

Non-Official Translation

Oriental Republic of Uruguay
Ministry of Economy and Finance
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**MINISTRY OF ECONOMY AND FINANCE
MINISTRY OF TRANSPORTATION AND PUBLIC WORKS
MINISTRY OF INDUSTRY, ENERGY AND MINERY
MINISTRY OF LIVESTOCK, AGRICULTURE AND FISHERY
MINISTRY OF TOURISM AND SPORTS**

Montevideo, November 26, 2007

SEEN: The Promotion and Protection Investment Act N° 16.906, of January 7, 1998.

RESULTING: I) that Chapter III of the above mentioned Act rules tax benefits to be granted to investment projects and to specific sectoral activities.-

II) that such benefits are clearly linked to the compliance with the technical progress objectives, exports increase and diversification, development of productive job generation, integration facilitation, promotion of small and medium size enterprises, enhancement of the decentralization process and use of clean technologies.-

CONSIDERING: I) that investment growth constitutes the milestone for the consolidation of the productive system development process, which shall create a substantial job improvement not only in the number of people to be employed but also in the pay they shall receive.

II) that to such ends it is necessary to adopt all such measures that allow the promotion of said process, by means of improving institutional aspects referred to the investor as well as by establishing an exemption system identified by the application of objective explicit criteria consistent with the purposes set forth in the mentioned legal provision.

III) that as regards relationship aspects with the investor, this decree rationalizes the procedures related to exemption applications, through the establishment of deadlines to be met by the "COMAP" [*Applications Committee of the Investment Act*], regulating the requirements to be met under the different execution and operation stages of the projects and appointing the Investor Service Office of the Ministry of Economy and Finance as the link and facilitation entity for such steps.

IV) that as regards the scope of the benefits to be granted, the new regulation is oriented to the strict observance of the mentioned Act, thus providing for a segmentation of investment projects, according to their size and including a simplified regime for small and medium size enterprises, all of which was previously unattainable on account of the project preparation costs. In the case of medium and large projects, a matrix of indicators has been incorporated in order to quantify compliance with the objectives set forth in the Act. The applicable tax benefits shall be determined according to such matrix, and to the specific score achieved by the project. Likewise, the exemptions scope has been extended on account that some exemptions have been added to the those already granted to commercial and services activities, with the purpose of consolidating the inter-sectoral equity process initiated with the Tax Reform.

IN VIEW of the above.-

THE PRESIDENT OF THE REPUBLIC
DECREES:

ARTICLE 1 (Beneficiaries) Enterprises whose investment projects or the activity of the sector where they operate have been promoted by a statement issued by the Executive Power shall be entitled to the benefits set forth under Section I, Chapter II of Act N° 16.906 of January 7, 1998, according to the provisions of the mentioned Act, to this ruling decree and, as the case may be, to the domestic rules and instructive orders dictated by the Applications Committee.-

ARTICLE 2 (Promotional statement) The Executive Power shall state the specific sectoral activities to be promoted.

Enterprises intending to make investments destined to their own business may request to be taken into consideration in order to be granted the benefits of the promotional statement applying directly to the Applications Committee through the Investment Service Office. Enterprises which develop their activities in a sector already promoted by the Executive Power, with the purpose of being granted benefits in addition to those already awarded to such sector are herein included.

ARTICLE 3 (Scope) To the effects hereof, investment shall mean the acquisition of the following goods to be added to the fixed or non-tangible assets:

a) Movable tangible goods destined directly to the enterprise business. Non-utilitarian vehicles and household chattel to be excluded.

- b) Fixed improvements, except those destined to dwelling houses.
- c) Incorporeal goods as determined by the Executive Power.

ARTICLE 4: (Promoted Projects: classification). In order to apply for the promotional statement as well as for the benefits to be granted, projects shall be classified as follows:

a) Small: investment of less than (three million five hundred thousand indexed units)	I.U. 3,500,000
b) Medium - Segment 1: with an investment equal to or greater than (three million five hundred thousand indexed units) and smaller than (fourteen million indexed units)	I.U. 3,500,000 I.U. 14,000,000
c) Medium: Segment 2: with an investment equal to or greater than (fourteen million indexed units) and smaller than (seventy million indexed units)	I.U. 14,000,000 I.U. 70,000,000
d) Large- Segment 1: with an investment equal to or bigger than (seventy million indexed units) and smaller than (one hundred and forty million indexed units)	I.U. 70,000,000 I.U. 140,000,000
e) Large: Segment 2: with an investment equal to or bigger than (one hundred and forty million indexed units) and smaller than (five hundred million indexed units)	I.U. 140,000,000 I.U. 500,000,000
f) Large: Segment 3: with an investment equal to or bigger than (five hundred million indexed units) and smaller than (seven thousand million indexed units)	I.U. 500,000,000 I.U. 7,000,000,000

The price of the Indexed Unit as of the last day of the month preceding the investment shall be applicable in order to determine the investment amounts referred to hereinabove.

ARTICLE 5. (Criteria for granting benefits) When making a recommendation as per article 12 of Act 16.906 of January 7, 1998, the Applications Committee must take into account the criteria set forth by articles 11 and 15 thereof.

In that sense, the Committee shall dictate the corresponding instructions and other domestic rules with the purpose of establishing an

evaluation methodology to properly weight compliance with the objectives therein set forth, adapting them to the size and nature of the projects.

In the case of projects defined under item a) of article 4, in order to grant the benefits, the ruling provision shall take into account job generation and technological development, establishing a minimum of benefits and terms according to these objectives, considered either individually or jointly.

In the case of investment projects defined under items b) to f) of article 4, the ruling provision shall establish a matrix of indicators for each kind of project, weighting the participation of the objectives referred to in article 11 of Act N° 16.906, of January 7, 1998 and depending on such matrix, participants shall be scored according to the expected project results. Benefits to be granted shall be determined by the project classification, the score assigned thereto over the total maximum attainable score, according to the general merits previously set forth and to the provisions of article 15 hereof.

ARTICLE 6 (Application requirements) Enterprises desiring to be awarded the promotional statement must submit to the Investors Service Office the following:

- a) Identification data of the enterprise and its holders and background of the enterprise;
- b) Accounting and economic data necessary to evaluate the investment project.
- c) Letter of undertaking, which shall stand for an affidavit, where the requesting party undertakes to comply with the conditions required to granted tax benefits
- d) Identification data of the enterprises belonging to the same economic group.

The Applications Committee, through its instruction forms, shall rule the provisions hereof, stating the different documents and accounting and economic information requirements to be submitted by the applicants according to the categories referred to in article 4.

In case the promotional statement is made on fusions, fissions or modifications according to the provisions of article 26 of Act N° 16.906, the enterprise must prove compliance with the conditions therein set forth.

ARTICLE 7 (Investor Service Office) The Investor Service Office shall be the link between the applicants and the Application Committee to the effects of managing the promotional statement applications.

ARTICLE 8 (Procedure) The Applications Committee shall tend to the simplicity and transparency of the procedures.

Beneficiaries shall submit the application to the Investors Service Office together with the documents referred to in article 5 in order to be sent to the Applications Committee.

Upon receipt thereof, the Applications Committee shall make the corresponding recommendation to the Executive Power, so that the latter, if applicable, may issue the Resolution setting forth the Statement of the Promoted Project, specifying the purpose thereof, as well as the criteria, maximum amounts and terms of the granted tax benefits.

ARTICLE 9 (Terms) In order to make the recommendation referred to in the preceding article, the Applications Committee shall be entitled to the following terms, as from the date on which the Investor Service Office sends the corresponding documents:

- a) thirty days in the case of projects under item a) of article 4 (small projects),
- b) forty-five days in the case of projects under items b) and c) (medium projects)
- c) sixty days in case of projects under items d), e) and f) (large projects)

Terms may be suspended in order to request further information. Such suspension may not exceed thirty days in the case of projects referred to in item a) hereof, forty-five days in the case of projects under item b) and sixty days in the case of projects under item c).

ARTICLE 10 (Fictitious approval and waiver) If upon expiration of the terms referred to in the preceding article the Committee had not issue the recommendation, it shall be understood that the Committee recommends the Executive Power to grant the benefits set forth by the instructions of the Committee respect the project under consideration.

Likewise, should the applicant fail to provide on a timely manner the complementary information requested by the Committee, the application should be considered waived.

ARTICLE 11 (Follow-up) Upon the approval of the investment and issuance of the respective Resolution, beneficiaries must submit to the “COMAP”, within four months as of the closing of each economic year,

their financial statements together with an audited report in the case of tax payers included in the Large Tax Payers Division of the Taxing General Office, a Limited Revision in case of taxpayers of the “CEDE” [Enterprises Special Control] sector of the mentioned institution and a compilation for the remaining others.

In the case of taxpayers under items b) to f) of article 4 (medium and large projects) they must submit as well within the term set forth in the preceding paragraph, a supplementary affidavit stating all the information not included in the financial statements; compliance with the indicators required to grant the benefits shall be analyzed on the grounds of such information, according to the ruling provision issued by the Applications Committee.

ARTICLE 12 (Loss of Benefits) The Applications Committee shall control the effective execution of the projects and compliance with the undertakings assumed by the beneficiaries. Such control may be carried out any time during the execution process and operation of the project.

Should any failure to comply with the obligations assumed by the beneficiaries be proved, either regarding information disclosure or substantial execution and operative aspects of the project, the exempted tax shall be re-settled.

To such effects:

a) Failure to provide information to the COMAP necessary for the follow up of the project, shall be considered a breach upon thirty working days elapsing as from the expiration of the terms granted to such effects by the general provisions or by the special provisions set forth by the Executive Power or the COMAP. Upon a grounded resolution, the COMAP may extend the referred term.

b) Failure to execute the investment shall be considered a breach upon the expiration of the term granted by Resolution of the Executive Power for its effective performance or of the respective extension, if thus granted.

c) Failure to comply with the goals undertaken in the operation of the investment project shall be controlled every two years and shall be considered a breach at the end of the second year.

In the case of defaults referred to under items a) and b), beneficiaries should re-settle the exempted taxes, plus the corresponding fines and surcharges.

In case of defaults referred to under item c), beneficiaries should re-settle the exempted taxes, updated according to the Indexed Units increase between the applicable date and the default date. The Taxing General Office shall fix the term for the payment thereof.

Should the beneficiary enterprise belong to a same economic group, the Applications Committee shall control that the expected results of the project which gave rise to the granting of the benefits are not related to contrary results arising from activities similar to those which have been granted the benefit that are carried out by other enterprises members of the same economic group. Should it be proved that the positive results of the project are related to contrary results in other enterprises of the same economic group, benefits shall be re-settled. In order to determine the binding criteria herein referred to, the rules of the Banco Central del Uruguay shall be applicable.

The Applications Committee shall be entitled to audit the supplied information and inform the Taxing General Office, by means of a Resolution, any possible defaults in order to re-settle the taxes. Nevertheless, beneficiary enterprises shall have to stop applying the benefits and re-settle, should objective defaulting conditions be verified, regardless the decision of the Committee.

ARTICLE 13 (Tolerance) In the case of projects under items a), b) and c) of article 4, during the project execution and operation period, 30% tolerance margin shall be allowed in order to achieve the intended score according to the provisions of article 5.

In the case of large projects, variable and decreasing tolerance margins may be allowed depending on the project execution and operation period. Such margins may not exceed 30% (thirty-percent) during the first two years, 40% (forty percent) during the following three years and 50% (fifty percent)during the rest of the period.

Tolerance margins shall be computed according to the matrix of indicators total score, therefore greater margins should be fixed for each indicator taken individually.

In every case, duly grounded exceptional reasons beyond the company's control, and therefore unpredictable at the time of presentation

of the project may allow a suspension period in the compliance schedule and therefore terms and benefits may be resettled.

ARTICLE 14 (Re-categorization) Should the investor prove to have met all the requirements of a higher category or score, the investor may request to be granted the exemptions applicable to such category or score.

Likewise, in case of failure exceeding the tolerance margins referred to in the preceding paragraph, the interested party may request that the protection of the benefits applicable to the category or score be effectively complied with, without prejudice to the corresponding tax resettlement.

ARTICLE 15 (Income Tax Exemption) Enterprises whose investment projects have been granted the promotional statement, shall be exonerated from taxes imposed on Industry and Commerce Income and on Economic Activities Income.

The exempted fiscal income may not exceed the following percentages of the amount actually invested in fixed or non-tangible assets included in the promotional statement.

- a) 60% (sixty percent) of the amount invested in the projects under item a) of article 4 herein.
- b) 70% (seventy percent) in case of projects under item b)
- c) 80% (eighty percent) in case of projects under item c).
- d) 90% (ninety percent) in case of projects under items d) and e)
- e) 100% (one hundred percent) in case of projects under item f)

In order to determine the actually invested amount, investments covered by other promotional benefits granting tax exemptions to Economic Activities Income, Industry and Commerce and Agriculture Income shall not be taken into account.

In order to allow an adequate comparison, investments should be updated according to the current Indexed Unit rate as of the beginning of each fiscal year.

ARTICLE 16 (Terms) Maximum terms granted for tax exemptions referred to under article 15 hereof shall vary depending on the categorization referred to in article 4 and on the granted score. To such ends, the exemption term corresponding to each project shall result from applying the relation of the score achieved by the project respect the possible total score of the matrix of indicators used in the case of projects under item f) of article 4, to the maximum exemption term, without prejudice to the

provisions of article 5 in case of investment projects under item a) of article 4.

The term shall be computed as from the fiscal year during which the fiscal income is obtained, including this last fiscal year, provided four fiscal years have not elapsed as from the promotional statement. In this case, the referred maximum term shall be increased in four years and shall be computed as from the fiscal year during which the mentioned statement was issued.

In case of investments made by enterprises known as users of industrial parks, the maximum term referred to in the preceding paragraph may be extended up to five years.

The exemption may not exceed the following percentages of the fiscal net income

a) 90% (ninety percent) of the fiscal net income, for the fiscal years included in the first 50% (fifty percent) of the maximum term granted.

b) 80% (eighty percent) for the following fiscal years corresponding to 10% (ten percent) of the maximum term.

c) 60% (sixty percent) for the following fiscal years corresponding to 10 % (ten percent) of the maximum term.

d) 40% (forty percent)) for the following fiscal years corresponding to 10 % (ten percent) of the maximum term.

e) 20% (twenty percent) for the following fiscal years corresponding to 10 % (ten percent) of the maximum term

f) 10 % (ten percent)) for the following fiscal years corresponding to 10 % (ten percent) of the maximum term.

Should the application of 10% of the maximum term referred to under items b) to f) resulted in periods to include fractioned fiscal years, the Applications Committee shall pro-rate the maximum percentages of the exempted income during such periods

ARTICLE 17 (New investments within the terms) New investments made by the enterprises throughout periods during which they enjoy the benefits set forth under article 16, shall be evaluated as incremental so that the re-computation of the matrix may give rise to a recategorization and extension of the terms under the conditions set forth in articles 5, 15 and 16.

ARTICLE 18 (Tourism) Investment projects referred to hotels and tourist resorts may apply for the benefits herein provided according to the conditions herein set forth.

Hotel and tourist resorts investment projects which, according to article 5 hereof, are scored over 60% of the total possible score of the matrix of indicators used for projects under item e) of article 4, may request the authorization to open State Casinos rooms at such hotels or tourist resorts, to the extent the viability of the projected investment is related to such authorization. The Ministry of Economy and Finance shall take into account the project expected impacts on the development goals in order to grant the authorization.

ARTICLE 19 (Investment of great economic significance) In case of investment projects of amounts equal to or greater than I.U. 7.000.000.000 (seven thousand million indexed units) an exemption of the Economic Activities Income Tax shall be granted for a 25 year maximum period, until the concurrence of the fiscal net income with the investment amount.

ARTICLE 20 (Optional Regime) Enterprises which have already submitted or which will submit in the future investment projects requesting the promotional statement provided for by Act N° 16.906 of January 7, 1998, may choose the regime herein set forth or the last regime in force prior to the approval hereof. Such option shall be valid for investment projects submitted between December 20, 2006 and February 28, 2009.

Enterprises having submitted projects after December 20, 2006 and which have been granted the promotional statement prior to the entry into force of this decree, may request that the granted benefits be consistent with the provisions of the new regime.

In order to make the option referred to in the preceding paragraph, enterprises must submit a note to the Applications Committee as well as the documents said Committee might request to such effects.

ARTICLE 21 To be communicated, published, etc.

[6 illegible signatures] [signed...] Tabaré Vázquez. Dr. Tabaré Vázquez.
President of the Republic.