



INVESTMENT LAW

CONGRESS

The Senate and the House of Representatives of the Republic of Uruguay, meeting in Joint Session,

HEREBY DECREE AS FOLLOWS:

CHAPTER I

PRINCIPLES AND GUARANTEES

Article 1. (National Interest). The promotion and protection of investments made by either national or foreign investors in Uruguayan territory is hereby declared of national interest.

Article 2. (Equal Standing). The system governing the admission and treatment of investments made by foreign investors shall be the same as that in force for national investors.

Article 3. (Requirements). Investments shall be admitted without requiring any prior authorization or registration.

Article 4. (Treatment). The State shall give fair treatment to investments, and promises not to damage the installation, management, maintenance, use, enjoyment or disposition thereof, with the adoption of unjustified or discriminatory measures.

Article 5. (Free Capital Transfer). The State shall guarantee the free transfer abroad of the capital and profits, as well as of any other sums associated with the

investment, which transfer shall be made in freely convertible currency.

CHAPTER II
INVESTMENT INCENTIVES OF A GENERAL NATURE

Section I

Scope

Article 6. (Subjective Scope). The privileges provided for in this Chapter shall benefit payers of the Income Tax on Trade and Industry, the Income Tax on Agricultural and Cattle-Raising Activities and the Tax on the Alienation of Agricultural and Cattle-Raising Assets, which are engaged in industrial or agricultural and cattle-raising activities.

The benefits provided for in this Chapter and those granted by the Executive, while exercising the legal powers hereby conferred upon it, shall operate in a general and automatic manner in favor of all subjects mentioned in the above paragraph.

Article 7. (Objective Scope). For all purposes regarding this Chapter, an investment is considered to be the acquisition of the following goods to be incorporated to the fixed assets or intangible assets.

- A) Chattel to be used directly in the productive cycle.
- B) Electronic data processing equipment.
- C) Fixed improvements aimed at enhancing industrial or agricultural and cattle-raising activities.
- D) Incorporeal rights such as trademarks, patents, industrial models, privileges, copyright, goodwill, trade names and concessions granted for the prospection, cultivation, extraction or exploitation of natural resources.
- E) Other assets, processes, inventions or creations which, in the opinion of the Executive, incorporate technological innovation and involve technology

transfer.

Section II Tax Benefits

~~Article 8.~~ (Tax Benefits). The benefits listed below shall be granted to all subjects described in Article 6 above:

- A) Exemption from payment of the Property Tax on the fixed assets included in subparagraphs A) and B) of Article 7 above, acquired after the herein Act has entered into force. In deducting liabilities the above assets shall be considered taxable.

The herein exemption shall not be applicable if the assets concerned are to be fictitously valued.

- B) Exemption from payment of the Value Added Tax and the Specific Domestic Tax on the importation of the goods mentioned in the preceding subparagraph, and reimbursement of the Value Added Tax when said assets are bought in the local market.

~~Article 9.~~ (Tax Benefits). The Executive is hereby empowered to grant the benefits listed below in a general manner and with regard to the subjects defined in Article 6 above:

- A) Exemption from payment of the Property Tax, in the conditions set forth in subparagraph A) of the foregoing Article, on the assets mentioned in subparagraphs C) through E) of Article 7 above.
- B) Establishment of an accelerated depreciation system, applicable to the assets provided for under subparagraphs A) through E) of Article 7 above, for all purposes concerning the Income Tax on Trade and Industry, the Income Tax on Agricultural and Cattle-Raising Activities and the Property

Tax.

Article 10. Notwithstanding the provisions of Article 25 of Law No. 16.697 of April 25th, 1995, the Executive is hereby empowered to cut by up to three points the social security contribution quota to be paid by employers in the manufacturing industry.

CHAPTER III INCENTIVES FOR SPECIFIC INVESTMENTS

Section I Scope and Relevant Authorities

Article 11. (Beneficiary Activities and Companies). The benefits scheme provided for in this Chapter is applicable to companies which have investment projects that the Executive declares are to be promoted, according to the herein provisions.

Likewise, the Declaration of Promotion, i.e. the declaration whereby a certain activity is promoted, may favor a specific industry, understood as the set of undertakings conducive to the production, sale or provision, as applicable, of given goods or services.

In granting such benefits, the following investments shall receive special consideration:

- A) Those that incorporate new techniques or technology that enhance competitiveness.
- B) Those that facilitate increased and more diversified exports, especially those that incorporate a higher portion of national added value.
- C) Those that either directly or indirectly create productive employment.
- D) Those that facilitate productive integration, incorporating national added value at the different stages of the productive chain.

- E) Those that foster the activities of micro, small and medium sized enterprises, due to the effective capacity thereof for technological innovation and productive employment creation.

- F) Those that contribute to the geographical de-centralization and target industrial, agri-industrial and service provision activities, with a significant use of local labor and inputs.

~~Article 12.~~ (Advice). In granting the privileges set forth in this Chapter, the Executive shall be advised by an Application Committee formed by a representative of the Ministry of Economics and Finance, who shall coordinate its work, as well as by representatives from the Ministry of Industry, Energy and Mining, the Ministry of Livestock, Agriculture and Fisheries, the Ministry of Labor and Social Security, the Planning and Budget Office and the De-Centralization Committee foreseen in Article 230 of the Constitution of Uruguay. In special cases officials from other Ministries or relevant agencies in the field in which the applicant operates may also form part of said Application Committee.

In the case of investment projects, these shall be submitted to the Application Committee. The Application Committee shall determine which shall be the Ministry or agency in charge of the evaluation thereof, taking into consideration the nature of the project and the activity concerned.

The above appraisal shall be submitted by the Ministry or agency appointed by the Committee for said purpose as provided for in the first paragraph hereof, together with a report describing the benefits it deems should be granted. The procedures and deadlines for said Ministry or agency to abide by in submitting its report shall be set in the regulation hereof.

The Application Committee shall make the relevant recommendations in each case. Said recommendations shall, if applicable, likewise indicate the Ministry or agency charged with the follow-up of the exemption granted, be it in full or in part, provided for

in the herein Chapter.

Article 13. (Standard Procedures). The administrative procedures foreseen in the preceding Article shall also apply to the benefits granted pursuant to Decree-Laws No. 14.178 of March 28th, 1974 and No. 14.335 of December 23rd, 1974, and any modifications and complementary provisions thereto. To such effect, the Executive is hereby empowered to modify the duties and functions of any advisory Committees set up by virtue of said provisions, or to discontinue the existence thereof.

Article 14. (Non-Compliance). In all cases, the Executive may require that the beneficiary provide the assurances it deems pertinent, with regard to the effective fulfilment by said beneficiary of the obligations related to the granting of the privileges; provided however that a modified tax payment, including any applicable fines and surcharges, shall be payable in case of default.

Section II Tax Benefits

Article 15. (Tax Benefits). The powers conferred on the Executive with regard to the tax benefits foreseen in Decree-Law No. 14.178 of March 28th, 1974 and the modifying and complementary provisions thereto shall be deemed to apply to the activities and/or projects foreseen under Article 11 hereof.

The granting of tariff exemptions counter to the commitments undertaken by Uruguay within the framework of MERCOSUR shall not be included in the scope of the above powers.

Article 16. (Situations enjoying Special Benefits). In the case of projects or activities that have been declared beneficiaries in view of the relevance of their contribution to the geographical economic activity de-centralization process, the benefits to be granted pursuant to the provisions of the above Article shall be greater in the term or amount thereof to those granted to equivalent projects or similar activities located in the Department of Montevideo.

Furthermore, special benefits may be granted, when determining the taxes to be exempted and the term and amount of the privileges granted, to those investments which, besides being among those included in the definition specified under the third paragraph of Article 11, amount to \$UY 500,000,000 (five hundred million Uruguayan pesos) to be placed within the term foreseen in the relevant investment plan. This figure shall be updated on a yearly basis by the Executive, based on the changes that may have taken place in the Consumer Price Index established by the National Institute of Statistics.

~~Article 17.~~ (Property Tax). If, by applying the provisions of this Chapter, exemptions are granted regarding the Property Tax, the goods benefitting from said exemption shall be considered taxable assets for the purposes of computing the liabilities of the networth being taxed.

Section III Productive Specialization System

~~Article 18.~~ A special system to speed-up adequacy is hereby created, aimed at facilitating the restructuring of companies in the context of the regional integration scheme.

Pursuant to said system, the companies will be able to import, free from the payment of the Single Customs Tax on Imports and of any surcharges thereto, goods the origin of which is any of the Party States of MERCOSUR, of the same nature and with the same economic purpose as those whose production is being discontinued or cut down. Said exemption shall be subject to compliance with an exports scheme by the beneficiaries.

The Executive is hereby charged with preparing the regulation of the system that is hereby created and with the granting, either in full or in part, of the exemption provided for in this Article, in accordance with the following guidelines:

- A) Benefits may be granted to those companies which, while discontinuing or

cutting down on the production of goods covered by the adequacy system of the MERCOSUR customs union, submit a project aimed at increasing the exports of other goods to be produced by said companies.

- B) The Executive may grant partial or full exemption of taxes on the import of goods the origin of which is any of the Party States of MERCOSUR, in favor of a good or goods of the same nature and with the same economic purpose as that or those whose production is being cut down and the ceiling on the amount of such imports shall be determined by said reduction.

The industrialists benefitting from this exemption may not, while said exemption is in force, increase the volume of their imports of the goods mentioned in the common tax system as at January 1st, 1998.

- C) The beneficiaries of this system shall submit their Productive Restructuring Project to the consideration of the Application Committee set up pursuant to Article 12 hereof and, after consultation with the chambers which group the business sectors, said Application Committee shall advise the Executive with regard to the approval thereof.

Inter alia, the stability of the work force on the payroll shall be especially valuable as an evaluation criterion in said advice.

SECTION IV Legal Stability

Article 19. (State Guarantee). The State, liable to compensation for damages, assures the investors covered by the systems foreseen in this Act and by the terms established in each individual case, that they will enjoy the tax exemptions, benefits and rights they are entitled to hereby.

CHAPTER IV

RULES OF GENERAL APPLICATION

Section I Leasing Contracts

~~Article 20.~~ Article 45 of Law No. 16.072 of October 9th, 1989, with the wording provided thereto by article 5 of Law 16.205 of September 6th, 1991, is hereby substituted by the following text:

"ARTICLE 45.- The counter-performances of leasing contracts shall be exempt from the payment of the Value Added Tax, provided they concurrently fulfil the following conditions:

That the duration of the Contract be of at least three years.

That the goods that are the subject-matter of the Contract are not vehicles for a purpose other than a utilitarian one, nor chattel for use in homes.

That the user be liable to pay the Income Tax on Trade and Industry, the Tax on Income from Agricultural and Cattle-Raising Activities or the Tax on the Alienation of Agricultural and Cattle-Raising Assets.

Should any of the above conditions not be complied with, the Value Added Tax shall be applied on the financial repayment of the placement, unless the goods that are the object of the operation are exempted pursuant to other provisions.

The difference between the performances agreed upon and the financial repayment of the placement and any price readjustments shall be exempt from the payment of the Value Added Tax, unless the operation has been entered into with an individual or entity that is not liable to pay the Tax on Income from Trade and Industry, the Tax on Income from Agricultural and Cattle-Raising Activities or the Tax on the Alienation of Agricultural and Cattle-Raising Assets."

~~Article 20.~~ Article 45 of Law No. 16.072 of October 9th, 1989, with the wording

provided thereto by article 5 of Law 16.205 of September 6th, 1991, is hereby substituted by the following text:

"ARTICLE 46.- The qualifying institutions are hereby granted a credit for the Value Added Tax on the acquisitions of goods which are the object of leasing contracts, provided the said contracts comply with the conditions set forth in the first paragraph of the preceding Article. The credit shall be cancelled when the Contract ceases to enjoy the Value Added Tax exemption. The Executive shall establish the form and conditions in which the qualifying institutions shall execute the credit mentioned or the time at which it shall cease to enjoy it, when and if applicable.

Should an early settlement reduce the term to less than three years, the Value Added Tax shall be paid as provided for under Article 45 hereof. In such cases, said tax shall be paid plus the monthly compensation surcharge referred to in paragraph two of Article 94 of the Tax Code.

In the case of court or court validated terminations involving a reduction in the term agreed upon to a period of less than three years, the Value Added Tax exemption applicable to Contracts of a duration longer than three years shall remain in force."

~~Article 22.~~ Article 27 of Law No. 16.072 of October 9th, 1989 is hereby substituted by the following:

"ARTICLE 27. The forcible restitution of the *res* due to default in the periodical payments agreed upon shall not be demanded unless the user fails to comply with two consecutive payments, if these were at intervals not greater than a month long, and one payment in all other cases."

~~Article 23.~~ Article 32 of Law No. 16.072 of October 9th, 1989, with the wording provided thereto by article 4 of Law 16.205 of September 6th, 1991, is hereby substituted by the following text:

"ARTICLE 32. The procedure to obtain the forcible restitution in the cases foreseen under Articles 27 and 29 hereof, shall be that of the delivery of the *res*. The only exceptions admitted hereto shall be the following: the false nature of the instrument on which the action is founded; the lack of certain requirements that are essential for the Contracts to be valid; the payment or compensation of liquid and payable credit proven by a public deed or by a private documented issued by the plaintiff; extinguishment; expiry; stay or release granted by the defendant and proven by a public deed or by a private document issued by the plaintiff together with the waiver to validly exercise any of the options foreseen under Article 29 hereof. Inadmissible exceptions shall be rejected forthwith (Article 355.2 of the General Code of Procedure).

Should the writs from which the exceptions are inferred not be accompanied by relevant documents that are evidence thereof, the procedure to be followed shall be that provided for under Article 355.2 of the General Code of Procedure."

~~Article 24.~~ The rules referred to in Articles 20 through 23 shall be applied to Contracts entered into subsequent to the date of entry into force hereof.

Section II Miscellaneous

~~Article 25.~~ (Settlement of Disputes). Any dispute concerning the interpretation or application hereof that might arise between the State and an investor that has obtained the Declaration of Promotion granted by the Executive may be submitted, at the option of any of said parties, to either of the following procedures:

- A) The Court with the proper jurisdiction.
- B) The Court of Arbitration, which shall always arrive its award in compliance with the law, according to the procedures set forth in Articles 480 through 502 of the General Code of Procedure.

Should the option be to submit the dispute to one of the above procedures, the choice thereof shall be final.

The provisions of the above paragraphs shall be applicable with regard to foreign investors in absence of an treaty, protocol or international convention regarding settlement of disputes, in force at the time the dispute in question arises.

Article 26. (Mergers and Split-offs). The Executive is hereby empowered to provide for an exemption of the Tax on Income from Trade and Industry, the Value Added Tax and the Property Conveyance Tax applicable to corporate mergers, split-offs and transformations, provided they enable the applicant to expand and/or gain strength.

Should the Executive exercise the powers mentioned in the foregoing paragraph, the public deed proving the transfer of the goods, rights, obligations or encumbrances included in the conveyance of networth resulting from the said acts shall not be required (Article 122 of Law No. 16.060 of September 5th, 1989).

Article 27. (Tax on Mortgages). The Tax on mortgages set forth in Article 7 of Law No. 10.976 of December 4th, 1947 with the wording amended pursuant to Law No. 12.011 of october 16th, 1953 and by Article 200 of Law No. 13.728 of December 17th, 1968 is hereby revoked.

Article 28. (Pledge). Non-possessory pledges as foreseen in Laws No. 5.649 of March 21st, 1918, No. 8.292 of September 24th, 1928 and No. 12.367 of January 8th, 1957 as well as in Articles 58 onwards of Law No. 15.939 of December 28th, 1987 may be established in favor of any creditor in order to secure any obligations of the owner of the chattel given in pledge, or of third parties.

Article 29. (Extinguishment and Applicability thereof). Any actions emerging from labor relationships shall be extinguished after one year as from the day following that on which the labor relationship on which they are founded has ceased.

The tentative conciliation hearing, with the presence of the party filing the claim,

shall interrupt the extinguishment, provided it is followed by court proceedings filed within thirty calendar days as from the date of the minutes thereof or proof of the failure to appear of the party against which the claim has been filed.

In no case will it be possible to claim credits or labor benefits that became payable more than two years before the date on which the relevant court proceedings have been filed.

The preceding provisions shall be applicable to credits or benefits existing on the date of the promulgation hereof, provided however that within a term of sixty calendar days as from said date, valid court proceedings have been duly filed.

~~Article 30.~~ (Conveyance of Bonds and Facilitation of Movement of the Security thereon). The following text is hereby added to Article 10 of Decree-Law No. 14.701 of September 12th, 1977:

"The rights emerging from real or personal security on a bond shall be transferred by operation of law with the mere conveyance of the bond on which the security is recorded, without requiring any registration whatsoever. Concerning the conveyance of securities guaranteeing bonds which are publicly traded, the specific legislation on the subject shall apply.

Any security interest established to ensure compliance with the authenticated obligations shall be entered into the relevant Public Registries identifying the bond secured thereby, the issuer thereof, object, amount, expiry and other pertinent elements in view of the nature thereof. For the purposes of the above registration, it shall not be necessary for the successive holders of the secured bond to be identified.

The securities shall be cancelled by unilateral declaration of the debtor and the production of the bond. If the bond fails to be produced, in order to obtain the cancellation of the security the judicial record of the amounts involved shall be submitted as proof before the Registry, or the depositary, if applicable."

~~Article 31.~~ The Executive shall inform the Joint Session of Congress concerning the application hereof.

~~Article 32.~~ (Repeals). The following provisions are hereby repealed: Law No. 15.837 of October 28th, 1986, and Decree-Laws No. 14.179 of March 28th, 1974 and No. 14.244 of July 26th, 1974.

Passed at the House Chamber, in the City of Montevideo, on December 22nd, 1997.

I, the undersigned Public Translator, do hereby declare that the foregoing is a true and accurate translation of the Investment Law of Uruguay in the Spanish language, a copy of which English version I keep on file under No. 2743/98.

Translated in Montevideo on February 12th, 1998.