



This publication is
a joint project with



Doing business in Argentina



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The materials contained in this publication were assembled in May 2012 and were based on the law enforceable and information available at that time.

Executive summary

Located in South America and bordering Brazil, Chile, Uruguay, Bolivia and Paraguay, the Argentine economy covers a wide spectrum of industrial and commercial activities. It presents opportunities for foreign investors across these activities, with access to a highly qualified labour force.

Key operating points:

- Business may be conducted in Argentina by incorporated companies, partnerships, individuals, and branches of foreign businesses. In all cases, key information must be registered in the Public Registry of Commerce, and the conduct and dealings of the enterprise are governed by the commercial code and supplementary laws and regulations. In the case of a general partnership of a non-commercial nature or where the commercial code is silent, the civil code applies.

- Foreign enterprises prefer a corporation, a limited liability partnership ('S.R.L'), or a branch as the local form of entity.
- It is relatively straightforward to setup and close a business in Argentina, however it should be noted that certain administrative procedures should be followed and these can be time consuming.
- As a result of the devaluation of the Argentine peso at the beginning of 2002, several foreign exchange regulations were issued to limit the transfer of money abroad but they have been somehow relaxed up to date, although some formalities have still to be observed.
- Although Argentina can be considered a high-tax country, certain tax incentives are granted in several fields such as the mining industry, biotechnology, software and oil & gas industries, among others.
- Furthermore, Argentina has signed Double Tax Treaties, following in general terms, the Organisation for Economic Co-operation and Development ('OECD') and/or UN Model Tax Convention, with several territories, outlined on page 18 in Taxation.
- Strong labour unions have been in existence for many years but, with rare exceptions, unions and individual workers have a generally favourable attitude toward foreign investment and management.
- Social security costs constitute a very sizable part of the cost of doing business. Fringe benefit remuneration is significant only at the managerial level.
- Argentine nationals living in Argentina are considered as tax residents. In general, foreign nationals acquire residence for tax purposes when they have been in the country for 12 months of a particular taxable year, or when they have obtained a permanent residence visa from the national immigration authority. Tax residents are taxable on world-wide income, and a foreign tax credit is available limited to the rise of the income tax liability due to the inclusion of the foreign source income in the income tax computation.
- As an exception to the above rule, foreign nationals assigned to Argentina for working reasons and for a period not exceeding five years are considered as non-residents for tax purposes. Non-residents are taxed only on their Argentine-source income.

Foreword

The World is changing, globalising and becoming more complex. Emerging markets are growing faster than developing ones. World trade is growing at a faster pace than countries, and commodity prices have risen to new levels.

Competitive intensity amongst companies is increasing, and customers are more demanding than ever. Technology is fundamentally changing the way we live and do business.

In this context, HSBC establishes trusted relationships with our corporate clients to help them win and stay ahead of their competition. Our ability to connect customers around the world is unparalleled, partnering with companies to grow their businesses whilst meeting their whole range of financial services needs. Our financial strength and brand sets us apart from our competition globally.

HSBC Argentina is the fifth largest Private Bank in Argentina. We have a customer base of more than 1.5 million individual clients, and over 85,000 business clients. We have significant presence in all segments (Personal Financial Services, Commercial Banking, Global Banking and Markets), and leading positions in Foreign Exchange, Trade, Leasing, Commercial Loans, Car Loans, and Credit Cards. We are also leaders in meeting the needs of our customers in Life Insurance.

We are present in 22 provinces through a network of 135 branches, and more than 880 ATM's and Self-Service Terminals. We are focused in building long-term relationships, helping our clients manage their finances through a broad range of services.

Argentina is a vibrant economy today. Global trends are favouring Argentina, as commodity prices increase and main trading partners (i.e., China, Brazil) grow at a fast pace. Local economic fundamentals have also improved. The economy has grown at 6-7% rates since 2003, foreign reserves are significant, fiscal and current accounts are healthier, and the debt burden has significantly declined after the restructuring.

The agricultural sector is thriving, producing both seeds and manufactured products that are exported world-wide. Manufactured goods are also growing, led by cars, consumer electronics and steel. Services such as tourism, financial services and off-shore activities (e.g., call centres, software development) are also on the rise.

Argentina's culture is also fascinating. Dancing Tango has become one of the most popular activities for locals and visitors, watching a football match between River and Boca can be a thrilling experience, and having our delicious beef during an 'Asado' in a typical 'Estancia' can be an amazing treat.

For all these reasons, Argentina is an attractive business market and destination nowadays. This guide, in partnership with PricewaterhouseCoopers, helps corporate clients to better understand Argentina and explore new business opportunities.



Gabriel Martino
President and Chief
Executive Officer
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Introduction

Doing business in Argentina

Economic environment

After registering in 2009 the first contraction since the Second World War, the world economy experienced what seemed to be a strong recovery in 2010. However, in 2011 the euro area went through an acute crisis, whilst attempting to recover. The market worries about fiscal sustainability in Greece, Italy and Spain led to a sharp increase in sovereign yields. Strong fiscal policy responses and some good news about the US economy turned things around.

Accordingly, weak recovery resumed in the major advanced economies, and activity remained relatively solid in most emerging and developing economies. Under this situation, the Argentine economy continued with its recovery from the sharp slowdown of 2009. GDP at constant prices increased almost 9% year-on-year. Private consumption, a component of aggregate demand, which has been the principal engine of Argentina's economic growth (according to official statistics), recorded positive growth rates in the four quarters of 2011, growing over 10% at constant prices compared to the previous year. Fixed gross domestic investment increased more than 16% year-on-year. The primary fiscal result was 80% lower than the recorded in 2010, and the financial fiscal result was negative, after the surplus of the previous year.

The year 2011 showed recovery consolidation of economic activity, after the 2009 slowdown and the 2010 recovery. However, several internal imbalances such as inflation, an increase in the energy sector external deficit, long-term funding have yet to be resolved.

Location and access to other markets

Argentina is located approximately between latitudes 23°S (Tropic of Capricorn) and 55°S (Cape Horn). The Andes separates the country from Chile in the west; and it borders Bolivia and Paraguay in the north; and Brazil, Uruguay and the South Atlantic Ocean to the east.

Establishing a new business

The Argentine economy covers a wide spectrum of industrial and commercial activities owned by closely held private corporations and holdings (foreign or locally owned), family concerns and a large number of small business entities. Stock markets exist in major cities, and share ownership of public corporations is now widespread, enhanced partially by privatised pension funds.

Argentina presents a wide spectrum of living standards and management-level persons enjoy a comfortable standard of living.



They and their foreign counterparts live in good residential areas and, in the major cities, have access to a variety of commercial, educational and cultural facilities. Argentina's labour force is by and large intelligent and capable, and there is no shortage of semi-skilled, skilled and managerial (supervisory and technical) personnel.

Strong labour unions have been in existence for many years but, with rare exceptions, unions and individual workers have a generally favourable attitude toward foreign investment and management. Social security costs constitute a very sizable part of the cost of doing business. Fringe benefit remuneration is significant only at the managerial level.

The language of Argentina is Spanish. English is the foreign language most readily understood by the business community.

With respect to the ease of setting up and closing a business in Argentina, as opposed to more developed countries where the processes may be straightforward and affordable, the procedures are not necessarily complex but burdensome and involve several steps.

Incentives

Through its International Trade Under-secretariat, the Argentine government promotes and coordinates foreign investment opportunities in Argentina. This Under-secretariat identifies and assists potential foreign investors interested in the development of new productive activities in Argentina or the expansion and improvement of existing activities.

To do so, the country is able to count on a series of regulations designed to promote investment, available to both domestic and foreign investors.

- Horizontal incentives: Instruments and measures to encourage investment applicable to all regions and areas of economic activity.
- Sectoral incentives: Incentive regimes targeting specific sectors of the economy.
- Regional incentives: Provincial promotion regimes and support infrastructure for investment.

Local legislation provides foreign investment with protection and an arbitration process for disputes with Argentina. In addition, Argentina has signed Bilateral Investment Treaties (BITs) and is a member of the Multilateral Investment Guarantee Agency

(MIGA), the Overseas Private Investment Corporation, and the International Centre for the Settlement of Investment Disputes (ICSID).

With respect to the local competitor attitude toward foreign investment, the main aspects to the existing legal framework in relation to FDI concern:

- a) Domestic treatment for foreign investors;
- b) Lack of prior approval requirements or registration of investment;
- c) Access to all sectors of the economy;
- d) Access to domestic incentive schemes; and
- e) Possibility of transferring profits and repatriating capital.

The sectoral distribution of the inward FDI stock of Argentina has been relatively stable since 2004. Manufacturing, natural resources and services (including financial services) each accounted for approximately one third of the total stock on average during this phase. In terms of the geographical distribution of the inward FDI stock, Europe remained the main source for FDI in Argentina, followed by North America and South America. The increasing importance of Brazil as a home country for FDI in Argentina is a relatively new phenomenon.

Climate for foreign investors

Argentina has formalised its acceptance of the 1883 Paris Agreement for the Protection of Industrial Property, as successively amended.

The trademark legislation (Law No. 22,362 and Law No. 24,481 and its amendments) provides for the protection of trademarks that have been duly registered with the National Industrial Property Institute (INPI).

Under case law, protection is also granted to de facto brands, provided they have been used to such an extent that they have built up a degree of customer allegiance. This registration is subject to payment of a fee. Protection is granted for a maximum of 10 years each time a trademark is registered, but registration may be renewed indefinitely, provided the trademark has been used in the last five years. Argentina has adopted the international classification of goods and services used by the International Intellectual Property Organization.

Barriers preventing access by foreign investors to certain sectors of the economy have been removed in Argentina.

Argentina is a member of the Latin American Integration Association (LAIA; in Spanish, ALADI, for Asociación Latinoamericana de Integración), which was created by the Montevideo Treaty of 1980. This association includes Mexico and all the Latin American countries in South America.

Its long-term objective is to establish a common market in a gradual and progressive manner. Duty concessions have been extended to many products shipped by other LAIA countries. In March 1991 the Presidents of Argentina, Brazil, Paraguay, and Uruguay signed a treaty aimed at creating a regional common market (Mercosur) that became fully effective in January 1995, when barriers between the four countries in the way of exchanges of assets, services and factors were eliminated. The integration of these economies is helping to overcome many of the limitations that each country faces individually with regard to international trade. This association is eliminating the disadvantages of small domestic markets and strong protective barriers and economies of scale and increased competition should ensure a supply of better-quality goods at lower prices.

Foreign exchange control regime

With respect to Foreign exchange controls, currently, there is a Single Free Exchange Market, on which all transactions are negotiated. Hardly any areas are closed to foreign investment, and there are no restrictions on foreign investment in the capital of local corporations.

With the re-establishment of the exchange control regime in Argentina, the foreign currency accounts with banks were limited. However, at present, certain kinds of banking accounts in US dollars are allowed.

As a result of the devaluation of the Argentine peso at the beginning of 2002, several regulations were issued to limit the transfer of money abroad. They have been made more flexible up to date.

Nevertheless, owing to the sharp decrease in the current account surplus, in an attempt to control the increasingly local demand of foreign exchange (in particular US Dollars), the Government established a monthly limit per person for the purchase of foreign currency.

Conducting business in Argentina

Forms of business

Regulations referring to the entrance of funds to the country, the obligation of liquidation of foreign currency in the Exchange Market of payments of exports of goods and services, remain in force. The terms to comply with the liquidation obligation vary between 60 and 360 days.

Regarding the payment abroad of services, the tax authority (AFIP) issued new rules disposing that any payment over a specific amount must be previously approved by them (or other government agencies). The transactions contemplated by this resolution must also be approved by Argentinean Central Bank (BCRA). Payment abroad for other concepts may be subject to further filing requirements. In addition, it should be particularly highlighted that a rule issued by the central bank in mid-2005 requires that any transfer of funds into Argentina as a result of a financial debt is subject to a compulsory one-year temporary and non-bearing interest deposit equivalent to 30% of funds brought to Argentina, which must be kept in a reserve ('encaje') for the term of one year.

There are, however, some exceptions. For example, direct investments in Argentine companies (minimum shareholding 10%) or real estate which are not subject to this rule, or if the funds were

borrowed for the acquisition of fixed assets and/or inventories and the repayment term is longer than two years. The basic principle of the Foreign Investment Law is that foreign and local investors are guaranteed equal treatment.

Key Markets and Trade

Argentine exports are mainly of agricultural origin, and industrial manufactures. Brazil has, since the creation of the Mercosur common market, been Argentina's largest trading partner. Key trade markets also exist with the US, the European Union and Asian nations, especially with China, which has lately been the second largest recipient of exports and source of imports after Brazil. The trade balance showed a surplus in 2011, despite falling more than 11% against 2010. This was mainly due to a significant growth of imports, boosted by the economic recovery, which exceeded the increase of the exports. The trade surplus accumulated in 2011 was US\$10.3 billions. Exports reached US\$84.3 billions, an increase of 24% over the previous year. Imports for the twelve months of 2011 were US\$73.9 billions, an increase of 31%. Prices for exported products increased 17% and amounts 6%, while in the case of imports, prices rose 10% and quantities 19%.

Business Etiquette

Business is generally conducted in a relatively formal manner, although forms of address have become more relaxed and use of first names is a spreading practice. Business entertainment often involves formal social events such as cocktail parties, presentations of products and press conferences.

Business may be conducted in Argentina by incorporated companies, partnerships, individuals, and branches of foreign businesses. In all cases, key information must be registered in the Public Registry of Commerce, and the conduct and dealings of the enterprise are governed by the commercial code and supplementary laws and regulations. In the case of a general partnership of a non-commercial nature or where the commercial code is silent, the civil code applies.

The principal organisations are as follows:

1. Corporation (sociedad anónima, or S.A.): An Argentine corporation is equivalent and, generally, similar to an incorporated 'limited liability company' in the United States, the United Kingdom and elsewhere. The operation of S.A.s is governed by statutes under which the name, object, duration, capital, election, and powers of the board of directors, and all other rules and bylaws, are established.

2. Limited liability partnership (sociedad de responsabilidad limitada, or S.R.L.): Similar to corporations except for a number of features such as limited number of partners, and the fact that Argentine corporations are prevented from being partners, etc.

3. General partnership (sociedad colectiva): The Commercial

Companies Law sets rules for general partnerships (sociedades colectivas), in which there is joint and several liability of all partners. Argentine corporations are not allowed to be partners.

4. Limited partnership (sociedad en comandita, or S.C.A. or S.C.S.): This has two categories of partners, inactive or silent partners, with liability limited to capital subscribed, and active or general partners, who do not enjoy limitation of liability.

5. Registered branch of a foreign corporation: A registered branch of a non-resident corporation may perform through a legal representative all the acts its head office is authorised to perform.

Foreign enterprises tend to prefer a corporation, an S.R.L., or a branch as the local form of entity.

Regarding these legal structures, it is important to consider that the responsibility of the foreign company in each case will be different.

In this order, SRLs and corporations are legal entities that are separate from their partners. In both cases, the responsibility of the partners is limited to the amount of the capital they subscribe. Regarding the branch, the responsibility of the foreign company for the acts of the branch is unlimited and

therefore, the foreign company will guarantee the debts of the branch with its own assets, notwithstanding the amount of capital of the branch.

The Argentine Commercial Companies' Law does not accept the incorporation of companies with only one partner, consequently there must be at least two partners; according to an opinion issued by the Corporate Authorities In the City of Buenos Aires, where the vast majority of companies are registered this requirement would be complied with if at least 5% of the corporate capital is held by a second partner. In the case of a branch, this requirement does not apply as the branch is only a representation of the foreign company. From a foreign exchange regulations point of view, it could be convenient that the minority stockholding is not less than 10%.

A branch does not require capital contributions unless it is engaged in certain specific activities (e.g. banking and financing). All activities carried out by the branch will be attributable to the foreign company and consequently, the foreign company will be liable 'in solidum' for the obligations of the branch. The local manager of the branch may also be held liable on a personal basis for such obligations if the branch is improperly conducted.

Setting up a business

Corporation

The procedure required for the formation of a corporation consists of an inaugural meeting of shareholders at which draft statutes are approved, a board of directors and a syndic are elected, and capital is subscribed and paid. A summary of these statutes must be published in the Boletín Oficial (Official Gazette), and the deed of the inaugural meeting, together with a copy of the publication, must be submitted to the Public Registry of Commerce for registration purposes.

Shareholders are entitled to receive a copy of the annual directors' report and financial statements, which must also be filed with the appropriate regulatory control body, the National Securities Commission (Comisión Nacional de Valores) for listed corporations, Argentine Central Bank (Banco Central de la República Argentina) for banks and financial institutions, Superintendence of Insurance (Superintendencia de Seguros) for insurance businesses, and the Superintendence of Corporations (Inspección General de Justicia) for all other entities. Quarterly financial statements and information are also required by the Stock Exchange (Bolsa de Comercio) for listed corporations and by the relevant regulatory control authorities for banks, financial institutions and insurance businesses.

The capital of a corporation must be divided into nominative shares of equal par value expressed in Argentine pesos (AR\$). The legal minimum capital is AR\$12,000. At least 25% of the subscribed capital must be paid up at the inaugural meeting, and the rest must be paid in during the following two years.

The minimum number of shareholders is two, and at least this number must attend the inaugural meeting to form the corporation and to subscribe the capital. There is no maximum limit on the number of shareholders. The liability of shareholders is limited to the amounts they have subscribed as capital.

A capital reduction is required when the accumulated loss has eroded all free reserves and 50% of the corporate capital. If such a capital reduction is not made, the law requires the liquidation of the business.

Before acquiring shares or forming a corporation, non-resident entities must file their statutes with the Public Registry of Commerce.

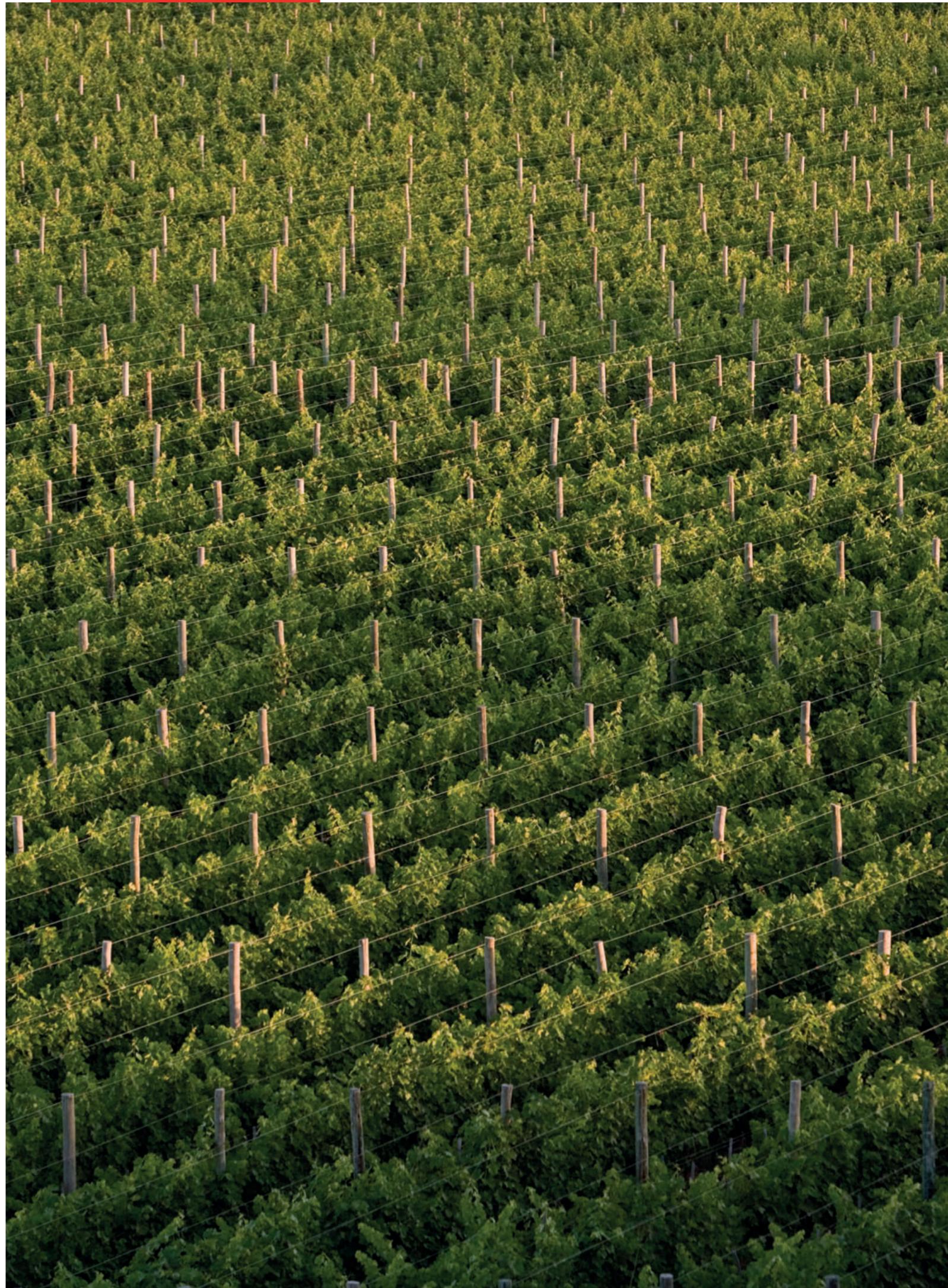
Corporations are required to set aside at least 5% of their annual profits to a legal reserve, until 20% of capital has been accumulated in the reserve. The legal reserve may be used to absorb accumulated losses, but in this event no distribution of subsequent profits may be made until the reserve has been restored to its previous level.

There is no restriction as to the nationality of directors, but a majority must be resident in Argentina, and all of them must establish a special domicile in Argentina.

There is no restriction on the repatriation of the capital and annual profits.

Members of the board are personally responsible to the shareholders and third parties for the following:

1. Failure to act loyally and with the diligence of a good businessman;
2. Failure to perform their legal duties;
3. Malfeasance and acts that are ultra vires.



Relations with controlling corporations (those which hold sufficient participation, either directly or through another controlled corporation, to entitle them to the voting rights necessary for taking decisions in the corporation involved). Controlled corporations (those controlled by the one involved on the basis of the same guidelines) and related corporations (in which one holds more than 10% of the capital of the other) must be shown separately in the annual financial statements and notes thereto, insofar as concerns receivables, investments, liabilities, interest charges and results of operations. Controlling corporations are required to file consolidated annual financial statements as supplementary information.

Limited liability partnership (SRLs)

Formation formalities and procedures consist only of the preparation and execution of a partnership contract deed, publication of a summary thereof in the Boletín Oficial and its registration in the Public Registry of Commerce.

The capital must be stated in Argentine currency. It must be fully subscribed, and 25% thereof paid up by the partners at the time the partnership is formed. The balance must be paid up within two years.

Contributions consisting of non-monetary assets must be fully transferred to the partnership at the time of formation.

The quotas must be of equal value and equal voting right. Partners may hold more than one quota. Transfers of quotas are not restricted by law, but may be restricted under the partnership agreement. The remaining partners have the right of preference to purchase any quotas up for transfer.

The cost of formation is similar to that for a corporation.

Limited partnership

There are two classes of limited partnership. These are sociedad en comandita por acciones, where the capital subscribed by the silent partners is divided into shares of equal par value, and sociedad en comandita simple, where the capital is proportionately divided, but shares as such may not be issued.

Formation is by means of a partnership deed. A sociedad en comandita por acciones must execute its deed publicly before a notary public who witnesses the agreement. For a sociedad en comandita simple, the deed may be executed privately. In both cases, the deed and any subsequent amendments must be published in summarised form in the Boletín Oficial and registered in the Public Registry of Commerce.

Until this formality has been completed, the limited liability of silent partners is not effective against third parties. It is essential that provision be made in the partnership deed for the division of profits and losses between individual active partners and silent partners.

Branch of a foreign corporation

The legal representative should submit an application for registration of the branch, together with the following documents:

1. A copy of the deeds and rules that created and govern the corporation (i.e., charter, bylaws).
2. Pertinent sections of the minutes of the appropriate parent company group (such as board of directors) resolving the establishment of the branch, its assigned capital (if any) and the appointment of its legal representative.
3. A certificate of good standing issued by the corporation control authority in the country of origin of the head office.
4. A power of attorney authorising the applicant to represent the corporation.

Formation costs are relatively low, as in the case of corporations. Management is vested in a fully empowered representative, who may be of any nationality but who should, for practical reasons, be resident in Argentina.

There is no restriction on the repatriation of capital and annual profits. A branch is taxed in full as an entity. The parent is liable in the extent of its subscribed capital.

During the last years the Superintendence of Corporations (IGJ), the Corporate Authorities in the City of Buenos Aires jurisdiction in which the vast majority of companies are registered, issued several resolutions affecting the activity of foreign companies in Argentina. These regulations set forth new requisites for foreign companies which participate in local companies or for those which establish agencies, branches or representative offices in our country.

Companies established abroad that request registration with the Public Registry of Commerce for which this Superintendence of Corporations is responsible, shall:

1. Inform if they are covered by prohibitions or legal restrictions on the development, in their place of origin, of all their activities or the principal part or parts of them. This information will be evidenced by means of the bylaws or articles of incorporation of the company or their subsequent amendments, if any.
2. Evidence that at the date of application for registration they comply outside the Republic of Argentina with at least one of the following conditions:
 - a) Existence of one or more agencies, branches or permanent representations, accompanying for the purpose certifications of their current validity issued by a competent administrative or legal authority in the country in which located.
 - b) Holding of participation in other companies in the form of non-current assets according to the definitions arising from the regulations or generally accepted accounting principles.
 - c) Ownership of fixed assets in their place of origin, the existence and equity value of which should be evidenced with the elements indicated in the previous clause.

The ownership of corporate interests, their equity value and the percentage they represent in the capital of the company in which the interest is held, as well as that of the fixed assets referred to in sub-clause c) and their equity value should be evidenced by means of the company's financial statements and/or certification signed by an officer of the company, whose powers to represent the company should also be evidenced, extracted from the accounting records transcribed in the corresponding corporate records. If laws applicable to the company were not to require it to prepare financial statements, other documentation may be attached and the Superintendence of Corporations will determine whether it is satisfactory proof.

In the case of 'Vehicle companies', which are companies whose sole purpose is to be a vehicle of investment of other companies in Argentina, the requirements pointed out under 2 above may be avoided, should the directly controlling company be able to fulfil them.

Finally, any foreign company requesting registration shall identify its shareholders.

Taxation in Argentina

Corporation Income Tax

Net taxable business profits are subject to income tax at 35% rate. Legal entities resident in Argentina are subject to tax on worldwide income (Argentine and foreign source income). Legal entities resident are able to claim any similar taxes actually paid abroad on foreign source income as a tax credit limited by the rise of the income tax liability due by this foreign income. Financial trusts organised in Argentina, non-financial trusts (other than those in which the settler is an individual or juridical person resident in Argentina but is also the beneficiary of the trust), and closed mutual funds organised in Argentina, are subject to a similar income tax treatment.

Also Corporations, limited liability partnerships, branches as well as other entities are required to make a flat and final income tax withholding of 35% from dividend payments or profit distributions to resident or non-residents beneficiaries, to the extent that the amount of such dividends exceeds the net taxable income determined at a corporate level in accordance with the general tax rules.

Business income is assessable for income tax for any particular calendar year on the basis of

world-wide profits, less losses and expenses incurred in obtaining and preserving such profits. Self-assessment procedures are established by rules and regulations. Only in special circumstances or when difficulties arise in following normal procedures are assessments estimated or arbitrarily decided by the AFIP (Argentine Tax Authority).

Incorporated entities are required to file an income tax return by using the software provided by the AFIP by the second week of the fifth month following the financial year-end. At this time, they are also required to pay the balance of tax, i.e., the gross total liability less payments on account and tax previously withheld. Late filing is subject to penalties.

The tax authorities require separate financial information to determine income tax. Such information must be certified by independent public accountants.

Advance payments on account, computed in accordance with instructions issued from time to time by the AFIP, must be made during the year. For income tax, these payments represent a percentage (currently 99.97%) of the tax assessed for the previous year.

Income determination

Inventory valuation

Inventory valuation is based on the latest purchase. Thus, LIFO may not be elected for tax purposes. Conformity between book and tax reporting is not required.

Capital gains

Capital gains and losses are taxed as ordinary income. Losses from the sale of shares and other equity interests may be offset only against the same type of income.

Foreign income

Foreign income received or held undistributed (in case of investments in non-stock companies) abroad by resident corporations is subject to tax. Residents who have investments in companies located in a tax haven, and are obtaining mainly passive income, are subject to Argentine taxation on the profits obtained by these entities on an accrual basis, in the calendar year corresponding to the entity's financial year-end regardless of the distribution date. Tax losses from foreign source can only be offset against income of foreign source.



Transfer pricing rules
The transfer pricing regulations governing inter-company transactions, adopt principles similar to those of the Organization for Economic Cooperation and Development ('OECD') pursuant to which companies must comply with the arm's length principle in order to determine the value of goods and services in their transactions with foreign related companies.

Deductions

General rule
Expenses necessary to generate, maintain and preserve taxable and related to the company activity, income is usually tax deductible, with a few exceptions, to the extent they are fair and reasonable.

Net operating losses
Net operating losses (NOLs) may be carried forward five years. Loss carrybacks are not permitted. Furthermore, foreign source losses must be offset by income from similar sources. Losses on derivatives and hedging transactions can be only offset against income from the same transaction.

Taxes
All taxes levied on goods or activities that generate taxable income are deductible for income tax purposes.

Depreciation and depletion
Depreciation is generally computed on a straight-line basis over the technically estimated useful life of the assets or, alternatively, over their standard useful lives (e.g., machinery and equipment – 10 years; furniture – 10 years). Depreciation of buildings and other constructions on real estate is 2% per annum on cost (on a straight-line basis), unless it can be proved that useful life is less than 50 years.

Other significant items

Donations
When made to societies and associations expressly exempt from income tax, donations are admissible deductions up to a maximum of 5% of the donor's net taxable profits, provided certain requirements are fulfilled.

Representation expenses
If adequately documented, representation expenses are permissible deductions up to 1.5% of the amount of salaries accrued during the fiscal year.

Directors' fees
Amounts up to the higher of 25% of after-tax profit or AR\$12,500 per individual are deductible in the financial year to which they refer, provided they are approved and available for the director before the due date of the tax return, or in a later year of payment.

Thin capitalisation
Thin capitalisation rules apply as a restriction on the deductibility of interest arising from debts of a financial nature, contracted by taxpayers with controlling non-resident entities and can be summarised as follows:

- Interest subject to a 15.05% withholding (i.e. paid on loans granted by certain banking institutions), the portion of interest stemming from financial liabilities exceeding two times the shareholders' equity are not deductible for tax purposes and treated as dividends.
- Interest subject to a 35% withholding tax, is fully deductible.
- According to the Regulatory Decree of the Income Tax Law, the thin capitalisation rules would also be applicable to any case where a lower withholding rate of 35% is applicable (for instance, interest payments to a controlling company resident of certain tax treaty countries).

Tax incentives

Mining activity
Law No. 24,196/93 established an investment regime for mining activity and is applicable to individuals and legal persons. Mining ventures included within this regime enjoy fiscal stability (i.e., tax rates will remain basically the same) for a term of 30 years, except for VAT, which will adjust to the general regime. Furthermore, the regime grants incentives for income tax, tax on assets, import duties, and any other tax for introduction of certain assets.

Forestry
Law No. 25,080 established an investment regime for plantation, protection and maintenance of forests. It contains rules similar to those for mining activity tax incentives.

Export incentives
Exports of goods and services are exempt from value-added and excise taxes. The temporary importation of raw materials and intermediate and packaging goods for the manufacture of products for export is free from import duties with the obligation of offering sufficient guarantees for the import. A reimbursement regime is in place for VAT credits paid to suppliers in relation to the export activity.

Oil and gas industry
Through Law No. 26,154 attractive benefits are granted to the oil and gas sector to encourage the exploration of the nation's hydrocarbons reserves. This legislation grants special incentives to investments in underdeveloped regions, speeding reimbursement of VAT (after a three-month period inputs will be credited against other federal taxes or returned to the taxpayer), exempting from import duties, and offering an accelerated depreciation – three years – for income tax purposes. In addition, a three-year relief from minimum notional income tax, is provided by the law.

There also exists a Promotion Regime established by the Law No. 26,190, which grants similar benefits for the exploration of alternative source of energy (e.g., wind energy).

Software
Law No. 25,865 and 25,922 establish that the development of software in the country is considered an activity similar to industrial activities and it grants benefits for tax, social security, financing and other purposes which can be claimed if the specific requirements are met. This regime was recently extended up to 2019.

Biotechnology
Law No. 26,270 established a promotion regime for the

development and production of biotechnology and grants benefits for tax and social security contributions which can be claimed if specific requirements are met.

Free trade zones
The free trade zones offer exporters the possibility to import free from customs duties, statistics rate and VAT, all the necessary equipment for construction of a 'turn-key plant' within the zones. Furthermore, exporters manufacturing within the zones enjoy the benefit of buying supplies and raw materials from third-party countries, without having to pay duties or taxes that lead to increased prices.

Customs authority regulating these goods considers them as stored in a third-party country; therefore, incoming products are subject to inspection with the sole purpose of classifying quantity and type. In other words, goods enjoy a duty free status until they enter the Argentine customs territory. Goods may remain in the free zone for a maximum period of five years.

Tierra del Fuego
Certain companies that are set up in this province enjoy a general tax exemption and important benefits in customs matters, based on a system established by Law No. 19,640 and supplementary regulations.

Tax exemption includes income tax, tax on minimum notional income, tax on personal wealth and excise tax. The VAT benefit is release from payment of the technical balance of the tax (tax debits less credits). Also contemplated is a reduction of the prevailing rate for tax on financial transactions and the exemption from taxation on the transfer of fuels. In customs, the benefits are very attractive.

To enjoy the benefits envisaged in Law No. 19,640, it is necessary to demonstrate the origin of the goods produced.

In order to obtain these benefits, it is necessary to file a project with the competent authorities.

Withholding taxes

Equalisation corporate tax

Corporations, limited liability partnerships, and certain other entities are required to make a flat and final income tax withholding of 35% from dividend payments or profit distributions to resident or non-resident payees, to the extent that the amount of such dividends or profit distributions exceeds the taxable income of the distributing company, determined by applying the general tax rules (i.e., without considering any exemptions, abatements and other adjustments arising from special promotional laws) included in their retained earnings at the end of the

fiscal year, immediately preceding the date of payment or distribution.

Other payments

Other payments to residents and to non-residents are subject to withholding tax rates as following:

	Interest %	Royalties^{1,2} %
Resident corporations	6 or 28 ³	6 ⁴
Resident individuals	6 or 28 ³	6 ⁴
<i>Non-resident corporations and individuals:</i>		
Non-treaty	15.05 or 35	21 or 28
<i>Treaty:</i>		
Australia	12	10 or 15
Belgium	0 or 12 ⁵	3,5,10 or 15
Bolivia	15.05 or 35	21 or 28
Brazil	15.05 or 35	21 or 28
Canada	12.5	3,5,10 or 15
Chile	15.05 or 35	21 or 28
Denmark	12 ⁵	3,5,10 or 15
Finland	15	3,5,10 or 15
France	15.05 or 20 ⁶	18
Germany	10 or 15 ⁷	15
Italy	15.05 or 20 ⁵	10 or 18
Netherlands	12	3,5,10 or 15
Norway	12.5 ⁸	3,5,10 or 15
Spain	12.5 ¹¹	3,5,10 or 15
Sweden	12.5 ¹¹	3,5,10 or 15
United Kingdom	12 ⁵	3,5,10 or 15

Notes – the numbers in parentheses refer to the following notes:

1. Withholding from payments of interest and royalties to non-residents is based on a flat rate of 35% applied to an assumed percentage gross profit margin. This margin is not contestable, but the resultant rate may be limited by a double tax treaty. The general margin for interest paid for credits obtained abroad is 100%. However, a margin of 43% is applicable (1) if the debtor is a local bank, (2) if the creditor is a foreign financial institution located in a country not considered as a low or no tax jurisdiction or in countries that have signed an agreement with Argentina for exchange of information and have no bank secret, which are under the supervision of the respective central bank, (3) if the interest is paid on a loan dedicated to the purchase of tangible assets other than cars, (4) if the interest is paid on debt certificates (private bonds) issued by local companies and registered in certain countries that have signed an agreement with Argentina for the protection of investments, and (5) on interest paid on time deposits with local banks. 'Royalties' covers a variety of concepts. The rates given in this column relate specifically to services derived from agreements ruled by the Transfer of Technology Law, as follows:

- a. Technical assistance, technology and engineering not obtainable in Argentina – 21% (35% on assumed profit of 60%).
- b. Cessation of rights or licenses for invention patents exploitation and technical assistance obtainable in Argentina – 28% (35% on assumed profit of 80%).
- c. On non-registered agreements the rate is 31.5% (profit of 90% is assumed).
- 2. Payments to non-residents (only) for 'royalties'; rentals, fees, commissions, and so on, in respect of the following are subject to withholding at the rates given below on the basis of assumed gross profit margins (Note 1) unless limited by a double tax treaty.

Freight and passenger bookings (other than those covered by special treaties), news and feature services, insurance underwriting.	%
Containers	3.5
Copyright	7.0
Rental of movable assets	12.25
Motion picture, video and sound tape rentals and royalties; radio, television, telex and telefax transmissions; any other means for projection, reproduction, transmission, or diffusion of image or sound; sale of assets located in Argentina ^{9,10}	14.0
Rental of real estate ⁹	17.5
Any other Argentine source income (unless the non-resident is or was temporarily resident)	21.0
	31.5

- 3. The higher tax rate is applicable on non-registered taxpayers. On interest paid to corporations by financial entities or stock exchange/open market brokers, income tax must be withheld at 3% (10% if not registered); individuals are tax exempt.
- 4. Resident corporations and individuals who are registered for tax purposes are subject to 6% withholding (28% if not registered).
- 5. Interest is exempt if paid on credit sales of machinery or other equipment, specific bank loans at preferential rates or loans by public entities.
- 6. The treaty limits taxation of interest to 20%.
- 7. The 10% rate is applicable to interest on credit sales of capital equipment, any bank loan or any financing of public works; otherwise 15%.
- 8. Interest paid on loans with guarantee of the Norwegian Institute for Credit Guarantees, or paid in relation to imports of industrial equipment is tax exempt.
- 9. Deduction of actual costs and expenses may be optionally exercised.
- 10. Gains on the sale of shares obtained by foreign beneficiaries are generally exempted from income tax, except for those companies, permanent establishments, or other entities residing abroad that according to their bylaws or the legal regime applicable to them are prevented from developing activities within their country of incorporation.
- 11. By applying the 'most-favoured-nation clause' inserted in those Treaties, interest rate may be limited at 12%.

It is important to mention that Argentina has terminated its tax treaty with Switzerland: The Argentine Government has formally notified the Swiss authorities that it has terminated the provisional application of the double tax treaty signed by both countries in 1997. In June of 2012, the Argentine government has also terminated its tax treaties with Chile and Spain.

Minimum notional income tax

This is a type of alternative minimum income tax, and is payable by companies, partnerships and other business entities organised or established in Argentina (including branches of foreign companies, certain trusts and closed mutual funds).

The rate is 1% on the value of fixed and current assets. Certain activities must consider as taxable a percentage of those assets (i.e. banks and insurance companies: 20%). The income tax corresponding to the same fiscal year may be recognised as a payment on account of this tax up to an amount which matches the latter. If a balance of minimum notional income tax remains and has to be paid after subtracting the income tax, this excess amount may be carried forward and counted as a payment on account of the income tax exceeding this tax liability for any of the following 10 fiscal years.

Corporate residence

Corporate residence is determined on the basis of centres of activity and is unaffected by place of incorporation or management. Centres of activity in Argentina of non-Argentine corporations are treated as permanent establishments.



Personal Income Tax

Corporate taxpayers

Compliance

Self-assessment procedures are established by rules and regulations. Only in special circumstances or when difficulties arise in following normal procedures are assessments estimated or arbitrarily decided by the AFIP.

Tax returns and assessments
Incorporated entities are required to file an income tax return by using the software provided by the AFIP by the second week of the fifth month following the financial year-end. At this time, they are also required to pay the balance of tax, i.e., the gross total liability less payments on account and tax previously withheld. Late filing is subject to penalties.

The tax authorities require separate financial information to determine income tax. Such information must be certified by independent public accountants. Accountants are usually employed to prepare returns or are at least consulted with regard to their preparation.

Interest and Penalties

Following, we briefly summarise the applicable interest and penalties for federal taxes:

- Interest is payable on all overdue amounts. Interest for late payment is currently due at a rate of 2% per month.
- Additionally, the following penalties may be imposed:
 - *Tax omission, range from 50% to 100% on the unpaid tax (principal).*
 - *Failing to act as a withholding agent on payments abroad, range from 100% to 400% on the unpaid tax (principal).*
 - *A situation characterised as a tax fraud, range from 200% to 1.000% on the unpaid tax (principal).*
 - *Not filing Transfer Pricing tax return / study: AR\$20,000 per failure.*
 - *Not filing information regimes tax returns: AR\$10,000 per failure.*

Argentine nationals living in Argentina are considered as tax residents. In general, foreign nationals acquire residence for tax purposes when they have been in the country for 12 months of a particular taxable year, or when they have obtained a permanent residence visa from the national immigration authority. Tax residents are taxable on worldwide income, and a foreign tax credit is available.

As an exception to the above rule, foreign nationals assigned to Argentina for working reasons and for a period not exceeding five years are considered as non-residents for tax purposes. Non-residents are taxed only on their Argentine-source income.

Foreign nationals working temporarily in Argentina who will not spend more than six months in the country are treated as foreign beneficiaries. They are taxable only on Argentine source income at a flat rate of 24.5% (i.e., 35% of a hypothetical net income content of 70%).

All income and gains of Argentine and foreign sources are subject to income tax, except for certain capital gains specifically excluded or exempted, and for lottery and gambling winnings, which are subject to a specific tax.

Interest (except for interest on savings accounts and time deposits in local banks), rents, royalties, professional and other fees, pensions, annuities, and all other income, except dividends from local corporations are subject to income tax.

Income tax is assessable on individuals on a calendar-year basis. The related return must be filed, when applicable, and the balance of tax paid, in mid-April or mid-May of the following year.

The following persons do not need to file a return.

1. Employed persons without sources of income other than compensation, provided tax has been appropriately withheld at source by their employers.
2. Persons whose total assessable income does not reach taxable limits after deduction of personal and family allowances.
3. Foreign beneficiaries who have had tax withheld from their Argentine-source profits in full and final settlement.

Deductions

All losses and expenses incurred in obtaining and preserving taxable income are deductible. Where fringe benefits include lump-sum allowances for car, travel, entertainment, etc., only actual expenses incurred, supported by appropriate documentation,

may be deducted from the related fringe benefits includable in taxable income.

Mortgage and other interest are not deductible unless it generated taxable income or, in case of dwelling house, it does not exceed AR\$20,000 annually. Other expenses, such as living, personal and family expenses, are not deductible, with the following exceptions.

1. Pension and other social security contributions.
2. Donations to tax-exempt charitable institutions up to a maximum of 5% of net income.
3. Life and private retirement insurance premiums and funeral expenses up to a maximum established from time to time by the tax authorities.
4. Contributions to third party medical plans up to 5% of net income.
5. A total of 40% of other medical expenses up to a maximum of 5% of net income.

Tax Rates

The tax rates are graduated, ranging from 9% to 35%.

Payroll Taxes

Foreign and local nationals working for a local company must be included on the local payroll and will be considered as a local employee for local labour, tax and social security

purposes and so both the local company and the employees will be subject to the corresponding regulations.

All the compensation paid in Argentina or abroad for work performed for the local company will be considered as local compensation and should be reported to the tax and social security authorities, as the case may be, and included in the salary slips and recorded in the local labour books.

The local employer must withhold income tax on an actual and monthly basis and make the corresponding payments to the tax authorities through monthly withholding tax returns. Individual tax rates range from 9% to 35%. Personal deductions are available.

The local entity must issue salary slips every month for each employee included on its payroll, considering the total compensation mentioned above.

Employer social security contributions add up to 23% to 27% of payroll cost. There is a compulsory thirteenth month salary. There is no restriction regarding the employment of foreigners, provided they hold working visas.

VAT

VAT is assessable on the sales value of products (e.g., raw materials, produce, finished or partly finished merchandise) with few exemptions, and on most services (such as construction, utilities, professional and personal services not derived from employment, rental, etc.) and on import of goods and services. The general tax rate is 21%, although certain specific items are subject to 10.5% and 27% rate. It is payable by filing monthly tax returns.

The increased rate of 27% applies on 'utilities services' not rendered to final consumer in family (e.g., telecommunications, household gas, running water, sewerage and energy).

A reduced rate of 10.5% will apply on certain transactions, such as (but not limited to):

- Construction of housing;
- Interest and commissions on loans granted to registered taxpayers by financial institutions;
- Sales and imports of living bovine animals, supply of publicity and advertising in some specific cases;
- Any passenger transportation operating inside the country when the distance does not exceed 100km;
- Medical assistance in some specific cases; and
- Certain capital goods depending on Custom Tariff Code.

Exports of goods and services are taxed at 0%. Nevertheless, input VAT related to these transactions can either be used as a credit against output VAT or refunded pursuant to a special procedure.

Services rendered within the country shall be deemed to be exports if they are effectively applied or economically utilised outside the country.

VAT law also establishes that services rendered abroad but utilised in Argentina ('importation of services') are subject to tax through a self-assessment mechanism.

There is also a system of standard VAT collections and withholdings under which liable parties (who are registered as such), custom and other entities are required to act as a VAT collection or withholding agent with regard to sale, purchase or import transactions.

VAT paid on purchases, final imports, and rental of automobiles, not considered as inventory, cannot be computed by the purchaser as a VAT credit. The same tax treatment applies to other services, such as those provided by restaurants, hotels and garages.



Audit and accountancy

Other taxes

Excise Taxes

This tax is assessable on a wide variety of items sold in Argentina (not on exports), principally on tobacco, wines, soft drinks, spirits, petrol, lubricants, insurance premiums, car tyres, mobile services, perfumes, jewellery and precious stones.

Tax on financial transaction – on credits and debits on bank accounts

Bank account movements (deposits and withdrawals) and other movements that do not utilise them are subject to this national tax at the following rates:

- 0.6% of deposits and withdrawals in bank accounts opened in local financial entities;
- 1.2% of any transactions made in bank without using a bank account.

Exemptions and reduced rates could be applied based on the subject type and/or its activity.

The 34% of tax paid on bank account deposit transactions, or the 17% of the tax paid on other movement of funds, respectively, is creditable against income tax and minimum notional income tax and/or respective tax advances.

Wealth tax

This annual tax is levied on the shares or holding in the

capital of local companies owned by individuals or undivided estates domiciled in Argentina or abroad, and/or companies and/or any other type of legal person domiciled abroad. It shall be assessed and paid directly by the local company, as a full and final payment on behalf of the shareholders (the issuing company has the right to recover from the shareholder the tax paid).

The applicable tax rate is 0.5% on the value of the participation, which is generally calculated on the difference between assets and liabilities arising from the financial statements closed at 31 December or during the respective fiscal year.

Turnover tax (gross income tax)

Each of the 24 jurisdictions into which Argentina is divided imposes a tax on gross revenues from the sale of goods and services. In most of them, exports of goods are exempt, and certain industries are subject to a reduced tax rate. Rates, rules and assessment procedures are determined locally.

Stamp tax

Levied by each of the 24 jurisdictions, and applies principally to contracts and agreements, deeds, mortgages, and other obligations, agreements and discharges of

a civil, financial or commercial nature of which there is written evidence or, in certain instances, that are the subject of entries in books of account. The average tax rate is 1% applicable on the economic value of the contract.

Import & Export duties

The levels of import duty currently range between 0% and 35%, except in cases where specific minimum duty is applied or which involve merchandise with a specific treatment. These percentages were established considering the individual competitive conditions prevailing in different production sectors and the relative advantages of contributing to the introduction of equipment and technology for local industry. In general, merchandise originating from LAIA (Latin America Integration Association – ALADI) countries is entitled to preferential duty.

In the case of export transactions, goods are valued based on the FOB clause and the approach is based on their theoretical value, rather than a positive basis as in the case of imports.

Since March 2002, definitive exports of all goods are subject to export duties. The rates vary from 5% to 45%, depending on the tariff code of the merchandise (while 5% is the current typical applied higher rates are considered for exports of agricultural products or hydrocarbons).

Accounting principles

1. The accounting principles applied should ensure that annual accounts are clearly stated and properly reflect the net worth, financial situation and results of the company.
2. Company accounting should be performed in accordance with the mandatory application of the following accounting principles:

Principle of prudence

Only realised profits at the end of the fiscal year shall be booked.

Going concern principle
The duration of the company is, in practice, considered unlimited. Therefore, the application of accounting principles shall not be intended to determine net worth for purposes of full or partial disposal, or to establish proceeds in the event of liquidation.

Principle of due registration
Economic events should be recorded when rights or obligations arising from them have occurred.

Accrual principle
The posting of income and expenditure should be made on the basis of the actual flow from the goods and services they represent, regardless of the moment when the monetary or financial flow derived from them takes place.

Principle of correlation between income and expenditure

The result for the fiscal year is formed by the revenue for the period less expenditure in the same period incurred to obtain such revenue and profits and losses not clearly linked to the company's activity.

Non-offset principle

In general terms it is not possible to offset asset and liability items on the balance sheet, or income and expenditure items making up the statement of income, as per the annual financial statement format unless they can be cancelled considering the net amount. The various asset and liability items shall be valued separately.

Principle of uniformity
Once a criterion has been adopted in relation to the application of accounting principles, in those cases in which alternatives are permitted, such a criterion should be maintained over time as long as the assumptions leading to the choice of that criterion remain unaltered.

Principle of relative importance
It shall be possible to waive strict application of certain accounting principles as long as the relative importance in quantitative terms of the change from such action is not material,

and consequently does not impact the annual accounts and their true reflection of the actual situation.

Statutory requirements

Mechanical and other posting means

Compliance with the formal requirements provided by the Code of Commerce for the carrying of books may be waived if the control authority or the Public Registry of Commerce authorises their replacement by computers, mechanical, magnetic or other means, except in the case of the Register of Inventory and Balance Sheets. The Journal may be posted with global amounts covering periods of less than one month. The accounting system should enable identification of transactions, the corresponding debtor and creditor accounts, and their subsequent verification.

General principle

When amounts involved are of minor significance, for purposes of appropriate interpretation, they shall be included under the heading Sundry.

Restatement

Financial statements corresponding to full years or interim periods within the same fiscal year must be prepared in constant units of currency.

Balance sheet

The balance sheet should contain the following information:

1. Under assets:

- a) Cash in hand and in Banks, other value items with similar liquidity, certainty and effect, and foreign currency;
- b) Credits from corporate activities;
- c) Inventory, grouped according to the company's activities;
- d) Investments in government securities, shares and debentures;
- e) Fixed assets, with an indication of their accumulated depreciation;
- f) Intangible assets, at cost, with an indication of accumulated amortisation;
- g) Expenditure and charges to be accrued in future years or allocated to them, in the case of the latter deducting the corresponding accumulated amortisation;
- h) All other items that because of their nature should be included as assets;

2. Under liabilities:

- i) Debt, segregated into commercial, bank and

financial debt, debt with parent, subsidiary and related companies, debentures issued by the company, dividends payable and debt with social security and fiscal entities;

ii) Provisions for likely company contingencies;

iii) All other items that, by their nature, represent a liability to third parties;

iv) Income collected in advance, and revenue corresponding to future fiscal years;

v) Company capital, identifying ordinary shares and other classes of shares and the situations covered by section 220 of Corporate Commercial Law;

vi) Legal, contractual and statutory reserves, free reserves, and those arising from technical appraisals and issue premiums;

vii) Profits from previous years, and if applicable losses pending deduction;

viii) All other items that because of their nature should be included as capital liability accounts and results;

3. Assets in custody, guarantees, notes discounted and all other memorandum accounts;

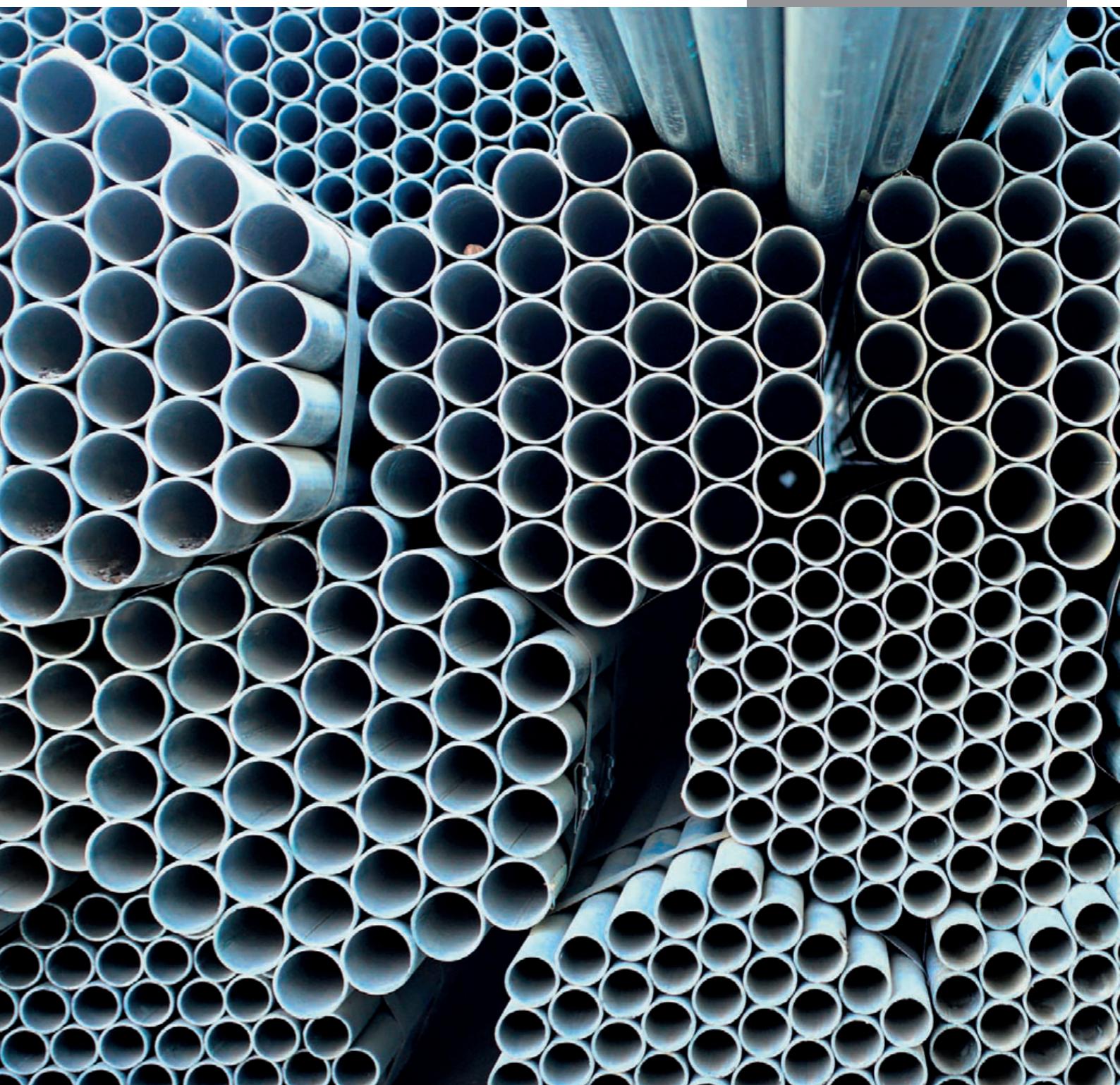
4. On matters of presentation in general:

- a) Information should be grouped so that it is possible to determine separately and to total current and non-current assets, and current and non-current liabilities. Current assets and liabilities are those that are realised or become due within twelve months from the balance sheet date, unless circumstances recommend some other basis for definition;
- b) Rights and obligations should be disclosed indicating whether they are documented, secured by means of a pledge or otherwise;
- c) Foreign currency assets and liabilities should be disclosed separately under their corresponding headings;
- d) The various items may not be offset among themselves.

Statement of Income

The statement of income or profit and loss account should disclose:

- I. a) Proceeds of sales or services, grouped by type of activity. The cost of goods sold or services provided should be subtracted from each total, to determine the result;



- b) Ordinary administration, sales, financing and other expenditure to be charged to the year, with separate disclosure of amounts of:
 - 1) Payments to administrators, directors and statutory auditors;
 - 2) Other fees and compensation paid for services;
 - 3) Salaries and wages and corresponding contributions to social security;
 - 4) Research and development expenditure;
 - 5) Royalties and fees for technical services and other similar items;
 - 6) Advertising and publicity costs;
 - 7) Taxes, rates and contributions, with separate disclosure of interest, fines and surcharges;
 - 8) Interest paid or accrued, with separate disclosure of interest on debt to suppliers, banks and financial institutions, and subsidiaries, parent and related companies;
 - 9) Amortisation, depreciation and provisions;
 - c) Extraordinary income and expense during the year;
 - d) Adjustments from gains and losses in previous years.

The income statement should be presented so that it discloses separately the gains and losses from the company's ordinary and extraordinary operations, establishing the net gain or loss for the year to which those of the previous years will be added or subtracted. The statement of income should be complemented by a statement of changes in shareholders' equity. This should include the causes of the changes during the year in each of the accounts making up the shareholders' equity.

Complementary notes

Should the corresponding information not be contained in the financial statements or their footnotes, notes and exhibits should be attached that will be considered an integral part of the statements.

Annual report

The company's administrators should make known details of the state of the company in the various businesses carried out, as well as their opinion on the outlook for operations and any other aspect considered necessary to be made known to illustrate the current and future situation of the company.

Copies

Copies of the balance sheet, statement of income for the year, the statement of changes in shareholders' equity, notes, complementary information and attached exhibits should be made available to partners or shareholders at the corporate headquarters not less than fifteen days prior to their formal consideration by them.

Dividends

Dividends will be unable to be declared or distributed to partners unless they represent realised, liquid profits arising from a balance sheet prepared according to law and company bylaws that has been approved by the competent corporate authority. Profits distributed that contravene this rule are judged to be improper payment.

Approval/Challenge

The right to approve or challenge financial statements and the adoption of resolutions of any kind in their regard is inalienable, and any agreement to the contrary is null and void.

Legal reserve

Limited liability corporations and stock companies must set up a reserve of not less than 5% of realised, liquid profits as determined from the statement of income for the year, until reaching an amount equivalent to 20% of the company's capital.

Other reserves

Reserves in addition to those required by law may be set up in the case of any type of company, as long as they are reasonable and correspond to a prudent administration.

Profits

Previous years' losses. Profits shall not be distributed until losses from previous years have been made good.

Responsibility of administrators and statutory auditors (syndics)

Approval of the financial statements does not imply approval of the performance of directors, administrators, managers, members of the surveillance council or syndics, whether or not they have voted on the statements, nor does it absolve them of responsibility.

Minutes

A special register must be kept, for the minutes of meetings of professional organisations observing the requirements of commercial recordkeeping. Board meeting minutes must be signed by those attending. Shareholders' meeting minutes should be drawn up and signed within five days of the meeting by the chairman and the shareholders designated for that purpose.

Other comments

The Argentine Securities Exchange Commission (CNV) has established for listed entities – either due to its shares or private bonds – the applicability of IFRS regulation as from January 1, 2012. Such a set of rules would optionally be applied by non-listed companies as well.



Human Resources and Employment Law

The Argentine workforce is highly qualified. Argentina possesses labour laws that are aimed at safeguarding the rights of workers. In this connection, and with the policy of bringing down unemployment levels, a number of rules have been issued for encouraging the hiring of workers, and which reduce the related employer contributions to social security funds. The labour laws also set regulations for the employment of women and minors, govern working conditions and hours, call for the payment of wages for sick time, set differential pay rates for overtime and relatively dangerous work, and establish annual paid vacations, in addition to requiring the payment of indemnities in the event of dismissal. Under a 1996 law, employers are required to insure labour accident risks. Employers must also take out compulsory life insurance for all employees.

Labour law requirements

Working conditions

Working conditions are laid down in Law No. 20,744, as well as collective bargaining agreements, and depend on the kind of activity carried out. In general, hygiene and work safety conditions have been established.

Wages and salaries

The minimum wage is \$2,300 per month. Each sector of activity uses its collective bargaining agreement to set the wage payable according to the job performed.

Thirteenth Salary

Employees receive an extra month's salary by law ('aguinaldo'), paid in two half-yearly instalments in June and December each year equal to 50% of the highest salary received during the corresponding semester.

Hours worked

The working day is a maximum of 8 hours, or 48 hours per week.

Paid holidays and vacations

The minimum vacation entitlement is 14 calendar days, and the maximum is 35.

Equal opportunities

Employers are required to treat all employees in the same manner in identical situations. Unequal treatment will be deemed to exist when there is arbitrary discrimination on the basis of sex, religion or race, but not when the difference in treatment is based on the common good, such as in cases based on greater efficacy, industriousness or dedication to work by the employee.

Health and safety

Workers are provided with access to a welfare fund and work accident insurance and contribute towards their future pension. These social benefits are funded out of payments by workers and employers to the social security system totalling 17% and 23% or 27% (depending on the activity and level of income) respectively of the salary paid by the employer.

The social security withholdings (17%) are subject to a cap that is currently \$19,070.55. This cap is increased in March and September of each year.

Termination of employment

Severance indemnity is equivalent to one month of the highest monthly wage received by the employee during the previous year, or during the period worked if less, for each year of work or fraction thereof greater than 3 months. The highest remuneration taken as a base cannot be greater than three times the monthly average of all the salaries considered in the collective bargaining agreement applicable to the worker in question. The minimum severance compensation cannot be less than one month of the highest basic monthly wage earned by the employee during the last year of service.

Work permits and visa requirements

Local regulations on immigration establish three types of residence: permanent, temporary and transitory. To set up a business in Argentina it is necessary to have a permanent or temporary residence permit. There are no restrictions as to the nationality of company directors, but they must have a legal domicile in Argentina.

To be able to hire foreign workers, the work contract must be in line with labour legislation requirements in Argentina.

Restrictions on employment

Argentina does not establish restrictions or quotas for foreign workers, as long as they comply with immigration regulations, in other words, as long as they have a valid residence permit. Foreigners hired to work in Argentina must have a work permit and legal residence in Argentina.

Living conditions

Foreigners in Argentina enjoy the civil rights common to all citizens: they may carry out their industry, trade or profession, own, purchase and sell real estate, navigate rivers and coastal waters, freely practice their religion, and make wills and marry in accordance with the law.

They are not obliged to take up citizenship, nor make extraordinary forced contributions. They can obtain citizenship by residing for a continuous period of two years in Argentina, although the authorities may reduce this period upon request in the case of demonstrated service to the Republic.

Overtime. Staff Hierarchy

By Law No. 26.597 only Directors and Managers are exempted from the maximum working time, so all other job categories are subject to payment of overtime.

Agricultural Work Scheme

Law No. 26.727 constitutes a new regime for rural staff. It introduces various regulations and provides for a reduction in age and years of service for the purpose of obtaining ordinary retirement, employers must pay an additional employer contribution of 2%.



Trade



Argentina is a member of the Latin American Integration Association (LAIA; in Spanish, ALADI, for Asociación Latinoamericana de Integración), which was created by the Montevideo Treaty of 1980. This association includes Mexico and all the Latin American countries in South America. Its long-term objective is to establish a common market in a gradual and progressive manner. Duty concessions have been extended to many products shipped by other LAIA countries.

Mercosur (Southern Common Market)

In March 1991 the Presidents of Argentina, Brazil, Paraguay, and Uruguay signed a treaty aimed at creating a regional common market (Mercosur) that became fully effective in January 1995, when barriers between the four countries in the way of exchanges of assets, services and factors were eliminated.

The integration of these economies is helping to overcome many of the limitations that each country faces individually with regard to international trade. This association is eliminating the disadvantages of small domestic markets and strong protective barriers and economies of scale and increased competition should ensure a supply of better-quality goods at lower prices.

Argentina and Brazil had already been developing a similar bilateral process of integration in certain specific areas, and the favourable experience acquired will be further extended within Mercosur.

Treaty of Asunción

The treaty establishing Mercosur, the Treaty of Asunción, provides for the following:

- Free circulation of goods, services and productive elements between member countries through the elimination of customs duties and non-tariff restrictions that might hinder or prevent trade.
- Common external tariffs and a common trade policy concerning third countries, with a coordinated participation in regional and international economic and trade forums.
- Mechanisms for the permanent exchange of information on regional interests have been implemented.
- Tariffs and tax reduction programme measures taken are set out below
- In general terms, a progressive, lineal and automatic reduction in tariffs and other non-tariff restrictions.

• Harmonisation of foreign trade, agricultural, industrial, transportation, and communications policies and legislation to ensure similar conditions for companies in all four member countries, to attain greater competitiveness.

• In general terms, common external tariffs have been established so that products entering Mercosur will be subject to the same duties, regardless of their point of entry.

• Complementary sector-by-sector agreements may be reached to optimize the use and mobility of resources and attain improved production levels.

• Each country has established a List of Exceptions, itemising products to be initially excluded from the tariff reduction agreement. The Treaty of Asunción provides for the gradual elimination of such items.

• To ensure fair trading conditions, member countries enforce their existing legislation to prevent dumping and the importation of goods at subsidised prices or from sources that apply other unfair trading practices.

Policies are coordinated to provide for common rules on commercial competition.



The Mercosur common market became effective on 1 January 1995. Intrazonal trade customs duty has been eliminated for most goods, while time frames for the total elimination of such duty have been agreed upon for the exemptions. Common customs tariffs have been set for all countries for imports from outside the zone, with some exceptions for which time limits have been set for full convergence.

In view of the differing stages of economic development in the four countries involved, it was agreed to recognise a difference in the timing of the implementation of the proposed measures in the cases of Paraguay and Uruguay.

In December 1995 a framework agreement was reached with the European Union with a view to attaining a customs union between the two common markets in ten years' time.

The Mercosur members signed an Economic Complementation Treaty with Chile which came into effect on 1 October 1996. A similar treaty was subsequently signed with Bolivia.

Exports

Special incentives for exports include exemptions from excise taxes and zero rating for value-added tax as well as import duty drawbacks, non-taxable tax refunds and preferential financing arrangements.

Trade barriers

As noted above, the depreciation of the exchange rate raised an ER against imports.

Export duties are applicable to all definitive exports of goods.

Import restrictions

Imports of pharmaceuticals, drugs, foodstuffs, defence material, and certain other items require the approval of the appropriate government department (e.g. Ministry of Health and Social Welfare, Ministry of Defence).

In addition, there are some products that are subject to Automatic or Non-Automatic Import Licensing, depending on the HS Code in which they are included.

The WTO defines the Automatic Import Licensing as import licensing where approval of the application is granted in all cases within a maximum of 10 working days from its submission.

On the other hand, Non-automatic Import Licensing shall not have trade-restrictive or -distortive effects on imports additional to those caused by the imposition of the restriction. In relation to the period for processing applications, shall not be longer than 60 days.

In February 2012, the government implemented a new prior condition for importation of goods into the customs territory. The Resolution establishes that importers are subject to submit an advance import sworn statement ('DJAI'), prior issuing the Purchase Order or the document used for setting up overseas purchases operations, in relation to all final destinations of imports for consumption.

It is important to note that the DJAI must be approved in state 'Exit' in order to be able to continue with the import operation.

As regards the evaluation criteria to authorise the DJAI, even though it has not been informed by the authorities, it is publicly known that imports of products that have no domestic production are more likely to be authorised. In the cases that the DJAI has been 'observed' by the local authorities (regardless the origin of the goods), it has been required the presentation

of additional documentation (which is not part of the regulation), such as lists of prices of both imported and domestic products commercialised locally in 2010, 2011 and 2012, and an export plan, among others.

This additional information, in whole or separately, could be requested or not, depending on the consideration of the local authorities. In connection with the import duties, they range between 0% and 35%, except in cases where specific minimum duty is applied or which involve merchandise with a specific treatment. These percentages were established considering the individual competitive conditions prevailing in different production sectors and the relative advantages of contributing to the introduction of equipment and technology for local industry.

In general, merchandise originating from LAIA countries is entitled to preferential duty. The Ministry of Economy, based on economic conditions and considering international market prices and local needs, may modify the customs duty rates. These changes are fairly frequent. For a number of textile products and toys, specific levels of duty have been set which function as the minimum for the ad-valorem duty. It is therefore recommended that exporters to Argentina consult the norms beforehand so as to ascertain the tariff position and tax treatment.

Other taxes

In addition to customs duty, imports are also subject to the following taxes:

- A statistical charge, which is a tax equal to 0.5% of the customs value of the goods on a CIF basis. Notwithstanding the rate and the method of calculation, various caps have been set in this connection, as a result of which the total payable cannot exceed US\$500 for shipments higher than US\$100,000.
- VAT at a standard rate of 21%, plus a further VAT collection (excluding exceptions) of 10% (20% for taxpayers who do not hold the Importer Data Validation Certificate or CVDI). Certain goods are subject to a reduced rate (10.5%).
- Excise taxes for certain goods.
- A 3% income tax pre-payment (excluding exceptions) (6% for taxpayers who do not hold the CVDI). In some special cases the rate is 11%. Turnover tax is collected at the rate of 1%, and is assessed on imports for consumption of goods entering the customs territory, except items to be used as fixed assets or for personal use.

Banking in Argentina

Banking system

The present structure has been in force since the enactment of Law No. 21,526 (Financial Entities Law) in 1977, as amended, whose object was to consolidate the financial system and create a guarantee for deposits in financial entities. Within the framework of this law, the banking system is regulated by the central bank (Banco Central de la República Argentina - BCRA).

Central bank

The Argentine Central Bank, established in 1935, has supervisory powers to regulate credit and monetary supply, to supervise and control the proper functioning of the financial system and the application of the Financial Entities Law, to act as the state's financial agent, and to represent the country in the international monetary, financial and banking institutions of which Argentina is a member.

Financial entities

The Argentine financial system consists of private and government (state, provincial or municipal) entities.

The private banking sector operates mainly through commercial banks and finance companies. Under the terms of the Financial Entities Law, state and mixed banks are comparable to commercial banks, their main objective being to promote regional development and handle government revenues.

The financial system comprises approximately 80 entities, of which 12 entities are state banks

Financial entities may be classified as follows:

- Commercial banks
- Investment banks
- Mortgage banks
- Finance companies
- Credit companies

In general, commercial banks are organised as corporations, however, some are organised as cooperatives. Commercial banks may conduct all banking activities, e.g., credit and deposit operations and providing fee-based services. Only commercial and state banks are allowed to offer checking accounts, issue drafts and make intermarket transfers. Strictly speaking, commercial banks are the only monetary intermediaries.

Investment banks, finance and credit companies

Investment banks channel savings and foreign funds to finance investment projects. They may receive term deposits, grant medium and long-term credit, invest in securities, lease capital assets, and operate in foreign currency with central bank approval. Finance companies deal mainly with short-term credit facilities, as do credit companies, but within a much more limited scope.

Mortgage banks

Mortgage banks and building corporations cater to the needs of the building and real estate markets.

Foreign banks

Foreign banks operate in Argentina on the same basis as local private banks. Most engage in wholesale and retail activities, and may operate through branches or subsidiaries. A number of them were licensed many years ago. Licenses are granted by the Central Bank mainly on the basis of reciprocity.

Source of funds

Local financing

Interest rates are still high as measured by international standards. No discrimination is made between local and foreign borrowers.

The importance of negotiable bonds as a foreign financing has increased considerably, driven by favourable tax treatment, in spite of the fact that during the last decade they have been affected by the increase in the country risk rate and the debt public default. Corporate bonds may be issued in local or foreign currency; they are freely negotiable, and interest and amortisation may be paid locally or abroad. Debt securities must be risk-rated by at least two rating agencies registered Securities Commission.

Law No. 24,441, on construction and home financing, is in force as from 9 January 1995. It deals with, among other things, trusts (which can be used as vehicles for securing mortgages) and leasing. At present, neither alternative is widely used.

Availability to foreign investors

There are no restrictions on the access of foreign investors to sources of local financing or on their ability to invest in government securities and in local quoted companies.

See above additional comments on Exchange Control Regime.



HSBC in Argentina

Overview

Who we are

HSBC Bank Argentina represents one of the main financial groups in our country. Based on four pillars – Stability, Proximity, Relationships and Know-how, the institution follows Principles and Values that ensure an ethical, fair and responsible standard when doing business, always focusing on the client.

Head Office

HSBC Bank Argentina has its headquarters in Buenos Aires.

An International Brand

The origin of HSBC Bank Argentina began in 1992, when Midland Bank bought 29% of Banco Roberts S.A.

In 1997, HSBC bought 100% of Banco Roberts S.A. and started a gradual change of the brand to the current brand HSBC.

In 2006, HSBC Bank Argentina bought Banca Nacionale del Lavoro S.A.

HSBC Argentina Holdings S.A. is also constituted by HSBC Valores S.A. Sociedad de Bolsa, HSBC Participaciones (Argentina) S.A., Máxima S.A. AFJP, HSBC Seguros de Vida (Argentina) S.A., HSBC Seguros de Retiro (Argentina) S.A., HSBC Administradora de Inversiones S.A. S.G.F.C.I. and Uniservicios S.A.

Network in Argentina

HSBC Bank Argentina is present in more than 70 Argentinean cities with 135 agencies, 427 electronic service stations and 457 ATMs. The headquarters of HSBC Bank Argentina is located in Florida 201, Buenos Aires.

Total Assets

US\$8.277 million (April 2012).

Profit (before taxes)

US\$153 million (April 2012).

Human Resources

Over 4,900 employees.

Clients

Over 1.5 million individual clients and 85,636 legal entity clients.

Corporate Sustainability

In HSBC Argentina, Sustainability means bringing social and environmental issues together with financial performance to maintain and grow a successful business for the benefit of our stakeholders.

Credit & Risk applies clear policies and processes to manage potential social and environmental risk in our lending and other financial activities in sensitive sectors.

Corporate Real Estate works for reducing our own environmental footprint and share good practices on this with our stakeholders.

Corporate Sustainability focuses our community investment on education and the environment.

The education programmes help young people to reach their potential, regardless of their background, through access to education, life skills and entrepreneurship, and discovering cultures and the natural world.

The environmental programme focuses on the HSBC Water Programme, a five-year global environmental programme focusing on water and how it helps communities flourish.

Country overview

Capital city	Autonomous City of Buenos Aires																														
Area and population	Area of 2,800,000 sq km and population size of 41.7 million																														
Language	Spanish																														
Currency	Argentine peso (\$)																														
International dialling code	+54																														
National Holidays for 2013	<p>There are 12 national holidays, as follows:</p> <table><tr><td>New Year's Day</td><td>1 January</td></tr><tr><td>Epiphany</td><td>6 January</td></tr><tr><td>Day of Remembrance for Truth and Justice</td><td>24 March</td></tr><tr><td>Maundy Thursday</td><td>28 March</td></tr><tr><td>Good Friday</td><td>29 March</td></tr><tr><td>Easter Sunday</td><td>31 March</td></tr><tr><td>Malvinas Day (Día de las Malvinas)</td><td>2 April</td></tr><tr><td>Labour Day</td><td>1 May</td></tr><tr><td>First National Government Day</td><td>25 May</td></tr><tr><td>The Flag's Day</td><td>20 June</td></tr><tr><td>Independence Day</td><td>9 July</td></tr><tr><td>Anniversary of Death of General San Martín</td><td>19 August</td></tr><tr><td>Columbus Day (Día de la Raza)</td><td>14 October</td></tr><tr><td>Feast of the Immaculate Conception</td><td>8 December</td></tr><tr><td>Christmas Day</td><td>25 December</td></tr></table>	New Year's Day	1 January	Epiphany	6 January	Day of Remembrance for Truth and Justice	24 March	Maundy Thursday	28 March	Good Friday	29 March	Easter Sunday	31 March	Malvinas Day (Día de las Malvinas)	2 April	Labour Day	1 May	First National Government Day	25 May	The Flag's Day	20 June	Independence Day	9 July	Anniversary of Death of General San Martín	19 August	Columbus Day (Día de la Raza)	14 October	Feast of the Immaculate Conception	8 December	Christmas Day	25 December
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Business and banking hours	9am to 6pm and 10am to 3pm																														
Stock exchanges	Argentina has a number of stock exchanges, but the importance of the securities quoted and the volume of business conducted are negligible except on the Buenos Aires Stock Exchange																														
Political structure	24 autonomous provinces with their own political, administrative and economic administrations (23 provinces and the City of Buenos Aires)																														



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