



URUGUAY INVESTOR GUIDE



Uruguay XXI

INVESTMENT AND EXPORT
PROMOTION AGENCY

INTRODUCTION

This guide has been prepared to assist all individuals and companies interested in doing business in Uruguay.

Although the guide does not expand on all the aspects considered thoroughly, it intends to include the most relevant aspects and provide answers to the main questions that may arise.

For each particular situation, it will be necessary to complete the information of this Guide consulting laws, regulations and resolutions adopted in the country and obtain further specialized professional advice.

The material included in this Guide is updated to July 31, 2012 and is based on information and rules in force to that date.

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INVESTOR GUIDE		Chap.
Social, political and legal stability	Uruguay is a country with stable rules and qualified human resources, which makes it attractive to foreign investors.	1
Free exchange rate	The foreign exchange market is totally free, with no restrictions placed on the purchase and sale of foreign exchange.	2
Free transfer of capital and profits	The financial market is totally free; no prior authorization for foreign exchange inflow or outflow is required. There are no restrictions as to the inflow or outflow of capital, transfer of profits, dividends, interest, etc.	2
International financial market	Uruguay has an agile and competent banking system with presence of prime international banks. This makes it an important international financial market to channel the regional businesses. Bank secrecy is protected by law.	2
Establishment of foreign companies	There are no prerequisites. Individuals and corporations can organize companies in Uruguay without having to meet any prerequisites or obtain special permits from the State.	3
Investment promotion	It is possible to obtain from the government an investment private project promotion with major tax exemptions in each particular case.	3
Call Centers	Income tax exemption provided 150 direct and qualified jobs are created.	3
Forestry	Large tax exemptions are granted to investments in forestry.	3
Shipbuilding industry	Income tax exemption provided 150 direct and qualified jobs are created.	3
Software	Income tax exemption is granted to software exports.	3
Tourism industry	There is a specific regime with tax exemptions for investments in tourism developments.	3
Other systems	Other sectors such as exploitation of hydrocarbon, bio-fuel, vehicles or vehicle spare parts, graphic industry, electronic industry or communication industry are also granted tax benefits.	3
Free Trade Zones	The Free Trade Zone system grants several benefits to companies established therein. In particular, there is full tax exemption and exemption of duties for goods entering and leaving the country.	3

INVESTOR GUIDE		Chap.
MERCOSUR	Uruguay is part of a customs union with Argentina, Brazil, Paraguay and Venezuela. ¹ MERCOSUR has also signed into free-trade agreements (FTA) with other countries and Uruguay has signed a FTA with Mexico.	3
Free imports	There is freedom to import all kinds of goods. Duties range from 0% to 20%, except for some particular items.	3
Free exports	There is total freedom to export, there being no duties or prohibitions. ²	3
Export promotion	There are indirect tax refund and temporary admission systems to promote the export sector.	3
Business types	Companies may be organized as Corporations (S.A.) or as foreign companies' branches. There are also personal companies such as Limited Liability Companies (S.R.L.) which are the most commonly used.	4
Capital	Shares in a Corporation can be issued to bearer and one single shareholder may hold 100% of the share capital.	4
Shareholders, partners and directors	There are no nationality or residence requirements for shareholders, partners or directors.	4
Accounting and auditing	Accounting and auditing principles are in line with international standards.	5
Main taxes	Main taxes levied on companies are the Corporate Income Tax (IRAE), the Wealth Tax (IP) and the Value Added Tax (IVA). As from July 1st, 2007, the Personal Income Tax (IRPF) and the Non-Residential Income Tax (IRNR) came into effect, which tax the income obtained by resident natural persons and non-resident natural or legal persons, respectively.	6
Territoriality	The tax system is based on the source principle, whereby income from foreign sources or assets located abroad are not levied.	6
Dividends and profits	Dividends received by local companies are not levied. Dividends and profits paid or credited to beneficiaries abroad are subject to the IRNR withholding at a 7% rate. Dividends or profits paid to resident natural persons are subject to IRPF at a 7% rate.	6

¹ Venezuela joined MERCOSUR in 2006, its inclusion as a full member came into effect on August 13, 2012.

² Except for a 5% detraction for dry and salted bovine and ovine leathers, leathers and defleshed hides, pick and wet-blue leather.

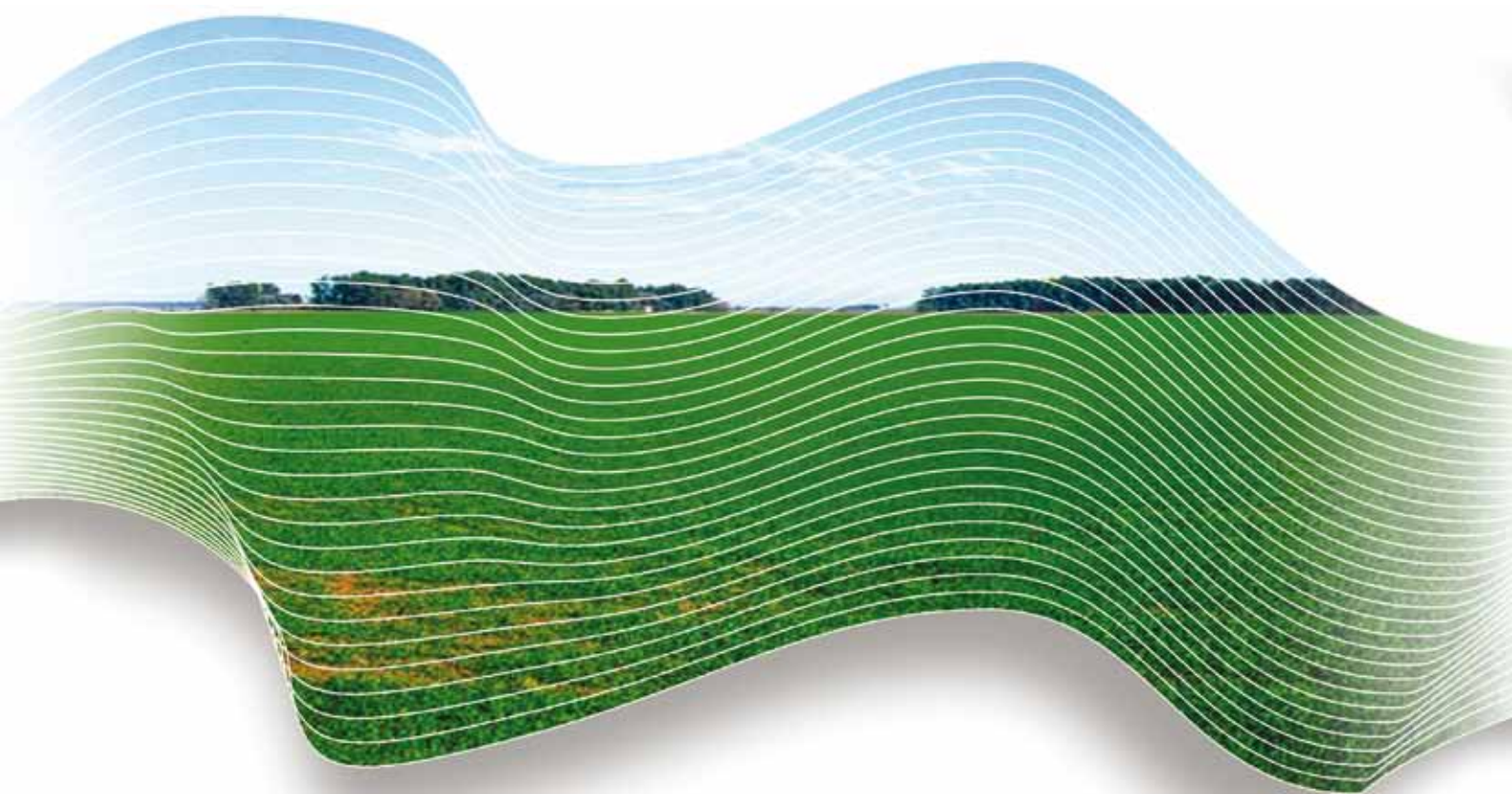
INVESTOR GUIDE		Chap.
Salaries	Salaries are set by mutual consent of the parties, subject to the general rules and sectorial agreements, if any. They cannot be established below the minimum determined by the Executive Branch or the amount agreed to by the Wage Boards (which, at the same time, shall determine the biannual readjustment percentage per category).	7
Social security contributions	Employers' contributions to the social security system are 12,625% while employees' contributions range from 18.125% to 21.125%. ³ The portion of the monthly salaries in excess of a certain amount ⁴ (periodically updated by the Executive Branch), employees have the option to make social security contributions.	7
Foreign personnel	There are no impediments to hire foreign personnel.	7

³ Depending on the amount of income and the number of children and other dependents.

⁴ Equal to approximately US\$ 3,880 on 07/31/2012.

Chapter 1

COUNTRY FEATURES



* Main features

- Uruguay has a democratic government with presidential system.
- There is high level of public security and welfare to live in the country.
- Weather is pleasant all year long, summer being the high season for tourism.
- Spanish is the official language and English is commonly used in business.

1. Geography and climate

Uruguay is located in South America on the Atlantic coast between Brazil to the northeast and Argentina to the west. It has a surface of 176,000 km² approximately (68,000 square miles), excluding the territorial waters.

There are no remarkable topographic accidents. Great part of the area is made up of low hills crossed by long rivers.

Weather is pleasant and beneficial all year long. Average temperatures in summer range from 21 °C to 27 °C (70 °F and 80 °F) and in winter from 10 °C to 16 °C (50 °F and 60 °F) and occasionally there are a few cold days. Rainfall occurs any season of the year, but in general the rainy season is autumn.

The most inhabited city is Montevideo, which is the capital city of the country and has the most important port, followed by the cities of Paysandú and Salto (on the coast of the Uruguay River) and Las Piedras (near Montevideo).

Punta del Este, on the Atlantic Coast and 130 kilometers away from Montevideo, is one of the best known seaside towns in South America, highly active in summer time (January and February).

2. Population and language

Uruguay has 3.4 million inhabitants according to 2010 data from the National Institute of Statistics (INE), 1.9 million of whom live in Montevideo and its outskirts. Approximately, 94% of the population lives in urban areas.

It does not have any indigenous population; a high percentage of Uruguayans descend from European immigrants, mainly Spaniards and Italians.

The population growth rate is one of the lowest in Latin America: 4 per one thousand per year, like in most developed countries.

Spanish is the official language and the most generally used. Traditionally, English and French are taught in the country and English is the most broadly used language in the business community. Currently, Portuguese is also being largely studied as a result of MERCOSUR integration process.

3. Political system and government

Uruguay is politically organized as a democratic republic with a presidential system. The State is organized under three separate and independent branches: the Executive, the Legislative and the Judicial Branches.

According to the Constitution in force, the members of the government are elected every 5 years through a universal suffrage system. The Executive Branch is ruled by a President and a cabinet made up of 13 ministers. The Legislative Branch is made up of the General Assembly or Parliament, consisting of two chambers: the Chamber of Senators, made up of 30 seats, chaired by the Vice-President of the Republic and elected nationwide and the Chamber of Representatives, with 99 seats representative of the 19 departments, elected on a proportional representation basis.

The Judicial Branch is ruled by the Supreme Court of Justice, the Courts and the judges with national compe-

tence. The members of the Supreme Court of Justice are elected by the General Assembly and the members of the courts by the Supreme Court of Justice with the Senate's approval; judges are directly appointed by the Supreme Court of Justice.

Uruguay is geographically divided into 19 departments, the local administrations of which recreate the division of the Executive and Legislative Branches. Each department chooses its own authorities, also through a universal suffrage system.

The departmental executive authority is exercised by a Governor and the legislative authority by the Departmental Board. Departmental governments are essentially responsible for the administration of each department's issues, excluding justice, education, health, security, foreign affairs, defense and the fundamental responsibilities regarding economic and financial issues, which are managed on a national basis.

4. Legal system

The Uruguayan legal system is based on legal rules approved by the Parliament and passed by the President of the Republic. The ultimate source of law is the Constitution.

Laws approved by the Parliament or departmental decrees (with force of law in the corresponding department) approved by any of the Departmental Boards can be declared unconstitutional by the Supreme Court of Justice to the extent they are not consistent with the Constitution.

Moreover, any final regulation or resolution approved by any state administrative authority, including the state companies, may be declared null and void by the Court for Contentious-Administrative Proceedings, a special independent court of appeal made up of five members which is not part of the Judicial Branch and is elected by the Parliament.

Judicial proceedings normally go through two authorities. In some cases, an appeal may also be lodged with the Supreme Court of Justice; however, it may only be based on the existence of a breach or wrongful application of the legal provisions.

There are special judges for civil, commercial, labor, criminal, family matters, customs and wealth claims against the State. At the same time, in 2009 two new Courts of Common Pleas in criminal matters specialized in organized crime were created.

Although judgments issued by a Court or Judge can serve as basis for subsequent proceedings, they do not constitute a mandatory precedent, like in common law systems where traditionally case law is the source of law.

5. Living in Uruguay

Uruguay is a safe, calm, healthy and pleasant place to live in. The country offers the highest level of public security in South America in a broad sense. The crime rate is very low compared to the other countries of the region. There are no race, religious or other type of conflicts and public meetings are peacefully held.

Vehicular traffic is fluid, even in urban centers. Time spent in commuting is reduced; Montevideo can be crossed

by car from one point to the other in a little over half an hour, at any time of the day.

Cities have large green spaces and given the constant presence of wind and the absence of pollutant industries there is no environmental pollution. The same can be said for rivers and the coastal sea, even in Montevideo.

Uruguay has a high degree of healthiness due to the benefits of climate and the absence of environmental pollution, the extension of the sanitary and drinking water network and the scope of medical assistance. There are almost no epidemics.

Since Uruguay is a small country, distances to reach relaxation areas (such as the countryside, beaches and riverbanks) are short. The most popular beaches stretch along a distance of nearly 300 km between Montevideo and the border with Brazil. The national sport par excellence is football, which attracts the vast majority of the population from all social levels. There are several private clubs with sports grounds which have excellent golf courses, as well as state sports facilities which can be accessed to at very low costs or even for free. There is also significant cultural activity involving wide offer of theater, musical and cinematographic events.

The Uruguayan market offers cars, electrical household appliances, beverages, food and other consumer goods of any source and quality level.

6. Information for investors

Visas

As a rule, foreigners visiting the country are only required to present their valid passport, except in some cases where a previous visa is required. On the other hand, citizens of Argentina, Brazil, Chile, Paraguay and Venezuela only require their identity card.⁵

Currency

The local currency is the Uruguayan peso and its official symbol is \$.

Business hours

In general, stores are open from Monday to Friday, from 09:00 a.m. to 07:00 p.m., and Saturdays, from 09:00 a.m. to 01:00 p.m. There are many shopping centers open from 10:00 a.m. to 10:00 p.m, including Saturdays and Sundays.

⁵ Information on visa requirements for foreigners entering Uruguay is available in the website www.dnm.minterior.gub.uy/visas.php

Other public opening hours to be considered:

Public offices:

12:00 p.m. - 6:00 p.m. (winter)
9:00 a.m. - 3:00 p.m. (summer)

Banks:

1:00 p.m. - 5:00 p.m. (some open at 11:00 a.m.)

Industries, offices:

9:00 a.m. to 6:00 p.m.

Public Holidays

Non-working holidays

January 1st

May 1st

July 18th

August 25th

December 25th

Working holidays

(only paid to the employee when worked):

Carnival (two days in February)

Holy Week (two days in April)

January 6th

April 19th

May 18th

June 19th

October 12th

November 2nd

Weights and measures

Weights and measures are based on the metric system. There are no unusual measures or terminologies, except for some archaic terms which are still used in rural areas.

Information services

Those who are planning to visit Uruguay in a business trip can get information at the nearest Uruguayan consulates or embassies.

Tips

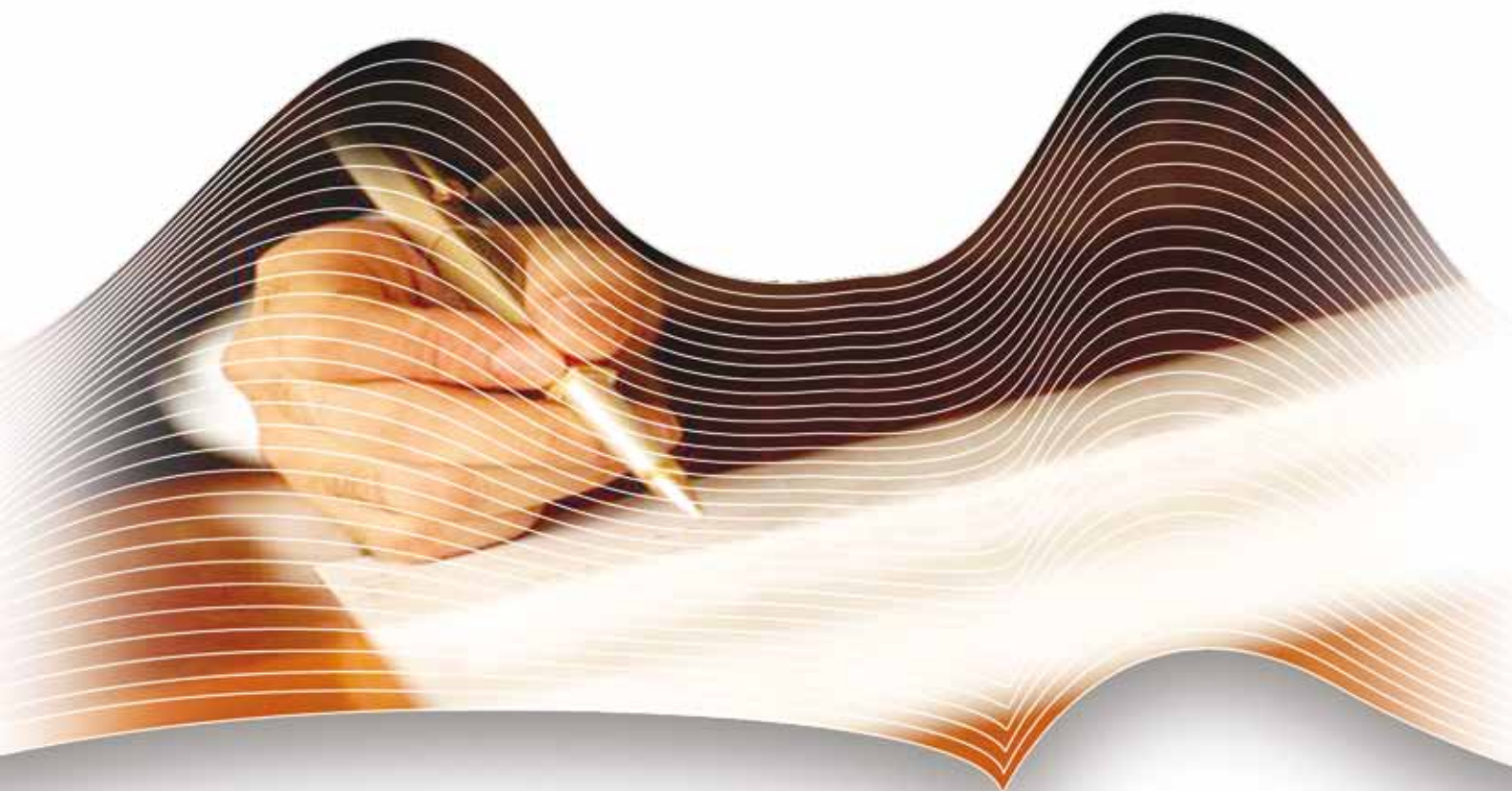
Tips are not included in the service price. It is customary to pay tips for 10% of the service price.

Taxis

Taxis from the international airport to downtown Montevideo will cost approximately US\$ 40.

Chapter 2

BUSINESS ENVIRONMENT



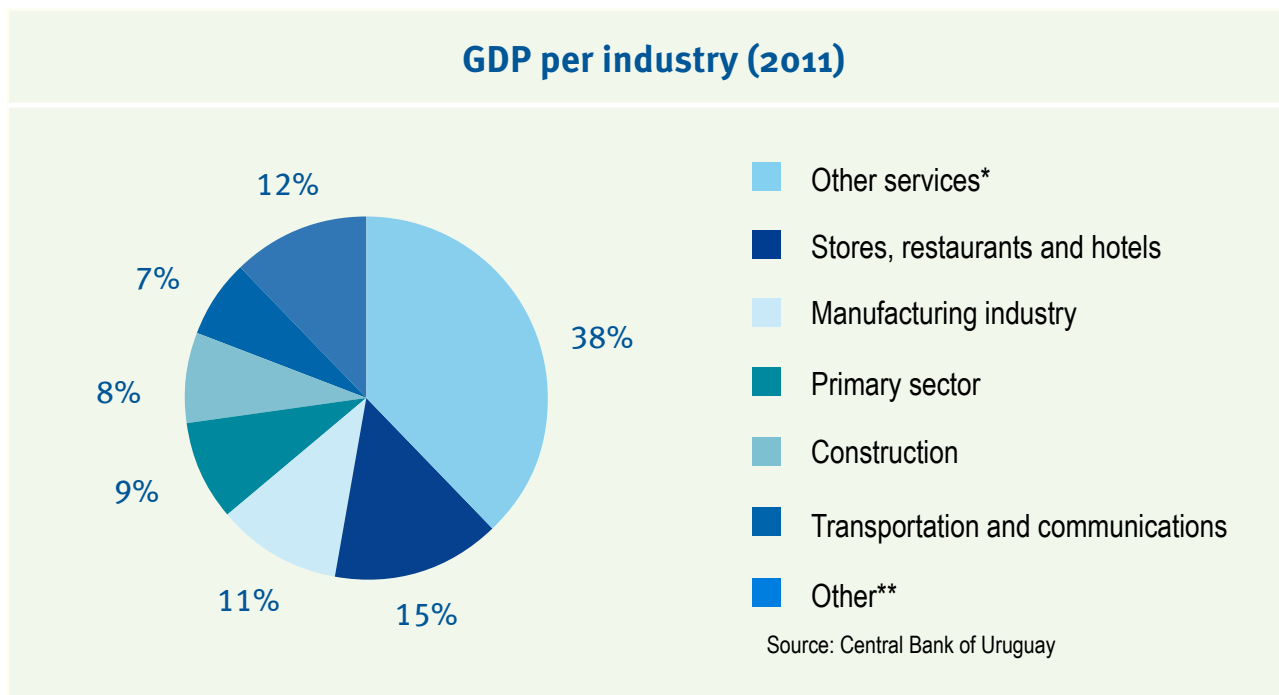
1. Economic and institutional framework

* Main features

- Social, political and economic stability
- Free exchange rate
- Free transfer of capital and profits
- Opening of foreign trade
- MERCOSUR integration and trade agreements with other countries

1.1 Economic performance and structure

The Uruguayan economy is small and open, with growing projection towards the regional and international external market, where exports play an important role for local productive development. The sector with the largest participation in the Gross Domestic Product (GDP) is the services sector, within which trade, transportation and communications, financial services, insurance, real estate and other corporate services stand out.



(*) Other services: Financial brokerage, real estate, corporate and rental activities; public administration and defense; statutory social security plans; education; health services, personal service activities and private household services included.

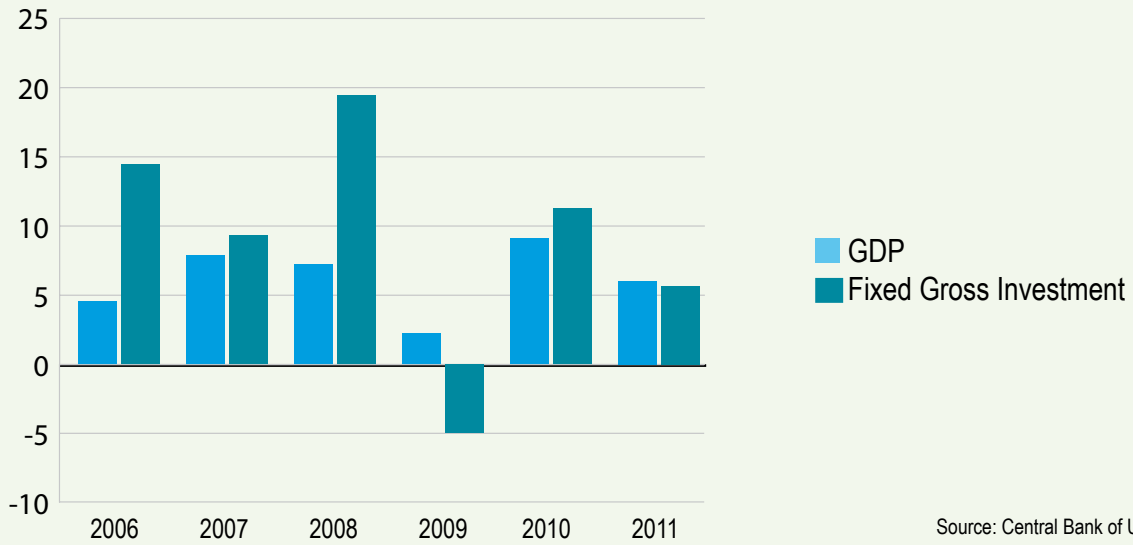
(**) Other: Power, gas and water supply and taxes, less subsidies on products.

Agribusiness production accounts for 9% of the GDP. However, its relevance for the economy is largely superior to such percentage since it provides the biggest part of raw materials for the manufacturing industry, one of the greatest exporter sectors. The manufacturing industry accounts for 11% of the GDP and food, leather, textiles and forestry products sub-sectors are the most excelling ones due to their importance and contribution to exports.

By virtue of the favorable external juncture and the application of a sensible economic policy at national level, Uruguay has achieved a sustained economic growth with an annual cumulative rate of 6% in the 2005-2011 period. The GDP measured in current dollars in 2011 amounted to US\$ 46,700 millions, with a GDP per capita of US\$ 13,861.

Macroeconomic stability and the establishment of a stable institutional framework with clear rules for investors and respect for agreements, added to an attractive promotional regime became an important factor for the boost of productive investments in the past years.

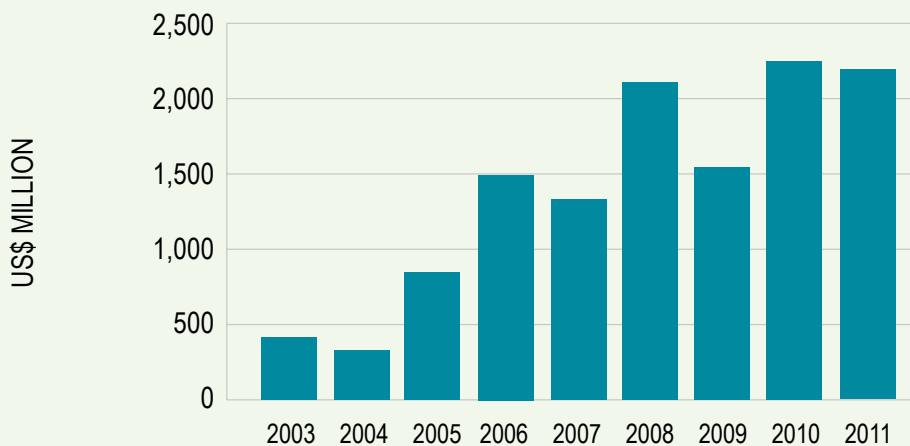
Actual growth of GDP and investment (%)



Fixed gross investment has grown at a very good pace with double-digit rates, accompanied by a major consumption expansion. Therefore, investment behavior indicates that the product expansion has solid foundations. Gross capital formation amounts in the last years to a figure well above the GDP increase, which entailed a sustained rise in the economy investment rate.

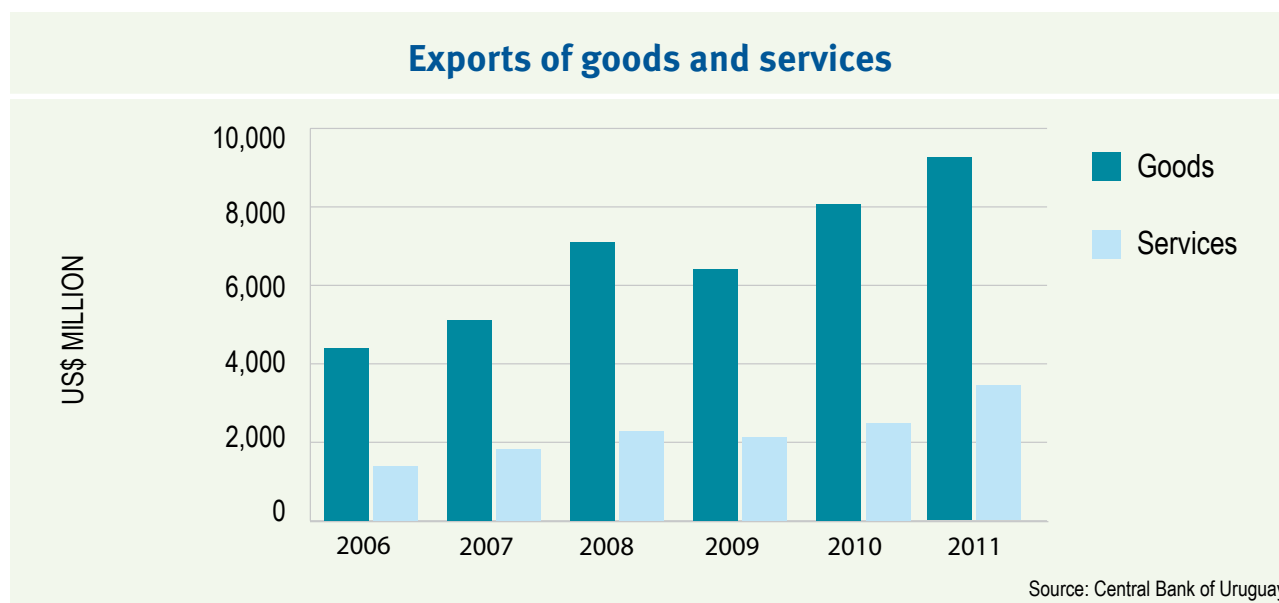
At the same time, over the past years the country has been receiving an important flow of direct foreign investment in several sectors of activity. A long tradition of legal certainty and contractual observance as well as tax benefits for new investments and the country’s strategic geographical location explain why several international investors choose Uruguay.

Foreign direct investment



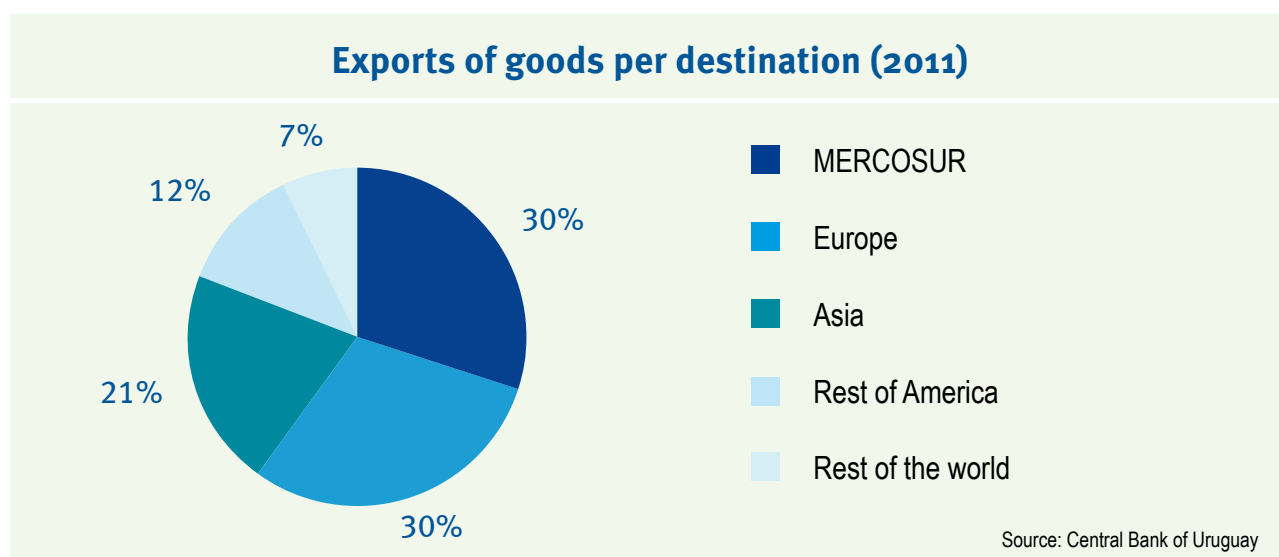
On the other hand, prices show a stable behavior with one-digit inflation rates. Inflation’s downward trend is expected to continue as a result of an inflation target control policy adopted by the Central Bank of Uruguay in 2004.

The deepening in the economic opening process brought about an increase in foreign trade-related relevance to GDP, with a sustained growth of goods and services export, a greater diversification of destinations and reaching record levels year on year. The main export products are meat, leather, textiles, cereals, dairy products and other agricultural based-products; while tourism and logistics are the main exported services given the geographically strategic position of Uruguay in the region.



The main imported products are oil, capital goods and intermediate goods. Consumer goods account for 20% approximately of goods imports.

Goods exports have registered a healthy diversification over the past years. To a large extent, this is due to a market open-up policy for placing goods abroad implemented by governments on a successive basis.



1.2 Economic Policy

Liberalization and open-up policies steadily applied for over twenty years and the strict compliance with Uruguay's international obligations have enabled the country to keep a favorable position in the international markets and develop a widespread reputation as regional financial center with a large history of freedom and security.

Uruguay offers free movement of capital, foreign currency and gold from and to other countries and a free convertibility exchange system for national currency.

The open financial system, the liberalization of international financial transactions and the bank secrecy guaranteed by law have turned Uruguay into the largest financial center of the region. About 76% of deposits in the financial system are in US dollars, 22% of which belong to non-residents.

Economic policy stability, despite Administration changes inherent in the democratic regime, has been a determinant factor for the economic performance and the achievement of the current international position. In such sense, the maintenance of a prudent macroeconomic policy stands out, which combines a tax policy based on the achievement of primary surplus consistent with public debt sustainability, with a monetary policy oriented towards price stability which contributes to growth objectives and employment generation.

Public revenue mostly comes from tax collection under the responsibility of the Tax Administration Office (DGI), although public companies' surplus also contributes. Decisions on public expenditure are taken according to the Budget Law approved during the first year of government and the subsequent annual account reporting. Discipline in tax issues is written on the existence of a net indebtedness annual variation cap law which indirectly sets a restriction to such tax unbalances as incurred by the government.

In order to obtain price stability, the Central Bank of Uruguay carries out an inflation targeting policy. As an instrument for achieving such target, the Monetary Policy Board fixes a benchmark interest rate for short-term interbank loans.

1.3 Trade Policy

Uruguay was one of the first Latin American economies which evolved towards open and unrestricted international trade. The openness to trade rate, measured as exports plus imports of goods and services with respect to the GDP was 56.5% between 2006 and 2011 –greater than that of Argentina and Brazil.

In 1995, Uruguay signed a treaty with Argentina, Brazil and Paraguay which established the Southern Common Market (MERCOSUR), which accelerated the openness of the Uruguayan economy, establishing a progressive integration process from the Free Trade Area until constituting a Common Market. In 2006, Venezuela joined the MERCOSUR and on August 12, 2012 became a full member.

MERCOSUR treaty provides for the free movement of goods, services and productive factors among the signatory countries through the progressive elimination of tariff and non-tariff barriers. At the same time, there exists a Common External Tariff (AEC) agreed to by the four signatory countries for almost every good introduced into the area. The AEC varies between 0% for capital goods and 20% for some consumer goods (clothes, electrical household appliances, etc.) There are exceptions for some specific goods such as footwear, sugar and cars,

where the AEC is above 20%.

Apart from the aspects regarding the Common External Tariff, its exceptions and adaptations per country, MERCOSUR has taken decisions regarding the origin regime, the treatment of unfair domestic trade practices in the extended market, bases for competition defense, public policies conditioning competitiveness, elimination or coordination of non-tariff restrictions to trade and customs policy rules. Furthermore, certain bases have been agreed to in order to coordinate and reconcile macroeconomic policies regarding foreign trade, agriculture, industry, taxation, changes, transportation and other issues.

It is important to highlight that MERCOSUR offers to the installed companies and those starting operations in Uruguay the access to a market of 276 million people, with a GDP of US\$ 3.3 billions, which accounts for the fifth world economy.

Uruguay is located in a privileged area within MERCOSUR since it is in the center of the most populated area with the highest income level. Within a radius of 1,500 km from Uruguay, 90 million inhabitants are concentrated in large industrial and agricultural development areas.

1.4 Trade Agreements

To date, Uruguay has signed the following free trade agreements as a MERCOSUR member country.

MERCOSUR – Chile

In June 1996, MERCOSUR signed a free trade agreement with Chile (under ALADI nomenclature, Economic Complementation Agreement No. 35). The establishment of a Free Trade Area was carried out through a trade liberalization program with progressive tax relief until 2004 (except for some sensitive products - the liberalization of which cannot go beyond 2014).

MERCOSUR – Bolivia

In December 1996, MERCOSUR signed a free trade agreement with Bolivia (under ALADI nomenclature, Economic Complementation Agreement No. 36). The establishment of a Free Trade Area was carried out through a trade liberalization program with progressive tax relief until 2006 (except for some sensitive products - the liberalization of which cannot go beyond 2014).

Uruguay – Mexico

In November 2003, MERCOSUR signed a bilateral free trade agreement with Mexico (under ALADI nomenclature, Economic Complementation Agreement No. 60), which came into force in July 2004.

MERCOSUR – Colombia/Ecuador/Venezuela

In October 2004, MERCOSUR signed a free trade agreement with Colombia, Ecuador and Venezuela (under ALADI nomenclature, Economic Complementation Agreement No. 59). The establishment of a Free Trade Area was carried out through a trade liberalization program with progressive tax relief which came into force in 2005. As for the bilateral exchange between Uruguay and the three signatory countries, tax relief shall be progressive until 2018.

MERCOSUR – Peru

In November 2005, MERCOSUR signed a free trade agreement with Peru (under ALADI nomenclature, Economic Complementation Agreement No. 58). The establishment of a Free Trade Area was carried out through a trade liberalization program with progressive tax relief. In the case of the bilateral exchange between Peru and Uruguay, tax relief shall be progressive until 2017.

MERCOSUR – Israel

In December 2007, MERCOSUR signed a free trade agreement with Israel, which came into effect in December 2009. The specific purposes of the agreement are:

- Eliminate trade barriers and enable goods movement between the Parties' territories.
- Promote fair competition in the Free Trade Area.
- Substantially increase investment opportunities in the Parties' territories and increase cooperation in the Parties' mutual interest areas.

MERCOSUR – India

In January 2004, MERCOSUR signed a free trade agreement with India, in New Delhi. SCHEDULES I, II, III, IV and V were signed in New Delhi on March 19th, 2005. Effective as from June 2009. Taking into account that the Framework Agreement for the creation of a Free Trade Area between MERCOSUR and the Republic of India provides, in a first stage, for actions with the purpose of increasing trade, the Agreement in force includes the reciprocal granting of fixed tariff preferences for a reduced group of products.

1.5 State role in business

In Uruguay there are some services provided by state companies on a monopoly basis. Such is the case of the import of oil and oil by-products for fuel refining (except for distribution) carried out by ANCAP, the electric power transmission and distribution (except for generation) carried out by UTE, the provision of fixed-telephony services (except for mobile, data and broad band telephony) carried out by ANTEL and the provision of drinking water and clean-up services carried out by OSE.

On the other hand, from the 90s Uruguay has carried out a process of economy deregulation and elimination or partial privatization of other state companies for the purposes of promoting competition and enhancing general welfare. In such sense, some outstanding aspects should be mentioned:

- Application of the concession regime for the performance of public works.
- Alcohol production demonopolization.
- Insurance demonopolization.
- Port reform.
- Social security system reform (with the creation of Administrators of Social Security Savings Funds or AFAPs).
- Promotion of financial resource channeling through the Investment Fund Law, Stock Market Law and Trust Law.
- Promotion and defense of competition.

Through the public works concession regime, the private sector builds and then exploits public works such as roads, ports and airports, under a regime governed by special laws and regulations and by virtue of a contract executed with the State.

In the last years, sectors traditionally managed by the State have been deregulated and closed to private com-

petition: production of alcohol and distilled beverages, insurance market, social security system, electric power generation. A factor which significantly contributed to the economy growth was the competitive development in the mobile phone market.

In 1992, the Port Law was approved enabling the free circulation and tax exemption to goods in transit (see section 2.2 of Chapter 3).

In 1996, the operation of the Uruguayan stock market was regulated, incorporating modern rules and principles already experienced in the main financial markets. This gave rise to a significant growth of the corporate debt securities market, in particular, long-term negotiable bonds. Also, the Investment Fund operation was regulated.

In 2007, the Law on Promotion and Defense of Competition was approved. Its purpose is to promote consumers' welfare through the promotion and defense of competition, the incentive to economic efficiency and the assurance of freedom and equality in companies and products' access to markets. The law acts by resisting anticompetitive practices and promoting competition through the establishment of transparent rules and an appropriate penalty regime.

1.6 Clear rules

The Uruguayan political system has three majority political parties which have taken turns in the government and no major changes in general economic principles have occurred. Another special characteristic of the country is that there is strong respect for clarity and transparency in contract observance. This is regarded by investors as a distinguishing feature when it comes to choosing Uruguay, as a mainstay for trust generation in business environment. According to the 2011 Corruption Perceptions Index prepared by Transparency International, Uruguay is in the 25th place among the 182 countries and in the 1st place in South America as a reliable country.

In Uruguay there is no discrimination in the treatment of national and foreign capital and incentives to investment promotion are available for both. There are no limits for foreign capital endowment in companies either. Foreign investors may carry out any type of activity under the same conditions as local investors. In certain sectors of activity foreign investors can perform activities under a public works concession regime by reason of State's special regulations.

Tax system is also neutral regarding foreign investment. Likewise, it is not necessary to have a previous permit or authorization to make an investment, except for environmental authorization.

The country has an attractive investment promotion regime approved by law. This pool of promotional mechanisms is supported by the legal certainty deriving from the applicable laws currently in force.

Moreover, Uruguayan laws currently in force expressly provide for the existence of bank and tax secrecy.

There are no limits to the transfer of income or capital repatriation and no previous permits are required. The exchange market is free, with no restrictions for the purchase or sale of foreign exchange and investments may be made in any currency.

In Uruguay, there are international standards applicable to intellectual property in place. Copyright, trademarks and patents are specifically protected by Uruguayan laws. At the same time, according to surveys performed

by international organizations, Uruguay is regarded as the country with the highest protection over intellectual property in South America (source: The Global Competitiveness Report 2011-2012, World Economic Forum).

1.7 Government attitude towards foreign investment

Foreign investors may develop any type of activity under the same conditions as local investors. In some sectors of activity specially regulated by the State, foreign investors may develop activities under public works concession regime. However, there is an exception in foreign investment access regarding the operation of radios and television stations: the ownership of companies developing these activities is limited to Uruguayan citizens.

Foreign investors may operate in the country by organizing a Corporation (S.A.) –corporate type most frequently used, and they can even own 100% of its share capital. They can also operate through the organization of a Limited Liability Company (S.R.L.) or other types of personal companies made up of partners who may be national or foreign natural or legal persons.⁶ Foreign investors may also choose to operate in the country through a foreign company branch. Tax treatment of the different corporate vehicles differs in several aspects, whereby it is convenient to perform a thorough planning in advance for the purposes of choosing the corporate type to be adopted.

Uruguay has traditionally provided a security framework to foreign investors due to the effective validity of law and the economic stability. Besides, it is member of international organizations which foster investment security, such as Multilateral Investment Guarantee Agency (MIGA) and the International Center for Settlement of Investment Disputes, headquartered in the World Bank. On the other hand, Uruguay has signed treaties for the promotion and reciprocal protection of capital investments with several countries, such as the United States of America, Germany, Spain, Portugal, Sweden, United Kingdom, Belgium, Netherlands, Italy, France, Switzerland and Finland.

Foreign investors have the choice of seeking the protection of Law No. 14,179 on foreign investments. This law grants a convertibility guarantee for transfer of revenue and repatriation of capital to investors, generally for a ten-year period, according to the agreement signed between the investor and the government. Due to the freedom existing in Uruguay regarding exchange control, transfer of revenue and repatriation of capital, in practice foreign investors do not use the option of seeking protection of such law.

There are no restrictions for recruiting foreign personnel. Foreigners who are willing to develop activities as dependent workers in Uruguay must carry out a series of processes with the National Migration Office.

Both local businessmen and corporate organizations have a favorable attitude towards foreign investors and businessmen visiting Uruguay. Visitors can also expect a friendly welcome, both from banks and governmental authorities.

The geographical location of Uruguay, between Argentina and Brazil, with its traditional economic and social stability, as well as its role as financial center is an advantage when it comes to deciding on the location of industries which have MERCOSUR countries as consumer market for its products and suppliers of its raw material.

Multinational companies established in the neighboring countries are particularly in a good position to take advantage of the Uruguayan Free Trade Zones.

⁶ In the case of companies that own rural properties and agricultural developments integrated by partners that are legal entities, the holders of the latter must necessarily be individuals.

2. Supporting infrastructure

* Main features

- The strategic location of Uruguay in the center of MERCOSUR turns it into a natural communication link between the member countries.
- The port of Nueva Palmira, located at the southern end of the Paraguay-Paraná Waterway is a strategic location for the inflow and outflow of goods to the center of the continent.
- Telecommunication, energy and water services are available with no restrictions throughout the country, with very good technological level.

Uruguay offers competitive advantages to investors, among other things, due to its strategic geographic location and an appropriate support developing structure for passenger and merchandise transportation by sea, air and land. Uruguay is considered the second country in South America regarding infrastructure development (source: The Global Competitiveness Report 2011-2012, World Economic Forum).

2.1 Transportation system

Because of its geographic location, Uruguay is a permanent link for land and maritime communication between MERCOSUR countries, in particular Argentina and Brazil, a situation which derives from its strategic insertion among the richest and most developed areas of its neighboring countries.

Distance between Montevideo and the main cities of the region (in km)

Buenos Aires	250
São Paulo	1,970
Rio de Janeiro	2,400
Porto Alegre	870
Asunción	1,550
Santiago de Chile	1,900

Uruguay has developed competitive advantages in the provision of services. In particular, its transportation system has existing and developing infrastructure which enables it to meet the demand for transportation of the strong exchange flows between MERCOSUR member countries and the particular requirements of the regional countries for their international exchanges.

Uruguay's transportation infrastructure enables it to have its territory fully interconnected with the region with no limitations whatsoever.

Road transportation

The main road network, paved and appropriate to the current land organization model, is the heaviest in Latin America and the Caribbean, with 45 km of paved road for every 1,000 km² of area.

International freight transportation has no limits through several border crossings between Uruguay, Argentina, Brazil, Chile and Paraguay, with non-restricted fleet available.

Domestic passenger transportation is chiefly carried out by bus under the responsibility of private companies on a "regulated competition" basis, which has allowed a solution with high quality and efficiency standards.

Interconnections with neighboring countries are performed through several border crossings: there are three bridges on Uruguay River in the cities of Salto, Paysandú and Fray Bentos connecting with Argentina, while roads connecting with Brazil meet in the cities of Artigas, Rivera, Río Branco and Chuy.

Rail transportation

The railroad network in Uruguay is destined to the transportation of large volumes of raw material, such as agricultural and forest products and fuel, among others. Rail transportation rates are competitive with respect to road transportation in the mass demand segments attended by the railroad.

Currently, the main activity is grain transportation from the distribution plants which have railway siding towards ports or borders for export.

The Administración de Ferrocarriles del Estado (State Railway Administration - AFE) is the autonomous state companies open to the participation of private operators, responsible for operating freight and passenger railway transportation throughout the country.

The railroad network comprises three main trunk lines which communicate the capital city with the west coast of the country (agricultural and forest area, border with Argentina), the north zone (forest area, land border with Brazil) and northeast zone (rice area, land border with Brazil). The three lines meet in the Central Station, adjacent to the Port of Montevideo, which can be directly accessed from the railroad system.

At the same time, AFE's railroad network is connected with the networks of Argentina and Brazil. The connection with Argentina is through the International Bridge of Salto Grande which links Salto and Concordia. Such connection allows the railroad international transportation with Argentina, Chile and Paraguay. The connection with Brazil is through the networks which meet in the Border Crossing of Rivera-Livramento.

Regarding the passenger railroad transportation, the service is provided in two small short-distance inter-urban segments of little importance for the system.

Currently, the freight transportation capacity is limited by the conditions of the railroad infrastructure, the rolling stock and the lack of modern railroad systems, techniques and organization and operation methodologies. In order to improve the service maintenance, the State organized a public capital corporation governed by private law (Corporación Ferroviaria de Uruguay) which, associated with AFE, is in charge of carrying out the necessary investments for the reconstruction of track laying to adapt it to the international standards and allow a 40 km/hour transit with a freight capacity of 18 tons per axle. These investments make up the kickoff for the development of a railroad system part of the transportation integrated system, essential for economic growth.

Sea and maritime transportation

The country's most important port is in Montevideo welcoming maritime lines of the entire world and concentrating exports, imports and traffic trade. It is the first and only terminal in the Atlantic coast of South America which operates under the free port system.

The port of Montevideo –where the public terminal coexists with the private terminals, is in clear expansion and it is one of the greatest hubs for goods distribution of the region.

On the other hand, the port of Nueva Palmira on Uruguay River is the headwaters of the most important river transportation system of South America. The port of Nueva Palmira is located at the key point of the Paraguay-Paraná Waterway, 3,443 km long, which is connected to the Río de la Plata and through the latter to the Atlantic Ocean. Nueva Palmira is outlined as one of the main terminals for the conveyance of goods of the region to the world and it accommodates both a public terminal and several private terminals.

Air transportation

The main airport facilities are located between Montevideo and Punta del Este, i.e. the areas with the greatest concentration of population and tourist infrastructure of the country. Carrasco International Airport, the new passenger terminal of which was inaugurated by the end of 2009, is located at the east of Montevideo, 18 km from downtown, and is the main passenger and freight air terminal of Uruguay. The inter-continental coverage provided by the Airport is carried out through 14 international airlines which render regular passenger and freight services on a daily basis.

The Airport of Laguna del Sauce, 15 km from the city of Punta del Este, recently had its facilities and runways remodeled under private investment on a concession basis.

2.2 Telecommunications

Telecommunication services have a wide coverage throughout the national territory. Except for fixed telephony services (provided by the state company, ANTEL), the other services are rendered by public and private operators on a competition basis.

All activities regarding telecommunications are regulated and controlled by the Unidad Reguladora de Servicios de Comunicaciones (Communication Service Regulatory Unit - URSEC), which is oriented to the extension and globalization of service access, promotion of competition, control of the persistent monopoly activities, application of tariffs reflecting economic costs, promotion of investment at optimum levels and protection of users' rights.

Some indexes which show the progress in the telecommunications sector in Uruguay are shown below.

- Digitalized telecommunications: 100%
- Teledensity in fixed telephony: 29 lines every 100 inhabitants
- Teledensity in mobile telephony: 141 lines every 100 inhabitants
- Internet users: 61 every 100 inhabitants

Sources: Unidad Reguladora de Servicios de Comunicaciones (URSEC) and Grupo Radar.

2.3 Power

The primary basic power sources in Uruguay are hydroelectricity, gas and oil.

Liquid fuels

The Administración Nacional de Combustibles, Alcohol y Portland (National Fuel, Alcohol and Cement Administration - ANCAP) has the monopoly for the import and refining of crude oil and the production, export and import of by-products. Since Uruguay has no fossil fuel reserves, the supply in the national territory is entirely imported. Imported crude oil is processed in ANCAP's refinery.

In 2010, 43% of the final energy consumption by source in Uruguay corresponded to oil by-products.

DOMESTIC DEMAND FOR OIL BY-PRODUCTS (2011)	
- Gas Oil	51%
- Gasoline	22%
- Fuel Oil	16%
- LPG	8%
- Asphalt	1%
- Other	2%

Source: Dirección Nacional de Energía y Tecnología Nuclear (Department of Energy and Nuclear Technology - DNETN)

At the same time, the main consumer sector of oil by-products is transportation, followed by the residential and industrial sectors. It is worth pointing out that as of 2009 liquid fuels for automotive use are complemented by biofuels by law, through the mixture of biodiesel with gasoil and ethanol with gasoline. Although ANCAP is in charge of carrying out such mixtures, ethanol and biodiesel are supplied by companies governed by private law, provided the product meets the corresponding quality standards.

Natural gas

Uruguay has no fossil energy sources and it imports all the oil and natural gas it consumes. Currently, all the countries of the region are interconnected by export gas pipelines and Argentina is the supplier country of natural gas to Uruguay.

Natural gas supply chains in Uruguay are made up of gas pipelines and distribution networks operating at low pressure and have greater territorial extension. Transportation facilities supply gas to large users and distribution networks, from residential, commercial and industrial final consumers are supplied for low or medium-consumption.

Electricity

Power generation in Uruguay is carried out by Administración Nacional de Usinas y Transmisiones Eléctricas (National Administration of Power Plants and Electric Transmissions - UTE) and by private industrial generators for personal use and sale to UTE. The main input for generation is hydro-energy, followed by fuel oil, gasoil and biomass to a lesser extent. In 2009 the country also began to implement the generation of wind power.

The installed capacity is 2,707 MW. Electricity is mainly generated in hydroelectric plants. In 2011, 68% of the electricity was hydro generated, 31% thermal generated, and 1% wind generated. In 2010, hydro generation reached 83%. Uruguay is also part of an energetic connection with the other countries of the region and when it deems it convenient, it imports electricity from Brazil and Argentina. 98% of urban houses have access to electric power.

2.4 Drinking water and sanitation

Uruguay is the only country in Latin America that has achieved an almost universal coverage regarding the access to safe drinking water and appropriate sanitation, with high quality services. Due to these achievements, the government priority is to improve service efficiency and extend the access to sewage system (where appropriate) in areas where on-site sanitation is being used.

Drinking water and sanitation services are provided by the public company Obras Sanitarias del Estado (National Sanitary Services - OSE) and are available throughout the country with no restrictions whatsoever. Access to drinking water sources covers 98% of the population. Based on its excellent level of drinking water coverage, Uruguay has practically eradicated epidemic outbreaks and waterborne diseases and it is the only country of America that did not report cholera cases in the pandemic which took place in the continent between 1991 and 2000. 81% of the urban population has collective sewage service.

3. Financial system

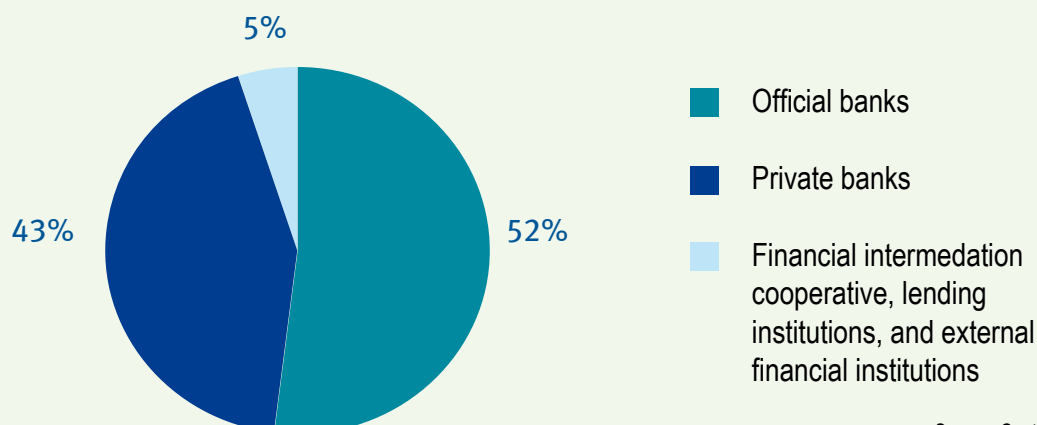
* Main features

- Banking and financial activities are governed by the Central Bank, which has the power to authorize the establishment of new entities.
- A wide range of banking services is available with no limitation for foreign investors.
- Off-shore operations have a significant tax exemption.
- Bank secrecy is protected by law.
- Explicit deposit insurance.
- There are no limits on capital inflow or outflow or exchange control on foreign exchange operations.
- International financial center: Uruguay meets the requirements of an international financial center, in particular for MERCOSUR and the region.

3.1 Banking system

The financial intermediation sector in Uruguay is made up of 14 business banks, six lending institutions, one financial intermediation cooperative and six external financial institutions. Private and public commercial banks have the biggest stake in the market.

Assets participation in the financial system (December 2011)



Source: Central Bank of Uruguay

State banks are Banco de la República Oriental de Uruguay (BROU) and Banco Hipotecario de Uruguay (BHU). The first one operates as a State commercial bank and as a manufacturing and agricultural promotion bank. On the other hand, the BHU finances the purchase of houses.

Commercial banks provide two interrelated types of activities. The first activity is the essence of financial intermediation, i.e., deposit raising from public savings to channel that mass of resources granting credits. Commercial banks also render other services to their clients (bonds, collaterals and guarantees, international purchase and sale operations, foreign trade operations, investments, etc.).

Lending institutions are engaged with performing all kinds of financial operations, except for those reserved to banks and banking cooperatives, such as the opening of checking accounts. On the other hand, they are authorized to raise funds, both from residents and non-residents.

Financial intermediation cooperatives are institutions that –as their name thus indicate– are organized as cooperatives and are only authorized to provide banking services to their partners and have a distinguishing treatment regarding capital requirements and certain tax advantages with respect to commercial banks.

External financial institutions are off-shore institutions providing financial services exclusively to non-residents under a particular regulatory framework. They are fully tax-exempt.

3.2 Central Bank

Financial system control is responsibility of the Central Bank of Uruguay (BCU), which has a large number of duties. Typically, the BCU is the public entity that regulates the monetary system through the issue, management of international reserves and supervision of exchange operations.

It is also in charge of other controls currently under the responsibility of the Office of the Superintendent of Financial Intermediation Institutions, the Office of the Superintendent of Insurance and Reinsurance, the Control Area of Administrators of Social Security Savings Fund (AFAPs) and the Stock Market Area.

In December 2002, the Office of the Superintendent of Banking Savings Protection was created by law as a decentralized entity of the BCU with the purpose of guaranteeing the financial system's deposits refund. Such rule created a Banking Deposit Security Fund financed by financial institutions and managed by the abovementioned Superintendent. This way, an explicit deposit insurance mechanism was formalized for the purposes of indemnifying depositors in the event of bankruptcy.

3.3 Stock market

Apart from resorting to the banking market, fund deficit and surplus agents in Uruguay may resort to the stock market, although the volume of transactions carried out in this market is small.

The Uruguayan stock market comprises the Montevideo Stock Exchange (BVM) and the Bolsa Electrónica de Valores S.A. (BEVSA), the latter being exclusively used by banks and other financial institutions. Primary market operations basically deal with the issue of Certificates of Deposit of the private sector with BEVSA (the public sector issues over-the-counter). In the secondary market, government security operations prevail.

At the same time, there are regulations on different mechanisms to facilitate credit access for the non-financial private sector which can be channeled by the BVM, such as the issue of Negotiable Bonds (NBs) and Trusts.

3.4 Insurances

The insurance market was demonopolized in 1994. From then on, several foreign companies began operations in Uruguay competing with Banco de Seguros del Estado (State Insurance Bank - BSE), which has led to the diversification of the products offered in the market and a reduction in the policy prices.

The establishment and operation of insurance and reinsurance companies in Uruguay is controlled by the BCU. Reinsurance companies need not be established in Uruguay to operate.

3.5 International financial center

Uruguay's existing conditions regarding capital inflow and outflow freedom, the inexistence of exchange controls and the existing tax benefits turn Uruguay into an attractive international financial center.

The exchange market is very active, especially for US-dollar operations with non-residents, in particular with Argentina and Brazil.

3.6 Financing of companies

Both branches and local companies can get financing from local banks, foreign loans or their headquarters or shareholders. Tax benefits are treated on a case-by-case basis. Therefore, it is convenient to perform a thorough tax planning.

4. Intellectual rights, trademarks and patents

* Main features

- Copyright, trademarks and patents are specifically protected by Uruguayan laws.
- Under certain conditions, foreign investors can assert the rights registered in their country of origin.

Copyright

Under the Literary and Artistic Property Law, copyright protection in Uruguay includes literary, scientific and artistic works during a certain period. Within this period, the author or copyright assignee has certain exclusive rights over the registered work, which is protected against unauthorized use or the infringement of the rights thus acquired.

Copyright protection lasts for the life of the author plus an additional term of forty years as from the author's death. If the work is not published, represented, executed or exhibited within ten years as from the author's death, it becomes a public domain work and it can be freely used. Rights acquired by legal persons are protected for a term of forty years.

Foreign works are also protected by law; however, in such cases, compliance with the corresponding laws of the country of origin must be certified.

Copyrighted works are registered with the National Library Copyright Office. Such registration is optional and failure to register therewith does not prevent in any way the enjoyment and exercise of the rights recognized by the Literary and Artistic Property Law.

Our country has ratified the Berne Convention for the protection of Literary and Artistic Works, by virtue of which the authors of one signatory country who publish their works in Uruguay enjoy the same rights granted to national authors.

The foregoing provisions apply to software and creative work in electronic and IT areas from foreign countries.

Trademarks

A trademark is a distinctive sign used to distinguish the products or services of a natural or legal person from those of other persons. These signs can be visible or non-visible and also include slogans. Registration thereof with the National Industrial Property Office (DNPI) is required for the purposes of acquiring the exclusive right over its use, as well as the protection granted to the registrant for a term of ten years, extendable for successive periods of ten years indefinitely.

The exclusive property of a trademark is only acquired with respect to such products as actually applied to. Therefore, a registered trademark may only be used by third parties if said use is related to other products.

The property of registered trademarks can be assigned to third parties by means of private agreements or public deeds, but it is always convenient to register the transfer before the DNPI for the purposes of being protected against the violation of the rights thus acquired.

The use of trademarks can also be assigned by means of a license agreement, which must be registered with the Trademark License Register - managed by DNPI. Unless otherwise agreed to, the transfer or sale of a commercial establishment is expected to include its trademarks.

Patents

An industrial patent is a set of institutes which protect the rights deriving from inventions, creation of utility models and creation of industrial designs or models.

Invention patents obtained in Uruguay grant the exclusive right of use to their holders for a non-extendable period of twenty years. Once this period elapses, the invention becomes part of the public domain. New inventions of products or procedures which involve an inventive activity and are subject to industrial appreciation shall be considered patents. If the holder does not use the invention patent within three years as from the date of registration thereof, he can be forced to assign the rights, whether exclusively or not, in favor of an interested third party. The three year term can be extended to five years if the non-use of the patent is due to an event not attributable to the holder's will.

Once the utility models (every new use obtained from tools, work instruments, implements, devices, equipment or other known objects which involve an improvement in their use or results) and industrial models or designs (visible form which, when included into a utility product, gives it a different aspect or appearance) are registered, their holders are furnished with the exclusive right of use for a ten-year period extendable only once for five years.

For the purposes of enforcing the exclusive rights of use mentioned above on third parties, inventions, utility models and industrial models or designs must be registered with the DNPI.

The Paris Convention for the Protection of Industrial Property ratified by Uruguay provides the persons of the signatory countries of the Convention with a priority right on an invention, a utility model or an industrial model registered in one of said countries regarding applications submitted by other persons for the use thereof in Uruguay.

For the purposes of enforcing this right, registration with the DNPI within the corresponding term (twelve months for invention patents and utility models and six months for drawings or industrial models and for brand names or trademarks) –which is calculated as from the registration in the country of origin, is required.

Beyond these special provisions, foreign patent owners or holders can obtain the validation thereof in Uruguay by means of an application submitted to the DNPI within three years as from the granting thereof in the country of origin. Validated patents are protected for a period of fifteen years, less the protection term they had enjoyed in the country of origin. Foreign patent nullity and voidance results in the validation patent nullity and voidance; however, this is not the case for the expiration term of each patent since they are independent.

Chapter 3

INVESTMENT AND FOREIGN TRADE PROMOTION SYSTEM



1. General Investment Regime

* Main features

- Investments in Uruguay are declared of national interest by law.
- Foreign investors are granted the same incentives as local investors and there are no tax discrimination or restrictions for transferring profits abroad.
- There are general and automatic incentives to investment.
- Projects promoted by the Executive Branch may be granted special tax benefits.
- Companies established in Free Trade Zones areas are granted large tax exemptions.

1.1 Investment Promotion Law

The investment promotion system is provided for by Law No. 16,906, whereby the promotion and protection of investments made by national and foreign investors in the national territory are declared of national interest. Two groups of tax incentives are classified in this law: general incentives to investment and incentives regarding specific investments.

On January 9, 2012, was passed the regulatory Decree of the General Investment Promotion Regime amending the past Decree No. 455/007, and came into force after its publication.

1.1.1 General incentives to investment

The beneficiaries of these tax incentives are taxpayers of Corporate Income Tax (IRAE) and Agriculture-Livestock Goods Sales Tax (IMEBA), who carry out industrial or agricultural activities.

The Investment Law establishes the following automatic benefits:

- Exemption from Wealth Tax (IP) on moveable goods directly used in production and equipment for electronic data processing.
- Exemption from Value Added Tax (IVA) and Excise Tax (IMESI) on imported goods and refund of VAT included in local purchases of moveable goods for production and equipment for electronic data processing.

Additionally, the Executive Branch has the power to exempt the following fixed assets from Wealth Tax (IP):

- Fixed improvements to industrial and agricultural activities.
- Intangible assets such as trademarks, patents, industrial models, privileges, copyrights, goodwill, trade names and concessions granted for exploration, crops, extraction or exploitation of natural resources.
- Other goods, procedures, inventions or creations that incorporate technological innovation and facilitate technology transfers.

1.1.2 Incentives regarding specific investments

Companies in any activity sector that present an investment project that is in turn promoted by the Executive Branch may access additional benefits. These stimulus measures are included in the new regulations of the investment promotion system (Decree No. 002/012) and the General Operating Criteria defined by the Enforcement Committee (COMAP).

The benefits for the companies whose investments are promoted by the Executive Branch are as follows:

Wealth Tax (IP)

- Moveable fixed assets: exemption from Wealth Tax on moveable fixed assets that cannot be exempted under other benefit systems. The period of the exemption is extended to the entire useful life of these goods.
- Civil works: exemption from Wealth Tax on civil works for up to eight years if located in Montevideo and up to 10 years if located outside the capital.

Import taxes and fees

Exemption from import taxes and fees on moveable fixed assets that cannot be exempted under other benefit systems and are declared non-competitive to the national industry by the Ministry of Industry, Energy and Mining (MIEM).

Value Added Tax (IVA)

Return of Value Added Tax for local acquisition (duly documented) of materials and services used in civil works.

Corporate Income Tax (IRAE)

Exemption from Corporate Income Tax (IRAE) for an amount and maximum term resulting from the application of a matrix of objectives and indicators. In accordance with Decree No. 002/012, eligible investments to obtain benefits include the acquisition of the following fixed assets:

- Moveable fixed assets directly involved in the company's activity (excluding non-utility vehicles and moveable assets for residences).
- Fixed improvements (excluding those for residences).
- Intangible goods determined by the Executive Branch.
- Seedlings and costs of implementation of multi-fruit trees and shrubs, as long as they are incurred in the first year of the investment schedule. The COMAP defines the maximum amount of investment per hectare and the relevant conditions.

In addition, past investments made in the six months prior to the presentation of the project are considered eligible.

The exemption amount is determined on the tax to be paid, not on taxable income. The exempted tax shall be equivalent to a percentage of the amount invested in fixed or intangible assets included in the promotional declaration and it cannot exceed 100% of the amount invested.

In the particular case of Corporate Income Tax exemptions, the granting of benefits is subject to the score obtained in the objectives and indicators matrix developed by COMAP and based on information supplied by the investor. The indicators included in the matrix and their weight coefficients are the following:

- Employment creation: 30%
- Decentralization: 15%
- Increase in exports: 15%
- Use of clean technologies or Investment in research and development: 20%
- Sector indicator: 20%

Each indicator is scored with an integer from 0 to 10 points. The final overall value is the weighted sum of each of the indicators.

Given the formula for calculating the amount of the benefit, the Corporate Income Tax exemption cannot be less than 20% of the amount invested. The time within which the company may enjoy this exemption is calculated according to a fixed formula and cannot be less than 3 years.

Users of industrial parks are eligible for the benefits granted by Law 16,906. Additional benefits:

- The final overall value obtained is increased by 15%.
- They have a tax credit for employer contributions associated with incremental jobs promoted by the project over a period of 5 years.

Procedure to apply for benefits

Four copies of the request must be presented to the Private Sector Support Unit (UnASeP) containing all information required by COMAP.

The investment project is sent to COMAP, which determines the ministry and organization that corresponds to the evaluation in accordance with the nature and activity of the project. After the project is evaluated by the corresponding ministry, COMAP establishes recommendations for the case.

The evaluation period COMAP has to establish rulings is of 60 working days from the time the project is received by COMAP. The period may be extended if more information is required.

In the case that the time period expires without a ruling by COMAP, it shall be understood that COMAP has recommended that the Executive Branch grants the benefits established for the project.

Once COMAP makes its ruling (or when there is a default approval), the Executive Branch has an undetermined period of time to sign the resolution that grants the benefits to the company.

After the investment project receives promotional status, COMAP will monitor the project. The company must present accounting statements with an audit report for all projects and a sworn declaration with information for the analysis of compliance with indicators for benefit application.

Note: In the case of investment projects of significant economic relevance involving amounts equal or superior to U.I. 7 billion (approximately US\$ 785 million as at 07/31/2012), Decree No. 477/08 establishes the possibility of making a petition to the Executive Branch in order to obtain higher tax benefits than the ones granted by Decree No. 002/012. In order to apply, the concerned party has to address in written form the Secretary of the Presidency of the Republic, who will evaluate the investment project with the related ministries and will prepare a Project of Investment Contract for the consideration of the Executive Branch.

1.2 General and automatic incentives

Incentives for scientific and technological research and development

Expenses incurred directly by the companies or the contributions made by the companies to public or private institutions to fund technological and scientific research and development projects will be computed one time and a half the equivalent to its actual amount for Corporate Income Tax purposes. For the purposes thereof, a request must be submitted to the Enforcement Committee (COMAP) created by Law No. 16,906.

Exemption to profit reinvestment

Companies investing in specific assets shall be benefited with Corporate Income Tax exemption regarding a percentage of their cost. This percentage goes up to 40% in the acquisition of machines and industrial facilities, agricultural equipment, fixed improvements in the farming sector, utility vehicles, personal property for equipping and re-equipping hotels, motels and hostels, capital goods intended to improve the rendering of services to tourists in entertainment, recreation, information and transportation areas, equipment needed for electronic data processing and for communications, phosphate-based fertilizers used for setting and re-fertilizing permanent meadows (prior certification of their destination), etc.

The percentage is 20% for construction of hotels, motels and hostels and industrial buildings or their expansion. Income exemption deriving from this benefit may not surpass 40% of the net income for the year - net of the exemptions deriving from special regimes (should any surplus result, it may be rolled forward to the next two fiscal periods) and income may not be distributed; a new reserve must be created for the purposes of capitalization.

Exemption to investments in industrial plants and equipment

Personal property of industrial equipment which is directly involved in the productive cycle is computed for 50% its fiscal value for Wealth Tax (IP) purposes.

Moreover, capital goods directly employed in the productive cycle and equipment used for data processing are exempted from said tax.

Personal property employed in agricultural activity (improvements not included), is also considered exempt for Wealth Tax purposes.

Incentives to personnel training

Expenses incurred in training personnel on priority areas may be deducted from Corporate Income Tax for an amount equivalent to one time and a half their actual amount.⁷

1.3 Industry-specific tax benefits

Agricultural machinery

Decree No. 346/009, and subsequent Decree No. 006/010, declare promoted under Law No. 16,906 the manufacturing of agricultural machinery and equipment. The income derived from the manufacturing of agricultural machinery and equipment included in DGI's resolution No. 305/979, and complementary resolutions, are exempt from Corporate Income Tax as follows: 90% for the fiscal years between 2009 and 2014 and 50% for the fiscal years between 2015 and 2019. In addition, Decree No. 220/998 states that the manufacturers of these goods are entitled to a refund for the VAT included in the goods and services that compose the agricultural machinery and equipment.

According to Decree No. 340/996, the terminals (assembly companies) can import supply kits at a 2% tariff as long as the assembly process is fully completed in the country (CKD).

Biofuel production

Biodiesel and ethanol producing companies which are authorized by the Ministry of Industry, Energy and Mining (MIEM) may have access to Wealth Tax exemption on fixed assets and to 100% Corporate Income Tax exemption for a term of 10 years.

Communication industry

Journalism, broadcasting, television, theatrical and film distribution companies are exempt from taxes levying their imports, capital, sales, tickets, acts and businesses, except for Corporate Income Tax.

⁷ Currently, the regulation of the Executive Power establishing the areas defined as having priority is pending

Customer service centers

The activity carried out by remote customer service centers (services rendered by telemarketers receiving or making phone calls, internet messages and other kind of communication channels) was promoted under Law No. 16,906 by Decree No. 207/008. The income generated in such activities are exempt from Corporate Income Tax for a period of 10 years, provided that at least 150 qualified and direct positions be created and that the services be completely used abroad by non-residents.

Electronic industry

The electronic industry (production of electronic and electric equipment, logic controls, computers, telecommunications equipment, measuring devices, medical equipment, household appliances) was also promoted under Law No. 16,906. It has a Corporate Income Tax exemption (in decreasing segments until 2018) under condition that at least 150 qualified and direct positions be created and that a supplier development program be implemented.

External financial intermediation

Financial companies organized for the exclusive purpose of carrying out financial intermediation operations abroad are exempt from certain national taxes (for instance, Wealth Tax) and are subject to a Corporate Income Tax-estimation regime on an alleged-amount basis (similar to the regime applicable to companies developing offshore trading activities).

Forestry

The natural and artificial forests in forestry priority areas declared as “protective” and “yielding” included in quality wood projects determined by the Ministry of Livestock, Agriculture and Fishing (MGAP), enjoy the following tax benefits:

- Income derived from their exploitation is not considered for the computation of the Corporate Income Tax.
- Their respective values and sizes are not computed for the determination of the taxable amount for the Wealth Tax.
- Exemption from rural real estate taxes (tax on land).

Graphic industry

Printing and selling of books, brochures, literary, scientific and artistic magazines, and educational materials are tax-exempt, except for Corporate Income Tax.

Hydrocarbon exploitation

All hydrocarbon-related activities, including the exploration, exploitation, transportation and commercialization stages are exempt from all existing and future taxes. Companies contracting hydrocarbon exploration and exploitation works are only subject to Corporate Income Tax.

Maritime and air navigation

Maritime and air navigation companies are exempt from Corporate Income Tax. For foreign companies, the exemption shall only apply when in their countries of origin Uruguayan companies with their same purpose enjoy the same exemption.

Power generation

Decree No. 354/009 promotes the following activities:

- a) Electrical power generation from non-traditional renewable sources.
- b) Electrical power generation through cogeneration.
- c) Energy production from renewable sources.
- d) Transformation of solar energy into thermal energy.
- e) Conversion of equipment and incorporation of processes for the efficient use of energy.
- f) Prospection and exploration for fossil fuel deposits and other deposits of minerals or elements suitable for industrial power generation.
- g) Services rendered by Energy Service Companies registered with the Department of Energy and Nuclear Technology (DNETN) and classified as category A.
- h) National manufacturing of machinery and equipment for the aforementioned activities.

The net income arising in such activities are exempt from Corporate Income Tax (in decreasing segments until the year 2018, 2020 or 2023, depending on the category).

Shipbuilding industry

Importing of materials, raw materials, capital goods and other items needed to build dockyards, dry docks and dams, as well as goods required for building, recovering, transforming or modifying ships are exempt from all taxes, even VAT. Moreover, according to Decree No. 58/009, the shipbuilding industry (building, maintenance and repair of ships and water vehicles, production of sets and subsets for ships and water vehicles) was promoted under Law No. 16,906, which implies Corporate Income Tax exemption (in decreasing segments until 2018) under condition that at least 150 qualified and direct positions be created and that a supplier development program be implemented.

Software

Decree No. 150/007 exempts the income obtained from software activities and related services determined by the Executive Branch, as long as the goods and services originating from the activities are consumed abroad.

Tourism industry

Pursuant to the Industrial Promotion Law, the Executive Branch declared investments in Holiday Resorts (Decree No. 175/003) to be of national interest whereby they enjoy several tax benefits apart from those established by the Investment Promotion Law.

- Credit for Value Added Tax (VAT) included in domestic purchases of goods and services employed in the construction, improvement or enhancement of the Holiday Resorts, as well as VAT exemption for the import of goods for the foregoing purpose.
- Wealth Tax exemption at the closing of the financial year corresponding to the works' initial stage and during 10 subsequent years for investments in land, infrastructure and civil works regarding Holiday Resorts, improvements or enhancements thereof.
- Wealth Tax exemption for fittings destined to Holiday Resorts at the closing of the financial year corresponding to their organization and for four subsequent years.
- Import tax exemption for equipment required by the Holiday Resort.
- Accelerated depreciation of construction, improvement and enhancement of Holiday Resorts within a term of 15 years and of investments in fittings within a term of 5 years for Corporate Income Tax purposes.

An investment project must be submitted in order to have access to these benefits. The general regime provided for by Decree No. 002/012 is another possible alternative.

Vehicles and auto parts

According to Decree 316/992 and complementary regulations, companies that export automotive products receive a 10% rebate of the exports' FOB value through credit certificates issued by the government that can be used for tax payments or to import automotive vehicles for the domestic market with a preference in the global tariff of up to 13 points. Exporters can sell the certificates to vehicle import companies for the domestic market.

According to Decree 340/996, assembly companies can import kit supplies with a 2% tariff as long as the assembly is fully completed in the country (CKD or Complete Knock Down).

1.4 Incentives to immigration

Policies which favor foreign investments also convey incentives to immigration, as well as to Uruguayan citizens who lived abroad for three years and want to establish themselves in the country, entering capital to be invested in activities which serve economic, social or cultural development. Under certain conditions, the introduction of capital goods for the purposes thereof as well as personal effects, goods and chattels and household appliances are duty-exempt.

1.5 Free Trade Zones

The promotion and development of Free Trade Zones in order to foster investments, export operations, employment and international economic integration have been declared national interest by law.

Free Trade Zones may be public or private and in both cases they are authorized and monitored by the National Direction of Free Trade Zones. Currently, there are Free Trade Zones in Canelones, Colonia, Colonia Suiza, Florida, Fray Bentos, Libertad, Montevideo, Nueva Helvecia, Nueva Palmira, Punta Pereira, Río Negro and Rivera.

Free Trade Zones are basically established to develop the following activities:

1. Commercialization, storage, conditioning, classification, fractioning, mixing, assembling, disassembling and other operations which do not involve industrialization of goods and raw materials.
2. Installation and operation of manufacturing establishments.
3. Rendering of all kinds of services, both within the Free Trade Zone and to other countries, including professional, financial, IT, repair and maintenance services.

Users of Free Trade Zones may also provide the following services to non-duty free areas: e-mail boxes; outreach education; issuance of digital signature certificates and international call center, except in case these services are intended to be used only or mainly in the national territory.

Moreover, software production services as well as IT advice and IT training may also be rendered from the Free Trade Zone to non-duty free areas (although in this case both activities shall be subject to the general taxation system).

Corporations operating as users of Free Trade Zones enjoy the following benefits:

- Exemption from all national taxes, including the Corporate Income Tax. Payment of dividends by the user of the Free Trade Zone to its shareholders domiciled abroad is not subject to withholding tax.
- The exemption is not applicable to social security contributions, except for foreign personnel who may choose not to contribute.
- 75% of the personnel must be Uruguayan citizens.
- Payment of royalties, interests, technical services and dividends made to other countries by users of the Free Trade Zones are not levied by Non-Residential Income Tax (IRNR) withholding.
- Assets going in and out the Free Trade Zone are tax-exempt.

It is worth mentioning that in Free Trade Zones, State monopolies regarding industrial and commercial service do not apply.

The introduction of assets to the Free Trade Zones from national non-duty free territory is regarded as exportation. Moreover, assets going out the Free Trade Zones are tax-exempt and if assets are introduced into national non-duty free territory they are regarded as imports and are subject to the relevant tariffs.

In the same way, goods coming from the Free Trade Zones which are introduced into other countries shall pay the relevant taxes. In the particular case of MERCOSUR, the goods are subject to the common external tariff applicable to goods being introduced from outside the MERCOSUR area. This tariff treatment has reduced the advantages of products industrialized in Free Trade Zones compared to the products industrialized in the national non-duty free territory for the purposes of their introduction into MERCOSUR countries.

However, the large exemption applicable to companies operating in Free Trade Zones is still a significant advantage for the investor and it will be assessed on a case-by-case basis.

1.6 Public-Private Partnership

On July 19, 2011, Law No. 18,786 was unanimously approved, which established the regulatory regime applicable to the Public-Private Partnership Contracts. Through this mechanism over US\$ 2 billion in public works are expected to take place. The first endeavors to develop will be the construction, rehabilitation and maintenance of roads, a new jail and a convention center.

Public-Private Partnership Contracts

It involves contracts in which a Public Administration requests the design, construction and the operation of infrastructure or any such services from a private party, for a given period and in addition to the financing.

Scope of application

The Law allows contracts to be held in the following infrastructure areas:

- Roads (including rural roads), railways, ports and airports;
- Energy infrastructure;
- Waste disposal and treatment;
- Social infrastructure, including prisons, health centers, educational centers, social dwelling, sports centers, equipment and urban development.

Contracting procedure

- 1. Process initiation.** A Public-Private Partnership contract may be initiated by means of a public or private initiative that must be presented before the National Development Corporation (Corporación Nacional para el Desarrollo).
- 2. Preliminary evaluation.** Before contracting, a project assessment should be undertaken, in terms of feasibility and convenience, including technical, legal, economic and financial analysis.
- 3. Approval of preliminary evaluation studies.** The preliminary evaluation studies and the general terms and conditions must be presented to the Planning and Budget Office and the Ministry of Economy and Finance.
- 4. Public call for tender.** The Public Administration will be able to stipulate any competitive method (including invitation to tender and bids) in order to carry out the public call for tender. It will also be able to apply a competitive dialogue process in case of more complex projects.
- 5. Submission of biddings.** All biddings should include the required and necessary elements in order to undertake the project.
- 6. Assessment of biddings.** The criteria for evaluation (e.g. quality, costs, deadline, warranties, etc) for biddings should be defined in the bid specifications.
- 7. Award of biddings.** The Technical Committee will classify by decreasing order the submitted biddings according to the assessed criteria. The contracting Public Administration will stipulate the interim award by sustainable resolution, which should notify all tenders and establish the final terms of the contract. The Court of Audit will stipulate 30 calendar days to issue the decision, effective as of the reception of the notification file. Once the due date expires without the Court of Audit issuing a decision, it shall be deemed as a favorable ruling. The Contracting Public Administration will stipulate the final award.

Warranties

Bid security. It must be withheld as far as they proceed with the disposition of the performance security or in case all bids are rejected. It will be dominion of the contracting Public Administration in the event that the company withdraws without just cause its proposal prior to the award.

Performance security. The awarded bidder may assign the amount of the bid security to the performance security or proceed to a new disposition. If the contract is modified, by means of price alteration, the warranty should be adjusted to maintain certain coherence.

The contracting Public Administration will have priority over any other creditor.

Enforcement regime

Indemnities. In the event of the non-compliance of the contractor, the latter will have to indemnify the Public Administration for any consequential damages. The indemnity must first become effective over the warranty.

Provisional measures. Public Administration may request provisional measures to ensure the efficiency of the enforcement regime.

Right of retention. Public Administration may retain, from payments entitled to perform, the necessary sums to proceed with the appropriate sanctions.

Contract modifications

The Public Administration may modify the contract with a preliminary report from the Planning and Budget Office and the Ministry of Economy and Finance and with the intervention of the Court of Audit. Particularly, it may modify the characteristics or amount of works or hired services in order to improve or increase service standards or established technical standards, or for any other reasons of public interest duly substantiated. The contractor will be entitled to economic compensation which may correspond for any additional costs.

Contract renegotiation

Either party may request from the other the renegotiation of the contract when:

- The Public Administration modifies the contract and the following is proved:
 - The modification was carried out after the signature of the contract and could not have been foreseen;
 - The modification significantly alters the economic-financial equation of the project;
 - The modification is specifically relevant in the scope of the contract.
- Force majeure.
- Compliance with any of the foreseen specifications in the contract allowing its revision and the parties not reaching an agreement upon contract modification.

Contract termination

Contracts will be terminated based upon the following criteria:

- Compliance with the contract in accordance to the terms and conditions;
- Expiration of the stipulated due date;
- Unilateral and anticipated resolution due to non-compliance from the contractor;
- Recovery stipulated by the contracting Public Administration due to reasons of public interest;
- Impossibility of compliance due to measures adopted by the State;
- Impossibility of compliance due to contractor bankruptcy;
- Any grounds impeding the contractor compliance;
- Impossibility of compliance of the contractor due to force majeure or unforeseeable circumstances;
- Mutual agreement between the Public Administration and the contractor;
- Any other case expressly foreseen in the contract.

Public Administration intervention

If a unilateral and anticipated resolution is stipulated due to non-compliance by the contractor, or if the contractor withdraws from the project, the Public Administration can take charge, for the necessary period of time, of the construction or exploitation of the facility. For all intent and purposes, the Public Administration will designate an auditor.

Settlement of disputes

To settle any dispute that may arise, the interested parties will have to appeal to arbitration. The arbitrator will be designated by mutual agreement between the parties. The award of the arbitration court will be unappealable.

2. Foreign Trade

* Main features

- The Uruguayan economy is free and open, there being no restrictions to export and import operations. The exchange market is free, there being no kind of restrictions for foreign trade operations.
- Uruguay is part of a Customs Union with Argentina, Brazil, Paraguay and Venezuela.⁸ MERCOSUR has also entered into free-trade agreements with other countries.
- There are Free Trade Zones and Free Ports regimes which allow having storage areas free of taxes to export to Uruguay or to re-export to other countries.
- Import tariffs range from 0% to 23% for goods coming from outside MERCOSUR.
- There are Temporary Admission and Draw Back regimes which allow importing materials for exporting industry without paying tariffs or refunding thereof.
- There are no encumbrances to export operations⁹ and the incidence of indirect taxes is eliminated through indirect tax refunding regimes.

2.1 Imports

Restrictions to imports

In our country it is legal to import all kinds of goods;¹⁰ however, some imported products are subject to security, phytosanitary and other controls, which are similar to those controls the investor is familiar with in its country of origin.

Documents

Imported goods must be accompanied by the regular documents used in foreign trade: commercial invoice, bill of lading, certificate of origin, etc.

The abovementioned documents are drafted in observance of MERCOSUR Common Nomenclature adjusted to the Amendment to the Harmonized Commodity Description and Coding System. Imports are channeled through national customs and the participation of a Foreign Trade Agent is mandatory for processing purposes.

Duties

Regarding duties, Uruguay sustained a great effort to reduce duty levels coming up with the birth of the Southern

⁸ Venezuela joined MERCOSUR in 2006, its inclusion as a full member came into effect on August 13, 2012.

⁹ Except for a 5% deduction for dry and salted bovine and ovine leathers, leathers and defleshed hides, pick and wet-blue leather.

¹⁰ Except for the import of used motorcycles and velocipedes, bodyworks and chassis and certain used vehicles -which is recurrently banned for periods of 180 days through successive decrees.

Common Market (MERCOSUR). Currently, the implicit duty (duty revenue/ imports ratio) is approximately 4%.

At first, goods entering the country from countries that are not members of MERCOSUR –made up of Argentina, Brazil, Paraguay, Uruguay and Venezuela– are subject to the payment of a Common External Tariff (AEC) ranging from 0% to 20%. However, there is an Exception Regime to the Common External Tariff (AEC) which consists of a list of products - the entrance to the region of which does not pay AEC but the tariff in effect in each country. In Uruguay, the Global Tariff (TGA) is applied, which is made up of the Single Customs Tax on Imports and the Import Surcharges which range from 0 to 23%.

In the case of goods coming from MERCOSUR member countries, their introduction is generally free from the payment tariffs, except for the goods included in the Adequacy Regime, the products of the Sugar Sector and the Automotive Sector, which still pay the import tariff valid in the country. The Adequacy Regime provides for a progressive reduction of tariffs in order to achieve the free movement of goods among member countries.

The tariffs are applied to the customs value of the imported products, determined according to the appraisal criteria established by the World Trade Organization (WTO). There are tariff exemption regimes for certain goods or sectors of activity; capital goods used in the industrial sector, hotel industry and forest activities are the main ones.

Origin

The general origin requirement adopted by MERCOSUR for the case of products manufactured with non-original supplies requires that supplies and final products be classified in different tariff categories or that the CIF value of the non-original supplies does not exceed 40% of the final product's FOB value.

Other import taxes

Apart from paying tariffs, the imports are subject to the Value Added Tax (VAT) at 22% rate, applicable to the customs value plus import surcharges corresponding to the operation.

2.2 Exports

Uruguay has an export promotion policy in place that is applied through varied instruments in terms of nature and scope, all of which satisfactorily comply with the regulations set forth in WTO's Code of Subsidies.

The main principle is freedom to export, there being neither encumbrances nor prohibitions whatsoever. As an exception, the export of some products coming from the agricultural industry is subject to the payment of taxes and non-tax allowances destined to supervisory organizations, such as the Uruguayan Wool Secretariat and the National Meat Institute, which have very low incidence.

Tax rebate

In terms of Value Added Tax, there is a special regime by virtue of which exports are VAT-exempt and whereby there is a mechanism that allows exporters to have VAT included in their purchase invoices refunded, thus avoiding the incidence of the tax on the exported product.

Moreover, there is an indirect tax rebate regime by virtue of which the exporter may have the domestic taxes which make up the cost of the exported product refunded. The amount to be refunded shall be a percentage of

the product's FOB value fixed by the Executive Branch.

Temporary admission

The import of supplies for the export industry is subject to a regime which allows importing without paying duties.

Manufacturing companies may enter duty-free raw materials, parts, spares, engines, packages and packaging materials, matrixes, molds and models, half-finished and intermediate products, agricultural products and inputs for the production process –not included in the final product but directly involved in the manufacturing of and in contact with the product to be exported.

For this, a prior authorization must be obtained and the final product must be exported within a term of 18 months (upon duly motivated request by the company, the term may be extended by the Executive Branch to 18 additional months). The permanent introduction of the goods may be authorized in some cases.

Draw-back

For some products, this regime allows the refund of import duties thus paid in the case of re-exportation, whether the products are being re-exported after they have been industrialized or on an “as is” basis.

Financing

There is an export financing regime in place which allows exporters to have access to credit at preferential rates, obtaining loans in dollars from the private financial system, depositing 10% or 30% of the funds with Central Bank of Uruguay (BCU).

Free port and port warehousing

In view of Port Law No. 16,246 of May 1992 –and subsequent regulations– Montevideo is the first terminal of the Atlantic coast in South America to operate under a “Free Port” system. This system is also applied to the commercial ports of Colonia, Fray Bentos, Nueva Palmira, La Paloma, Paysandú and Sauce.

The free port system allows the free movement of goods in ports and port terminals inside the Republic that are suitable to receive overseas ships without any need for authorizations and official processes. During their stay at the port customs area, goods are exempt from all import taxes or import-related taxes.

Apart from the abovementioned customs benefits, the movement of goods and the rendering of services carried out within the port customs area are all Value Added Tax-exempt. Moreover, goods placed under free port regime are not included in the taxable base for Wealth Tax purposes.

The Free Port regime represents one of the mainstays for Uruguay to be positioned as a logistic platform in Mercosur and as a center of distribution for goods in transit.

Chapter 4

BUSINESS TYPES



* Main features

- Foreign investors can adopt any type of business organization. The most frequently used are the Corporations and branches of foreign legal persons.
- A Corporation may have only one shareholder, while partnerships must have at least two.
- There are no previous requirements or mandatory permits for foreign investors.
- There are no restrictions in the repatriation of capitals or profits.
- Although the organization procedures may be complex, there are pre-organized Corporations which may be acquired and allow starting-up forthwith.

Uruguayan positive law gathers practically all the existing business types of the world, with the possibility of organizing a new legal entity and establishing a foreign company branch.

As for the organization of a new legal entity, the most frequently used business types are:

- Corporations (where corporate capital may be represented by registered shares or bearer shares)
- Limited Liability Companies

Other business types used are:

- Partnerships
- Limited Partnerships
- Joint Stock Companies
- Labor and Capital Partnerships
- De Facto Partnerships
- Cooperatives

Furthermore, Consortia and Economic Interest Groups (GIE) and, in the case of individual undertakings, single-member companies can also be organized. All the business types mentioned above and GIEs have legal status. Consortia and single-member companies lack legal status.

1. Corporations

Corporations (Sociedad Anónima - SA) is the most frequently used business type for developing business or industrial activities in general and almost invariably used by big-sized companies. The law also provides for the existence of Special Corporations which have the purpose of developing certain activities, with other organization and operation requirements than those set forth for regular Corporations.

MAIN ASPECTS OF CORPORATIONS TO BE CONSIDERED BY INVESTORS

Line of business	They have no operative limitations whatsoever and, in general, Corporations may develop any type of activity. For the development of some particular activities, e.g. banking activity, they require the prior approval of the State.
Accountability	Accountability of investors to shareholders is limited to the amount of capital they have committed themselves to contribute.
Capital	There are no maximum or minimum capital requirements. The only requirement for S.A.'s capital is that it is expressed in national currency. However, there are some exceptions, e.g. in Investment Corporations capital may be expressed in foreign currency.
Personal liability	In Corporations, persons are completely dissociated from the company.
Anonymity	Shares may be issued as registered shares or bearer shares, except for financial, insurance and agricultural activities wherein shares must be registered shares.

Profit	Profit is divided in proportion to paid-in capital. There is the obligation to distribute a minimum dividend among shareholders of at least 20% the net profit of the period.
Transfer	Bearer shares are transferred by delivery while registered shares must be endorsed and their transfer must be informed to the Corporation.
Other provisions	<p>After their incorporation, Corporations may have one single holder of the corporate equity. The investor may fund Corporations through loans under the same terms as those applicable to a third party.</p> <p>There are two kinds of corporations:</p> <p>Open: Corporations that resort to public savings or list their shares on a stock exchange.</p> <p>Close: Corporations which are not open.</p>

Operation

Board of Directors or Administrator

Corporations are managed by a Board of Directors or an Administrator, as determined by the corporate by-laws or the Shareholders' Meeting. The Administrator or Directors can be national or foreign legal persons and may be domiciled abroad. During the term the company is acting "under incorporation", they are jointly and unlimitedly accountable.

Shareholders' Meeting

The Shareholders' Meeting is the governing body of Corporations. It is necessary to hold an annual Ordinary Meeting in order to consider the operation of the corporate businesses, the Board of Directors' performance and to approve the financial statements of the financial year. For the consideration of issues other than those addressed at the Ordinary Meeting, it is necessary to call an Extraordinary Meeting. Meetings must be held within the national territory.

Shareholders' Meetings generally resolve by the absolute majority of votes of the shareholders present, unless otherwise provided for by law or the corporate by-laws. The Business Companies Act establishes the following exceptions to the principle whereby the Shareholders' Meeting resolves by the absolute majority of votes of the attending shareholders: share redemption and writing-off advantages and terms; Corporation's holding in other companies; voluntary reserve formation; merger, split, transformation, extension or early dissolution of the Corporation; transfer of corporate address abroad; change of main purpose; capital increase or refund (majority of paid-up capital); non-payment to shareholders of the minimum statutory dividend at the closing of the period (75% of paid-up capital). Shareholders can be represented by third parties at Meetings by means of simple powers of attorney, provided such power-of-attorney sets forth the specific instructions to vote.

Every Meeting must be called by the Board of Directors or the Administrator and such call must be published in the Official Gazette and in another newspaper; the publication is not required when shareholders representing all the paid-up capital attend the meeting.

Controls

Corporations, except for those established in Free Trade Zones (SAZF) –where only the National Audit Office (AIN) intervenes for the purposes of supervising capital commitment and formation– are subject to the AIN's

control during their incorporation, amendment to the corporate by-laws or changes in share capital, dissolution, transformation, merger or split, but during their operation and liquidation, controls shall be limited to open Corporations.

2. Limited Liability Companies

Limited Liability Companies (Sociedad de Responsabilidad Limitada - SRLs) have been the most frequently used business type by small and medium-sized companies. By virtue of legal requirements regarding corporate capital existing to July 1st, 2007, SRLs were not usually used by big-sized companies.

MAIN ASPECTS OF SRLS TO BE CONSIDERED BY INVESTORS

Line of business	They have no operative limitations except for financial and insurance activities.
Accountability	Accountability of the partners is limited to the amount of capital they have paid in. There are two exceptions to this principle, whereby the partners are accountable for the company's debts: salary debts and Corporate Income Tax debts.
Capital	There are no maximum or minimum capital requirements.
Personal liability	The company may be dissolved in the event of death or incapacity of one of the partners.
Anonymity	Ownership interests are nominative.
Profit	Profit is distributed as provided for in the articles of incorporation. However, a different criterion may be used in lieu of the proportion of paid-in capital, provided that said criterion is not clearly disproportionate regarding the paid-in capital. There is no obligation to distribute a minimum dividend.
Transfer	There are no limitations on transfers among partners. Transfer to third parties is subject to the approval of 75% of the partners.
Other provisions	<ul style="list-style-type: none"> - They may have between 2 and 50 partners, which may be legal persons without nationality limitations - They may provisionally operate with only one partner.

Operation

Administration

SRLs are managed and represented by one or several persons, whether partners or not, appointed in the Articles of Incorporation. Resolutions of the partners' meetings are generally adopted by partners having the absolute majority of the corporate capital if the number of partners is less than 20. If partners are 20 or more, generally resolutions are adopted by the majority vote of attending partners, one vote per every ownership interest.

Controls

They are not under the control of the National Audit Office (AIN).

3. Other business types

The basic features of other business types, rarely used in practice, are described below.

3.1 Partnerships

In Partnerships (Sociedad Colectiva - SC) the partners are jointly and unlimitedly accountable for the company's debts; usually they are the partnership's administrators.

The management and representation system shall be that established in the partnership agreement and, failing that, any of the partners may be empowered to manage and represent the company.

3.2 Limited Partnerships

In Limited Partnerships (Sociedades en Comandita Simple - SCS) there are two types of partners: Active partners and Silent partners. Active partners are accountable for the company's liabilities on a subsidiary, several and unlimited basis. On the contrary, silent partners are only accountable up to the amount of the paid-in capital.

The company's management and representation will be exercised by active partners or, failing them, by third parties appointed for the purposes thereof.

3.3 Joint Stock Companies

In Joint Stock Companies (Sociedad en Comandita por Acciones - SCA) capital is divided into shares. Active partners account for corporate liabilities on a subsidiary, several and unlimited basis and silent partners are only accountable up to the amount of the paid-in capital.

The management and representation shall be the responsibility of one or more administrators or of a Board of Directors, as provided for in the articles of incorporation. Administrators or directors can be active partners or third parties appointed by them or the articles of incorporation.

3.4 Labor and Capital Partnerships

In Labor and Capital Partnerships (Sociedad de Capital e Industria - SCI), silent partners are accountable for the corporate liabilities as regular Partnership partners, while active partners only contribute with services and are accountable up to the amount of their unearned profit.

The management and representation can be performed by any of the silent partners.

3.5 De Facto Partnerships

De Facto Partnerships (Sociedad de Hecho - SH) are those which do not have any written partnership agreement and have a similar governance system to that of regular Partnership (any of the partners may represent the company).

MAIN ASPECTS OF THESE BUSINESS TYPES TO BE CONSIDERED BY INVESTORS

Line of business	They have no operative limitations except for financial and insurance activities.
Accountability	Partners are subsidiary, severally and unlimitedly accountable for the company's liabilities. Silent partners (SCC, SCA) are only accountable up to the amount of the paid-in capital while in SCI active partners are accountable up to the amount of their unearned profit.
Capital	There are no maximum or minimum capital requirements.
Personal liability	The company may be dissolved in the event of death or incapacity of one of the partners.
Anonymity	Ownership interests are nominative. Shares corresponding to silent partners in SCA may be to bearer.
Profit	Profit is distributed as provided for in the partnership agreement. However, a different criterion may be used in lieu of the proportion of paid-in capital, provided that said criterion is not clearly disproportionate regarding the paid-in capital. There is no obligation to distribute a minimum dividend.
Transfer	Transfers require the unanimous consent of the partners, except in the event of assignment to another partner.
Other provisions	They may have at least two partners, there being no maximum limit. Partners may be legal persons, without nationality limitations. They are not subject to AIN's controls.

4. Cooperatives

Cooperatives are special companies which most distinctive feature is that profit is not distributed among the partners in proportion to their contributions, but according to the work carried out by each partner or the number of operations the partners performs.

Regardless of the general regulations, there are special rules applicable to agricultural, housing, savings and credit and production and consumption cooperatives.

MAIN ASPECTS OF COOPERATIVES TO BE CONSIDERED BY INVESTORS

Line of business	They have no operative limitations, although they must be established for cooperative purposes.
Accountability	Partners' accountability is limited to the amount of their capital contributions.

Capital	Capital is increased or reduced according to partners' going in or out the Cooperative. There are no maximum or minimum capital requirements.
Personal liability	Unlike other business types, Cooperatives are governed by the system called "open doors", whereby the partners may go in or out the Cooperative whenever they deem convenient. Each partner is entitled to one vote, whatever their number of ownership interest or shares is. In the event of dissolution the partner is only refunded the amount of its contribution. The by-laws must provide for the destination of the Cooperative surplus.
Profit	Profit gained is not distributed in proportion to the value of the contributions but according to the work or the number of operations performed by each partner. Not more than 80% of the profit is distributed among the partners. 15% is necessarily destined to the creation of a reserve fund until it equals the Cooperative equity. Thereafter, the percentage is reduced to 10% and once the equity has been trebled, no sums shall be destined to the reserve fund.
Anonymity, transfer	Ownership interest is nominative and indivisible. Transfers may only be made to persons eligible as partners according to the by-laws and with the agreement of the Board of Directors. Transfer of ownership interests is made through the assignment of non-endorsable credits.
Other provisions	Cooperatives may not be engaged with any activity regarding ideas propaganda. The by-laws may not state as a condition to admission applicants' relation to religious, ethnic, nationality, political party-related organizations, etc. The agreement must be registered with the Public and General Trade Register. In all cases, government authority is required.

5. Single-member Companies

Entrepreneurial undertaking can be performed individually, without incorporating a company. These are called single-member companies (Empresas Unipersonales) and lack legal status. The company's proprietor is personally and unlimitedly liable for the obligations thereof.

MAIN ASPECTS OF SINGLE-MEMBER COMPANIES TO BE CONSIDERED BY INVESTORS	
Line of business	They have no operative limitations, except for financial and insurance activities.
Accountability	Sole proprietor is personally and unlimitedly accountable for the company's liabilities.
Capital	There are no maximum or minimum capital requirements.
Personal liability, Anonymity, profit	There is full identity between the person and the company, since the person is the owner of the company and of its profit.
Transfer	The title to the single-member company cannot be transferred. The company's assets and liabilities must be transferred.

It must be registered with the Tax Administration Office (DGI), the Social Security Administration (BPS), the Ministry of Work and Social Security (MTSS) and, if it hires personnel, with the State Insurance Bank (BSE). They are not under AIN's control.

6. Consortia and Economic Interest Groups

MAIN ASPECTS OF CONSORTIA AND ECONOMIC INTEREST GROUPS TO BE CONSIDERED BY INVESTORS

Line of business	They cannot be organized with other purposes than the original purposes.
Accountability	In Consortia, each participant is accountable for its own liabilities, there being no several liabilities and no possibility to agree otherwise. In Economic Interest Groups, the members are subsidiary and severally accountable.
Capital	There are no maximum or minimum capital requirements.
Personal liability, Anonymity, profit, transfer	They are directly associated to the members and are not destined to gain or distribute profit.

Consortia

They are organized through an agreement between two or more natural or legal persons (typically between two or more companies) for the purposes of carrying out works, rendering some service or supplying certain goods for a provisional term. They are not destined to obtain and distribute profits, but to regulate the activities of the parties. They lack legal status.

The agreement is registered with the National Trade Register and an excerpt thereof is published in the Official Gazette and in another newspaper.

Members develop the activities as provided for in the agreement and each one is accountable for the liabilities taken on, without them being severally liable, unless otherwise provided for.

Consortia are not destined to obtain and distribute profits among the members but to regulate the activities of each one of them. However, in the event consortia generate income, it shall be taxed with IRAE and its distribution shall be taxed with IRAE, IRPF or IRNR, as applicable.

Economic Interest Groups

They are organized through an agreement between one or more natural or legal persons for the purposes of facilitating or developing the economic activity of their members and improving or increasing the results of such activity. On its own, the Economic Interest Group (Grupo de Interés Económico - GIE) does not obtain or distribute its profits between its members and it can be organized with no capital at all. GIEs lack legal status.

GIEs are organized by means of an agreement registered with the National Trade Register. The purpose, management and other characteristics may be freely agreed to between the parties.

Should the GIE generate income, it shall be subject to IRAE.

Joint Ventures (JV) are not provided for as a specific type of association, whereby in principle, they can adopt any of the business types mentioned above. However, in order to easily operate a JV, a GIE may be organized.

7. Foreign company branches

Any company organized abroad may carry out isolated acts in the country and appear in court; however, in order to carry out the regular activities conveyed in its corporate purpose, it must open a branch in Uruguay.

Whenever the foreign company decides to establish a branch in Uruguay, it must appoint the person or persons who shall manage or represent such branch.

MAIN ASPECTS OF BRANCHES TO BE CONSIDERED BY INVESTORS

Line of Business	Although there are no operative restrictions to branches, they keep the line of business of their Head Office.
Accountability	The foreign Head Office, the equity of which cannot be detached from that of the branch, is accountable for the Branch's liabilities.
Capital	There are no maximum or minimum capital requirements.
Personal liability, Anonymity, profit	Since the Branch is a foreign company, these aspects will depend on the Head Office's regulations.
Transfer	Their capital is not represented by shares or ownership interests which can be transferred. The company operating as Branch may only be transferred in observance of the legal provisions which regulate the disposal of business premises.
Other provisions	Like most of the companies organized in the country, it must keep separate accounts in national currency and in Spanish. The Branch is a foreign company and, therefore, it may not be transformed adopting another business type.

8. Special activities

For the development of certain special activities, the adoption of business types with certain features is required pursuant to the laws currently in force.

8.1 Financial activities

Within the range of financial companies, it is worth mentioning: insurance companies, credit card management companies, rotating savings and credit associations, investment funds, banks, lending institutions and external financial institutions, the three latter ones being the most important.

Banks and lending institutions

Banks can carry out financial intermediation activities unrestrictedly, but they cannot diverge from such purpose, while lending institutions can grant loans or make placements but cannot receive deposits from residents or open checking accounts.

Banks and lending institutions must adopt the Corporations or Joint Stock Companies business type, with registered shares and prior authorization from the Central Bank of Uruguay (BCU) is necessary for the transfer of shares. Foreign institutions may also open Branches.

In order to begin operations, they require authorization from the Executive Branch and certification from the BCU, which will supervise all its activities thereafter.

They must have a minimum net worth of 130 million Indexed Units (UIs)¹¹ for banks and 91 million UIs¹² for lending institutions. On the other hand, such minimum net worth cannot be less than an established asset percentage which varies according to the level of activity and the assets risk, based on rules in line with the recommendations of the Basel Committee.

Law forces these institutions to keep their clients' operations in the strictest confidence.

Banks and lending institutions can operate with residents or non-residents; however, on the residents' deposits, banks must keep the regulatory reserves set forth by the BCU.

External Financial Intermediation Entities

In order to carry out financial intermediation operations exclusively with non-residents, it is possible to organize an External Financial Intermediation Entity (Entidad de Intermediación Financiera Externa - IFE), which must adopt the registered share corporation type or operate as a foreign company branch.

IFEs are subject to the same requirements and controls as those applicable to banks and lending institutions and they must be established in the country and deposit with the Central Bank of Uruguay the amount of US\$ 500,000 or its equivalent in government securities expressed in foreign currency and which may be listed in stock exchanges.

¹² Approximately US\$ 15 million as at 07/31/2012.

¹³ Approximately US\$ 10 million as at 07/31/2012.

They must keep their clients' operations in the strictest confidence.

IFEs present two main advantageous aspects:

- They enjoy tax exemption, except for Social Security Special Contributions (CESS).
- They are not obliged to keep regulatory reserves.

8.2 Other activities

Companies can develop activities abroad, no matter what the business type they have adopted is and since, according to the Uruguayan tax system, only profits, operations and assets in the country are levied, these activities are not subject to taxation in Uruguay.

However, for the development of certain Uruguay-based activities which are essentially directed towards the foreign market, there are special Corporations types that offer significant tax benefits.

Free Trade Zone Corporations

Free Trade Zone Corporations (Sociedades Anónimas de Zona Franca - SAZF) are special Corporations (SA) which have the exclusive purpose of carrying out business, industrial or service operations in the Free Trade Zones and they enjoy several tax exemptions including the corporate income tax (IRAE).

MAIN ASPECTS OF SAFZs TO BE CONSIDERED BY INVESTORS

- SAZFs may operate as direct users (in own facilities) or as indirect users (in direct user's facilities).
- SAZFs - whether as direct or indirect users, enjoy full tax exemption, except for CESS. Foreign personnel who waive social benefits may be freed from making these contributions.
- Incoming goods and services provided at Free Trade Zones are tax exempt. Goods coming from outside the Free Trade Zones within the national territory are regarded as exports. Moreover, the outflow of goods from Free Trade Zones is tax exempt and if the goods are introduced into the national territory –outside the Free Trade Zones– they are regarded as imports and payment of the corresponding tariffs shall apply.
- At least 75% of SAZFs personnel must be made up of Uruguayan citizens. This percentage may be reduced with the authorization of the Executive Branch.
- They are vehicles particularly fit for developing intermediation or mediation operations in foreign trade, with or without physical movement of the goods through the Free Trade Zone, for the provision of financial services to third countries or Free Trade Zone users and for the provision of technical or professional consultancy services.
- Moreover, they are used as goods warehousing and distribution centers and industrial plants are installed in their area.

Chapter 5

ACCOUNTING AND AUDITING STANDARDS



* Main features

- Companies included in the Large Taxpayers Division or in the CEDE (Companies' Special Control) Group of the Tax Administration Department must submit their financial statements along with Corporate Income Tax and Wealth Tax returns. For companies included in the CEDE Group with accumulated assets in excess 6,000 UR (approximately US\$ 160,000), said financial statements shall be submitted along with a concise review report; for companies included in the Large Taxpayers Division, the financial statements must be submitted along with an Audit report.
- Financial institutions and companies with a certain level of indebtedness to the financial system, corporations quoted on the stock market and public transportation companies must submit audited financial statements.
- Accounting and auditing principles are in line with international standards.

Statutory books

All companies must keep the following statutory books or records, which must be certified by the Trade Register:

- Daybook: where all the company's operations are registered.
- Book inventory: where all the items of the company's balance sheet at the closing of the financial year are detailed.
- Letter copybook: where the company-related correspondence is copied.

Corporations must also keep a minutes book regarding the meetings of shareholders and board of directors as well as a shareholders meeting attendance book.

Financial Statements accompanied by Public Accountant report

Central Bank of Uruguay (BCU) regulations require the submission of financial statements from companies indebted to the financial system according to such indebtedness level:

- Indebtedness in excess of US\$ 2,220,000 audited financial statements, including Balance Sheet, Profit and Loss Statement, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements.
- Indebtedness between US\$ 750,000 and US\$ 2,220,000 financial statements accompanied by a concise review report, with the same foregoing requirements.
- Indebtedness below US\$ 750,000 financial statements, accompanied by a compilation report.

In addition, companies indebted to the financial system must submit forward-looking information, including: forecast balance sheet, profit and loss statement and statement of cash flows for the financial year. Should the financing be for a longer term, the forecast must also cover such period. Companies submitting financial statements to any governmental office must produce an audit, concise review or compilation report according to the requirements established by the corresponding office.

Public transportation companies must submit financial statements accompanied by an audit or concise review report, depending on its assets level. Open companies, i.e., those listed in the Stock Exchange or those raising funds from the public by means of the public issue of debentures through the stock exchange must appoint a receiver who, among other duties, must submit his opinion on the company's financial statements.

Open corporations must publish their annual financial statements approved by their meetings, prior approval of the National Audit Office (AIN).

Companies whose shares or bonds are quoted on the Stock Exchange must submit financial statements of the last three financial years and consolidated financial statements pertaining to the subsidiaries of which they hold the controlling interest along with the compilation report. BCU regulations also establish that financial institutions must submit the financial statements audited by an independent auditor.

Auditing standards

The generally accepted auditing standards are the International Standards on Auditing issued by the International Federation of Accountants (IFAC).

Accounting standards

The mandatory accounting standards in Uruguay are the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) in effect as of the publication date of Decree 266/07 (July 31, 2007), translated into Spanish and published in the National Audit Office (AIN) website. For the purposes of submitting the financial statements, the basic structure of the financial statement schedule and forms of Decree No. 103/991 (February 27, 1991) shall continue being used, adapting same to the presentation of comparative information required by the International Financial Reporting Standards mentioned in Decree 266/07. For the purposes of preparing the statement of cash flows, the provisions set forth in the International Accounting Standards 7 - Statement of Cash Flows, shall apply. Notes to the financial statements must include, apart from the disclosures required by Decree No. 103/991 (February 27, 1991), the information required by the standards referred to in Decree 266/07.

The BCU is empowered to establish accounting standards for financial institutions.

Financial Statements form and content

Financial statements of business companies as well as those submitted to public entities, apart from being prepared according to the appropriate accounting standards, must comply with a uniform form.

The basic uniform financial statements, which intend to present the economic, patrimonial and financial situation in brief, include:

- Balance Sheet
- Profit and Loss Statement
- Statement of Cash Flows
- Statement of Changes in Equity
- Notes to the Financial Statements

In order to explain some situations of the basic financial statements by means of an appropriate differentiation, the following schedule must be produced: Schedule 1 - Fixed assets, intangible property, investments in real estate and amortization.

Accounting and tax differences

Tax provisions establish criteria that in many cases differ from accounting criteria. According to the temporary differences resulting from the accounting and tax valuation of assets and liabilities at the closing of the financial year and the income tax rate in effect to that date, the deferred tax to be entered in the financial statements is calculated.

Chapter 6

TAX ASPECTS



1. Uruguayan tax system

* Main features

- The Uruguayan tax system comprises indirect and direct taxes. Indirect taxes constitute the main sources of revenue. The source principle governs.
- The main taxes for businesses are the Value Added Tax, the Wealth Tax (IP) and the Corporate Income Tax (IRAE).
- Incomes are assessed by Corporate Income Tax (IRAE), Personal Income Tax (IRPF) or Non-Resident Income Tax (IRNR), accordingly.
- Free Trade Zone users are not subject to any tax; they are object of a broad tax exemption.

1.1 Legal framework

Legislation

According to the Constitution currently in force, the Legislative Branch is responsible for approving the national tax laws and the Executive Branch is responsible for regulating these laws.

During the first six months of each period of government (5 years), the Executive Branch submits the national remuneration, expenditure and investment budget to the Legislative Branch for its approval as well as the corresponding sources of capital to fund them.

The nineteen departments into which the national territory is divided can establish, collect and control through its Departmental Boards only some departmental taxes; basically, taxes on urban or suburban real estate and on vehicles and comptroller or public service duties. The most important taxes are the Real Estate Tax, the Motor Vehicle Registration Fee and the Food Analysis Tax; however, they have low impact on companies.

Tax Administration has no power to amend tax laws. The Constitution does not expressly prohibit the approval of laws with retrospective effect. However, the most widely accepted doctrine and case law consider these prohibition derives from the general principles set forth in the Constitution. In practice, laws are not approved with retrospective effect.

Case Law

The construction of tax laws is based on rules set forth in the Tax Code. According to these rules, tax provisions must be construed pursuant to the economic reality and not the legal form. Despite the fact that case law is not source of law as in other countries, it provides guidance on how justice could rule in similar cases and on the opinion of the Tax Administration.

Tax infringement

Violations to provisions regarding accounting and supporting documentation of operations carried out by the taxpayer, filing of tax returns and tax payment or withholding are sanctioned pursuant to the Tax Code.

Related enquiries

Whenever there are doubts pertaining to the application of a rule to a real situation, the taxpayer can obtain a written opinion from the Tax Administration on such issue. In this case, the Administration shall be liable to keep the accepted criterion with respect to the person making the enquiry. Any change of criterion must be informed to the taxpayer and it shall only be applicable to events occurring following said notification.

1.2 Main taxes

The Uruguayan tax system is based on the application of indirect taxes, the Value Added Tax (VAT) accounting for 53% of tax collection in 2011. Direct tax collection is much less significant compared to the total collection.

Corporate Income Tax

The Corporate Income Tax (IRAE) is an annual tax at the rate of 25% on the net income from Uruguayan sources derived from economic activities of any nature. Uruguayan sources of income are those obtained from

activities developed in, property located at or rights economically exploited in Uruguay. Income from agricultural activities is also subject to IRAE and in some cases the taxpayer can choose to pay IRAE or Agriculture - Livestock Goods Sales Tax (IMEBA), which is applied to the sale of certain goods in such sector.

Personal Income Tax

The Personal Income Tax (IRPF) is a personal and direct tax applied to Uruguayan sources of income obtained by resident individuals. For the purposes of this tax, residents are those individuals who stay more than 183 days per calendar year in the country or who have their main living or economic interests in Uruguay. This tax is applied under a dual system which distinguishes the income derived from capital sources (taxed at proportional rates that range from 3% to 12%) and from labor sources (taxed at progressive rates from 0% to 25%). This tax is paid on an annual basis and is paid off as of December 31st of each year. Without prejudice to the above, the regulation provides for advances and retentions for different types of income.

Non-Resident Income Tax

The Non-Resident Income Tax (IRNR) is an annual tax applied to Uruguayan sources of income obtained by non-resident natural and legal persons. The tax is applied at proportional rates ranging from 3% to 12%, depending on the type of income. In general, the tax is applied through withholdings via local companies paying or crediting income taxed abroad. When there is no withholding agent appointed, the taxpayer must appoint a representative in Uruguay and pay the tax directly.

Wealth Tax

Wealth Tax (IP) is a tax applied to assets in the country – net of certain debts, at the closing of the annual financial year with rates of 2.8% for banks and financial institutions and 1.5% for other legal persons. Natural persons pay IP at progressive rates that range from 0.7% to 2.5% (such rates are foreseen to be annually reduced until unifying them at a rate of 0.10%), with a minimum non-taxable amount of approximately US\$ 110,000, which is doubled for families.

IP paid off by industrial and business companies, including financial entities, may be offset up to 1% with IRAE taxed the same financial year (except for non-resident legal persons or resident entities with bearer shares or whose owner is another legal person).

Value Added Tax

The Value Added Tax (VAT) is a tax applied to the domestic traffic of goods and services, imports and the adding of value originated in the construction of real property. VAT basic rate is 22% and there is a minimum rate of 10% applicable to essential items and medicines; also, certain goods and services are exempt from VAT.

Excise Tax

The Excise Tax (IMESI) is applied to the first sale carried out by producers and importers of certain products (cigarettes, alcoholic drinks, soft drinks, cosmetics, etc.) in the domestic market. Exports are not taxed. The rate varies according to the item and it is generally set by the Executive Branch within the parameters established by law

1.3 International aspects

Activities carried out abroad

IRAE is only applied to Uruguayan sources of income, which are those obtained from activities developed, goods located or rights economically used in Uruguay.

Off-shore operations center

Financial intermediation companies exclusively operating off-shore (IFE) are IRAE and IP-exempt.

Corporations performing merchandise trading activities are subject to a preferential tax regime, paying IRAE at the rate of 25% on 3% of the difference between sales price and cost price.

Free Trade Zones

Operations performed in Free Trade Zones have several tax exemptions and they are not subject to domestic or foreign trade taxes.

1.4 Tax Management

Tax system management

National taxes are managed and collected by the Tax Administration Department (DGI). For IRPF, collection is jointly made by Banco de Previsión Social (Social Security Administration - BPS) and Dirección General Impositiva (Tax Administration Department - DGI).

Municipal taxes are managed and collected by departmental governments.

Information furnished by taxpayers to tax authorities or gathered by them during the inspections are confidential and under no circumstance may be disclosed, except in criminal or family proceedings and only when such information is essential.

Tax returns

Tax system operates based on tax returns made by the taxpayer, which can be audited by the Tax Administration Department.

IRAE and IP taxpayers shall present tax returns for said taxes in forms provided by the DGI within a term of four months after the closing of the financial year. On said date the taxpayer shall pay the balance of the liquidated tax, net of the monthly payments advanced during the financial year.

In case the total payable tax is retained from IRPF and IRNR taxpayers, they shall be exempt from the obligation of submitting tax returns if they choose to make the payments thus advanced final.

Tax returns may be amended in the event of material or legal mistakes, regardless of the liabilities for infringement incurred in. Rectifications cannot be presented upon inspections by the tax authority.

Appeals

Taxpayers may appeal DGI's decisions (appeal for annulment) and at the same time lodge an appeal with the Executive Branch (hierarchical appeal). Both appeals must be lodged at the same time within 10 days of the notice. If both appeals are rejected, the taxpayer can take action with the Contentious-Administrative Court to declare the administrative act null and void.

Payments

In general, taxes are liquidated and paid on an annual basis. IRAE, IRPF, IRNR and IP taxpayers must pay on account of the corresponding tax on a monthly basis and pay the balance of the tax at the time of submitting the annual tax return. IP withholding on credit balances held with foreigners to December 31st of each year must be paid to the Tax Administration Department during May of the following year.

Tax audits

DGI can audit the tax returns submitted by taxpayers. Since the audits are generally carried out according to random samples, it is not possible for a taxpayer to forecast them.

As a result of the audit carried out, the taxpayer might have to explain some aspects. In the event DGI does not agree with such explanations, it must give formal notice to the taxpayer regarding its reservations. The taxpayer has a 10-day term to submit a formal report on the reservations made by the DGI. Once such term has elapsed, the DGI performs an assessment on the issues observed and the taxpayer may lodge the relevant appeal.

The tax authority may determine what the amounts payable by way of tax are when tax returns are not furnished or when book entries are missing or insufficient. Such decisions may be appealed by taxpayers.

Sanctions

Failure to pay taxes, withholdings and special social security contributions, in full or in part, in due time is penalized with 5% to 20% of the tax amount and will have a monthly surcharge capitalizable every four months. Failure to pay to the Tax Administration Department the relevant tax withholdings is penalized with a 100% fine.

Failure to pay (breach of residual nature defined by article 97 of the Tax Code) is penalized with a fine ranging from one to five times the amount of the unpaid tax and up to fifteen times in case of tax evasion. Tax evasion may also be criminally penalized.

Expiry

The right to tax collection expires five years as from the end of the financial year in which the relevant event was taxed. The expiry term is extended ten years when the taxpayer has incurred in tax evasion or when it fails to comply with the obligations related to the registration or filing of tax returns.

2. Taxation of companies

* Main features

- Only income from Uruguayan sources is taxed and no tax credit is granted to taxes applied abroad, except there are agreements for double-taxation avoidance.
- Actual income is taxed (i.e. inflation-adjusted).
- Dividends received by local companies are not taxed.
- Capital gains are taxed.
- Interest on loans paid to non-residents are deductible with certain limitations and are taxed with IRNR retention.
- IP and IRAE are not deductible expenses.
- Dividends paid abroad are taxed with IRNR retention when they correspond to IRAE-taxable income.
- Balances from imports, loans and deposits in foreign currency kept with persons located abroad are exempt of Wealth Tax.

2.1 Corporate Income Tax (IRAE)

The Corporate Income Tax (IRAE) is an annual tax at the rate of 25% on the income from Uruguayan sources derived from economic activities of any nature.

Persons subject to taxation

Business companies and permanent establishments of foreign entities pay IRAE for their income from Uruguayan sources. The other entities pay IRAE for their business income, i.e. income deriving from the combination of capital and work.

Territoriality

Uruguayan sources of income are those obtained from activities developed in, property located at or rights economically exploited in Uruguay. Income from agricultural activities is also subject to IRAE and in some cases the taxpayer can choose to pay IRAE or Agriculture - Livestock Goods Sales Tax (IMEBA), which is applied to the sale of certain goods in such sector.

Permanent establishment

When a natural or legal person or any other non-residing entity develops all or part of its activity in Uruguay through an established commercial location, it shall be understood that said person or entity has a permanent establishment in our country.

The law lists a series of situations which illustrate hypothesis of permanent establishments, including head offices, branches, offices, factories or workshops; mines, gas or petrol wells, pits or any other place of extraction of natural resources and construction or installation works or projects for a term in excess of three months.

There is also a negative list, which states –on a non-limited basis– that the term “permanent establishment” does not include the use of premises with the sole intention of storing, exposing or delivering goods and merchandises that belong to a foreign entity, maintenance of a deposit of goods and merchandises that belong to a foreign entity only to be stored, exposed or delivered, or to be transformed by other company; the maintenance of a fixed place of business for the sole purpose of buying goods or merchandises or to gather information for the entity abroad; or any other activity of preparatory or ancillary nature.

When a person other than an independent agent developing activities in its regular course of activity, acts on behalf of a foreign company and is normally authorized in the country to enter into contracts on behalf of the company, it will also be considered that the foreign company has a permanent establishment regarding the activities this person carries out for such company.

According to the applicable legal provisions, foreign entities’ permanent establishments shall compute all the income obtained in the country in their IRAE liquidation (“attraction jurisdiction”).

Foreign entities acting in the country through a permanent establishment shall appoint a natural or legal person resident in the country who will act on behalf of the establishment before the Tax Administration and said person will be severally accountable for its principal’s tax liabilities (if no representative is appointed or if the authorities are not notified accordingly, this shall be regarded as an intention to evade taxes).

Determination of income and expenses

Taxed income is determined by taking into consideration the income and expenses incurred in during the financial year.

Taxable income

Gross income consists of the total of net sales minus the cost of acquisition or production.

The following are also considered gross income:

- Proceeds from the disposal of fixed assets.
- The benefit resulting from comparing the fiscal value and the market sales price of the goods granted or given as payment to the partners or shareholders.
- The exchange differences accrued during the year.
- The proceeds from the disposal of business establishments or premises.
- Any other net assets increase during the year, except for any increase deriving from the revaluation of fixed assets or equity contributions, refund or redemption.

Inflation adjustment

In order to partially neutralize the distorting effects of inflation, an adjustment is made on fiscal inflation, which is determined by applying the percentage of variation of the Producer Price Index for National Products between the closing month of the previous year and the month where it is liquidated to the fiscal property at the beginning of the year.

Valuation of fixed assets

Fixed assets value must be revaluated as from the year following the incorporation of said assets given the variation of the Producer Price Index for National Products (the revaluation criterion may vary from an accounting perspective) during the period. For the purposes of estimating the proceeds from the sale of fixed assets, their value is revaluated up to the closing of the year in which the sale is made. The equity increase deriving from the revaluation of fixed assets is not taxable income. Moreover, the fixed assets at the beginning of the year are excluded from the fiscal inflation adjustment base.

Valuation of inventories

Merchandise inventory may be valued according to their acquisition or production cost, or by the value of reposition at the closing of the year, at the taxpayer's choice. Regardless of the valuation criterion adopted, the cost of sold goods is determined by applying the convention of historical costs, so when the inventories are marked to market, the difference between market value and historical costs is considered taxed income.

In order to determine the selling cost of livestock, the initial inventories are valued at the market values in effect on the closing of the financial year. Livestock is also excluded from the inflation adjustment base.

For tax purposes, a different accounting technique involving output classification may be used (FIFO, LIFO or average).

Allowances for obsolescence of inventories are admitted provided that they correspond to actual losses. Allowances for possible future losses are not admitted.

Valuation of securities

Securities of any nature are valued at the price in effect at the closing of the period. If they are not priced, they are valued according to their cost value revaluated by the variation suffered as from the month or year in which the asset was included into the equity (at taxpayer's option) in the Producer Price Index for National Products.

For shares in companies taxed with IRAE, said companies may use the foregoing valuation system or else the value resulting from said companies' balance sheets adjusted according to the Wealth Tax regulations.

Interest in other IRAE-taxable persons will be valued at the value arising from said companies' balance sheets adjusted according to the Wealth Tax regulations.

Capital gains

Capital gains are considered taxable income, except for fixed assets revaluations and those deriving from other IRAE-taxpayers' holding of shares or equity interest.

Interests

Interests are computed on an accrual basis. There are no regulations regarding indebtedness/equity ratios; as a consequence, there is no “thin capitalization” concept according to which indebtedness may be treated as equity and taxed as such.

Dividends

Dividends paid or credited to IRAE taxpayers domiciled at Uruguay are not assessed for IRAE purposes in order to avoid double taxation.

Dividends paid to resident natural persons and to non-resident natural or legal persons are affected by IRPF and IRNR, respectively, provided that they correspond to profits taxed with IRAE.

Exchange differences

The results of the financial year deriving from exchange differences are assessed for IRAE. They are determined by the revaluation of credit and debit balances in foreign currency existing at the closing of the year.

Exempt income

The following income is exempt from IRAE:

- Income of maritime or air navigation companies. For foreign companies, the exemption shall only be valid if in their countries of origin Uruguayan companies enjoy the same exemption. The government may grant the exemption to foreign companies engaged with land transportation upon reciprocity conditions.
- Freights for maritime transportation of goods outside the Republic, the income of which is not included in the exemption of the foregoing paragraph.
- Income arising from agricultural activities covered by IMEBA, provided said income is obtained by the party liquidating this tax.
- Income covered by Personal Income Tax.
- Income covered by Non-Resident Income Tax.
- Income deriving from research and development in biotechnology and bioinformatics, and income deriving from software production and related services (provided that these are entirely used abroad).
- Dividends or profits and equity variations resulting from shareholding.
- Income pertaining to cultural, learning and sports institutions.
- Income of official entities from foreign countries, on reciprocity condition, and income of international organizations which Uruguay is associated with.
- Income of small-sized companies. Companies whose income does not surpass the amount annually established by the Executive Branch are tax-exempt.

Deductible expenses

The general principle to assess the net income consists of deducting from the gross income the expenses needed to obtain it and preserve it, accrued during the financial year and duly documented, without prejudice to certain applicable limitations or exceptions.

In addition, as a general rule, only the following expenses may be deducted as long as they represent for the counterpart:

- Income taxed by IRAE;
- Income taxed by IRPF or IRNR;
- Income taxed by an effective tax on foreign income (it is worth mentioning that regulatory provisions have included a long list of exceptions to this general rule).

For expenses deriving from personal services rendered on a dependency basis which generate income taxed by IRPF, the deduction shall also be subject to the payment of the relevant retirement contributions.

When for the counterparty said expenses represent income taxed by IRPF under the 1st category of said tax (Capital Performance and Equity Increase) or income taxed by IRNR, the deduction shall be limited to the amount resulting from applying to the expense the ratio of the maximum rate applicable to the income under said category in the corresponding tax (12%) to IRAE rate (25%).

For expenses which for the counterparty represent income taxed by a tax on foreign income, the deduction shall be 100% if the effective rate abroad was equal or higher than 25%. If the effective rate was lower, a proportion shall be estimated, without prejudice to the foregoing limit. It shall be presumed that the effective rate is equal to the nominal rate, unless there are special regimes of assessment of the taxable base, exemptions and similar benefits which reduce the tax resulting from the application of the nominal rate.

IRAE's regulatory decree also states that when the counterparty is taxed by an effective tax on foreign income and by IRPF under the 1st category (Capital Income) or by IRNR, the maximum rate of the local tax and the effective rate of the foreign tax shall be added in the numerator of the quotient (the deduction shall never surpass 100% of the expense).

In order to deduct the expenses incurred in abroad, the fiscal treatment in the counterparty's country shall be proved by submitting a certificate issued by the tax authorities of said country or by a firm of external auditors.

Amortizations

Intangible assets such as patents and trademarks are linearly amortized in a term of five years as long as they represent an actual investment and the transferor is identified. Registration expenses of intangible assets of limited life-cycle may be deducted –at the taxpayer's choice– in the financial year in which the expense has been incurred in, or be amortized in fixed instalments during the effective term. Amortization of goodwill is not allowed.

Personal property of fixed assets is linearly amortized according to the number of years of probable useful life of said property. Brand new cars are amortized in a term of ten years.

The linear system of amortization shall be used. However, DGI may authorize other amortization systems if they are considered technically suitable.

Proceeds from sales of fixed assets are determined by the difference between the selling price and the cost value of the amortized and revaluated asset up to the closing of the financial year.

Leasing

Tax provisions make a distinction between financial and operational leasing. Financial leasing is basically the leasing which grants a purchase option at a price lower than 75% of the fiscal value of the involved property (historical revaluated and amortized cost) to the date of the purchase. Otherwise, it is operating leasing. In the case of financial leasing, the operation is treated as an installment sale for taxation purposes. As a result, the ownership of the property turns to the buyer - in economic terms - who shall account it in its fixed assets and shall acknowledge an annual amortization of said asset.

Other deductions

Without prejudice to the rule in terms of expense deduction, the provisions expressly admit the following expenses as deductible:

- Losses caused by unforeseeable circumstances or events of force majeure, when not covered by indemnity or insurance.
- Penalization on bad credits.
- Expenses incurred in to train personnel in priority areas and expenses incurred in to finance research and development projects, which may be computed at one time and a half its actual value.

Non-deductible expenses

The following are non-deductible expenses:

- Losses resulting from unlawful operations.
- Penalization on fiscal infringement.
- Expenses corresponding to the procurement of exempt income.
- Personal remuneration for which no retirement contributions are made.
- Income and wealth taxes.

Tax losses

Losses generated during a financial year may be deducted, adjusted by inflation, from the profits generated in the following five years, even though this circumstance is exclusively conditioned to the losses accrued in tax periods as from July 1st, 2007 (the term is three years for the previously accrued losses).

Losses generated during one financial year cannot be deducted from profits generated in previous years.

Liquidation

Net income

The procedure below must be followed in order to determine the taxable net income:

1. The total net income is determined by deducting from the gross income all the expenses required to obtain it and preserve it, as well as the losses from previous years.
2. After determining the total net income, a non-taxed portion is deducted from it (non-taxed income and related expenses) in order to reach the taxable amount; in case the exemption due to investments benefit is used, said amount is deducted, this way obtaining the fiscal result over which to apply the tax rate.

Fiscal credit

Except for payments on account and compensations with credits generated by other taxes, there are no other credits to set off with IRAE.

Since IRAE is only levied on Uruguayan income, there is no fiscal credit for taxes paid abroad.

Merger between affiliated companies is not allowed for tax purposes. As a result, it is not possible to set off losses of one company with the gains of another.

Transfer prices

Law 18,083 introduces provisions into the Uruguayan taxation system on transfer prices between related companies, which provide for the following aspects:

Operations between related parties: It is basically established that when operations carried out between related companies are not in line with the market practices between independent entities, which shall be duly evidenced by the Tax Administration Department, said operations must be adjusted according to certain methods established by the legal provisions.

Relation setup

The relation will be set up when an IRAE taxpayer carries out operations with a non-resident individual or with entities which operate in customs areas and are governed by null or low taxation regime (for instance, Uruguayan Free Trade Zones) and both parties are subject, directly or indirectly, to the direction or control of the same natural or legal persons who, whether for their equity holding, the level of their credit rights, their functional influences, whether by contract or not, have decision-making power to guide or define the activities of the abovementioned taxpayers. The concept of relation picked up by the provision is extremely wide and includes such operations as those persons subject to taxation may carry out with their foreign affiliates, branches, permanent establishments or other kind of related non-resident entities.

Null or low taxation countries

It is established that operations carried out with a company located in a country of null or low taxation which determine IRAE regulation on a specific way shall be considered non in line with the regular practices or values of the market between independent parties.

Adjustment methods

In case the agreed prices should be adjusted, the applicable methods will be set. These methods are basically in line with those recommended by OCDE (Organization for Economic Co-operation and Development) according to its current guidelines on the matter, for instance: comparable prices between independent parties, re-sale prices fixed between independent parties, cost plus benefits, division of gains and net margin of the transaction. The law delegates the regulation of both methods to the Executive Branch.

Optional regime for determining income

The Executive Branch is empowered to establish special regimes in view of the operations, the line of business or exploitation, among others, which taxpayers may invoke in order to determine the Uruguayan source of income of international operations.

Special tax returns

The Tax Administration Department may require the companies to submit special tax returns which contain all the information considered necessary to analyze, select and verify the agreed prices.

Income from international activities

Income from activities partially exercised within the country is determined, at first, by applying the regulations which govern the Uruguayan source concept. However, net income of certain international activities is specifically determined by law:

Transportation companies

Net income - from Uruguayan source - of transportation companies (maritime, air or land) is fixed at 10% of tickets and freights' gross amount corresponding to transportation from the country abroad.

Film and Television industries

Net income - from Uruguayan source - of film and tape producing, distributing or intermediate companies as well as those carrying out television direct broadcasts or other similar media is fixed at 30% of the earnings deriving from the exploitation in the country.

International news agencies

Net income - from Uruguayan source - obtained by international news agencies is fixed at 10% of the gross earnings.

Assignment of use of containers for international trade operations

Net income - from Uruguayan source - is fixed at 15% of the agreed price.

In all these cases the taxpayer may also choose to determine the net income from Uruguayan source on an actual basis, according to the general regulations. Once one of the procedures has been chosen, the same may not be changed for a term of five years. To change the adopted procedure it shall have the authorization of DGI.

Trading

For IRAE's liquidation purposes, net income from Uruguayan source is calculated on an alleged-amount basis in certain intermediation operations carried out in the national territory. Income from Uruguayan source accounts for 3% of the difference between the selling price and the purchase price of the good or service in the

following cases:

- Purchase and sale operations of goods which have not physically been in Uruguay
- Intermediation in service rendering as long as said services are economically rendered and used abroad.

2.2 Wealth Tax

Wealth Tax (IP) is a tax applied to the assets in the country - net of certain debts - of industrial and commercial companies and to agricultural development associations at the closing of the annual financial year, at a rate of 1.5%.

For banks and lending institutions, the tax is applied to the net assets, but at a rate of 2.8%.

Companies will lower IP of the year in the amount generated during such period by way of IRAE or IMEBA. The maximum limit of reduction shall be 1% of the IP generated during the year.

Within the industries' assets personal property used in the industrial productive cycle is exempted.

Industrial and commercial companies and agricultural development associations can only compute as liabilities debts for loans with local banks, debts to local suppliers - except they are legal or natural persons subject to public law who are exempt from this tax, tax debts, provided the same have not expired, obligations or debentures issued by public subscription and which quote in the stock market.

There are several exempted assets, such as: personal property used for agricultural development - improvements thereof excluded, public securities and securities issued by Banco Hipotecario del Uruguay (Mortgage Bank of Uruguay - BHU) and Central Bank of Uruguay (BCU), the shares or ownership interest in IP-paying companies and bonds listed on the Stock Exchange.

Tax regulations adopt the territoriality criterion whereby assets established, located or economically used in Uruguay are computed for tax estimation purposes. However, when there are assets abroad and exempted assets, in order to define the taxable amount only the taxable amount of debts surpassing the value of said assets is deducted from the taxed asset.

Some companies' debts which for the creditors could represent assets levied by the tax and, therefore, affect the interests, are exempted assets. These include the balances of imports prices, loans and deposits whose holders are domiciled abroad and bonds issued by companies listed on the Stock Exchange.

3. Taxation for natural persons

* Main features

- Natural persons residing in Uruguay have to pay IRPF on their income (from Uruguayan source).
- Legal persons are subject to Wealth Tax when their net assets exceed the non-taxable minimum amount –which is relatively high.

3.1 Personal Income Tax

The Personal Income Tax (IRPF) is a personal and direct tax applied to Uruguayan sources of income obtained by natural persons who live in Uruguay.¹³

The tax is applied under a dual system whereby two types of income are taxed: 1st Category or income coming from capital productive factor (personal and real property) and 2nd Category or income coming from work productive factor.

The 1st Category includes interests accrued on local loans or deposits and the rent a natural person collects for renting real property in Uruguay.

The 2nd Category includes income from work performed as an employee as well as work income earned by providers of personal services not as employees who do not pay IRAE.¹⁴

As for income deriving from the work productive factor, the following aspects should be highlighted:

- a) Work income is defined on an accrual basis.
- b) Income from exchange differences and price adjustments are computed when collected.
- c) Income from work performed as an employee includes regular or extraordinary earnings in money or in kind, generated by taxpayers by way of consideration for their personal activity performed as employees. Severance pays are included in the foregoing paragraph provided that they surpass the corresponding statutory minimum and for the amount surpassing the minimum limit.
- d) The tax corresponding to work income is defined by applying progression rates related to an income scale. For such purposes, the sum of computable income enters the scale, applying the income portion corresponding to each segment of the scale to the rate corresponding to said segment.

¹³ Family cores integrated by resident natural persons also are subject to tax, provided they opt to pay jointly, although such choice can only be made for earned income.

¹⁴ Through Law 18,314, in force from July 1st, 2008, retirement and pensions were excluded from IRPF (and IRNR) tax and they became levied by the Social Security Assistance Tax (IASS), which levies income from retirement, pension and allowances rendered by institutions residing in Uruguay. The sum of the taxed income is the taxable base on which proportional rates are applied on a progressive basis.

e) In view of the above the following income segment scale and the corresponding rates are fixed (US\$ values are estimates):

ANNUAL TAXABLE INCOME	RATE
Up to the non-taxable minimum of 84 Benefit and Contribution Bases (BPC) ¹⁵ (US\$9,350)	Exempt
More than 84 BPC and up to 120 BPC (US\$ 9,350 - US\$ 13,350)	10%
More than 120 BPC and up to 180 BPC (US\$ 13,350 - US\$ 20,000)	15%
More than 180 BPC and up to 600 BPC (US\$ 20,000 - US\$ 66,800)	20%
More than 600 BPC and up to 1,200 BPC (US\$ 66,800- US\$ 133,700)	22%
More than 1,200 BPC (US\$ 133,700)	25%

f) Taxpayers may deduct the following items:

- Retirement contributions to the different social security entities, as applicable.
- Contributions to public health insurance and to the Labor Reconversion Fund.
- Provision destined to the Solidarity Fund.¹⁶
- For health care to the taxpayer's underage children: 13 annual BPC per child. This deduction shall be doubled in case of children legally declared incapable, of age or underage, as well as those with severe disabilities, pursuant to the regulations. The same deductions shall apply in case of people under a curatorship regime.
- For health care services, retired persons may deduct 12 annual BPC.
- Active members of Caja de Jubilaciones y Pensiones Bancarias (Bank Retirement and Pensions Fund) may deduct the amounts paid in view of subsection b), article 53, Law No. 17,613 of 27 December 2002, as amended by article 6 of Law No. 17,939 of 2 January 2006.

Accountable persons subject to taxation

By virtue of the authority conferred by Law 18,083, the Executive Branch appointed a series of persons accountable for third-party liabilities in IRPF Regulatory Decree.

Except when otherwise provided for, the persons accountable shall:

- Issue certificates to the taxpayers for any retained or received amount in each case.

¹⁵ The value of the BPC was \$ 2,417 as at 07/31/2012.

¹⁶ Semi-public person managing a scholarship system for students of the University of the Republic and of the Professional Technical Education Board, financed through mandatory contributions of graduates from such institutions.

- Apply said contributions under the terms and conditions established by DGI.
- Present a tax return with the retentions thus performed, under the terms and conditions established by DGI.

Agents appointed to act as for IRPF purposes include:

a) Retention on rents

Article 36 of the Regulatory Decree appointed a group of IRPF retention agents for rents and other performances of real estate capital paid to the payers of said tax.

The persons appointed retention agents include IRAE taxpayers comprehended in the Large Taxpayers Division and in CEDE Group of DGI.

The retention shall be made on payment or credit, by applying the following rates to the sum received or credited to the income holder plus the corresponding retention:

- 10.5% in case of real estate rents.
- 12% in the rest of the cases of performance of real estate capital.

b) Liability for the payment of income of work performed as employees

In terms of income coming from work, IRPF Regulatory Decree appointed the employers of BPS active members and other social security institutes as surrogate parties accountable. For such purposes, any dependent or independent worker who carries out activities covered by the social security institutions is considered an active member.

Retention shall be made on a monthly basis by way of a monthly advance payment of IRPF, to be discounted from the annual liquidation. The amount of the advanced payment shall be determined by applying the rate scale to the income of the month in order to determine the rates and deductions on a monthly basis (i.e. by dividing the annual scales by twelve). The value of the Benefit and Contribution Base that shall be taken into account for such determination shall be established by the Executive Branch, contemplating the expected increase of the period.

Income computable for the determination of retentions shall not be lower than the amounts taxed for the definition of Special Social Security Contributions.

At first, the retention shall consist of the difference between the amounts resulting from applying the following rates to the income and deductions of the period.

To the total income of the month:

ANNUAL TAXABLE INCOME	RATE
Up to 7 BPC ¹⁷	0%
More than 7 BPC and up to 10 BPC	10%
More than 10 BPC and up to 15 BPC	15%
More than 15 BPC and up to 50 BPC	20%
More than 50 BPC and up to 100 BPC	22%
More than 100 BPC	25%

To the allowed deductions:

ANNUAL TAXABLE INCOME	RATE
Up to 3 BPC	10%
More than 3 BPC and up to 8 BPC	15%
More than 8 BPC and up to 43 BPC	20%
More than 43 BPC and up to 93 BPC	22%
More than 93 BPC	25%

For monthly retention purposes, deductions shall be computed as follows:

- Non-proportional deductions (basically, the deduction for health care services to underage or incapable children): one twelfth of the annual amount.
- Proportional deductions (basically, social security contributions): applying the percentage corresponding to the amount of the computed income.

For the application of deductions, the information available at the moment of such determination shall be taken into account.

For such purposes, the worker must provide, through a tax return to the surrogate liable party, the information related to all personal circumstances linked to the deductions (for instance, number of children or dependents). This information will be included in the tax return the surrogate liable party must provide to Banco de Previsión Social (BPS). The tax return shall establish the deductions the employer or entity must carry out.

¹⁷ The value of the BPC was \$ 2,417 as at 07/31/2012..

If the taxpayer decides not to inform the accountable party about the circumstances which lead on to any right to deductions, the person subject to taxation will calculate the retentions without taking any deduction into account (however, taxpayers may consider these deductions in their annual tax return).

Dependent workers shall submit the tax return when IRPF comes into force and when the work relationship begins as well as in case of any further modification. Otherwise, the corresponding circumstances shall be taken into consideration as from the month following the date on which the same are informed.

Apart from monthly retentions, the surrogate liable party shall define an annual adjustment to December 31st each year. The balance shall be the result of the difference between the tax determined according to the general regulations and the retentions thus made. If from such determination a debit balance should arise, the liable party shall apply the corresponding retention and will provide it to the collecting entity.

In case there is a credit balance in favor of the taxpayer, the same shall be reimbursed by the Tax Administration Department under the conditions established by said entity. If the taxpayer obtains the work income exclusively from a surrogate accountable party during the period, the retained tax shall be final and the taxpayer will not have to submit the associated tax return. If the taxpayer obtains other work income taxed by IRPF, the retained tax shall be considered an advanced payment.

c) Responsibility for the payment of income of independent work

Article 73 of the Regulatory Decree appointed IRAE taxpayers included in the Large Taxpayers Division and the CEDE Unit of the Tax Administration Department responsible for IRPF related to income deriving from services rendered on an independent basis to the payers of this tax.

Retentions shall be applied on a monthly basis and will only be applicable if the taxpayer's monthly aggregate amount invoiced to the liable party surpasses in the month 10,000 Indexed Units (UI), excluding the Value Added Tax.¹⁸

The retention amount shall be the result of applying a 7% rate to the sum of the amount paid or credited to the income holder plus the associated retention.

The taxpayer shall consider the retained amount an advanced payment, and it shall be discounted from the amounts advanced in the same period. If the taxpayer had a credit for said item from the liquidation at the closing of the period, this amount may be destined to pay off liabilities to DGI or BPS.

3.2 Personal Wealth Tax

Wealth tax corresponding to natural persons, families and undivided inheritance is applied on the assets in the country, net of certain debts.

Only the assets established, placed or economically used in Uruguay are taxed.

The tax is applied at progressive rates ranging from 0.7% to 2.5%, with an individual non-taxable minimum of

¹⁸ In the case of insurance brokers, withholding will occur in every case, regardless of the monthly invoiced amount.

approximately US\$ 110,000, which is doubled for families. Natural persons domiciled abroad, as well as foreign legal persons, are not subject to the payment of this tax regarding the balances for exports, loans and deposits made with Uruguayan residents. Natural persons are considered domiciled in the country for taxation purposes when they reside or develop most of their activities in Uruguay.

The assets of natural persons, families and undivided inheritance are valued at marked to market, with particular exceptions, mainly for real estate and vehicles - the values of which are established by the government from time to time.

The following assets are exempted:

1. Shares in companies subject to the payment of this tax and shares in financial entities exclusively operating off-shore.
2. Public debt.
3. Natural persons' bank deposits.

The deductible liabilities only include debts with local banks up to the limit in which these surpass the amount of exempted assets plus the assets located abroad.

4. Non-residents taxation

* Main features

- Income from Uruguayan sources earned by non-resident natural or legal persons without permanent establishment in the country is reached by IRNR.
- IRNR is applied at proportional rates which range from 3% to 12%, depending on the type of income.

The Non-Resident Income Tax (IRNR) is a tax applied to Uruguayan sources of income earned by natural persons and other non-resident entities which do not have a permanent establishment in Uruguay.

Uruguayan sources of income of any nature obtained by payers of this tax are taxed, including commercial income, capital yield, work yield and equity increase.

Income resulting from activities developed, assets established and rights economically used in the country is considered Uruguayan source of income for IRNR purposes. Also income obtained through technical services rendered from abroad to IRAE taxable persons is considered Uruguayan source of income.

The concept “established resident” for the purposes of this tax is as follows:

- In the case of natural persons, it shall be understood that the taxpayer has his fiscal residence in Uruguay when any of the following circumstances is verified:
 - Residence in the country for more than 183 days during the calendar year.
 - Location of the main core or center of his activities or economic or vital interests in Uruguay.
- In the case of legal persons, these shall be considered residents when the same have been organized pursuant to the national legislation.

IRAE taxpayers who pay or credit business income, capital income or work income to IRNR taxpayers have been appointed IRNR retention agents. If no retention agents have been appointed, the IRNR taxpayer shall appoint a representative in the national territory to be represented before the Tax Administration Department in terms of its fiscal liabilities (the representative shall be jointly liable with the taxpayer for such obligations).

This tax's rates are the following:

- Interest related to more than one-year deposits in national currency and in indexed units, with financial intermediation institutions: 3%
- Interests on bonds and other debt securities, issued to terms in excess of three years, by IPOs and stock-market listing: 3%
- Interest related to one-year deposits (or a lesser term) in national currency without readjustment clause: 5%

- Dividends or profits paid or credited by IRAE taxpayers: 7%
- Other income: 12%

In terms of dividends, it is worth pointing out that only dividends distributed by IRAE taxpayers who correspond to income actually levied by this tax, accrued in periods starting on July 1st, 2007 are taxed with IRNR.

Among other exemptions, the law has also established the following:

- a) Public Debt interests.
- b) Interests of loans granted to IRAE taxpayers whose assets destined to obtain non-taxed income for this tax surpass 90% of their assets valued pursuant to the tax provisions.
- c) Income resulting from selling bearer shares in companies which pay IRAE.
- d) Equity increases resulting from equity transfers when the price of said transfer does not surpass 30,000 Indexed Units - individually - and provided that the sum of operations which do not exceed said amount do not surpass 90,000 Indexed Units during the year.
- e) Income related to maritime or air navigation companies under reciprocity conditions. Income corresponding to freights for maritime or air transportation of assets outside the Republic are exempt in all cases.
- f) Income resulting from activities developed abroad and in customs areas, port customs areas, customs warehouses and Free Trade Zones, by non-resident entities, with goods from abroad declared in transit or stored in these areas, when such goods are not from the national customs area or are intended for the same. This exemption is also applicable when the goods are intended for the national customs territory, provided that such operations do not surpass in practice 5% of the total sales amount for goods in transit or stored in the areas during the period.

IRNR estimation and payment shall be made on an annual basis, but if the total amount of the tax was retained, the taxpayer may choose not to submit the corresponding tax return.

5. Value Added Tax

* Main features

- VAT basic rate is 22%. There is a minimum rate of 10% only applicable to certain goods and services.
- Exports and agricultural products are subject to the zero rate regime, whereby tax credit is reimbursed.

VAT is applied in Uruguay since 1972 and it has acquired more importance throughout the years. Apart from being the main source of taxation resources, the main economic purpose of VAT is to tax the internal consumption of goods and services without intruding with commercial relationships. VAT is intended to be a non-discriminatory tax, both in terms of imports/internal production and of the number of companies that take part in the economic process and their degree of integration, vertically and horizontally.

Individuals and companies subject to VAT

All companies subject to the payment of IRAE are also subject to the payment of VAT. VAT is also applicable to natural persons and entities which render personal services.

VAT-taxed operations

VAT taxes imports and sales of goods and services developed within the national territory. The tax is computed upon delivery of the good, rendering of the service or final entrance of goods to the country.

Exemptions

VAT exemptions include: sales of fruits and vegetables, foreign exchange, precious metals, credit assignments, real estate, agricultural machinery and accessories, oil by-products (except for fuel oil), milk, agricultural input, books, newspapers, magazines, educational materials and water.

Moreover, certain services are also VAT-exempt: interest of public and private securities and deposits, real estate leaseholds, bank operations except for interests over consumer loans, personal retributions for services associated to cultural activities, etc.

VAT estimation

VAT is estimated over the net amounts invoiced for sales and services. This tax must be detailed in the corresponding invoice. VAT included in the acquisition of goods and services which is directly or indirectly part of the cost of goods and services sold or rendered by VAT taxpayer (provided that this is clearly specified in the purchase invoice) can be deducted from sales VAT invoiced for the sale of goods or the rendering of services.

Invoices shall satisfy a set of minimum formalities established by the corresponding regulations, such as the pre-printed consecutive numeration, the identification of the vendor or renderer of the service and the acquirer, the registration number of the vendor or provider of the service with the Tax Administration Department and the

tax amount, differentiated from the value of the good or service.

Rates

The basic rate is 22%, but there is a minimum rate of 10% applicable to specific goods such as essential food products and medicines and services provided by accommodation-related hotels.

There is no specific rate applicable to sumptuous products, which, however, are subject to Excise Tax.

Zero rate

Exports and sales of agricultural products in their natural state –with the exception of fruits, flowers and vegetables– made by IRAE taxpayers are taxed by VAT at a zero rate. This means that VAT is not included in the invoice, but sales VAT in the purchases of the goods and services that directly or indirectly integrate the cost of the products can be recovered.

Both IRAE taxpayers and IMEBA taxpayers are taxed by VAT at a zero rate for the exports and sales of fruits, flowers and vegetables. However, in this case, the VAT in suspension regime ceases when the agricultural producers sell such goods to IRAE taxpayers or when such goods are imported.

The agricultural products in their natural state are those commodities, animals and vegetables, as obtained in the establishments of the producers –i.e. not tampered or processed industrially, except when required for their preservation. In addition, regulations state that debarked logs are deemed included in the definition of agricultural products in their natural state for the purpose of VAT payments.

Exempt goods and services

As for the sale of exempt goods and services, VAT included in the acquisition of goods and services which are included in the cost of the goods sold or services rendered may not be deducted, turning into a cost factor.

VAT Collection

VAT is collected by the Tax Administration Department. Tax returns must be submitted on a monthly basis, at the end of the month following the date on which the taxed event occurred. If a credit balance arises from the tax return, the same shall be transferred to the following month or period, without inflation adjustment, until it can be absorbed by sales VAT.

In the case of exporters and other similar taxpayers, the Tax Authority issues credit certificates for the amount of purchase VAT which can be used for paying off other tax or endorsed debts, in this case, in favor of the exporters' suppliers. These certificates may be monthly requested and the same are generally issued within two or three months as of the request.

6. Other taxes

* Main features

- Excise tax is applied to several goods, such as: alcohol, tobacco, fuel, cosmetics and motor-vehicles.
- The organization of corporations is levied by a 1% tax on contractual equity.

6.1 Excise Tax

The Excise Tax (IMESI) currently accounts for approximately 11% of the tax collection.

IMESI taxes a great range of products at differential rates.

The tax levies the first sale made by producers or importers of the products in the domestic market. Exports are not taxed.

The rate varies according to the item and it is generally set by the government within the parameters established by law.

Goods subject to more elevated rates are alcoholic beverages, tobacco, fuel, lubricants and other oil by-products. For alcoholic beverages, the maximum rate is 85% and 70% for tobacco. Oil by-products are taxed over their selling price at differential rates, depending on the product. This rate may reach a maximum of 133%, for instance, in refined gas. Other goods such as alcohol, sodas, cosmetics and no diesel motor-vehicles are taxed at rates which vary between 10% and 40%.

6.2 Corporation Control Tax

The organization of corporations is taxed by this control tax, which is applicable to the organization thereof and at the closing of each tax period.

Applicable rates are the following:

- 1.50% for the organization of the corporation.
- 0.75% for every closing of periods.

The taxable amount consists of the minimum statutory capital for corporations in effect at the time of occurrence of the triggering events.

This tax is not applied to foreign companies' branches.

6.3 Insurance Companies Income Tax

Insurance companies are subject to the payment of a tax over their gross income. The general rate is 5%, except for maritime insurances whose rate is 2%, life insurances whose rate is 0.5% and fire insurances whose rate is 15%.

When the insurance company is not authorized or empowered to develop insurance-related activities in the country, the applicable rates may raise up to 40%.

6.4 Agriculture – Livestock Goods Sales Tax

The Agriculture - Livestock Goods Sales Tax (IMEBA) levies the first sale made by the producers to IRAE taxpayers of several goods such as wool, leather, live cattle, grains, milk, poultry farming products, beekeeping products, fruits and vegetables.

Exports made by producers and self-consumption carried out by IRAE taxpayers are also taxed.

The rates vary between 0.9% and 2.5% depending on the type of good.

Moreover, the sale of wool, leather, live cattle, grains, milk, forest products and the exports of horticultural products, fruits and citrics is taxed by two additional taxes of 0.4% and 0.2%.

Agricultural companies shall have to estimate IRAE instead of IMEBA when any of the following conditions is observed:

1. For the case of Corporations, Joint Stock Companies, permanent establishments of non-resident entities or Trusts.
2. When the earned income surpasses 2,000,000 Indexed Units (approximately US\$ 230,000) in the period (income obtained during the previous period is taken into account for the purposes thereof).
3. When the operations are carried out in plots surpassing 1,250 hectares at the beginning of the period. CONEAT 100.¹⁹

6.5 Equity Transfer Tax

This tax is applied on the conveyance of real estate. Both parties to the transaction are to pay this tax at a 2% rate over the actual value of the property (which is usually lower than the market value). When the property is transferred for no consideration at all, the beneficiary must pay the tax at a rate of 4%. Direct upline or downline heirs shall pay the tax at a rate of 3%.

¹⁹ CONEAT is an index which measures the land productive capacity. The country's average productive capacity is 100.

7. International Agreements

* Main features

- There are treaties executed with Germany, Hungary, Mexico, Spain and Switzerland to avoid double taxation.

Uruguay has entered into treaties to avoid double taxation with Germany (1987 and 2011), Hungary (1993), Mexico (2010), Spain (2011) and Switzerland (2011). These agreements control taxation aspects and are considered a good mechanism to foster local investments.

The agreement with Germany derives from the “German Model”, which in turn derives from the Organisation for Economic Co-operation and Development (OECD) model. The main aspect to be taken into account about this agreement is the reduction of the tax to be retained, when applicable, over the payments or credits to the other country for concept of royalties, technical assistance, interests and dividends. Under certain conditions in Uruguay, all the abovementioned items except interests, are subject to tax by way of retention when payments or credits are carried out to a foreign country.

According to the provisions set forth in said treaty, rates are reduced as follows:

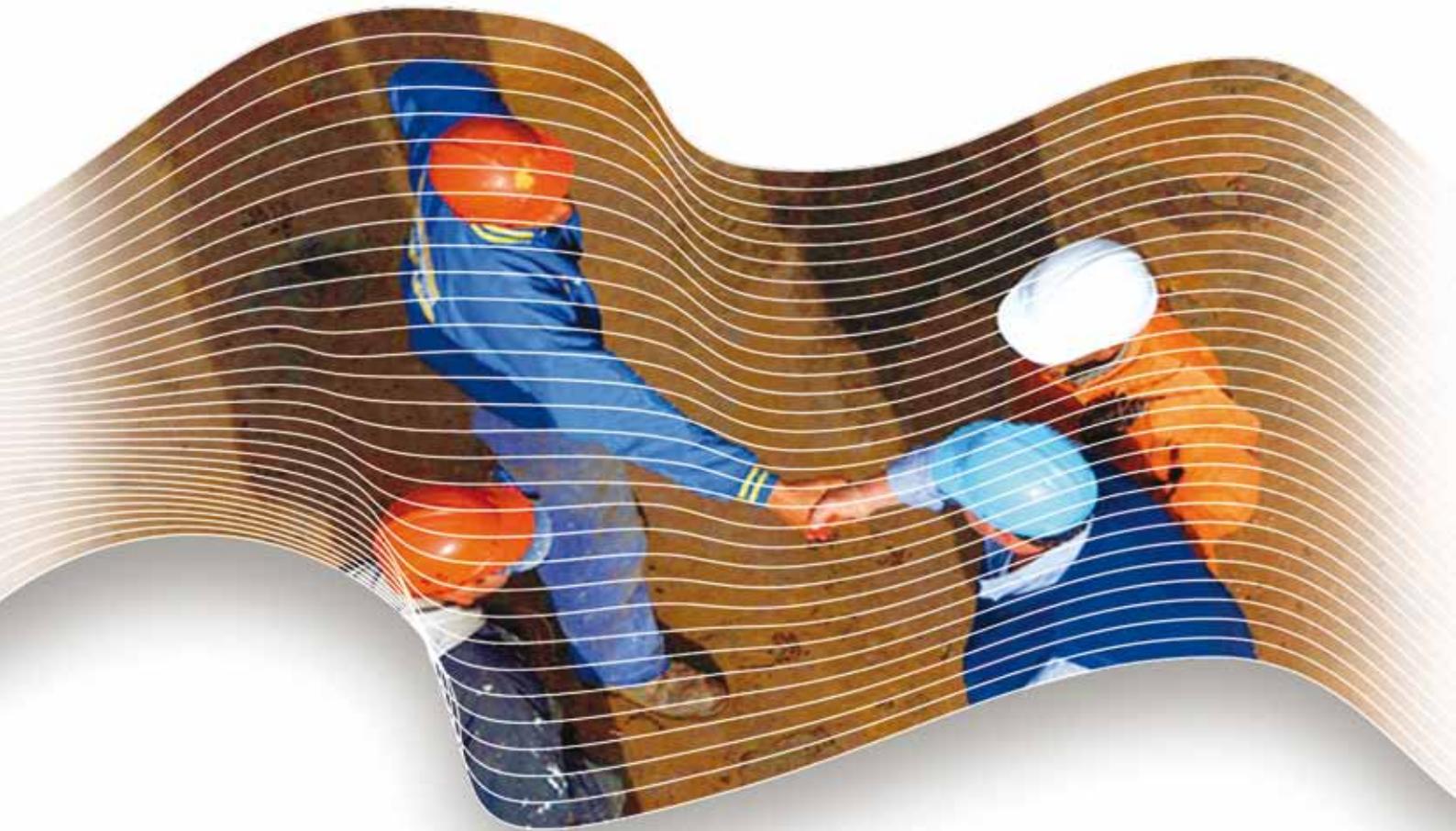
Dividends, royalties and interests:	Up to 15%
Payments for technical assistance:	Up to 10%

The concept of “permanent establishment” has been introduced in order to accept taxation by the country at which said establishment is located. The treaty executed with Hungary contains similar provisions to those set forth in the treaty executed with Germany.

In addition, Uruguay has an information exchange agreement signed with France and, in varying degrees of progress in diplomatic and parliamentary ratification, are agreements with Portugal, Liechtenstein, Ecuador, Malta, India, Belgium, Finland and South Korea. The agreements with Romania, Canada, Australia, Norway, Faroe Islands, Iceland, Greenland, Sweden and Denmark have technical consent.

Chapter 7

LABOR AND SOCIAL SECURITY SYSTEM



* Main features

- Salaries are fixed with the worker and, in some cases, they are fixed in agreements negotiated with unions. Under no circumstance can salaries be below the national minimum salary established by the Executive Branch or below the minimum of each working category determined by Wage Boards.
- Salaries must be readjusted on a bi-annual basis according to the standards set forth by Wage Boards.
- Labor costs are reasonable.
- There is availability of qualified labor force.
- Social security system is comprehensive and mixed: based on a state allotment system and a private individual capitalization system.

1. Labor relations

Employee-company relations

Labor relations are individually regulated by detailed laws that constitute one of the bases of Uruguay's rule of law. On the other hand, Uruguayan legal system in collective relations matters is poor. There is wide union freedom - protected by the Constitution and the laws.

Collective relations are based on a clear autonomy of freely interrelated workers and employers' organizations; the State only intervenes on an ancillary and indirect basis.

Unions

The union movement is organized in associations per company and per sector of activity; employees' union membership is voluntary.

When wage settlements are made with unions, not only salaries but other aspects such as working conditions, additional benefits, etc. are negotiated as well. The Ministry of Work and Social Security plays an important role as mediator whenever there are labor disputes.

The law determines that any discrimination tending to damage union freedom of workers with respect to their job or the access thereto is absolutely null and void and the restitution of the worker dismissed for union reasons is mandatory.

The enjoyment of remunerated free time for the exercise of the worker's union activity is recognized within the union members' rights.

Workers' representatives, acting in the name of a union, shall be entitled to post union notices at such place within the company's premises as established by its management; such place must be easily accessed to by workers.

Labor force availability

According to Latin American standards, labor force in Uruguay is among the most trained and qualified ones. The availability of qualified labor force is not a restriction for new investment projects.

Term agreements

It is possible to execute a three-month probation agreement at the beginning of the labor relation. On the other hand, when justified, it is possible to execute fixed-term labor agreements.

2. Salaries

Salary assessment

In Uruguay, salary means the set of economic advantages received by the worker by reason of the labor agreement.

This concept includes the fixed method of remuneration (per hour, day or month) and the variable method of

remuneration (task work, commissions, participations, etc.). When salary is exclusively variable or includes variable elements, as a whole, it cannot be below the national minimum salary or the salary in effect for the corresponding category or activity.

There are several salary fixing mechanisms: through individual negotiation with each worker in his labor agreement, through bilateral negotiation with the execution of bargaining agreements between company and trade unions or through tripartite negotiation where the government takes part together with workers and employers in the fixing of minimum salaries per category and bi-annual readjustments through the Wage Boards (tripartite entities made up of State, workers and employers' delegates).

Indeed, salary readjustments and minimum salaries corresponding to each category for the private sector can be fixed through individual negotiation with the worker or, in some sectors of activity, through collective negotiations which fix minimum amounts per professional categories and periodical adjustment parameters. However, salaries fixed through individual negotiation (labor agreements) as well as through collective negotiation (bargaining agreements) cannot be below those established by the Wage Boards.

In addition, the government fixes the national minimum salary for those workers who are not represented at the Wage Boards as well as civil servants' salaries.

The national minimum salary fixed by the Executive Branch currently represents an amount equal to US\$ 355 per month.

Profit sharing

There are no legal regulations or general agreements which set a profit sharing system for employees. Save at senior management level, this system is not used in Uruguay.

Labor cost

Labor costs are not normally the most important production cost item, even taking into account the cost of social charges.

3. Workday

Duration

Workday is limited to 8 hours per day, amounting to 44 hours per week in the commercial activity and 48 hours per week in the industrial activity.

In the commercial activity, every employer may adjust the closing and opening hours, respecting the 8 hours per day and the 44 hours per week, which enables the opening of businesses on Saturdays and Sundays.

University professionals, vendors and traveling salesmen, brokers, collectors, collection investigators and senior staff do not fall within the scope of the workday limitation.

Breaks

Workdays must be interrupted by an intermediate break, the duration of which goes from half an hour to two

hours and a half depending on the activity. In the first case, workdays are called “continuous” since the intermediate break is taken into account when it comes to generating salary. In the second case, they are “discontinuous” workdays for such break is not taken into account and is not remunerated.

As for discontinuous workdays, the intermediate break may be reduced to an hour, provided there is a written agreement between the employer and employee or employees whose break is intended to be reduced.

Overtime

Work exceeding the legal or conventional workday limitation must be paid twice at working days and two and a half times more on non-working days.

4. Social benefits

Paid annual leave

Workers are entitled to a paid annual leave of twenty continuous days, which increases by reason of one day per every four years of seniority at the firm as from the fifth year.

Annual leave must be enjoyed within the year immediately following the period where it was generated; however, it can be enjoyed in two fractioned periods, the lesser of which cannot be less than 10 days, provided an agreement is executed with at least half plus one of the company’s workers.

Leave must be paid along with the usual working remuneration pursuant to the amounts en effect at the relevant time.

Vacation pay

Workers are entitled to receive, apart from the leave pay, an additional pay destined to improve leave enjoyment. This is known as vacation or holiday pay.

It is equal to 100% of the liquid leave wage, i.e., the leave wage less social security contributions made by the worker. This complement is payable at the beginning of the leave.

Paid public holidays

Workers have the right to be paid as if they were working on the following public holidays: January 1st, May 1st, July 18th, August 25th and December 25th. Should employees effectively work on such days, they must be paid twice as much their salary.

Thirteenth Month Pay

The thirteenth month pay - also called complementary annual pay, is a wage benefit which private workers are entitled to. It consists of one twelfth of the total pay in cash received by employers in the twelve months prior to the payment date and is payable before December 24th.

The Executive Branch may authorize - and it has been doing so over the past years, the 13th month pay in two installments, 50% in June and 50% in December.

Redundancy pay

Employers are empowered to dismiss their workers and they are obliged to pay the corresponding indemnity. In the case of monthly workers, such compensation is equal to one monthly salary for every year or fraction of seniority in the company, with a cap of six monthly salaries.

In the case of seasonal workers, they must work at least 100 workdays in order to generate their right to indemnity; for more than 100 workdays, they are entitled to compensation of two-days wages for every twenty-five days worked, with a cap of 150-workday wages.

Additional indemnity corresponds to the dismissal of sick workers, bank clerks, traveling salesmen and vendors and pregnant women.

Redundancy pay is not compulsory when the dismissal is due to the workers' notorious misconduct. Although this concept is not legally defined, it is understood as an event where continuity of the working relation is at stake as a result of the worker's misconduct or inobservance. Such misconduct may consist of one severe event or a series of less important events.

Outsourcing

Employers using subcontractors, intermediaries or labor suppliers are jointly responsible for their labor obligations towards contracted workers, as well as for the payment of social security contributions to the corresponding social security authority, industrial accident and professional disease premium and for the penalties and amounts indebted to the BSE as regards said workers.

At the same time, there is a ban on outsourcing or recruiting through intermediaries or labor suppliers in order to replace workers under the protection of the unemployment benefit or under collective conflict.

Workers provided by temporary employment agencies cannot receive labor benefits below those established by the decisions of the Wage Boards, bargaining agreements or executive decrees for their labor or professional category corresponding to the line of business of the company where they render their services.

5. Social Security System

The social security system covers disability, old-age, retirement, disease, industrial accident, maternity, unemployment and death risks.

The registration with such entity is mandatory, with the exception of foreign workers who hold positions in Free Trade Zones. Furthermore, some foreign workers may waive their inclusion in the social security system, under the protection of international treaties executed by Uruguay.

The BPS is the public entity in charge of the social security system in Uruguay and it is responsible for collecting practically all the contributions made by companies and employees and for keeping the work record of every member up to date.

5.1 Benefits

Retirement

The retirement system covers disability, old-age and retirement risks. It divides workers into three levels according to their remuneration: the first level includes workers with remunerations up to approximately US\$ 1,300; the second level includes workers with remunerations that range from US\$ 1,300 to US\$ 1,050 and the third level includes workers with remunerations in excess of US\$ 1,950.

Workers under the first level are included in the inter-generational solidarity system, which is a distribution system –the benefits of which are paid by the BPS. Workers under other levels are included in the mandatory individual savings system, which is a mixed system, given that, besides from contributing to the inter-generational solidarity system, they can contribute to an individual capitalization system managed by corporations called Administradoras de Fondos de Ahorro Previsional (Administrators of Social Security Savings Fund - AFAPs) through a personal account system, with which benefits to be received by workers shall be directed related to the contributions made to their personal account.

Workers whose income is below US\$ 1,300 can choose to contribute up to 50% of their remuneration to the individual savings system (AFAP) and the remaining 50% to the inter-generational solidarity system (BPS). Workers with remunerations in excess of US\$ 3,880 may choose whether to contribute or not for pays surpassing such cap. Overall contributions are collected by the BPS which then transfers the corresponding share to the AFAPs.

Workers will then receive a retirement pension (paid by BPS) and an annuity (paid by an AFAP).

In order to have access to the retirement pension, workers must have 35 years of service and 60 years of age.

Unemployment

There is an unemployment insurance system whereby workers temporarily or permanently unemployed (who have worked 180 days during the 12 months prior to the employment termination) receive compensation from the BPS which amounts to 66% of the monthly average of salaries received during the latest six months in the first month of compensation, 57% in the second month of compensation, 50% in the third month of compensation, 45% in the fourth month of compensation, 42% in the fifth month of compensation and 40% in the sixth month of compensation, without exceeding the 11 monthly Benefit and Contribution Bases (approximately US\$ 1,200). The term of such coverage is six months and, in the case of transitory unemployment, at the end of the six-month period, the worker must be incorporated to his post or be ultimately dismissed.

Disease and maternity

Workers are entitled to be registered with a mutual medical assistance institution at no cost. In the case of common disease, the labor agreement is interrupted and BPS pays the worker a sick pay equal to 70% of his usual salary.

Pregnant workers have the right and obligation to interrupt their duties six weeks before and six weeks after giving birth, receiving during such period medical benefits and a substitute for the salary, 13th month pay, annual leave and vacation pay. These benefits are the responsibility of the social insurance entity and do not account for any additional cost for the company.

Industrial accidents

Both industrial accidents and professional diseases that workers may suffer are under the protection of a mandatory coverage system of public nature, managed by BSE. Said entity grants welfare benefits and pays rents due to temporary or permanent inability deriving from the accident or disease.

Employers are obliged to take out this insurance with BSE whenever they hire personnel. The value of the insurance policy will depend on the risks of the company's activity, the number of employees and the salaries paid.

5.2 Contributions

Remuneration of workers, including Corporation Directors and receivers, as well as partners in partnerships and owners of single-member companies are subject to Special Social Security Contributions (CESS) and to the mandatory contribution to the Labor Reconversion Fund (Fondo de Reversión Laboral).

Companies must make the relevant monthly contributions and withhold and pay the contributions corresponding to their workers, which are applied on the salaries actually paid to workers.

For trading and industrial companies, contribution rates are the following:

SOCIAL SECURITY CONTRIBUTIONS	CONTRIBUTIONS CORRESPONDING TO	
	EMPLOYER	EMPLOYEES
Retirement, old-age, disability pensions and unemployment benefits	7,5%*	15%*
Health insurance	5%	3%, 4,5% o 6%**
Labor Reconversion Fund	0,125%	0,125%

* For monthly remunerations in excess of approximately US\$3,880 this contribution is not applicable, at the workers' discretion.

** Depending on the amount of income and the existence of depending children.

In the case of partners in partnerships and owners of single-member companies who activities in the company, the taxable base is the highest of the company's best paid worker remuneration and the remuneration actually received by the partner. Under no circumstance can such base be less than an alleged amount of approximately US\$ 260 per month, which may change depending on whether they are partnerships or single-member companies.

In the case of Corporation Directors, the contribution base is the same as that for active members in partnerships but with a minimum alleged base of US\$ 470 per month, approximately. However, the following cases do not generate contributions:

- when they do not receive any remuneration
- when domiciled abroad

For banks and lending institutions, the highest rates are applied.

In agricultural exports, the contributions' taxable base under the responsibility of the company is not remuneration. There is an alleged taxable base which is calculated according to the number of hectares and their potential productivity.

5.3 Foreign personnel

Work permits

Foreigners working in Uruguay for more than six months must obtain the temporary residence (up to 2 years) or permanent residence, which is granted without further requirements: certificate stating they do not have any criminal record in the previous country of residence, certificate of good health and means of living.

Companies cannot hire or enter in their payrolls foreigners who fail to justify that they are duly authorized to work legally in the country, whether permanently or transitorily. Such justification can only be made through the presentation of the certificate issued by the National Migration Office, with written evidence that the interested party is qualified for such purposes.

Special systems

Foreign personnel is included in the general social security system, unless there is a treaty signed with the country of origin or unless said worker works in the Free Trade Zone and has chosen not to be benefited from the Uruguayan social security system.

Employment restrictions

The only activities with restrictions for foreign workers are:

Fishing

The captain and at least 50% of the crew must be Uruguayans.

Uruguayan airlines

The crew must be Uruguayan and at least 75% of employees must be Uruguayan citizens.

Free Trade Zones

75% of the employees must be Uruguayan citizens for the purposes of being granted the exemptions in force.

Chapter 8

PRACTICAL ASPECTS TO ORGANIZE A COMPANY



1. Incorporation and establishment procedures

1.1 Corporation (SA)

Formal requirements

(I) Incorporators must approve the corporate by-laws which must also be approved by the National Audit Office (AIN), registered with the National Trade Register (RNC) and published (an excerpt) in the Official Gazette and in another national newspaper. The term of organization can be extended several months. During such term, the corporation can operate as “SA under incorporation”, the incorporators being jointly and unlimitedly accountable to the corporation and third parties. It must be registered with the Tax Administration Office (DGI), the Social Security Administration (BPS), the Ministry of Work and Social Security (MTSS) and, if it hires personnel, with the State Insurance Bank (BSE).

* Documents to be furnished when incorporating an SA

- AIN: By-laws and certified copy; minutes of subscription and contribution and certified copies thereof.
- DGI and BPS: Registration Application Form and Update with notarial certification.
- MTSS: Payroll (in the event of hiring personnel)
Registration with BPS and DGI
Labor Registration Book
- RNC: By-laws and approval of AIN
Statutory books

(II) Instead of complying with the corporation's organization procedure, it is possible to acquire a pre-incorporated company (whether a regular SA or a special SA) which has not carried out any activity yet. Control over such corporations is acquired by means of a mere transfer of shares in consideration of the payment of a price and appointment of a new Board of Directors, which can be formalized in one day.

This form is widely spread. The cost of pre-incorporated SA's shares is around US\$ 2,000 and US\$ 3,000, according to the SA type used.

Capital requirements

Share capital, which has no limitations regarding minimum and maximum amounts, must be set in the By-laws; incorporators must contribute at least 25% at the time of incorporation and they undertake to contribute the remaining percentage at any time, until reaching 50%. Share capital as well as book entries must be expressed in national currency. Shares can be ordinary or preferred shares. Preferred shares cannot be issued for more than 50% the share capital.

SAs which own rural property and farms as well as radio and television stations must have their capital expressed in registered shares. The holders thereof must be natural persons. In the case of radio and television stations' owners, they must be Uruguayan citizens domiciled in the country.

1.2 Limited Liability Company (SRL)

Formal requirements

Founding members must execute a partnership agreement which is to be registered with the National Trade Register (RNC) and an excerpt thereof must be published once in the Official Gazette and in another newspaper. Such procedure lasts one month approximately; however, activities can start upon the execution of the partnership agreement, founding members being jointly and unlimitedly accountable for the company's obligations until proceedings have ended.

It must be registered with the DGI, BPS and MTSS and, if it hires personnel, with the BSE.

* Documents to be furnished when organizing an SRL

- RNC: Partnership agreement with notarial certification
Statutory books
- DGI and BPS: Registration Application Form and Update with notarial certification.
- MTSS: Payroll (in the event of hiring personnel)
Registration with BPS and DGI
Labor Registration Book

Capital requirements

SRLs do not have maximum or minimum capital caps. Upon execution of the partnership agreement, at least 50% of the company's capital must be paid in - in the case of cash contributions, and/or 100% must be paid in - in the case of in-kind contributions. Capital is divided into indivisible parts of equal value which cannot be represented by negotiable instruments. For transferring ownership interest, the partnership agreement must be amended in compliance with the same procedures used for the organization thereof. Such transfer in general may only be freely made among SRL's partners. For the assignment of ownership interest to third parties, the agreement of the other partners representing at least 75% of the company's capital is required.

1.3 Partnership, Limited Partnership, Joint Stock Company, Labor and Capital Partnership, De Facto Partnership

Formal requirements

The organization procedure of these types of businesses –unless for De Facto Partnerships where there is no written partnership agreement– is similar to that of SRLs, with the difference that no publication is required.

* Documents to be furnished when organizing an SRL

- RNC: Partnership agreement with notarial certification, except for De Facto Partnerships
Statutory books
- DGI and BPS: Registration Application Form and Update with notarial certification.
- MTSS: Payroll (in the event of hiring personnel)
Registration with BPS and DGI
Labor Registration Book

Capital requirements

There is no minimum or maximum capital requirement.
In general, provisions corresponding to SRLs are applicable.

1.4 Single-Member Companies

Formal requirements

Single-member companies do not require an organization procedure. They should only comply with tax obligations and be registered with DGI, BPS, MTSS and, if they hire personnel, with BSE.

★ Documents to be furnished when organizing a Single-Member Company

- RNC: Statutory books.
- DGI and BPS: Registration Application Form and Update with notarial certification.
- MTSS: Payroll (in the event of hiring personnel)
Registration with BPS and DGI
Labor Registration Book

Capital requirements

Since they are not organized as companies, they do not have capital requirements at all.

1.5 Consortia and Economic Interest Groups (GIE)

Consortia

They are organized by means of an agreement between two or more individuals or legal entities (typically between two or more companies), which is registered with the RNC and an extract thereof must be published in the Official Gazette and in another newspaper.

Economic Interest Groups

GIEs are organized by means of an agreement registered with the RNC.

1.6 Foreign company branches

Formal requirements

A true copy of the Foreign Headquarters' By-laws and the Minutes of the Foreign Headquarters' competent entity whereby the establishment of a Branch in Uruguay is resolved must be registered with the RNC. The registration must state the Branch's name, domicile, assigned capital and the person or persons administering or representing such branch. Documents mentioned above must be legalized and translated into Spanish, if executed in another language. Upon the registration with the RNC, an extract of every document must be published in the Official Gazette and in another newspaper. It must be registered with DGI, BPS and MTSS and, if it hires personnel, with BSE as well. The term of organization may be extended several months and the Branch can operate from the time the establishment procedures begin.

* Documents to be furnished when organizing a branch

- RNC: Certified and legalized copies of the resolution which authorizes the establishment of a branch and the Headquarters' By-laws.
- DGI and BPS: Registration Application Form and Update with notarial certification.
- MTSS: Payroll (in the event of hiring personnel)
Registration with BPS and DGI
Labor Registration Book

Capital requirements

There are no minimal or maximum capital requirements.

1.7 Free Trade Zone Corporations (SAZF)

Formal requirements

Their incorporation is carried out according to a simplified system which does not require the approval of corporate By-laws by the AIN. Corporate by-laws must be registered with the RNC and the user contract with the General Trade Office - Free Trade Zones Area.

* Documents to be furnished when organizing an SAZF

- RNC: By-laws and certified copy; minutes of subscription and contribution and certified copies thereof.
- DGI and BPS: Registration Application Form and Update with notarial certification.
- MTSS: Payroll (in the event of hiring personnel)
Registration with BPS and DGI
Labor Registration Book

Capital requirements

The share capital must be established in the By-laws; incorporators must contribute at least 30% at the time of incorporation and they undertake to contribute the remaining percentage at any time, until reaching 50%.

2. Other regulatory aspects

2.1 Leasings

In general, business or industrial leasing hiring is free, the conditions set forth between the parties being respected. In the case of real property built before 1968, there are regulations regarding the minimum leasing term –five years– and the price readjustment method. In order to begin any judicial proceedings, it is necessary to certify being up to date with the Personal Income Tax, 1st Category (Capital Income).

2.2 Environment

Investment projects - the activities of which appear on Decree No. 349/005 which provides for environmental impact assessment regulation and environmental authorizations, require a Prior Environmental Authorization granted by the Ministry of Housing, Spatial Planning and Environment. The National Environmental Office (DINAMA) must be informed of this and it will classify the project within one of the following categories:

- Category A: Negative environmental impacts with no significance, within tolerance and provided for in the rules currently in force. In these cases, Prior Environmental Authorization will be granted without further procedures.
- Category B: Moderate significant environmental impacts, which negative effects can be eliminated or minimized through the adoption of well-known and easily applicable measures. In these cases, a sectorial environmental impact study must be carried out.
- Category C: Significant negative environmental impacts. Such projects will require a comprehensive environmental impact study.

3. Main operational costs (December 2011)

WATER	
Industrial consumption (average per consumption)	US\$ 2.06/m ³

Source: OSE

FUELS	US\$ PER LITER
GAS OIL	1.69
NAPHTA SUPER 95 SP	1.75
NAPHTA ESPECIAL 87 SP	1.75
NAPHTA PREMIUM 97 SP	1.82
DIESEL OIL	1.23
HEAVY FUEL OIL	0.70
MEDIUM FUEL OIL	0.86

Source: ANCAP

ELECTRICITY (LARGE CONSUMERS)			
VOLTAGE LEVEL Kv	VALLEY US\$/kWh	FLAT US\$/kWh	PEAK US\$/kWh
0.230-0.400	0.051	0.098	0.303
6.4-15-22	0.048	0.093	0.246
31.5	0.047	0.089	0.205
60	0.047	0.089	0.183
110-150	0.047	0.086	0.151

Source: UTE

TELECOMMUNICATIONS	
International call	Bs. As., Curitiba, Porto Alegre, São Paulo, Santiago de Chile and Asunción: US\$ 0.30/minute
	Rest of Argentina, Rest of Brazil, Rest of Chile, United States, Spain, Canada, Italy and Israel: US\$ 0.35/minute
Internet connection	It varies according to the contract. For a contract of 3 MB (flat rate) with 3,072 kbps download speed and 512 kbps upload speed, monthly cost is around US\$ 214.

Source: ANTEL

LAND COST (SALE TRANSACTIONS)	
Average cost per hectare (it varies according to forest priority areas or zones)	US\$ 3,196

Source: Ministry of Livestock, Agriculture, and Fisheries (MGAP)

4. Salaries of Managers

MONTHLY GROSS AVERAGE SALARIES	US\$
General Manager	12,371
Commercial Manager	8,104
Financial Manager	7,365
Production Manager	7,527
IT Manager	5,637

Source: PwC's Salaries and Benefits Survey 2011-2012.

5. Useful addresses in Montevideo (country code: 598)

Asociación Bancos del Uruguay (Banking Association of Uruguay)

Rincón 468, 2nd floor
Tel. 2916 2342
Fax. 2916 2329

Asociación Rural del Uruguay (Rural Association of Uruguay)

Uruguay 864
Tel. 2902 0484/86
Fax. 2902 0489
www.aru.org.uy
consultas@aru.com.uy

Auditoría Interna de la Nación (AIN) (National Internal Audit)

Paysandú 941
Tel. 2900 0394 / 2901 1257
Fax. 2901 7223
www.ain.gub.uy

Banco Central del Uruguay (BCU) (Central Bank of Uruguay)

Diagonal Fabini 777
Tel. 1967
www.bcu.gub.uy
info@bcu.gub.uy

Banco de Previsión Social (BPS) (Social Security Administration)

Colonia 1921
Tel. 1997
www.bps.gub.uy
consultasweb@bps.gub.uy

Banco de Seguros del Estado (BSE) (State Insurance Bank)

Av. Libertador Brigadier Gral. Lavalleja 1465
Tel. 2908 9303
Fax. 2902 1063
www.bse.com.uy

Bolsa de Valores de Montevideo (Montevideo Stock Exchange)

Misiones 1400
Tel. 2916 5051
Fax. 2916 1900
www.bvm.com.uy
bvm@bvm.com.uy

Bolsa Electrónica de Valores (Electronic Stock Exchange)

Misiones 1537, 6th floor
Tel. 2917 0000
Fax. 2917 0000 ext. 4
www.bevsa.com.uy
bevsa@bevsa.com.uy

Cámara de la Construcción del Uruguay (Uruguayan Chamber of Construction)

Plaza Independencia 842, 9th floor, suite 905
Tel. 2908 3572 / 2908 7652
Fax. 2900 6900
www.ccu.com.uy
formweb@ccu.com.uy

**Cámara de Industrias del Uruguay
(Uruguayan Chamber of Industry)**

Av. Italia 6101
Tel. 2604 0464
Fax. 2604 0501
www.ciu.com.uy
ciu@ciu.com.uy

**Cámara Mercantil de Productos del País
(Mercantile Chamber of Domestic Products)**

Av. Gral. Rondeau 1908
Tel. 2924 0644
Fax. 2924 4701
www.camaramercantil.com.uy
info@camaramercantil.com.uy

**Cámara Nacional de Comercio
(National Chamber of Commerce)**

Rincón 454
Tel. 2916 1277
Fax. 2916 1243
www.cnccs.com.uy
info@cnccs.com.uy

**Dirección Nacional de Industrias
(National Industry Administration)**

Sarandi 690 D, 2°EP
Tel. 2916 2411 / 12
Fax. 2916 3651
www.dni.gub.uy
dirmaind@adinet.com.uy

**Dirección General de Comercio
(General Business Administration)**

Uruguay 948
Tel. 2901 4115 / 2900 7195
Fax. 2902 1726
secretariadgc@dgc-mef.gub.uy

**Dirección General Impositiva (DGI)
(Tax Administration Office)**

Av. Daniel Fernández Crespo 1534
Tel. 1344
dacontri@dgi.gub.uy

**Federación Rural del Uruguay
(Agricultural Federation of Uruguay)**

Av. 18 de Julio 965
Tel. 2900 4791 / 2900 5583
Fax. 2900 4791 / 2900 5583
www.federacionrural.org.uy
fedrural@gmail.com

**Laboratorio Tecnológico del Uruguay (LATU)
(Technology Laboratory of Uruguay)**

Av. Italia 6201
Tel. 2601 3724
Fax. 2600 2291
www.latu.org.uy
atencionalcliente@latu.org.uy

**Ministerio de Economía y Finanzas
(Ministry of Economy and Finance)**

Colonia 1089
Tel. 17122
Fax. 1712 2265
www.mef.gub.uy
seprimef@mef.gub.uy

**Ministerio de Ganadería, Agricultura y Pesca
(Ministry of Livestock, Agriculture and Fisheries)**

Constituyente 1476
Tel. 2410 4155 / 58
Fax. 2419 9623
www.mgap.gub.uy
webmaster@mgap.gub.uy

**Ministerio de Industria, Energía y Minería
(Ministry of Industry, Energy and Mining)**

Paysandú s/n esq. Libertador Brig. Gral. Lavalleja

Tel. 2900 0231 / 33

Fax. 2900 0291

www.miem.gub.uy

direccion.general@miem.gub.uy

**Ministerio de Relaciones Exteriores
(Ministry of Foreign Affairs)**

Colonia 1206

Tel. 2902 1010

Fax. 2902 1327

www.mree.gub.uy

webmaster@mrree.gub.uy

**Ministerio de Trabajo y Seguridad Social
(Ministry of Work and Social Security)**

Juncal 1511

Tel. 2916 2681

Fax. 2916 2708

www.mtss.gub.uy

webmtss@mtss.gub.uy

**Ministerio de Transporte y Obras Públicas
(Ministry of Transport and Public Works)**

Rincón 561

Tel: 2915 8333

www.mtop.gub.uy

difusion@mtop.gub.uy

**Ministerio de Turismo y Deporte
(Ministry of Tourism and Sports)**

Rambla 25 de agosto de 1825 s/n esq. Yacaré

Tel. 1885 100

Fax. 1885

www.turismo.gub.uy

webmaster@mintur.gub.uy

**Ministerio de Vivienda, Ordenamiento
Territorial y Medio Ambiente
(Ministry of Housing, Spatial Planning
and Environment)**

Zabala 1432

Tel: 2917 0710

www.mvotma.gub.uy

secmtro@mvotma.gub.uy

**Registro Nacional de Comercio (RNC)
(National Trade Register)**

Av. 18 de Julio 1730

Tel. 2408 2411

Fax. 2402 9193

www.dgr.gub.uy

rco@mercurio.dgr.gub.uy

**División de Administración de Acciones
de Promoción Industrial
(Industrial Promotion Administration Di-
vision)**

Tel. 2916 2411 / 12 ext. 337

proyectos@dni.miem.gub.uy

**Unión de Exportadores del Uruguay
(Uruguayan Association of Exporters)**

Uruguay 917

Tel. 2917 0105

Fax. 2917 0105

www.uruguayexporta.com

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