) USD Zero Coupon Notes due 2002, (b) USD 12.50% Notes due 2002, (c) Euro 7.875% Notes due 2002, (d) Euro 9% Notes due 2002, (e) Euro 10.25% Notes due 2003, (f) Yen 4.25% Notes due 2003, (g) USD 12.75% Notes due 2003, (h) SFr 7.75% Notes due 2003, (i) Euro 10.375% Notes due 2004, (j) Euro 9.75% Notes due 2004, (k) Euro 10% Notes due 2004, (l) Euro 10.75% Notes due 2005, (m) Euro

10.625% Notes due 2006, (n) USD FRNs Notes due 2006, (o) USD 13.75% Notes due 2007, and (p) USD 13.25% Notes due 2010.

Meetings, Amendments and Waivers

The Province, or the trustee in its discretion, may call a meeting of the holders of the notes at any time and from time to time regarding the notes or the trust indenture. The trustee will determine the time and place of the meeting and will notify the holders of the time, place, purpose and requirements to attend the meeting not fewer than 30 days prior to the date fixed for the meeting. In addition, the trustee will call a meeting of the holders of the notes if holders of not less than 10% of the aggregate principal amount of the outstanding notes have delivered a written request to the trustee setting forth the action they propose to take.

Only holders and their proxies are entitled to vote at a meeting of holders of notes. Meetings are subject to first and second calls. The quorum for the first call will be persons holding or representing a majority of the outstanding notes and, if such call fails in attaining such quorum, any number of persons holding or representing an outstanding note will constitute a quorum for the meeting convened on the second call. Notice of the reconvening of any meeting need be given only once, but must be given not fewer than 30 days and not more than 60 days prior to the reconvened meeting. For purposes of a meeting of holders that proposes to discuss "reserved matters" (specified below), holders or proxies representing not less than 75% of the aggregate principal amount of the outstanding notes (66⅔% of the aggregate principal amount of the outstanding notes of each series issued under the trust indenture in the case of reserved matters with respect to all series of notes issued under the trust indenture) will constitute a quorum. The trustee will set the procedures governing the conduct of any meeting.

The Province, the trustee and the holders may generally modify or take actions with respect to the terms of the notes or the trust indenture:

- with the affirmative vote of the holders of not less than a majority in aggregate principal amount of the outstanding notes that are represented at a duly called and held meeting; or
- with the written consent of the holders of not less than a majority in aggregate principal amount of the outstanding notes (without the need for a meeting of holders or a vote of such holders at a meeting).

However, special requirements apply with respect to any amendment, modification, change or waiver with respect to the notes or the trust indenture that would:

- change the due date or dates for the payment of principal of, or any installment of interest on, the notes;
- reduce the principal amount of the notes or the interest rate thereon;
- reduce the principal amount of the notes that is payable upon acceleration of the maturity date;
- change the currency in which any amount in respect of the notes is payable;
- reduce the percentage of the aggregate principal amount of the outstanding notes held by holders whose vote or consent is needed to modify, amend or supplement the terms and conditions of the notes or the trust indenture or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action;
- change the definition of "outstanding" with respect to the notes;
- change the Province's obligation to pay any additional amounts in respect of the notes as set forth under "—Additional Amounts;"
- change the governing law provision of the notes;

- change the courts of the jurisdiction of which the Province has submitted, the Province’s obligation to appoint and maintain an agent for the service of process in New York City or the Province’s agreement not to claim, and to waive irrevocably, immunity (sovereign or otherwise) in respect of any suit, actions or proceedings arising out of or relating to the trust indenture or to the notes;
- authorize the trustee, on behalf of all holders of the notes, to exchange or substitute all the notes for, or convert all the notes into, other obligations or securities of the Province or any other person;
- in connection with an exchange offer for, or offer to acquire all or any portion of, the notes, amend any event of default under the notes; or
- change the ranking of the notes, as described under “—Ranking.”

The above-listed matters are “reserved matters” and any amendment, modification, change or waiver with respect to a reserved matter is a “reserved matter modification.” A reserved matter modification, including a change to the payment terms of the notes, may be made without a holder’s consent, as long as the requisite supermajority of the holders (set forth below) agrees to the reserved matter modification.

Any reserved matter modification to the terms of the notes or to the trust indenture insofar as it affects the notes may generally be made, and future compliance therewith may be waived, with the consent of the holders of not less than 75% in aggregate principal amount of the notes at the time outstanding.

If the Province proposes any reserved matter modification to the terms of the notes of all series issued under the trust indenture or to the trust indenture insofar as it affects the notes of all series issued thereunder, in either case as part of a single transaction, the Province may elect to proceed pursuant to provisions of the trust indenture providing that such reserved matter modifications may be made, and future compliance therewith may be waived, for any affected series if made with the consent of the Province and of:

- holders of not less than 85% in aggregate principal amount of the outstanding notes of all series that would be affected by that reserved matter modification (taken in aggregate); and
- holders of not less than 66⅔% in aggregate principal amount of the outstanding notes of each series (taken separately).

If any reserved matter modification is sought in the context of a simultaneous offer to exchange the notes for new debt securities of the Province or of any other person, the Province will ensure that the relevant provisions of the affected notes, as amended by such reserved matter modification, are no less favorable to the holders thereof than the provisions of the new debt security being offered in the exchange, or, if more than one debt security is so offered, no less favorable than the new debt security issued having the largest aggregate principal amount.

The Province agrees that it will not issue any subsequent series of bonds under the trust indenture or reopen any existing series of notes with the intention of placing any bonds with holders expected to support any modification proposed or to be proposed by the Province for approval pursuant to the modification provisions of the trust indenture or the terms of any series of bonds.

Any modification consented to or approved by the holders of the notes of one or more series pursuant to the above provisions will be conclusive and binding on all holders of the notes of such series (whether or not such holders have given such consent or were present at a meeting of holders at which such action was taken) and on all future holders of the notes of such series (whether or not notation of such modification is made upon the notes of such series). Any instrument given by or on behalf of any holder of a note in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that note.

The Province and the trustee may, without the vote or consent of any holder of the notes, modify, amend or supplement the notes or the trust indenture insofar as it affects the notes for any of the following purposes:

- to add to the Province’s covenants for the benefit of the holders of the notes;
- to surrender any of the Province’s rights or powers;
- to provide security or collateral for the notes;
- to modify the restrictions on, and procedures for, resale and other transfers of the notes to the extent required by any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally;
- to accommodate the issuance, if any, of notes in book-entry or certificated form and matters related thereto;
- to cure any ambiguity or correct or supplement any defective provision contained in the notes or the trust indenture; or
- to change the terms and conditions of the notes or the trust indenture in any manner which the Province and the trustee may determine, so long as any such change does not, and will not, adversely affect the interests of the holders of the notes.

The term “outstanding,” when used with respect to the notes, means, as of the date of determination, all notes theretofore authenticated and delivered under the trust indenture, except:

- notes theretofore canceled by the trustee or delivered to the trustee for cancellation;
- notes, or portions thereof, for whose payment, redemption or purchase, money in the necessary amount has been theretofore deposited with the trustee or any paying agent for the holders of such notes; provided that if such notes are to be redeemed, notice of such redemption has been duly given pursuant to the terms of the trust indenture or provision therefor satisfactory to the trustee has been made; and
- notes in exchange for or in lieu of which other notes have been authenticated and delivered pursuant to the trust indenture, other than any such notes in respect of which there shall have been presented to the trustee proof satisfactory to it that such notes are held by a bona fide purchaser in whose hands the notes are valid obligations of the Province;

provided, however, that in determining whether the holders of the requisite principal amount of outstanding notes are present at any meeting for quorum purposes or have given any request, demand, direction, consent or waiver hereunder, notes owned by the Province, any agency of the Province or Banco Provincia shall be disregarded and deemed not to be “outstanding,” except that, in determining whether the trustee shall be protected in relying upon such determination as to quorum or upon any such request, demand, direction, consent or waiver, only notes which a responsible officer of the trustee actually knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the trustee the pledgee’s right so to act with respect to such notes and that the pledgee is not the Province. The term “responsible officer,” when used with respect to the trustee, means any officer within the office of the trustee (or any successor group), including any managing director, vice president, assistant vice president, the secretary, any assistant secretary or any other trust officer or assistant trust officer of the trustee customarily performing functions similar to those performed by any of the above designated officers and having direct responsibility for the administration of the trust indenture; and also means, with respect to a particular matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

Prior to any vote or consent on a reserved matter modification affecting any series of notes, the Province will deliver to the trustee a certificate signed by an authorized representative of the Province, specifying, for the Province and each relevant public sector instrumentality, any notes of that series deemed to not be outstanding as described above or, if no notes of that series are owned or controlled by the Province or any public sector instrumentality, a certificate signed by an authorized representative of the Province to that effect.

Notices

The Province will mail notices to holders of notes at their registered addresses as reflected in the books and records of the trustee. The Province will consider any mailed notice to have been given five business days after it has been sent.

All notices regarding the notes shall be given by publication at least once (i) in an authorized newspaper in the English language in London, (ii) in an authorized newspaper in the Spanish language in Argentina and (iii) if the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, in an authorized newspaper in Luxembourg, or, alternatively, on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>. The term “authorized newspaper” as used herein shall be deemed to mean a newspaper of general circulation customarily published on each business day, whether or not it shall be published in Saturday, Sunday or holiday editions; *La Nación* or *Ambito Financiero* in Buenos Aires, the Financial Times in London and the *d' Wort* in Luxembourg are deemed to be authorized newspapers. If, by reason of the suspension of publication of any newspaper or by reason of any other cause, it shall be impracticable to give notice to the holders in the manner prescribed herein, then such notification in lieu thereof as shall be made by the Province or by the trustee on behalf of and at the instruction of the Province shall constitute sufficient provision of such notice, if such notification shall, so far as may be practicable, approximate the terms and conditions of the publication in lieu of which it is given. Neither the failure to give notice nor any defect in any notice to any particular holder shall affect the sufficiency of any notice with respect to other notes. Any notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

Notwithstanding the above, *provided* that, in the case of notes listed on a stock exchange, the stock exchange agrees, so long as the global notes are held in their entirety by or on behalf of Euroclear and/or Clearstream Luxembourg, there may be substituted for such publication in such newspapers the delivery of the relevant notice to Euroclear and/or Clearstream Luxembourg, as appropriate, for communication by them to the holders. Any such notice shall be deemed to have been given to the holders on the seventh day after the day on which said notice was given to Euroclear and/or Clearstream Luxembourg, as appropriate. In addition, the Province shall also ensure that, so long as any of the notes is represented by a global note held by or on behalf of Euroclear and/or Clearstream Luxembourg, all notices regarding the notes will be delivered, in writing, to Euroclear and/or Clearstream Luxembourg, as appropriate. In any event, notices with respect to the notes listed on the Luxembourg Stock Exchange will be published in Luxembourg in an authorized newspaper.

Payment Procedure in the Event of Foreign Exchange Restrictions in Argentina

The Province has agreed that, in the event of any kind of foreign exchange limitation, restriction or prohibition in Argentina, such that the Province is unable to obtain the full amount of the specified currency or transfer such amounts outside of Argentina, in any date of payment in respect of the notes, to the extent permitted by such restriction or prohibition, the Province will pay all such amounts then due in the specified currency by means of (i) purchasing U.S. dollar-denominated Argentine Government Bonds traded outside of Argentina or any other securities or public or private bonds issued in Argentina, with Argentine Pesos, and transferring and selling such instruments outside Argentina for the specified currency or (ii) of any other legal mechanism for the acquisition of the specified currency in any foreign exchange market. All costs, including any taxes, relative to such operations to obtain the specified currency will be borne by the Province.

Governing Law

The trust indenture is, and the notes will be, governed by and construed in accordance with the law of the State of New York.

Submission to Jurisdiction

Under U.S. law, the Province is a political subdivision of a sovereign state. Consequently, it may be difficult for holders of notes to obtain or realize judgments from courts in the United States or elsewhere against the

Province. Attachment prior to judgment or attachment in aid of execution will not be ordered by courts of Argentina or the Province with respect to public property if such property is located in Argentina and is included within the provisions of Articles 2,337 to 2,340 of the Argentine Civil Code or directly provides an essential public service. Furthermore, it may be difficult for the trustee or holders to enforce, in the United States or elsewhere, the judgments of U.S. or foreign courts against the Province.

In connection with any legal action or proceeding arising out of or relating to the notes (subject to the exceptions described below), the Province has agreed:

- to submit to the jurisdiction of any New York State or U.S. federal court sitting in New York City in the Borough of Manhattan and any appellate court of either thereof;
- that all claims in respect of such legal action or proceeding may be heard and determined in such New York State or U.S. federal court and the Province will waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding; and
- to appoint as its process agent Banco de la Provincia de Buenos Aires, New York Agency, which is presently located at 609 Fifth Avenue, New York, New York 10011, United States.

The process agent will receive, on behalf of the Province and its property, service of copies of any summons and complaint and any other process that may be served in any such legal action or proceeding brought in such New York State or U.S. federal court sitting in New York City in the Borough of Manhattan. Service may be made by mailing or delivering a copy of such process to the Province at the address specified above for the process agent.

A final non-appealable judgment in any of the above legal actions or proceedings will be conclusive and may be enforced by a suit upon such judgment in any other courts that may have jurisdiction over the Province.

In addition to the foregoing, holders of notes may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any holder to bring any action or proceeding against the Province or its property in other courts where jurisdiction is independently established.

To the extent that the Province has or hereafter may acquire any immunity (sovereign or otherwise) in respect of its obligations under the notes or the trust indenture from jurisdiction of any court or from any legal process (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property (except for property of the public domain located in the Province or dedicated to the purpose of an essential public service), the Province hereby irrevocably waives such immunity in respect of its obligations under the trust indenture, and, without limiting the generality of the foregoing, the Province agrees that the waivers set forth in the trust indenture shall have the fullest scope permitted under the Foreign Sovereign Immunities Act of 1976 of the United States, as amended, and are intended to be irrevocable for purposes of such Act.

Holders may be required to post a bond or other security with the Argentine courts as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the notes filed in those courts.

A judgment obtained against the Province in a foreign court may be enforced in the Supreme Court of the Republic of Argentina. Based on existing law, the Supreme Court of the Republic of Argentina will enforce such a judgment in accordance with the terms and conditions of the treaties entered into between Argentina and the country in which the judgment was issued. In the event there are no such treaties, the Supreme Court of the Republic of Argentina will enforce the judgment if it:

- complies with all formalities required for the enforceability thereof under the laws of the country in which it was issued;

- has been translated into Spanish, together with all related documents, and it satisfies the authentication requirements of the laws of Argentina;
- was issued by a competent court, according to Argentine principles of international law, as a consequence of a personal action (action *in personam*) or a real action (action *in rem*) over a movable property if it has been moved to Argentina during or after the time the trial was held before a foreign court;
- was issued after serving due notice and giving an opportunity to the defendant to present its case;
- is not subject to further appeal;
- is not against Argentine public policy; and
- is not incompatible with another judgment previously or simultaneously issued by an Argentine Court.

Currency Indemnity

The Province agrees that, if a judgment or order given or made by any court for the payment of any amount in respect of any note to the holders thereof is expressed in a currency (the “judgment currency”) other than the specified currency, the Province shall indemnify the relevant holders against any deficiency arising or resulting from any variation in rates of exchange between the date as of which the specified currency is notionally converted into the judgment currency for the purposes of such judgment or order and the date actual payment thereof is received (or could have been received) by converting the amount in the judgment currency into the specified currency promptly after receipt thereof at the prevailing rate of exchange in a foreign exchange market reasonably selected by such holders. This indemnity will constitute a separate and independent obligation from the other obligations contained in the notes and will give rise to a separate and independent cause of action.

Concerning the Trustee

The trust indenture contains provisions relating to the obligations and duties of the trustee, to the indemnification of the trustee and to the trustee’s relief from responsibility for actions that it takes. The trustee is entitled to enter into business transactions with the Province or any of its affiliates without accounting for any profit resulting from such transactions.

NOTICE TO INVESTORS

The notes will be subject to the following restrictions on transfer. Holders of notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of their notes. By acquiring notes, holders will be deemed to have made the following acknowledgements, representations to and agreements with the Province and the initial purchaser.

- (1) You acknowledge that:
 - the notes have not been registered under the Securities Act or the securities laws of any other jurisdiction and are being offered for resale in transactions that do not require registration under the Securities Act or the securities laws of any other jurisdiction; and
 - unless so registered, the notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth below;
- (2) You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of the Province and you are not acting on behalf of the Province and that either:
 - you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are acquiring the notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchaser is selling the notes to you in reliance on Rule 144A under the Securities Act; or
 - you are purchasing the notes in an offshore transaction in accordance with Regulation S under the Securities Act;
- (3) You agree on your own behalf and on behalf of any investor account for which you are purchasing notes, and each subsequent holder of notes by its acceptance of the notes will agree, that the notes may be offered, sold or otherwise transferred only:
 - to the Province,
 - inside the United States to a qualified institutional buyer (as defined in Rule 144A) in compliance with Rule 144A under the Securities Act,
 - outside the United States in compliance with Rule 903 or 904 under the Securities Act,
 - pursuant to the exemption from registration provided by Rule 144 under the Securities Act, if available, or under any other applicable exemption from the registration requirements of the Securities Act, or
 - pursuant to a registration statement that has been declared effective under the Securities Act;
- (4) You acknowledge that the Province and the trustee reserves the right to require, in connection with any offer, sale or other transfer of notes prior to the expiration of the resale restriction period, the delivery of written certifications and/or other information satisfactory to the Province and the trustee as to compliance with the transfer restrictions referred to above;
- (5) You agree to deliver to each person to whom you transfer notes, notice of any restrictions on transfer of such notes;
- (6) You acknowledge that each Rule 144A global note will bear a legend to the following effect:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE RESOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THE FOLLOWING SENTENCES. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER, (B) IN COMPLIANCE WITH RULE 144A, UNDER THE SECURITIES ACT, TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 (IF AVAILABLE), (D) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (E) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF ANY STATE THEREIN.”

You acknowledge that the Province, the initial purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and agreements. You agree that if any of the acknowledgments, representations or warranties deemed to have been made by your purchase of notes is no longer accurate, you shall promptly notify the Province and the initial purchaser. If you are acquiring any notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the foregoing acknowledgments, representations, warranties and agreements on behalf of each account.

TAXATION

The following discussion summarizes certain Argentine, Provincial, and U.S. federal income tax considerations that may be relevant to you if you purchase own or sell the notes. This summary is based on laws, regulations, rulings and decisions now in effect in each of these jurisdictions, including any relevant tax treaties. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules.

This summary only addresses initial purchasers of the notes that purchase the notes at their initial offering price and hold the notes as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects "mark-to-market" treatment, investor that will hold the notes as a hedge against currency risk or as a position in a "straddle" or conversion transaction, partnership or other pass-through entity for U.S. federal income tax purposes, person subject to the U.S. federal alternative minimum tax, tax-exempt organization or a United States person (as defined below) whose "functional currency" is not the U.S. dollar.

You should consult your tax advisor about the tax consequences of the acquisition, ownership and disposition of the notes, including the relevance to your particular situation of the considerations discussed below, as well as of any foreign, state, local or other tax laws.

The following discussion does not address tax consequences applicable to holders of the notes in particular jurisdictions that may be relevant to such holder. Holders of the notes are urged to consult their own tax advisors as to the overall tax consequences of the acquisition, ownership and disposition of the notes in relevant jurisdictions.

U.S. Internal Revenue Service Circular 230 Notice

To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that (a) any discussion of U.S. federal tax issues contained or referred to in this offering memorandum or any other document referred to herein is not intended or written to be used, and cannot be used, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the U.S. Internal Revenue Code, (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein, and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Argentine Tax Consequences

General

The following is a general summary of certain Argentine tax consequences resulting from the beneficial ownership of the notes by certain holders. While this description is considered to be a correct interpretation of Argentine laws and regulations in force as of the date of this offering memorandum, no assurance can be given that the courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes to such laws will not occur, which may also have retroactive effects.

Income Tax

Interest

Unless otherwise stated hereinafter, interest on the notes will be exempt from Argentine Income Tax ("IT") according to article 36 bis of Law 23,576, the Negotiable Obligations Law.

Decree No. 1076/92, as amended by Decree No. 1157/92, ratified by Law No. 24,307 (the “Decree”), however, eliminated the above exemption for holders who are subject to Title VI of the Argentine Income Tax Act (in general, entities organized or incorporated under Argentine law, Argentine branches of foreign entities, sole proprietorships and individuals who conduct certain business in Argentina (which we refer to as the “Argentine Entities”). Consequently, interest paid to Argentine Entities is subject to the IT as provided for by applicable Argentine tax law and regulations.

In the event of the imposition over local and foreign individuals or foreign entities of any deduction or withholding for or on account of Income Tax, the Province has undertaken to make payments of additional amounts, subject to certain limitations, as will result in receipt by the Holders of the amounts that would otherwise have been receivable by them in respect of payments of such notes in the absence of such withholdings or deduction. See “Description of the Notes—Additional Amounts.”

Capital Gains

According to article 36 bis of the Negotiable Obligations Law, individuals, either resident in Argentina or not, and foreign entities without a permanent establishment in Argentina, will not be subject to the payment of IT on income derived from the sale, change, conversion or other disposition of the notes provided that the notes are placed through a public offering.

Argentine law provides generally that tax exemptions do not apply when, as a result of the application of an exemption, revenue that would have been collected by the Argentine tax authority would be collected instead by a foreign tax authority (Articles 21 of the Income Tax Law and 106 of the Tax Proceedings Law). This principle, however, does not apply to holders who are foreign beneficiaries.

Argentine Entities are subject to the payment of IT at a rate of 35% on income derived from the sale, change, conversion or other disposition of the notes.

According to article 78 of Decree No. 2284/91, foreign beneficiaries will not be subject to the payment of IT on income derived from the disposition of the notes even if they are not placed through a public offering.

Article 20(w) of the Income Tax Law also exempts from IT the benefits obtained by individuals from the disposition of the notes, without requiring placement through public offering. This exemption is broader than the one contained in article 36 bis of the Negotiable Obligations Law. However, due to the amendments to the Argentine Income Tax Law introduced by Law 25,414, Decree 493/2001, and to the subsequent abrogation of Law 25,414 by Law 25,556, it is not absolutely clear whether or not the exemption of Article 20(w) is or is not in effect. Opinion No. 351 of the National Treasury General Attorney’s Office resolved most of the important issues arising from these amendments and their possible abrogation, but has not clarified this specific matter completely.

In the event of the imposition over local and foreign individuals or foreign entities of any deduction or withholding for or on account of Income Tax, the Province has undertaken to make payments of additional amounts, subject to certain limitations, as will result in receipt by the Holders of the amounts that would otherwise have been receivable by them in respect of payments of such notes in the absence of such withholdings or deduction. See “Description of the Notes—Additional Amounts.”

Value Added Tax (VAT)

Any financial transaction and operation related to the issuance, placement, purchase, transfer, payment of principal and/or interest or redemption of the notes will be exempt from VAT provided that the conditions of Section 36 are fulfilled. The Province expects that the issuance of the notes will satisfy the conditions of Section 36.

Personal Assets Tax

Under Law No. 23,966 regarding personal assets tax (“PAT”), individuals and undivided estates (regardless of their residence or location) who are direct holders of the notes shall be subject to personal assets tax on their holdings at December 31 of each year.

The personal assets tax applied to resident individuals and undivided estates is calculated on the basis of the value of assets that exceed Ps.102,300. The tax rate applicable in respect of such resident individuals and undivided estates is (i) 0.50% of the value of any assets in excess of Ps.102,300, if the total value of all assets does not exceed Ps.200,000, or (ii) 0.75% of the value of any assets in excess of Ps.102,300, if the total value of all assets exceeds Ps.200,000. The tax rate is applicable on the market value in the case of listed securities or on the purchase price plus accrued interest in the case of unlisted securities.

Foreign individuals or undivided estates are not subject to PAT on their holdings of any note or security issued either by the Argentine Federal Government, an Argentine Province or a Municipality (such as the notes). Companies and other legal entities incorporated under the laws of Argentina, as well as the branches and permanent establishments in Argentina of companies or other entities incorporated abroad, are not subject to PAT on their holdings of notes.

In certain cases, assets held by companies or other entities domiciled or settled abroad (offshore entities) are presumed to be owned by individuals or undivided estates domiciled or settled in Argentina and, consequently, are subject to the PAT. However, this presumption is not applicable when the assets are notes or securities issued either by the Argentine Federal Government, an Argentine Province or a Municipality.

Please see the aforementioned considerations about the payment of “Additional Amounts.”

Presumed Minimum Income Tax

The tax on presumed minimum income (the “PMIT”) is levied on the potential income from the ownership of certain income-generating assets. Corporations domiciled in Argentina as well as the branches and permanent establishments in Argentina of companies or other entities incorporated abroad, among others, are subject to the tax at the rate of 1% (0.20% in the case of financial entities subject to Law No. 21,526) applicable over the total value of their assets (including the notes) above an aggregate amount of Ps.200,000, at the end of a given economic period.

This tax will only be paid if the IT determined for any fiscal year does not equal or exceed the amount owed under the PMIT. On the other hand, if the PMIT exceeds the IT owed in the same fiscal year, only the difference shall be paid as PMIT. Any PMIT paid will be applied as a credit toward IT owed in the immediately following ten fiscal years.

Tax on Debits and Credits on Bank Accounts

Law No. 25,413, as amended and regulated, establishes, with certain exceptions, a tax levied on debits from and credits to bank accounts maintained at financial institutions located in Argentina and on other transactions that are used as a substitute for the use of bank checking accounts. The general tax rate is 0.6% for each debit and credit; however increased tax rates of 1.2% and reduced rates of 0.075% may apply in certain cases. To the extent that holders of the notes receive payments by utilizing local bank checking accounts, such tax may apply.

Transfer Taxes

No Argentine transfer taxes are applicable to the sale and transfer of the notes.

Court Tax

In the event that it becomes necessary to institute enforcement proceedings in relation with the notes (i) in the federal courts of Argentina or the courts sitting in the City of Buenos Aires, a court tax (currently at a rate of

3%) will be imposed on the amount of any claim brought before such courts; or (ii) in the courts of the Province, certain court and other taxes will be imposed on the amount of any claim brought before such courts.

Provincial Tax Consequences

The notes as well as the income derived therefrom are exempt from all taxes imposed by the Province, including stamp tax and gross income tax.

In the event of the imposition of any deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges on the payment by the Province in respect of the notes, the Province has undertaken to make payments of additional amounts, subject to certain limitations, as will result in receipt by the holders of the amounts that would otherwise have been receivable by them in respect of payments of such notes in the absence of such withholdings or deduction (see “Description of the Notes – Additional Amounts”).

Prospective investors should consider the tax consequences of the Argentine province in which they are located.

U.S. Federal Income Tax Consequences

As used herein, the term “United States person” means an individual who is a citizen or resident of the United States, a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, a state thereof or the District of Columbia, an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust’s administration and (ii) one or more United States persons have the authority to control all of the trust’s substantial decisions, and the term “United States” means the United States of America (including the States and the District of Columbia), its possessions, territories and other areas subject to its jurisdiction.

If you are a United States person, the interest you receive on the notes will generally be subject to United States taxation and will be considered ordinary interest income on which you will be taxed in accordance with the method of accounting that you use for tax purposes. A United States person will also be required to include in gross income as interest any withholding tax paid (if any) and additional amounts paid (if any) with respect to withholding tax on the notes, including withholding tax on payments of such additional amounts. When you sell, exchange or otherwise dispose of the notes, you generally will recognize gain or loss equal to the difference between an amount you realize on the transaction and your tax basis in the notes (except that any amount attributable to accrued and unpaid interest will be treated as a payment of interest for federal income tax purposes). Your tax basis in a note generally will equal the cost of the note to you. If you are an individual and the note being sold, exchanged or otherwise disposed of is a capital asset held for more than one year, you may be eligible for reduced rates of taxation on any capital gain realized. Your ability to deduct capital losses is subject to limitations.

Interest received or accrued on the notes will constitute foreign source “passive income” to most U.S. persons or, in the case of some U.S. persons such as banks, “financial services income” for U.S. foreign tax credit purposes. U.S. persons should note, however, that recently enacted legislation eliminates the “financial services income” category with respect to taxable years beginning after December 31, 2006. Under this legislation, the foreign tax credit limitation categories will be limited to “passive category income” and “general category income.” If Argentine or other withholding taxes are imposed, U.S. persons will be treated as having actually received an amount equal to the amount of such taxes and as having paid such amount to the relevant taxing authority. As a result, the amount of interest income included in gross income by a U.S. person would be greater than the amount of cash actually received by the U.S. person in such instance. A U.S. person may be able, subject to certain generally applicable limitations, to claim a foreign tax credit (or, alternatively, a deduction if the U.S. person has elected to deduct all foreign income taxes for that taxable year) for withholding taxes imposed on payments of interest (including any additional amounts). The calculation of U.S. foreign tax credits and, in the case of a U.S. person that elects to deduct foreign taxes, the availability of deductions involves the application of complex rules that depend on a U.S. person’s particular circumstances. U.S. persons should, therefore, consult their own tax advisors regarding the application of the U.S. foreign tax credit rules to interest income (including additional amounts) on the notes.

Gain or loss recognized by a U.S. person on the sale, redemption, retirement or other taxable disposition of a note will generally be U.S.-source gain or loss. Accordingly, if Argentine or other withholding tax is imposed on the sale or disposition of the notes, a U.S. person may not be able to fully utilize its U.S. foreign tax credits in respect of such withholding tax unless such U.S. person has other foreign source income. Prospective investors should consult their own tax advisors as to the U.S. tax and foreign tax credit implications of such sale, redemption, retirement or other taxable disposition of a note.

Under United States federal income tax law as currently in effect, holders of notes that are not United States persons will not be subject to United States federal income taxes, including withholding taxes, on payments of interest on the notes so long as the requirements described in the second succeeding paragraph are satisfied, unless:

- (i) the holder is an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, to which the interest is attributable, or
- (ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is received by a corporation the principal business of which is trading in stock or securities for its own account, and such corporation is otherwise engaged in the conduct of a trade or business in the United States.

The gain realized on any sale or exchange of the notes by a holder that is not a United States person will not be subject to United States federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States (and an applicable income tax treaty does not provide otherwise) or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and either (A) such gain or income is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States. In addition, if such holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

The paying agents will be required to file information returns with the United States Internal Revenue Service with respect to payments made to certain United States persons on the notes. In addition, certain United States persons may be subject to United States backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the relevant paying agent, and may also be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the notes. Persons holding notes who are not United States persons may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup withholding tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your United States federal income tax liability, provided that you furnish the required information to the United States Internal Revenue Service.

A note held by an individual holder who at the time of death is not a United States person will not be subject to United States federal estate tax.

European Union Directive on the Taxation of Savings Income

Under European Council Directive 2003/48/EC on the taxation of savings income, each EU member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other member state, however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 percent, unless during such period they elect otherwise.

The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain member states, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to an individual resident in member state. In addition, the member states have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to an individual resident in one of those territories.

As indicated above under “additional amounts,” no additional amounts will be payable with respect to a note where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November, 2000 on the taxation of savings income or to any law implementing or complying with, or introduced in order to conform to such Directive. Holders should consult their taxed advisers regarding the implications of the Directive in their particular circumstances.

The Province has undertaken to maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

PLAN OF DISTRIBUTION

The Province intends to offer the notes to the initial purchaser, Merrill Lynch Argentina S.A. Subject to the terms and conditions contained in a purchase agreement between the Province and the initial purchaser, the Province has agreed to sell to the initial purchaser and the initial purchaser has agreed to purchase from the Province U.S.\$475,000,000 principal amount of the notes. Affiliates of the initial purchaser may distribute the notes outside of Argentina.

The initial purchaser has agreed to purchase all of the notes being sold pursuant to the purchase agreement if any of these notes are purchased. The initial purchaser has advised the Province that it proposes initially to offer the notes at the price listed on the cover page of this offering memorandum.

The Province has agreed to indemnify the initial purchaser and its affiliates against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchaser may be required to make in respect of those liabilities.

The initial purchaser is offering the notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by its counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchaser of officer's certificates and legal opinions. The initial purchaser reserves the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The expenses of the offering, not including the initial purchaser's discount, are estimated to be U.S.\$500,000 and are payable by the Province.

We expect that delivery of the notes will be made against payment for the notes on October 31, 2006, which will be the fifth business day following the date of the pricing of the notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market are generally required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing or on the next succeeding business day will be required to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the notes who wish to trade the notes on the date of this offering memorandum or the next succeeding business day should consult their own advisors.

Notes Are Not Being Registered

The initial purchaser proposes to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The initial purchaser will not offer or sell the notes except:

- to persons it reasonably believes to be qualified institutional buyers, or
- pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S.

Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "Notice to Investors."

The initial purchaser will represent, warrant and undertake in the purchase agreement that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of

Section 21 of the Financial Services and Market Act 2000 of the United Kingdom) in connection with the issue or sale of the notes in circumstances in which Section 21(1) of Financial Services and Market Act 2000 of the United Kingdom does not apply to the Province, and

- it has complied and will comply with all applicable provisions of the Financial Services and Market Act 2000 of the United Kingdom with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

New Issue of Notes

The notes are a new issue of securities with no established trading market. The initial purchaser has advised the Province that it or its affiliates presently may make a market in the notes after completion of this offering. However, it is under no obligation to do so and may discontinue any market-making activities at any time without any notice.

The notes are expected to be admitted to trading on Euro MTF, market of the Luxembourg Stock Exchange, and listed on the Buenos Aires Stock Exchange and the MAE. However, that does not ensure that a liquid or active public trading market for the notes will develop. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

Price Stabilization and Short Positions

In connection with the offering, the initial purchaser may engage in transactions that stabilize the market price of the notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the notes. If the initial purchaser creates a short position in the notes in connection with the offering, i.e., if it sells more notes than are listed on the cover page of this offering memorandum, the initial purchaser may reduce that short position by purchasing notes in the open market. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Province nor the initial purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither the Province nor the initial purchaser makes any representation that the initial purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The initial purchaser and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Province. They have received customary fees and commissions for these transactions.

OFFICIAL STATEMENTS

Information in this offering memorandum that is identified as being derived from a publication of Argentina, the Province or one of their respective agencies or instrumentalities relies on the authority of such publication as a public official document of Argentina or the Province, as the case may be. The Province has not independently verified the information in this offering memorandum that is identified as being derived from a publication of Argentina and makes no representation as to its accuracy or completeness.

VALIDITY OF THE NOTES

The validity of the notes will be passed upon for the Province by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the Province, and by the *Asesor General del Gobierno* (General Legal Advisor to the Executive Branch) of the Province, and for the initial purchaser by Shearman & Sterling LLP, United States counsel to the initial purchaser, and Bruchou, Fernández Madero, Lombardi & Mitrani, Argentine counsel to the initial purchaser.

As to all matters of Argentine and provincial law, Cleary Gottlieb Steen & Hamilton LLP may rely on the opinion of the *Asesor General del Gobierno* of the Province, and Shearman & Sterling LLP may rely upon the opinion of Bruchou, Fernández Madero, Lombardi & Mitrani. As to all matters of United States law, the *Asesor General del Gobierno* of the Province may rely on the opinion of Cleary Gottlieb Steen & Hamilton LLP, and Bruchou, Fernández Madero, Lombardi & Mitrani may rely on the opinion of Shearman & Sterling LLP.

GENERAL INFORMATION

The Province

The Province has authorized the creation and issue of the notes pursuant to Law No. 13,526 dated September 7, 2006 and Decree No. 2,546 dated September 25, 2006.

Except as disclosed in this offering memorandum, since June 30, 2006 there has been no material adverse change in the revenues or expenditures, or financial position, of the Province.

Listing and Listing Agent

Application has been made to list the notes on the Luxembourg Stock Exchange and for the notes to trade on Euro MTF, market of the Luxembourg Stock Exchange. Application has been made to list the notes on the Buenos Aires Stock Exchange and on *Mercado Abierto Electrónico*. The Luxembourg listing agent is The Bank of New York (Luxembourg) S.A.

Documents Relating to the Notes

Copies of the trust indenture, this offering memorandum and the forms of the notes may be inspected free of charge during normal business hours on any day, except Saturdays, Sundays and public holidays in Luxembourg, at the offices of the listing agent in Luxembourg, as long as the notes are listed on the Luxembourg Stock Exchange. Copies of this offering memorandum may be obtained during normal business hours on any day except Saturdays, Sundays and public holidays, at the offices of the listing agent in Luxembourg, as long as the notes are listed on the Luxembourg Stock Exchange.

Notices

For so long as any of the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, all notices to holders of such series shall be published either in a newspaper with general circulation in Luxembourg (which is expected to be the *d'Wort* or the *Tageblatt*) or on the

website of the Luxembourg Stock Exchange (www.bourse.lu) or otherwise in compliance with the relevant listing rules of the Luxembourg Stock Exchange.

Clearing

The notes also have been accepted for clearance through the Euroclear and Clearstream clearance systems. The relevant trading information is set forth in the following table:

<u>Notes Offered</u>	<u>ISIN Number</u>	<u>Common Code</u>
Rule 144A	XS0272870691	027287069
Regulation S	XS0270992380	027099238

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ISSUER

The Government of the Province of Buenos Aires

Calle 8 entre 45 y 46, P.B. Of.14
La Plata, Buenos Aires 1900

TRUSTEE, PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR

The Bank of New York

101 Barclay Street
Floor 21 West
New York, New York 10286
Attention: Global Finance Unit

LUXEMBOURG PAYING AGENT AND TRANSFER AGENT

The Bank of New York (Luxembourg) S.A.

Aerogolf Center
1A Hoehenhof
L-1736 Senningerberg
Luxembourg

LEGAL ADVISORS

To the Province

As to U.S. federal and New York law:
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One Liberty Plaza
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Asesor General del Gobierno de la
Provincia de Buenos Aires
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Argentina

As to Argentine law:

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Dell'Oro Maini
San Martín 323, Piso 17
C1004AAG Buenos Aires
Argentina

To the Initial Purchaser

As to U.S. federal and New York law:
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599 Lexington Avenue
New York, New York 10022-6069

As to Argentine law:
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Ing. Enrique Butty 275
C1001AFA Buenos Aires
Argentina

LUXEMBOURG LISTING AGENT

The Bank of New York Europe Limited
One Canada Square
London E14 5AL
England



The Province of Buenos Aires
(A Province of Argentina)

U.S.\$475,000,000
9.375% Notes due 2018

OFFERING MEMORANDUM

Merrill Lynch & Co.

October 24, 2006
