

*Doing Business
in Uruguay*



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Presentation

PwC Uruguay

The República Oriental del Uruguay, hereafter referred to as Uruguay, is a small country both in size and population.

Its culture, health and living standards, are among the highest in Latin America.

Uruguay's economy is based on the free enterprise principles while it has a number of state-owned entities engaged in public services and business activities.

Foreign companies as well as foreign investors are welcome and enjoy the same opportunities as local competitors. Cross border investments are encouraged. Uruguay offers significant advantages to those who are currently evaluating doing business and making investments. In this guide we address the factors that make Uruguay a preferable location for those looking for centres for contacts, shared services, logistics, distribution, and regional treasury facilities.

PwC Uruguay has had a continuous presence in Uruguay since 1920. Throughout these years we have earned a solid reputation for excellence and superior services, making us the leading firm in audit, tax and business advisory services in Uruguay, serving the most prestigious local and foreign companies and individuals established in the country. Our solutions are designed to meet the specific needs of each client by using a multidisciplinary and comprehensive approach. Maintaining and building on our position as the number one firm depends on our ability to create and sustain real differentiation from our competitors, creating the distinctive firm.

We are confident that this latest edition of Doing Business in Uruguay will be of assistance for executives considering direct or indirect investment in our country.

The content of this book is also available at www.pwc.com.uy.

We welcome the opportunity to assist you with any questions or matters related to doing business in Uruguay.

José Luis Sablich
Senior Partner

Foreword

This guide has been prepared to assist those interested in doing business in Uruguay. It does not exhaustively cover all the subjects considered, but is intended to answer some of the important, broad questions that may arise. When a specific problem appears in practice, it will often be necessary to complement the information in this guide by consulting the laws, regulations and rulings established in the country and to obtain appropriate professional advice. The material contained in this guide was collected in the last quarter of 2011 and is based on information available and regulations in force at that time.

Country overview



Localisation and weather

Uruguay is located in South America with coasts on the Atlantic Ocean, between Brazil and Argentina. It has a land surface area of 176,215 km² and a total area of 318,413 km² when considering rivers and territorial waters.

The country is divided geographically into 19 states (“departamentos”) with Montevideo as its capital. The largest cities are Montevideo, Salto and Paysandú, last both on the shore of Rio Uruguay, the river that is the border line with Argentina.

It is the only South American country that lies entirely in a temperate zone. Due to this, it has small variations in temperature, precipitation and other climatic factors.

There are no remarkable topographic features. Most of the country consists of gently undulating plains crossed by long rivers. The climate is mild and healthy throughout the year. Temperatures average 62° to 82°F (17° to 28°C) in summer and 42° to 57°F (6° to 14°C) in winter. Rainfall occurs in all seasons but is generally heavier in the autumn months.

Its weather and topographic is especially suitable for agriculture, forest and livestock production.

Population and language

According to the census done during 2011, the population of Uruguay is a bit more than 3.2 million. About 60% live in Montevideo and its surrounding areas. Approximately 95% of the whole population lives in urban areas.

There is no indigenous population; most Uruguayans are descent from Europeans (mainly Spanish and Italian).

Spanish is the official and most used language.

English is the foreign language most used by the business community. Currently, Portuguese is also widespread as a result of having a long border with Brazil and because of the trade and tourism between both countries.

Political system and government

Uruguay has long standing traditions of democracy and legal and social stability and a solid financial and legal framework that is attractive to foreign investors contemplating business ventures in the region.

Politically, Uruguay has a democratic republic system, with a presidential regime and three consolidated political parties. The government is divided into three independent branches: Executive, Legislative and Judicial.

The Executive Branch is administered by the President of the Republic, who acts together with the Vice President and the Ministerial Council. The President and the Vice President are elected through universal, popular, direct vote and the Ministers are designated by the President.

The Legislative Branch consists of the General Assembly, which includes the Vice President, a 30-member Chamber of Senators and a 99-member Chamber of

Representatives. Parliamentary elections are held at the same time as presidential elections (last Sunday of October every five years – last election was held on 2009). In case the candidate for President with more votes does not reach the 50% plus one of the valid votes, then there is a second round with the second most voted candidate, on the last Sunday of November of the same year.

The President, Vice President, Senators and Representatives serve a five-year term. The Vice President, the Senators and the Representatives can be consecutively re-elected, but the President can not.

The Judicial System is administered by the Judicial Power, one of the three State Powers. Its jurisdiction is national. It is divided in Courts and Tribunals. The system adopted for the judiciary is the collegiate one for higher organisms (Supreme Court of Justice - the highest hierarchy Justice Body and Appeal Tribunals) and the one-man system for the lower organisms (Courts and Peace Courts).

State governments are elected in a separate election from the Presidential and each state chooses its own public authorities. Each local government has an “Intendente” (Governor) and a Legislative Branch of 30 members, where the majority (at minimum) belongs to the party of the Governor that has won the state election.

Living in Uruguay

In Uruguay people enjoy a safe, peaceful and healthy environment. The country offers the highest degree of security of South America in a broad sense. The crime rate is very low compared to other countries in the region. Public meetings take place peacefully.

Traffic in vehicles, even in urban centres, is fluid. Montevideo can be crossed by car from one end to another in just an hour, at any time of the day.

Cities have large green spaces and because of the continuity of the wind and the absence of polluting industries there is no pollution.

Epidemics of any kind are practically non-existent.

The distances to access recreational areas (e.g. the countryside, beaches and shores of rivers) are short. The most popular resort town (Punta del Este) is about 140 km east of Montevideo.

The national sport is soccer.

There are many private clubs where to practice sports, including golf.

There is also cultural activity which results in a wide range of theatres, cinemas and music shows.

A summary of Uruguay's advantages for investors

Why Uruguay?

Its location, infrastructure and natural conditions enable complete and easy access to the largest economies in the region.

A tradition of respect for political, social and economic freedom, as well as solid institutions, ensure a stable framework.

It is the best place to live in Latin America, according to a study published by the Legatum Institute on the quality of life between 110 countries. Uruguay was ranked 29, ahead of Chile, Argentina and Brazil. The study covers 93% of the world's population and 97% of the global economy.

It maintains a "high" level of human development, ranking in 2011 among the top three in the region and 48th worldwide, according to the United Nations index that each year reflects the quality of life in different countries.

Regarding the Human Development Index (HDI), Uruguay stays above the average for Latin America and the Caribbean and the global average. The Uruguayan level increased in recent decades, implicating an improvement in the living conditions of its people. In the region, the only countries with "very high" level are Chile and Argentina, while Uruguay leads the "high" level category.

A solid economy

Although Uruguay's economy is strongly rooted in raw material production (meat, grains, wool, wood, cellulose pulp), other strategic sectors have developed as a result of high human capital standards. These sectors, including services related to tourism, information technology, finance, logistics and transportation, construction, call centres, and shared service centres among others, have shown significant growth over the last few years.

In the beginning of the XXIst century, Uruguay went through one of the highest growth periods in its history, sustained by a favourable context of prices for seeds and meat and the implementation of stable macro-economic policies.

In 2010, Foreign Direct Investment (FDI) reached about 6% of GDP, representing a record. Between 2006 and 2010, FDI grew at an average of 30% per year and is expected to continue this trend as new investment is currently underway and others that are coming.

Promotion for investing

Promotion and protection of investments has been a consistent State policy in Uruguay. Foreign investors receive the same treatment as domestic investors.

Investors may access a series of tax benefits should they comply with the conditions established in the Investment Law and regulatory decrees.

Uruguay also has Free Zones and industrial areas, which systems offers an adequate framework for structuring investments with a focus on the international market for manufacturing, commercial and service activities.

Financial market

There is complete financial market freedom and no prior authorization is required to trade foreign currency or to inject or repatriate capital.

Top international banks participate in Uruguay's agile and competent banking system, making it an important international financial market for channelling business to the region.

MERCOSUR

Along with Argentina, Brazil and Paraguay, Uruguay is a full member of the MERCOSUR (Southern Common Market). In principle, imports of goods from any of these countries are generally free from customs tariffs, except for goods included in exception regimens, or others mentioned in the Foreign trade Chapter.

Also the MERCOSUR has the following associated members: Bolivia, Chile, Colombia, Ecuador and Peru.

Venezuela has asked to be part of the MERCOSUR as full member, but its authorization is still stand by.



Strategic location in the region



Uruguay's strategic location offers easy access to major business and industrial centres in the region. Approximately 73% of Brazil's GDP, 71% of Argentina's and 60% of Chile's is generated in the area surrounding Uruguayan territory.

Natural conditions and an extensive infrastructure network enable full and rapid access to the entire territory.

The country's port facilities are strategically located along the Atlantic Ocean and the Paraguay-Paraná fluvial waterway to access both overseas locations and the centre of the continent.

*Respect for
legal clarity*



A high degree of identification with the values of democracy and respect for liberties has stimulated business investments in Uruguay. The country is known for its legal clarity and for the solid development of its institutions, both of which play a basic role in investment decisions.

Liberties in Uruguay

Political stability in the country is reflected in the political, civil and economic liberties of the population and in the degree of development of its institutions.

Regarding political and civil rights, individuals in Uruguay may freely associate, express them and participate in political activities. Moreover, satisfaction and support for democracy is higher than the regional average.

According to a report by Economist Intelligence Unit (Research arm of The Economist Group for business executives), Uruguay is considered the most democratic country in Latin America (categorized as “full democracy”) with a score of 8.10, and was ranked 21st out of 167 countries worldwide.

The overall Democracy Index is based on scores for 60 indicators in five different categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. The countries are placed within one of four types of regimes: “full democracies”, “flawed democracies”, “hybrid regimes” and “authoritarian regimes”.

High institutional development

A proper institutional framework is decisive for generating business competitiveness and for stimulating growth in the economy.

In this sense, institutional strength is a differential characteristic of Uruguay, which ranks second in the region with regard to the degree of institutional development.

Institutional quality refers not only to the efficiency of the existing legal framework, but also to intellectual property protection and the considerable degree of independence of the Judicial Branch. Likewise, values such as ethical behaviour in business prevail in the private sector.

Economic freedom

Uruguay’s economic freedom score is 70, making its economy the 33rd freest in the 2011 Index prepared by The Heritage Foundation and The Wall Street Journal. Its score is a bit higher than last year due to some improvements in five of the 10 economic freedoms. Uruguay is ranked 3rd out of 29 countries in the South America region (after Chile and Saint Lucia), and its overall score is significantly higher than the world average.

Economic Freedom is obtained through the average score of the following ten components: Business Freedom, Trade Freedom, Fiscal Freedom, Government Spending, Monetary Freedom, Investment Freedom, Financial Freedom, Property rights, Freedom from Corruption and Labour Freedom.

Another index, the Economic Climate Index (ICE) developed by the Getulio Vargas Foundation and the German IFO institute, revealed that Uruguay is the second country in Latin America in relation to the economic climate.

Bribery and corrupt practices

Uruguay has strong laws to prevent these kind of practices. A law against corruption in the public sector was approved in 1998, and acceptance of a bribe is a felony under Uruguay's penal code.

Money laundering is penalized with sentences of up to ten years (which also apply to Uruguayans living abroad). Laws 17.835 and 18.494 (passed in 2004 and 2009) establish a good framework against money laundering and terrorism finance.

Scoring 6.9 points in the 2010 edition of the Transparency International's Corruption Perception Index, Uruguay ranked second in Latin America (after Chile) and 24th globally among 178 countries. Uruguay has gradually been improving in the Corruption Perception Index over time, from 35th place in 2001 to 24th place in 2010.

Uruguay is considered a country with a high regard for economic liberty

High human resource quality



Public education in Uruguay is free and mandatory

High literacy and school enrolment

The fact that public education in Uruguay is free and mandatory has led expenditures in education to be a major component of social spending by the government.

According to the data collected in 2009 by the Expanded Household Survey National Statistics Institute, the percentage of Uruguayans without any education is the lowest in the region (Uruguay 1.3%, Argentina 1.4%, Paraguay 2.9% and Brazil 8.7%).

Regarding the quality and coverage of public education, these have shown progress over the last few years, which is reflected in one of the highest literacy rates in the region. School enrolment levels also compare well with regional countries.

In primary education (six to eleven years) Uruguay has a universal scholarship in all sectors of the population, with 99% of the children attending school.

Regarding the proportion of people with tertiary education (completed or not), Uruguay is behind Argentina and approximately equal to Paraguay (Argentina 27.4%, 17.2% Uruguay, Brazil 13.6%).

Performance of students

Regarding 2009 PISA tests, which examine the performance of 15 year old students in key thematic areas and also studies a wide range of educational outcomes, among which are: the students' motivation to learn, the concept that they have about themselves and their learning strategies, Uruguay is second in Latin America behind Chile.

Plan Ceibal

Uruguay was the first country to implement the One Laptop per Child (OLPC) initiative, known locally as the Plan Ceibal. It was a project developed jointly by the Ministry of Education and Culture (MEC), the Technological Laboratory of Uruguay (LATU), the State Owned Telecommunications Company (ANTEL) and the National Public Education Administration (ANEP).

Plan Ceibal was born as a project of a social nature, focused on the educational field in Uruguay. It was created to provide a laptop to every child in all public schools in the country.

Plan Ceibal led Uruguay to be the first country in which 100% of its students have Internet access. The project has also demonstrated a significant social impact on the schools' connection to families, promoting skills for a twenty-first century society, not only for students but for the entire family.

Plan Ceibal just won an award under the category "Access", at Frida 2011, an initiative that gives recognition to projects that have extend the fixed and mobile access to internet through new technical and organizational formats.

Plan Ceibal reached 100% of the school population

Technology degrees

In terms of university students, there were nearly ninety thousand students registered at September 2011.

More than 3% of the total population has a university degree; 12% of those received degrees in engineering, IT or physical sciences.

The amount of graduates in IT, the quality of university education and the proficiency of them have been the pillars of the software industry's development in Uruguay, which is the leading exporter of software in the continent in terms of revenue per person. In terms of GDP, the software industry represents more than 1.5% as of 2011.

Technology, communications and connectivity

Uruguay is second in Latin America in terms of teledensity in main telephone lines as of December 2010, with an index of 28,7 per 100 people (Source: URSEC for Uruguayan information, UIT for other countries). Teledensity is a metric that is used to provide international comparisons and indicates economic development or governance. It is also used as a predictor of economic growth and an illustration in debates about declinism.

On the other hand, the index of teledensity in mobile phone is 136.3 per 100 people as of June 2011 (Source: URSEC), which brings our country to the third position in Latin America.

As of June 2011, Uruguay had nearly 600.000 mobile broadband services and 430 fixed broadband services (Source: URSEC). These services let Uruguay be the Latinamerican country with highest ratio of internet users every one hundred citizens (Source: URSEC for Uruguayan information, UIT for other countries).

Regarding the ICT Development Index (IDI), Uruguay leads South America countries as of 2010 (Source: URSEC for Uruguayan information, UIT for other countries).

In terms of internet access and use, Uruguay is the country with the highest rates in South America, due to the report "Measuring the Information Society 2011". The country also showed the greatest increase in access thanks to the great increase in international bandwidth. The index is formed taking into account 11 indicators that include access, use and skills in the ICT field.

Regarding the use of internet, in Uruguay 40% of people use it, a percentage above the level of developing countries, where only 20% of people are online, and also above the world average (37%).

Also Uruguay is the best positioned country in South American Development Information Technology and Communication Index, released by the International Telecommunications Union (ITU) under UN.

Concerning fixed broadband connection, Uruguay moved from fourth place to first in the region in late 2010, according to Cisco Barometer. In 2009, the country had a service penetration of 9.7% and closed 2010 with 12.3%, ahead of countries like Argentina (11.7%) and Chile (10.8%).

By the end of 2012, 50% of Montevideo citizens will have Internet access through optical fibre, increasing the speed to more than 60 Mbps. In parallel, 4G mobile Internet will be implemented, which will allow reaching speeds of 60 Mbps to 20 Mbps in downstream and upstream.

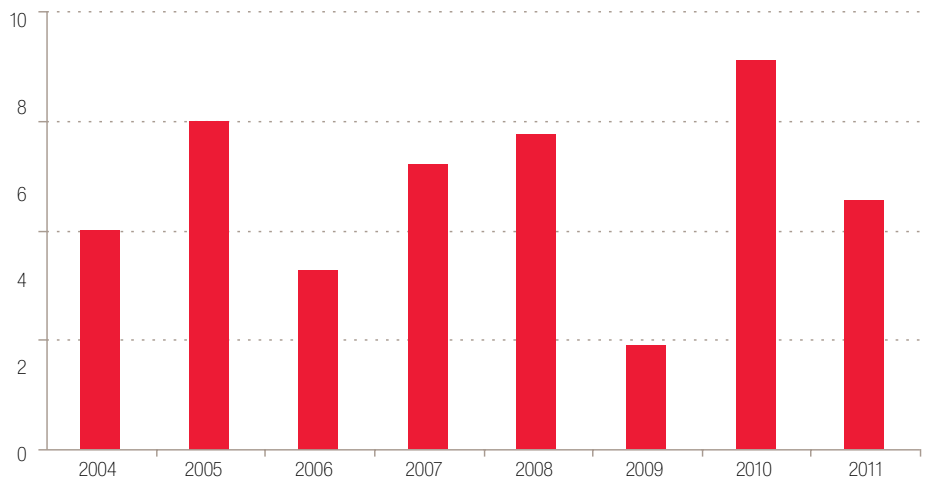
An open economy



Economic performance and structure

During the last years Uruguay has achieved sustained economic growth, with an average annual growth rate of 5.9% in 2004-2011. Thus, GDP measured in current dollars by the end of this period amounted to USD 46,744 million, with a GDP per capita of USD 13,876.

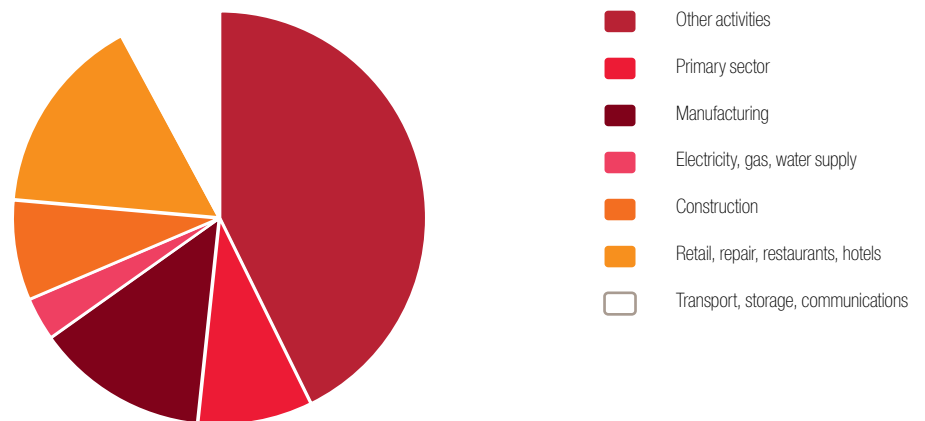
GDP (annual growth)



Source: BCU

The sector with the highest share of GDP is services, among which trade, transport and communications, financial services, insurance and real estate stand out.

Composition of GDP by industry (2011)



Source: BCU

Agricultural production amounts 9% of GDP. However, its importance in the economy is vastly superior to that percentage, as it provides most of the raw materials for manufacturing, one of the largest export sectors.

Land: a capitalized resource

Despite having one of the smallest surface areas in South America, a large part of the land is used for productive purposes with high yields. About 96% of the territory (170,000 km²) is used for production of crops, livestock and forestry.

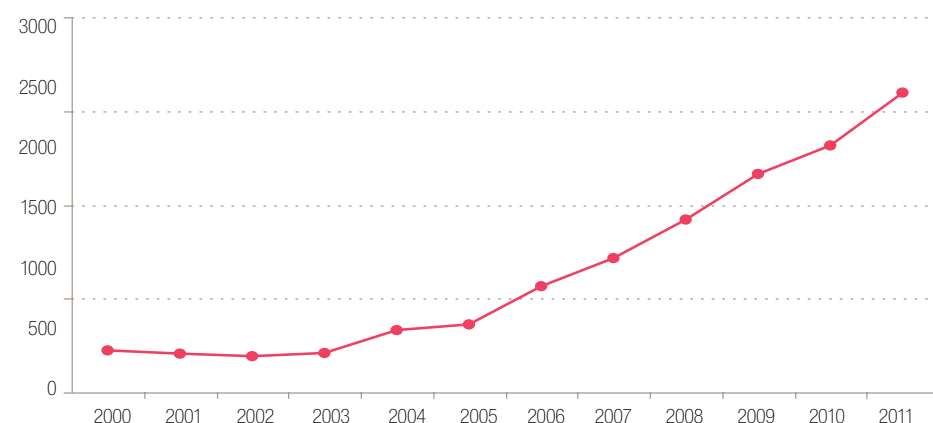
The rise in agriculture and forestry activities, along with others factors including the arrival of foreign investors, has led to upward price pressures for land purchases and leases. Average land prices have risen from USD 386 per hectare in 2002 to USD 3,196 in 2011, according to official estimates.

Land distribution by activity (hectare)

Crops	1,630,000 ha	2010-2011
Livestock	13,500,000 ha	2010-2011
Forestry	1,721,600 ha	August 2010

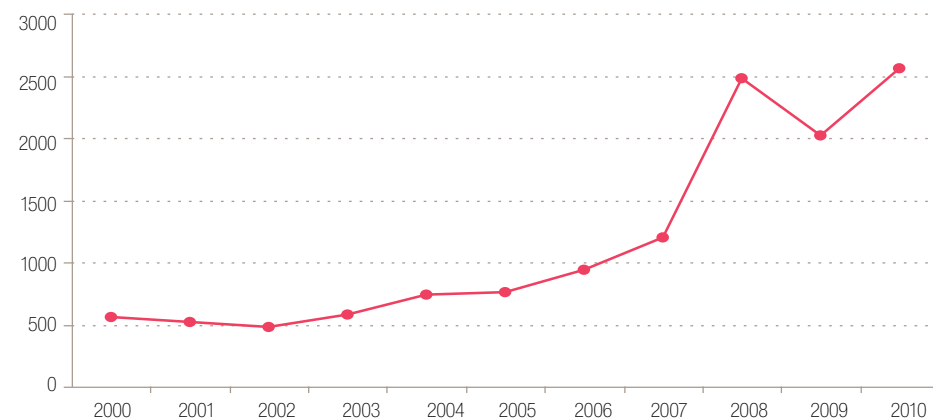
Source: Ministry of Livestock, Agriculture and Fishery (MGAP)

Average price of land: sale (USD per hectare)



Source: MGAP

Average price of land: lease (USD per hectare)



Source: MGAP

An export-based economy

The Uruguayan economy is small and open, and exports play an important role in developing local production.

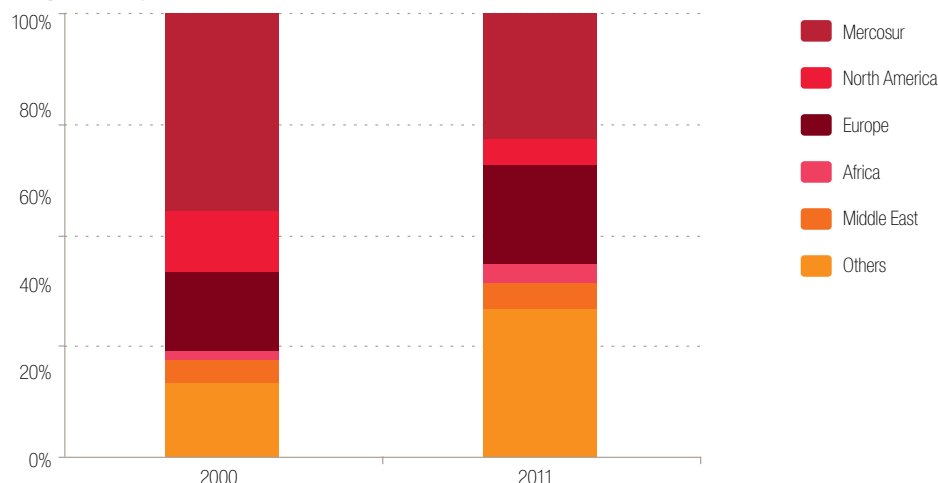
The deepening economic liberalization process led to an increase in the relative importance of foreign trade in GDP, with exports of goods and services growing steadily, reaching record levels year after year.

In this context, the trade liberalization coefficient (exports plus imports of goods and services in terms of GDP) reached over 50% in 2011.

Initially, its small size led the country to an export-based economy focused mainly on agro-industry. However, over the last few years, the exporter profile of the economy has expanded to the service business. While tourism makes up a significant part of service exports, other services have gained force, including transportation and logistics, IT (particularly software) and finance.

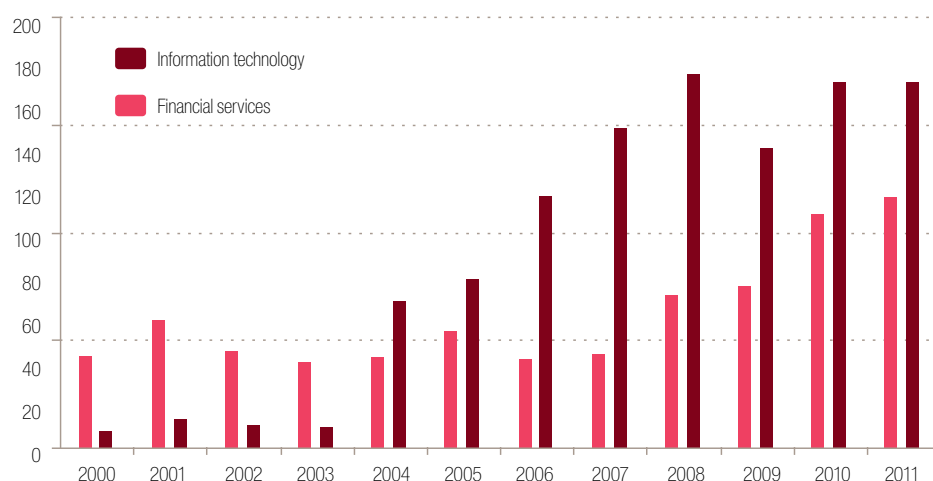
Along with the product diversification, Uruguayan exports have achieved relevant diversification regarding destination markets. While insertion of the country in the region is still significant, other markets have gained ground.

Exports by market



Source: BCU

Exports of information technology and financial services (USD Millions)



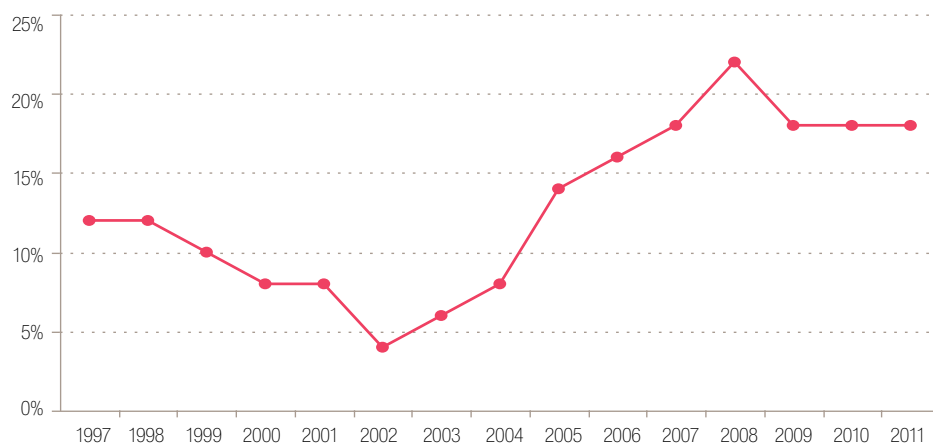
Source: International Monetary Fund (IMF)

Strong investment

Macroeconomic stability and the establishment of a stable institutional framework with clear rules for investors and respect for contracts, coupled with attractive promotional regime, were important factors for promoting productive investment in recent years.

Gross fixed investment has grown very fast with double-digit rates. Therefore, the rate investment/GDP rose to a figure about 19% in 2011.

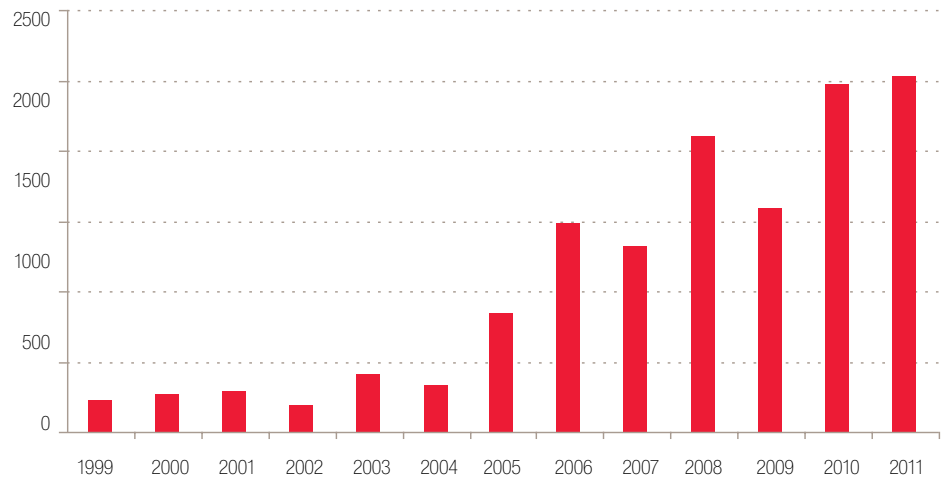
Investment / GDP



Source: BCU

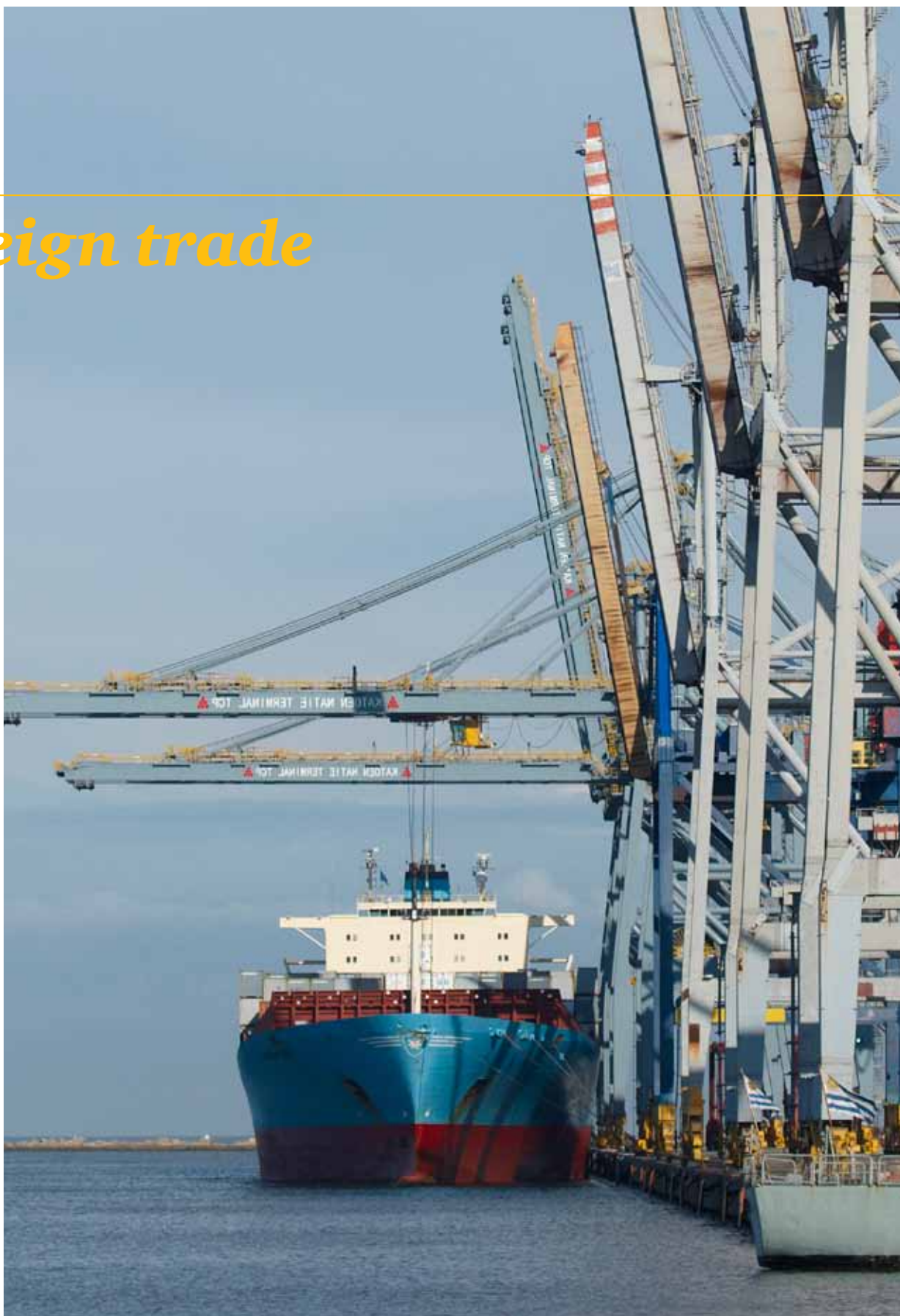
Foreign Direct Investment (FDI) has also continued to increase, with inflows of USD 2,528 millions in 2011.

FDI (USD Millions)



Source: BCU

Foreign trade



Imports

Goods may be imported with no significant restrictions, except for a few special products that may only be imported if authorized by the Executive Power.

Custom duties are imposed on Custom Value of the imported goods, which is determined in accordance with valuation criteria provided by the GATT.

As a general principle, imports of goods from any of the countries that are part of the MERCOSUR are generally free from customs tariffs, except for goods included in exception regimes, or those pertaining to the sugar industry (which are subject to the import tariff prevailing in Uruguay) and the automotive industry (which are subject, in some cases, to a reduced import tariff). For some goods imported from Argentina, special duties known as Specific Rights may be applicable. Meanwhile, goods from countries not belonging to MERCOSUR are subject to a common external tariff (CET) that varies between 0 and 20%, with exceptional levels that range from 23 to 35% corresponding mainly to certain types of shoes, sugar and automotive goods, and a 55% tariff exclusively for the import of a special peach preparation.

Capital and information technology goods are subject to special tariffs in Uruguay that range between 0 and 2%, except for some capital goods that are subject to an import tariff of between 10 and 14%, and some information technology goods that are subject to import tariffs of between 10 and 16%.

In addition to custom tariffs, imports are subject to VAT at a rate of 22%, plus import surcharges. Furthermore, when importing goods; an additional advanced payment of VAT must be done (10% or 3% depending on the type of good). This advanced payment is considered part of VAT that will be generated when the good, after being imported, is sold. Consequently, it may be credited against VAT on sales.

In some cases Free Zone systems offer significant advantages for companies operating in foreign trade.

Exports

Exports are not subject to any taxes and there are almost no prohibitions regarding the type of goods to be exported. On the contrary, several instruments are offered to promote exports:

- Reimbursement of taxes: exports are exempt from VAT. Furthermore, there is a system for reimbursement of indirect taxes, whereby the exporter may recover internal taxes that are added to the cost of the product exported. The amount to be reimbursed is a percentage of the FOB value set by the Executive Power for the product.
- Temporary admission: supply imports for exportable products are exempt from customs tariffs provided the final products are exported within an 18-month period.
- Draw-back: for certain products, the draw-back system allows for the reimbursement of tariffs paid on imports at the time of export.
- Special financing: exporters can access credit at preferential interest rates.

Transfer pricing regulations

Law 18,083 included a specific chapter on transfer pricing under the corporate income tax rules for fiscal years starting as of 1 July 2007, in line with OECD guidelines.

As a general principle, transfer pricing rules are applicable to international transactions between related parties. However, the law has expanded the scope of these rules to transactions carried out with parties in low or zero-tax jurisdictions or regimes (either international or domestic), regardless of the relationship between them. Domestic transactions with Uruguayan Free Zones fall under this category.

The definition adopted by the law for determining related party status is quite broad, and may apply directly or indirectly, and in matters of form or substance.

For import and export transactions of goods where prices can be determined through transparent markets, stock exchanges or similar, such prices should be utilized to determine the corresponding net income of Uruguayan source, unless proof can be provided to the contrary.

Special attention must be paid to transactions between related parties involving primary farming products and goods with known price quotations in transparent markets, made through a foreign intermediary other than the actual recipient of the goods.

The mechanism of asking for an Advanced Pricing Agreement is available.

Regional and global integration processes

With the aim of deepening the integration process started by MERCOSUR, the regional block has entered into agreements with Chile, Bolivia, Mexico, Venezuela and the countries from the Andean Community of Nations. This integration process conveys important advantages for entrepreneurs located in Uruguay, since they benefit from reduced customs tariffs when trading with these countries.

In addition, an Interregional Framework Cooperation Agreement with the European Union was signed to regulate spheres of cooperation in the areas of trade, economy and integration.

Investment framework



A main challenge for the economy in Uruguay is to achieve sustained investment growth. A State policy of promotion and protection of investments has been established to provide a secure environment for investors in Uruguay.

Equal conditions for foreign and local investors

Apart from sector regulations, foreign investors (both individuals and legal entities) may set up companies in Uruguay without prior additional formalities or special Government permits. Investments may be made in any currency.

Shareholders, partners and managers of companies in Uruguay may be either locals or foreign nationals, and either residents or non-residents in the country.

Foreign investors may set up operations by adopting the structure of a local corporation or a branch of a foreign enterprise. Corporate shares may be issued in nominative or bearer form, and may be fully owned by only one shareholder.

Investments by locals and foreigners are treated equally and both have access to the same benefits.

There are no limits to hire foreign personnel.

Likewise, the Uruguayan Government guarantees the free repatriation of capital and free remittance of dividends, profits and other sums related to investments.

Fund transfers can be made in any currency in view of the free convertibility system in Uruguay.

Banking secrecy

Uruguay has a long-established tradition of bank secrecy. Client information at financial institutions is protected and the supervising entity requires strict compliance standards and provides for queries through the Central Bank of Uruguay (BCU) regarding the level of indebtedness in the Uruguayan financial system.

Information subject to bank privacy rules may be revealed only in the following cases:

- By express authorization of the interested party, issued in writing.
- By duly sustained resolution of the courts.
- By BCU employees, auditors or other representatives who require access to such information because of their tasks related to the organization, operations and monitoring of financial institutions.
- When after 30 days of being formally accused by the tax authority for tax fraud, the competent court has not opposed to permit access to the bank information of the company or person involved.

A prison penalty has been established for breaching bank privacy rules.

Equal investment incentives for local and foreign capital

Tax privacy rules

Tax privacy precludes the DGI tax bureau from revealing information of their procedures.

Breach of tax privacy may result in the dismissal of the employee responsible of said breach.

Prevention of money laundering

Uruguay has adopted measures to prevent money laundering which include the creation of two public offices to fight terrorism: The National Intelligence Bureau (Ministry of Defence) and the Information and Intelligence Bureau (Ministry in charge of internal security).

Besides, the country has a juridical and regulatory framework in place against money laundering that satisfies the basic requirements of the 40 recommendations of the Groupe d'Action Financière (GAFI).

Courts have ample faculties to seize and confiscate goods or financial instruments involved in money laundering and in offenses involving this felony.

Uruguay offers legal protection to all individuals reporting suspect operations, without requiring a specific offense as a condition for reporting the operation.

A special Information and Financial Analysis Unit (UIAF) was created in the Central Bank of Uruguay to request information from public sector officials, analyze reports on suspect operations and communicate them to judicial authorities.

Money laundering prevention supervision is highly developed in the banking sector.

Casinos and real estate sectors are subject to specific obligations under these regulations.

Uruguay has signed the Conventions of Vienna and Palermo and the International Convention for the Suppression of the Financing of Terrorism, as well as nine of the eleven United Nations protocols related to crimes of terrorism.

Uruguayan law establishes that all criminal actions are subject to extradition, including felonies related to money laundering and financing of terrorism.

Intellectual property

The protection of copyrights, trademarks and patents is specifically legislated.

Copyrights

Under the intellectual property law, copyright protection in Uruguay applies to original works of art in the literary, scientific and artistic fields for a prescribed period. Within this period, the author or the copyright holder has certain exclusive rights to the copyrighted material, which is protected against unauthorized use or infringement. In order to exercise the protected rights, registration of both Uruguayan and foreign work is mandatory. Uruguay has ratified the Bern Convention for the protection of literary and artistic work, whereby the authors of signatory countries publishing their work in Uruguay enjoy the same rights granted to the local authors. These rules are applicable to software and to creative works in the areas of electronics and information systems sourced from foreign countries.

Trademarks

Trademarks are defined as names of objects or persons and words or symbols of any description. Registration with the DNPI (National Industrial Property Bureau) is necessary to acquire the exclusive right to a trademark and affords the registrant protection for a ten-year period, with subsequent ten-year extensions that are renewable indefinitely. The use of trademarks can be assigned to third parties by private contract or notarized deed, but it is always advisable to register the transfer with the DNPI in order to obtain protection against infringement. The use of trademarks may also be assigned through a license contract which cannot be registered with the DNPI. Unless otherwise agreed, it is understood that the transfer or sale of a business includes its trademarks.

Patents

Industrial patents are defined as the group of institutes that protect the rights stemming from inventions, creation of useful models and creation of industrial designs and models. Industrial patents granted in Uruguay give holders the exclusive right of use for a period

of 15 years. After that period, the patent becomes public domain. Once patented, models of use (also called minor innovations) and industrial models or designs (visible form that incorporated to a product of use gives a different aspect or appearance), afford their owners the exclusive right of use for a period of five years renewable for an equal term only once. In order for rights of exclusive use to be enforceable to third parties, the inventions, models of use and industrial models or designs must be registered with the DNPI. The Paris Convention for the protection of industrial property ratified by Uruguay grants the persons belonging to the signatory countries a priority right on an invention, model of use or industrial model registered in one of those countries with respect to applications filed in Uruguay by other persons for the use of the same invention, model of use or industrial model.

Fair competition

The Defence of Fair Competition Law seeks to promote the well being of consumers and users and to stimulate economic effectiveness, freedom and equality of the conditions to access markets. The Ministry of Finance, through the Commission for the Promotion and Defence of Competition, ensures compliance.

Legal framework for employment outsourcing

Uruguayan employment law seeks to protect workers while meeting the needs of the market. Due to the high specialization of companies in order to obtain greater profits, Uruguay uses the following employment methods that offer the employer the possibility to use the legal framework that best fits the enterprise.

Employment outsourcing contracts are:

- Subcontracts: when an employer, due to a contractual agreement, is responsible for carrying out work or services by his own interest and risk, and with workers under his authority, for a third person, called main employer. This work or services are related with the normal activity of the enterprise, whether these are principal or secondary.
- Intermediation: when a businessman is the one that contracts or takes part in hiring the workers, in order to provide services to a third party. The entrepreneur does not serve directly the services or work to the public, but to another employer or enterprise, also called “main employer”.
- Employment supplier firm contract: when a private employment supplier firm provides services that consist on hiring workers in order to make them available for a third person, called user enterprise or main employer that determines their tasks and work and the supervision of the execution of its.

The main employer should exercise his right to be informed by the subcontractor, intermediation businessman or the employment supplier firm about the compliance of labour obligations, pension and insurance, referred to the workers. When this right is exercised, the liability for any debit of the abovementioned obligations will be vicarious. Likewise, the law establishes that when the subcontractor, intermediation businessman or the employment supplier firm, fails to pay any of the obligations, the main employer will be able to withhold the payment to them, paying directly to the workers and public offices (pensions and insurance obligations).

Protection of the environment

The Uruguayan Constitution sets forth that the protection of the environment is a matter of general interest. The Ministry of Housing, Territory and Environment (MVOTMA) supervises all related matters, acting through the DINAMA (National Environment Bureau).

The legal framework in Uruguay establishes the civil responsibility of the individual or legal entity that causes damages or pollution to the environment or breaches environmental laws or rules, notwithstanding the existence of administrative or criminal responsibility established by the laws.

The Investment Promotion Law grants tax benefits to national or foreign investment projects in the country that use non-polluting technologies (“clean technologies”). In this manner, the State promotes the protection of the environment.

Foreign investment



Choice of entity

In general, individuals and legal entities may set up an enterprise in Uruguay without any prior formalities or special authorizations from the government, except for the case of (i) projects that may have an impact on the environment, (ii) public concessions, (iii) insurance and banking activities, and (iv) sectors in which there is a State monopoly.

The corporation is the most commonly used type of legal entity by foreign investors. However, there are no significant local tax differences between corporations, branches or partnerships.

Capital and holding requirements

There are no specific rules establishing percentages for foreign investment participation. For the majority of companies, there are no minimum or maximum capital requirements. However, special regulations apply to mining, telecommunications, banking, insurance and pension fund administrators. There is no minimum number of Uruguayan shareholders or partners required.

There is no general requirement stating that directors or managers must be Uruguayan residents or nationals. In some cases, however, Uruguayan residence of the legal representative is recommended for practical reasons.

Repatriation of funds

Repatriation of funds is unrestricted, but the requirements of Uruguayan corporate law (Law 16,060) must be fulfilled in order to repatriate earnings or capital.

Uruguayan Corporate Law

This law regulates the incorporation and administration of business entities in general. The main types of legal entities are Corporations (*Sociedad Anónima*) and Limited Liability Partnerships (*Sociedad de Responsabilidad Limitada*). In the case of foreign investors, the Branch is also widely used and is regulated by local corporate law. Limited and General Partnerships as well as Cooperatives are also addressed by the provisions of the Uruguayan corporate law. Likewise, Consortiums and Groups of Economic Interest can also be formed.

Trust Law

This law has been in effect in Uruguay since November 2003 and regulates this type of alternative structure for doing business in the country.

Corporations

Corporations have no operating limitations whatsoever, and the legal system is similar to that of capital stock companies found in foreign legislation.

Shares can be issued as nominative or bearer, as well as common or preferred.

Voting rights for different share classes are normally established in the bylaws, with each share being entitled to one vote. For banking, insurance, pension fund administrators, pharmacies, radio, television and rural real estate property rights, shares must be nominative. These shares may be freely transferred and depend on the type.

Bearer shares can be transferred simply by delivery of the certificates. Nominative shares must be endorsed and their transfer must be communicated to the corporation.

25% of share capital according to the bylaws must be paid in at the moment of signing of the bylaws. This capital shall be expressed in Uruguayan pesos and accounting must be performed in this currency. After formation, one shareholder may own the entire capital of the corporation.

Uruguayan corporate law establishes two different types of common corporations: open (basically those using public savings or with shares listed on the stock exchange) and closed (defined as those that are not open). Shareholders exercise the control of a corporation through the general shareholders' meeting, which is the corporation's highest authority. The management of the business is normally delegated to a board of one or more directors and to the managers. Powers of each body are defined under Uruguayan corporate law and through the by-laws of the corporation. The directors can be individuals or legal entities, either local or foreign, and may be domiciled outside of Uruguay.

Meetings can be ordinary or extraordinary. The ordinary meeting must be held within six months of the end of each year, to consider the state of the business and the performance of the board of directors as well as to approve the annual financial statements of the year, the syndic's report (if the company has one), profit distribution (if any) and to designate the members of the board of directors. Extraordinary meetings are held when required by the corporation, as per the reason stated for calling the meeting. They are convened to consider matters other than those addressed exclusively by the ordinary meeting. The meetings must take place in Uruguayan territory and must be convened by the board of directors or the administrator.

Shareholders may be represented at the meetings by third parties through simple letters of authorization that do not require certification by a public notary, nor any consular legalization when issued abroad.

In general, corporations are subject to the control of the AIN (National Internal Audit Office) with respect to the formation, incorporation and modification of the company contract or by-laws as well as for early dissolution, transformation, merger, spin-off or any variation in the capital.

Books and records must be kept by all companies. They include the general ledger, inventory ledger and the copy letter book. Likewise, corporations must keep minutes of shareholder and director meetings, as well as records of shareholder's attendance.

It is possible to acquire "shelf corporations" and start the company operations immediately. During 2010 a new program was launched, through which entrepreneurs are able to register and open a company in 24 hours. The program cut the number of public offices involved in the creation of an entity as well as the number of steps and days.

*One shareholder may own
100% of the capital.*

*Shares can be
nominative or
bearer*

Limited Liability Partnership

The Limited Liability Partnership (SRL) is the type of legal structure most often used by small and medium-sized business entities in the country.

The only operating restriction is that they cannot perform financial activities.

Partners are liable up to the amount of their capital contributions. The partnership can have from 2 to 50 partners, who can be legal entities, with no restriction on nationality. They can operate temporarily with only one partner.

This type of legal entity does not have minimum or maximum capital, which is represented by ownership interest which is nominative. There is no limitation on transfer of ownership interest between partners. In case of the transfer of ownership interest to third parties, it is necessary to have the approval of 75% of the partners.

Partnerships are administered and represented by one or several persons, partners or non-partners, designated in the deed. Resolutions in partner meetings are adopted generally by partners holding the majority of the ownership interest if there are less than 20 partners. If there are 20 or more partners, resolutions generally are adopted by simple majority of votes of the partners in attendance, computed at one vote per ownership interest share.

Limited Liability Partnerships are not subject to the control of the AIN (except for the obligation of registering the financial statements under certain conditions). Profits are distributed as provided in the partnership deed, which can be different from the proportional criteria based on the amount of capital holdings.

Branch of a foreign corporation

Companies constituted abroad can perform isolated business operations in Uruguay and can appear in court as plaintiffs or defendants, but to perform the activities outlined in their bylaws or company deeds on a regular basis, they must establish a branch in Uruguay. The Branch has no operating restrictions, but must be engaged in the same activities as its head office.

The foreign head office, whose net worth cannot be separated from that of the branch, is responsible (with no limits) for the obligations of the branch. Being the branch a foreign company, aspects such as personal involvement, anonymity and profits will depend on head office regulations.

The capital assigned to the branch is not represented by shares or ownership interest that can be transferred or negotiated: the business entity operating as a branch must be transferred following the legal regulations which govern the sale of business concerns.

The branch must keep separate accounting records in Uruguayan currency and in the Spanish language.

Trusts

Trusts have been useful and effectively applied in diverse sectors of the local economy including dairy, manufacturing, services and infrastructure, as an alternative mechanism to traditional bank credit. Foreign investors normally use this instrument in a private manner so as to provide guarantees to their own investors in the country and to make rapid investments.

Trusts are more flexible than traditional corporate forms of doing business.

A financial trust issues equity securities in the trust's domain, debt representative titles guaranteed with trust goods or titles with mixed characteristics (credit rights and participation of the remainder). Consequently, and in contrast with ordinary trusts, financial trust beneficiaries have their rights represented in securities.

Tax system



Overview of the tax system

Uruguay is one of the few countries in the region that still collects corporate taxes following the source principle: investments located and activities performed outside Uruguayan territory are not subject to taxation, regardless of nationality, domicile or residence of the parties participating in the transactions, and regardless the place where the transaction agreements are made. A major tax reform went into effect on 1st July 2007 and ratified this principle. The main purpose of the reform was to restructure the taxation of resident individuals, which was again adjusted in 2011, taxing income derived from holding movable capital regardless of its source.

The tax system is structured on the concept of “residence.” Legal entities are deemed to be resident in Uruguay when they are incorporated according to local legislation. Individuals are deemed to be residents: (i) if they remain within Uruguayan territory for a period longer than 183 days during the calendar year (except when residence in other country can be justified) or (ii) when their basis of activity (centre of economic interest) or their centre of vital interest is in Uruguay (basically, when the habitual residence of their family is in Uruguay).

Main direct taxes are IRAE (Income Tax on Economic Activities) and IP (Capital Tax or Net Wealth Tax).

The main indirect taxes are IVA (Value Added Tax) and IMESI (Excise Tax).

There is no taxation on capital contributions or stamp duties.

Indirect taxation is the main source of revenue.

Uruguay has signed treaties to prevent double taxation (DTTs) following basically the model of the Organisation for Economic Co-operation and Development (OECD). Treaty countries up to now are Germany (renegotiated and in force as of December 2011), Hungary (in force since 1994), Mexico (in force as of December 2010), Spain (in force as of April 2011) and Switzerland (in force as of December 2011), as well as a memorandum for cooperating in the exchange of information with France (in force as of January 2011). DTTs with Portugal, Liechtenstein, Ecuador, Malta, and India are under approval processes by the Parliament. The Ministry of Finance announced that negotiations for entering DTTs with Finland, South Korea, Belgium, Canada, Romania, Norway, Sweden, Denmark, Australia, Ferroe Islands, Iceland and Greenland are already finished. Finally, DTTs with Malaysia, Luxembourg, The Netherlands, United Kingdom, Italy, Argentina and Brazil are currently being negotiated.

Income tax

There are three categories of taxpayers:

Companies	Individuals	Non-residents
25%	0-25% labour	12%
Legal entities	12% capital	
Permanent establishments	Residents	

Corporate income tax

IRAE is levied at a 25% rate on business income from local sources obtained by Uruguayan resident entities and permanent establishments of non-resident entities and individuals.

The definition of permanent establishment follows that of the Organization for Economic Cooperation and Development (OECD). A non-resident is deemed to have a taxable presence in Uruguay when carrying out all or part of activities from a fixed place of business or through a dependent agent.

Income obtained in the agriculture business (including forestry) is also in the scope of this tax but depending on the nature and size, those engaged in this type of activity may elect to be subject to the IMEBA (Agricultural Products Sales Tax). However, this option is prohibited for companies organized under any of the forms of legal entities regulated by Uruguayan Corporate Law, for permanent establishments of non-residents, for trusts, closed investment funds and for State enterprises.

There is also an option to be taxed under IRAE rules that is available for those who obtain income subject to IRPF (Individuals' Income Tax), with the exception of salaries and dividends or profits. For those who obtain income from personal services (such as independent contractors), the option depends on the level of fees effectively obtained.

To determine net taxable income, duly documented accrued expenses required for the generation of Uruguayan source income are allowed as deductions. To determine the taxable basis in transactions with foreign related parties, transfer pricing rules in line with the OECD guidelines must be applied.

In addition, transactions between companies located in Uruguay and companies located in low tax jurisdictions, whether related or not, must be analyzed within the scope of transfer pricing regulations.

Profits of small companies (annual income below approximately USD 32,600) are not subject to IRAE. Nevertheless, a monthly fixed tax of approximately USD 100 must be paid. In general, IRAE taxpayers must make advanced payments on account of the final balance at the end of each fiscal year.

Individuals' income tax

Resident individuals are subject to IRPF. Income subject to tax is divided into two categories: capital and labour income. IRPF taxes income derived from activities developed in, property located in or rights economically used within the Uruguayan territory, as well as income derived from holding movable assets outside the country.

Regarding labour income, this tax also applies to income derived by resident individuals as a consequence of activities developed outside the country, as long as the payer of the salary/fee is an IRAE taxpayer.

Capital income includes earnings from holding movable and immovable property and capital gains derived from their transfer. It is levied at a flat rate of 12% with some exceptions (i.e., interest on deposits in local currency, interest on debt issued by public offering, dividends or profits paid by IRAE taxpayers among others, are taxed at lower rates).

Labour income includes earnings from rendering personal services as an employee or as an independent worker and is levied at progressive rates that vary from 0 to 25%, depending on total annual gross income. Deductions are minimal and include retirement plan contributions and deductions for underage or handicapped dependent children.

Although originally included in the scope of IRPF, as of 1st July 2008, Uruguayan source income derived from pensions is subject to a specific tax aimed at financing the pension fund at progressive rates that range from 10 to 25%. The annual nontaxable threshold of this tax is of approximately USD 9,300.

In order to calculate the progressive tax on labour income, the following rates are applicable to annual gross income:

Bracket Reference	Equivalent in USD (*)	Tax
1st	0 - 9,300	0%
2nd	9,300 - 13,400	10%
3rd	13,400 - 20,000	15%
4th	20,000 - 66,800	20%
5th	66,800 - 133,600	22%
6th	133,600 -	25%

(*) Approximate values using the exchange rates of December 2011

Regarding applicable deductions, the following rates must be applied to the aggregate amount of such deductions to determine the tax.

Bracket Reference	Equivalent in USD (*)	Tax
1st	0 - 4,000	10%
2nd	4,000 - 10,700	15%
3rd	10,700 - 57,400	20%
4th	57,400 - 124,200	22%
5th	124,200 -	25%

(*) Approximate values using the exchange rates of December 2011

Taxpayers must make advanced payments during the fiscal year (either by themselves or through withholdings made by the employers), which are deducted to calculate the final tax payable to the DGI.

Taxpayers have the choice to pay this tax as a family unit. Rates to be applied vary from the aforementioned rates and depend on the income of each member of the family unit.

Non-residents income tax

All Uruguayan sourced income obtained by non-residents (other than those obtained through a permanent establishment in Uruguay) are taxed by IRNR (Non-Residents Income Tax) at a general flat rate of 12% on gross income. Labour income, including earnings from rendering personal services as an employee or as an independent worker, are taxed at this flat rate. Technical service fees related to obtaining income of local source are deemed Uruguayan sourced, even when the service is rendered outside Uruguay.

The following items of income are subject to reduced tax rates or are exempt:

- Interest on loans (exempt for the creditor when the debtor obtains mainly non taxable income).
- Dividends or profits paid out of exempt income (exempt, otherwise 7%).
- Technical service fees paid by beneficiaries that mainly obtain exempt income (0.6%).
- Capital gains upon transfer of Uruguayan bearer titles (exempt).

IRNR is basically collected by way of withholding and IRAE taxpayers are appointed as withholding agents.

Other taxes

Net wealth tax

Net Wealth Tax (IP) is levied on the amount of net assets located or economically used in Uruguay at each fiscal year-end, at a rate of 1.5%. Deductible liabilities are limited and include debts with suppliers of goods and services, taxes not yet due; debts with Governments, International Credit Offices of which Uruguay is a member and debts with foreign financial institutions, with the objective of financing long-term productive projects, among others. In order to determine the tax basis, exempt assets as well as assets located abroad are deducted from these liabilities.

IP is not only levied on corporate taxpayers but also on the net wealth of individuals at each year end at a progressive scale of rates from 0.7% to 1.8%.

IP is also levied by way of withholding on credits held by foreign entities or individuals against debtors located in Uruguay at each year end, unless they were originated in imports, loans or deposits, all of which are exempt from this tax. The applicable rate is

1.5% in case of creditors that are legal entities, and range from 0.7% to 1.8% in case of creditors that are individuals.

Value added tax

Uruguayan VAT is a non-cumulative tax levied at a general rate of 22% on the provision of services and on the circulation of goods within the limits of Uruguayan territory. Imports of goods and value added in the construction of immovable assets are also within the scope of this tax.

A reduced 10% rate applies to specific goods and services, such as basic food items, medicines, hotel services, health services, initial sales of immovable assets, sale of natural fruits, flowers, vegetables, etc.

There are some goods and services which are exempt from VAT, such as foreign currency, real estate (other than the initial sale), agricultural machinery and accessories, milk, books and magazines, newspapers and educational material, interest on public and private securities and deposits, real estate rentals and certain banking operations. Exports and agricultural products, under certain conditions, are exempt, whereby the related tax credit is reimbursed.

Uruguayan VAT follows a debit /credit system, by which input VAT may be offset from output VAT.

Excise tax

In general, Excise Tax (IMESI) applies on the first transaction made in the domestic market by manufacturers or importers of the goods. Exports are not taxable.

Rates vary for each item (from 10 to 100%) and are generally set by the Government within maximum parameters established by law. Goods subject to the highest rates are alcoholic beverages, tobacco, gasoline, fuel, lubricants, and other petroleum products.

Tax on real estate transfer

The Real Estate Transfer Tax (ITP) applies to the transfer of immovable assets. Transfer is defined in a broad sense including the sale, cession of the right to use, transfer of inheritance rights, etc. Both parties to the transfer contract are subject to this tax, at a rate of 2% each on the property value (generally lower than market value). When the property is transferred without payment, the beneficiary pays the tax at a rate of 4% on its tax valuation, except for direct heirs or legatees, who pay a 3% rate.

Rural real estate concentration tax

The Rural Real Estate Concentration Tax (ICIR) will be imposed on the ownership of rural real estate that as a whole exceeds 2,000 hectares with a CONEAT index of 100 (C100) or equivalent, according to the following table:

<u>Hectares of C100 or equivalents</u>	<u>ICIR per hectare (equivalent in USD)*</u>
< 2,000	0
2,000 < x < 5,000	8
5,000 < x < 10,000	12
>10,000	16

() Approximate values using the exchange rates of December 2011.*

The CONEAT Index is prepared by the Ministry of Livestock, Agriculture and Fishing and the National Commission of Agro-economic study of the Land (CONEAT, as per its Uruguayan acronym), and represents the capacity of the soil, evaluated in the Kgs. of bovine and ovine meat, and the Kgs. of wool per hectare of natural field. The index's average is 100.

The ICIR rate applicable to each taxpayer is not progressive. On the contrary, the rate corresponding to the last scale (according to the total C100 hectares or equivalent the taxpayers holds) will be applicable. For instance, if a taxpayer has a total of 20,000 C100 hectares, ICIR would arise to an equivalent of USD 320,000 (20,000 x USD 16).

In accordance to the provisions of the law, this tax is determined taking into account the situation of the taxpayers as of December 31st every year.

Investment promotion



Incentives for foreign investors

As a consequence of the source principle applied to taxation, Uruguay is used by multinational companies to structure investments in the region and internationally.

The main tax incentives for investments in the country stem from two different instruments:

- Investment law
- Free Zone law

Investment law

Uruguay has a specific legal framework for the promotion and protection of local and foreign investment. Relevant regulations establish that companies may obtain a Government declaration granting promotional status that gives access to significant tax benefits.

To qualify for these benefits, the investor must file an application at the Bureau of Investor Assistance, which monitors the evaluation process for projects. After filing, the Application Commission evaluates whether the applicant qualifies for the promotional status declaration, in accordance with objective evaluation criteria, and submits its conclusions to the Executive Power.

If approved, the Executive Power issues a resolution declaring the status of promoted project, specifying the project's objectives, the criteria followed, the maximum amounts and validity period for the tax benefits granted.

The decree also regulates the follow-up monitoring of the project and the benefits granted.

The following automatic benefits (only for manufacturing, extractive and farming / ranching activities) are available under this law:

- Exemption from IP for chattel property directly engaged in the production cycle and data-processing equipment.
- Exemption from VAT and IRAE on the import of said goods, and reimbursement of VAT in the case of items purchased locally.

The following discretionary benefits are also available:

- Tax exemptions on the import of fixed assets.
- IP exemptions: permanent for chattel property items, 8 years for construction work in Montevideo and 10 years in the rest of the country.
- VAT reimbursement on the local purchase of goods or services for civil construction work.
- Increased IRAE deductions regarding fees and remunerations related to the technological developments.
- Exemption from IRAE depending on the nature and size of the project.

Furthermore, IRAE exemption applies upon the payable tax and not on the income subject to such tax, thus granting a major benefit.

Finally, the aforementioned tax exemptions do not depend of the following:

- The legal vehicle set up by the company through which the investment is carried out.
- The investment's funding (it can be self financed or financed through external sources).
- It is not necessary to capitalize accumulated earnings or reserves.

Free Zone system

Following the approval of the Free Zone law in 1987, this system has become an important tool for attracting investments to Uruguay.

It has been utilized both for carrying out traditional activities in the Free Zones (warehousing, logistics and distribution) and for providing services related to software, finance, call centres, etc., and manufacturing activities such as cellulose pulp and leather production.

In a clear sign of stability, none of the administrations in office over the last two decades has modified the basis of the Free Zone system.

The law defines Free Zones as privately or publicly owned isolated and fenced off areas of Uruguayan territory determined by the Executive Branch with the purpose of carrying out all types of manufacturing, commercial and service activities within the zone, while enjoying tax exemptions and other benefits envisaged in the law.

Companies in these areas cannot carry out industrial, trading or service activities in the non-Free Zone Uruguayan territory, except for services expressly authorized by the Government, but are allowed to render all types of services within the Free Zone or to third countries. Free Zone users are allowed to render following services to the non-Free Zone Uruguayan territory:

- International call centres, except for those whose main destination is the non-Free Zone Uruguayan territory.
- E-mail, distance learning, electronic signature certificate issuance.

The services mentioned below can be rendered to non-Free Zone Uruguayan territory provided the corresponding taxes are paid.

- Software production, technology consulting and related training services.
- Accounting, administration and management services rendered to related companies who carry out port and shipping logistics activities, if said services are lower than 20% of the total income obtained during the fiscal year. Free Zone users are exempt from all current and future national taxes, including those taxes for which a specific legal exemption is required, in connection with the activities performed within the Free Zone territory.

The Uruguayan Government guarantees all the exemptions and benefits afforded by law during the term of their contracts.

In order to maintain status and benefits (including tax exemptions), users must have at least 75% of Uruguayan nationals or citizens on their payrolls, in connection with the activities carried out in the Free Zone. Only in exceptional cases may the Executive Power reduce this percentage.

The exemption excludes social security contributions on employee wages. These contributions are not applicable to foreign personnel working in the Free Zone provided they declare in writing that they do not wish to use the Uruguayan social security system. If that choice is made, they will also receive more favourable treatment regarding income taxation.

The entrance and departure of goods to and from the Free Zone is exempt from taxes. If goods are introduced to these areas from non-Free Zone Uruguayan territory, they are considered exports for tax purposes. Meanwhile, goods introduced to non-Free Zone Uruguayan territory from the Free Zone are considered imports, and must pay the corresponding customs duties and comply with the legal formalities required for imports.

Exemption from all current and future national taxes guaranteed by the Uruguayan Government

Promotion and protection of instruments

The following are some of the countries with which Uruguay has signed treaties of promotion and protection of investments:

Europe

Spain
Belgium
France
Germany
Italy
Sweden
Switzerland
United Kingdom
Finland
Bulgaria
Czech Republic
Romania

North America

United States
Canada
Mexico

Asia and Australia

Australia
Malaysia
Israel
Saudi Arabia
Egypt
India
Iran

South America

Argentina
Brazil
Paraguay
Chile
Bolivia
Venezuela

Central America

El Salvador
Panama
Nicaragua

Africa

Angola



***Social security and
labour regulations***

Labour regulations

The Ministry of Labour (MTSS) ensures that employers meet labour laws and regulations and provides technical assistance to employers and employees to ensure their corresponding rights.

Once the labour relationship is initiated, it is possible to establish temporary contracts for three months. In justified cases, it is also possible to establish labour contracts for pre-determined periods. The contracts are not formally regulated.

Unions are organized by company and industry sector.

Employee affiliation to unions is voluntary. Since May 2005, industry-based Salary Boards consisting of delegates from the government, the workers and the companies themselves began to set wages for each industry. The Boards seek to establish mandatory wage adjustments for each industry sector and to set minimum wages for each category of staff. The percentages of adjustments applied depend mostly on inflation.

The salaries can be paid in Uruguayan pesos or in foreign currency.

Labour related accidents and professional sickness which may affect the worker are covered under a mandatory government system that is administered by the state insurance company.

This system provides medical assistance and covers temporary and permanent disabilities stemming from work.

Social security system

Affiliation to the social security system is mandatory except for foreign workers rendering services in the Free Zones.

Certain foreign workers may opt out from the Uruguayan social security system by way of international treaties signed by the country. The social security administration (BPS) is the public agency responsible for the social security system and collects all contributions from companies and their employees and maintains an up to date record of the employment history of each worker.

The social security system includes the following benefits: pensions, unemployment, sickness and maternity.

Affiliation to the social security system is mandatory

Pensions

The pension system was reformed in 1996 and covers disability, old age and retirement. It divides workers into three levels according to their pay.

Workers in the first level are included in the so-called “intergenerational solidarity system” which is a distribution system with pensions paid by the BPS social security administration. Workers in other levels are included in the “mandatory individual savings regime,” which is an individual capitalization system administered by Pension Savings Fund Administrators (AFAPs) through which personal accounts and the amounts to be received by the worker are related directly to the contributions paid into his or her personal account.

Workers who are included in the first level may opt to contribute up to 50% of their pay to the individual savings system (AFAP) but for the remaining 50% they must contribute to the intergenerational solidarity system (BPS).

Workers with pay in excess of approximately USD 3.700 may opt to pay or not to pay on remunerations exceeding this amount. Total contributions are paid to BPS, which later transfers the corresponding payment to the AFAPs. The worker will receive a pension paid by the BPS, plus an annuity for life (paid by an AFAP).

Unemployment

There is an unemployment insurance system whereby an unemployed worker, either on a temporary or permanent basis, receives a subsidy paid by BPS. This coverage is granted for 6 months and in case of temporary unemployment by the end of the six months, the worker may be reincorporated to his original labour position or terminated by the employer. When the unemployed worker is more than 50 years old, the coverage can be extended another 6 months.

Health coverage

Workers and their spouse and children have the right of being affiliated to a medical care institution without cost. In the case of a common illness the labour contract is interrupted and the BPS pays an illness compensation.

Maternity

Pregnant female workers have the right and obligation to stop working six weeks before and six weeks after childbirth and to receive medical assistance and a stipend representing wages, year end bonuses and vacation pay plus vacation bonus. This remuneration is paid by BPS and do not represent an additional cost to the employer.

Contributions and benefits

Monthly employers must pay contributions and must withhold and pay employee contributions, which are applied on all remunerations paid to the worker, regular and permanent, either in cash or kind.

Contribution rates are as follows:

Concept	Employer contributions	Employee contributions
Retirement contribution	7.50%	15%
Health insurance	5.00%	3%, 4.5%, 6%, 8% (*)
Labour restructuring fund	0.125%	0.125%
Total SSC	12.625%	18.125% to 23.125%

(*) Depending on the amount of wages and if the worker has children and spouse.

Wages are defined as all economic compensation received by the worker pursuant to the labour contract. There are no legal regulations, restrictions or general agreements to establish employee profit sharing systems.

Except for management positions, profit sharing is not frequently used in Uruguay.

Working hours exceeding legal or conventional hours results in double time pay on normal working days and two and a half times pay on non-working days. There are no general regulations for additional payments to employees who work at night between 10:00 p.m. and 6:00 a.m., but each industry sector has specific regulations.

Workers have the right to an annual remunerated vacation consisting of 20 consecutive days, which increases one day for every four years of length of service starting in the fifth year. Holidays must be remunerated at the normal wage in force by the time the vacation is taken. Workers have the right to receive, apart from their normal payment during the vacation period, a supplement known as “vacation bonus”.

Year-end bonuses (also known as supplementary annual salary or 13th salary) are payable to all workers in the private sector in two halves. The first half is paid in June and the other half in December.

Additionally, there are some special leaves: study leave (6 to 12 days per year), paternity leave (3 days), and bereavement leave (3 days).

The employer has the faculty of terminating workers and is obliged to pay an indemnity. Monthly workers receive an indemnity of one month’s salary for each year or fraction of length of service, with a maximum of six months. In some special conditions, as pregnant and illness, the indemnity increases.

Foreign personnel

In order to work in the country, foreigners must apply for residency, first temporary and then permanent. Residency is granted without major requirements: proof of good behaviour in the country of previous residence, a certificate of good health and a certificate of means of subsistence.

The activities with restrictions for foreign workers are:

- Fishing: the captain and at least 50% of the crew must be Uruguayan.
- Uruguayan airlines: the crew must be Uruguayan and at least 75% of employees must be Uruguayan citizens.
- Free Zones: 75% of employees must be Uruguayan citizens in order to receive tax benefits.

International covenants and agreements

Uruguay has signed a series of international covenants and agreements on social security that, depending on the corresponding specific agreement, enable personnel to accredit in their host country the periods of service rendered in Uruguay, make temporary transfers of personnel, pay pensions and similar concepts abroad without rebates or restrictions and undertake proceedings from different locations. Further negotiations are under way with Austria, Sweden, Mexico Australia, France and Luxembourg.

South America	Europe	Asia	Central America	North America
Argentina	Belgium	Israel	Costa Rica	United States
Brazil	Netherlands			Canada
Paraguay	Italy			
Bolivia	Portugal			
Colombia	Switzerland			
Chile	Greece			
Ecuador	Spain			
Peru (1)				
Venezuela				

(1) Ratification pending

Accounting and audit requirements



Set of accounting standards in force

Accounting practices have developed significantly, following a convergence tendency to generally accepted accounting principles applied internationally. In July 2007, a national decree was approved which established that version of IFRS adopted at July 2007 will be mandatory for fiscal years beginning on or after January 1st, 2009. Additionally, a national uniform chart of financial statements (i.e., a presentation/disclosure accounting standard related to financial statements) remains in force, inflation adjustment of financial statements is mandatory, and separate financial statements –prepared by the equity method to measure investments in subsidiaries, associates and joint ventures– should be always filed jointly consolidated financial statements. A less complex set of accounting standards was adopted for small-size companies for fiscal years beginning on or after January 1st, 2009.

In 2011, a national decree was approved stating that public companies will be required to file its financial statements in accordance with IFRS for years beginning January 2012. Banking and other financial institutions continue applying set of standards established by the Central Bank of Uruguay.

Registration, filing or other presentation requirements

Companies where the total accounting value of assets exceeds approximately USD 585,000 or where net revenues exceed approximately USD 2,000,000 must register their financial statements with the National Internal Audit Office. For tax purposes, financial statements for large and medium-sized companies (as per classification by the Tax Office) must be accompanied by a audit or review report, issued by a Uruguayan certified public accountant. Public companies must file their interim and year-end financial statements accompanied by a review and audit report, respectively. Free Zone companies must consider that in case the accounting value of assets exceeds approximately USD 585,000, or if net revenues exceed approximately USD 2,000,000, financial statements must be audited; in other cases, Free Zone companies' financial statements must be accompanied by a review report and must be registered with the tax bureau. A full audit, review or compilation report issued by a certified public accountant is required for companies that submit their financial statements to government entities, in accordance with the specific requirements of each government entity.

***Uruguayan
accounting rules
follow IFRS***

An aerial photograph of a public space, likely an airport or train station, showing a queue of people. A man in a dark shirt is pushing a stroller with a large red bag on top. Other people are standing or walking in the queue, some with luggage. Black stanchions with a rope are visible, forming the queue line. The floor is made of large, light-colored square tiles.

Main indicators of the economy

Gross Domestic Product	2007	2008	2009	2010	2011
Real annual growth	6.5%	7.2%	2.4%	8.9%	5.7%
USD millions	23,468	30,392	30,517	39,430	46,744
GDP per capita (USD)	7,061	9,116	9,123	11,747	13,876
Domestic Demand					
Private Consumption (annual change)	7.1%	9.1%	-0.3%	13.7%	8.2%
Total investment (annual change)	7.4%	25.0%	-8.5%	10.1%	7.0%
Inv. in fixed assets (annual change)	9.3%	19.3%	-4.9%	11.8%	5.5%
Foreign Direct Investment (USD Millions)	1,329	2,106	1,593	2,483	2,528
Foreign Trade					
Exports of goods FOB (USD millions)	4,518	5,942	5,405	6,735	7,959
Imports of goods CIF (USD millions)	5,628	9,069	6,907	8,622	10,724
Commercial Trade Balance (% GDP)	-4.6%	-10.3%	-4.9%	-4.8%	-6.1%
Current Account Balance (% GDP)	-0.9%	-5.7%	-0.4%	-1.2%	-1.8%
Labour Market					
Average unemployment rate	9.2%	7.6%	7.7%	6.9%	6.0%
Real private wages (average annual rate)	3.8%	4.4%	5.6%	3.4%	4.0%
Prices					
Consumer (annual change)	8.5%	9.2%	5.9%	6.9%	8.6%
Wholesaler (annual change)	16.1%	6.4%	10.6%	8.4%	11.1%
Depreciation (annual change)	-11.3%	12.5%	-19.0%	1.4%	0.0%
Monetary Indicators					
Loan interest rate (local currency)	10.2%	13.9%	18.0%	13.6%	11.9%
Loan interest rate (foreign currency)	7.2%	6.0%	6.2%	5.5%	5.2%
International Reserves (USD millions)	4,121	6,329	8,037	7,744	10,302
Public Finance					
Surplus or deficit (% GDP)	-0.1%	-1.4%	-1.8%	-1.0%	-0.9%
Total public debt (%GDP)	69.5%	54.4%	71.7%	58.1%	55.5%

Source: Official statistics

Hints for the business visitor



Visitor visas

Visiting businesspersons do not require any documentation other than a valid passport. Nationals of Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay and Perú require only their identity card.

Currency

The unit of local currency is the Uruguayan peso, “UYU” or “\$U” are the symbols that represent it.

Exchange rates as of December 2011 were as follows:

	<u>UYU</u>
USD 1	19.90
EUR 1	26.60
GBP 1	30.85
AR\$ 1	4.40
BRL 1	11.50

Business hours

Stores are normally open from 9:00 a.m. to 7:00 p.m. Monday through Friday, and from 9:00 a.m. to 1:00 p.m. on Saturday.

There are several shopping centres, which open from 10:00 a.m. to 10:00 p.m. everyday.

Government offices are open to the public usually between 1:00 p.m. to 5:00 p.m. in winter and from 9:15 a.m. to 2:30 p.m. in summer.

Bank hours are from 1:00 p.m. to 5:00 p.m. (certain banks open at 11:00 a.m.) but a vast ATM network is available.

Factories are usually open from 8:00 a.m. to 5:00 p.m. and business offices from 9:00 a.m. to 6:00 p.m.

Legal holidays

Each employee has the right to have 20 days of legal holidays in the following year, by each year worked or the proportion related to the time worked in the year.

Public holidays for which the employees are entitled to full pay are: 1st January, 1st May, 18th July, 25th August and 25th December.

There are also official holidays that are paid only if they are worked: 2 days in Carnival week (usually Carnival week is during February or March), 2 days in Easter week (usually Easter week is during March or April), 6th January, 19th April, 18th May, 19th June, 12th October and 2nd November, although the national days 19th April, 18th May, 19th June and 12th October are changed to the previous or next Monday, depending which is nearest to the corresponding day.

Weights and measures

Weights and measures are based on the metric system. There are no unusual measures or terminology, except for certain archaic terms still occasionally found in rural areas.

Business information services

Business information for foreign businesspersons visiting Uruguay can be obtained at the nearest consulate or diplomatic office.

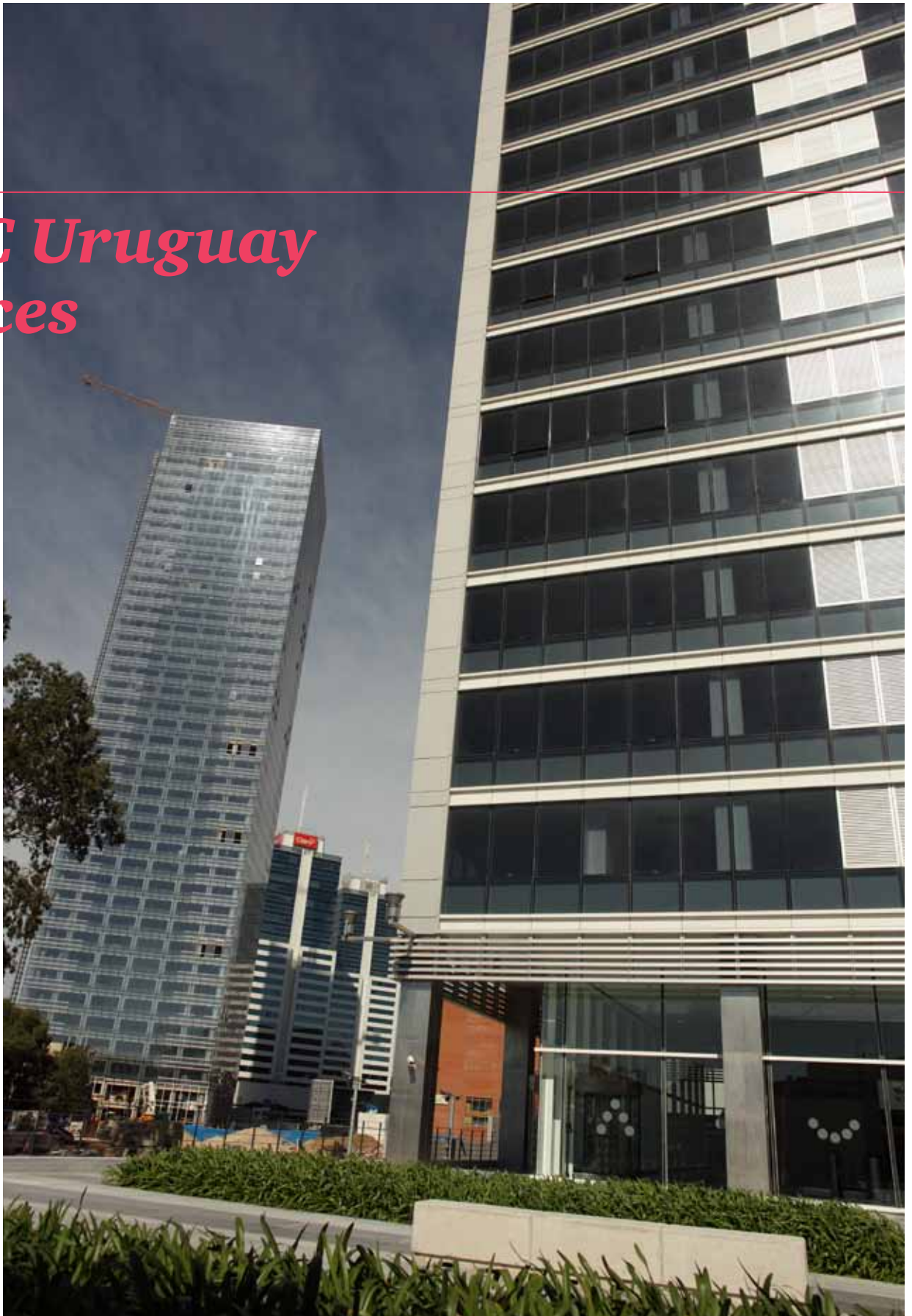
Tips

Tips are usually not included in the price of services. Customary tips are 10% for restaurant meals and taxi fares.

Taxis

The fare from the international airport to downtown Montevideo is about USD 30.

PwC Uruguay offices





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