

Preface:

The purpose of this book is to enlighten and guide prospective foreign investors in Venezuela. It covers a broad range of historical, social, cultural, legal, legislative and economic issues.

It is our intention that the information contained herein will assist foreign investors, but we caution that professional advice be obtained before investments decisions are made.

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 INTEGRA INTERNATIONAL, 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 2000, 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.

VENEZUELA

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Venezuela:

Venezuela whose name comes from “The small Venice” (La Pequeña Venecia), like Juan de la Cosa denominated it, one of Amerigo Vespucci's partner, is to young american country endowed with rich and varied nature, hearth of races, where it is breathed progress and freedom. Cradle of Simón Bolívar, liberator of five nations and unit sign and greatness for all Latin America.

Venezuela, door of entrance of America of the South, with 916.445 Km2 and almost 3000 kilometers of costs on the Caribbean Sea and the Ocean Atlantic, has a magnetic and attractive geography that goes from:

- The Andean them whose Sierra Nevada is covered for eternal snow.
- The warm beaches of the Caribbean Sea.
- 314 islands, keys and small islands.
- The vast central plains.
- The ancestral earth of tepuyes of Guayana.
- The Amazon Forest.
- The dunes in the small desert of Falcon.
- Until extensive rivers that travel the whole territory.



Venezuela is a paradisiac landscape of unique beauties, where it is possible to contemplate, among others:

- The Angel Fall, the highest fall of water of the world.
- The Lake of Maracaibo, the most extensive in South America and seat of the most important oil basins in the country.
- The Cable car of Merida, only in extension with their five stations and more than 12 kilometers of journey until the Pick Espejo.
- The River Orinoco, one of the biggest from Latin America, with a longitude of 2.600 kilometers and of a great strategic importance in the national economy, to the being the route of export of the iron and of the steel surpluses of the region Guayana, since Atlantic ends to the ocean.



3.200 kilometers of freeways and highways and 63 airports (7 international); one of the most modern nets in telecommunications of Latin America and a privileged geographical situation, they transform Venezuela into a springboard of business inside the Region.

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Venezuela, young country, open and in growth. Populate farmer until principles of the XX century, used for the first time the industrial production of the hand of the petroleum. Initially the industry of the oil was the motor of the Nation, deploying an enormous economic activity that would favor to the private company in little time.

Our main industries can locate them in Petrochemical, refinement of Petroleum, Steel, Aluminum, Cement, Materials of Construction, Prosecution of Foods, Textile, Autoparts, Telecommunications, Brewery, Massive Consumption, Consultancy and Consultantship, Production of Television, Chemical and Farmacy, Publicity and Editorial.



One of the biggest levels of environmental protection combines with some of the developed industries in the world as regards the petroleum, gas and natural resources. We have 40.000 kilometers of arable earth approximately, 1.960 million metric tons of iron, US \$100 thousand millions in reservations of gold. Also accessible reservations of coal, bauxite, phosphate, zinc, copper and diamonds. 3.600 million cubic meters of proven reservations of natural gas. The sixth reservation of oil light more big of the world. The reservations of oil extra-heavy more big of the world.

Venezuela is a Republic composed by 22 states, a District Federal and numerous insular dependences in the Caribbean Sea. Has a strong democratic tradition, has been governed during the last 40 years without interruption under democratic system, what endorses it like one of the nations with more democratic experience of Latin America.

From the decade of the 60, the country improved their system of basic and secondary schools. The obligatory basic education is of ten years, four more than in Mexico and five more than in Colombia. At the moment, multilateral organisms as the World Bank and the BID contribute with the country in the modernization and elevation of the quality of the basic education.

Our managers have an international standard and a competitive preparation. In the whole country there are universities and investigation centers where the future is generated contributing to the development of products and processes for an industry aware of its necessity of improvement.

The Bolivariana Republic of Venezuela, located to the north de South american, limits to the north with the Caribbean Sea, on the east with the Atlantic Ocean and Guyana, on the south with Brazil and on the Southwest and west with Colombia.

The country has a continental and insular surface of 916.445 km². These extensive territories are expressed in a compact continental surface whose maximum longitude is of 1.493 km measure in address this-west and of 1.271 km in address north-south, what contributes to facilitate the integration and internal cohesion. It has a wide coast line that reach in the Caribbean sea 2.183 km of longitude, from Castilletes to the promontory of Paria; it is in an irregular way and it is constituted by numerous gulves and bays, among

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those that highlight the gulfs of Venezuela, Triste and Cariaco, many keys and islands of Venezuelan sovereignty that extend for the north until the island of Ave and their corresponding area of marine economic exclusivity. In turn, it has 1.008 km of continental riversides in the ocean Atlantic, from the promontory of Paria to until Tip Beach, including the gulf of Paria, the island of Ducks and the coast facade of the delta of the Orinoco and adjacent islands, where they highlight the drops wild, muddy cost and covered with swamps.

The country is divided into 23 States, a Federal District and a Federal Territory, which encompass more than 320 islands and keys. Venezuela can be divided into six distinct geographic regions:

The central and eastern coastal region, including the Northern Mountain Range (Carabobo, Aragua, Anzoátegui, Miranda, Sucre and Vargas States, the Federal District and Nueva Esparta State, the most important part of which is Margarita Island). Lara, Falcon, and Yaracuy States located to the north of the plains region, between Lake Maracaibo and the city of Valencia.

The Andean region, including Táchira, Mérida and Trujillo States.

Zulia State. About 12% of the country's population lives in Zulia, which is of vital importance due to the enormous oil deposits in the Lake Maracaibo area. Zulia's oil fields produce most of Venezuela's total oil output, which averaged 3,15 million barrels per day in 1997. Zulia is also one of Venezuela's most important cattle ranching states and is responsible for a large part of its dairy industry. Its most important crops are sorghum and other cereals.

The Guayana region includes Bolivar, Amazonas and Delta Amacuro States. Bolivar State is the source of all the iron ore and aluminum produced in Venezuela, and of nearly all its cast iron, steels, bauxite, gold and diamonds. Its enormous mineral wealth, water resources and timber potential have yet to be fully exploited.

The plains region, which includes Barinas, Apure, Portuguesa, Guárico, Monagas and Cojedes States. Only 14% of Venezuela's population lives on the plains. Ideal for cattle ranching. They provide pasture for more than half the country's herds. Forrage growing is the region's most important agricultural activity. The Venezuelan Corporation for Guayana has planted more than 15 million Caribbean pine trees at Uverito in Monagas. They will provide raw materials for the country's paper and cardboard industries. The Orinoco Oil Belt is now being actively exploited, although its oil is extra-heavy, hard to pump, and full of sulfur and metals which are difficult to remove. The Orinoco Belt contains the world's largest reserves of extraheavy oil.

The Bolivariana Republic of Venezuela have the followings:

- Population Aprox (est.2000): 27,169,744.
- Capital: Caracas

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- Type of Government: Federal Republic.
- Independence: July 5 Th, 1811.
- Constitution: December 30 1999.
- Current president: Hugo Rafael Chávez F.
- Climate: it Varies of Tropical to Temperate.
- Topography: Varied; Months, Walk, Plains.
- Language: Spanish (Official)
- Literacy: 90%
- Natural resources: Oil, natural gas, iron, gold, bauxite, other minerals, Hydroelectric energy.
- Agriculture and Cattle raising: it ruffles, coffee, corn, cane of sugar, banana, derived products of the Milk.
- Petrochemical Industry: refinement of petroleum, iron and steel, aluminum, textile, teams of transport, assembling of automobiles.
- Currency: Bolivar
- Political division: 23 States, a Capital District and the federal dependences. (72 islands)
- National hymn: Glory to the Brave Town...."
- Main national hero: "The Liberator" Simón Bolívar was born in Caracas July 24, 1783. It is considered as an incomparable figure inside the Spanish American and world history, since had the privilege of being an action man and thought. Their action political and military mark the history of the South Continent from the sea Caribbean until the Andes mountain range, from the Orinoco until the Potosí. For 20 years of incessant activity, conceives and it undertakes the process of the independence that will give place to the formation of South American nations, as they are it Venezuela, Colombia, Ecuador, Peru and Bolivia. It doesn't only command the actions of a difficult war and become obstinate against the Spanish empire, but rather it establishes the platform and the institutions for a new organization of all Spanish America.



Economy:

Without exaggerating, we can say that Venezuela is a tremendously fortunate country, with an extraordinary economic growth potential. Strategically located in the northeastern part of the South American continent, with coasts on the Atlantic Ocean and Caribbean Sea, it is immensely rich in natural resources, sparsely populated and even though the serious political and economic difficulties during 1998-1999, the country continues as one of the more economic potential in Latin America. Additionally to these factors its democratic system of government and a vigorous economic potential made Venezuela one of the political and economic countries in the region's most attractive and dynamic markets, and allow it to be potential supplier of industrial products for the rest of Latin America and the

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entire world. For instance, exports of goods and services in the last two years averaged more than US\$ 19,000 millions, of which crude oil and refined products account for 74%. When examining the structure of the Venezuelan economy, we need to bear two basic concepts in mind. First, it is a mixed economy with extensive public and private participation. Second, it is divided into two fundamental components: the oil economy, oriented toward exporting, and the internal economy, where most of the country's goods and services are produced and consumed. Nevertheless, it is significant the dependence on imports of the economy to produce those goods and services.

GDP for 1997 increased 6,4% but next year showed a very slight decrease of 0.1% and in 1999 decreased 7.2% as the oil sector dropped 6.8% and the rest of the economy also decreased 6.9%. During these last two years, public investment increase in 1998 but decreased in 1999, while both public and private investment dropped in 1999, the last with more intensity. Also unemployment increase from 13% to close 18% between end of 1998 and 1999 respectively.

Venezuela is going through a new era in terms of its experience with inflation. For many years, the country enjoyed relative price stability while most of its Latin American neighbors accepted high inflation rates as an inevitable fact of life. The control of inflation has been the main objective of economic policy in Venezuela. In this sense we can see that while rate of inflation reached 103.2% in 1996, it has dropped to 37.6 in 1997, to 29.9% in 1998, to 20.0% in 1999 and to 13,4% in 2000.

In April 1996, after almost two years of exchange rate control, in the aftermath of the financial crisis, the bolivar was allowed to float freely. The Central Bank of Venezuela in July 1996 implemented a band system, within which the bolivar is floating. The exchange policy remains at the main level of the economic policy in order to reduce inflation. The Central Bank has continued with the policy announced in January 1998 maintaining the Exchange Rates Flotation Bands System. By the way, at beginning of 1998 was set a referential central parity of Bs./US\$508.50. This central parity has been adjusted by 1.28% every month keeping the bands ranges in 7.5% above and below the central parity. According to this system, exchanged rate reached Bs./US\$ 565.00 at the end of 1998, Bs./US\$ 649.25 at the end of 1999 and Bs./US\$ 699.75 at the end of 2000.

According to Art. 301 of the new Constitution, to the Law of Promotion and Protection to Investments (October 1999) and more recent President Chavez's statements on economic policy we can summed up that principles of it are in between to maintain a powerful state, in one hand, and at the same time the looking for a big participation of private capitals, both national and foreign, in a wide range of economic activities. Nevertheless, privatization as it has been formulated and applied in the past is not more longer contemplated. In effect, along last February were announced the following set of programs and instruments, both global an sectorial:

1. PDVSA Business Plan 2000-2009 for US\$55,000 million which covers the areas of oil, gas, chemical and petrochemical. In 2000 investments of US\$8,500 million are programmed in oil and gas, coming US\$3,200 million from PDVSA own resources and US\$ 5,300 million from private partners in the opening up of the oil industry. The Plan

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looks for increasing crude oil capacity from 3,5 million barrels a day in 2000 to 5,8 million barrels a day in 2000. In the gas side, is expected a big contribution from private capital based on a set measures that have been adopted such as “Ley de Hidrocarburos Gaseosos”, “Ley de Protección and Promoción de Inversiones” y “Ley de Licitaciones” and also “Ley de Impuesto sobre la Renta”. All this means that as soon as the Ministry of Mines and Hidrocarburos approves the regulations for gas operations, it will begin the opening up of the gas industry ending the state monopoly.

2. On petrochemicals there is intention to reform the Petrochemical Law in order to promote sale of Pequiven’s shares above 49% as it is contemplated now. One important program is olefins, which will be put in auction this year expecting investments in the order of US\$ 2,600 million through the participation of Exxon-Mobil and Pequiven.
3. The industrial program includes seven main activities with an scope of 20 years and investments in 2000 of US\$ 700 million. It also contemplates special references for domestic providers, such as in the governmental purchases estimated to increase national bills from US\$ 1,200 million to US\$ 4,000 million in five years. Reactivation of ten manufacturing areas for small and medium companies -the reindustrialization- for a five-year period expects to produce 300.000 direct jobs, supported with public and private financing
4. Foreign trade pays attention in reviewing the main existing commercial agreements with latin american countries, granting specials treatment to exports to Comunidad Andina de Naciones (CAN), Mercosur and the Caribbean. The government will continue and increase incentives to exports different to hydrocarbons and has already begun to pay exporters accumulated debt for drawbacks. Studies are under way to make this incentive more in connection with the ones in others countries like Chile and Colombia.
5. Privatization as has been applied in the past, will be substituted for “strategic alliances” in the aluminum sector, keeping government’s interest in private participation and supporting foreign technology in the development of the industry. It has already begun its opening up through road show to investors willing to participate in the new face of Alcasa, Bauxilum and Carbonirca. Corporacion Venezolana de Guayana estimates investments in the order of US\$ 900 million for actualization of the aluminum sector.
6. The agriculture and cattle program envisages to stimulate concentration of activities in the urban sector in order to reduce vulnerability from imports in food consumption and to increase share of domestic production in those activities Financing from local banks and government institutions will be available in the first stage in the order of Bs73, 000 million at a preferential interest rate equivalent to 80% of the average lending rate of main local commercial banks. Also agriculture firms will be exempted for income tax in 2000 and will be charge with only 20% of it in following years. In the other hand, special support is contemplated for the so call “Proyectos Agrícolas Bandera” and Proyectos Agrícolas Estratégicos”, in order to built up 100,000 indirect jobs. The Agriculture Plan also takes into account the “Programa de Riego y Mejoramiento de la Infraestructura Agrícola” in order to increase yield in harvest area 46%.

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There are several programs in the social side that have been the most important the following:

- a) Housing in order to attend 380,000 families through investment of Bs991, 500 million. It covers five different developments each one including houses schools, sport and recreation areas, ambulatories and amusement parks. These developments as a whole will contribute to generate around 400,000 jobs.
- b) The strategic food program, in order to improve the present capacity to attend low income people through 201 storing centers which will provide 16,000 low class chophouses, investing Bs2, 400 million. This system is designed to attend 5 million of very low-income population.
- c) Investment of Bs199.7 and 187.3 million are programmed for roads and railroads developments respectively. Special attention pays this program the railroad network Puerto Cabello-Barquisimeto-Yaritagua-Acarigua as a mean to reactivate the Orinoco-Apure axis. Also this program includes keeping up and restoring 65% of country bridges, building of 15 new structure and paving of main highways.

Venezuela has great expectative to come in at MERCOSUR, It 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.

Mercosur 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 \$ 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, and Peru. 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.

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Foreign investment and trade opportunities:

With the approval of the new Constitution of the Bolivariana Republic of Venezuela effective from 30 December 1999, its Article 301 gave constitutional rank to the foreign investment. This Article designates the Venezuelan State reserves the use of the trade policy to defend economic activities from the private and public companies. The foreign company does not obtain more beneficial regimen that those established in behalf of local people. The foreign investment is hold to the same conditions of national investment.

Until 1994, most foreign investments in Venezuela were subject to the same laws and regulations that applied to Venezuelan companies. When Venezuela joined the Andean Pact in 1973, the Common Regime for Treatment of Foreign Capital and Trademarks, Patents, Licenses and Royalties, better known as Andean Pact Decision 24, was adopted. This was replaced by Decision 220 on 25 July 1988, and later by Decision 291 on 21 March 1991.

In February 1992, the Venezuelan government issued Decree 2,095, containing the Regulations for the Common Regime for Treatment of Foreign Capital and Trademarks, Patents, Licenses and Royalties. This decree made profound changes to the legal framework regulating foreign investment in Venezuela, making investment in Venezuela more attractive for foreign investors. Registration procedures were simplified and foreign investment was permitted in certain sectors previously subject to restrictions.

The Superintendence of Foreign Investments (SIEX), an agency of the Finance Ministry, is responsible for the registration and supervision of foreign investments, technology import contracts, the use of trademarks, patents, licenses and royalties, and external credit for all sectors of the economy except banking, insurance and reinsurance, energy and mining, petrochemicals, coal and other minerals, hydrocarbons and related activities such as technical support for exploration, operation of oil fields, extraction, manufacturing or refining. All of these sectors are regulated by specialized agencies.

Other government agencies also exert authority over specific areas relating to foreign investment, technology licenses or specific foreign companies established in Venezuela. The most important of these is the Industry and Trade Ministry's Industrial and Technological Division (which controls new industrial projects and can prescribe broad technology models for certain sectors) and the Central Bank (which controls monetary policy, exchange rates and access to internal credit for foreign companies). These agencies also administer the regulations of Andean Pact Decision 291, and any functions which affect foreign investment are coordinated with the SIEX and other agencies directly responsible for administering foreign investment legislation.

Finally, the Sectoral Directorate-General of Finance is the national agency that keeps record of public credit transactions involving borrowing by independent government agencies, State-owned enterprise, public associations and foundations specified in Article 2 of the Organic Public Credit Law.

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FOREIGN INVESTMENT REGULATIONS:

Foreign investors rights and obligations:

Decision 291 grants investors the same rights and obligations as national investors, except as provided for in the specific legislation of each member country.

Categories of investors:

Decision 291 (as amended) sets out four basis categories of investors: 1) Foreign investors - individuals or companies from outside the Andean Pact, 2) National investors - Venezuelans or persons with equivalent rights, whether individuals or companies, including State-owned enterprises; 3) Subregional investors - national investors, whether individuals or companies, from any member country; and 4) Specific entities of “neutral capital” international, subregional or foreign financiers, and/or agencies which invest in development projects.

Other special categories of investors comprise firstly companies established in Venezuela or any other Andean country, with foreign participation in the capital invested in Venezuela. New investment under these circumstances is considered foreign, national or mixed, depending on the percentage of foreign capital invested in the new company. Secondly joint ventures between State-owned enterprises and foreign investors whereby the State must hold at least 30 per cent of the capital and have a general veto power over the company’s basic decisions. Finally, foreign individuals resident in Venezuela for an uninterrupted period of at least one year, who can obtain a National Investor’s Certificate if they agree not to repatriate earnings or capital. Each category of investors is subject to different rules.

- National - when more than 80% of the capital belongs to national investors.
- Mixed - when 51% to 80% of the capital belongs to national investors.
- Foreign - when the share of capital belonging to national investors is less than 51%.

Decision 291 also provides that, in every case and at the discretion of the responsible national agency, the percentage of national capital must be reflected in the company’s technical, financial, administrative and commercial management. In most cases this means that a high percentage of the company’s directors and/or officers must be Venezuelans, or if possible, citizens of any other Andean country.

The classification of a company with foreign investors is also affected by the nature of the national investors or others not classified as foreign, as well as by the legal status of the foreign investors under Decision 291.

Other, broader categories of foreign investors exist. “Subregional” (Andean) investors and foreign residents who have acquired the status of “national” investors and are treated as such; their holdings are included in the Venezuelan capital for purposes of determining the company’s classification. There is also the “neutral capital” defined in Decision 291, deemed to be of neutral origin and not counted toward the determination of a company’s

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classification, which is based on its national capital and remaining foreign capital. This special regulation defines such companies as “mixed”.

Finally, the Andean multinational company can be created to perform specific activities and qualifies for special incentives. At least two countries of the Andean subregion must be represented among the investors and foreign participation is limited to 39%.

COMMON REGULATIONS FOR FOREIGN INVESTMENT:

Registration, rules and procedures:

Under Decree 2,095, investments no longer require prior authorization from the government, as long as they abide by the percentages of investment stipulated for those areas of activity reserved for national companies. However, direct foreign investments must still be registered with the responsible agency within 60 days following their registration with the Mercantile Registry.

There are other requirements for new foreign investment before a company is incorporated and registered with the Mercantile Registry. These include obtaining approval of the project from the different regulatory agencies or ensuring that the project or transaction adheres to the guidelines established by those agencies. These requirements also apply to national investors. For example, all new industrial projects or plant expansions must first be authorized and registered with the Production and Commerce Ministry; mining enterprises open to private investment must be approved by the Ministry of Energy and Mines; and most foods and medicines require approval from the Ministry of Health and Social Development. Finally, once a project is under way it may be necessary to obtain other approvals, such as those related to quality control. In such cases, the same rules apply equally to national and foreign investors.

Calculation of direct foreign investment:

A foreign investment can be made in any convertible currency; in tangible goods of any kind, including capital goods and raw materials; with the proceeds of a debt-equity swap; and through intangible technological contributions such as trademarks, industrial models, technical assistance, and patented or unpatented know-how which includes physical goods, technical documents and instructions. Decree 2,095 does not consider revaluation of assets to be a capital contribution. Recognition may be given to an asset revaluation when a debt is owed for technological services effectively rendered, and may be capitalized with the prior approval of the stockholders.

The registered foreign investment provides the basis for determining remittance of profits and taxes in the event of repatriation of the investment. Capital increases resulting from reinvestment or new contributions, and the funds set aside in the company’s legal reserve (required to be no less than 10% of capital stock) are added to that original base.

The registration of a direct foreign investment must indicate its value in freely convertible currency at the exchange rate prevailing at the time the funds are converted to Bolívars in the case of cash contributions; when the capital contribution is in the form of tangible or intangible assets, the date applicable is that of nationalization of the merchandise. When

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profits are reinvested, the registration must indicate their value in freely convertible currency at the exchange rate prevailing at the end of the corresponding fiscal year. In these cases, registration must include the Bolivar equivalent.

Acquisition of shares, equity participation's or property rights of national investors:

Foreign investors may acquire shares of stock from national or subregional investors. Such transactions must be reported to SIEEX within 30 days.

Reinvestment:

Net earnings generated by a direct foreign investment registered with the Superintendence of Foreign Investments may be freely reinvested without prior authorization.

Remittance of profits:

Foreign investors may remit after tax profits generated by their registered investment in each fiscal year.

Dividend payments:

Payments of dividends to foreign investors are made on the basis of the exchange rate prevailing at the time of payment.

Repatriation of investments:

Foreign investors may freely repatriate their capital, as well as the net earnings produced by their initial capital, once they cease operating in the country, or proportionately when they sell a portion or the whole of their shares in a company incorporated in Venezuela. Capital subject to repatriation includes the direct foreign investment plus earnings on capital, reinvestment, capital replacements, capital increases, portfolio investments, and other income. When a portion of a foreign investor's stock is sold, that investor may freely repatriate the percentage corresponding to capital and profits.

Transformation:

Decree 2.095 eliminated the former requirement for foreign companies to transform themselves into national companies when they operated in reserved sectors.

As a result, foreign companies which had signed transformation agreements prior to the decree may request the responsible agency to revoke those agreements at any time.

Financial incentives:

Government financial incentives were previously available only to national or mixed companies. Under the government's current policy, foreign companies launching projects in top-priority areas can also qualify for certain financial incentives.

Capitalization of debt:

Decree 2,095 contemplates capitalization of debts for technological services rendered, once approved by the company's stockholders.

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The exchange rate applicable to such capitalization is that prevailing on the date of the stockholders meeting approving the capital increase.

The SIEX verifies the existence of the debt to be capitalized, the amount, and entry into the country of the foreign exchange, physical or tangible goods or technological services, as the case may be, prior to registration. Financial statements audited by independent public accountants are required to certify the debt.

Jurisdiction:

Decision 291 establishes that all disputes relating to foreign investments or technology transfer must be decided in accordance with legislation of the member countries. On 21 February 1985 the former Venezuelan Congress approved the Interamerican Convention on International Commercial Arbitration, which accepts the parties agreements for arbitration of commercial disputes. The SIEX has adopted the same principle consistent with current legislation in relation to technical assistance contracts.

Technology import contracts:

These regulations define technology in its broadest sense as intangible knowledge, and include all forms of industrial property (patents, trademarks, designs, etc.), know how, technical assistance and services.

Basic rules:

As a general rule, Decree 2,095 establishes that all contracts entered into by foreign, mixed and national companies for the importation of technology and the use of patents and trademarks are automatically authorized. These contracts are subject to subsequent registration and must be filed with the Superintendence of Foreign Investment within 60 days.

Duration of contracts:

The contracting parties may freely determine the period during which such services will be rendered, without limitation.

Payments between parent company and subsidiary:

Royalties may be paid between parent companies and subsidiaries. The only requirement is for them to be registered, as mentioned above.

Payments for importation of technology and use of patents and trademarks:

All companies making payments abroad for the use of technology or for royalties for the use of trademarks or patents may do so without prior authorization, and must make the appropriate tax withholdings. Such payments must be reported to the responsible government agency. These include, foreign film news agencies, international transportation, imported merchandise on consignment, foreign insurance companies, non-resident professionals, technology licenses, royalties and similar income.

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Legal treatment by sector of economic activity:

The Law provides for different treatment for foreign investments in different sectors of economic activity, as follow: 1) sectors reserved for the State, such as strategic industries and oil extraction, where foreign investment and foreign companies are permitted to participate through contractual relations since 1992 and through associations with PDVSA subsidiaries since 4 July 1995 when the former Venezuelan Congress approved the “Framework of Conditions for Opening Up of Oil Industry”; and 2) areas reserved for national companies.

Sectors reserved for national companies:

Decree 2,095 reserves the following sectors for national companies: television and radio, Spanish-language newspaper and professional services regulated by national laws, such as engineering, law and public accounting.

In certain cases, private companies, which can have up to 20 per cent foreign capital, actively engaged in these areas, and the areas open to private investors are being expanded for national, mixed and foreign companies. As part of its overall economic policy, the Venezuelan government has allowed the private sector to take a more active role in certain areas traditionally operated exclusively by the State, and to privatize industries and other public and non-public activities which came under total or State control for financial reasons. For example, the government has sold off total or partially telephone, telecommunication, commercial banks, the iron and steel corporation (SIDOR) internal passenger and freight transportation, advertising, consulting, internal merchandise marketing, export service, sanitation and garbage collection, and securities and document transportation companies.

Banking, finance and insurance:

The General Law of Banks and other Financial Institutions passed in 1993 will allow foreign firms to establish a subsidiary or branch in Venezuela. In 1997 privatization in the financial sector signified that more than 40% of the bank business went to foreign property like Bilbao Vizcaya (Spain), Santander Group (Spain), Infisa (Chile) and Nova Scotia (Canada).

The banking sector is regulated by the Superintendence of Banks. According to the Partial Reform to the Law of Insurance and Reinsurance approved 27 December 1994 foreign investors may participate, in these activities. The insurance sector is regulated by the Superintendence of Insurance.

Extractive industries:

The oil and mining industries are now subject to a wide range of foreign investment rules. Oil extraction (though not related services or manufacture of equipment) is reserved for the State, but foreign participation is permitted in association with PDVSA’s subsidiaries since 4 July 1995, according to the former Venezuelan Congress approval of the “Framework of Conditions for Opening Up of the Oil Industry”. The same conditions apply to iron mining. Mining of other minerals, considered strategic or in the national interest (such as bauxite, gold and other basic metallic and non-metallic minerals), is generally reserved for the State,

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but foreign investment is permitted in percentages, which may imply a mixed-capital classification. However, all other mining activities, including metals and precious stones, are open to foreign investment under the same conditions as any other non-reserved sector of activity; a foreign company can hold a majority stake in a company. In this case, the Ministry of Energy and Mines supervises the investment and mining concession.

Sectors partially exempt from decision 291:

Contractual relations, or in certain cases, special concessions in the national interest, which are contemplated by Article 150 of the new Constitution, which must be approved as such by National Assembly the administration, are exempt from the regulations of Decision 291 and Decree 2,095.

Free trade zones:

The Venezuelan government has created free trade zones: in Paraguana (Falcón State), in Margarita Island (Nueva Esparta State), in Municipio San Francisco, Maracaibo (Zulia State) and in Mérida (Mérida State). The aim is to foster economic activity in these two areas.

Priority sectors:

Several sectors of economic activity have been assigned top priority in the national development plans, which qualify for investment incentives. In view of the government's special emphasis on the development of social and physical infrastructure, the contribution that foreign investment and technology can make in these top-priority areas varies with the size and technical complexity of the activity. The favored sectors are: agriculture and good processing, transportation equipment, industrial projects assigned to Venezuela under Andean Pact programs, construction materials and equipment, basic pharmaceutical products and traditional capital goods industries which utilize raw materials owned by the Nation.

FORMS OF BUSINESS ORGANIZATION:

Companies:

As a general rule, companies which have direct foreign investment (majority or minority) take the form of a corporation designated by CA or SA. Companies whose subscribed capital is no more than Bs. 2,000,000 - mainly professional or technical service firms-can take the form of a limited liability company (designated by SRL). In either case, foreigners' shares must be nominative and at least 20 per cent of the capital must be paid up.

Foreign companies may set up branches in Venezuela, in accordance with Company Code. They must register their Articles of Incorporation with the Mercantile Registry, translated into Spanish by a public interpreter and legalized by the Venezuelan consulate in the country of origin (certified by Apostille); they must also indicate the capital allocated to the branch, which must be brought into the country and registered with the Superintendence of Foreign Investments.

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In addition, foreign companies may establish subsidiaries in Venezuela without any change in the amount of registered foreign investment. The incorporation of subsidiaries must be reported to the Superintendence of Foreign Investments (SIEEX) within 60 consecutive days.

Companies are deemed to be either of a civil or commercial nature. Civil companies are partnerships, either general or limited. Commercial companies are those which are engaged in a trade or business.

Special regulations exist for companies engaged in agriculture or stockraising.

Companies are regulated by Company Law (Código de Comercio and Código Civil) and may be organized in the following forms:

- General partnership, where there is unlimited and joint liability of all the partners.
- Limited partnership, where there is unlimited and joint liability of one or more partners, called general or active partners, and limited liability for one or more partners called silent partners.
- Corporation, where liability is limited to the amount of capital.
- Limited liability company, where the company's obligations are guaranteed by a given capital, divided into quotas, which cannot be represented by shares or other negotiable instruments.

Companies are legal entities distinct from their members.

There is also a form of organization known as a temporary association, which does not have legal personality.

Articles of incorporation and by-laws:

The articles of incorporation and by-laws of a corporation or limited liability company must include the following:

1. The company's name and domicile of its establishments and of its representatives.
2. The nature of the business.
3. The amounts of subscribed and paid-in capital.
4. The names and domiciles of its partners, the number and par value of the shares, with an indication of whether they are nominative or bearer shares and whether they can be converted from one form to another, and the dates and amounts of the contributions to be made by the partners.
5. The value of loans and other assets contributed to the company.
6. The principles for preparing balance sheets and distributing earnings.
7. Special rights of the promoters.
8. The number of persons comprising the board of directors and their rights and obligations, with an indication of those who may sign for the company; and if it is a limited partnership with shares, the names and domiciles of the jointly liable partners.
9. The statutory auditors and internal commissioner.

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10. The powers of the stockholders meeting and the conditions for decisions to be valid and for voting.
11. The date on which the company will begin to operate and its duration.

The articles of incorporation and by-laws of foreign companies are subject to the limitations of the Foreign Investment Law.

The articles of incorporation and by-laws must be published in a legal newspaper and it must be transcribed on a Legal Book, properly stamped by Mercantile Registry.

Appointment of statutory auditors:

One or more statutory auditors are appointed at the annual stockholders meeting, to report on the annual financial statements prepared by management.

These financial statements must be presented at the annual stockholders meeting and must be accompanied by the statutory auditor's report in order to be valid.

The statutory auditors must:

- Review the balance sheets and issue their report thereon.
- Attend the stockholders meetings.
- Perform the other functions the law and the company's by-laws confer upon them, and in general, ensure that management performs the duties imposed by the law and the company's by-laws.

Annual Reports:

- All companies:
The statutory auditor's report must be filed with the Mercantile Registry every year, once approved at the annual stockholders meeting. The statutory auditor's report must be accompanied by the financial statements. There is no requirement for an independent external audit. The report must be in Spanish and may be filed in consolidated or combined form. It need not be published but it must be at the public's disposal.

Although there is no obligation to follow a specific code of accounts, the books of account must be kept in accordance with the law.

- Public companies, foreign companies and branches of foreign companies:
The reports filed by the statutory auditors and independent public accountants must be filed with the National Securities Commission, the Superintendence of Foreign Investments, the Superintendence of Banks or the Superintendence of Insurance, as the case may be.
- Companies whose securities are publicly traded must be listed with the National Securities Commission:

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When the company is a Open Capital Corporation (S.A.I.C.A.), the report to the National Securities Commission must be filed 15 days before the annual stockholders meeting; there is a 30 day filing period for other types of companies.

Companies owned by foreign stockholders and their branches must file their financial statements with the Superintendence of Foreign Investments (SIEX) within four months after the end of the company's fiscal year. There is no particular date on which the fiscal year must end.

The comparative financial statements must be filed together with the reports of the statutory auditors and independent public accountants. These reports must be presented individually (they may not be consolidated) and must be in Spanish.

- Banks, finance companies and insurance companies.
In addition to the annual filing requirements with the Mercantile Registry, mentioned above, annual reports (and in some cases semiannual reports) must be filed with the Superintendence of Banks, the Central Bank of Venezuela or the Superintendence of Insurance, as the case may be.

Information for banks and finance companies must be filed within 15 days following the end of the fiscal year; information for insurance companies must be filed within three months following the company's year-end. Extensions to the filing deadline are not granted. There is no mandated year-end. Comparative financial statements audited by independent public accountants must be filed together with the statutory auditor's report. The reports must be in Spanish.

Banks and finance companies must publish their financial statements in the press during the 15 days following the end of each six-month period and insurance companies must publish their financial statements in the press after approval by the Superintendence of Insurance. Otherwise, the information is not available to the public. The accounting records must be kept in accordance with legal requirements and a specific code of accounts must be followed. Failure to comply with these requirements is penalized by the respective laws.

Audit and accounting requirements and practices

Accounting practices in Venezuela are prescribed by the Code of Commerce, the Income Tax Law, the Superintendence of Banks and Other Financial Institutions, the Superintendence of Insurance, the Superintendence of Foreign Investment (SIEX) and by specific regulations prescribed by competent regulatory authorities. Accounting and financial reporting requirements for open capital corporations (SAICA) are determined by the National Securities Commission (Comision Nacional de Valores).

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Audit:

QUALIFICATIONS: A Venezuelan public accountant (independent auditor) must be a graduate of a Venezuelan university and registered with the Venezuelan Institute of Public Accountants. Qualifications do not vary based on the type of entity being audited or the type of report being issued. An auditor can be an individual or associated with a firm and companies are not required to have more than one auditor. The university degree required is the professional certificate, and before practicing that degree must be registered with the Venezuela Institute of Public Accountants. There are no prescribed qualifications for a statutory auditor.

INDEPENDENCE: A Venezuelan public accountant must be independent (with regard to both parent and affiliated companies) as defined by the Venezuelan Public Accounting Law and its regulations. The ethics committee of the Venezuelan Institute of Public Accountants has the responsibility of enforcing the independence rules.

APPOINTMENT OF AUDITORS: Independent auditors are appointed by an officer of the company or the board of directors and do not necessarily have to be approved by the shareholders or by a government agency. Auditors may be appointed for any length of time and removal can occur during or at the end of their period of appointment by means of a simple letter or verbal notice.

RESPONSIBILITIES OF AUDITORS: The responsibilities of the independent auditor relate to the fair presentation of the financial statements audited by him or her. Failure to comply with these responsibilities may result in suspension of the auditor's professional registration and legal liability.

A statutory auditor's responsibilities include receiving and investigating shareholders complaints, attending the shareholders meeting and reviewing and issuing a report on the financial statements. The statutory auditor cannot perform a full-scope audit unless he or she is also a public accountant.

Auditing Standards: In general, the auditing standards in Venezuela are the same as in the United States.

A typical auditor's report for a nonlisted company is generally addressed to the entity's president and directors or shareholders, and should include, at least, the statements under review, the professional opinion where mentioned it the agreement of the statements with the official accounting books carried according to legal requirements, signature and professional registration number; and the respective notes for the financial statements.

Description of local professional accounting organizations:

The accounting profession in Venezuela is regulated by the Law of Public Accountants. The profession operates through the Federación de Colegios de Contadores Públicos de Venezuela, which establishes local accounting principles and auditing standards.

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The Federation comprises the following technical committee:

- Auditing practices committee *Normas de auditoría*
- Accounting practices committee *Principios de Contabilidad*
- Special services committee *Trabajos especiales*
- Ethics committee *Código de ética*

The Federation communicates with its members through the following district (*colegios*):

- *Colegio de Contadores Públicos de:*
 - Distrito Federal*
 - Estado Miranda*
 - Estado Zulia*
 - Estado Lara*

Each colegio has the following committees:

- Professional ethics *Comité permanente de ética profesional*
- Auditing practices *Comité permanente de normas y procedimientos de auditoría*
- Accounting practices *Comité permanente de principios de Contabilidad*
- Public relations *Comité de relaciones públicas*
- Professional development *Comité especial de cursos de extensión profesional*
- Legal *Comité especial de asesoría jurídica*

Accounting:

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 changes in working capital, 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 their annual statements.

The general standard applicable to the operation in Venezuela are not too different to the general standard applicable in the United States or Mexico.

Assets (Inventory, account receivable in foreign currency, property, plant and equipment and accumulated depreciation, other assets), liabilities (account payable in foreign currency) and equity (Stock participation and surplus) must be adjusted to offset the impact of inflation.

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

1. 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.).
2. 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.
3. Minute books of directors and shareholders meeting.
4. 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 Code of Commerce.

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.

Labor laws and relations

Labor relations are quite complex and highly developed in Venezuela. They are governed in general terms by the Organic Law for Workplace Accident Prevention, Conditions and Environment and the Organic Labor Law provides minimum standards for collective bargaining and contracting.

There is also a large body of administrative decrees and resolutions, which regulate the application of the Organic Labor Law and its Regulations (there is a large reformation of the Organic Tax Law since June 1997).

Other relevant laws include:

- The General Law for Wage and Salary Increases, Minimum Wage, Retirement, Disability and Survivors' Pensions.
- The Compensatory Bonus for
- Transportation Expenses Law.
- The Housing Policy Law.
- Worker's Meal Program-Law

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Like its population, Venezuela's labor force is predominantly young. Partly for that reason, the laws stipulate a variety of rules for workplace accident prevention, conditions, and environment, and require occupational training and other fringe benefits relating to housing, transportation, food and family welfare. The labor force has been very mobile in recent years, with a high turnover rate reflecting improving skills and qualifications. As a result of the demand for skilled and unskilled labor and the large number of immigrants in Venezuela, a considerable portion of the labor force is of foreign origin. There are special programs which seek to ensure that potential immigrants have occupations for which personnel are not generally available in the country, but there is no restriction on bringing high-level executives or other technically trained personnel into the country, especially by companies with foreign capital or technology licenses.

Labor unions:

Unions are active in Venezuela and may be organized freely. Approximately half the labor force is unionized, and the percentage is much higher in certain sectors of industry.

The unions (at least five) are authorized by law to create federations covering one or more related branches of industry. The most important federations are in the oil, mining (especially iron ore), steel, textile, construction, banking and insurance industries. Since the 1950s, these and smaller local unions have been allowed to bargain for contracts covering all their workers. Most labor contracts are for a three-year term and provide for benefits, which exceed those mandated by the Law.

Venezuelan employees:

The Law requires at least 90% of white and blue-collar employees (calculated separately) to Venezuela citizens. Moreover, no more than 20% of the salaries and other compensation paid to each group can be earned by foreigners, although this percentage can be modified by the Labor Ministry in special cases. Certain occupations, including those of commanding airplanes or ships can only be practiced by Venezuelans.

Salaries:

Under the Organic Labor Law, the minimum wage for unskilled workers is Bs.144.000 per month (or Bs.4.800 per day) in the big and medium companies; for the small companies less than ten (10) employees the minimum wage is Bs. 132.000 per month (or Bs. 4.400 per day). However, salaries in most urban industries are usually double or triple that amount. Salary, as defined, includes Saturdays and holidays and can be paid monthly, semimonthly or weekly. The base salary for the calculation of the Social Security, Unemployment Compensation and Housing Policy Law is Bs.15.000. (See each labor tax)

Workers safety, health and welfare:

This area is regulated by the Workplace Accident Prevention, Conditions and Environment Law, which requires employers to take steps to control environmental risks and conditions related thereto in the workplace. Work must be performed under conditions congenial to the worker's physical and mental capacity. In this respect, the employer must provide adequate conditions of accident prevention, health, safety and welfare in the workplace, instruct and train the workers in prevention of accidents and occupational diseases; organize and

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maintain its own medical service or participate in intercompany services; and keep the industrial hygiene and safety committees mandated by the law active.

The employer must submit all plans for new facilities and workplaces, or remodeling of existing ones, to the National Institute of Workplace Accident Prevention, Health and Safety, for its approval.

Employers can be penalized for occupational disease or accidents when they are found to be responsible. If the employer does not comply with the provisions of the Law and a worker dies as a result, the employer is liable to seven to eight years' imprisonment. The length of the prison term declines with decreasing severity of the consequences to two years when the worker is partially and/or temporarily disabled.

However, when a worker dies under the circumstances indicated above, the employer must pay his survivors an indemnity equal to five years' salary. A similar indemnity is due in cases of total, partial or temporary disability, ranging from five years' salary to the salary corresponding to the number of consecutive days of disability when the latter is partial and/or temporary.

Generally the acquisition of industrial hygiene and safety equipment benefit from a tax credit. In addition, any expenditure made to improve workers' safety, health and welfare is deductible on the employer's income tax return.

Other benefits (housing, transportation, transportation bonus, food bonus):

Any company, which has more than 500 employees and is located more than 50 kilometers from any urban center must provide its employees with housing and a first aid station. It must keep a physician and a pharmacist on hand for each 400 employees (or fraction thereof exceeding 200). The company must also transport its employees to the nearest urban center or a place where public transportation is available when the distance exceeds 30 kilometers. If it has more than 1,000 employees, it must provide them with schools, and if it has more than 200, it is required to furnish scholarships for technical or practical studies relating to their occupations. Companies with more than 1,000 employees and located more than 100 kilometers from the nearest city with a hospital, or more than 50 kilometers when that hospital is not at the employees disposal, must operate their own hospital or health center.

The employees of contractors and subcontractors are entitled to the same health and accident prevention benefits.

The Law stipulates the obligation of the employer having over fifty (50) employees, of providing, in whole or in part, a balanced meal during the work day to those employees earning up to two (2) minimum salaries. This benefit will be lost for employees that start to earn three (3) minimum salaries. For this purpose the employer will have choose from the following alternatives: a) Installation of their own cafeterias. B) Hiring the service of prepared food from specialized companies. C) Providing the employee with food vouchers.

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d) Installation of common cafeterias by various companies. e) Use of cafeteria services managed by the National Institution of Nutrition.

Work shifts:

The Organic Labor Law establishes the following limits to the workday:

1. Daytime work cannot exceed eight hours per day or 44 hours per week, between 5:00 am and 7:00 p.m.
2. Night work cannot exceed seven hours per day or 40 hours per week, between 7:00 p.m. and 5:00 am.
3. Mixed-shift work cannot exceed 7 1/2 hours per day or 42 hours per week. When a mixed shift includes more than four hours at night, it is deemed to be a night shift. Shifts can be extended for overtime work with permission from the labor inspector, but are still subject to be the following limits:
 - The effective duration of the shift, including overtime, cannot exceed 10 hours per day.
 - No worker may work more than 10 hours of overtime per week or more than 100 hours of overtime per year.

An employer who violates the limitations indicated above can be fined an amount not less than the equivalent of one fourth of the minimum wage not more than the equivalent of the entire minimum wage, under the provisions of the Organic Labor Law.

Comprehensive care for employees' children:

Decree 2,506 was published in Official Gazette 35, 036 on 27 August 1992. It modifies Decree 2,101, which in turn regulates Articles 391 and 392 of the new Organic Labor Law, requiring employers to provide comprehensive care for their employees' children. Employers can choose from among the following alternative forms of compliance:

1. Employers with more than 20 employees must establish, maintain and pay for a day care center for children from birth to six years of age whose parents earn five times the national minimum wage or less.
2. Several employers in the same vicinity may reach agreement with the Labor Ministry to establish, maintain and pay for a joint or shared day care center.
3. Employers may agree to pay the registration fees and tuition for a private day care center authorized by the National Institute of Minors, preferably near their employee's homes.
4. They may pay the registration fees and tuition for a nursery school or preschool approved by the Ministry of Education, preferably near their employees' homes, for children between four and six years of age.
5. They may pay the Children's Foundation or another non-governmental institution 15% of the minimum wage for each employee for whom they are responsible.

Payments made for day care or nursery school services are not considered as part of salary.

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Seniority and severance benefits:

Below is a brief description of the Organic Labor Law's provisions for seniority and severance benefits payable to employees when their employment terminates as a result of resignation or dismissal:

Article 108.- After the third month of uninterrupted service the worker will be entitled to the payment of seniority indemnities equivalent to five (5) days of salary per month.

After the first year of service, or fraction over six (6) months counted as of the date this law became effective, the employer will pay the worker additionally two (2) days of salary per year on account of seniority indemnities, cumulative up to thirty (30) days of salary.

The payment of seniority indemnities, meeting the consent of the worker, required previously in writing, will be deposited and settled monthly, in final manner in a individual trust or in a Seniority Indemnities Fund, or will be credited monthly to the same, also in final manner in the Company's account. The amount deposited or credited monthly will be paid upon the termination of the work relationship and will earn interest according to the following options:

- a) At the interest earned by the trust or Seniority Indemnities Funds, whichever the case, and in their absence, or until the same were created, at the market rate, if placed with a financial entity;
- b) At the active rate determined by the Central Bank of Venezuela, taking as reference the six (6) main commercial and universal banks of the country, had the worker required that the deposits be made in an individual trust or in a Seniority Indemnities Fund or in a financial entity, and the employee failed to comply with such request, and
- c) At the average between the active and passive rates, as determined by the Central Bank of Venezuela taking as reference the six (6) main commercial and universal banks of the country, had it been placed in the Company's account.

The employer shall inform the worker on an annual basis, and in detail, the amount credited to the account of the Company on account of seniority indemnities.

The financial entity or the Seniority Indemnities Fund, whichever the case, will deliver the worker annually interest generated by the accumulated seniority indemnities. In addition, it will inform the worker in detail of the amount of principal and interest.

Interest shall be income tax exempt, and will be credited to or deposited monthly and paid upon completion of each year of service, unless the worker decides its capitalization through a written notice.

First Paragraph. - When the work relationship is terminated by any cause the worker will be entitled to a payment of seniority indemnities equivalent to:

- a) Fifteen (15) days of salary when seniority exceeds three (3) months and is below six (6) months or the difference between such amount and that credited or deposited monthly.

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- b) Forty-five (45) days of salary when seniority exceeds six (6) months and is below one (1) year or the difference between such amount and that credited or deposited monthly; and
- c) Sixty (60) days of salary after the first year of seniority or the difference between such amount and that credited or deposited monthly, provided the worker had rendered at last six (6) months of service during the year of extinguishment of the work relationship.

Second Paragraph. - The worker will be entitled to an advance payment of up to seventy-five percent (75%) of the amount credited or deposited, in order to comply with obligations derived from:

- a) The construction, acquisition, improvement or repairs to the dwelling of the worker and its family;
- b) The redemption of a mortgage or any other encumbrance over the dwelling of its property;
- c) School pensions of the worker, his (her) spouse, children or with who he (she) cohabits; and
- d) Medical and hospital expenses of the undertakings indicated in the preceding literal.

In the same order of ideas, the Regulation of the Organic Labor Law stipulated that the additional payment of two (2) additional days of severance must be paid to the employee after the second year of employment, accrued starting from that date on a yearly basis up to a maximum of thirty (30) additional days.

In the case that the employer persists in its intention of dismissing the worker, it shall pay the additional to that stipulated in Article 108 of this Law, in addition to the salaries which the worker could have failed to receive during this procedure, an indemnity equivalent to:

1. Ten (10) days of salary if seniority exceeded three (3) months but did not exceed six (6) months.
2. Thirty (30) days of salary per year of seniority or fraction over six (6) months up to a maximum of one hundred fifty (150) days of salary.

In addition the worker shall receive a substitutive indemnity for the notice of dismissal provided for in Article 104 of this Law in the following amounts and conditions:

- a) Fifteen (15) days of salary, when seniority exceeds one (1) month but does not exceed six (6) months,
- b) Thirty (30) days of salary, when seniority exceeds six (6) months but does not exceed one (1) year;
- c) Forty-five (45) days of salary when seniority is equal to or higher than one (1) year;
- d) Sixty (60) days of salary when seniority is equal to or higher than two (2) years and does not exceed ten (10) years; and
- e) Ninety (90) days of salary, if seniority exceeds the above limit.

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The base salary for calculation of this compensation will no exceed ten (10) monthly minimum salaries.

Seniority and severance benefits are tax-free and not subject to withholding taxes and are tax deductible for the employer.

Interest on seniority and severance benefits:

The amount owed to each employee as seniority and severance benefits must be deposited monthly in an account in his name kept on the company's books or in a trust contract in a commercial bank. These funds earn interest at a rate of not less than that established by the Central Bank of Venezuela, which reflects prevailing bank interest rates on savings accounts, the state of the money market and the economy as a whole. That interest must be paid to the employee annually or capitalized, at the employee's option. Interest is tax-exempt and tax deductible for the employer.

Profit sharing:

At the end of the fiscal year, every company must distribute a minimum of 15% of its net earnings (both taxable and tax-free earnings as defined by the Income Tax Law) among its employees. Each employee must be paid a minimum of the equivalent of 15 days salary and a maximum of four (4) months salary, except when the company has less than 50 employees or a capital of less than Bs. 1,000,000, in which case it need to pay no more than two (2) months salary to any employee.

The amount owed to each employee must be paid within two (2) months following the company's fiscal year-end.

A company which has not earned profits at the end of its fiscal year or which engages in nonprofit activities - whether it is a commercial firm whose invested capital does not exceed 60 times the monthly minimum wage, an industrial company whose invested capital does not exceed 135 times the monthly minimum wage, or an agricultural enterprise whose invested capital does not exceed 250 times the monthly minimum wage- is not obliged to pay profit sharing, but must still pay its employees at least the equivalent of 15 days' salary as a year-end bonus in December.

The amount distributed by an employer to the employees under the provisions outlined above is recorded as a tax-deductible expense.

Annual vacations:

When an employee completes a year of uninterrupted work, he becomes entitled to 15 business paid vacation. That entitlement increases by one (1) day for each additional year of employment after 1 May 1991, up to a maximum of 15 more business days. Salary corresponding to vacation must be paid in advance.

Vacation bonus:

Under the new Organic Labor Law, employers must pay not only the regular salary for an employee's vacation time, but also a vacation bonus equivalent to seven (7) days' salary,

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plus an additional day’s salary for each year of employment beginning 1 May 1991, up to a total equivalent to 21 day’s salary.

Partial vacations:

When employment terminates for reasons other than dismissal for just cause prior to completion of the year of employment, the employee is entitled to payment of a portion of the vacation time and vacation bonus described above corresponding to the number of completed months worked during that year.

Maternity benefits:

The Law prohibits employers from requiring medical examinations to detect pregnancy prior to hiring new female employees. Post-natal leave is 12 weeks (this benefit cannot be waived); pre-natal leave is six weeks, and, if unused, may be added to the post-natal leave. The pre- and post-natal leave periods count for purposes of determining an employee’s seniority with company. In addition, an employee cannot be dismissed during pregnancy or for up to a year after giving birth.

Social security:

Social security benefits take the form of comprehensive assistance and monetary payments, under the provisions of the Social Law and its Regulations. That law covers social security protection for beneficiaries in cases of maternity, old age, survivorship, sickness, accident, disability, death, retirement, dismissal and unemployment.

Employers are required to register themselves and their employees within three business days after the company commences business or an employee is hired, as the case may be.

Both employers and employees pay social security tax, which varies according to the degree of risk associated with the company’s activities, on the minimum of salary:

	Employer	Insured	Total
Minimum risk	9%	4%	13%
Intermediate risk	10%	4%	14%
Maximum risk	11%	4%	15%

The employee’s contribution is 4% of his basic monthly remuneration. On this subject, The Supreme Court of Justice in decision published on 24 May 2000, established that the minimum salary to calculate this contribution is Bs. 15.000. Therefore, Bs15.000,00 up to five (5) times the monthly minimum salary is Bs75.000,00.

Unemployment compensation:

This benefit extends to all employees insured by the Venezuela Social Security Institute (IVSS) who lose their jobs and are able and willing to work.

Employers and employees must make monthly contributions to the Unemployment Compensation Fund, based on the following percentages on the first percentage of salary minimum salary:

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Employer	Insured	Total
1.70%	0.50%	2.20%

The employee’s contribution is 0.5% of his basic monthly remuneration. On this subject, The Supreme Court of Justice in decision published on 24 May 2000, established that the minimum salary to calculate this contribution is Bs. 15.000. Therefore, Bs15.000,00 up to five (20) times the monthly minimum salary is Bs 300.000,00.

Housing policy Law:

The Housing Policy Law is a legal tool by which the government seeks to meet the housing needs of Venezuelan families, and particularly those of lower-income families. All Venezuelans, foreigners with more than five years in the country and associations or cooperatives of savers are potential beneficiaries.

Employers and employees are required to pay contributions to the Housing Policy Fund, during the first five business days of every month, based on the following percentages of each employee’s monthly salary:

Employer’s contribution	2%
Employee’s contribution	1%
Total contribution	3%

Self-employed individuals may join the housing saving plan by depositing 3% of their average monthly income. The total contribution must be deposited by the employer at a mortgage lending institution.

National Institute of Educational Cooperation (INCE):

Within the first five days of each quarter, the employer must deposit the equivalent of two per cent (2%) of the total amount of wages, salaries and compensation of any other kind paid to persons who work in industrial or commercial establishments not owned by the Nation, the States or the Municipalities. Employers are also required to withhold 1/2% of annual profit sharing payments to blue and white-collar workers for this purpose.

Tax system

The Venezuelan tax system is currently undergoing profound changes. The intention is to bring the tax burden imposed on both individuals and companies in line with current economic conditions. Generally, Venezuela applies the principles of generality, legality, equality and annuity to its income tax system and is currently modifying its territoriality system into a worldwide income system. The Income Tax Law major amended was on 22 October 1999 and became effective on 01 January 2000. Other important changes made to this Law, as worldwide income system, taxation on dividends, and international fiscal transparency system, was on force since 01 January 2001.

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Fiscal information register:

All companies and individuals engaging in economic activities in Venezuela must make a one time registration with the Fiscal Information Registry (RIF), within the first 25 days of doing business in Venezuela.

Venezuelan taxation of earnings:

Under the Income Tax Law, all individuals or entities, resident or domiciled in Venezuela, will pay taxes on its rents of any origin, that is to say, that are caused inside or outside the country. The non-resident or non-domiciled people in the country are subject to tax by the earnings that are caused or originated in Venezuela, although they do not have permanent establishment or fixed base in the country.

The individuals or entities resident or domiciled abroad that have a permanent establishment or fixed base in Venezuela, will pay taxes only on the income caused inside or outside the country, attributed to such permanent establishment or fixed base.

Corporate taxes:

Companies established in Venezuela with foreign investors may be subject to different tax situations, depending on the type of company and its activity. The most common types of business organization are corporations (designated C.A. or S.A.), limited liability companies (S.R.L.), and non-commercial professions.

The only sector of economic activity to which a special tax rate applies is that of hydrocarbon extraction and related activities, plus mining as far as royalties and other analogous payments are concerned. There are no differential tax rates based on the nature of the economic activity in the rest of the economy, other than certain special cases for which given percentages of income are presumed. These include foreign films, news agencies, international transportation, imported merchandise on consignment, foreign insurance companies, non-resident professionals, technology licenses, dividends, royalties and similar income.

Tax rates:Corporation and limited liability companies:

Corporation and limited liability companies in Venezuela are subject to progressive taxation, based on the company's net income converted into Fiscal Units where as the value of the Fiscal Unit will be adjusted by the Taxation Administration within the first 15 days of each year. The value of the Fiscal Unit for 2001 is 1 F.U. = Bs13.200. The value of the Fiscal Unit is adjusted at the beginning of each year with the favorable opinion of the Permanent Finance Committees of the National Assembly. That annual adjustment reflects the variation in the Consumer Price Index (CPI) for the Caracas Metropolitan Area, published by the Central Bank of Venezuela in accordance with the provisions of the Venezuelan Organic Tax Code.

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Tax Table 2

	Tax Rate	Less
For the portion up to 2.000 FU	15%	0
For the portion between 2.000 and 3.000 FU	22%	140 FU
For the portion exceeding 3.000 FU	34%	500 FU

Non-commercial professions:

In the case of architects, engineers, accountants, attorneys and other professional advisers organized into partnerships rather than companies, are not subject to taxation, but the partners are taxed individually on their earnings (under tax table 1).

Special tax rates:

Individuals and other taxpayers falling into the same category, as well as other categories of taxpayers not engaged in exploitation of resources, who earn income in the form of royalties and similar payments from exploitation of mines, are subject to a proportional 60% tax rate.

Taxpayers other than individuals and others falling into the same category, engaged in exploitation of hydrocarbons and related activities, are subject to a 67.7% tax rate (Tax Table 3) on their earnings, including those of other origin. Nevertheless, companies whether national or foreign, which are incorporated under association contracts pursuant to the Organic Law Reserving the Hydrocarbon Industry and Trade to the State or the national-interest contracts for which provision is made in the National Constitution are subject to the ordinary income tax rules established in the Income Tax Law for corporations and taxpayers treated in the same way as corporations mentioned before.

Other proportional taxes:

- Earnings from loans and other credits granted by financial institutions incorporated abroad and not domiciled in the country: 4.95%.
- Insurance and reinsurance companies not domiciled in the country: 10%.
- Sale of stock at the Stock Exchange will be taxed with a rate of 1% on the gross income if the sale has been done through a Stock Market domiciled in Venezuela.
- Taxpayers other than individuals, engaged in exploitation of hydrocarbons and related activities in the country, for dividends received from companies not engaged in such activities, even when received in the form of stock: 20%. This proportional tax will be applied only until 31 December 2000.

Technological services:

These are understood as concessions for use and exploitation of invention patents, models, drawings and industrial designs, and all patentable technical documents. The earnings of taxpayers which render technological services from abroad, or those of persons or communities which use such services in Venezuela, are defined as 50% of gross income and 30% for technical assistance. When technical assistance and technological service contracts performed from abroad do not specify the portion of income corresponding to each concept, it is presumed that 25% of income is for technical assistance and 75% for

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technological services. Also, unless specifically stated, it is presumed that 60% of the total income corresponds to services from abroad and 40% to services rendered in the country. Furthermore, earnings from royalties and similar payments are defined as 90% of gross income from such sources.

Deductions:

In addition to the cost of goods and services needed to generate income, the Income Tax Law allows deductions for most normal operating expenses, including depreciation and losses. Several of these expenses are conditional or limited in some way. In most cases, for an expense to be deductible, it must be incurred in Venezuela and not abroad. Deductions are allowed for certain expenses incurred outside of Venezuela.

Deductions of expenses in Venezuela:

The principal categories of deductions for expenses in Venezuela are:

1. Wages, salaries, personal expenses, pensions, subsidies, commissions, and similar remuneration for services rendered by the taxpayer, as well as payments for non-commercial professional services.

There is a limitation to this expense based on the Organic Labor Law, which establishes that no more than 20% of the salaries and other compensations paid to workers can be earned by foreigner workers. The Tax Administration may reject salaries paid in excess of that percentage.

2. Interest on loans invested in the production of income.
3. Taxes paid on economic activities or income-producing assets, other than income tax.
4. Indemnities paid to employees contemplated by the law employment contracts.
5. A reasonable sum for depreciation of fixed assets and amortization of the cost of other items invested in the production of income, provided such assets are located in the country.
6. Losses on assets used in the production of income, not compensated by insurance or any other indemnity.
7. Expenses for the transfer of new employees, including those for their spouses and minor children.
8. Losses from bad debts, when they meet the following conditions:
 - a) The debts must arise from business's basic activities.
 - b) The amount must be included in the declared gross income, except in the case of loss of capital lent by credit institutions or losses from company loans to their employees.
 - c) They must have been written-off in the books in the tax year on the grounds of insolvency of the debtor or because the amount did not justify collection efforts.
9. The reserves insurance companies are required to make by Law.
10. The cost of construction in order to comply with the Labor Law or health regulations.
11. Administration and conservation expenses paid for real properties.
12. Rental payments for real properties and equipment.
13. Transportation.
14. Commissions paid to agents in connection with divestiture of real properties.
15. Fees for exhibition of films and similar products.
16. Royalties and similar payments.

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17. Ordinary repairs of assets used in the production of income.
18. Insurance premiums.
19. Gratuities and donations: these expenses are deductible only up to specified limits, either depending on the company's net income or on the company's activity. Also, these expenses are deductible only when the beneficiary is domiciled in Venezuela.
20. Publicity and advertising.
21. Research and development expenses incurred for the benefit of the company paid within the tax year.
22. Payments made to the company's directors, managers, administrators and other employees as reimbursement for representation expenses, whenever such expenses might be normal, necessary and performed in benefit of the paying company.
23. All other expenses incurred or paid, as the case may be, which are normal and necessary and made in the country for the purpose of generating income.

Deduction of expenses incurred outside of Venezuela:

The following expenses incurred outside of Venezuela are deductible:

Transportation of exports: expenses for carriage of exported merchandise to the foreign port of destination are only deductible when the price of the exported merchandise at the foreign port of destination is used as the basis for computing gross income.

Expenses for promoting exports: expenses for promoting exports of manufactured goods and services are deductible, together with travel expenses, publicity and advertising, maintenance of an office abroad, and participation in fairs or exhibitions (including transportation expenses). Whenever the taxpayer shall have in Venezuela the corresponding vouchers that would back their right to the deduction.

Repairs abroad: deductions for ordinary repairs made outside of Venezuela only when there are no facilities in the country.

Foreign source: Gross income of a foreign source will be determined by deducting the costs attributed to such income from the gross income of a foreign source. To determine the net earnings from a foreign source, only those expenses incurred abroad considered to be necessary for the operation of the taxpayers liable for tax or worldwide income will be admitted.

Tax on dividend remittances:

Before the reform of the Income Tax Law made in 1999, dividends were exempt of tax, but now they will be taxable since January 1st, 2001. This provision contains the following tax rates:

- 34% if dividends are paid by companies constituted abroad to legal persons or individuals domiciled or resident in Venezuela.

Dividends paid by a Venezuelan entity will be taxed depends on the payer:

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- 67,7% if the payer is a local company dedicated to hydrocarbons;
- 60% if the payer is a natural person or if the dividends come from royalties and other similar participation and;
- 34% if the payer is a Company engaged in other activities.

Tax credits:

The Income Tax Law provides for tax credits as follows:

- For new investments made by taxpayers engaged in exploitation of hydrocarbons and related activities: 8% of the net value of the investment plus 4% of the cost of investments in exploitation, drilling, transportation and storage, secondary recovery of hydrocarbons, utilization, conservation and storage of liquid and liquefied gas, improvement of hydrocarbons and research expenses.
- For new investments made during the five years following the new legislation's enactment by companies deriving income from industrials and agroindustrials activities, including within this category activities related to construction, electricity, telecommunications, science and technology and those which within industry represent investments to meet advanced technology requirements, other than hydrocarbons; tourism, fishing and cattle activities: 10% of the net value of the investment.
- Beneficiaries of earnings derived from tourist services duly registered with the National Tourist Registry will have a 75% rebate of the amount of new investments destined to the construction or improvement of tourist establishments or for the supply of tourist services.
- For new investments made by taxpayers engaged in agricultural, livestock, fishing or fish-farming activities: 80% of the new investments that affect the unit of production.
- An additional 10% is granted to investments in assets, programs and activities destined for conservation, defense, environmental improvement, the recovery of areas under hydrocarbon and gas exploration and production where the unit of production is affected.

Personal taxation:

Residents:

The Organic Tax Code defines individuals who have been in Venezuela for more than 180 days of a calendar year or the previous year, either continuously or discontinuously, as residents. Residents will be subject to worldwide income system.

The tax table applicable to residents is expressed in Fiscal Units, where the value of the Fiscal Unit is adjusted by the Taxation Administration within the first 15 days of each year, according to inflation.

The current value of the Fiscal Unit is: 1 F.U. = Bs13.200

The tax rates applicable to residents are as follows:

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Tax Table 1

	Fiscal Units	Tax Rate	Less F.U.
For the portion up to	1,000	6%	0
For the portion between	1,000 and 1,500	9%	30
For the portion between	1,500 and 2,000	12%	75
For the portion between	2,000 and 2,500	16%	155
For the portion between	2,500 and 3,000	20%	255
For the portion between	3,000 and 4,000	24%	375
For the portion between	4,000 and 6,000	29%	575
For the portion exceeding	6,000	34%	875

Individuals exclusively engaged in agricultural, livestock, fishing or fish-farming activities at primary level will be under the obligation to make tax returns if they obtain gross income in excess of 2,625 F.U. Individuals in receipt of grants will be exempt from tax payment on the amounts received for maintenance in respect of studies or training.

Deductions:

1. Interest on loans for the purchase of principal home up to 1000 F.U. and for housing rentals up to 800 F.U.
2. Payments for education of the taxpayer and his or her descendants under 25 years of age.
3. Premiums paid to companies domiciled in the country for medical insurance.
4. Payments for medical and dental treatment and hospitalization rendered in the country.

These deductions must reflect payment by the taxpayer in Venezuela during the tax year, and the original documentation for said deductions must be attached to annual tax return.

If the taxpayer decides not to use the actual deductions, a standard deduction of 774 Fiscal Units can be used.

Tax credits:

In addition, residents are entitled to the following tax credits:

- For the taxpayer 10 F.U.
- For the taxpayer's spouse, provided there is no separation of assets 10 F.U.
- For each minor or disabled descendent 10 F.U.
- For each direct ascendant in the country 10 F.U.

Foreign Tax Credits:

The new Income Tax Law establishes that companies or individuals domiciled in Venezuela and companies or individuals non-domiciled in Venezuela with a Permanent Establishment in the country may offset income tax paid abroad on earnings of an

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extraterritorial source against the tax stipulated by this Law, for which they are obligated to payment of tax under the terms of this Law.

The foreign tax credit may not exceed the amount resulting from applying the Venezuelan tariffs to the total global net income in the same proportion that the net foreign income represents in the total of such global net income.

In the case of proportional taxes, the amount of the tax credit may not exceed the income tax that would have been payable in Venezuela for this income. The exchange rate in force at the time of payment, according to the Central Bank of Venezuela, will be applied.

Non-residents:

Income received by non-residents is subject to a flat 34% of tax.

Royalties and similar payments: non-resident who receive net income from royalties and similar payments are subject to taxation of 34% based on 90% of such payments.

Inflation adjustments:

Inflation adjustments are to be implemented in two phases and are not recorded in the accounting records.

PHASE ONE: the "Initial Adjustment for Inflation" is mandatory and consists of a one-time updating of the value of all non-monetary assets and liabilities at 31 December 1992 or at the first operative tax year for new companies. This initial adjustment is based on the variation in the Central Bank's Consumer Price Index (CPI) for the Caracas Metropolitan Area between the month prior in which an asset was acquired and the month of the revaluation; if it was acquired before 1 January 1950, it is treated as if it were acquired in that month. Valuation of assets and liabilities denominated in foreign currency is based on the exchange rate prevailing at the end of the fiscal year.

All taxpayers must file the revalued asset values with the Register of Revalued Assets and pay a tax equivalent to 3% of the initial inflation adjustment applied to depreciable fixed assets. This tax is payable in up to three equals and consecutive annual installments from the date of registration. The tax is not deductible for income tax purposes.

The adjustment to depreciable fixed assets is depreciated over the remaining useful lives of the assets. If divested, only the depreciated initial adjustment can be taken as part of the cost of the asset. If other assets (not fixed assets) are divested, the initial adjustment for inflation is not included for purposes of determining cost. However the sale of raw materials, products being processed and finished products for the sale, the initial adjustment for inflation does form part of the cost of that asset.

Individuals who are not engaged in business may adjust the cost of acquisition and improvements to assets that are sold without the need to register with the Registry for Revalued Assets, however, the adjusted cost shall not be greater than the amount agreed for the sale.

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PHASE TWO: "Regular Readjustment for Inflation".

The initial adjustment for inflation is recorded as part of the taxpayer's equity, for income tax purposes only.

Under the second phase, non-monetary assets and liabilities and the adjusted equity are adjusted for the effects of inflation based on the variation in the consumer price index for the Caracas Metropolitan Area during the tax year. Movements on the accounts during the year are adjusted from the month of acquisition or variation.

Non-monetary assets and liabilities denominated in foreign currencies are updated to reflect variations in the exchange rate.

The resulting net inflation adjustment is recorded for income tax purposes in an account entitled "Readjustment For Inflation" and will either represent a tax deductible expense or taxable income. The losses resulting from this adjustment not used in the current year, just can be carry forward for one fiscal period.

The initial adjustment for inflation is optional for individuals not engaged in commerce and for partnerships divesting assets capable of generating income subject to income tax. The regular readjustment for inflation is optional for taxpayers engaged in non-commercial business activities, provided they keep proper books of account.

This readjustment must be made at the end of each tax year, commencing the year immediately following that in which the initial adjustment for inflation is made.

Transfer pricing:

As a control measure for taxpayers engaging economic activities with related parties, the Venezuelan Income Tax Reform Bill establishes the transfer pricing determination, applicable for income, cost of good and services and expenses carried out on importation and exportation activities performed with those related parties. The dispositions related to transfer pricing should be applied to the exercises that will start under the force of the Law, it is exercises starting after 22 October 1999.

It is established in the law that unless it is proven the contrary, is assumed that transactions with entities located in tax heaven countries are deemed to be made between related parties.

In relation to imports of goods or services arising from related parties, the costs and expenses allowed by the Reform Bill, are the ones that do not exceed the price determined by the following methods:

1. Comparable uncontrolled price method;
2. Resale price method;
3. Cost of production method;
4. Transaction margins on operation profit method.

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The portion of cost or deduction that exceeds the value determined by any of the above methods must be added to taxable income.

This provision does not apply on expenses related to royalties, technical assistance and technological services.

In relation to income obtained for exportation activities with related parties, the Reform Bill establishes that if the sale price of the goods or services producing such income is less than ninety percent (90%) of the price for the same goods or services traded between non related parties in the internal market, the income will be determined based on one of the following methods:

1. Average price of exportation sales method;
2. Wholesale price in the destination country less profits method;
3. Retail sale price in the destination country less profits method;
4. Acquisition cost or production plus profits method;
5. Transaction margins on operation profit method.

The portion of prices calculated by anyone of the aforementioned methods exceeding the prices registered by the taxpayer will be added to income.

Official publications from the country of buyer or seller or tax authority ruling letters when a tax treaty to avoid double taxation exists between the two countries, and data or information gathered by technical institutions or technical publications will determine the costs, average prices and the profit margins to be used on the mentioned methods. Different profit margins from those determined by the tax administration may be allowed if the taxpayer supports them based on authorized publications, data or bulletins.

In case of loans from related entities abroad, the interest charged will only be deductible up to the libor rate plus an spread to be determined by the Tax Administration, based on information and reports issued by the Central Bank of Venezuela.

International Fiscal Transparency Treatment:

The Venezuelan Income Tax Law establishes a new regimen under which taxpayers having investments whether direct, indirect or through a person acting as intermediary in branches, companies, movable goods, real properties, shares, bank or investment accounts and any type of participation situated in low taxation areas, will be subject to this tax treatment. Income derived from investments in low taxation areas shall be considered taxable in the fiscal period in which they are caused.

Taxpayers shall file, together with their final income tax return, a return detailing the investments they hold or have carried out in low taxation areas during the fiscal period. Taxable income derived from the conduct of enterprise activities in low taxation areas shall not be subject to this tax treatment when more than 50% of the total assets of these investments comprises fixed assets used in carrying on those activities and situated in such areas.

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Substance over Form :

A general anti-avoidance rule is introduced, granting the Venezuelan tax administration the power to disregard the incorporation and organization of entities, transactions, agreements or other legal business structures, adopted with the main purpose of reducing or avoiding income tax. Under the law and unless proved otherwise, it will be presumed that such behavior is intentional.

Corporate income tax returns:

Final tax returns: companies and other taxpayers must file an annual tax return within three months of the fiscal year-end.

Estimated tax return: corporations and other taxpayers with net earnings exceeding 1,500 Fiscal Units (F.U.) in the previous fiscal year must file an estimated tax return. Earnings declared in the estimated return cannot be less than 80% of their net earnings of the preceding fiscal year, unless justification for a lower figure is accepted by the Tax Administration. Likewise, the amount of estimated investment declared by the taxpayer to qualify for tax credits granted under the Income Tax Law may not exceed eighty percent (80%) of the cost of investments declared in the preceding year's final tax return, unless the taxpayer satisfies the Tax Administration that its investment will be higher. The estimated tax return must be filed in the second half of the sixth month of each fiscal year.

Personal Income Tax Returns:

Final tax return: individuals with yearly global net income higher than 1,000 Fiscal Units (F.U.) or gross income higher than 1,500 Fiscal Units (F.U.) must file a return no later than 31 March of each year, reflecting earnings in the preceding calendar year. Estimated tax return: individuals must file an estimated tax return only when income exceeds 1,500 F.U. in the preceding fiscal year from the following sources: a) commercial or credit activities; b) commercial practice of non-commercial professions; c) leasing or subleasing of real personal assets; and d) participation in the net earnings of partnerships not subject to income tax. Partnerships are exempt from the estimated tax requirement when their earnings are taxable on an individual basis for their partners. The estimated tax return must be filed in the second half on the ninth month of each fiscal year.

Non-domiciled foreign banks:

Non-domiciled banks must declare net income (taxable or tax-exempt) from Venezuela.

A non-domiciled bank which receives interest or other income from Venezuela must file a tax return even though it has no branches or subsidiaries in Venezuela, and even though its loans are made from abroad.

Every bank must declare:

When a bank makes loans in Venezuela through several subsidiaries, it must file a combined return. If a banking group operates through different institutions (subsidiaries, affiliates, etc) each entity conducting business in Venezuela must file a separate return.

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Cash-basis return:

In most cases, commercial earnings are taxed under accrual method in Venezuela. Foreign banks must present, in the annual tax returns, the sums indicated in the respective tax withholding certificates prepared by the local borrowers during the calendar year. They must also declare any earnings from time deposits with Venezuelan financial institutions; such interest must be treated as if it were interest received on loans.

Income tax return information:

- The RIF number assigned to the bank.
- The amount of taxable interest.
- The amount of fees received (this income is not subject to withholding at the time of payment, but it is taxable in the fiscal year in which it is charged).
- Photocopies of the withholding forms received from Venezuela borrowers.
- Any other income, including capital gains or losses on sales of securities, dividends received in cash or in stock, etc. The above information must include the name of each borrower, the amount of each loan and the taxes withheld by each borrower.

Deadline for filing tax returns:

31 March is the deadline for filing on a calendar year basis; the calendar year is the fiscal year for all non-domiciled banks. The tax authorities rarely grant filing extensions.

Withholding taxes:

Certain payments are subject to withholding taxes at the time they are paid or accrued. The taxpayer making the payment is obliged to make the withholding which is treated as an advance tax payment.

Tax Treaties:

At the present time, Venezuela has 13 tax treaties for the avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to taxes on Income and Capital. Such active treaties are signed with Germany, Belgium, The Netherlands, France, Italy, Norway, Portugal, United Kingdom, Czech Republic, Sweden, Switzerland, Trinidad and Tobago and The United States of America, and it is expected to settle the diplomatic bills to start applying the treaty with Mexico. These treaties allow the Companies and residents of foreign countries to use lower tax rates or even the possibility of a complete exemption from taxes. The treaties are based on the Organization for Economic Cooperation and Development (OECD) Model Convention and on the United Nation Model.

Below is a summary of the tax rates applicable to dividends, interests, royalties and technical assistance payments in accordance with each treaty:

Country	Dividends	Interests	Royalties	Technical Assistance	In force since
Germany	5% 15%	5%	5%	(1)	1997
Belgium	5% 15%	10%	5%	(1)	1998

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Country	Dividends	Interests	Royalties	Technical Assistance	In force since
France	5% 15%	5%	5%	(1)	1993
Netherlands	10%	5%	5% 7% 10%	(1)	1997
Italy	10%	10%	7% 10%	(1)	1993
Norway	5% 10%	5% 15%	12%	9%	1998
Portugal	10%	10%	12%	10%	1998
U K	10%	5%	5% 7%	(1)	1998
Czech Republic	5% 10%	10%	12%	12%	1997
Sweden	5% 10%	10%	7% 10%	(1)	1998
Switzerland	10%	5%	5%	(1)	1997
Trinidad	5% 10%	15%	10%	(1)	1997
United States	5% 15%	4,95% 10%	5% 10%	(1)	(2)
Mexico	5%	4,95% 10% 15%	10%	10%	(3)

(1) For this kind of payments, it will apply the provisions of Articles No. 7 and 14.

(2) The treaty is in force since 01 January 2000, however, Articles No. 7 and 14 will be in force since 1 January 2001.

(3) It will be in force the following year after ratification of the treaty by both countries' congress.

Other corporate taxes:

In addition to income tax there are other taxes in Venezuela payable by companies, and in certain cases by individuals. Apart from customs duties, the following taxes exist: municipal business tax, tax stamps, fees for registration of public documents, taxes on communications (telephone, calls, etc), social security, unemployment compensation, housing plan contributions, contribution for occupational training of workers, paid to the National Institute for Educational Cooperation (INCE). The social security, unemployment compensation, housing plan, and INCE contributions are explained in greater detail in labor laws and relations. All these taxes and contributions are deductible expenses for income tax purposes.

Corporate registration fees:

When a corporation is incorporated, a registration fee of one one-hundred (1/100) of the subscribed capital is charged. This fee also applies to foreign companies domiciled in Venezuela and the registration fee is based on the parent company's capital. Consequently, large engineering firms for example, often choose to domicile a branch or a small subsidiary in charge of international operations.

Municipal Business Tax:

The municipal business tax is based on gross income and rates vary between municipalities and types of economic activity, and normally have a progressive scale. In many cases, the municipal tax rate is a small percentage of gross sales. For example, the rates in force in the Federal District vary from 0.3% to 9.4% of gross income, depending on the activity. Since these taxes are set at the district (rather than the state or national) level, the different city

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councils have a great deal of leeway in determining the tax rates and in granting exoneration to attract companies to their jurisdictions.

The new Constitution of the Republic of Venezuela, which became effective on 30 December 1999, has established that the industry, business and services economical activities could be subject to tax in the municipalities.

Value added tax:

VAT became effective on 1 June 1999 (reformed on 5 May 1999) and applicable to economic agents. The following categories of taxpayers are subject to VAT:

- Individuals or companies usually selling tangible goods.
- Importers of tangible goods and services.
- Individuals or companies usually performing services of an independent nature.
- Public agencies or enterprises owned by the nation, the states, municipalities or independent public institutions which usually conduct taxable activities as well as occasional taxpayers, the latter being importers of goods or services not falling into any of the preceding categories.

The following taxpayers are not subject to VAT:

- Persons with sales or rendering services worth less than 4,000 Fiscal Units (Bs 52.800.000 for 2001) in the preceding calendar year or the year nearest the date on which they commenced their activities. The minimum amount for taxation of 4,000 F.U. will be reduced on a yearly basis of 1,000 F.U. until arriving at 1,000 F.U. in the year 2004.
- Persons who only sell goods or render services which are exempt from this tax.

The obligation to pay VAT arises from the following activities:

- Sales and removal or retirement of tangible personal goods located in the country or nationalized.
- Permanent importation of tangible goods.
- Importation of services to be used in the country.
- Rendering of services in the country on an independent basis.

These activities are taxable as follows:

- In relation to sales of tangible goods, when the invoice or equivalent document is issued to record the transaction, when paid, or when the goods are delivered, whichever comes first.
- In relation to permanent importation of goods and services, when they are nationalized.
- In relation to rendering of services, when the invoice is issued, the service is completed, or total or partial payment is made.

Exclusions or exemptions from the tax established in the Law are provided for non-permanent imports of goods which enter the country under the temporary admission and drawback regimes; sales of such personal goods as fiscal instruments, stocks, bonds,

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mortgage bonds, etc, and in general, transactions and services performed by banks, insurance companies and other financial institutions.

Imports made by passengers and ship or aircraft crew member as accompanied baggage are exempt from the tax provided the goods in question are also exempt from import duties. Import made by organizations which operate tax-free under international agreements are also exempt. In addition, transfers of raw animal or vegetable food products, rice, flour, chicken eggs among others are exempt from VAT, as is land, ocean, river or lake and air national passenger transportation.

Merchants shall specify what they are charging for with the merchandise or service they sell, and what the respective VAT chargeable to the sale price is.

Each taxpayer receives a tax credit for the taxes paid in connection with its purchases, which is subtracted from the tax generated by the value of its billings (tax debit). That VAT rate can fluctuate between eight percent (8%) and a ceiling of sixteen point five percent (16,5%). A zero percent (0%) rate applies to export goods and services rendered to parties not domiciled in the country. A fourteen point five percent (14,5%) rate has been set for VAT payments for the period..

Taxpayers must keep additional books, records, and files for this purpose, and must record their transactions under accounting rules within the first 15 days of the calendar month following that of the transactions. A special account must be opened to record the tax debits and credits. Exporters and industrial projects with pre-operating stage longer than six (6) months may request reimbursement of the tax credits paid for their activities. In the specific case of industrial projects, the VAT to which they are subject, shall be indexed when the entities begin operations. However, the taxpayer may waive such indexing and has the option to request a tax credit certificate.

Business assets tax:

The business assets tax is calculated at 1% of the average value of tangible or intangible assets owned by taxpayers located in the country and used in the production for profit in commercial, industrial, mining, hydrocarbon, or related activities during the fiscal year.

Income tax payable can be credited against the taxpayer's business assets tax for the fiscal year in question.

Taxpayers subject to the business assets tax are the same as those subject to income tax, and the exemptions provided in the Income Tax Law are equally applicable to the business assets tax.

The tax return must be filed by the taxpayer or person responsible within three months following the end of the taxpayer's fiscal year. In addition, the treasury department requires a payment of a monthly advance tax equivalent to 1/12 of the business assets tax caused in

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the preceding tax year, payable beginning with the following month after filing the tax return.

The business assets tax is considered to be a complement to income tax; its purpose is to control tax evasion.

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