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Firma Miembro de INTEGRACIÓN INTERNATIONAL®



ARGENTINA
Doing Business Guide
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OVERVIEW

This **DOING BUSINESS GUIDE** is prepared to help those interested in doing business in Argentina. Although it does not cover exhaustively the items, is intended to answer some questions that may arise.

Our firm is happy to discuss matters arising from this information paper, as well as any other issues relating to your business affairs. When specific problems occur in practice, it will be necessary to obtain appropriate accounting, tax and legal advice. You should consult **our firm**, before taking any decisions based on the matters discussed herein.

The material contained in this guide corresponds to laws, regulations, decision and other statistical information available as of December 31, 2010, unless otherwise indicated. Although the information contained herein has been compiled with utmost care, no responsibility is taken for the contents of this booklet and the authors and editors decline any responsibility.

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THE COUNTRY

Argentina is a federal republic in southern South America, bounded on the north by Bolivia and Paraguay; on the east by Brazil, Uruguay, and the Atlantic Ocean; on the south by the Atlantic Ocean and Chile; and on the west by Chile.

The country occupies most of the southern portion of the continent of South America and is triangular, with the base in the north and the apex at Punta Dungeness, the southeastern extremity of the continental mainland.

The length of Argentina in a northern to southern direction is about 3,330 km (about 2,070 mi); its extreme width is about 1,384 km (about 860 mi). The country includes the Province of Tierra del Fuego, which comprises the eastern half of the Isla Grande de Tierra del Fuego and a number of adjacent islands to the east.

The area of Argentina is 2,791,810 sq km (1,068,302 sq mi); it is the eighth largest country in the world and the second largest in South America, Brazil ranking first in area. Argentina, however, claims a total of 2,808,602 sq km (1,084,120 sq mi), including other sparsely settled southern Atlantic islands, as well as part of Antarctica. The Argentine coastline measures about 5,000 km (about 3,100 mi) in length. The capital and largest city is Buenos Aires.

Due to the sheer expanse of the country's territory and its topographical diversity, Argentina boasts a wide range of climates; from arid to temperate, warm to cold. The arid areas stretch along the western side of the country along the Andean foothills from the northern Puna region, the mountain ranges in the provinces of Catamarca, La Rioja and San Juan to northern Patagonia. A more temperate climate is to be found in the province of Buenos Aires, part of Entre Ríos, the center and south of Santa Fe, the east of Córdoba and northwest of La Pampa. Temperatures reach their highest extremes in the provinces of Misiones, Corrientes, the north of Entre Ríos and the east of the Chaco region, while the coldest climate is to be found at the humid end of the Patagonian Andes which reaches across the southwestern part of the country.

Argentina is one of the countries with the greatest abundance of natural resources and geographical diversity in the world. Its natural heritage of incalculable value includes extraordinarily fertile lands (mostly in the wet Pampa), vast forests (in the northeast), mining fields (along the 4,500 km stretch of the Andes) and the bounty of its 4,700 kilometer Atlantic coastline. The government is committed to sustainable development and the protection of its natural resources.

POPULATION

Argentina has a population of some 40.6 million inhabitants (49% male and 51% female). The country is highly urbanized, with 92% of the population living in urban areas.

The vast majority of the population descends from European immigrants, largely Spaniards and Italians, who arrived during the 19th century and the first few years of the 20th century. There is also an indigenous minority. Waves of immigration from the Middle East as well as neighboring South American countries have made significant contributions to the country's current cultural and ethnic demography.

The population is relatively young, with an average age of 30. The growth rate of the population stands at 0.98% with an average of 2.25 births for every woman. Life expectancy at birth is 75 years.

Over a third of the Argentine population lives in the province of Buenos Aires. The cities of Buenos Aires, Córdoba, Rosario, Mar del Plata and La Plata are the main urban conglomerates.

The official language in Argentina is Spanish. English is widely spoken and, according to the University of Cambridge English for Speakers of Other Languages (ESOL) examinations, Argentine students have the highest level of fluency in the region (Cambridge ESOL, 2007).

Although there is no official religion, the population is mostly Catholic. However, there are over 2,500 different officially-acknowledged religions actively practicing. There is a long tradition of religious diversity in the country and freedom of religion is protected by the Argentine constitution.



HISTORY

In 1515, Spaniards explored the Río de la Plata and one year later, the first settlement was founded 400 km northern from present Buenos Aires. In February 1536, Pedro de Mendoza founded Buenos Aires but the indigenous population expelled the initial settlers a couple of years later. Finally, Juan de Garay settled Buenos Aires on June 11, 1580 upon a permanent basis. Argentina remained a Spanish colony, as part of the Viceroyalty of the Río de la Plata, until 1816.

On May 25, 1810, an Assembly meeting at the Cabildo de Buenos Aires (City Hall) overthrew the Spanish government and installed a provisional governing council formed by patriots. After several unsuccessful attempts by Spain to regain control, independence was declared on July 9, 1816 at San Miguel de Tucumán.

The following decades were characterized by civil war between Buenos Aires and the rest of the provinces. This period of anarchy ended in 1852 and the present Constitution was adopted one year later. A period of great stability followed.

In the half century following 1880, Argentina made remarkable economic and social progress and attracted millions of immigrants from most of the European countries.

The 1929 world economic crisis had serious repercussions in Argentina. In September 1930, 70 years of uninterrupted democracy ended and were replaced by a period of some 50 years during which military governments alternated power with democratic governments. Democracy was restored in 1983.

GOVERNMENT

Argentina has followed a republican, representative and federal style of government since 1853 when the Argentine constitution was drawn up.

The form of federal government establishes the division of powers between the national government and the provinces, guaranteeing the independence of the latter. In this system, the national or federal sovereign government whose jurisdiction covers the entire national territory coexists with local governments whose jurisdictions are limited to their own respective territories. Argentina is divided into 23 provinces and the Autonomous City of Buenos Aires.

The City of Buenos Aires has a special independent regime although it is not considered as a province.

Although since 1930 democratic and de facto governments headed by military factions have succeeded each other, the country has enjoyed a period of uninterrupted democracy from 1983 onwards in which civil liberties and human rights are guaranteed.

The political structure of the country is based on a traditional republican division of powers: the Executive, Legislative and Judicial.

The Executive branch is led by the President of the Nation, elected for a term of four years with the option for re-election for one further term. Both the President and Vice-president, who also chairs the Senate, are elected by direct vote. The President is advised by the Chief of Staff and a Cabinet of Ministers.

The Legislative branch is represented by the Congress of the Nation, made up of the Senate and the Chamber of Deputies, whose representatives are elected by direct vote for six and four years, respectively.

The Judicial branch is comprised of the Supreme Court of Justice, the National Council of the Magistracy and the lower courts. The Supreme Court is comprised of nine judges, pre-selected by the Council of the Magistracy by public bidding with a shortlist sent to the President who then selects one candidate, whose candidacy is presented to the Senate for approval.

Each one of the 23 provinces has its own republican and representative constitution which enables it to organize its own power accordingly and which regulates the regime of municipal independence. The provinces may pass laws on non-national issues, although the principal common laws (civil, trade, criminal, labor, social security and mining law) are the preserve of the Argentine Congress. The Executive Power is wielded by a Governor in each province.



The Autonomous City of Buenos Aires also has its own republican constitution establishing the division of powers and a regime of decentralization organized into communes, or districts. The Executive Power is in the hands of the Head of Government of the City of Buenos Aires.

EDUCATION, SCIENCE AND TECHNOLOGY

In Argentina, state primary and secondary education is obligatory and free of charge. The country has the second highest literacy and school life expectancy rates in the region, on a par with Spain, Italy and Israel (Global Education Digest, UNESCO 2008).

Over 1.5 million students attend the 107 public and private universities throughout Argentina. It is the leading country in Latin America in terms of the number of students entering higher education each year. Over 87,000 undergraduates and another 6,200 post-graduates enter the job market every year. The gross rate of entry to higher education establishments (68%) is the highest in the region and similar to that in developed countries such as Spain and Italy.

In addition to education, the development of science and technology play a key role in the country's development strategy. Signs of the priority assigned to this area include the creation of the Ministry of Science, Technology and Productive Innovation and a marked and consistent increase in the levels of public investment made in both science and technology.

In Argentina there are prestigious institutions, companies and public and private universities of international renown dedicated to the development of science and technology, including the National Council for Scientific and Technical Research (Consejo Nacional de Investigaciones Científicas y Técnicas - CONICET), the National Atomic Energy Commission (Comisión Nacional de Energía Atómica- CNEA), INVAP, a company specializing in nuclear and space technology, the National Technological Institutes of Agribusiness and Industry (Institutos Nacionales de Tecnologías Agropecuaria e Industrial - INTA and INTI) and the Leloir and Favalaro Institutes.

The country also has a roster of well-known scientists and researchers recognized by leading institutions around the world. Among them are the Nobel prizewinners Luis Leloir, (Chemistry - 1970), Bernardo Houssay (Physiology and Medicine - 1947) and César Milstein (Physiology and Medicine - 1984), which make Argentina the country with the highest number of Nobel prizes in Latin America.

INFRASTRUCTURE

Argentina's developed transport and communications infrastructure includes over 231,300 km of roads, one of the largest railway networks in the world (31,409 km) 25 sea ports, 38 river ports and 58 airports, 23 of which are international. There are over 25 air operators offering direct flights from Argentina to over 40 destinations on five continents.

Argentina also has a varied selection of buildings suitable for commercial development in different urban centers throughout the country. In the A and A+ premium categories, the scale of the offer in Buenos Aires is outstanding, with costs per square meter (USD/m² 25) comparable to those in other capital cities in the region, such as Santiago de Chile and Mexico City, and significantly cheaper than in Sao Paulo and Bogota.

The country has an advanced and competitive telecommunications system operating in a free market. The capital investments made to date in the industry can be seen in the extensive national and international digital connections networks, while the density of fixed and mobile lines (105 subscriptions per 100 inhabitants) is the highest in Latin America. Internet penetration (21 users per 100 inhabitants) is increasing quickly, well above the region's average rate. Buenos Aires is recognized as the WiFi capital of Latin America, hosting the highest concentration of wireless hotspots per inhabitant (more than in Sao Paulo, Mexico or Santiago de Chile).

The national government has been extremely successful in implementing its electronic administration system, offering citizens electronic access to a range of different public services. In the 2009 E-Government Readiness index compiled by the United Nations, Argentina scored higher than any other country in South America.

The country is able to meet most of its energy requirements with its own resources. Hydraulic power generates some 30% of the electricity consumed domestically, while nuclear energy produces 7%. Current legislation seeks to promote the use of renewable energies with a view to fostering sustainable development. The Biofuels



Law establishes mandatory blend levels for liquid fuels with biofuels (biodiesel and ethanol) as from 2010. In the framework of the Regime to Promote Renewable Energies, a number of programs are taking place to promote alternative energy sources for electricity. This includes the GENREN Program which issued a tender for the purchase of 15 years of 1,000 MW generated by clean sources, mostly wind power.

FOREIGN RELATIONS

Argentina is an open economy and one which is integrated into the global matrix. The country represents South America at the G20, is a founding member of the World Trade Organization and has been an active participant of the UN Peacekeeping Operations for over 35 years.

In terms of trade, Argentina is a full member of Mercosur, a customs union which also includes Brazil, Paraguay and Uruguay. A Preferential Trade Agreement with India is in place, a free-trade agreement with Israel is awaiting Congress' approval and diverse trade agreements are under negotiation with the Southern African Customs Union (SACU), countries of the Gulf Cooperation Council (GCC) and Morocco. A more comprehensive agreement with the European Union is also under negotiation.

ECONOMIC BACKGROUND

Argentina's wealth has traditionally come from ranching and grain growing, and agricultural commodities continue to be a mainstay of argentine exports. Since 1997 Argentina has been declared free of foot and mouth disease. The agricultural sector includes forestry, fishing and hunting for economic purposes and also the production of secondary products (paper, paper paste, lumber, laminates, boards, etc.).

The industrial sector includes manufacturing, mining, and construction. The development of this sector began during the World War I era, and has accelerated in the last few decades. Industrial development is heavily concentrated in the province of Buenos Aires –40% of the manufacturing plants– as well as in centers in Santa Fe and Cordoba. Most plants are small; companies with fewer than 30 persons employ the vast majority of industrial workers and few industries employ more than 500 workers.

The prospect of being able to reach larger markets on more favorable terms through the Mercosur (South Common Market – Brazil, Uruguay, Paraguay-) is spurring interest in industrial investment and production.

In recent years, a major reform in the legal framework has created incentives to the mining industry such that production grew drastically, and so did foreign investment. To improve output value and increase this sector's export share, the government has added a favorable tax treatment as a further incentive to attract new capital.

Exploration and development permits in the oil industry were offered to foreign firms following the deregulation and privatization of the state-run petroleum monopoly in 1991 (YPF).

Increases in investment by local and foreign firms contributed to modernization and improved efficiencies in areas such as textiles, apparel, nonmetallic mineral products, wood products, food and beverage, paper, chemical, aluminum and automotive industry.

Argentina industrial policy now operates within an open economy framework. The country's participation in Mercosur is having a major effect on market-based development as industry begins to grow and supplement that in member countries' economies.

The services sector includes utilities, transportation and communication, commerce (which includes retail and wholesale trade, lodging, restaurants, and entertainment), financial services and miscellaneous (including professional, personal and government services). The sector's share in GDP is between 50% and 60%.

ARGENTINA'S INTERNATIONAL ROLE

Argentina has long been a member of a variety of international associations. Recently it has taken a greater role in regional and international activities as its new open economy pushes it into greater interaction with its international neighbors.



Argentina is a charter member of the United Nations and of most of its affiliated bodies. It is a member of the International Monetary Fund (IMF), The World Bank (WB), The Organization of American States (OAS) and The Latin American Integration Association (LAIA).

Argentina subscribes to the General Agreement on Tariffs and Trade (GATT), to its successor, The World Trade Organization (WTO), and to Mercosur, while maintaining a variety of bilateral treaties with many nations. Argentina adheres to most international conventions, including the Berne and Paris Conventions regarding intellectual property, the International Chamber of Commerce (ICC), and the Customs Cooperation Council (CCC), among others.

Mercosur is a regional trade organization formed in 1991 to establish a common market and a common trade policy toward outside nations. Mercosur has four member countries—Argentina, Brazil, Paraguay, and Uruguay.

It takes its name from Mercado Común del Sur (Spanish for “Southern Common Market”). The organization has its origins in a trade treaty signed by Argentina and Brazil in 1986. In 1990, these countries joined with Uruguay and Paraguay to form a free-trade zone, which allows unrestricted trade between the four countries. In 1995, the member nations formed a customs union, in which they agreed to reduce or eliminate trade barriers between member countries and adopt a common trade policy toward outside nations.

A fundamental part of Mercosur is a common external tariff (CET), a complex schedule of taxes that apply to imports from nonmember countries. The purpose of the CET is to protect the developing industries of member countries from outside competition, and to create a larger internal market for goods and services produced by Mercosur partners. The CET ranges from an average of 11% up to a maximum of 20% and 35% only for cars.

Mercosur offers a market of 211 million inhabitants, comprising an area of 12 million sq. km with and GDP of US\$ 1.185 billion, more than 50% of Latin America's total GDP.

Other nations that may apply to join Mercosur include Chile, Bolivia, Colombia, Ecuador, Peru, and Venezuela. Agreements with these countries would create a free-trade zone throughout most of South America.

In 1995, Mercosur also established an agreement with the European Union (EU), a similar organization of European countries, to create a free-trade area between the member countries of both groups by 2005.



FOREIGN INVESTMENT

LAW ON FOREIGN INVESTMENT

The Foreign Investment Law defines the legal framework regulating foreign investment.

This law covers the different ways in which foreign investors may invest capital in Argentina for the purposes of carrying out established activities-in the industrial, mining, agricultural, trade, and financial sectors of the economy, whether directly in the area of services or in other areas related to the production and exchange of goods and services-without prior approval. The Law states that such investors shall enjoy the same rights and be subject to the same obligations as defined for domestic investors by the Argentine Constitution and Laws.

RIGHTS OF FOREIGN INVESTORS

- Foreign investors may remit abroad liquid profits arising as a return on their investment as well as repatriate their investment.
- They may avail themselves of any of the legal forms of incorporation foreseen by Argentine legislation.
- They may make use of domestic credits and loans with the same rights and under the same conditions as domestic companies of domestic capital. Download our Legal Framework Report for more information.



FOREIGN TRADE

The Argentine customs legislation is composed, basically, of the Customs Code – Law No. 22,415 (“Customs Code”), its regulatory Executive Order N°1001/82, the Treaty of Asuncion, or the MERCOSUR Treaty, and its protocols.

The key issue when importing goods into Argentina is the tariff classification of the underlying goods. The tariff classification will not only determine the applicable duty rate but, among other things, statistics fee, Value Added Tax rate, prohibitions, certain exchange control rules, terms of payment, technical requirements, sanitary requirements, rules of origin and labeling.

Mercosur countries have established a common external tariff for most of the tariff classification items of Mercosur Common Nomenclature. However, each of the parties has a significant number of exceptions to such common external tariff. Mercosur countries are now negotiating a schedule for their domestic tariffs to converge definitively with the common external tariff.

The import duty is generally ad valorem, that is, based on a percentage of the value of the goods. Mercosur has adopted ad valorem rates ranging from 0 up to 35% percent. Therefore, in order to calculate the import duties payable on imported goods, it is essential to properly determine the value of the goods for customs purposes.

Individuals or corporations wishing to import or export goods into or from Argentina must generally be registered in the Importers and Exporters’ Registry before the Customs Service. If a person wishes to make sporadic foreign trade operations, it could request authorization for each of these operations to the Customs Service. In this case, it would not be necessary to comply with the registration before the customs service.

Even if the importations and/or exportations are performed regularly, importers and/or exporters need not register with the Customs Service if the clearance is made under, among others, the following regimes: luggage, means of transport, onboard supplies or diplomatic franchises. It should be noted that in general, in order to be registered in the Importer’s Registry, the individual or corporation must be registered as taxpayer before the Federal Revenue Service.

Argentina has signed and approved the GATT valuation code by Laws 23,311 and 24,425 fully adopting and implementing its customs valuation provisions and methodologies. Therefore, the methods for determining the customs value under Argentine law are similar to the methods used by other countries, which have implemented the GATT Valuation Code (e.g., members of the European Union). Each member of the GATT, including Argentina, has its own policies and administrative practices, with respect to the interpretation and application of the valuation provisions stated therein.

DEFINITIVE IMPORTS

Definitive importation is the most common type of importation. It involves the entry of goods into the Argentine territory on a permanent basis. When goods are imported definitively, they must comply with all tariff and non-tariff regulations and prohibitions. In general, import duties vary from 0 to 35% according to the tariff classification of the goods in the NCM.

The customs value (taxable base) for the calculation of import duties is the transaction value (on a CIF basis). In addition to the import duties, an importer shall pay the following taxes:

- (i) Statistics Fee: it is levied on the transaction value (on a CIF bases) of the imported goods. The tax rate currently in force is 0.5%. However, the statistics fee is subject to maximum amounts, depending on the value of the imported goods (e.g., where the value of imported goods exceeds US\$ 100,001, the applicable statistics fee is US\$ 500)
- (ii) Value Added Tax (VAT): currently amounts to 21% of the aggregate of the CIF value of the goods, the import duties and the statistics fee. Certain capital goods are subject to a reduced 10.5% VAT rate
- (iii) V.A.T. additional payment: 10% or 5% in the case of goods subject to reduced 10, 5% VAT rate). These rates will be increased to 20% or 10%, respectively, if the importer fails to submit the Certificate of Import Data Validation (or “CVDI”). VAT additional payment shall not be applicable when the importer is the final user of the imported goods



- (iv) Income Tax advance payment: 3%: When the importer is not the final user of the imported goods, this rate will be increased to 11%. The 3% rate will be increased to 6% if the importer fails to submit the CVDI.
- (v) 1% Advance Gross Receipts Tax.

VAT paid by the importer may be offset against its output tax arising from its commercial activity. The 3% advance of the Income Tax shall be computed for the importer's annual Income Tax. Advances of both VAT and Income Tax shall not be applied to imports of goods intended to be used by the importer.

Both VAT additional payment and Income Tax advance payment shall not be applicable if the imported goods are fixed assets for the importer.

TEMPORARY IMPORTS

A temporary importation involves the entry of goods into the Argentine territory to remain in the country for a limited period of time and for a specific purpose. There are basically two types of temporary importation procedures:

- (i) Goods which are to be exported in the same condition as they entered the country. Such goods must be re-exported in certain periods of time, depending on the nature of the goods;
- (ii) Goods which will undergo a process of transformation, manufacturing or repairing and be re-exported. In general, such goods must be re-exported within a 2-year term.

No import duties are applicable to the importation of goods under these regimes, except certain service fees. In order to import goods under these regimes, a guarantee must be provided to the Customs Service to ensure the payment of duties and/or penalties that may apply. Under the temporary import regimes mentioned above, the importer is not allowed to sell, lease, lend, or otherwise transfer the tenancy of the imported good, unless it is expressly authorized by the Customs Service.

However, under the procedure mentioned above in (ii), when part of the production process must be necessarily made by a third party, the importer might transfer the temporary imported goods subject to the prior customs service's approval. In this case, the original importer will remain liable before customs for the compliance with all obligations imposed as a condition for the granting of this regime.

In order to import the goods under definitive import procedure, the importer shall request authorization from the Customs Service (paying the applicable import duties).

There are other customs temporary regimes, such as temporary export, customs warehousing procedure, In-Transit Goods. The Customs Service is entitled to place the goods under the definitive import procedure unless a prohibition is applicable and/or the purpose of the temporary import procedure is affected by such a decision. Under the procedure mentioned above in (ii), besides the applicable import duties, definitive importation of temporary imported goods may be subject to additional duties.

Extensions of the terms originally granted may be authorized, as long as certain conditions are met. If the temporary import status expires without exporting the goods or without requesting the authorization from Customs to place the goods under definitive import procedure, the importer will incur in the infringement laid down in article 970 of the Customs Code (failure to comply with the obligations imposed as a condition for the granting of the temporary importation regime). In such a case, the importer will have to pay the import duties and applicable taxes, if any, and a penalty equal to the higher of (i) 1 to 5 times the import duties and applicable taxes, or (ii) 30% of the custom value of the imported goods. Penalties for misrepresentation may apply.

Export of goods that were temporarily imported under the procedure mentioned above in (i) is not subject to export duties, unless such goods were improved in any manner, in which case, export duty will only apply to the added value.



Export of goods that were temporarily imported under the procedure mentioned above in (ii) is subject to export duties and to the payment of export benefits.

EXPORTS

In general, exports are subject to export duties varying from five per cent (5%) (manufactures) to twenty per cent (20%) (commodities) of the FOB value of the pertinent goods (oil and certain derivatives from petrol may be subject to higher export duties). Resolutions 11/02 and 35/02 from the Ministry of Economy established additional export duties of 20%, 10% and 5% to certain goods. Such additional duties will be added to the existent export duties.

Recently, the Executive Branch increased the applicable export duties for certain goods (e.g., meat products classified in specific tariff classification numbers). Afterwards, it decided to suspend the exportation of some of the goods which were subject to the export duty increase for 180 days (i.e. meat products classified in specific tariff classification numbers).

The exportation of goods is exempt from VAT and gross receipts tax.

Argentine exporters are subject to Exchange Control Regulations and to the Criminal Exchange Control Regime. Exporters must bring foreign currency proceeds from exports into Argentina in the mandatory terms prescribed by the Central Bank. Foreign currency must be sold by the exporter in the free single exchange market.

The main measures for promoting exports are the following:

- (i) Drawback
It is a customs regime through which taxes paid for definitive importation are totally or partially reimbursed, provided that the goods were definitively exported and that certain conditions are met.
- (ii) Refunds (“reintegros”)
The refunds regime is the one in which the inland taxes paid for the goods sold for exportation, or for the services rendered related to such goods, are totally or partially refunded. The inland taxes mentioned above do not include the taxes paid upon definitive importation. The refunds regime is compatible with the Drawback regime.
- (iii) Reimbursements (“reembolsos”)
The Reimbursements Regime is the one in which the inland taxes as well as the taxes paid upon definitive importation of the goods sold for export, or for the services rendered related to such goods, are totally or partially refunded. Unless indicated otherwise, the Reimbursements Regime shall not co-occur with the Drawback regime or the Refund Regime.
- (iv) V.A.T. refund on exports
In general, such refund does not exceed 21% of the FOB value of the exports.
- (v) Mercosur
The Mercosur Treaty took effect on January 1, 1995. Argentina, Brazil, Uruguay and Paraguay are parties to this Treaty, which sets forth the basis for a common market. At this stage, Mercosur is an imperfect customs union. Chile and Bolivia have already signed Trade Agreements with Mercosur, which have eliminated customs duties on most tariff classification items.

As a customs union, the trade of goods originating in and proceeding from Mercosur countries is, except in specific cases, not subject to import duties and is exempted from the statistics fee. Likewise, Mercosur countries have established a common external tariff (“CET”) for most tariff classification items of the NCM. However, each of the parties has a significant number of exceptions to such CET. Mercosur countries are now negotiating a schedule for their domestic tariffs to converge definitively to the CET.



In order to qualify as Mercosur goods, the products must meet the Mercosur rules of origin set forth in the Mercosur Origin Regime, and the producer or exporter will have to provide to the importer the prescribed Mercosur certificate of origin.

The Mercosur Origin Regime rules the requirements regarding the origin of goods. This regime establishes that goods will be considered originating in a Mercosur country where:

- (i) The products are totally manufactured in a Mercosur country. They will be regarded as totally manufactured in a Mercosur country when they are produced by exclusively using materials originating in Mercosur countries;
- (ii) The products are manufactured with materials of third countries if they are “transformed” in a Mercosur country and the “transformation” allows that the product be classified under a Tariff Number of the NCM (4 digits) different from the e Tariff Number of the original materials.
- (iii) The products comply with the 60% value added rule. In other words, if the requirement indicated above in (b) is not satisfied because the transformation process does not imply the shift of the Tariff Number, to qualify as originating in Mercosur it will be enough that the CIF port of destiny value or the CIF maritime port value of the third country components be equal to or less than 40% of the FOB value of the product. In order to determine the CIF value of third countries’ materials for countries without maritime border, the first maritime or river port located in the territory of the other member countries of Mercosur through which the product entered into Mercosur, shall be considered as port of destination.
- (iv) Products resulting from a process consisting only in the assembly made in a Mercosur country, using non-Mercosur materials, when the CIF port of destiny value or the CIF maritime port value of the third country components be equal to or less than 40% of the FOB value of the product.
- (v) Capital assets shall comply with the 60% value added rule.
- (vi) Products subject to specific origin requirements. These requirements will prevail over the general requirements mentioned above in a) to e), and shall not be required for products totally manufactured in an Mercosur country (i.e., when such products are produced by exclusively using materials originating in Mercosur countries)
- (vii) Products made up exclusively with non-Mercosur materials, resulting from a process made in a Mercosur country consisting only in the assembly, the classification, division, labeling, or any other process which does not change the characteristics of the product shall not qualify as originating in a Mercosur country.



BUSINESS ENTITIES

Business may be conducted in Argentina by incorporated companies, partnerships, individuals and branches of foreign-constituted enterprises. Also permitted are "union transitoria de empresas" or "UTES", which are not companies per se, but rather statutory approved alliances similar to joint ventures.

STOCK CORPORATIONS

A Sociedad Anónima ("S.A.") is the most usual and practical corporate form to do business in Argentina. It enables its shareholders to limit their liability to the par value of the shares they have agreed to subscribe. An S.A. may be considered as the equivalent of a US "Corporation". It is a stock company which requires prior authorization by the Superintendence of Corporations ("SOC"), which is the division in charge of the Public Registry of Commerce where organizational documents are filed and recorded so that the S.A. may do business efficiently in Argentina.

The main aspects involved in organizing an S.A. are as follows:

- (i) A minimum of two shareholders is required; they may be residents or non-residents (whether natural or artificial persons) in Argentina.
- (ii) The minimum capital currently required by law is AR\$12,000 (approximately, US\$ 3,000), out of which only 25% must be paid-in at the time of the corporate organization and the balance, within a maximum term of two years. It must be borne in mind, however, that the SOC requires that the corporate capital then fixed be reasonably related to the corporate purpose. Therefore, the SOC may require an initial corporate capital amount higher than AR\$12,000 if notice is taken that, due to its nature, characteristics or plurality of businesses covered by the corporate purpose, the corporate capital is overtly inappropriate. Consequently, a review must be made of the businesses to be conducted by the S.A. to make the corporate capital conform to it.
- (iii) The management of an S.A. is vested in the Board of Directors. Its members need not be shareholders or reside in Argentina. However, the Business Company Law ("BCL") requires the Board of Directors to meet at least quarterly, with the physical presence of the majority of its members. The BCL also requires that most board members be domiciled in Argentina. Any person acting as a Director of an S.A. shall furnish in favor of the S.A. a guaranty in an amount not less than \$10,000 (approximately, US\$ 2,500), to ensure the faithful discharge of his/her duties, no matter the corporate purpose, capital or duties assigned to or performed by each Director. Such a guaranty may be created by direct funding into the S.A., or through public bonds, securities, sureties or bank bonds or the taking of liability insurance.
- (iv) Statutory auditors are in-house legal auditors and are not entitled to a vote. Shareholders may remove statutory auditors at their sole discretion.
- (v) The corporate authority governing the S.A. and making resolutions is the Shareholders' Meeting. The ordinary Shareholders' Meeting may, among other things, approve the Company's annual balance sheet, appoint and/or remove its directors and statutory auditors and deal with any other matter in connection with the Company's ordinary course of business.
- (vi) Proceedings for the filing and registration of an S.A. owned by local residents (individuals or corporations) generally take around 15 business days.

LIMITED LIABILITY COMPANIES

A Sociedad de Responsabilidad Limitada ("S.R.L.") enables its quota-holders to limit their liability to the par value of the quotas they have agreed to subscribe, except for their joint and several liabilities for the actual payment of any amounts agreed to be subscribed by the other quota-holders.

An S.R.L. must register with the Public Register of Commerce to be authorized to operate effectively in Argentina.



Organizing an S.R.L. involves the following requirements:

- (i) Partners or Quota-holders: not less than two and not more than fifty. Partners or quota-holders may be residents or non-residents (whether natural or legal persons) in Argentina.
- (ii) The management of an S.R.L. is vested in a manager or a Board of Managers or Managing Board (more than one manager). Managers need not be partners but most of them must be residents in Argentina. Managers must also furnish a guaranty in favor of the S.R.L. to ensure the faithful discharge of their duties.
- (iii) The corporate authority governing an S.R.L. and making resolutions is the Quota-holders' Meeting.
- (iv) Proceedings for the filing and registration of an S.R.L. generally take around 15 business days.

SPECIAL REQUIREMENTS FOR A FOREIGN COMPANY TO ORGANIZE AN S.A. OR AN S.R.L.

For a foreign company to organize an S.A. or an S.R.L., it must file evidence with the Public Register of Commerce that it has been organized under the laws of its country of origin and must register its Memorandum of Association and By-laws, and any and all amendments thereto, if any.

Companies organized abroad must meet certain requirements to be qualified to act as shareholders of a local company.

One of the goals sought is to limit and control the use of "off-shore" companies organized abroad with a sole main corporate purpose to be conducted in Argentina and to prevent legitimization of assets of illegal source and violation of tax rules.

PARTNERSHIPS

The Commercial Code contemplates general partnerships (in Spanish, "sociedades colectivas") in which there is jointly and several liabilities of all partners.

General partnerships not engaging in commercial activities (in Spanish, "sociedades civiles") are subject to the Civil Code and are a matter of private agreement among the persons involved.

A limited partnerships (in Spanish, "sociedad en comandita"), subject to the Commercial Code, has two categories of partners: sleeping (in Spanish, "comanditarios"), whose liability to third parties is limited to the capital subscribed by them, and the active (in Spanish, "comanditados"), who do not enjoy such limitation of liability.

BRANCH OF A FOREIGN CORPORATION

Section 118 of BCL states that a foreign company may conduct business regularly in our country through the settlement of a branch. The main features of a Branch are as follows:

- (i) A branch may carry out business transactions within the scope and limitations to be determined by its Parent Company.
- (ii) There are no minimum capital requirements for a branch. Its Parent Company may or may not assign capital to it.
- (iii) A branch has no Board of Directors. Local transactions are handled by a duly appointed representative(s). No statutory auditors are required.
- (iv) Transactions performed by the Branch do not entail limited liability. Courts do not admit that the liability of the Parent Company is limited to the net assets or capital assigned to the Branch. Thus, the Parent Company becomes fully liable for all transactions carried out by the Branch.



- (v) The Branch must keep books of account separate from those of the Parent Company, where local operations will be recorded. As is the case with an S.A. or an S.R.L., a Branch must file its audited annual financial statements.
- (vi) Taxwise, the Branch is subject to a 35% income tax. Profits distributed to the Parent Company shall not be levied with other taxes.
- (vii) Proceedings for the filing and registration of a Branch generally take around 30 business days.

The main difference between an S.A. and an S.R.L. lies on the tax treatment applicable to the profits obtained by a nonresident shareholder or partner from the transfer of shares of an S.A. or quotas of an S.R.L., as applicable.

Likewise, it must be pointed out that proceeds from the sale of shares of an S.A. by a non-resident shareholder (whether a natural or artificial person) shall not be subject to income tax. Contrariwise, transfers of quotas in an S.R.L. by a nonresident quota-holder (whether a natural or artificial person) will be subject to income tax at an effective rate of 17.5% on the sales price (35% on 50% of estimated income) or at least at a 35% rate on the difference arising between the purchase price and the sales price, at the taxpayer's option.

Conduct of business through an S.R.L. may have a tax advantage if the foreign company is organized in the United States of America. This is so provided the S.R.L. qualifies as a "look through entity".

JOINT VENTURES

Companies organized in Argentina as well as natural persons domiciled there may create "joint ventures" by use of Transitory Business Organizations ("uniones transitorias de empresas" or "UTE" in Spanish). UTE may be used to develop or perform a specific project or service within or outside Argentina. This can include not only the work specifically stated in the organizational agreement but matters ancillary to such work.

UTE is not a legal person and has no independent legal standing. It cannot hold legal rights nor incur obligations in their own names.

The purpose of a UTE must be precisely stated in its organizational agreement, which must specify not only the nature of the business but also the means available to the members of the consortium to accomplish its purposes. The agreement must have a finite term equal to the estimated time that will be required for completion of the work or service for which the UTE is formed.

The establishment of a UTE does not result in the merger of the participating companies. Rather, each retains its individual identity, and each may compete against the other UTE participants, outside the realm of the UTE.

TRUSTS

Law 24.441 establishes that a trust will be created upon the transfer of certain goods by one person (the settlor) to another person (the trustee), who undertakes to exercise the rights attributable to ownership of such goods for the benefit of a person designated in the relevant agreement as "the beneficiary" and to transfer the property, upon the expiration of the trust term or upon fulfillment of a certain condition, to the settler, the beneficiary or the trustee.

The trust agreement must comply with the following requirements:

- ✓ It must identify the goods subject to the agreement; if such identification is not possible, it must contain a description of the conditions and characteristics that those goods must have;
- ✓ the agreement must stipulate the way in which other goods may be added to the trust;
- ✓ it must specify the term or condition to which the trust ownership is subject, and shall never be effective for more than 30 years from the date of its creation, unless the beneficiary is a natural person without legal capacity, in which case it may have effect until the beneficiary's death or until her/his incapacity ceases;
- ✓ it must specify to whom the goods will be allocated upon expiration of the trust;



- ✓ the trustee's rights and obligations and the specific manner in which the trustee may be replaced upon termination of her/his office.

Any individual or legal entity may be appointed as a trustee of an ordinary trust. The law however contains specific regulations regarding financial trusts. Financial trusts are those trusts in which the trustee is a financial entity or a company expressly authorized by the Security Commission to act as a financial trustee and the beneficiaries are the holders of the certificates of participation in the assets of the trust or holders of debt securities guaranteed by the trust assets.

If the property given in trust is inscribed in a public registry, the relevant public registrars will record the properties in the trustee's name.

Pursuant the Argentine law, goods held in trust forms a separate estate from the estates of the trustee and the settlor. Therefore, they will not be affected by any individual or joint actions brought by the trustee's or settlor's creditors, except in the case of fraud by the settlor. The beneficiary's creditors may exercise their rights over the proceeds of the goods held in trust and be subrogated in the beneficiary's rights.

The beneficiaries are the holders of certificates evidencing a trust ownership interest o of debt securities secured by the assets held in trust. Such interest certificates are deemed securities and may be publicly offered.

MERGERS

The Corporate Law regulates mergers. It provides two different types of mergers:

- ✓ By consolidation, where two or more companies transfer their assets and liabilities to a new company which issues shares to the shareholders of the merged companies, which are then dissolved.
- ✓ By absorption, where one or more companies (the absorbed companies) transfer their assets and liabilities to an existing company which issues shares to the shareholders of the absorbed companies, which are then dissolved.

The rules regarding merger procedures require that a preliminary agreement be entered into between all the companies involved in the merger. Such agreement must contain the reason of the merger; special merger balance sheets for each company prepared with homogeneous basis and use identical valuation criteria, together with an auditor's report; the equity exchange ratio for shares the merging companies' partners will receive in the new company; and any management agreement or guarantees given to ensure performance of normal activities until the merger is duly registered.

A notice of the merger must be published at the Official Bulletin to allow creditors to protect their rights. Creditors who oppose must file and opposition to the merger proposal that does not prevent the prosecution of the merger but suspend the execution of the final agreement. If such creditors are not cancelled or duly secured by the merging companies, they can obtain judicial liens.

Any shareholder who opposes to merge or did not attend the meeting at which such action was approved, may withdraw from the company and receive the value of its shares determined based on the merger balance sheet.

If no oppositions are filed or once creditors who have filed an opposition have been satisfied, the final agreement may be executed. It contains each merging company's resolution approving the merger; the list of shareholders who exercised the right of withdrawal; a list of opposing creditors who have been paid or secured or have obtained a judicial liens, the special merger balance sheets and the consolidated balance sheet of the merging company.

The final agreement, capital increase and modifications of the by-laws must be registered at the Superintendence of Corporation to have legal effect to third parties.

SPIN-OFFS

Argentine law defines a spin-off as an operation by which a company:

- ✓ separates off part of its assets and liabilities from its existing assets and liabilities and either (i) creates (together with another company) a new company to which these assets or liabilities are transferred or



- (ii) merges such assets and liabilities into one or more existing companies (in which latter case the rules applicable to mergers will apply);
- ✓ separates off part of its assets and liabilities from its existing assets and liabilities and creates one or more companies to which these assets and liabilities are transferred;
- ✓ creates new companies into which all of its assets and liabilities are transferred.

The companies to which assets and liabilities have been transferred then issue shares to the shareholders of the company that has spun-off the assets and liabilities. As in the case of mergers, the procedure for spin-offs requires that the relevant company approve the operation, the spun-off balance sheets, the issue and distribution of shares and the relevant amendments to the by-laws.

Creditors in the spin-off are entitled to rights similar to those applicable to mergers. Details of the spin-off must also be published in the Official Bulletin in the company's jurisdiction and in a newspaper of nationwide circulation. Similar rules to those applicable to mergers apply to the right of withdrawal.

Once the periods provided for rights of withdrawal, objection by creditors and application for judicial liens have elapsed, without any claims pending, the by-laws of the new company and the amendment to the by-laws of the spinning off company will be executed and registered at the Public Registry of Commerce and the spin-off will be effective to respect to third parties.



AUDIT REQUIREMENTS AND PRACTICES

The Commercial Code requires maintenance of official books. The following books must be kept by all commercial entities:

- ✓ Journal, in which all transactions must be entered. The transactions may be summarized in entries that should be prepared on at least a monthly basis; provided appropriate official supporting books are also maintained (cash, purchases, invoicing, etc.).
- ✓ Inventory and financial statements book, in which must be entered a copy of the annual financial statements, together with itemized details of balance sheet components.
- ✓ Minute books of directors' and shareholders' meeting (only for corporations).
- ✓ Share register, in which corporations and limited partnerships enter particulars of shares subscribed, their payment, name of subscribers and transfers of shares, number of shares certificates issued, etc.

The Public Registry of Commerce may authorize the use of mechanized, computerized or other electronic accounting systems in lieu of, or as complement to, the mandatory books established in the Commercial Code.

Annual financial statements of all companies must be audited by an independent certified public accountant. The auditor's report, issued after an examination made in accordance with defined auditing standards, must be filed with the regulatory authorities.

ACCOUNTING PRINCIPLES AND PRACTICES

Accounting standards in Argentina do not differ materially from those applied in countries with highly developed accounting theory and practice. Broad and general descriptions of accounting standards and certain valuation criteria and disclosure rules are contained in technical pronouncements and reports from accounting research bodies.

International Financial Reporting Standards will be implemented for public companies as from fiscal year ending December 31, 2011.

The form and content of financial statements are variously established by the Companies' Law, specific regulatory offices and professional pronouncements. The basic financial statements consist of balance sheet, income statement, statement of change in shareholders' equity, statement of cash flow (or source and application of funds), notes, supplemental analytical information and directors' report.

Technical pronouncements embody the required disclosure criteria. However, simplicity of presentation of statements is encouraged, with analytical information relegated to the notes.

Companies that own a controlling interest in another entity must prepare consolidated financial statements to be presented as supplementary information accompanying their annual statements.

Provision for specific contingencies is allowed, but for a going concern, general provisions (e.g. dismissal indemnities) are not accepted by the accounting profession. Rather, a pay-as-you-go basis should be used.

The Companies' Law and accounting standards stipulate other information to be disclosed, either in notes to the financial statements or in supplementary schedules. Required notes include, but are not limited to, restricted assets, liens on property, inventory valuation methods, changes in accounting policies, effects of subsequent events on the financial statements, result of transactions with related companies, restrictions on profit distribution, contingent liabilities. Notes should also include a component breakdown of simplified balance sheet items.

The accrual concept of recording income is followed in principle. The sale point (referred to the time of delivery) is the moment generally chosen to recognize income. All known liabilities should be accounted for.

AUDITING



As mentioned before, audit requirements are mandatory for all companies. Auditing standards are similar to those in the United States and have been in force for many years. They are embodied in different technical pronouncements.

A typical auditor's report for a nonlisted company is generally addressed to the entity's president and directors and should include, at least, the statements under review, the professional opinion, a report about the agreement of the statements with the official accounting books carried according to legal requirements, the amount of liabilities accrued in favor of the National Pension Fund, signature and professional registration number. Signature must be notarized at the local Society of Certified Public Accountants.



LABOR ISSUES

The labor force is estimated at 28.5 million. Recent official estimates suggest an overall unemployment rate about 20%. Therefore, a pool of skilled and semiskilled labor is available as well as technical and professional personnel.

Employer-employee relations are established by law and there are no profit-sharing requirements. Government has implemented different projects with incentives to reduce labor costs and to ease conditions for corporations to hire new employees in order to reduce the unemployment rate.

There are no racial, religious or other discriminatory practices. Health and safety regulations are generally part of the working conditions.

FORMS OF HIRE

Employment contracts are non-fixed term, unless there is a specific provision to the contrary. The Law establishes a trial period of three months which may be extended to six under a collective agreement.

During this period the employee may be fired without receiving any form of indemnity. Domestic legislation foresees the possibility of part-time employment contracts. Working hours may not exceed 2/3 of a normal working day and the duration of the contract must be fixed by a collective work agreement. A part-time regime does not allow for over-time.

SALARIES AND BENEFITS

Salaries may be paid upon monthly, daily or hourly basis, depending on the type of work performed by the employee.

All persons who are employed in Argentina are entitled to a minimum wage and, according to the wage in fact received, to state family allowance for immediate dependents and grants for marriage, maternity and schooling.

Average monthly wages and salaries are equivalent to US\$ 1,000 for skilled and US\$ 750 for semiskilled labor, ranging between US\$ 1,500 to US\$ 5,000 for managerial and professional staff. Figures may vary depending on experience and the size or complexity of the job or employer.

Minimum Living Wage is set by the National Board for Employment, Productivity and Wages, made up of representatives from the trade unions, employers' associations and the Executive Power. The resolutions passed by this body require a majority vote of two-thirds of its members. Currently, the minimum living monthly wage stands at AR\$ 1,740 (US\$ 435).

The Law provides that full-time workers and employees may take home an extra salary as a bonus ("aguinaldo") paid in two six-monthly quotas in June and December. Each quota is equal to 50% of the highest monthly salary paid during the previous six-monthly period.

Fringe benefits accorded by employers to personnel in general are usually few and not of great financial importance. Canteens serving low-priced meals are often provided especially at manufacturing facilities. For those working at offices within business districts, companies may provide certificates to be redeemed at fast food restaurants or cafeterias.

Legislations establish that ordinary working hours may not exceed 40/48 hours per week with an average of 8 hours per day. Workers earn overtime pay for work performed in excess of standard working week. The rates of overtime pay are 150% of the base rate on normal workdays and 200% of the base rate on Saturday afternoon, Sunday and national holidays.

Labor unions and special arrangements may create more flexible hours, including rest periods and vacations different from those usually in place.

VACATIONS AND OTHER LEAVES OF ABSENCE



All employees who have worked at least 50% of all total working days in a calendar year are entitled to a paid vacation, which varies from 14 to 35 days, depending on length of service. A proportionate vacation period is granted when employment has been for less than 6 months.

In addition, employees are entitled to short leaves of absence in the event of marriage, birth, death of a close relative and high school or university examination. Female employees enjoy a special maternity leave of absence of 45 days before and 45 days after childbirth. During such period, she is entitled to certain financial allowances and other fringe benefits.

In the event of illness of any kind, all permanent personnel must be carried on payroll according to their length of service. In addition, all employees and, if they so elect, their immediate dependents are entitled to receive free medical care and hospitalization and to acquire prescribed medication at substantial discount.

TERMINATION OF EMPLOYMENT

Employment contracts may be for an indefinite period or for a fixed period.

Employment contracts must be terminated with prior notice. Prior notice shall be given by the employee 15 days prior to the termination of the contract, while the employer must give 15 days' warning when the employee is in the trial period, one month when the employee has been employed for a period not exceeding five years and two months when the period exceeds this.

Redundancy indemnity is equivalent to a twelfth part of the highest basic monthly salary paid to the employee during the last year or during the time worked if this period is less, for each month of work or fraction greater than 10 days.

The highest remuneration which is taken as the baseline may not be greater than three times the monthly average contemplated in the collective agreement applicable to the employee in question.

The minimum indemnity may not be less than two twelfths of the highest basic monthly remuneration paid the employee during the last year of service.

When the employer fires the employee because the latter has committed a work-related offense (of sufficient gravity) which hinders the continuity of the relationship, the latter is not entitled to receive the indemnity provided for by labor legislation.

SOCIAL SECURITY

Employees' salaries are subject to social security payments. Employer's contributions depend upon their activity and turnover amount: (a) 27% if the employer is engaged in the provision of services or in commercial activities and the invoiced gross amount exceeds AR\$50,000,000; and (b) 23% for the rest of the employers.

Employees' contribution shall be 17%.

For the purpose of calculating the social security contributions paid by employees, there is a "legal ceiling" or "legal cap" (maximum amount) to be applied to the employee's monthly gross salary. Currently, this legal ceiling is AR\$ 12,000. The portion of the employee's monthly salary exceeding the legal ceiling is not subject to social security contributions.

As regards the social security contributions paid by the employers, the legal ceiling for contributions to Health Care Provider ("Obra Social") and Labor Risks Insurance Company ("A.R.T") is AR\$ 12,000; and there is no legal ceiling in the case of contributions for retirement, family allowances, unemployment subsidy and health care provider for the retired ("INSSJP").

The Retirement and Pension Fund System is a public regime. Employees and self-employed individuals must be enrolled in them.

WORK RISK AND HEALTH INSURERS



In the event of suffering an accident at work or while proceeding to or from their place of work, personnel are entitled to statutory compensation scaled in accordance with the degree and duration of disablement suffered. To afford this event, employers have to buy a mandatory insurance covering workers compensation. Cost varies according to duties performed by employees and health and safety conditions at the working place. Premium results from a fix charge per employee plus a percentage on the payroll.

These services are arranged mainly through health and welfare entities established by the industry branch or the corresponding union to which the social health payroll tax is channeled. Managers and other executives may arrange their coverage through provident societies, private hospitals and clinics that consider the employer contribution (6%) and employee contribution (3%) as a payment on-account of the health insurance premium. Companies usually pay the difference.

FOREIGN PERSONNEL

Expatriate personnel with a long-term assignment in Argentina and any accompanying family require a temporary visa, which represents a work permit valid for one to three years. Such visa may be renewed for one-year periods. After the first visa has expired, the expatriate may apply for a permanent visa.

Temporary and permanent visas are obtained by filing identity papers, good conduct and health certificates visaed by the Argentina consulate in the country of origin and a written petition to the Argentine Immigration Authority.

Professional contracted abroad for not more than 2 years may be exempted from employer and employee pension fund and social services contributions. The individuals concerned must have no permanent residence in Argentina and must be covered for old age, incapacity and death contingencies in the country of nationality or permanent residence.



TAX SYSTEM

In Argentina there are three levels of authorities that may create and levy taxes, namely the Federal Government, the Provinces (or States) and the Municipalities (or Counties).

Below is a description of the main Argentine taxes applicable to individuals, companies, branches of non-resident companies and permanent establishments.

INCOME TAX

1. Residents

Generally speaking, it can be said that Income Tax Law (“ITL”) subjects to tax all income from Argentine and/or foreign source obtained by Argentine residents (on a worldwide basis). Non-residents are taxed only on their Argentine source income. Permanent Establishments are considered as residents and taxed accordingly.

a. Corporate Tax

Corporate Income Tax is paid as follows:

- i. Corporations pay 35% on their net taxable income at the end of the fiscal year.
- ii. Branches of foreign companies pay 35% on their net taxable income at the end of the tax year, regardless of whether they remit profits to their Home Offices. Corporate taxpayers must file their tax returns and pay this tax within five months following their fiscal year closing date.

Notwithstanding this, ten monthly advance installments must be paid on account of the Income Tax that is ultimately due at the end of the fiscal year. In the first fiscal year of business, advance installments are not payable.

The net operating losses of a fiscal year may be carried forward up to five years. Losses originated in the transfer of shares, quotas of limited liability companies or interest in other companies may only be used to offset income stemming from the same transactions.

Net operating losses of foreign source may only be used to offset income of the same origin. There is no carry-back of losses. Losses originated in (i) the transfer of shares, quotas of limited liability companies or interest in other companies; and (ii) rights or obligations stemming from derivative instruments or contracts (except for hedging transactions), may only be used to offset income stemming from the same transactions, respectively.

ITL does not provide for a system of group tax consolidation, allowing a group of companies to file a consolidated tax return or enabling Income Tax to be assessed as a tax unit.

b. Individuals taxation

Individuals subject to this tax must pay it on the basis of an annual fixed tax amount (maximum 28,500 Pesos) plus 35% on the excess of 120,000 Pesos of annual taxable income. Employees are taxed through a pay-as-you-earn (PAYE) system, by means of withholdings made by the employer on each payment.

c. Foreign tax credit

Income or similar taxes paid abroad on income obtained therein may be credited against Argentine Income Tax. The credit is limited to the amount of Argentine tax that would be imposed on that foreign-source income if no credit for foreign tax were given.

d. Withholding systems

Import of assets to be sold in the Argentine market is subject to an Income Tax withholding amounting to 3% on the value of the assets (as determined in calculating Custom duties but deducting Excise Tax and Value Added Tax). This withholding is not applicable on the import of fixed assets. Import of assets to be used or consumed by the importer is subject to an 11% Income Tax withholding.



There are other Income Tax withholding regimes applicable to different kinds of payment made to a taxpayer. Withholdings are deemed to be tax paid and, therefore, they may be computed by the importer in his Income Tax return. Should this withholding system generate a balance in favor of the taxpayer, the taxpayer may use this balance to pay other taxes.

2. Non-Residents

Non-residents are taxed only on their Argentine source income by means of a 35% withholding on a certain percentage of net presumed income (which varies according to the different kinds of payment) provided for in the ITL, as a single and final payment.

3. Thin Capitalization

Any business-related interest is, in principle, deductible. Notwithstanding the above, due to the limitations imposed by thin capitalization rules applicable to business entities (excluding banks, finance trusts and leasing companies), the deductibility of interest on financial debt may be limited in the case the creditor is a non-resident controlling entity and the interest payment is not subject to an effective Income Tax withholding at a 35% tax rate. Transfer pricing rules contained in the ITL must be followed in order to ascertain the existence of control by non-resident entities.

Interest is not deductible in the same proportion if the funding subject to thin capitalization rules exceeds two times the net worth stated in the financial statements of the debtor at the end of the fiscal year. Any interest exceeding the abovementioned ratio would be non-deductible for the local company and would be treated as a dividend.

4. Transfer Pricing.

Transfer pricing rules apply when an Argentine company enters into business transactions with: (i) A related company located abroad, or (ii) A non-related company located in a low tax jurisdiction, and the prices agreed upon in such transactions do not reflect normal market practices (i.e. are not at arm's length). An arm's length price is the price independent parties would have agreed upon under the same or similar circumstances.

Pursuant to transfer pricing rules, any transaction between an Argentine company and an individual or a company, organized, domiciled or located in a low-tax jurisdiction is deemed not to be at arm's length. Implementation rules have provided a list of jurisdictions and tax regimes of some countries that are considered low-tax jurisdictions.

Transactions between related parties must be carried out at arm's length. As far as the taxpayer cannot prove the foregoing, tax authorities can make transfer pricing adjustments to the income and expenses allocated between the parties.

5. Sale of Shares

It should be stressed that any income stemming from the sale of shares (or quotas) in a corporation (or Limited Liability Company or "Sociedad de Responsabilidad Limitada") by non-resident shareholders (or by shareholders that are resident individuals, unless they are engaged in selling shares on a frequent basis) is not subject to Income Tax. On the contrary, the transfer of quotas in a Limited Liability Company (or "Sociedad de Responsabilidad Limitada") or shares in a corporation by a resident or non-resident corporation is subject to Income Tax.

6. Dividends

In principle, dividends paid by local corporations, either to residents or non-residents, and remittances of profits abroad, are not subject to Income Tax withholdings. Dividends paid or profits remitted abroad in excess of the taxable income of the relevant fiscal year (minus any Income Tax paid plus any dividends received) are subject to a 35% Income Tax withholding (Equalization tax).

TAX ON MINIMUM PRESUMED INCOME

Tax on Minimum Presumed Income is levied at a 1% rate on assets, either located in Argentina or abroad, owned (among others) by companies, branches of non-resident companies, permanent establishments,



rural real property owned by natural persons and undivided estates, non-financial trusts and mutual investment funds set up in Argentina which do not engage in public offerings.

In the case of Argentine banks (or other financial entities authorized by the Argentine Central Bank) or duly authorized insurance companies or leasing companies, the taxable base is limited to 20% of their respective assets.

For consignees of livestock, national products and domestic commodities, the taxable base is limited to 40% of the assets exclusively used in such activity.

In the case of rural real property owned by natural persons and undivided estates, the taxable base shall be reduced in an amount equal to 25% of the value of the land. The following assets, among others, are exempted from this tax:

- a. Assets owned by registered mining companies affected to the mining activity; and
- b. Shares and interest in other companies or establishments subject to this tax.

Dividends and profits received from other companies or permanent establishments are non-computable. Likewise, the following assets are not to be computed within the taxable base:

- a. Capital contributions made by shareholders on account of future subscription of shares;
- b. The value of brand-new fixed assets (except automobiles) in the fiscal year of its purchase; and
- c. The value of investments in constructions of (or improvements to) real Estate in the fiscal year in which they are made and in the following one.

Income Tax assessed for the same fiscal year may be computed as a payment on account of this tax. Any balance of this Minimum Presumed Income Tax may be carried forward up to a maximum of ten fiscal periods, to absorb any Income Tax payable on such future fiscal periods.

VALUE ADDED TAX

Value Added Tax (“VAT”) is levied on: the sales of movables in Argentina, on contracts for works and for services in general, and on imports of movables. Also, VAT is payable on services rendered from abroad which are effectively used in Argentina and on leases of real estate (with some exemptions).

The general rate of this tax as established in the VAT law is 21%, while some taxable events are subject to a 27% rate. For certain activities or goods a reduced rate applies amounting to 10.5%. For example, interest on loans granted by Argentine banks (or other financial entities authorized by the Argentine Central Bank) and on loans granted by banks of countries whose central banks apply the rules issued by the Basle committee.

The tax payable is the difference between Output VAT (or VAT applicable to the sales made or services rendered by them) and Input VAT (or VAT charged by their suppliers or providers). VAT balances for the taxpayer cannot be offset against other taxes or reimbursed. Tax credit balances are carried forward month by month.

Export of assets and/or services are not subject to VAT. Exporters are allowed to request the reimbursement of the export-related input VAT (that could not be offset against output VAT), generating a balance favorable to the exporter.

Import of movables into Argentina is subject to an additional VAT withholding amounting to 10% on the value of the assets (as determined in calculating Customs duties but deducting Excise Tax and Value Added Tax). In the case of assets subject to a reduced 10,5% VAT rate, withholding amounts to 5%. This withholding is not applicable on the import of fixed assets or assets to be used or consumed by the importer.

PERSONAL ASSETS TAX

This tax is basically imposed on assets existing as of December 31 each year held by:

- a. Resident individuals and estates, which are located in Argentina and abroad; and



b. Non-resident individuals and estates, which are located in Argentina.

Non-residents pay this tax exclusively on their assets in Argentina, unless they become Argentine residents (for example upon being granted a permanent residence permit or by staying in the country for more than twelve months), in which case they also pay on their assets located abroad.

This tax is paid at a rate of 0.5% on assets whose aggregate value exceeds AR\$305,000; 0.75% if their value exceeds AR\$ 750,000; 1.00% if their value exceeds AR\$ 2,000,000 and 1.25% if their value exceeds AR\$ 5,000,000.

Shareholdings and/or interests in local companies owned by resident or non-resident individuals or non-resident entities are subject to this tax. The local company should pay the tax, as a substitute taxpayer⁵ in connection with the equity interests of its shareholders, at a rate of 0.5% of the net worth value per share of the company, as reflected in the last balance sheet ended December 31 of the fiscal year in which payment is made. Branches of foreign companies are not obliged to act as a substitute taxpayer of this tax.

TAX ON BANK CREDITS AND DEBITS

This tax is levied on bank accounts credits and debits. The general tax rate applicable is equal to 0.6% for each credit and 0.6% for each debit. There are specific tax rates for specific circumstances (such as avoidance of the use of a bank account by means of an organized system of payments) or activities. A 34% of 0.6% on the amounts credited in the said accounts, may be computed as a credit for payment of Income Tax or Tax on Minimum Presumed Income.

EXCISE TAX

Excise Tax (or Internal Tax) is levied on producers, manufacturers or importers of goods expressly specified by the law (e.g., insurance, tobacco, spirits, soft drinks, certain automobiles, motors, wine, etc.) and apply to only one stage of production. The applicable rates vary according to the goods concerned and are generally imposed on the sales price.

TURNOVER TAX

Turnover Tax (“Impuesto sobre los Ingresos Brutos”), which is a tax on gross income, is the most relevant tax within the general Argentine Provincial Tax system. It is also levied in the City of Buenos Aires.

This tax is levied on all kinds of industrial or commercial activities carried out regularly and for a consideration. The tax base comprises gross income (or the total amount received in cash, in kind or as a service) arising from the taxpayer’s commercial activity and its tax rate varies depending upon the activity and the jurisdiction. Exemptions are available for many.

In the case of non-resident entities being the direct holder of shares or interest in a local company of any kind, the law presumes iure et de iure that such shares or interest are held indirectly by non-resident individuals and, therefore, they will be taxed accordingly.

The local company will pay the tax, and has the right to be reimbursed by the shareholders for the tax paid; and for that purpose it may withhold and/or request the realization of the assets that originated the tax (i.e. shares, quotas, etc.).

Industrial activities, subject to certain conditions, as a result of a tax agreement entered by and between the Federal Government and the Provinces.

In the City of Buenos Aires, the applicable rates are:

In the City of Buenos Aires, the applicable rates are:

3% for the sale of goods (either wholesale or retail) and for works and services;

1% for certain primary activities; and

1% - 3% for industrial activities (only if the activity or transaction is not exempted).



Other rates are applied on certain specific activities (such as 3% on construction; 6% on commissions paid to agents or brokers; 5.5% on financial activities developed by non-financial entities; etc.).

STAMP TAX

Stamp Tax is levied by most Provinces on documents evidencing transactions for a consideration, such as contracts, acknowledgment of debts, incorporation of companies, promissory notes, corporate capital increases, transfer of real estate, etc.

In general, the rate applied is 1% on the economic value of such instruments, except on the transfer of real estate which rate is usually higher (for example in the Province of Buenos it is 4%). In the City of Buenos Aires, Stamp Tax is only levied on the transfer of real estate.

Some Provinces have repealed this tax on financial and insurance transactions related to agricultural, industrial, mining and construction activities.

MUNICIPAL TAXES

Municipal taxes are grouped in various categories. Their configuration and amount depend on the jurisdiction in question, but, in general, they are not relatively significant.

DOUBLE TAX TREATIES

Argentina has signed treaties, still in force, for the avoidance of double taxation and fiscal evasion with several countries.

Through the application of the treaties a non-resident might, among other benefits, considerably reduce (or avoid) Argentine withholding taxes as described in item 1.2 above (Income Tax). Further, under the provisions of some of these treaties, shareholdings owned by non-residents may be excluded from THE TAX on Personal Assets.

Treaties with Latin American countries follow the Andean Group model while the others follow, in general, the terms of the OECD and of the UN Model Convention. Argentina and the United States have not signed a treaty to avoid double taxation regarding Income Tax but negotiations have been carried out and are expected to continue in the future.



| COUNTRY | DIVIDENDS % (1) | INTEREST % | ROYALTIES % |
|----------------|--------------------|---------------|----------------|
| Australia | 10 | 12 | 10/15 |
| Belgium | 10 | 12 | 3/5/10/15 |
| Bolivia (2) | -- | -- | -- |
| Brazil (3) | -- | -- | -- |
| Canada | 10 | 0/12.5 | 3/5/10/15 |
| Chile (2) | -- | -- | -- |
| Denmark | 10 | 0/12 | 3/5/10/15 |
| Finland | 10 | 15 | 3/5/10/15 |
| France | 15 | 20 | 18 |
| Germany | 15 | 10/15 | 15 |
| Italy | 15 | 0/20 | 10/18 |
| Netherlands | 10 | 0/12 | 3/5/10/15 |
| Norway | 10 | 0/12.5 | 3/5/10/15 |
| Spain | 10 | 0/12.5 | 3/5/10/15 |
| Sweden | 10 | 0/12.5 | 3/5/10/15 |
| Switzerland | 10 | 0/12 | 0/3/5/10/15 |
| United Kingdom | 10 | 0/12 | 15 |

- (1) Rates for qualifying companies (in general with participations of at least 25%)
(2) Andean Pact Model Convention
(3) The treaty Argentina-Brazil does not limit source taxation on passive income

PROTECTION OF INTELLECTUAL PROPERTY

Argentine Constitution protects intellectual property by providing that “all authors or inventors are the exclusive owner of their works, inventions or discoveries for the period of time established by law”.

Since 1966, Argentina has been a party to the Paris Convention, incorporating the Lisbon Agreement of 1958. Furthermore, Argentina has also approved the Trade-Related Aspects of Intellectual Property Rights (TRIPS) provisions of the General Agreement on Trade and Tariffs (GATT).



WHY DO BUSINESS IN ARGENTINA?

Argentina offers a range of profitable investment opportunities based on the widespread availability of qualified human resources, known for their versatility and talent; the abundance of natural resources and extremely fertile lands; a modern and permanently expanding infrastructure; a macroeconomic context guaranteeing competitive costs and a public sector which actively supports businesses.

SUSTAINED ECONOMIC GROWTH

- Seven years of sustained growth at an average rate of 7.4% per year in 2003-2009 place Argentina among the world's fastest growing economies.
- Argentina's GDP is expected to grow at 7.5% in 2010, remaining as one of the most dynamic economies in the region (IMF, October 2010).
- Twin fiscal and current account surpluses (1.5% and 3.7% of GDP, respectively in 2009) provide strong foundations for continued economic growth.
- Investment rates remain high by historical standards (21% in first semester 2010).
- Flexible and competitive exchange rate.
- Record high foreign exchange reserves (US\$ 51 billion in September 2010).
- Exports of goods and services grew steadily hitting a historical high of US\$82.6 billion in 2008. Exports are recovering fast from the impact of the global economic crisis and were up 18% in the first semester of 2010.
- Unemployment rate for the first semester of 2010 was 8.1%, one of the lowest rates in fifteen years.

ATTRACTIVE BUSINESS PROFITABILITY

- Argentina offers profitable business opportunities in a wide range of sectors.
- Earnings as a percent of Foreign Direct Investment (FDI) stock averaged 10.0% in 2006-2009.
- Earnings as a percentage of revenues for the 500 largest non-financial companies were also at record levels (13.3% per year in 2005-2008).

A GLOBALLY AND REGIONALLY INTEGRATED ECONOMY

- Member of the G-20 and founding member of the World Trade Organization (WTO)
- Full member of MERCOSUR (Argentina, Brazil, Paraguay and Uruguay). Preferential access (0% tariff) to a regional market of 246 million inhabitants and a combined GDP of US\$1.9 trillion.
- Free Trade Agreements (FTA) and/or Economic Complementation Agreements (ECA) within the region as well as bilateral and regional agreements through MERCOSUR. Currently negotiating other FTAs including MERCOSUR- European Union.
- Nearly 2,000 multinationals operating in the country in sectors as diverse as agro-industries, automotive, chemical and petrochemical, pharmaceutical, information technologies, telecommunications, public utilities, finance and retail.
- Dynamic performance of FDI since 2004, reaching US\$ 9.7 million in 2008. FDI resumed growth in 2010 registering an annual increase of 8% in the first semester.

A DIVERSIFIED ECONOMY

- Growing producer of technological and differentiated goods and services.



- Dynamic industry with a longstanding tradition, a diversified structure and the skills and knowledge to innovate.
- World's fourth largest exporter of original television formats.
- Dynamic software and IT services industry (18% growth in sales and 27% growth in exports per year since 2003).
- World's third-largest producer of GM crops granting producers considerable advantages in terms of production and profit levels, while offering consumers a safe option.
- Ranked second in the world in terms of certified surface area for organic production.
- Key producer and exporter of commodities, raw materials and food products that match current and projected global consumption trends.

SKILLED AND TALENTED HUMAN RESOURCES

- Internationally renowned for the quality, creativity and versatility of its human resources.
- Highest ratio of researchers to the economically active population in Latin America.
- English level among the highest in the developing world.
- Highest level of patents registered at the U.S. Patent Trademark Office in the region (measured as total number per million inhabitants for a 40-year period).

ABUNDANT AND DIVERSE NATURAL RESOURCES

- Second largest country in Latin America and eighth in the world (3.8 million square kilometers).
- Agricultural productivity among the highest worldwide as reflected by superior yields in the production of soy beans, wheat and corn, among others.
- Endowed with extraordinary fertile agriculture lands, forest resources, mining deposits and rich fisheries.

A REMARKABLE QUALITY OF LIFE

- Ranked 4th among developing countries in the Quality of Life Index (International Living, 2010).
- Ranked second in South America in the United Nations Human Development Index and in the UN Gender-related Development Index (2009).
- Diverse sports and entertainment options ranging from golf, polo, sailing and soccer to tango shows and ballet performances at the recently renovated Colon Theater.
- Buenos Aires ranked among the top ten best cities to visit worldwide for five consecutive years (Travel & Leisure, 2010).

A VIBRANT CULTURE

- Vibrant cultural life and dynamic entertainment sector.
- Fast growth of creative industries which are increasingly supplying regional and global markets.
- International awards in a wide range of disciplines: Miguel de Cervantes Prizes in literature; two Academy Awards for Best Foreign Film (Oscars 1986 & 2010); Goya Awards and honorable mentions at the Cannes and Berlin Film Festivals; Latin Grammy Awards and MTV Music Awards.

QUALITY CONNECTIVITY AND MODERN INFRASTRUCTURE



- Fixed-line and mobile density among the highest in Latin America (World Bank).
- Ranked 16th worldwide in terms of internet hosts with 6 million hosts in 2010 (CIA Factbook).
- Well-developed transport and infrastructure system: more than 38,700 kilometers of national roads; one of the longest rail road networks in the world (35,753 kilometers); 43 authorized ports; and 53 airports.
- Ranked second in the Logistics Performance Index in the region (World Bank, 2010).

PUBLIC SECTOR SUPPORTIVE OF INVESTMENT

- By law, equal treatment for domestic and foreign direct investment.
- Wide range of incentives and benefits for investors: fiscal and tax benefits to reduce the fiscal burden during the investment phase; incentives for export promotion; fiscal credit for specific training programs; and funds for scientific and technological research and innovation.
- Investment incentives in place in sectors such as automobiles, biofuels, biotechnology, forestry, mining, oil and gas, and software