

Doing Business in Colombia

2009



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 70 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Colombia has been provided by the office of UHY representatives:

UHY Auditores & Consultores S.A.
Carrera 49 No 91-34
Bogotá
Colombia

Tel: +57 1 696 9832
Email: srozo@uhy.com.co
Web: www.uhy.com.co

You are welcome to contact Samuel Jesus Rozo Monsalve for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at January 2009.

We look forward to helping you do business in Colombia.

UHY Auditores & Consultores S.A. based in Bogotá, Colombia. The newly-branded firm came into being through the merger of four firms especially to join UHY. The new firm can trace its business back 18 years and has developed skills in almost every economic field in Colombia. Several of the firm's partners have Big Four or similar experience. Currently, it has a team of 28, including five partners.

Apart from its base in Bogotá, the firm also has associate offices in important department capitals of Colombia – Barranquilla, Cali, Medellín



and Pereira. The merger brought into the firm a marketing and sales operation, as well as language abilities and solid knowledge of IT systems. Languages spoken by members of the firm are Spanish, English, Portuguese, Italian and French.

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2. Business environment

The Republic of Colombia is located in the Northwest end of South America and is the only South American country with coastlines on the Pacific and Atlantic Oceans. Colombia is divided geographically into five regions, the Andean highlands, the Caribbean Coastline, the Eastern Plains, the North Pacific coastline and the Amazon Rain Forest, with a complete range of climates throughout the calendar year and a vast array of both renewable and nonrenewable natural resources.

Under Colombia's Political Constitution of 1991 (which democratically replaced the 1886) Constitution, the Colombian Government has three branches. The Executive (President, Ministries and associated executive and administrative offices), Congress (Chamber of Representatives and Senate) and the Judiciary. The President of the Republic and all members of Congress, Governors and Mayors are all directly elected by popular vote for 4 year periods. All citizens over 18 years can vote.

Population

Colombia's estimated population in 2005 is 41.4 million, of which over 6 million (16.3%) live in Bogotá D.C. (Colombia's capital city) and 2.2 million (5.3%) in Medellín (the second largest industrial hub in the country). The unemployment rate for the current year is 11.1%

Area

Total Area: 1,138,910 Km². Colombia is located in the north-west corner of South America and is the fourth largest country in the sub-continent after Brazil, Argentina and Peru, about the size of France, Spain and Portugal together. Its land area is some 440,000 sq. miles, and territorial waters cover another 360,000 sq. miles. Mainland frontiers join the country with Venezuela, Brazil, Ecuador, Peru and Panama. The 1000-mile Caribbean coast and the 800-mile Pacific coast are a gateway to two oceans.

Colombia is in the north of the tropical belt, with a variety of geography that offers all kinds of ecosystems and climates. Two thirds of the country is flatland, the rest is mountainous. The variations in altitude provide wide changes of temperature up and down the three ranges of the Andes which cross the country.

Colombia is commonly divided into five major natural regions:

- The coastal plains, which are tropical, with dry weather and sometimes arid.
- The Pacific plains to the west, with coastal jungles and plains, hot and very wet.
- The Andean region in the interior, the source of many rivers. The climate can be hot and humid, cold, high plateau, and perpetual snows.
- The Orinoco plains to the east, with extreme seasons of rain and drought, and.
- The Amazon basin to the south, the typical humid climate of the tropics.

Population density

The population density is 36 inhabitants per square kilometer.

Currency

The Colombian currency is the Peso (abbreviated S or COP). The annual inflation rate for 2007 was 6.4% (6.49% in 2003). Colombia has a free-floating exchange regime. As of the date of this publication the COP to US dollars exchange rate is \$ 1,767.73 approx.

After the continuous devaluation of the Peso since its inception as Colombia's legal tender (in the early 1930s), there was been a strong revaluation during 2004 and 2005 of as much as 11.5%. As the revaluation pressure is not the result only of local economic factors, it is difficult to forecast whether the revaluation trend will continue. The tendency is for stabilization at its current rate and the Government is making all efforts to ensure that this happens, and if possible a devaluation trend is restarted. This will benefit local exporters and avoid increases of production costs in the international market.

Language

The official language is Spanish but English is widely spoken in the business community and is part of all private school programs. The predominant religion is Roman Catholicism.

The economy

Confirmation that the Colombian economy had its best period in nearly three decades during 2007, an increase of 7.5 percent, was a story that some do not want to forget.

The reason is that insofar as they appear data on the evolution of the productive sector in the current year, it is clear that speed is another.

Evidently, there is a slower pace than in the recent past and that

circumstances such as the global environment, the hike in domestic interest rates or the deep appreciation of the peso, have combined to slow the car of the economy.

Also noteworthy is the behaviour of foreign investment that maintains growth above 20 percent, after reaching an unprecedented level of 9,038 million dollars in 2007

Unemployment

Unemployment is a persistent problem of the economy. However, since 1994 unemployment has dropped sharply, but it is still 9.4% of the active population in the year 2.007.

Prices and interest rates

In 2008, the official interest rate was stated as 9.75%. The inflation rate for 2007 was 5.69%.

Foreign trade and the balance of payments

To contribute to the internationalization of the Colombian economy, the ministry has continued to trade negotiations and taking advantage of trade agreements, including the launch of the CAN-EU negotiations, Canada-Colombia, the negotiations were concluded with countries Northern Triangle (Guatemala, El Salvador and Honduras), was made the round of negotiations for the signing of an agreement on promotion and reciprocal protection of investments between China and Colombia and advanced two rounds of negotiations with Cuba for the broadening and deepening of Existing Agreement.

Financial institutions

Commercial banks, merchant banks and saving banks are involved in the great majority of financial transactions in all sectors of the economy.

Saving banks handle business transactions and are very similar in their operations to the commercial banks but tend to specialize in private savings, personal loans and the financing of house purchases.

Stock market

The history of the stock market in Colombia changed in July 3, 2001. That day, as a product of integration of stock exchanges in Bogotá, Medellín and the West, was born the Bolsa de Valores de Colombia, an institution that today. Today is consolidated to administer the stock markets, foreign exchange, derivatives and fixed income.

Today the BVC is registered in the stock market is an entity and has a private audience.

Stock exchanges in Bogota provide markets for government securities, public and corporate bond issues and shares in leading Colombian companies.

3. Foreign investment

The legal framework developed from the early 1995 opened the economy to private investments in all major sectors of the economy. It promotes competition and fosters foreign investment into the country. Recent foreign investment incentive programs have been developed including the enactment of the so called “Legislative stabilization regime”, which allows, under certain conditions, the signing of a contract with the Government to stabilize (secure) specific identified legal provisions and authorities interpretations for a period of time of 3 to 20 years.

Various mechanisms operate in Colombia to promote investment and export activity through a series of special incentives. Free Trade Zones (FTZ) are geographical areas in which special incentives operate. They can have emphasis on trade, services or industrial activities. There are currently 13 zones approved, one of the most recent being “Ciudadela de la Salud”, a health services oriented zone in the Sopó region. Within these zones, there are more than 325 businesses operating. The main requirement is that operation within the FTZ shall be destined mainly for export production. The main incentives offered are:

- Tax incentives. Exemption from income tax on all export earnings, from all custom duties and VAT on goods and services brought into the zone, and from all taxes on profit distribution.
- Foreign exchange benefits. The right to exchange, hold or negotiate foreign currency and to open domestic or foreign bank accounts in foreign currency. There are also several procedural and logistics incentives- Colombia, for example, has nearly five million square meters of modern facilities designated as free trade zones. Some of the foreign companies are currently installed in Colombian Free Trade Zones.

Special economic export zones (SEZ)

Special geographical points located in selected cities, within which certain incentives operate under special conditions. A Presidential Decree, currently complemented with a Congressional Law pending for approval, granted the border cities of Buenaventura, Valledupar, Ipiales and Cúcuta with this special status. The main purpose of this recently created regime is to attract investment in order to strengthen national export volume by creating special conditions favoring the entry of private capital to the zones, facilitating the exportation of Colombian goods and services. According to the initial draft proposed to Congress, in order for a project to be eligible it must meet the following requirements:

- Must limit its economic activities within the SEZ exclusively,
- Projects developed by national or foreign investors are both eligible,
- The investment must be new,
- Investment of at least US\$2 million and export a minimum of 80% of the production.

Once approved, an admission contract shall be signed between the government and the interested investor. Incentives operating in these areas are similar to those of the FTZ. The proposal in Congress also includes special labour market flexibility regimes.

Plan Vallejo.

Plan Vallejo is an import-export mechanism through which companies may bring raw materials and other input, intermediate goods, capital goods and spare parts into the country, with a full or partial exemption from customs duties and VAT. These imports must be used to produce goods and services, primarily for export.

The magazine America Economic rated 200 Latin American banks in early 1996, covering loan quality, capitalization, efficiency and profitability, in the light of country risk and the quality of banking supervision. The results placed six of the top ten banks in the subcontinent in Colombia. The rating agency Moody's has ranked Colombia's supervisory system second only to Chile's. This positive appraisal is the result of 15 years of strong and active supervision by the Superintendence of Banks in the inculcation of strict parameters of prudence and discipline.

The Banks

The system contains a large number of banks whose solid equity position offers good guarantees for savers and investors alike, and strong defenses against temporary problems in lending. Technical equity, as a proportion of risk-weighted assets averages 14%. For the investment banks, the average is 15.6%, for the mortgage savings banks 12.4%, for the Consumer Finance companies 12.4% and the leasing companies 14.2%.

One of the most interesting features of the system is that, since 1990, it has been open to Colombian and foreign private investment. The change of climate was started in that year when the State began to sell off some of its interests in the sector, a process that is now consolidated.

The Colombian financial system is made up of the Credit Institutions, Financial Services, and Insurance Services. All insurance companies belong to the insurance services system as well as capitalization societies,

general insurance companies, life insurance companies, and cooperative societies of insurance.

All credits and account receivables on the side of the clients of the Financial System area qualified as risk including normal, subnormal, deficient, difficult, and unrecoverable and these categories are of required consultation by any financial intermediary, before offering a new credit or service. As a stated before, it is possible to obtain new credits or financial services only if those obtained beforehand have been or are being looked upon under the agreed terms.

Foreign exchange controls

Foreign Investment Regime Foreign investors are subject to the same treatment as domestic investors as a general rule, there are no limits for foreign investment entry. A foreign investor may hold up to 100% of the capital of a Colombian company.

However, foreign investment is welcome in all economic sectors except in activities related to defense and national security, and the processing and disposal of toxic or radioactive waste not produced in Colombia. All foreign capital investments must be registered with the Central Bank (Banco de la República).

Colombia is a member of several multilateral organizations and agreements for the protection of foreign investment. These are:

- Overseas Private Investment Corporation –OPIC. Colombia has been covered by the Overseas Private Investment Corporation, OPIC, since 1985. OPIC was formed to promote United States investment in developing countries.
- Multilateral Investment Guarantee Agency – MIGA. MIGA is a multilateral institution, which offers guarantees against noncommercial risks, such as foreign currency inconvertibility, discriminatory expropriation, war and civil unrest.
- International Center for Settlement of Investment Disputes – ICSID. The Articles of Agreement of the International Center for Settlement of Investment Disputes, ICSID, were ratified by the Colombian Congress to provide a mechanism for international conciliation and arbitration. Colombia has also signed several Bilateral Investment Treaties that aim at the protection of foreign investment originated in the other party. Currently, there are signed treaties with the United Kingdom, Spain, Peru, Chile and Cuba; however, these have yet to take effect. There are other treaties under negotiation with Germany and Egypt.

Foreign corporations not domiciled in Colombia, and foreign individuals not residing in this country are subject to a 7% income tax, unless said dividends and participations have paid taxes in the company distributing them. Otherwise, they will be subject to a 33% income tax, plus the 7% rate mentioned above. This tax will be withheld at the time of making the payment or the credit to account.

However, if these dividends and participations are re-invested in Colombia, the 7% rate is deferred while the re-investment is maintained. If the re-investment is maintained for more than 5 years, it will be exempted from this tax.

For such effect, it is understood that there is reinvestment of profits and an increase in the net equity of net assets owned in the country, by just keeping this profits within the companies equity.

4. Setting up a Business

Setting up a business presence in Colombia

Colombians commercial and corporate law regime allows different types of legal entities by which investors can establish a business presence in Colombia. The three most common forms of organizations in civil law based jurisdictions are: Corporation (“Sociedad Anónima”), Society with Restricted Liability (“Sociedad de Responsabilidad Limitada”) and Branch of foreign legal entity (“Sucursal”). The aforementioned regime provides for three additional forms of legal entities: Partnership (“Sociedad Colectiva”), Limited Partnership (“Sociedades en Comandita Simple” or “Sociedades en Comandita por Acciones”), and Sole Owner Enterprise (“Empresa Unipersonal”). These last three corporate forms are not frequently used due to liability exposure issues for interest holders, particular management rules, and in certain cases, limitation on the ability to execute determined types of agreements with interest holders. Societies with Restricted Liability are frequently used as a standard means for setting up a family business.

Corporation

A Sociedad Anonima, S.A., or Corporation is one of the most common corporate legal forms used in Colombia.

To achieve full operational status a minimum of five (5) shareholders need to be identified at the time of incorporation and kept thereafter. There is no maximum limit to the number of shareholders limit exists in the case of a S.A. The shareholders or their proxies execute a notarized public deed of incorporation which normally includes a complete set of by-laws. Once executed, the S.A., is provided with legal existence. In order to provide notice of the existence opposable to third parties the incorporation deed is further registered with the mercantile registry at the Chamber of Commerce with jurisdiction over the place of incorporation.

Additional registration requirements may be needed, depending on the business purpose of the company. This is more of an exception, as an S.A., becomes fully operational from the time the public deed has been executed.

The main characteristics are as follows:

- Limited liability. Shareholders’ liability is limited to the amount of their capital contributions.

- Centralized management Shareholders Meetings, Board of Directors and Chief Executive Officer (General Manager).
- Control – Statutory Auditor (“revisor fiscal”) is mandatory.
- Transfer of interest - The transfer of shares is normally unrestricted. However, in non-public companies the by-laws may provide a preemptive right in favor of the other shareholders and/or the Corporation.
- Capital concentration - No shareholder may own more than 94.9% of subscribed shares, otherwise, the Corporation will enter into a legal cause for dissolution.
- Continuity Special causes for dissolution: accumulation of losses that reduce net equity below 50% of the subscribed capital, and reduction of shareholders’ number to less than five (5). Dissolution due to any of the aforementioned causes can be reversed, provided that the competent corporate authority takes corrective actions, within a six month period from the time the dissolution cause becomes apparent.

Societies with Restricted Liability

Societies with Restricted liability require a minimum of two (2) and allows a maximum of twenty-five (25) quota-holders. A Society with Restricted Liability issues no shares but parts of interest or “quotas”. The setting-up procedures are the same as those for corporations.

The main features for these type of entities are:

- Limited liability in certain types of obligations. Quota-holders’ liability is limited to the amount of their capital contributions in all cases, except for labour and tax (including taxes, interests and penalties) obligations in respect of which they are jointly and severally liable. Higher responsibilities for quota-holders exist when so established in the by-laws, in case of failure to pay the capital contribution at the time the company’s organization, or in case of an improper denomination of the company.
- Possible centralized management Quota-holders meetings and Chief Executive Officer (General Manager, if the administration duties corresponding to all quota-holders are delegated).
- Control. A Statutory Auditor (“revisor fiscal”) is mandatory only if certain levels of assets and/or revenues are reached.
- Transfer of interest. The transfer of interest is regarded as an amendment to the company by-laws and thus, it is subject to the approval of the quota-holders, the execution of a notary public deed and further registration in the Chamber of Commerce’s mercantile registry. A pre-emptive right in favor of the quota-

holders is established by law, unless otherwise stated in the by-laws.

- Capital concentration. There is no restriction on capital concentration as long as there are at least two (2) Quota-Holders at all times.
- Continuity Special causes for dissolution. Accumulation of losses that reduce the net equity below 50% of the capital, and when the number of quota-holders is reduced to less than two (2) or exceeds twenty-five (25). Dissolution due to any of the aforementioned causes can be reversed, provided that the competent corporate authority takes corrective actions, within a six month period from the time the dissolution cause becomes apparent.

Branch

Procedures for registering a branch of a foreign company are similar to those applicable to the establishment of a corporation. A duly Apostilled copy of the Main (Home) Office's resolution deciding the registration of the branch in Colombia as well as an Apostilled copy of the Main Office's by-laws and a certificate of good standing duly translated into Spanish, are incorporated into a notarized public deed and then registered with the mercantile registry of the Chamber of Commerce with jurisdiction in the place of operation of the branch. The Main Office should grant a power of attorney to undertake all the necessary procedures to register a branch, including the execution of the notary public deed on its behalf.

Branches may not be converted into any other form of entity. Given that branches and their Main Office constitute the same legal entity, a branch may not have legal capacity beyond its main office's legal capacity and thus may not enter into contractual relationships with each other. For the same reason, the Main Office is jointly and severally liable for all of the branch's activities in Colombia.

Other corporate matters

- Mergers and Spin offs. Companies may merge or be divided by the shares or quotas holders of the companies involved. Mergers are duly executed with the drawing of a notarized public deed while spin-offs are perfected upon the registration of the notarized public deed with the Chamber of Commerce's mercantile registry. Shareholders or quota-holders can agree on a specific agreed upon execution date for accounting purposes.

For income and tax purposes, mergers and spin-offs do not implicate a change in ownership of assets and debts; therefore they are not considered taxable events in Colombia. This so called "tax neutrality"

only applies to the companies and not to their stockholders or partners. Mergers and their spin-offs allow the use of existing tax NOLs within certain prescribed limitations.

- Legal reserve companies and branches must allocate 10% of their net profits after tax and other deductions, up to a limit equivalent to 50% of the capital in order to create a legal reserve. Current year losses may be compensated against the legal reserve, in which case the same amount must be reinstated from future profits.
- Dividend distribution- Profits can only be distributed on the basis of the year end balance sheet duly approved by the competent body, showing the existence of profits or a year end balance sheet that demonstrates surplus retained earnings and only as long as the equity is not less than the capital. Notwithstanding the above, distributable profits may be accumulated for a later dividend distribution if certain majority is in favor, given that a minimum 50% (70% in certain cases) dividend distribution exists.

Check-the-box-regulations- Under the “check-the-box” regulations issued by the United States Internal Revenue Service (IRS), the only Colombian entity which qualifies as a “per se corporation” for U.S. tax purposes is “the Sociedad Anónima”. Other types of entities are regarded as “eligible entities” and as such may elect whether to be treated as a corporation or as a pass-through entity. A “Sociedad Anónima” willing to be considered as a “pass-through entity” for U.S. tax purposes would have to be transformed into any other type of entity under Colombian law (e.g. Society with Restricted liability, Sociedad en Comandita, etc.).

Capital markets

The Superintendence of Securities is a technical state entity, which organizes, regulates and promotes the Colombian Securities Public Market, and exercises the oversight and control duties constitutionally assigned to the President of the Republic of Colombia.

Under Colombian capital market regulations, the Superintendence of Securities regulates all the procedures regarding stock exchange registration, public trading and public offering of shares, bonds and securities in general. Under Law No. 27 of 1990, Law 35 of 1993 and Decree 1133 of 1.999, Law 964 of 2005, and under certain circumstances listed in Resolution No. 400 of 1995 issued by the Superintendence of Securities, the issuance and purchase of shares and bonds must be made through a Public Offer (OPA).

5. Labour

Labour Relations

General Considerations

Pursuant to articles 2 and 3 of our Labour Code, Labour legislation is applied to all inhabitants of our territory, regardless of their nationality who have been hired by means of an employment agreement to be performed in Colombia.

In accordance with the Labour Code, a Labour contract exists whenever an individual, called employee agrees with an individual or corporation, called employer, to render a certain personal service in exchange for remuneration. The existence of a Labour relationship is presumed whenever the following requirements are present: 1) the personal activity of the worker, that is, that he performs the service, 2) The continued dependence or subordination of the employee with respect to the employer, 3) a salary as compensation for the service.

Depending on the labour contract executed between the employer and the employee, different obligations and duties should be observed, employment contracts in Colombia may be for an indefinite period, for a fixed term, for the period required to carry out certain task or work, or to perform occasional, accidental or transitory work over a period of less than one month.

Wages may be paid in Colombian currency on a monthly, weekly, or daily basis, or by piecework. The parties can agree to pay the salary in cash and in kind, but the latter (salary in kind) may not exceed 50% of the total salary. If the employee earns the minimum salary, salary in kind may not exceed 30%.

Integral Salary

When an employee earns an ordinary salary exceeding ten legal minimum monthly wages, it will be valid to stipulate in writing that such salary in addition to paying for the ordinary work, compensates in advance the fringe benefits, surcharges and allowances, such as those corresponding to night work, extraordinary work and work on Sundays and holidays, legal and extralegal bonuses, severance pay and interest thereon, subsidies and allowances in kind, and in general, those included in such agreement, other than vacations, constituting an “integral salary agreement”.

The integral salary may not be able to be less than ten legal minimum monthly salaries, plus the factor corresponding to the benefits for the account of the company, which may not be of less than 30% of such amount (US\$1,888). This salary shall not be exempt from social security contributions and payroll taxes, but they will be calculated on 70% of the amount paid.

Ordinary Salary and fringe benefits

Colombian workers or foreign inhabitants who are hired through an employment agreement performed in Colombia and have an ordinary salary (on opposed to an integral salary agreement), are entitled to receive, in addition to the monthly salary, an extra pay for working on holidays as well as during the nights, the following fringe benefits:

- Service Bonus. Except for integral salary companies must pay a bonus of one (1) month per year of service (15 days in June, and 15 days before December 20) to all employees who have worked or work all the respective semester, or proportionally to the time worked.
- Vacation. Every year, employees who complete one (1) year of service are entitled to 15 remunerated resting working days or proportionally to the time worked.
- Severance Pay (cesantías). Except in the case of integral salary, an employee is entitled to a severance payment consisting of one (1) month of salary for every year of service (and proportionally to fractions thereof worked). If salary is variable (e.g., if it includes commissions or incentive bonuses) or has changed in the last 3 months, the basis for severance is the monthly average over the last year. If total employment time has been less than one year, the entire time of service is used to make the calculation.

For workers whose employment contracts are dated after January 1, 1991, a final calculation of severance payment is made each year, based on the last monthly salary if the salary did not change in the proceeding three months. This amount is deposited on a yearly basis (before February 15th) in an interest-earning Private Severance Fund of the worker's choice. Workers whose contracts began prior to January 1, 1991 may also choose to participate in the Private Severance Fund system.

If the employee retires from the company or the contract terminates, the employer is obliged to pay the employee the accumulated amount of severance payment on said year, which has not been deposited on the

Private Fund. Likewise, the employee is entitled to withdraw the deposited amount.

Interest on Severance Accruals: Except in the case of integral salary, in January of each year, employers are bound to pay a 12% annual interest rate on severance accruals, based on the liability as of December 31 of the immediately prior year.

Working Hours

For all effects, the ordinary working day is from 6:00 am. to 10 pm. while the working night is from 10 pm. to 6 am. Nevertheless, the legal maximum duration of the ordinary workday is eight hours per day and 48 hours per week. If the employee works more than the ordinary workday herein mentioned, or works during the night, he will be entitled to receive additional payments to the ordinary salary.

However, the employer and employee may agree a flexible work, in which the workday may vary from minimum 4 hours to a maximum of 10 hours. In this case, the employer is not obliged to pay additional payments, provided that this weekly working hours does not exceed 48 hours per week.

Termination of employment agreements

When terminating a labour indefinite duration labour contract without just cause the employer must indemnify the employee in the following terms.

Characteristic	Indemnification rate
Employee's who earn less than 10 minimum wages.	Thirty (30) days of salary when the employee has been hired for a period not exceeding one year.
	If the employee has been continuously hired for more than one year, he will be entitled to twenty (20) additional days of salary in addition to the basic thirty days of the first year and proportionally for fractions of a year.
Employee's who earn more than 10 minimum wages.	Twenty (20) days of salary when the employee has been hired for a period not exceeding one year.
	If the employee has been continuously hired for more than one year, he will be entitled to fifteen (15) additional days of salary in addition to the basic twenty days of the first year, for every year following the first year and proportionally for fractions of a year.

When terminating a fixed term contract, the worker has to pay an indemnity equal to the amount corresponding to the number of wages left

up to the end of the original employment agreement or the amount corresponding to the wages for the time remaining for the task to be done.

Social Security

Foreigners, who by virtue of an existing employment agreement, remain in the country and are not covered by a pension regime in their country, may not require a mandatory enrollment in the social security system for pensions, insofar as a foreign pension regime protects them.

With regard to the health care regime, Colombian law has provided that all persons residing in the Colombian territory shall be enrolled in the social security health care regime.

Finally, regarding the professional risk regime, it is important to mention that the purpose of this regime is to prevent, protect and take care of the effect that may be derived from work accidents or professional disease of workers Colombian or foreigners hired under an employment agreement to be performed in Colombia.

The enrollment and payment of contributions to the professional risks regime is the exclusive responsibility of the employers and their amount will depend on the degree of risk of the company, pointed out by the relevant regulations.

Social security services may be provided by public and private institutions, which may be freely chosen by the employees, except for professional risks, which are exclusively chosen by the employer.

The obligation to contribute to the social security and payroll taxes are summarized in the following chart.

	BASIS EMPLOYEE	RATE	EMPLOYER
Pension	Salary (1)(2)(5)	16%	12.5%
4%			
Health Care	Salary (1)(5)	12.5%	8.5%
4%			
Professional Risk	Salary (1)(3)(5)	0.522%	0.522%
N/A			
SENA, ICEF, Family		8.7%	8.7%
N/A			
Compensation Fund	Salary (4)(5)	9%	9%
N/A			
(Payroll contributions)			

(1) Contributions to the social security system (pensions, solidarity fund, health care and professional risks) shall be calculated over the ordinary salary earned by the employee. Nevertheless, if the monthly salary is more than twenty five times the minimum legal wages, contributions to the social security regime will be calculated over the maximum basis of 25 minimum legal wages (Approx. US\$ 3,632 per month in total)

(2) As of January 1st, 2006, contributions to the pension social security regime will be increased as follows:

- 2006 an increase of 0.5%

- 2008 the government may increase the rate by another 1% after 2008 provided the GNP is equal or greater than 4% as the average of the prior two years.

In any case, the employer will have to pay 75% of the total rate whilst the employee the remaining 25%.

(3) The rate depends on a legally established scale based upon the degree of risk represented by the economic activity that the Company undertakes. The Social Security office makes the classification at the time of enrollment. Note that contributions to the professional risks also have the ceiling of 25 minimum legal wages.

(4) Contributions to SENA, ICBF, Family Compensation Fund (Payroll contributions) shall be calculated over the ordinary salary earned by the employee. Payroll contributions do not have any ceiling.

(5) In the case of employees earning integral salary, the salary bases will be 70%. However, if 70% of the integral salary is more than twenty five times the minimum legal wages, contributions to the social security regime will be calculated over the maximum basis of 25 minimum legal wage (approx. US\$ 3,631 per month in total). In the case of contributions to SENA, ICBF and compensation funds, they do not have any ceiling but the calculation base for contributions will always be 70% of the integral salary.

6. Taxation

Corporate Income tax

Corporate Taxpayers

Companies domiciled in Colombia (i.e. incorporated under Colombian law) are taxed on their worldwide income. Colombian registered branches of foreign corporations are taxed on their Colombian source income (as defined) only.

Corporate Income Tax rate

Colombia's corporate income tax rate is 34%. The surcharge will apply through 2008, and may not be credited or deducted for income tax purposes. Tax credits are provided on foreign direct taxes paid.

Tax year and due dates for corporations

The tax year is the calendar year. Annually, the government sets due dates for filing income tax returns and making tax payments. Income tax is paid in five installments for "Large Taxpayers", and in two installments for all other corporate tax payers. Each year, the tax authorities identify and list those companies that they will consider Large Taxpayers, as well as those companies that will be removed from the list. Late filings are subject to a monthly penalty of 5%, calculated on taxes due plus late payment interest.

Taxable Income

The basis for the calculation of the payment of annual income tax is the highest between ordinary taxable income and "presumptive income".

Ordinary Taxable Income is calculated by subtracting deductible costs and expenses from net revenues (taxed revenues minus rebates and discounts). If this results in a loss, it may be carried forward for 8 years, once adjusted for inflation. A maximum of 25% of the loss may be compensated each year.

The loss obtained prior to year 2002 are not subject to the 25% limitation, but may only be carried forward for 5 years. Certain restrictions apply for the application of loss for those companies that had been subject to mergers or spin-offs. The loss may not be carried back in Colombia.

Presumptive income is calculated as 3% of the prior tax year's tax equity (tax assets minus tax liabilities). Some assets may be excluded from the taxable basis.

The excess of presumptive income adjusted for inflation over ordinary income may be carried forward as a deduction for 5 years.

Tax credits may only be used to reduce income tax to a minimum of 75% of the amount of tax calculated on presumptive income.

Exempt revenues

Income generated from the following activities is income tax exempt: seismic engineering services for oil and gas industries, new and remodeled hotels, software and medical patents, river transportation, and wind-generated power. The assets used in these activities are not considered in the determination of presumptive income.

Legal entities performing activities in the Industrial Free Trade Zones (IFTZ) are also exempt from income and remittance taxes with respect to income derived from sales to foreign markets (this exemption will last only until fiscal year 2006 for "Industrial users of goods" due to WTO mandates). For this purpose, IFTZ entities must segregate in their accounting records those costs and deductions related to export sales. These companies are not obligated to channel the funds obtained of their exportations through the Colombian foreign exchange market, but can bring to Colombia the amounts necessary to cover liabilities in local currency.

Costs and expenses

In general terms, costs and expenses may be deducted from income tax as long as they are necessary related with the generation of taxable Colombian source income and of a proportionate amount.

Payments abroad

Subject to certain exceptions, payments abroad are deductible if incurred to generate taxable income in Colombia applicable tax withholdings are made on the payments, and if the amounts charged comply with applicable transfer pricing rules.

Where tax withholdings are not required the deductibility of such payments is then limited to 15% of net taxable income before such payments.

Provisions

As a general provisions are not deductible, except for those related to accounts receivable and subject to special rules and provisions for the payment of pensions.

Depreciation

Depreciation may be calculated using the straight-line, double-declining balance or other recognized method dully approved by the tax authorities. Certain low-value assets may be fully depreciated in the year of acquisition. Also, the use of assets in excess of 8 hours per day allows a 25% higher depreciation rate, for each additional 8 hour shift.

Assets useful lives for tax purposes are: 20 years for buildings (including pipelines), 10 years for machinery and equipment, and 5 years for vehicles and computers.

Amortization

Investments that for accounting purposes need to be treated as amortizable assets may be amortized for tax purposes over a minimum period of five years, unless a lesser period can be justified.

Tax withholdings on payments abroad

As a general rule, payments made abroad for items considered Colombian source income are subject to a 33% income tax withholding and a 7% remittance tax withholding, calculated on the payment net of income tax. Therefore, the effective withholding rate is 39.55%.

A 10% income and remittance withholding rate applies on payments for technical services, technical assistance and consulting provided by a foreign entity without domicile in Colombia, regardless of where the service is rendered and provided that certain requirements are met.

Payments for the exploitation of computer programs are also subject to 35% and 7% income and remittance tax withholding, calculated on 80% of the payment, thus resulting in 32.032% effective withholding rate.

In the case of payments for the exploitation of films (movies), the basis for the calculation is 60% of the payment, and the resulting withholding rate is 24.32%.

Business income and capital gains from the sale of determined assets within the Colombian territory by a foreign company without domicile in

Colombia are subject to 14% income tax and 1% remittance tax withholding. These tax payers are obliged to file an income tax return at the end of the fiscal year.

Interest on certain qualified loans may be considered foreign source income, thus not subject to income or remittance tax withholdings, but deductible without limitation.

Turnkey contract related payments, are subject to a 1% income tax withholdings and a further 1% remittance tax withholding calculated on gross payments.

Dividends

Dividends paid by Colombian corporations to other Colombian corporations are not subject to tax if the company generating the profits out of which the dividends are being paid is taxed on these profits in Colombia (temporal differences can affect this calculation). Otherwise the dividends are included in the income tax return of the recipient of the dividends and taxed at the regular corporate income tax rate of 35%.

As a general rule, a 7% withholding tax applies on dividends paid to foreign investors if paid out of profits taxed at the corporate level. Otherwise a 35% income tax is imposed before applying the 7% withholding tax (i.e. the 7% applies on 65% of the dividends declared, generating an effective income and dividend withholding tax rate of 39.55%).

However, if the profits out of which the dividend is paid have been reinvested in Colombia for a period of five years or longer, the 7% dividends remittance tax charge does not apply (investment in Colombia is understood to be made by either retaining the profits in the company's equity or by investing them in another Colombian company).

Thin capitalization rules

No thin capitalization rules exist in Colombia

Wealth Tax

For tax years 2004, 2005 and 2006, companies that meet certain requirements are subject to 0.3% wealth tax on their tax equity (tax assets minus tax liabilities) determined as of January 1 of the applicable year. This tax is paid together with the income tax return.

Transfer pricing regulations

Transfer pricing regulations are included in articles 260-1 to 260-10 of the Colombian Tax Law (Tax statute). These rules are applicable in Colombia as of January 1 2004 and basically follow OECD principles. Transfer pricing regulations establish that

Colombian taxpayers must follow the arms length principle on cross border related party transactions. For taxpayers whose gross equity equals or exceeds 5000 monthly minimum wages or whose gross income equals or exceeds 3000 monthly minimum wages, the regulation establishes the obligation of preparing transfer pricing documentation for each type of cross border related party transaction that exceeds 500 monthly minimum wages and prepare a disclosure form related to those transactions.

For taxpayers involved in transactions with tax havens whose gross equity or gross income does not exceed the amounts mentioned above, but the amount of such transactions exceeds 500 monthly minimum wages, the regulations establish the obligation to prepare the related transfer pricing documentation and disclosure form, regardless of whether or not with a related party, as they are not to be considered to be at arms length unless otherwise proven. To date, there is no list of tax havens in Colombia.

Individuals

The tax year for individuals is the calendar year.

Colombian citizens resident in Colombia are taxed on a worldwide income basis. Nonresident Colombian citizens are taxed only on their Colombian source income. Foreigners are taxed on their Colombian source income, however after residing in Colombia for five years; they are also taxed on a worldwide sourced income basis.

The tax rate applicable to foreigners not resident in Colombia is 35%. Tax rates applicable for nationals and foreigners resident in Colombia are determined pursuant to a progressive table fixed on a yearly basis by the National government.

Some deductions are allowed for employees such as interest paid on the acquisition of housing, payments for health and education for themselves, their spouse and two children (under certain limits only the first deduction is allowed) and deposits in pension funds and housing savings accounts ("AFC") in this last two cases, provided the deduction does not exceed 30% of the employee's taxable income.

Deductions for fee earners are also applicable, following the general rules for legal entities. A 50% limitation applies, except when it is demonstrated that the total amount of income is invoiced, Fee earners are also entitled to

the tax benefits from deposits made in pension funds and AFC with the same limitations.

Permanent Establishment

Colombian tax laws do not provide a definition of “Permanent Establishment”. Despite the above, Colombia’s Code of Commerce provides a list of activities that qualify as a “permanent activity”. The same Code further provides that if a foreign company undertakes a permanent activity in Colombian territory such foreign company must incorporate a branch in Colombia with the purpose of carrying out those activities. Even though Colombian tax laws do not provide a definition of “permanent activities”, tax law state that branches are subject to Colombian taxes as Corporations, but limited, for income tax purposes, to their Colombian source income only.

Tax on Financial Transactions

Debit Tax

A 0.4% debit tax is applicable on withdrawals and transfers out of bank accounts.

Indirect taxes

Value Added Tax

VAT applies in Colombia at a general rate of 16% on.

The sale of movable tangible goods

- Import of movable goods
- Services rendered in Colombia, and
- The operation of games of chance or the supply of tickets for games of chance (excluding lotteries).

In some cases specified in the tax laws, the import of services (that is, services rendered abroad and used in Colombia) is subject to VAT, if the recipient of the service is located in Colombia. The services subject to this provision include:

- Licenses for the use of intangible assets
- Consulting, advisory and audit services Rental of corporate movable assets
- Insurance and reinsurance services
- Satellite connection or access services, irrespective of where the satellite is located
- Satellite television services received in Colombia.

Certain goods and services, principally basic necessities related, are excluded from VAT, thus no tax will accrue.

There are special VAT rates ranging from 0% to 38%:

- A 0% rate applies to a very limited array of goods and services (i.e. exported services, exported goods, school note books, etc.)
- A 2% rate applies to the sale of live animals, cattle, pigs, chicken, etc.
- A 5% VAT rate applies to games of chance.
- A 10% rate applies to goods like, horses, mules, toasted coffee, corn for industrial use, rice for industrial use, tuna fish, and services: cleaning services, commercial rentals, prepaid health care plans, surgery insurance, and in general all health insurance, social club, agricultural products storage, hostelry hotels and commissions earned by stock market traders.
- A 20% rate applies to mobile telephones.
- A 25% rate applies to all other vehicles other than luxury automobiles which have a 38% rate.

Exported services are VAT exempt, provided that (i) the service is rendered by a person registered as an exporter of services (ii) to a non-resident; (iii) the service is executed in Colombia and (iv) the service is used exclusively outside the country. In addition, the regulation requires the prior registration of the agreement with the Ministry of Commerce, Industry and Tourism, and meeting some other legal conditions.

In order to improve the tax collection system, the Colombian Government introduced a VAT withholding mechanism, designating certain entities as VAT withholding agents (including Government departments, large payers tax, Colombian payers to non-resident entities and VAT payers tax qualifying under the VAT common regime). These agents are responsible for withholding 50% of the tax due on any payment or accounting accrual related to taxable goods or services. In case of transactions with non-residents (both entities and individuals), the withholding rate is 100%.

Excise tax

The excise tax, known as “Consumption tax”, must be paid by the producer or the importer of some particular luxury goods when they are sold to the retailer.

Under Colombian tax law there are three different groups of goods subject to “Consumption tax”. The first group is the beer and beverages mixed with beer, whose rates are 48% and 20% respectively over the sales value. The second group is wine and liquor, the rates of which vary depending on the alcohol degrees, from \$69 COP to \$316 COP per degree, over the sale value.

The last group is cigars and tobacco, and its rate is 55% on their sale value.

Tax treaties

As a member of CAN, Colombia is covered under CAN's Decision No. 578, which is multilateral double tax treaty. Decision No. 578 is basically a "source double tax treaty (some doubt arises on this area in respect of the services article), whereby income earned in CAN countries is excluded from double taxation in the remainder CAN countries. Colombia also has double tax treaties covering certain international air transportation services with Argentina, Chile, France, Germany, Italy, United States and Venezuela.

Customs Duties

As a general rule, there are no restrictions on the import of goods to Colombia, except for the import of specific goods that require import licenses (e.g. used goods, some chemicals) or those that are not allowed to be imported for security and public health reasons (e.g. nuclear waste).

In Colombia, the importation of goods results in the accrual of customs duties and VAT charges. The former accrues at a rate of 5% to 20% depending on the customs subheading of the imported good. The latter accrues VAT at a general rate of 16% except for certain goods that have differential rates and maybe used as creditable VAT by the importer.

Draw-back

While the customs laws establish a draw-back regime called "Certificados de reembolso tributario" or CERTS for exporters, in practice it is no longer applicable since the Government established a 0% tariff over those CERTS, in accordance with a WTO ruling against this Colombian trade program which regarded this as an export subsidy.

Trade Programs

- Free trade Zones. These are geographical zones with duty and VAT exemptions at the time of the entry of goods. In addition Industrial Users of free trade zone enjoys income tax benefits on the net income derived from their export of goods produced in said zones.
- Inward duty relief ("Plan Vallejo"). This consists of an agreement between the exporter and the Ministry of Foreign Trade whereby, the former is entitled to import raw materials and capital goods exempt from import duties and VAT charges or VAT deferral. In exchange for such import duty and VAT benefits, the exporter assumes the commitment with the Ministry to produce finished goods with those raw materials and to export them to third

countries. It is important to note that this trade program is also applicable for the export of services,

- Duty and VAT exemption benefits. Colombian Customs laws offer duty exemption over the temporary importation of certain capital goods related to customs headings 84 to 87 of the Harmonized System that are not produced in the Country.

In addition, the Tax Statute offers several VAT benefits (e.g. exemptions, deferrals and tax credits) over the ordinary and temporary importation of certain types of capital goods.

- Government Agreements (UAP, ALTEX, PEX). The Customs Authorities (DIAN) offer several customs benefits to large exporters or importers, among which are non customs inspections, private customs warehouses and payment deferral of import charges (for large importers).
- Short Term Temporary Imports: They consist of the import of certain goods for a term of up to 6 months which may be extended for three more months without having to pay customs duties or VAT at the time of entry.
- Long Term Temporary Imports: They consist of the importation of certain goods for a term of up to 5 years, with the deferral of customs duties and VAT per semi-annual installments.

Trade Treaties

Colombia, currently has Free Trade Agreements ((FTA) with the Andean Community Countries (“CAN countries”, i.e. Bolivia, Ecuador, Peru y Venezuela) and as part of CAN, Colombia benefits from its FTA with MERCOSUR, in addition to the above, Colombian has an FTA with Chile, is a signatory of the “G3 FTA” (México, Colombia and Venezuela) and has a FTA with the Caribbean Community of Nations – “CARICOM”.

Additional FTAs are expected such as one with the United States (projected for 2008), the European Union and Canada.

7. Accounting & reporting

Accounting Standards

Colombian Law establishes that financial statements of companies incorporated in Colombia must follow Colombian accounting principles set forth in governmental decree 2649 issued in 1993 (Colombian GAAP).

The Banking Superintendence regulates general accounting laws that must be observed by controlled companies.

Some additional regulations on specific items are included in other laws, such as Tax and Commerce Law.

Besides Accounting Law, entities under the control and supervision of any superintendence must comply with additional accounting guidelines issued by them.

The Central Accounting Board carries out the inspection and supervision to ensure that the profession is only practiced by public accountants and that those who do so follow the legal provisions.

The Technical Committee of Public Accountancy is the entity responsible for developing the accounting principles, as well as the general auditing standards.

The government may review Colombian GAAP in order to adopt International Financial Reporting Standards (IFRS), by submitting a bill of law to Congress.

8. UHY firms in Colombia

UHY Auditores & Consultores S.A.

Carrera 49 No. 91 - 34

Bogotá D.C.

Colombia

Tel. +57 1 6969832

Email: srozo@uhy.com.co

Website: www.uhy.com.co

Contact: Samuel Jesús Rozo

9. UHY offices worldwide

For contact details of UHY offices worldwide, or for details on how to contact the UHY executive office, please visit www.uhy.com