

I. INTRODUCTION

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HLB Uruguay

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HLBI Executive Office

21 Ebury St, London SW1W 0LD

Teléfono: +44 (0) 20 7881 1100

Fax: +44 (0) 20 7881 1109

E-mail: mailbox@hlbi.com

Website: <http://www.hlbi.com>

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III. GENERAL INFORMATION

1. Location

The Republic of Uruguay is the smallest country in South America, with an overall surface area of 176,213 km², bordering with Brazil to the North and Northeast, and Argentina to the West. Its landscape is marked by soft rolling hills and natural prairies crossed by long rivers and the highest peak stands up to barely 500 m above sea level. Almost 90% of the country's surface is suitable for agricultural and livestock farming, a key source of export revenues.

2. Climate

The climate is moderate throughout the year, with temperatures ranging between 22 and 32 degrees Celsius in the summertime (December to February) and between 5 and 15 degrees Celsius in the winter (June to August). The rainy season is mainly in the winter months, but it rains periodically throughout the year.

3. Constitution

Its political organization is based on a stable democratic republican system, based on three independent powers: the Executive Power, the Legislative Power and the Judicial Power.

The authorities of the Executive and Legislative powers are elected every five years, directly by the people of Uruguay, while the authorities of the Judicial Power are elected every ten years by the Legislative Power.

There are two spheres of government: national and the departmental or municipal areas. The latter are nineteen overall and they correspond to the nineteen departments into which the country's territory is divided. The departmental executive function is performed by the Municipal Mayors and the legislative function by the Department Councils.

At present, there are three main political forces: the Colorado Party (liberal), the National or Blanco Party (conservative) and the Encuentro Progresista Frente Amplio (popular front, center-left coalition).

4. Population

We observe that Uruguay is a country with low population density (18 inhabitants per square kilometer), with an overall population of approximately 3.3 million. This population is basically composed of individuals of European origin, mainly concentrated in the urban areas (91%). The main cities are:

Montevideo, the capital and main port, with 1.4 million inhabitants, located over a deep bay on the River Plate (Rio de la Plata).

Paysandú and Salto, both located to the Northwest, on the Uruguay River.

Colonia, to the Southwest, on the Uruguay River. There is a project to build a bridge from Colonia to Buenos Aires, capital of Argentina.

Punta del Este, on the Southeast in the department of Maldonado, on the Atlantic Ocean, is the main tourist summer resort of the country and the region.

Population growth in Uruguay is 5.5 per each 1,000 inhabitants, similar to that of highly-developed countries, with a birth rate of 15 every 1,000, and a mortality rate of 9 every 1,000 inhabitants. Life expectancy is 76 years.

The age distribution structure is: 23% between 0-15 years of age, 64% between 14 and 64 and the remaining 13% are older than 65. The economically active population is 58% of the total inhabitants of the territory.

5. Currency

The Uruguayan monetary system is based on the Uruguayan Peso. The U.S. dollar is used freely and without restrictions for transactions and payments. Likewise, all types of currency and precious metals circulate and are exchanged freely in the domestic market.

6. Language

The official language is Spanish. As to other languages, English is the most common one, included in all secondary school curricula. Other languages such as French, Portuguese and German are taught to a lesser degree.

7. Legal System

The Uruguayan legal system is based on Roman law and the French legal system.

8. Education and Standard of Living

Education is one of the essential rights, protected by the Constitution of the Republic. Uruguay maintains a system of public education covering primary, secondary and tertiary levels (both technical and university). Notwithstanding the good level of public education, there is a very attractive supply of private educational institutions at all levels.

9. Religion

Uruguay is a secular State, so there is no official religion. However, the most popular religion is Roman Catholicism.

10. Economy and Financial Agreements

The Uruguayan economic policy is generally based on an active participation by private capital, with a growing openness towards foreign markets.

Key traits of this economic policy are:

"Gradual reduction of protectionist measures, reflected in lower import duties (between 0-25%)."

"Promotion of exports and international tourism through different incentives."

"Freedom of financial and exchange markets, with similar treatment to foreign and domestic investors, without any restrictions on the transfer of capital and earnings."

"Regional trade integration, with growing number of international trade agreements, to expand the domestic market."

"State reform, to increase the efficiency of the public sector, by means of debureaucratization and privatization programmes."

The main imported goods are machinery, transportation equipment, chemicals, fuels and petrochemicals and agricultural products.

Main domestic industries and production involve beef, wool, leather and hides, rice, citric fruits, dairy, fish, timber, sugar cane, textiles, footwear, wearing apparel, chemicals, granite, sandstone and semi-precious stones.

The inflation rate for the last 12 months, as of December 2007 reached 8.5%, with a decreasing trend, even though there are external and structural pressures that are being monitored.

Uruguayan exporters benefit from the General System of Preferences (In Spanish: S.G.P.), that consists of concessions granted by certain countries (European Economic Community, United States of America and Japan, among others), involving a reduction or exemption of duties for the imports of certain products.

Uruguay is a member of the Multifiber Agreement (M.F.A.) whereby the entry of Uruguayan textiles is assured especially to the E.E.C., the U.S., Canada, and so forth.

Uruguay is a member of the Latin American Integration Association (ALADI) and has signed several agreements that facilitate trade between member countries. Among the treaties signed, we highlight the Argentina-Uruguay Agreement of Economic Cooperation (CAUCE), the Trade Expansion Protocol (PEC) with Brazil and the

Economic Cooperation Agreement signed with Mexico. All these Agreements grant the benefit of customs duties reduction or exemption.

Last, we make special reference to the Treaty of Asunción, whereby the Southern Common Market (MERCOSUR) was created, subscribed to by Argentina, Brazil, Paraguay and Uruguay, with the main purpose of creating a customs union towards which tariffs are being gradually reduced between the signatory countries with the purpose of reaching the free circulation of goods and services originating in the region; likewise, common external duties have been set for the introduction of goods from outside the region. Venezuela has applied to join the block, and the approval of its application is under process of consideration by all the legislatures of the relevant countries.

Chile and Bolivia have signed respective agreements of integration with the MERCOSUR, by virtue of which applicable tariff reductions have started between them.

11. Other Factors

The highway and road system, with an overall extension of 11,300 km, connects all areas of the country. Uruguay also connects to bordering countries through the Port of Montevideo (the most important in the country) and via four river ports (Colonia, Nueva Palmira, Fray Bentos and Paysandú).

A new waterway has recently started operating to allow access of goods to Paraguay and Bolivia through Argentina, Brazil and Uruguay.

In addition, we highlight that Uruguay is the country in Latin America with the best electric power utilities service (97% of the Uruguayan territory is covered by the power supply network, and a plan to cover 99% is under way. Regarding telecommunications, Uruguay has invested in cutting edge technology, and the full demand for telephone services has been met. Uruguay is rated among developed countries in this field.

IV. INVESTMENT FACTORS

1. Special Aspects

Uruguay has a favorable environment for performing offshore operations, and its tax policies are less encumbering on this type of operations.

In line with this, reduced notional rates have been set for the purpose of assessing net taxable income from Uruguayan sources in the case of companies that derive their earnings from the reselling of goods or services abroad, regulations that are frequently used for an efficient tax planning. Similar opportunities may be found in companies set up in Free Zones, where they are exempt from any taxes, and they only have to pay the annual fee (“canon”).

There are also financial investment companies (SAFI – Sociedades Anónimas Financieras de Inversión), with a line of business based on investment in securities, currencies and precious metals overseas. These companies have a preferential tax system that exempts them from taxes, and they only have to pay a very low annual tax.

However, it is important to bear in mind that Law 18.083 of Tax Reform, effective since July 2007, forbids the creation of new SAFIs, and the remaining ones must adapt to the general tax system as from January 1, 2011.

2. Government Incentives

The existing system for foreign capital investment in Uruguay is open and non-discriminating. It is based on a growing share of private activity within an open and competitive market economy.

The main characteristics of the foreign investment system are:

“No need to apply for licenses in order to incorporate new companies, so no government authorizations are necessary to set up new companies in Uruguay.”

"Unlimited share of foreign capital. In most sectors of the economy there is no limit to the share of foreign capital."

"No restrictions applied on remittances of profits and capital abroad, and no need for official authorizations for the repatriation of capital or earnings remittances."

"Favorable treatment for imports of capital goods. Most capital assets are not encumbered by duties at the time of import."

"Open and deregulated foreign exchange market, which enables the opportunity to perform all sorts of activities in foreign currency, both in present and future markets."

"Freedom to subscribe contracts in foreign currency in connection with the circulation of goods and services, including labor contracts."

"Open employment policy. Labor legislation warrants the unrestricted right of national companies to hire foreign personnel."

"General exports system that allows the temporary entry of goods. It enables the import of goods and raw materials for export-manufacturing operations, the recovery of indirect taxes and access to special credit for export financing."

"Subscription of Agreements with other countries for the purpose of avoiding double taxing, fostering and protecting reciprocal investments and improving bilateral trade relations."

"Offshore banking operations, tax-free, with the exception of the contributions to the Uruguayan Social Security System by the hired personnel."

"Trademark and Patent regulations. Industrial patents registered in Uruguay ensure the owners a period of ten years of exclusive exploitation thereof."

Regarding trademarks, they must be registered in the National Registry of Industrial Property, whereby the applicant obtains a protection of ten years with consecutive extensions for periods of ten years that can be renewed indefinitely.

Below, we provide a detail of other promotional measures set forth by Uruguay to favor foreign company operations:

"State share of ownership of Private Companies. The National Corporation for Development (Corporación Nacional para el Desarrollo) is a public holding company that shares in the capital of private companies, frequently performing these operations through the participation of world financing bodies, such as the Inter-American Development Bank, the World Bank, etc."

"Co-participation of the public and private sectors in research and development projects for new technologies, through the Technological Laboratory of Uruguay (Laboratorio Tecnológico del Uruguay)."

"Pre-investment studies. Through the National Pre-Investment Fund, it is possible to perform the financial analysis needed for the development of projects in the areas of agriculture, industry, fisheries, tourism, and so forth.

Complementarily, there are special systems, among which we highlight the following:

"**Industrial Promotion Law** N° 14.178 of March 20, 1974, provides a special system of incentives for private investment in projects that establish or expand Industrial Facilities. These projects are declared "of National Interest" by the Executive Power."

"In the **Refinancing Agreement** signed by the Central Bank of Uruguay with various financial entities on July 10, 1986, there is a mechanism for capitalization of debt. For the purpose of regulating the said mechanism, Decree No 797/987 was issued on December 30, 1987 and the regulatory framework was dictated by the Central Bank of Uruguay on January 13, 1988."

"**The Free Zone Law** N° 15.921 of December 17, 1987 and the Regulatory Decree N° 454/988 contain the main provisions that regulate the free zone system."

"**Investment Law** N° 16.906 of January 7, 1998 foresees tax exemptions for some sectors of economic activity and for specific projects that are promoted by the Executive Power."

“**Decree 455/007**, regulates the benefits to be granted pursuant to Law N° 16.906 to investment projects of specific sector activities.”

2.1 Industrial Promotion Law

All industrial and touristic activities that file a request may be declared “of national interest”, provided they comply with the following objectives:

"Obtain a higher efficiency of manufacturing and trade processes, with optimal levels of size, technology, etc."

"Increase and diversify exports of industrialized goods, namely those that incorporate more value added to raw materials."

"Back-up technological research programmes oriented to the economic utilization of national barely exploited raw materials."

"Increase the benefits rendered by the touristic sector."

The **fiscal benefits** that can be accessed by means of the present Law involve:

"Exemption from customs duties on imports of equipment that do not compete with national industry."

" Exemption from Equity Tax on assets incorporated in the project to be promoted.

"Exemption from Income Tax on capital contributions that finance projects declared “of national interest.”

“Credit for the VAT included in the acquisition of certain fixed assets.”

"Long-term credit assistance (10 years), in U.S. dollars or in local currency."

2.2 Foreign Debt Capitalization

It is provided that the Lender (Central Bank of Uruguay -Banco Central del Uruguay) and the Guarantor (the Uruguayan state) may, at any time, propose transactions that they may consider of national interest to all creditor banks. These transactions may consist of the conversion of obligations contracted in equity or in capital investments of Uruguayan entities of branches or offices of foreign companies settled in Uruguay.

There is no discrimination between national and foreign investors.

The investment projects submitted must have the purpose of acquiring equipment, building industrial plants or other works.

Those projects eligible for conversion are selected by the Planning and Budget Office (OPP), that will base the choice on providing assistance to certain priority sectors of activity, namely exports and tourist infrastructure.

The maximum amount to be financed with funds from conversion will be up to 80% of the total cost of the project. It is not possible to cover the remaining 20% with credit or guarantee of banks established in the national banking system, and there are no restrictions on the form of contribution of the above-mentioned 20%.

2.3 Free Zones Law

This Law declares the promotion and development of free zones to be “of national interest”, for the purpose of promoting investments, expanding exports, increasing the use of national labor, and providing incentives to international economic integration.

The main concepts included in this Law, are the following:

"Authorized activities: All sorts of industrial, commercial or service activities may be developed within the free zones, such as:

- Commercialization, warehousing, storage, sorting, classification, bulk-breaking, assembling, disassembling, handling or mixing goods or raw materials.
- Installation and operation of manufacturing facilities.
- Services in the field of finance, information technology, repair and maintenance, professional consulting and others required for the best development of the business in the free zone.

"Exploitation of Private Free Zones: It is the operation whereby, in exchange for a price agreed with each user, an individual or a legal entity provides the infrastructure needed and sufficient for the installation and operation of a Free Zone. The exploiters are not protected by the tax exemptions and benefits granted to the users, and the

authorization for exploitation of a free zone requires the presentation of an investment project that backs the economic feasibility and the benefits that the venture will render for Uruguay. This project is submitted for the approval of the Executive Power.”

“Free Zone Users: are those individuals or legal entities that acquire the right to perform activities in the Free Zone, and are entitled to receive the benefits granted by the Law. These individuals and entities are not allowed, with few exceptions, to perform activities in non-free areas of Uruguay, if they are to maintain free zone user status and access the tax and duty exemptions and other benefits that the Law provides, and they must employ at least 75% of their labor with Uruguayan citizenship.”

“Exemptions and Benefits: The users are exempt from all national current and future taxes, even in those cases where it is necessary for a Law to grant the exemption. The only exception to this are the Special Contributions to the Social Security System payable by the Uruguayan labor that they hire.”

“Guarantees: the Government is liable for the damages to the users in the event of any future elimination or suspension of the exemptions granted by the Law.”

“Financing: There is absolute freedom for obtaining and arranging international credits, and the stored goods may be pledged as collateral.”

2.4 Investment Law

This law grants fiscal benefits that we may break down into two large groups:

“General investment incentives.”

“Specific investment incentives.”

General Investment Incentives:

In order to apply for these incentives, there is no need to present a project, because they apply in a general and automatic way. They are applicable to taxpayers of the Income Tax of Economic Activities (IRAE) performing manufacturing and extraction

activities, and to the taxpayers of IRAE and Agricultural Assets Sales Tax (IMEBA), who perform agricultural activities.

Within the benefits granted, there is the exemption from the value added tax (VAT) and the excise tax (IMESI) on the imports of goods and assets to be used directly for manufacturing cycles and equipment for electronic data processing, and the reimbursement of the VAT included in the purchases of goods in the domestic market. It is also provided that those goods are exempt from Net Worth Tax (Impuesto al Patrimonio).

Likewise, the Executive Power is entitled to grant exemptions from the Net Worth Tax to the improvements on the facilities of manufacturing and agricultural operations, intellectual property and goodwill such as trademarks, patents and other assets that incorporate technological innovations and know-how.

It is also provided that, whenever the Executive Power so decides, a system of accelerated depreciation is applicable to certain fixed assets of the company.

Specific Investment Incentives:

Access to this system is given to those companies with investment projects that have been declared as promotable by the Executive Power, this declaration may be applied to companies or to specific business sectors of the economy.

In order to obtain the benefits, the investment projects must have the following traits:

“Incorporate technical progress to improve competitiveness.”

“Facilitate the increase and diversification of exports.”

“Generate productive employment, be it directly or indirectly.”

“Facilitate productive integration, incorporating national value added to the different links of the productive chain.”

“Promote the activity of micro, small and medium-sized companies.”

“Contribute to geographic decentralization.”

The main benefits granted to the operations run under the said system are:

“Exemption from Net Worth Tax on those goods used for the project.”

“Exemption from Income Tax for the amount of the actual investment, up to certain limits.”

“Exemption from duties and taxes levied on imports of capital fixed assets that are not competing with domestically manufactured goods.”

“Reimbursement of the local VAT paid for materials and goods used for civil works.”

2.5 Decree 455/007

On November 26, 2007, Decree 455/007 was issued, whereby a new regulatory framework is set forth to promote investment projects and specific sector activities, in connection with taxes levied on profits, pursuant to the Investment Law.

By means of this decree, the potential beneficiaries of the system are expanded, including those commercial and services activities that, in the prior system, were excluded from access to this type of benefit, formerly reserved only for industrial companies.

The benefit for this kind of projects consists of an income tax exemption of up to 100% of the invested amount, over a term of 3 to 25 years. Both the exemption percentage, and the term depend on the categories of the investment, that, as a function of the investment amount, may be classified as “Small”, “Medium” or “Large”.

In addition, the legal guarantees granted by Law No. 16.906 are maintained, so that the investor is assured about the terms, benefits and rights of the promotional system that protects the venture, guaranteed by the Government’s liability for damages.

3. Labor Relations

The main characteristics of the Uruguayan labor system are as follows:

3.1. Labor Contract

In Uruguay there is no standard that generally regulates any labor contract.

However, there is legislation concerning the regulation of different aspects of subordinated work, and leaving aside the contractual approach to it, setting, for instance, standards to set and protect wages and providing complementary benefits.

3.2 Salaries

Wages are fixed by means of agreement within sectors between entrepreneurs, workers and the government, attempting to reach a consensus, and failing to reach it, by majority vote. These agreements besides covering salaries, also discuss other activities in connection with the sector involved, and not necessarily connected to compensation.

3.3 Labor Legislation

The government periodically sets the minimum national wage, the minimum amount of monthly compensation for eight hours of daily work. At the end of 2007, the minimum national monthly wage was increased to approximately 162 U.S. dollars.

Foreign citizens may freely work in Uruguay once they have obtained their resident visa. These are granted once the applicant has proved good health and a source of income. Likewise, the Government will check criminal records from Interpol and the records of the country where the applicant has lived for the last five years. Actual practice allows people to work while the visa is being processed.

From the regulations in force, we highlight the chance to set salaries in foreign currency, the existence of a minimum national wage and a minimum wage by groups of activity according to different categories, fixed by the Executive Power. It has also been established that salaries cannot be reduced without modifying the labor conditions and that the payment may be made partially in kind. Regarding salary

increases, these are not regulated by the government; they result from negotiations between employers and employees.

3.4 Retirement and Pensions (AFAP)

Law No. 16.713 of April 1996 and the regulatory decrees thereof, make up the legal framework of the social security system currently in force in Uruguay.

The social security system immediately and compulsorily covers all activities governed by the Social Security Bank, based on a mixed system that receives contributions and provides services in a combined manner. One part corresponds to the inter-generational solidarity retirement plan (an earlier system administered by the government) and the other to the retirement plan of compulsory individual savings, with the obligatory participation of the Administrators of Retirement Funds (AFAP).

In order to determine the system that manages the funds of the employee and employer contributions, there are three levels of contribution that vary with the salary of the worker.

3.5 Social Security Contributions

The employer and the employee must pay several contributions to the Social Security Bank on the personal compensation received.

The employer must contribute to the said institution a rate of 12.625% on the gross compensation paid to their employees. On the other hand the employees must contribute a rate of 21.125% or 19.625% in the event of having children below the age of 18 depending from them. This is a result of the new Health Services Reform Law that compels the employee to raise the previous contribution of 18.125% by an extra 3% contribution for medical coverage of their children. Those who do not have children only make a 1.5% additional contribution for health coverage and an inter-generational solidarity measure to finance the health system.

These contributions finance social security, health insurance and the labor reconversion fund. The contributions of employers for their employees are respectively 7.5%, 5% and 0.125%, reaching the above-mentioned rate of 12.625%.

Employees pay rates for the above, respectively, of 15%, 6% or 4.5% and 0.125%, reaching the overall rate of 21.125% or 19.625%.

3.6 Benefits

We highlight the following benefits:

" Thirteenth salary. Also known as Complementary Annual Salary, equivalent to one twelfth of the total salaries paid in cash by the employer in the 12 months prior to December 1 of each year. The contributions for the thirteenth salary are the same as those for the monthly salary, except for an exemption of 5% corresponding to the employer's contribution to the health coverage, so the employer's contribution ends up being 7.625%.

" Annual Paid Vacation: the worker is entitled to enjoy twenty days of paid vacation per year of full-time work."

"Vacation Salary: a complementary amount equivalent to 1/30 of the monthly salary per each day of vacation."

4. The Financial System

In Uruguay, there is a service sector that runs efficiently, mainly focused on the financial business sector. This is a result of maintaining a traditional policy of financial and trade openness that, in addition to the climate of political and legal stability, provides the basic conditions for Uruguay's position as a regional and international financial marketplace.

Among the traits of the financial system, we highlight the following:

"Lack of control on operations involving foreign exchange."

"No restrictions to the movements of capital, both regarding cash inflows and outflows.

Notwithstanding this, our country has started to apply international standards on money laundering controls.”

”Free supply and demand determine the rates of interest. However, the Central Bank of Uruguay has intervened in the money market on occasions.”

”Strict banking secrecy standards, a unique characteristic in Latin America. Only under certain conditions does the Tax Administration allow for any exceptions to this rule, provided grounds for such an exception are produced in court and if there is no pronouncement to the contrary by a Government law officer or a judge.”

The Uruguayan financial system is made up of Private Banks, Non-Banking Financial Intermediation Entities and State Banks. The legislation and standards set by the Central Bank contemplate various kinds of institutions, and the main are:

”Banks. They receive deposits and grant credits in different currencies and terms. They participate in operations involving foreign exchange, foreign trade, brokerage with other financial entities, public bonds, etc. maintaining relations with local and foreign agents.”

”Finance Houses. A difference from the above institutions is that they cannot receive sight deposits movable by way of checks or time deposits of residents.”

”Overseas Financial Intermediation Companies. They specialize in offshore operations, and these operations are tax exempt.”

”Financial Cooperatives. They operate similarly to banks, but exclusively with their members.”

”Self-financing Groups Administration Companies”. These are closed capitalization circles with the exclusive purpose of purchasing goods or services for their members.”

“Companies that deal in Personal Banking, lending funds in small amounts with little collateral requirement for the customers. These companies try to capture those sectors who cannot resort to banks or savings cooperatives to obtain loans.”

5. Commercial Policies

The commercial policy of the State has been marked, since the mid sixties, by a progressive liberalization. Several export promotion systems have been created and imports have been liberalized through a reduction of both tariff and non-tariff protections, seeking more competitiveness for domestic industry.

Regarding exports, the promotion of exports of non-traditional products has been subjected to incentives, in order to avoid dependence on primary goods with low value added as was the case in the past. Due to the crisis that Uruguay suffered in 2002, the country has attempted to diversify the markets for exports of goods and services, so as not to be so vulnerable to regional events.

Regarding imports, the tariff structure has been currently simplified, with levels ranging between 0% and 25%, eliminating practically all reimbursements to exporters.

Tariff rates increase according to the category of goods in the following order: raw materials < intermediate < final consumption.

Capital goods not produced in Uruguay, in general, pay the minimum rate, but we must stress the fact that there are promotional exemptions for investments that generate more added value to national raw materials.

The “temporary admission” system is a special instrument defined by law, whereby it is possible to import goods on a temporary basis free of taxes, under the condition of re-exporting the said goods after a specific term, after their industrialization or their use to export other products.

Another mode of operation is the “drawback”. In this case, the importation operation is performed paying the duties and then those duties are reimbursed in the event of exportation of such goods, or after a process of industrialization has taken place in Uruguay.

Another characteristic of exports is the reimbursement of the Value Added Tax included in the purchase of goods and services used as part of the cost of the exported goods.

V. TYPES OF COMMERCIAL ORGANIZATIONS

1. Types of Corporations

In Uruguay, companies may choose from several possible types of legal entities.

Most of the companies that operate in Uruguay are incorporated as corporations or as branches of a foreign corporation. Small companies are usually incorporated as limited liability companies.

When the purpose of the company is to do business overseas, it is advisable to use offshore companies.

The cost of these companies ranges between US\$ 1,200 and US\$ 2,500.

Closed corporations with assets exceeding approximately US\$ 550,000 or with income of more than approximately US\$ one million eight hundred thousand as of the date of closing the fiscal year, must produce their financial statements at the Office of the Nation's Internal Auditor (AIN). This information is available to any interested party on request. In addition, the AIN may request, in writing and with proper grounds, other information regarding these corporations. Publicly traded companies must publish their financial statements within 120 days of closing their fiscal year. Fiscal year closing is usually the close of the calendar year, but companies are allowed to have a different closing date.

There is no difference in the treatment of national, foreign or mixed companies. There are special regulations for banks, insurance companies, cooperatives and public (state-owned) companies.

Operations are subjected to the control of public authorities, among which are the AIN, the Social Security Bank (BPS), and the General Tax Directorate (DGI).

2. Accounting and Audit

Annual Financial statements, including Balance Sheet, Profit & Loss Statements, Annexes and Notes to the Financial Statements must be made produced after four months following the closing of the fiscal year; in most companies, on December 31.

A tax affidavit is presented annually to the DGI, with the assessment of Income Tax and Net Worth Tax.

Decree N° 103/991 sets forth the accounting standards applicable in Uruguay, which refer to the pronouncements of the Association of Certified Public Accountants and Economists of Uruguay, and International Accounting Standards, that in some cases are obligatory and in other cases optional, though there is a trend towards making them compulsory.

This Decree also establishes that the compulsory financial statements are the Balance Sheet and the Profit and Loss Statement with a series of Annexes and Notes.

Circular N° 1444 of the Central Bank of Uruguay provides that those in debt with the financial system with a position surpassing an approximate amount of 1.5 million U.S. dollars, must produce their financial statements accompanied by an Audit Report of independent professionals.

When the position of these debtors is in excess of an approximate amount of 0.8 million U.S. dollars, the Financial Statements must be presented with a Limited Review Report as an Annex.

VI. TAX SYSTEM

1. General Structure

The Uruguayan tax system has a series of taxes levied, amongst others, on the consumption of goods and services, the income of individuals and domestic legal entities and the income of non residents, as well as capital. There is also a set of taxes levied on more specific transactions.

2. Custom Tariffs

Imports pay duties of between 6% and 20% of the value of the goods, according to the type of goods involved.

3. Taxes on Legal Entities

3.1 Income Tax

It is an annual tax levied on the income of Uruguayan source derived from profit activities conducted by businesses, i.e. all productive units that combine capital and labor for a profit, from the circulation of goods or from the labor of others. Notwithstanding the above, certain legal entities (corporations, limited liability companies, etc.) have all their profits of Uruguayan source taxed by income tax, regardless of whether or not they combine capital and labor.

Such tax is assessed on the net taxable income, resulting from deducting from the gross income all those expenses that have been properly documented, which are necessary to obtain it and the current rate is set at 25%. The deduction of expenses is also conditioned by the taxing of the counterpart, because only those expenses that constitute taxable income for the counterpart for any income tax, can be deducted and in some cases they cannot even be totally deducted, but only up to a maximum percentage.

Profits of small companies (with income below approximately US\$ 26,500 a year) are not subjected to income tax, though they are obliged to pay a monthly tax of approximately US\$ 80.

Tax exemptions given by the law affect, among other, earnings corresponding to shipping companies, on condition of reciprocity by foreign companies. They also affect profits sourced from activities performed abroad and in duty-free areas, with goods of foreign origin declared to be in transit or stored in those tax-free areas, when such goods do not have their origin or destination in Uruguayan customs territory. The exemption is also applicable if a certain percentage of the goods enters the country. Dividends and profits derived from holding capital shares are also exempted.

There are also partial exemptions reaching up to 40% of earnings used for certain investments that are listed by the Government.

3.2 Net Worth Tax

This is an annual tax levied on net worth determined as the difference between fiscally adjusted assets and liabilities.

It includes all the property located or used economically in Uruguay, with the exception of non computable assets (various types of securities as set out in the legislation, forestry areas with protective woods, citric plantations and shares in the equity of business or agricultural companies), and exempt assets (savings securities and bearer equity securities, bearer and publicly traded bonds).

Likewise, the only deductible liabilities are, among others, debt to suppliers and services (except loans, deposits, guarantees and balances payable for imports), the average debt with banks and financial houses, the amount due to international credit agencies of which Uruguay is a member, accrued tax and social security debt not yet payable and debt documented in debentures or bonds that fulfill certain conditions set forth in the law. These restrictions on the deductibility of liabilities is not applicable to financial companies, that, within certain exceptions, are allowed to deduct all their liabilities upon assessing the tax.

The rate to be applied shall be 1.5%, except for banking or finance house activities, where the applicable rate is 2.8%. Such rates can be reduced by 1% if the company pays Income Tax.

3.3 Value Added Tax

This tax is levied on the domestic circulation of goods and services rendered within the national territory and also on imports of goods into the country and not on exports.

There are two applicable rates, a basic rate of 22% and a minimum rate of 10% for some goods and services. This minimum rate is levied, among others, on the sales of key food products, fats, medications and pharmaceutical products, services rendered by hotels in connection with lodging, human health outsourcing services, first sale of real estate and sale of natural fruits, flowers, vegetables, insofar as certain conditions are met.

Exemptions cover, among others, foreign exchange, precious metals, agricultural machinery and accessories, oil-derived fuels except for diesel oil, milk, lambs' meat and offal, newspapers, magazines and books, banking operations performed by banks, banking houses, etc.

The tax to be paid is determined by deducting from the total tax on sales the tax corresponding to the purchase of goods and services acquired by the taxpayer.

If the company is an exporter, a deduction of the tax corresponding to goods and services that directly compose the cost of the exported goods is applicable; if there is a credit for this concept in favor of the exporter, then this credit is reimbursed.

3.4 Excise Tax (Impuesto Específico Interno – Domestic Specific Tax)

This tax is levied on the first sale of a list of luxury articles such as liquor, soft drinks, cosmetics and perfumes in general, tobacco, cigarettes, automobiles and motorbikes. The Government sets the rates to be applied to different types of goods. These can

reach maximum values that are set for each case and are applied, according to each item, on actual sales values or upon notional values.

3.5 Corporations Control Tax (ICOSA)

This tax is levied only on business corporations at the time of their incorporation and at the end of each fiscal year.

The taxable base is currently approximately US\$ 50,144.

Applicable rates are as follows:

- a) 1.5% upon incorporating the company
- b) 0.75% at the closing of each fiscal year

The ICOSA corresponding to the closing of a fiscal year can be offset against the Equity or Net Worth Tax for that period.

3.6 Non-Residents' Income Tax (IRNR – Impuesto a la Renta de No Residentes)

This tax is levied on the income of Uruguayan source, of any kind, obtained by individuals or legal entities that do not reside in Uruguay.

Even though this tax does not fall on a local company, this latter company must act as withholding agent of the tax in the event of contracting with non residents.

Uruguayan source is defined as the income originating from activities developed, property located and rights used with economic implications in Uruguay. The property will be regarded as “of Uruguayan source” to the extent that they relate to the income obtained from activities taxable by the IRNR, and those obtained from technical services rendered from overseas to taxpayers of IRAE (Income Tax on Economic Activities).

The income included in this tax is classified into:

- Corporate income or similar earnings from the sale of real estate.
- Income from Work
- Capital Income
- Net Worth increases

Rates amount to:

- General rate: 12%
- Interest from local currency deposits and indexed units deposits (time deposits) for terms of one year or more in institutions of Financial intermediation: 3%
- Interest from bonds and other debt securities, issued for terms exceeding three years, by means of public subscription of shares and security exchange trades: 3%
- Interest corresponding to time deposits of one year or less, in local currency without readjustment clause: 5%
- Dividends or earnings paid or credited by IRAE taxpayers 7%

4. Taxes Levied on Individuals

4.1 Income Tax on Individuals (IRPF – Impuesto a la Renta de las Personas Físicas)

This tax, created by means of Law N° 18,083 of Tax Reform has been in force since July 1, 2007.

IRPF is levied on Uruguayan-sourced income obtained by individuals residing in Uruguay.

Profits subject to tax are divided into two categories:

- **Capital Income**, includes earnings from real estate capital, as well as earnings derived from equity increases.
- **Work Income**, includes earnings from rendering personal services as an employee, retirement pensions and similar income, and the rendering of personal services as an independent contractor.

The **rates** applicable to Capital Income are:

- General rate: 12%
- Interest from local currency time deposits and those in indexed units for terms of more than one year at financial intermediation institutions: 3%
- Interest from bonds and other debt titles, issued for terms exceeding three years, by means of public issue and trading of securities: 3%
- Interest corresponding to time deposits of one year or less, in local currency without any readjustment clause: 5%
- Dividends or profits paid or credited by IRAE taxpayers: 7%

The above rates are applied to the profits taxed within this category.

On the other hand, rates applicable to income from work vary from 0% to 25%, and these rates are applied progressively over different income brackets.

Deductions are minimal –basically retirement plan contributions—and for their calculation these rates are applied, over certain brackets of deductions set forth by the legislature and updated periodically by the Executive Power.

In order to determine the tax to be paid, taxable income before deductions must be added and then the following scale of rates is applied according to the different brackets:

Bracket	From	-	To	Rate
1	0		60 BPC (*)	0% (*) Basic Contribution Units
2	60 BPC		120 BPC	10%
3	120 BPC		180 BPC	15%
4	180 BPC		600 BPC	20%
5	600 BPC		1.200 BPC	22%
6	1.200 BPC		and above	25%

This is how the IRPF on income is assessed. From this amount, subtract the amount resulting from the total deductions mentioned above applying the following schedule of rates:

Bracket	From	-	To	Rate
1	0		60 BPC	10%
2	60 BPC		120 BPC	15%
3	120 BPC		540 BPC	20%
4	180 BPC		1.140 BPC	22%
5	1.140 BPC		and above	25%

The IRPF deductions is obtained in this manner. The amount payable results from subtracting the IRPF of Deductions from the IRPF of the Income.

Main exemptions are:

- Public Debt Interest.
- Dividends or profits distributed by taxpayers of IRAE, insofar as these have earnings unencumbered by this tax.
- Profits distributed by sole proprietorship companies with income not surpassing the limit set by the Executive Power and by subjects who render personal services with no employer-employee relationship who pay for IRAE.
- Income originating from the sale of bearer shares and other capital stock from IRAE taxpayer entities and those entities exempted from such tax by virtue of constitutional law.
- Net worth increases derived from property ownership transfer, within certain limits.
- Income derived from rental of real estate, provided the total amount does not surpass the limits, and that the owner allows the exception to banking secrecy and the owner does not generate in addition other capital yields surpassing 3 BPC.
- Net worth increases derived from the sale of the permanent residence of the seller, provided certain conditions are fulfilled, among others.

4.2 Net Worth or Equity Tax

Individuals are charged a tax levied on the net worth of each of them, as an individual or as a family or inheritance estate under process of distribution.

This tax applies an increasing series of rates for each bracket of encumbered net worth, but there is a minimum amount that is exempt, amounting to up to US\$ 91,000 approximately for individuals and US\$ 182,000 for families.

5. Internacional Agreements

Our country has signed tax agreements with Germany and Hungary. The purpose of such agreements is to avoid double taxation of certain international transactions.

VII. HLB OFFICE IN URUGUAY

HLB Dovat, Carriquiry & Asociados
Auditors y Business Consultants

Sarandí 693, Piso 3
C.P. 11000
CP 1271
Montevideo, Uruguay
Telephone: (598 2) 916 23 20
Fax: (598 2) 916 18 22
E-mail: dca@dca.com.uy

HLB Dovat Carriquiry & Asoc. International S.A.
Auditors y Business Consultants

Ruta 8 Km. 17500
Edificio 300 Local 322 oficina 001. 005
Zonamerica
Montevideo, Uruguay
Telephone: (598 2) 518 58 47
Fax: (598 2) 518 27 98
E-mail: dcaint@dca.com.uy

Partners:

Orlando Dovat Mela (orlando.dovat@dca.com.uy)

Daniel Carriquiry De Lilla (daniel.carriquiry@dca.com.uy)

Victor Meerovich Cohrs (victor.meerovich@dca.com.uy)

Ronald Uhlfelder Savio (ronald.uhlfelder@dca.com.uy)