



Doing business in Costa Rica



Prologue

This document has been prepared with the purpose of providing a clear view of investment opportunities to foreign investors interested in establishing business concerns in Costa Rica and consequently, how to become an active participant therein.

This guide shows a general outlook of Costa Rica as of January 2010, including its primary characteristics such as geography, history, population, language, natural resources, institutions, economic outlook and government system. It also includes regulatory issues pertaining to laws and applicable taxes regarding foreign investment.

Our purpose is to provide useful information to investors, exporters and importers, whilst offering a general view of those issues particularly relevant to investment or business decision-making process.

With this valuable information tool Deloitte wishes to extend a helpful hand to foreign investors by providing them with a sample of Costa Rican hospitality and its friendly business and solid investment environment. Our foremost intent is to convey commitment with our model of excellence and generate the adequate trust in regard to the professional level and the quality of the services available in Costa Rica. Our country is a place of opportunities and Costa Ricans will not be only supportive but also trustworthy allies throughout an enduring business relationship.

We recommend those interested in getting acquainted with further business opportunities or specific information to seek qualified, professional assistance. At Deloitte we can assist you with solutions and the necessary inputs for your decision-making process pursuant to your particular needs and those responding to your business interests.



A handwritten signature in black ink, appearing to read 'Alan Saborío', written in a cursive style.

Alan Saborío
Managing Partner
Deloitte & Touche, S.A.

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About Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu is a World leading professional Firm in the provision of auditing, management consulting, corporate legal advisers and tax services. We provide professional services to large multinational and domestic companies as well as to public institutions and thousands of smaller business concerned with rapid growth.

Deloitte stands as Deloitte Touche Tohmatsu, a Swiss Association. Its member firms include its corresponding subsidiaries and affiliates. Deloitte Touche Tohmatsu is a worldwide organization of member firms dedicated to excellence and to providing professional services including consultancy focused on client-service policies through a global strategy performed locally in nearly 140 countries. Having access to the intellectual capital of approximately 168,000 professionals worldwide, Deloitte provides services in four professional areas: Audit, taxes, consulting and financial advise – and provides its services to more than 80% of the largest companies worldwide as well as to large domestic companies, public institutions, important local clients and successful, fast-growing companies at the international level.

We are LATCO

We have launched a new stage in the development of activities at Deloitte so as to better serve our clients and generate further and greater opportunities to our people.

Our Costa Rican office was integrated, as of June 1, 2005; with a new organization we call LATCO. This new organization comprised of 15 Latin American countries and has a staff of approximately 5,500 people.

Countries integrated in this new organization include: Argentina, Bolivia, Uruguay, Perú, Ecuador, Venezuela, Colombia, Paraguay, Panama, Guatemala, El Salvador and Costa Rica. Our Costa Rica Office is responsible for operations in Nicaragua, the Dominican Republic and Honduras.

Deloitte Costa Rica

As a member firm of Deloitte Touche Tohmatsu we provide services to large companies both national and multinational, as well as to public entities and not-for-profit organizations and also to small but fast growing businesses, since 1964. Our firm has been continuously and uninterruptedly growing and, to this date, we have more than 490 professionals working full time with the Firm.

Our Firm's philosophy has always been, and will continue to be, to provide professional services of the highest quality and be acknowledged as the leading Firm in the fields of auditing, management consulting, outsourcing, ERS (Enterprise Risk Services) and tax and financial consulting services in Costa Rica. For this reason we will not, under any circumstances, give up the quality and personalized attention that characterizes our services.

Each of the aforementioned divisions offers products clearly identified with access to the human capital and materials required in each of such specialized fields so as to render superior quality services.

Our clients have immediate access to the varied, accumulated experience of our professionals towards the solution of your concerns in each of the service areas. We are willing and have the capacity to cooperate with our clients in the execution of projects requiring the confluence of our specialized departments including specialists from any of our offices worldwide.

Our professional services

Audit

Our Audit Division offers a wide range of services provided by our experienced and highly trained professionals. Our Auditing approach is based on risk: in understanding the business of each of our clients and identifying any risks related with the client and the role played by the auditing processes and the financial statements as a whole.

We are convinced that each client is unique and as such an audit plan is required to meet their specific operations while being applicable to the professional environment. The most frequent audit services that we offer are as follows: financial statements yearly audit (NIIF /USGAAP), opinions relative to internal control, review and compilation reports of financial statements, reports on procedures previously agreed upon, reports on compliance with contractual provisions, balances certifications, accounts or transactions, due diligence procedures, special reports (SAS 62 / NIA 800), reports on the application of accounting principles, comfort letters, inquiry on prospective financial information and other assurance commitments.

Our clients have immediate access to the varied, accumulated experience by our professionals towards the solution of your concerns in each of the service areas. We are willing and have the capacity to cooperate with our clients in the execution of projects requiring the confluence of our specialized departments including specialists from any of our offices worldwide.

Management Consulting

Services supported by international methodologies developed and tested worldwide with great success:

- TI Strategy and Alignment
- Management of Project Portfolios
- Evaluation and Implementation of Improvements on TI Services
- Business Continuance
- Service Quality and Image Studies
- Growth Management
- Strategic Alignment
- Managing Income-Producing Capacity and Competitiveness
- Managerial Sustainability (ISO, RSC)
- Change Management
- Management per Competences
- Compensations Management
- Hiring and Training



Enterprise Risk Services (ERS)

This is our professional practice designed to manage informatics risks as well as to assist our clients in developing a high degree of confidence and improve their performance. Our input will allow our clients to measure and better manage business controls and risks throughout the entire organization, considering that all companies manage risk through a business process that meets market opportunities.

ERS provides value by aligning our key competitiveness: comprehensive risk consulting and control for companies facing challenges in the areas of organization, information, operation, environment, technology and finances, with the needs of business risk management of our clients.

To achieve such alignment, ERS provides the following service lines: risk consulting, internal audit services and informatics security services.

Outsourcing

This Division provides the following services: (1) accounting outsourcing including: local and corporate multiple-currency accounting, preparing local and corporate reports, accounts payable and accounts receivable processing, registration of purchases and imports, and inventory control, invoicing, banking transactions controls, accounting control of fixed assets, conciliations of accounting accounts; (2) tax outsourcing including: compilation of tax returns, sales taxes, income taxes, informative statements, withholdings and yearly tax conciliation; (3) payroll outsourcing including: payroll processing, payment of salaries and delivery of payment evidence, preparation of reports to authorities, handling of contributions to authorities, accounting and reporting in relation to the payroll, personnel settlements, employer's mediation, human resources work; (4) others such as: cash management (treasury), management of the payment processes to suppliers, registration of new legal entities before Costa Rican authorities (Health Ministry, Tax Administration, Costa

Rican Social Security Agency, National Insurance Institute, drawing up inventories of fixed assets and merchandise (counting and conciliating auxiliary records).

Tax Services

Our tax division offers an ample array of services including local taxes, preventive tax audit, taxes at the customs level, advisory services on tax policies, training workshops and transfer pricing.

Each service line includes several benefits provided to the client in a personalized fashion while seeking the full satisfaction of specific client's needs on a technical level, thus guaranteeing efficiency of the service and security in its practical implementation.

The following are some such specific services: integral tax consulting, preparation of legal opinions and those of general consultation, prospecting new financial and stock-exchange related services, filing of administrative claims against notices from the Tax Administration Office regarding charges as a result of investigations performed by said Office or any other tax-related entities; contentious practice, creation and instrumentation of tax structures, medium and long terms based on the existing tax legislation, bearing in mind any projected changes resulting from national and international trends; tax planning relative to international mergers and acquisitions and investments; conceptual review of tax-related sworn statements; actions and procedures before the Tax Administration Office and other tax collecting entities; monthly delivery of a electronic bulletin containing summaries of approved laws, law projects, decisions issued by the Attorney General's Office, the Comptroller General's Office, the Constitutional Court, Municipalities and the Government as well as notices issued by the Ministry of the Treasury, Case Law and substantive articles prepared by members of the Firm; consulting services relevant to customs valuation issues and customs classification of merchandise; consulting

services associated with customs special systems and the Free Trade Exporting Zones; import tax consultancy; instrumentation services of informatics systems allowing sustainability of the standardization of the databases related to imports, including customs classification and valuation components; consulting services relative to the source of merchandise, dumping rules and restrictions on merchandise importation, etc.

Financial Advisory Services (FAS)

Within the FAS Division we specialize in adding value for the stockholders.

From Deloitte's model of excellence we offer world class financial services designed towards our clients' achievement of their goals by means of innovative solutions at each phase of their business economic cycle.

We focus our value proposals to clients participating within the different productive sectors: banking, the stock exchange, real estate, technology, insurance, manufacturing, goods and services and commercial and industrial sectors, among others.

We consolidate the experience accumulated by our FAS professionals with our own technical resources as made available by Deloitte's worldwide net. Consequently, we provide an authentic service of the highest international standards in quality that we efficiently incorporate into the particular requirements of the local financial services market.

In addition, we offer our independence, objectivity and Deloitte's professional style through which the areas of opportunity are identified so as to reach and maximize the financial performance sought by our clients.

Furthermore, we strengthen our services through a strategic alliance with Mora de la Orden & Co., a leading company with over 20 years of experience in the market of financial advisory

services, corporate finances, private capital investments and investment banking in the form of public offer paper through the National Stock Exchange.

Services:

- Corporate Finances
- Transactions Advisory Services (F&A)
- Valuation Services
- Reorganization and Restructuring
- Forensic Investigations and Commercial Disputes

Introduction

General Comments about Costa Rica, its historic background, geographic, demographic, governmental and infrastructural, characteristics, etc.

General Outlook

Costa Rican is a country known worldwide as being, likely, the oldest democracy in the Americas. That, plus its political stability, provides a unique base for a solid business environment throughout Latin America. This peaceful country is committed to the preservation of its natural resources as well. Its biodiversity is one of the largest worldwide. Its riches lie in its privileged geographic location, the quality of its soil, the climate and, most of all, its people.

Geographically, Costa Rica is located in the heart of Central America. It is the second smallest Central American Republic with an area of 51,100 square kilometers. It is bordered to the North by Nicaragua, to the South by Panama and to the East and West by the Atlantic and the Pacific Oceans, respectively.

From the Northwest to the Southwest, along its territory, lie three volcanic mountain ridges reaching an altitude of over 3,800 meters and where 18 rivers flow from (approximately 1,600 kilometers of waterways on the surface) providing abundant hydroelectric power. The Caribbean coastline is rather uniform which extends 255 kilometers contrasting with the Pacific coast line which extends almost five times further.

Costa Rica was discovered in 1502 by the Italian-born conqueror Christopher Columbus during his fourth and last voyage to the New World and thereafter became a Spanish colony.

Costa Rica became independent from the Spanish Kingdom one September 15, 1821. In 1871, it adopted its first Political Constitution. The current Constitution dates back to November 7, 1949 and, in it, freedom of speech, religion and mobility of all citizens are guaranteed; it also provides for the inviolability of human life and the right to private property.

From the 1800s, with the introduction of coffee, bananas, cocoa and other products, some producers decided to buy or finance these crops and subsequently sell them to the international markets. Such activities meant an extraordinary drive with respect to the other countries in the Region. Coffee became the most important of these crops. In order to further push exports; by the early 1900s the first railroad system from Puerto Limón to the city of San José was built. The development of the banana industry triggered considerable labor reforms in the country.

During the year 1948, a short civil war promoted reforms to national economic and political structures. A new system wherein the public and private sectors coordinated efforts to achieve a sustainable development for Costa Rica. In addition and as a result of this revolution, the army was abolished, thus strengthening the country's democratic tradition.

Central America was embroiled in serious armed conflicts during the 80s which ended with the signing of the Peace Accord of Esquipulas II. Costa Rica, represented by its President, Oscar Arias



Sánchez, played a central role as mediator by virtue of its neutral standing and its long peaceful tradition. As a result, the Nobel Peace Prize was granted to President Oscar Arias in 1989. Such acknowledgment has strengthened Costa Rica's democratic image and, as a consequence, drawn more foreign investment and tourism.

Population and Language

Costa Rica's population is approximately four million individuals; over 50% of the population lives in the Central Valley (including the capital and other large cities) comprising a little over 4% of the national territory.

The country is divided into seven provinces: San José, Alajuela, Heredia, Puntarenas, Cartago, Guanacaste and Limón. The official language is Spanish; however, many Costa Ricans speak other languages among which are English, French, German and Italian; this allows for good communication skills with foreign citizens.

Costa Ricans are descendants of a wide array of racial and ethnic groups including Europeans, Caribbean people, Asians and indigenous groups. The population growth has been relatively stable during the last decade. Social programs have allowed significant progress in health and education that, according to the Human Development Index prepared by the United Nations Development Program, position Costa Rica high within the human development index, which considers, among other aspects, life expectancy at birth, per capita income and educational level.

Medical Services

Costa Rica offers excellent medical services to the point that many Central American nationals regularly travel to the country seeking such services. There are specialists in almost all medical sciences, most of whom have specialized abroad and many of whom are bilingual. The National Hospital System has clinics countrywide: hospitals, public clinics (some named EBAIS) and private clinics.

The high level of quality in medical services has come to strengthen a growing industry of medical tourism, allowing foreign nationals to put together vacation and medical treatments, packages for a wide range of services from plastic surgery to ophthalmologic and odontology treatments at very competitive prices. All employees and their dependents are covered by the Costa Rican Social Security System which is a public health service managed by the Caja Costarricense del Seguro Social. Tourists and foreign individuals may use such medical services at a reasonable cost. Very high quality private hospitals are also available.

Education

The educational system has reached a 95.2% literacy level and the labor force is one of the most important resources and attractions of the country. Besides the population being well educated and healthy, Costa Ricans enjoy a per capita income higher compared to other Latin American countries. Life conditions range from good to optimal. There are no racial or religious differences or issues regarding citizenship. The Government and the Costa Ricans provide a cordial welcome to visitors and to foreign investment.

Excellent private and public schools open their doors to foreign students wishing to study in the English, French, German and other languages. The school year starts in March and ends in November. Nevertheless, some schools follow the system applied in the United States. There are approximately 70 educational centers, State and private universities and higher learning centers, among them. Public Universities are: Universidad de Costa Rica (UCR), Universidad Nacional de Costa Rica (UNA), Instituto Tecnológico de Costa Rica (ITCR) and Universidad Estatal a Distancia (UNED).

The following are the private Universities: Universidad Autónoma de Centroamérica (UACA), Universidad Interamericana de Costa Rica (UICR),

Universidad Internacional de las Américas (UIA), Instituto Centroamericano de Administración de Empresas (INCAE), Centro para la Investigación y Educación en Agronomía Tropical (CATIE), Escuela Centroamericana de Ganadería (ECAG), Escuela de Agricultura de la Región Trópico Húmeda (EARTH) and Universidad Latinoamericana de Ciencia y Tecnología. (ULACIT).

Professional Level of Costa Ricans According to Transnational Companies

In a study prepared by Deloitte at the request of CINDE, transnational companies in the service, medical and electronic device sectors located in Costa Rica describe the academic and attitude-related elements of Costa Rican employees, as follows:

- High schooling levels
- High talent and creativity at problem-solving
- Enjoy challenges
- Fast learning (effective learning curve)
- High knowledge of the English language
- Committed and responsible

Climate

By being positioned between two oceans, Costa Rica has a tropical climate. This circumstance mixed with a complex mountainous system yields a wide diversity of habitats. Spring-like climate prevails year-round; however, temperatures vary from 14°C to 22°C in the Central Valley and from 22°C to 28°C in the lower areas. Temperatures in each region stay relatively stable year-round although some changes occur depending on whether it is summer or the rainy season. Summer generally spans from December through April and the rainy season from May through November.

Due to abundant micro-climates, there are over twelve ecosystems in the country according to Holdriesch's scale. Such abundance has placed Costa Rica among the countries with the richest flora and fauna worldwide. The climate and the vegetation provide Costa Rica with a pleasant atmosphere.



Transportation

Given its geographic position, Costa Rica may be easily accessed by land, sea and air. There are over 7,000 kilometers (4,400 miles) of roads and highways and 16,000 kilometers (9,600 miles) of rural roads throughout the country. The Juan Santamaría airport has agreements with 19 international passenger airlines and 8 cargo airlines. The Daniel Oduber Quirós airport is located in Guanacaste and its main activity is tourism; currently receiving international flights. In addition, there are approximately 130 airfields, of which over 100 are private.

Thanks to the high-technology port infrastructure, the farthest places around the world may be accessed. Puerto Limón is the largest port and mobilizes close to 80% of all cargo operations (imports and exports) including in-bulk cargo, containers, banana and fresh fruits exports and imports of crude oil. In the Pacific, Puntarenas has a new pier designed for cruise ships. All docks offer sufficient capacity to load and unload cargo containers with access to 24 shipping companies and 115 shipping agencies.

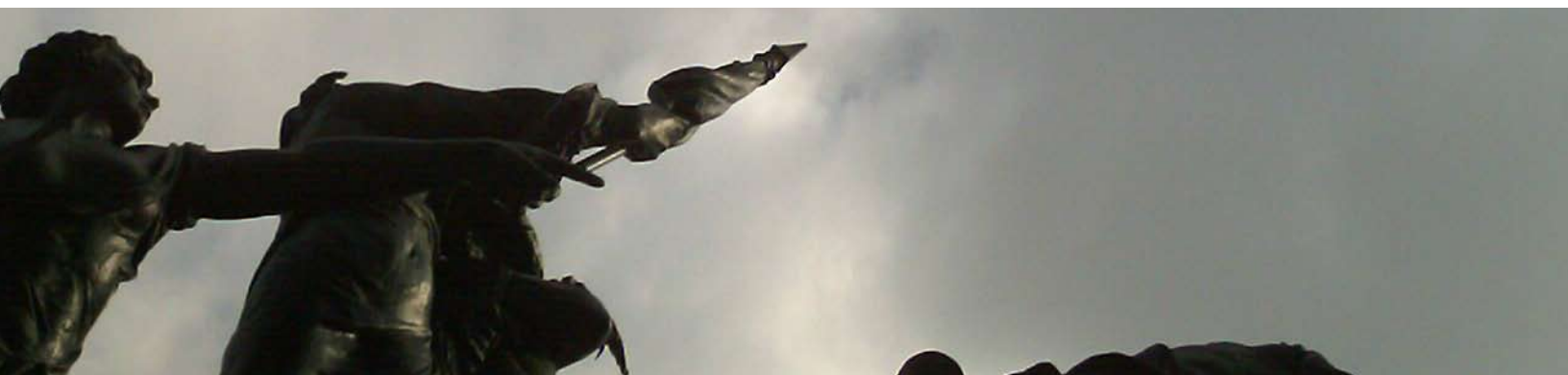
Regarding public transportation, there are many taxicab companies in the country whose vehicles are easily identifiable by their uniform red color. In rural areas, taxicabs are four-wheel drive units. Those painted orange provide services to and from the Juan Santamaría airport. Also, there are buses for inter-urban public services, among Provinces and at an international level. There is also a modern bridge over the Tempisque River. A ferry departs Puntarenas on a daily basis across the Gulf of Nicoya so as to provide transportation from this Province to the southernmost area of the Guanacaste Province. In addition, railroad services in the metropolitan area have been successfully reinstated in recent months.

Communications

There is a modern telecommunications network thanks to which direct and immediate communications worldwide are available through regular telephone, the Internet, telex and facsimile. The services are provided by Radiográfica Costarricense, S.A. in a speedy and reliable manner year-round. Cellular telephone services are now provided by the Instituto Costarricense de Electricidad (ICE). Approximately fifteen companies now hold permits to provide mobile, bi-directional telephone services. Until 2008, telecommunications were under the control of a State monopoly which was reformed and made available to other players in the telecommunications sector. With respect to most services, for example, fixed telephone services are excluded, as a result of the execution of the Free Trade Agreement among Central America and the United States of America, known as CAFTA (after its English abbreviation).

Nearly 94% of the population has access to electric power and telephone services, including rural areas.

Four major newspapers are available daily in Costa Rica (La Nación, La República El Día and La Extra) and several publications in the English language are available on a weekly basis (such as the Tico Times). Additionally, several magazines are published covering a wide range of general matters as well as the economy and business. There is also an efficient postal service and a number of international courier services. Cable and satellite television are accessible in Spanish and English.



System of Government

Since its independence in 1821, Costa Rica has enjoyed a democratic government system based on free elections and the participation of multiple political parties.

In the 1949 Political Constitution, still in force, Costa Rica was declared a democratic republic which entailed the following changes: the abolition of the army (the social order is efficiently safeguarded by the police force), the nationalized banking system, the creation of the Electoral Tribunal, the formation of State-owned companies to decentralize some governmental functions such as insurance services, transportation and health; Citizen Rights were guaranteed: equality under the law, freedom of speech, free press and freedom of religion, all in the benefit of Costa Rican and of foreign residents and, additionally, women were granted full voting rights.

The current political system is represented through the following governmental powers that are independent from one another, evidencing an organization and functions similar to those practiced in the United States of America:

The Legislative Power (Congress)

It is comprised of 57 deputies or congresspersons who are elected through the popular vote for a period of four years. Said Deputies are responsible for the preparation and approval of the laws.

The Executive Branch

Formed by the President of the Republic, elected by popular vote in national elections every four years. The President holds power for only one consecutive term. The Executive Branch is completed by two Vice-presidents and a cabinet comprised of 18 Ministers.

The Judicial Branch

Integrated by the Supreme Court of Justice, which is subdivided into four appellate courts and several tribunals for civil, criminal and other special matters. The Constitutional Court

oversees the constitutionality control by means of Constitutional consultation (regarding the congruence of the laws with those of the Constitution).

Supreme Tribunal of Elections

In addition to the aforementioned Branches, there exists a Supreme Tribunal of Elections whose actions and acts are independent. This Tribunal is responsible for the organization, supervision and direction, every four years, of the national elections whereby the President, the Congresspersons and the Municipal Representatives are elected by the popular vote. This Tribunal organizes referendum acts as well.

Bodies Related to the Government

The Executive Branch is divided into 18 Ministries, among which investors should contact, depending on the area of interest. These include the Ministry of Economy, Industries and Commerce, the Ministry of Foreign Investment, the Ministry of Foreign Affairs, the Ministry of Agriculture and Livestock and the Ministry of Tourism. Other important entities collaborating with and part of the Government in respect to economic and related matters are: the Foreign Trade Promoting Agency (PROCOMER), the Coalition for the Initiatives toward Development (CINDE) and the University of Costa Rica's Institute for the Investigation of Economic Sciences (IICE).

Banking System

The Costa Rican Banking System is comprised of the Banco Central de Costa Rica (Costa Rica Central Bank), four public banks of which three are State-owned (Banco Nacional de Costa Rica, Banco de Costa Rica and Banco Crédito Agrícola de Cartago) and approximately 13 private banks. The Costa Rican banking sector moved from 25 actors in year 2000 to about half that number in the last two years due to a process of mergers by powerful international financial groups.

The Banco Central de Costa Rica (Costa Rica Central Bank) was established in 1950 as an autonomous entity responsible for the national monetary policies and of the currency issuance. At present, this Bank works together with the Ministry of Economics in order to create policies that would prevent a strong devaluation of the national currency, the “Colón”, and for the country’s exports to remain competitive.

In September, 1996, a new law allowed private banks to offer banking account services and abolished the old restrictions that limited the activities of private banks. This means competition among private and public banking institutions. The Costa Rican Central Bank Organic Law defines the typical and usual responsibilities of such banking institutions.

State Banks

The three State-owned Banks are public, autonomous corporations, administratively independent but subject to governmental regulations; they are managed by a Board of Directors whose members are appointed by the Government for a term of eight years. These Banks are allowed to open branches within the national territory and/or abroad.

Private Banks

These banks may operate as corporations (“Sociedad Anónima”) or as federations of cooperatives and are supervised by the Superintendent General’s Office of Financial Entities (SUGEF). These are also governed by a Board of Directors whose members are appointed through their General Shareholders Meeting. Most private banks have branches across and around the most important population center and areas of economic activities so as to offer new services to the public.

The Costa Rican banking sector evidenced important changes during 2006 and 2007 when large international banking institutions started acquiring local and some regional banks. For example, General Electric bought some participation in the regional BAC San José Bank. HSBC bought Banco Banex that had been previously bought in the region by Banistmo. Shortly thereafter, worldwide Citi Group announced its purchase of Banco Uno and Banco Cuscatlán, both with important presences in the region. In addition, the Panama-based Banco Continental decided to register with the SUGEF in Costa Rica.

This process has allowed State Banks to strengthening their competition strategies in order to maintain their predominant position in the market.

Activities of Public and Private Banks

Upon the implementation of the Central Bank’s Law (1996), State and private banks may offer the following services:

- Loans to the general public.
- Current and savings accounts in the local currency (Colones) and in US Dollars
- Financial support to productive activities.
- Commercial credits jointly with the Central Bank.
- Acceptance of fixed terms for interest on time deposits.
- Financial support to imports and exports.



Offshore Banking

Until 2008, offshore banking was subject to a highly beneficial special tax system. Under this system, financial entities not domiciled in the country but that were a party to a local financial group (as defined by Banco Central's Organic Law) or linked to a bank domiciled in Costa Rica (as long as they are rated by the Banco Central as financial entities of the first order) were authorized to trade tax payments over foreign remittances upon an annual payment of US\$125,000. The capitalization of Costa Rica's Central Bank bill as published in the Official Gazette number 77 of Tuesday, April 22, 2008, anticipates the abolishment of this benefit. However, such a bill has not yet been approved by Congress.

Economy Currency

Costa Rica's Central Bank issues the Costa Rican currency: Colón. When preparing this document, the exchange rate as of January 21, 2010, was established at 562.63 Colones per US Dollar (sale) and 552.30 (purchase).

Persistent interventions in the market performed by the Monetary Authority and the persistent growing exchange rate became easily predictable. Therefore the Board of Directors of the Costa Rican Central Bank migrated from a rigid exchange rate system based on mini devaluations to a system of exchange margins or bands in October 17, 2006, with the purpose of providing appropriate market freedom and more flexible intervention in the Central Bank's monetary policy pursuing lower and stable mid-term inflation rates.

Chief Economic Pointers

As of January, 2010, the basic passive rate was established at 8% (PRIME/LIBOR equivalent in Costa Rica) and the active interest rate for a six-month deposit was paying 6,26% interest in Colones and 1.09% in US Dollars in the public banks, whilst in private banks such rates at the same term of maturity were paid respectively, at 8,70% interest in Colones and 2.46% in US Dollars.

In January 2010, the average rate for mortgage loans in Colones was 19,84% and 10.57% in US Dollars.

Production and Employment

In November 2009, the economic activity measured by the cycle trend of the Monthly Index of Economic Activity (IMAE) shows an average variation rate of 3.6%, showing positive results for third consecutive month, after a difficult times during the rest of 2009.

The IMAE showed an important rise, since the data of the inter-annual variation up to November changed from a loss of 2.3% in 2008 to a rise of 3.6% in that same month in 2009 showing a slow recovery trend after the international crisis effects in the past year.

The grow up registered in the production on November 2009 is explained for Free Trade Zones exports.

The recovery in the average rate of IMAE reflects a best overview for some sectors, like agricultural production and manufacturing that star to grow up with rates of 1.3% % and 10.1% respectively during 2009 in relation to the same period of 2008 when showed negative results decreasing 1.4% and -0.4% in that order. Also The slowdown registered in construction activity with -5.1% in November 2009 and commercial activity that showed a inter-annual variation decrease of -1.8%; still affects this index.

The 2009 growth target according to Macroeconomic Program of the Central Bank between 2.5% and 3%, relatively low but realistic toward the global economic situation.

| Monthly Index of Economic Activity Base 1991= 100 | |
|---|-----------------------------|
| Reference: January of each year | Inter-annual variation Rate |
| January 2005 | 4,8 |
| January 2006 | 7,6 |
| January 2007 | 8,3 |
| January 2008 | 6,5 |
| January 2009 | -4.02 |

Up to year 2008, Costa Rican total population exceeded 4.509.290 individuals. According to the Costa Rican Central Bank's most recent figures for 2009, the labor force was comprised of 2.121.451 individuals of whom 165.944 are considered jobless therefore positioning the open unemployment rate at 7.8%.

According to Statistics released by the Monetary Department of the Costa Rican Central Bank and based on figures recorded by the Costa Rican Social Security System, the evolution of the real monthly average salary per person using, as a deflator, the price index to consumers based on figures to July 2006, is as follows:

| Yearly variation of the real average salary | |
|--|--------------------------------|
| Year | Average real salary in Colones |
| 2005 | 262,364 |
| 2006 | 266,665 |
| 2007 | 270,305 |
| 2008 | 264,903 |
| 2009 | 291,190 |

Source: Statistics Central Bank

External Sector

The commercial account of the Costa Rican balance of payments for 2009, showed a deficit of US\$2,725 million, 53% less than the 2008.

Imports decrease more than the exports product of the contraction in local demand and the reduction on the exports was product of the international crisis.

Factors that increased the reduction of the commercial gap may include declines in international oil contracts/derivatives and a decrease in the demand for critical raw materials for production.





The Exports of products and services from Costa Rica reached \$8.782 million during 2009, 7.5% less than previous year, according with Central Bank preliminary economic estimations.

On 2008 the main destination of exports was to Central American countries, with Panama and the Dominican Republic accounting for 34.6% of the total value, United States (28%) and Europe (25%). The complete report about this past year is still under construction.

On the other hand, the accumulated purchases to other countries during 2009 reached a total of \$11 507 million; an amount of almost 25 % less compared to the value observed in the same twelve months of 2008. when the growth rate, excluding the goods to be processed by the special regimes, reached 27%, a rate 7 and 9 percentage points higher than the ones recorded in similar periods of 2007 and 2006, respectively.

The cumulative growth rates of the imported goods have demonstrated a slow down since August, 2008, due to the lower prices of oil contracts and other commodities. Yet the oil bill from January-November 2008 represented 6.7% of the gross domestic product (GDP), higher than the 5% observed within the same period of the previous year, and a higher average price of \$38.3 per barrel.

Central Bank will publish the complete 2009 economic results at the end of January 2010.

| Evolutions of Costa Rica's Exports | | |
|------------------------------------|-------------------------|--------------------------|
| Year | Amount in US Million \$ | Inter-Annual Growth Rate |
| 2005 | 7.000,6 | 11,5% |
| 2006 | 8.198,2 | 17,1% |
| 2007 | 9.343,2 | 14,0% |
| 2008 | 9.552,8 | 2,2% |
| 2009 | 8,782.0 | -7,5% |

Source: COMEX based on Central Bank and Procomer's Figures

| Costa Rica's Imports Evolution | | |
|--------------------------------|-----------------------|--------------------------|
| Year | Amount in USMillion\$ | Inter-annual Growth Rate |
| 2005 | 9.806,7 | 18,6% |
| 2006 | 11.531,4 | 17,6% |
| 2007 | 12.954,7 | 12,3% |
| 2008 | 15.373,5 | 18,7% |
| 2009 | 11.507,0 | -24,0% |

Monetary Program

Inflation, measured by the Consumer Price Index (CPI), showed a prices variation of -0.16% in December 2009, a minor change compared to that of the previous month and to that in December 2008 (-0.42%). As a result, the Central Bank expects the inflation in 2009 will be under 4% dramatically lower than the previous year and slightly lower than the forecast given in the mid year review of the Macroeconomic Program (between 4% and 6%).

The Consumer Price Index in 2009 was the lowest in the last 30 years in Costa Rica. The monthly CPI result was mainly explained by the behavior related to the international oil prices fall and imported raw materials

In regard to exchange matters, the Costa Rican Central Bank is committed to the consolidation of the exchange margins/bands system as a previous step to migrate into a floating exchange system, thus allowing more flexibility towards its monetary policy.

The global exchange market registered a surplus of \$30.8 million in December 2008, originated primarily by seasonal factors such as the payments of bonuses, taxes and wages by the international corporations whom increased the supply of foreign exchange in the first half of the month. On the other hand, the market for trading foreign currency (MONEX) recorded a balance of \$187.4 million, due to the average daily supply of \$69.7 million, higher than the observed average demand of \$60.3 million. In this context, the Monetary Authority continued to get involved in the wholesale market by buying foreign exchange to meet the requirements of the public sector and to stabilize the U.S. dollar.

The volatility in the supply of currencies during the month also generated changes in the exchange rate, as the buying and selling average price of the dollar fluctuated from ¢531 on the first day of the month to ¢558.2 on December 30, 2008.

The macroeconomic program of 2009-10 indicates that the growth outlook for 2010 is between 2.5% and 3% % of GDP.

| Review of the Monetary Program, January 2009 | | | | |
|--|-------------|-----------------|-----------------|-----------------------|
| | 2007 | 2008 | 2009 | 2010 (Projected) |
| Inflation (annual %) | 10.8% | 13.9% | 4.5% | Between 4% and 6% |
| DGP real (growth rate) | 7.3% | 2.9% | -1.3% | Between 2.5% and 3.0% |
| Current Account Deficit (% of DGP) | -6.0% | -9.2% | -3.4% | -4,7% |
| Exports (millions) | \$9,300.00 | \$9,675.30 | \$8,782.00 | |
| Imports (Millions) | \$12,300.00 | \$15,373.50 | \$11,507.00 | |
| Central bank's Reserves (Millions) | \$4,113,60 | \$3,799.00 | | \$4,000 |
| Private sector's credit expansion | 41.8% | 25.9% (colon) | 4.3% (colon) | 12.6% |
| Total liquidity /1(National Current) | 18.8% | 11.8% (colon) | 13.5% (colon) | 14.2% (colon) |
| Direct Foreign Investment | | \$2,016 million | \$1,300 million | \$1,450 million |
| Available National Gross Income (real terms) | 7.7% | 1.4% | 0.2% | 1.9% |



Public Finances

Preliminary figures for the January-November 2008 period, on a cash basis, point out that the surplus of the global reduced public sector was 1.18% in relation to GDP. This meant a slight worsening of the financial position, equivalent to 0.05 percentage points (pp) with respect to what was observed in November 2007. The decline resulted from the reduction in the surplus of the non-financial institutions included in the sample.

In November 2008, the Central Government had incomes of ₡155,813 million and expenditures of ₡191,010 million, resulting in a financial deficit of ₡35,197 million. In cumulative terms, however, the surplus persisted in their accounts (₡97,328 million) and the expectations that the government could close the year with a slightly positive financial result or very close to zero.

To be more specific, tax revenues grew nominally 20.4% during the period in review (27.4% in 2007), which was observed in the slower growth of virtually all items due to the slowdown in economic activity. The government revenues, however, continued to grow at a rate higher than expenses, as these increased 16.8% (19.3% in 2007).

The Central Government's primary expenditures continued its growth with regards to the same period of 2007 (27.9% vs. 28.4%) as a result of higher wages and capitalization of the public debt by the Government, to social programs. When the service debt interest is added, changes in the government's expenditures are reduced by 11.1 percentage points, which shows that lower interest payments has been one of the main elements to contribute to the good fiscal performance. The behavior noted in the revenues and expenditures of the Central Government, made it possible not only to achieve a financial surplus in the Government (0.61% of GDP), but allowed the primary surplus to stay at 2.91% of GDP.

The numbers for 2009 will be ready at the end of January

| Public Finances First Four-Month Term 2008 in Millions (Colones) | |
|--|------------|
| Item | Amount |
| Current Income | 830.147 |
| Total Expenditures | 239.974,70 |
| Primary Surplus* | 242.424,10 |
| Financial Surplus** | 90.172,30 |

* Current income less expenses not including debt's interests

** Current income less total expenditures.

Source: Treasury Ministry

Foreign Investment in Costa Rica

The Free Trade Agreement among Central America, the Dominican Republic and the United States is expected to draw positive implications on the exportable offer of the country and the attraction of investments that would result in the strengthening of the external financial support of the economy.



Devaluation Policy and Expected Inflation Rate

By the second quarter of 2008, the Costa Rican economy again faced external shocks: i) international prices of raw materials (basic grains and oil) rose sharply, pushing domestic inflation and further deteriorating the terms of trade and ii) the slowdown in the U.S. economy began to manifest itself in a loss of dynamism of external demand. Coupled with this, imports continued to grow at a rapid pace and the economic agents showed a change in the expectation of exchange rate fluctuations (from appreciation to depreciation of the colon).

These events led to a reduced availability of foreign currency in the Costa Rican exchange market, but availability was up in May when it showed sustained increases within the exchange rate.

At that time, even when the Central Bank recognized the effects the previous events had on the price behavior of its currency, the Central Bank considered that the observed abrupt adjustments introduced a high volatility. In order to contain the excessive pressure on the price, to meet the quantity demanded by the market, it decided to use a part of the surplus of the international reserves accumulated during the previous months. This measure, in addition to stabilizing the exchange rate, had a negative monetary effect that contributed to the task of monetary control, but was insufficient to counteract the effects behind the increase in raw material prices on domestic inflation.

Leading Activities

Agriculture

Traditionally, Costa Rica's agriculture and agro-industrial activities have been sectors largely contributing to exports of which coffee, bananas, sugar and meat, stand out. Currently, the Government is promoting exports of non-traditional products that are attractive perspectives to strengthening the economic sector.

The program for the agricultural, non-traditional exports includes tropical fruits and vegetables such as pineapple, mango, papaya, tomatoes, artichokes, strawberries, asparagus, melons, cocoa, mini vegetables and others whose production is supported by adequate transportation, production incentives and tax breaks, refrigerated warehouses, advisory services from agricultural specialists as well as the local climatic conditions that allow good production results year round.

Costa Rica is a world center for the investigation and application of sustainable agricultural methods and practices in the Tropics. EARTH, CATIE and ECAG are among the group of local institutions that work in attaining, on a long term basis, higher productivity in reduced areas with less environmental impact.

Electronic and High Technology Industries

High technology production is a substantial competitive sector and some multinational companies have stated that the plants generating most of the production are located in Costa Rica. The Government has been promoting high-technology investments in a sector of substantial potential growth associated with components and spare parts manufacturing and product assembly. Most of the industries related to this manufacturing field started operations in Costa Rica on modest investment terms and premises. To date, these concerns have seen considerable growth and currently perform their business activities via modern industrial equipment and



with thousands of employees. The manual assembly of electronic devices has been replaced with sophisticated productive processes.

By means of the Free Trade Zone System Costa Rica has drawn large numbers of high technology companies surpassing the rest of the Central American countries as a whole. These companies have stated that the quality of Costa Rican labor is higher than that found in other countries worldwide. Some of such high tech companies now operating in the country are: Intel, Square D, Hitachi, Sawtec, C & K Components, Merrimack Industries, Protec Electronics, DSC Communications, Trimpot, Sensor Scientific, Panduit, Conair, Bourns, Espion and HP, among many others.

Plastics Industry

For the manufacturing of flexible plastic containers and packaging, the export contract allows the temporary importation of raw materials to be processed and re-exported free of any taxes. Costa Rica provides the necessary technicians and the specialized labor required for the manufacturing of plastic products thus positioning the country at an international, competitive level.

Metal-Mechanic Industry

This type of industry has grown significantly mainly due to foreign investments. There are 998 companies in this sector classified as follows: 638 micro, 262 small, 52 mid-size and 47 large. Most shops use modern equipment and offer good automation, quality and manufacturing levels. A number of vocational schools offer technical formation related to precision mechanics and some large companies select staffers to obtain specialization and training skills abroad.

Fishing Industry

This industry represents one of the most important export products, its markets being the United States, Asia and Europe. The worldwide increase and demand for seafood and its high prices have triggered its growth in the Pacific Coast. Among seafood varieties for export are: yellow fin tuna, pink and white sword fish, Bonito, Dorado, Tilapia and a shark species named "*blue fin trillador*".

Processed Foods

The processed food industry is considered as a promising investment with an annual growth rate of 35.5%. This activity is becoming an important non-traditional income generator. The larger processing plants have been designed in a manner that production may be bound – wholly or in part - for export purposes.

Due to tax exoneration rules of the Caribbean Basin Initiative II, Costa Rica competes with Brazil in exporting frozen orange juice concentrates to the United States. Other frozen products exports are: paste, pulp, puree, concentrates of guanabana, carambola, maracuyá, jelly, marmalade, tropical juices plus a wide variety of tropical sauces and heart of palm.

Food processing equipment may be imported or purchased locally from national manufacturing industries that also produce packaging materials at competitive price. These companies comply with the approval from the manufacturing practices of the United States Department of Agriculture (USDA). Costa Rica offers sufficient specialized staff in areas such as chemical engineering and food technology. Some of those manufacturing industries are Florida Ice and Farm, Nestlé, Dole, Alimentos Pro, Gerber, Productos Lizano, Tico Fruit, etc.



Tourism

During the last twenty years, tourism has seen the most dramatic economic activity. Approximately 1,750,000 tourists are expected for year 2007 visiting mainly the provinces of San José, Puntarenas, Guanacaste and Limón.

Visitors arriving to the country come from the following regions: North America (53%), Central America (24%), Europe (14%), South America (5%), and other regions (4%).

The political stability and excellent reputation of Costa Rica have made the country a key country investors.

Costa Rica is a dynamic tourism destiny, National Turismo of Chamber, (CANATUR) estimate than for each \$10 of Direct Foreign Investment arrives to Costa Rica, approximately \$4 are from touristic t sector. The country is well known like mature touristic destiny.that of a socially stable, democratic, and well-positioned country to attract foreign investment, which has been an important mechanism for economic growth.

During 2009 this sector experimented collateral effects of the international economic crisis, but some projections suggest the recovery is starting.

| Tourism in Numbers | | |
|---------------------|-----------------------|-----------|
| | 2008 | 2009 |
| Arrivals (Jan/Sept) | 1,627,124 | 1,478,360 |
| Income US m\$ | 1.096 | 1.078 |
| % Variation | | -9.14% |
| Total Variation | 148,764 visitors less | |

Source: National Turismo of Chamber, (CANATUR)

For 2010, the expectative is that this sector will grow in average between 3% and 5%.

CAFTA – RD

The Free Trade Agreement between the Dominican Republic, Central America and the United States of America sets forth the basis for the creation of a free trade agreement towards promoting the expansion and diversification of commerce, the elimination of trade barriers, facilitation of trans-border circulation of merchandise and services, among other items.

The CAFTA is comprised of twenty two chapters and their corresponding annexes. Among the most relevant matters that were negotiated are merchandise access, rules of origin, and procedures of origin; investment; trans-border trade of services; financial services; telecommunications, electronic commerce, intellectual property rights and conflict resolution.

Chapter 10 of the Treaty develops the subject of investment. Those countries that are parties to the treaty commit to apply national treatment and 'most favored Nation' procedures in regard to investments. Investors are guaranteed, among other things, the principles of expropriation and indemnification, performance requirements and transfers. Moreover, the Treaty creates a mechanism to settle conflicts via arbitration in regard to differences that may arise between a party and an investor as a result of the application of this chapter.

From the Costa Rican perspective, some of the most sensitive subjects concern insurance and telecommunications industries. Regarding the insurance industry, it was agreed to execute a gradual and regulated opening of the entire sector. The obligation to create the position of a Superintendent General concerning insurance matters is agreed to as well. The laws required to implement this provision of the Treaty are: the "Law Regulating the Insurance Market" and the "Law Regulating Insurance Contracts". Said laws have already been approved by Congress and are now only pending publication as required for their coming into effect.

The opening process will be carried out in stages: (i) Upon the effectiveness of the Treaty the purchase of insurance abroad will become legal as well as the provision of this service in a trans-border fashion, although limited to a reduced number of insurance options; (ii) thereafter, the setting up of insurance companies offering non-mandatory insurance will be allowed; (iii) lastly, competition will be allowed in connection with the provision of automobile and labor-risk insurance.

In regard to telecommunications, Costa Rica –confirmed, within a four-part Annex, its commitment to the opening as follows:

- Preamble: It is agreed that the opening will be a gradual process, selective and ruled pursuant to the Political Constitution and in strict compliance with those solidarity and universality principles in connection with the provision of telecommunication services.



- Modernization of the Costa Rican Institute of Electricity (ICE): it provides Costa Rica's commitment to promulgate a new legal framework aimed at strengthening the ICE through an appropriate modernization process; such legal framework is currently under discussion in Congress.
- Selective and Gradual Market Opening Commitments: once the Treaty becomes effective in Costa Rica, the competition in private net services and Internet services as well as in wireless mobile services will all be allowed; and
- Regulatory Principles: guarantee that the legal framework of the telecommunication services – which framework must be ready by the time the Treaty becomes effective – does comply with principles such as the universality of the service, independence of the regulatory authority, transparency, regulated inter-connection and access to and use of the nets and competition, among others; if not timely and readily available the Public Services Regulatory Authority will assume this function.

All necessary laws to open the market have already been approved by Congress, such as: Communications General Law; Law 8642 published June 30, 2008, and the Law to Strengthen and Modernize all Public Entities within the telecommunications sector. This law was also approved and it is only pending publication.

The law first mentioned sets the rules associated with concessions processes for the use and exploitation of the radio-electric frequency spectrum as may be required for the operation and exploitation of telecommunications nets as well as for the granting of permits for the use of non-commercial frequency bands, official use and security, assistance and emergency.

Authorizations for the following have been established: a) operate and exploit public telecommunications nets not requiring the use of the radio-electric spectrum; b) provide telecommunications services available to the general public by means of public telecommunications nets that are not under its operation or exploitation; and c) operate private telecommunications nets not requiring the use of the radio-electric spectrum.

Another sensitive issue is the electronic commerce in respect of which no tariffs or other charges related to the import or export of these types of products will be applied when electronically transmitted or when materialized in physical support. In the latter case, the valuation for tariffs purposes will be effected only by taking into account the physical support.

Lastly, intellectual property rights are a delicate matter when defining a number of rules, disciplines and standards aimed to protecting intellectual property rights along with the new technical advances. The purpose of improving the protection of such rights and strengthen the applicable compliance procedures while maintaining an adequate balance between the rights of the owners and those of the users of the intellectual property system. This means that piracy will be under strict limitation rules.

The CAFTA-RD was submitted to a referendum for its approval in October 7, 2007 and was the first referendum of this kind in Latin America.

Forming a company in Costa Rica

About Companies, their types, characteristics, practical data for their formation and similar legal structures.

General Comments

The Costa Rican Code of Commerce rules the organization of the different companies and their commercial activities. There are other laws regulating other business activities such as financial markets, institutions, warranties, retirement or pension funds, mutual savings, economic regulations, etc.

The main differences among commercial organizations are found with regard to their registration procedures and the financial liability of the parties involved. In principle, the financial obligation is limited to the amount of the capital contribution of the partners or stockholders, except when dealing with a corporation ("sociedad anónima" or S.A., in Spanish).

When forming a Costa Rican company its by-laws must be drafted before a Notary Public and immediately thereafter recorded with the Mercantile Section at the Public Registry. Once the recordation process has been completed, the Public Registry will issue a corporate identification number ("cédula de persona jurídica", in Spanish) assigning a number evidencing that the company is ready to lawfully start operations with sufficient authority thereto.

Types of Companies commonly used in Costa Rica.

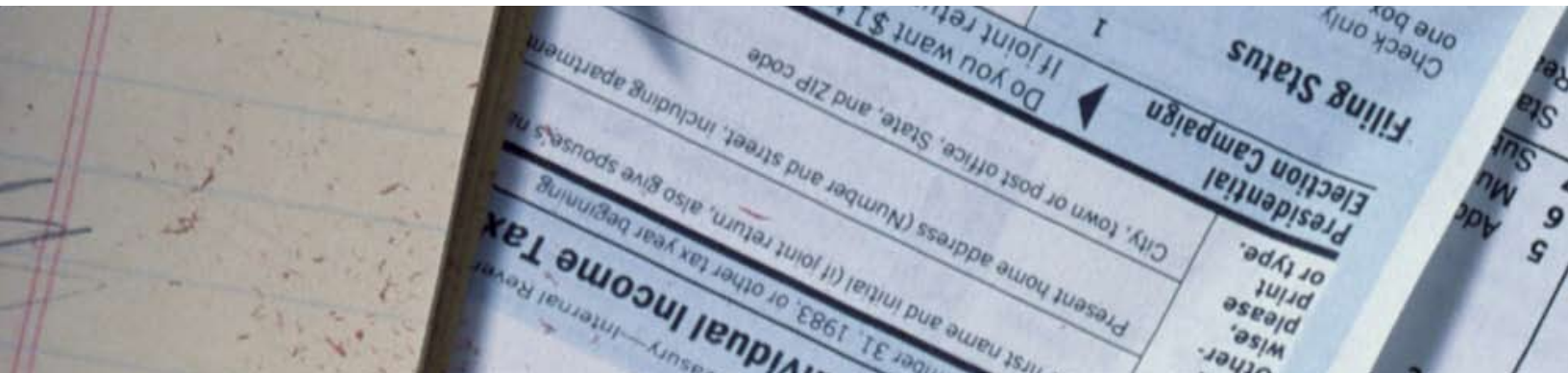
Limit Liability Company. ("Sociedad de Responsabilidad Limitada" ("SRL") in Spanish)

It is similar to a closed corporation where the liability of the partners is limited to the proportion of their contributions. A minimum of two partners are required (physical individuals or business entities) to initiate its incorporation and its legal standing is not altered in the event a single partner subsequently becomes the sole owner of the capital contribution.

Other characteristics of this kind of business concern are as follows: its capital is not represented in shares of stock but in quotas (or portion allotments) that cannot be sold to third parties if not previously offered to the rest of the partners; these business forms are not headed by a board of directors but by one or more managers; SRLs are subject to tax limitations in that expenses for payment of interests to partners may not be deductible. It is also important to state that an SRL, for the purposes of US laws, may be rated as a transparent (or flow-through) entity. For this reason and given its relative simple formation requirements, this is one of the two mostly preferred business entities in Costa Rica.

Corporation ("Sociedad Anónima" or "S.A." in Spanish)

It is equivalent to a Corporation as usually defined in the United States of America. It is the most widely used corporate structure when organizing businesses in Costa Rica. A Sociedad Anónima may be formed by other business entities or individuals or a mix thereof and may be eventually



owned by one single individual or other business entity. In such event, the corporation legal status in not in any way altered. The shareholders' liability is limited to the amounts of their capital contributions except in those cases where the law states the possibility or the requirement of lifting the corporate veil.

A Sociedad Anónima may be formed privately or through public means. However, the private incorporation being the most common avenue thereto. A Sociedad Anónima must be formed, before a notary public, by at least two physical individuals or two existing corporations or a mix thereof. The resulting legally notarized document must be filed with the Mercantile Section of the Public Registry for recordation purposes. An advertisement thereof must be simultaneously published in the Gazette La Gaceta where the name of the company and the amount of the capital stock is disclosed. Company registration is subject to stamp taxes whose costs vary based on the amount of the capital stock.

An "S.A." must be managed by a board of directors comprised of at least three members (President, Secretary and Treasurer) and must be supervised by a statutory examiner called "Fiscal"; these officers are appointed by the shareholders pursuant to an accumulative voting system.

There are no limitations for foreign nationals to forming these types of companies. In the event the company does not have a representative residing in Costa Rica, the appointment of a resident agent is then required. Such an agent is necessarily an attorney duly recorded and in good standing with the Costa Rican Bar Association.

Formation Requirements

Company Articles of Incorporation

The incorporation documents (corporate legal instrument) of a company must provide detailed information of the company, its administrators and corporate structure, financial statements and dissolution procedures. Any amendments thereto

must be recorded with the Mercantile Section and the applicable notice thereof must be advertised in the official paper ("La Gaceta"). Companies recorded in the Mercantile Section of the Public Registry are legal entities with legal authority and capacity to act. Shareholders are legally entitled to review all corporate records, correspondence and other documents evidencing the status of the company's management. Participation to the company's dividends must be accessible to all shareholders.

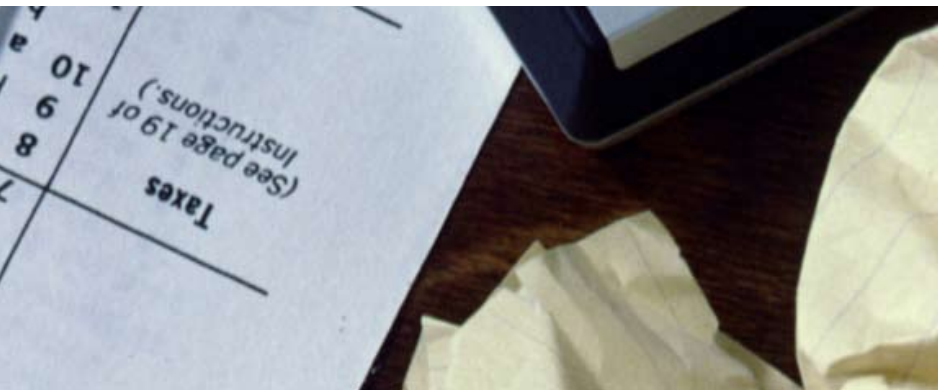
Required Elements

The Partners (or shareholders): There must be at least two partners in the formation of the company. There are no limits for foreign nationals in this regard. Full names, citizenship, occupation, civil status, addresses of those individuals forming the company are required; this requirement also applies when the founding members are business entities.

Company Name: Comprised of by one or more words, with or without a specific meaning, or expressed in foreign languages. Generic names or those already recorded for other companies will be rejected at the time of filing the incorporation papers for which reason a review must be made previously to choosing the company name. The corporate name must be followed by the words "Sociedad Anónima" or "Sociedad de Responsabilidad Limitada" or by their abbreviations "S.A." or "S.R.L." as applicable, so that the nature of the business concern is easily identified.

Domicile: Costa Rican companies must have a legal domicile in Costa Rican although such requirement is not meant to limiting the possibility to opening branches or filial offices abroad.

Corporate Term: The length of the corporate term is commonly between 50 and 99 years; undefined terms are prohibited by law. Corporate terms may be extended or reduced.



Corporate Purpose: The corporate purpose must be lawfully possible and its description need not be extremely detailed; a general description will suffice. However, it is convenient to describe in detail those possible activities of the company and, additionally, offer a general reference thereof. If the company is meant to become involved in banking, financial, fiduciary or stock exchange activities then such companies are bound by a different and specific set of rules.

Capital Stock: The amount and type of the capital stock and its payment conditions (there are no minimum or maximum limits; except in the case of SRLs, where the capital stock must be represented in multiples of 100). Corporations (or S.A.s) must be formed only through nominative shares of stock (preferred capital stock is also permitted although subject to the limitations, benefits and rights agreed upon by the partners) which may be freely transferred. Nevertheless, stockholders may set up transferring limitations. Bearer shares are not legally allowed in Costa Rica. In the case of the SRLs the quotas (or participations) are only transferable through assignment and never by endorsement.

Board of Directors or Management

Committee: It must be comprised of at least a president, a secretary and a treasurer. Additional members may be appointed at will. Board members may or may not be shareholder and there are no citizenship restrictions in this regard.

The president has the legal representation (full, unlimited general power of attorney) of the company. However, it is advisable to appoint other representatives with authority defined by the shareholders (full, unlimited general power of attorney or a simple general power of attorney, either limited or unlimited in regard to funds, etc.).

Members of the board of directors as well as their corporate authority are appointed at the incorporation meeting. Their appointments are for

a term set forth in the incorporation instrument.

Decisions of the board of directors must be approved at the shareholders' meeting which can be held locally or abroad as provided for in the incorporation instrument.

Shareholders' Meeting: these may be ordinary and/or extraordinary. Ordinary meetings must be held within a term of three months prior to the closing of the business year; these meetings are designed for discussing, approving and/or rejecting the company's financial statements, dividend distributions, granting or revoking powers of attorney or other appointments and any other matters as set forth in the incorporation instrument.

Statutory Examiner: The appointment of a statutory examiner during the stockholders' meetings is required pursuant to Costa Rican business law. The statutory examiner has no voting rights. Per legal provisions, the statutory examiner cannot be a company's employee or a close relative to any of its directors. There are no limitations for external auditors to be appointed in said position and, in fact, this practice is very common.

The statutory examiner's functions are to ensure that the articles of incorporation as well as the norms and procedures set forth therein are complied with and, in addition, to protect the interests of the stockholders and of any other related parties.

The Statutory Examiner is committed to reviewing the financial statements of the company as submitted at the annual shareholders' meeting.

The statutory examiner is entitled to assist in the meetings of the board of directors in voice only and call for stockholders' meetings when they are not called by the directors, as applicable.

In the event the statutory examiner was not to

comply with its obligations there under and the company became liable of fraudulent bankruptcy or of tax fraud, civil and criminal charges will be imposed upon said Examiner.

Resident Agent: Must be necessarily a practicing attorney licensed in Costa Rica in the event no legal representative is based within the Costa Rican territory. Said agent has informative, passive duties. Basically and in practice, the resident agent attends to notices addressed to the company.

Legal Reserve: In the case of the SRLs: from the net profits of each business year, 5% must be accounted and set aside towards the formation of a legal reserve. Such obligation will cease once the legal reserve reaches 10% of the company's capital.

In regard to S.A.s, from the net profits of each business year, 5% will be accounted and set aside toward the formation of a legal reserve fund. Such obligation will end once the fund reaches 20% of the capital stock.

Rules for the dissolution and liquidation of the company: The Costa Rican Code of Commerce sets forth the reasons for the dissolution of a company, to wit: the expiration of the corporate term as defined in the incorporation documents; the inability to carrying out the corporate purpose of the company or its inability to comply with it; the definitive loss of 50% of the capital stock; or the final agreement at the shareholders' meeting to that purpose. In the event any such circumstances arise, an extraordinary meeting of shareholders will be held with the purpose of deciding on the dissolution of the company and the appointment of a receiver. Thereafter, the required public instrument will be drafted and the cancellation of the Company's registration before the Registry of Commercial Concerns and before the Tax Department will be submitted.

Legal Records: The Company must carry at least five legal record books: (i) the stockholders (or quota holders) meetings, (ii) shareholders' (or Quota holders') record book; (iii) journal; (iv) inventory and (v) balances; in the case of S.A.'s the board of directors minute book is also required.

Formalities: The incorporation instrument must be evidenced in writing before a notary public; thereafter legal notices of the incorporation must be advertised and the corporate instrument filed with the Public Registry of Commercial Concerns for its registration. Applicable tax stamps must be settled therewith. The Registry will assign the company a corporate identity number (*cédula jurídica* in Spanish) and subsequently all corporate records will be authorized by tax authorities who will also provide the forms (D-140) for the company to become a taxpayer and recorded as such.

Financial Statements: All Costa Rican business concerns must prepare financial statements to be submitted to the annual meeting of stockholders; this meeting must legally be held within a term of three months following the end of the tax year. Financial statements must include the financial statements and an income statement.

Tax Audit: Tax audits include a yearly report issued by the auditor in regard to the company's financial statements wherein it is declared that the company does comply with applicable Costa Rican tax rules. This is not, however, compulsory.

Branch Offices of Foreign Companies

In general, foreign companies are allowed, and are welcome; to open and/or transfer their operations to Costa Rica through branches, subsidiaries and other applicable business structures, provided they comply with the applicable rules set forth in the local Code of Commerce. Highly experienced and qualified business law firms are readily available to guide interested parties towards that end. In fact, many foreign companies operate in the country under such rules with highly successful results.

Franchises

Costa Ricans have been acknowledged for the ease with which they adapt to other cultures and customs. Currently, there are over 32 franchises with 152 business locations and said numbers are continually and rapidly increasing. These companies offer a wide range of products and services including fast food take-outs, rent-a-car concerns, cleaners, commercial stores, gas stations and hotel chains, among others.

The following are some of the companies now operating in the country: Coca-Cola, Burger King, Taco Bell, McDonalds, Subway, TGIF Fridays, Tony Roma's, Pizza Hut, Denny's, Papa John's, Budget, Alamo, Hertz, Marriott, Best Western, Holiday Inn, Shell, Texaco, and others.

The Trust

Lately, Costa Rican commercial entities and individuals as well have moved to the trust concept to manage their commercial (and personal) interests, in local or international environments, with great success. Its flexibility and numerous possibilities make it an ideal business vehicle in a wide array of commercial (and personal) relationships. In fact, it may be used for many business purposes meant to provide assurance and speed in day-to-day business transactions.

The Costa Rican Code of Commerce provides a detailed and a very comprehensive set of rules in regard to its formation, operation and termination.

Trust structures are easily understood and there are several local law firms specializing in this field.



Real Estate property

What Investors need to know at the time of purchasing real estate?

Real Estate Property Ownership by Foreign Nationals

The Political Constitution protects private property and foreign nationals enjoy the same rights as do local citizens in regard to the acquisition and ownership of real estate property, except when dealing with concessions in the Maritime-Land Zone as will be explained below. There are few restrictions to private property among which it is worth mentioning the regulatory plans issued by the municipalities, the possibilities of expropriations necessary for the State public works and those specific limitations on properties assigned to State programs or institutions. To become an owner of a common piece of land, information concerning the citizenship, resident status or the permanence of the owner in the country are not required whatsoever and ownership by foreign individuals or entities are entitled to absolute rights to execute all legal acts and actions associated with proprietary, possession and disposition rights.

Solidarity Tax for the Strengthening of Housing Programs

On December 10 2008 was published in the Official Diary of Costa Rica the Act called "Solidarity Tax for the Strengthening of Housing Programs", whose force was conditional to the publication of the bylaws of the mentioned Act, and from that time would have effect for a period of 10 years. With the publication of the bylaws of the Act -Decree Executive 35515-H- on September 29th 2009, the taxpayers of the Solidarity Tax shall declare the value of the property every three years from the entry into force of the law.

In order to declare and pay the said tax, the taxpayer must use the published manuals and guidelines in aid for the determination of the value of the assets bearing this tax. Tax should be paid within the first 15 days of the month of January of each year. However, taxpayers must pay proportional tax of the past three months of the fiscal year 2009. Both registration process and the filing and payment should be accomplished by electronic means, using the web page designated by the tax administration for such purposes. The taxable event stated by the law is the ownership of registered houses with residential or leisure use, which exceed a total value of construction of ¢100 mm (US\$169,491), by January first of each year. In addition, all fixed installations should be valued in order to determine the ¢100 mm threshold. In the case of apartment buildings and condominiums, each unit must be valued separately, and add common areas based on the appropriate proportion. Once the value of the construction has been determined and such value exceeds the ¢100 mm threshold, the taxpayer must proceed with the necessary calculations for lot value where the building was constructed. Once both values have been established, the taxpayer must calculate the total tax amount for the payment in accordance with the progressive scale provisioned in the law.

Maritime-Land Zone Concessions

Properties on locations facing maritime coasts, known as maritime land zones, are mostly owned by the State. However, said areas may be subject to concession rights for a limited, although extendable, period of time with prior request and compliance of a number of requirements.

Land located in public zones meaning the fifty (50) meter width belt from the ordinary high tide line and those areas that become open or exposed during the low tide are exempt from the concessions. The local governments or municipalities are the entities in charge of granting concessions around these areas. Concessions granted on the maritime-land zones are subject to a royalty payment to the Municipality and to the Costa Rican Institute of Tourism in addition to those charges to which common or regular properties are subject.

Concessions cannot be granted to (a) foreign nationals who have not resided in the country for at least a period of five years; (b) corporations (S.A.s) with bearer shares; (c) corporations domiciled abroad; (d) entities formed in the country by foreign nationals; or (e) to those entities whose stock, capital quotas or capital stock are owned by foreign nationals in a proportion of over 50%. Additionally, only physical individuals and companies that are qualified to hold concession rights (see above) may participate in tourism developments on the maritime-land zone or in locations with access thereto. Similarly, foreign entities may participate therein provided they are tourism companies whose capital investment toward the development is owned by Costa Ricans in a proportion of over 50%.

Condominiums

A specific regulation exists in Costa Rica in regard to properties under condominium arrangements that allows and rules the development of horizontal and vertical condominiums, lots or houses. Basically, property owned under condominium rules consists of a combination or a mix of the individual ownership of the units or filial lots or plots – subject to a number of restrictions, for example: architectural features, use of the ground, etc. – and the joint ownership of the common areas.

Property Recordation Requirements

Costa Rican laws require all documents relative to the creation of liens or of property dispositions be recorded with the Public Registry of Real Estate Property, thus allowing access by the general public to any information on the properties, including areas, property lines, owners of record, liens, encumbrances and other limitations.

Costa Rica offers a safe procedure to record the purchase of a piece of property and therefore protect buyers from any possible lawsuits or irregularities. This procedure is centralized at the Real Estate Property Registry where transfer deeds and cadastral or plot plans of a property are recorded. Any amendments to the transfer deed or any claim that could arise thereafter must be annotated with the Real Estate Property Registry. Notwithstanding the above, there is also the possibility of insuring the property through private means.

People interested in buying properties must get professional assistance which includes a previous research at the Property Registry Office to make sure there are no inconveniences on the property subject to negotiation. Once the terms of the negotiation are reached, the purchaser must make sure through his/her attorney and notary public that all required documents have been duly filed with the Real Estate Property Registry.

In general, the typical negotiation to purchasing real estate starts by executing an option to purchase or a letter of intent and payment of a guaranty deposit that may be managed by a third party during the period of time agreed upon by the parties. During this period of time, the buyer will be able to verify the legal status and standing of the real estate property, such as its being current in regard to tax payments and any other in-depth information on the characteristics of the property being transacted. Thereafter, the property is transferred by means of the execution of a sale purchase agreement that must be notarized before a Notary Public and subsequently recorded with the Real Estate Property Registry.

Once the sale purchase agreement has been executed, it is customary that seller and buyer equally share the transfer costs: transfer taxes, stamp taxes. However, there is ample room for the parties to negotiate a different settlement thereof.

Real Estate Brokers

The Ministry of Economics grants licenses to real estate brokers duly backed by the Chamber of Real Estate Brokerage. This Chamber is dedicated to maintaining the rules of competition and professional ethics.

Immigration regulations

How to establish and work in Costa Rica in accordance with the existing immigration rules?



Entry and Residence Visas

Categories

The General Immigration and Foreign Nationals Office is the agency responsible for issuing general directions on entry and residence visas to non-residents, foreign individuals coming from certain countries or geographic areas based on existing international accords and treaties and for security reasons, convenience and opportunity to the Costa Rican State. Four groups are thus established for entry and residence visas:

1. First Group: Foreign nationals of the countries placed in this group may enter Costa Rica without consular visas and will have the right to stay for a maximum term of 90 calendar days.
2. Second Group: Foreign nationals from countries placed in this group may enter Costa Rica without consular visas and will have the right to stay for a maximum term of 30 calendar days.
3. Third Group: Foreign nationals placed in this group must request a consular entry visa from the Costa Rican Consular Office abroad and will have the right to stay for a maximum term of 30 calendar days, except in some particular cases.
4. Fourth Group: Foreign nationals placed in this group must request a restricted consular visa and a previous consultation from the Director General of Immigration and Foreign Nationals Office. This type of visa may be requested from a Costa Rican consular office abroad or directly through a special agent (proxy) at the General Immigration and Foreign Nationals Office in Costa Rica. Foreign nationals comprised in this group will have the right to stay for a maximum term of 30 calendar days, except in some particular cases

Extensions of resident visas

Foreign nationals authorized to enter the country and stay under the NON-RESIDENT category for a term under 90 days, may request an extension thereof: provided, however, that the extension request is submitted prior to the termination of the original authorization and under the condition that all requirements set forth by the General Immigration and Foreign Nationals Office thereof are duly complied with.

Residence

Permanent Residence

In the event the foreign national is within the rules set forth in the law to opt for permanent residence status, some of the basic requirements thereto would be:

- Submission of the request from the interested party and addressed to the Director General of Immigration and filing with the Costa Rican Consular Offices in the party's country of origin and residence.
- Birth certificate, criminal record, and marriage certificate (when applicable). The birth certificate must provide full names of parents.
- Certified copies of the passport including all pages.
- Four recent passport-size photographs.
- Provide evidence of fingerprints: it applies to foreign nationals 12 years and up.
- Evidence of first degree bloodline relationship with a Costa Rican citizen.

Important: Documents issued abroad must be duly authenticated by the corresponding Costa Rican Consular authority and when such documents are written in foreign languages (other than Spanish) they must be previously translated by an official translator. Likewise, it is important to stress that the term of validity of the documents issued abroad is of three months as of the date of their issuance.

Please notice that requirements will vary in accordance with the corresponding procedure

Temporary Residence for Labor Purposes

All residence requests of individuals, except for those submitted by well-known companies before the Immigration Office, must be submitted before the Consular Office in the business executive's country of origin. However, in qualified cases, such as those of representatives, managers, executives and technical staffers of companies set in Costa Rica, the Immigration Director General may, pursuant to its discretionary capacity, authorize the opening of the applicable file directly in Costa Rica.

In the case of non-recognized companies, such companies must comply with a number of requirements in order to apply for a temporary residence permit for its managing executives. Such requirements, generally known at international levels, are available at the Immigration Department although we suggest professional assistance hereof.

Please notice that requirements will vary in accordance with the corresponding procedure

Temporary Residence under the Investor Status

The minimum amount of the investment is US\$200,000 (Two Hundred Thousand U.S. Dollars) or its equivalent in other international exchange currencies accepted by the Central Bank of Costa Rica.

The investment project must contribute to the economic improvement and/or social development of the country for which reason all those projects seeking investments of a personal nature such as real estate transactions, undeveloped land, farms, building or any other actions not meeting development purposes, are excluded from the status as defined in the previous paragraph.

Temporary Residence as Retiree (individuals entitled to pension)

To attain a legal residence permit under the retiree (pensioned) sub-category, the interested foreign nationals are required to provide evidence of their entitlement to monthly, life, permanent and stable pensions coming from abroad whose amount must not be under six hundred dollars (U.S. currency) (US\$600) or its equivalent.

Temporary Residence as "Rentista" (individuals living off their investments)

To attain a legal residence permit under the rentista sub-category, the interested parties must provide evidence of their entitlement to monthly, permanent, irrevocable and stable rents for an amount of at least US\$1000 (US currency). In the event the interested party wishes to request residence status for his/her dependents (spouse and children) the required monthly amount will increase.

Acknowledgment of a Company before the Immigration Office (Notice DG-1084-2008)

Companies may request their acknowledgment before the Immigration Office so as to speed up residence procedures of its expatriate employees in Costa Rica. This acknowledgment allows their residence request to be handled directly from Costa Rica and not from abroad.

Some of the benefits of registration:

- Priority for the filing of the requests: there is a special position at the Immigration Office to wait on registered companies only;
- Reduction of the terms to solve the matters: residence requests will be complied with in a 30 office-day term;
- Reduction of requirements: filing of several documents to handle residencies are not necessary; and
- Residence effective term: residence cards will be valid for a term of two years.

Companies that could opt for this registry must fit in any of the following categories:

Classification "A" Companies: currently operating companies or companies that will start up operations under special systems such as the promotion of exports and active improvement managed by the Foreign Trade Ministry (COMEX, in Spanish) and the Foreign Trade Promoting Agency of Costa Rica (PROCOMER, in Spanish).

Classification "B" Companies: Companies currently operating or that will start up operations outside of any special systems for the promotion of exports, but that their business nature continues being the exports of goods and services from Costa Rica toward the world markets.

Classification "C" Companies: Companies currently operating or that will start up operations in the Costa Rican tourism market, specifically in the areas of tourism lodging which must have a "Tourism Declaration" and their classification being of four stars and up pursuant to Executive Decree number 25226 of March 15, 1996, as well as the airlines registered with the Airlines Association.

Classification "D" Companies: Companies currently operating or that will start up operations in the financial area in Costa Rica which are supervised or registered before the Office of the Superintendent of Financial Entities (SUGEF, in Spanish) as entities of the banking sector and non-banking Financial Institutions.

Classification “E” Companies: Non-exporting companies, both national and foreign, that are currently operating or will start operations in Costa Rica. This category will start its effectiveness once the Immigration General Direction makes it known by means of an annex to the applicable notice of what are the established requirements in coordination with the Costa Rican Union of Business Chambers (UCAE, in Spanish) and other sectors. For the time being CLASSIFICATION “E” is not yet operating.

Source: Fragomen Global, Prepared by León Zarnowski

FRAGOMEN

Foreign investment in Costa Rica

General Comments

Costa Rica is an active member of the World Trade Organization (WTO) and, as such, the accords taken by it prevail over national laws – except in the case of the Political Constitution – and may consequently be invoked directly before the courts. Costa Rica sees as complementary its opening initiatives at a unilateral level and through preferential accords, an in the multilateral context system.

In May, 2007, Costa Rica's commercial policy was examined by the WTO; the last examination on commercial policies was performed in 2001. From it, it is concluded that Costa Rica predominantly formulates its commercial policy at a national level but takes into consideration in this respect Costa Rica's participation in the Central American Common Market (CACM). Foreign Commerce policy seeks the promotion, the facilitation and the consolidation of Costa Rica's international insertion with the purposes of enhancing the growth of the economy and, through it, to improving the live conditions of Costa Ricans. The Foreign Trade Ministry (COMEX, in Spanish) defines and directs the external commercial policy and that of foreign investment.

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Likewise, Costa Rica maintains an active negotiation and implementation policy of preferential agreements. Besides its participation in the CACM, Costa Rica has a series of free trade agreements in effect with Canada, CARICOM, Chile, Mexico, the Dominican Republic and Panama. In October, 2007, Costa Rica approved, via Referendum, a Free Trade Agreement among the Dominican Republic, Central America and the United States.

In 2007, Costa Rica started negotiations towards an Association Agreement between the European Union and Central America. Execution of the Agreement were on negotiation during the 2009.

In Facts

- Currently, more than 200 multinational companies are operating in Costa Rica.
- Exceptionally talented and bilingual young workforce. On average 95% of the employees in multinational companies are local.
- Preferential access platform to 1/3 of the world's population, and 2/3 of worldwide GDP. 90% of goods exports through free trade agreements.
- Excellent business climate based on a renowned democratic tradition, economic and political stability.

Systems and incentives the country offers to investors: Free Trade Zone, Active Improvement, Tourism Incentives, etc.



- 93% of energy is renewable; electricity costs are low and guaranteed. Redundant telecommunications access.
- Quality of life in Costa Rica is high. Safest country in Latin America; and one of the top 5 environmental performers.

Source: CINDE (Costa Rican Investment Promotion Agency)

Costa Rica's International Commercial Relationships

World Trade Organization

Costa Rica adhered to GATT in 1990 and it is a founding member of WTO. Costa Rica grants the Most Favored Nation (MFN) treatment to all its partners. The Marrakech Agreement of the WTO was ratified by the Legislative Assembly December 26, 1994. Costa Rica has used the transition periods to which developing countries can resort; currently, it is using the term extension until the year 1015 for the granting of subventions to exports as provided for in the Free Trade Zone programs and the Active Improvement System.

Stability

- The 2008 World Bank Survey for Global Governance Indicators, ranks Costa Rica in the first place within Latin America for political stability.
- The country has no limitations on capital funds transfers associated with an investment, regardless of the currency.
- No restrictions are imposed on re-investments or on repatriation of earnings, royalties or capital.
- There is no requirement to register investments with any of the government authorities.
- Costa Rica has achieved international standards for IPR protection.
- Army abolished in 1948.
- Ranked among the highest in Political Stability and Absence of Violence index in Latin America (World Bank, 2008).
- More than 100 years of democracy.

Source: CINDE (Costa Rican Investment Promotion Agency)

Free Trade Agreements Currently in Effect

Central American Common Market

Since 1963, Costa Rica has been a party to the Central American Economic Integration General Treaty that set forth the Central American Common Market (CACM). The CACM, in addition to Costa Rica, is comprised of Nicaragua, Honduras, El Salvador and Guatemala. Currently, the terms, time limits and the conditions of Panama's ascension to the Central American Economic Integration Subsystem are being defined.

In the work plan for the second half of 2008, the Board of Ministers of the Economic Integration included as work areas, some relevant projects among which we can mention, in respect to the Tax and Customs System. They are committed on approving and performing the necessary steps to implement the Central American Customs Uniform Code and its By-laws (CAUCA/RECAUCA, in Spanish). Likewise, for the medium term, they have planned the implementation of the following: (i) Development of a System of a Unified Customs Information (SIAUCA, in Spanish) in the countries of the region; (ii) the electronic exchange of FAUCA among all the countries in the region; (iii) The implementation of the Central America Single Customs Declaration under the parameters of the best international practices as dictated by the World Customs Organization - WCO, as well as (iv) implement the Central American



Informatics Tariffs and (v) the termination of the works for Information Exchange Protocols in matters related to risk and examination of taxes including mechanisms for their implementation.

In relation to free trade, there exists a proposal into incorporate to the free trade category the following products under a bilateral system: roasted and non-roasted coffee, sugar, alcoholic beverages, ethyl alcohol and petroleum-derived articles.

Due to the efforts in achieving uniform technical rulings, there are ample advances in respect to the recognition of registries among the member countries; however, sanitary and phyto-sanitary issues are still pending.

Free trade Agreement with Mexico

The FTA Costa Rica-Mexico came in effect January 1, 1995. Thirteen years after exports have increased almost fourteen times. In 1995, Costa Rica exported to Mexico 16.8 million Dollars and in 2007 it exported goods, worth 231.8 million Dollars.

From the products imported by Costa Rica from Mexico, 97% were tariff-free imports. Products with preferential restricted treatment included tobacco, some lacteous products, sugar, footwear, powder to prepare drinking products, cattle meat and powder cocoa.

Free Trade Agreement with the Dominican Republic

The FTA with the Dominican Republic, in effect since 2002, sets forth norms and disciplines applicable to the trade of goods, services, investment, public sector acquisitions, competition policies, conflict settlement and intellectual property. Once the Free Trade Agreement among the Dominican Republic, Central America and the United States of America comes into effect, the commercial relationship between Costa Rica and the Dominican Republic will be ruled pursuant to this new Agreement.

In the FTA with the Dominican Republic, Costa Rica grants free access to 99.2 percent of its tariff universe. The chief products subject to the tariffs reduction program are: beef and pork meat; shrimp; milk products; tomato-based preparation products, various paper products; various plastic products and diverse medicines. On the other hand, the following products were excluded from the liberalization commitments: sugar, petroleum derivatives, roasted and non-roasted coffee, wheat flour, ethylic alcohol, rice, chicken, powder milk, onions, garlic, beans, tobacco and cigarettes.

Last year, 92% of exports bound for the Dominican Republic were industrial products; the remaining 8% corresponds to the agricultural sector. While the participation of agricultural products exports has been variable in the course of the recent five years, there is evidence that exports of industrial products have been of growing importance. ¹

Free Trade Agreement with Chile

The FTA Costa Rica-Chile, in effective since the year 2002, includes provisions in goods trading, services trade, investments, public sector acquisitions, air transportation and conflict resolutions. The Central American countries and Chile agreed that the negotiation of access to the markets would be carried out bilaterally between each Central American country on one side and Chile on the other. Accordingly,

¹ Ministry of Foreign Trade, Five Years of the Free Trade Agreement between Central America and the Dominican Republic. <http://www.comex.go.cr/acuerdos/comerciales/TLC/Dominicana/Informe//Republica/Dominicana/205/20años.pdf>



Costa Rica and Chile bilaterally negotiated the access to the market of goods. Chile committed to provide an asymmetric treatment with longer time terms for the entrance of the Chilean products into the Costa Rican market.

During the previous year, 76% of exports bound to Chile consisted of industrial products while the remaining 24% were related to the agricultural sector. This last sector has been growing in relative importance since the business agreement came into effect.

Imports from Chile, in general, have shown a sustained increase during the last five years. Agricultural imports from Chile reached their peak in the year 2006, hitting US\$45.4 million equivalent to 20.9% of the total imports from said country. This imported volume is 14.7% higher than the imports for 2005. ²

Free Trade Agreement with Canada

The FTA with Canada came into effect in November 1, 2002. The Agreement provides market access rules for goods and services, investments, public sector acquisitions and conflict resolution mechanisms. In a parallel fashion, agreements on environment and labor matters were negotiated. The existing differences in terms of size and development levels between Canada and Costa Rica were reflected in the asymmetric treatment that was agreed upon for the removal of tariffs.

Costa Rica immediately removed tariffs applicable to 65% of its tariffs universe mostly related to raw materials not produced in Costa Rica. For the remaining merchandise, Costa Rica will reduce 19% in the course of a seven-year term and an additional 15% in 14 years.

From the date the Agreement came into effect, exports increased a total of 136%, going from US\$31 million in the year 2002, to a total of US\$73.4 million in 2007.

In terms of areas, in 2006 the industrial sector showed great dynamism overcoming, for the first time, the agricultural sector during the last five years. Therefore, sales of the industrial sector represented almost 60% of the total exports of the country to Canada.

In regard to 2007 imports, 75% went to goods of the industrial sector while the remaining 25% were agricultural goods. ³

Free Trade Agreement with the Caribbean Community

In August 9, 2005, the Costa Rican Legislative Assembly approved the commercial agreement executed between Costa Rica and twelve countries of the CARICOM (Antigua and Barbuda, Barbados, Belize, Dominica, Granada, Guyana, Jamaica, San Cristobal and Nevis, Santa Lucía, San Vicente and the Granadinas, Suriname and Trinidad y Tobago). Upon such approval, all those internal procedures necessary for the effectiveness of the Treaty were finalized by Costa Rica. ⁴ The Treaty between Costa Rica and Trinidad y Tobago came into effect in November 15, 2005; with Guyana in April 30, 2006 and with Barbados in August 1, 2006. In the remaining CARICOM countries the conclusion of the internal

² Ministry of Foreign Trade, Five Years of the Free Trade Agreement between Central America and Chile. <http://www.comex.go.cr/acuerdos/comerciales/TLC%20Chile/Informe%20Chile%205%20años.pdf>

³ Ministry of Foreign Trade, Five Years of the Free Trade Agreement between Central America and Canada. <http://www.comx.go.cr/acuerdos/comerciales/TLC%20Canada/Informe%20Canada%205%20años.pdf>

⁴ The Treaty's Law, number 8455, was published October 7, 2005 in the Official Newspaper La Gaceta.



procedures towards the approval of the Treaty is still pending.

The FTA with the CARICOM countries provides for matters relative to market access for goods and services, investment, public purchases, temporary entrance, competition policies and conflict resolution mechanisms. 93.6 percent of CARICOM products and 94.5 percent of Costa Rican products will enjoy free tariffs for a term not longer than four years as of the date the agreement comes into effect. For certain agricultural products a seasonal access treatment will be applied. Among the products Costa Rica excluded from the tariffs' reduction are rice, sugar, beer, chicken, pork meat (except for ham and shoulder blade-bone), liquid and powder milk, paints and varnishes.⁵

Free Trade Agreement and Preferential Exchange with Panama

Trading of goods between Costa Rica and Panama is regulated by the Free Trade Agreement and Preferential Exchange Treaty of 1973, which has a limited scope relative to trade liberalization. Four preferential treatment types were basically set forth under this Treaty; for example: free trade, imports and/or exports controls, annual quotas and special tariffs.

In 1998, the CACM countries launched negotiations towards a FTA with Panama to establishing an ampler commercial and normative cover. Negotiations on the normative side were terminated in May, 2001 and negotiations towards the bilateral access to trade of goods and services came to life in May, 2002. In the case of Costa Rica, said negotiations were put on hold after that date and were resumed in 2006 and terminated in June 22, 2007 upon the commitment to a free trade agreement.

This trade agreement consolidates free trading for all those products set forth in the bilateral agreement of 1973 and, additionally, 87% of the total tariffs' system will enjoy free trade treatment by both countries. In terms of exportable offer, this free trading treatment comprises close to 90% of Costa Rican exports to the Panamanian market. In the case of all remaining products a gradual elimination of tariffs was agreed upon in time periods going from five to eleven years for goods of the industrial sector and from three to seventeen years for agricultural and agro-industrial goods.

The Panamanian market is particularly important to Costa Rica since in 2007 it represented 3.4% of all exports and it is of considerable interest in the case of small and mid-size Costa Rican companies. Out of all the Costa Rican companies exporting to Panama (482) nearly 69% are small to mid-sized concerns. Likewise, Panama received the third largest share of Costa Rican exports, only surpassed by the United States and Nicaragua. In 2007, Costa Rica exported US\$327.2 of US\$ million and imported US\$223.5 million with a favorable trade balance to Costa Rica of US\$103.4 million.⁶

DR-CAFTA

Upon the passing of law number 8622, published December 21, 2007, in the Official Gazette number 246: Law Approving the Free Trade Agreement executed between the Dominican Republic, Central America and the United States of America, Costa Rica became a member of those countries having a Free Trade Agreement with the United States of America. Recently, all incidental laws and by-laws associated therewith were finally approved in Congress thus providing full, legal and practical effect to the DR-CAFTA. Its effective date is expected by January 1, 2009.

⁵ Please refer to <http://www.comex.go.cr/difusion/otros/Explicativo%20CARICOM.pdf>

⁶ Ministry of Foreign Trade, Press Release CP 831-08 of June 17, 2008. <http://www.comex.go.cr/difusion/comunicados/CP-832.htm>

Negotiations with the European Union

Currently, Costa Rica is jointly negotiating together with the Central American countries an Association Agreement with the European Union (EU). This Agreement with the EU is designed to maintain and expand the benefits granted by the EU through the Generalized Preferential System (GPS plus), a unilateral system headed by the EU in regard to products coming from Central America as exported to Europe. Negotiation rounds are held in the EU headquarters and in each of the Central American countries according to a pre-defined schedule thereto.

Preliminary Negotiations with the People's Republic of China

Costa Rica is currently analyzing the feasibility to negotiating a free trade agreement between the Republic of Costa Rica and the People's Republic of China. The chief purpose being to analyze and identify opportunities and challenges to developing, by way of a possible Free Trade Agreement (FTA), a deeper trade and investment relationship.

Complementary factors have been identified between the Chinese and Costa Rican economies and that upon a future FTA negotiation the economic growth and job creation in the benefit of both countries could be encouraged.

Upon a recent visit by China's President feasibility studies on negotiations are expected to launch in January, 2009.

Foreign Investment System

General Aspects

Costa Rica has an open foreign investment system with some relevant exceptions. The State holds exclusive rights ⁷ in regard to the importation, refining and distribution of oil and its derivatives; insurance services; railroads, maritime ports and air ports; some postal services and single concessions in some power and telecommunications services. Some of these

⁷ According to Section 121 of the Political Constitution.

activities may be subject to concessions pursuant to applicable laws. The Telecommunications General Law number 8642 was recently approved and published on 30 June, 2008, and the Law Regulating Insurance Activities is currently pending approval under legislative file number 16305.

There is no special law in Costa Rica in terms of foreign investment or a specific regulation at the administrative level authorizing it. Section 19 of the Political Constitution provides that foreign nationals are subject to the same individual and social duties and rights as Costa Ricans other than for the exceptions and limitations set forth by the Constitution itself and by the regular laws.

Costa Rica grants guaranties and protection to foreign investments through the following free trade agreements now in place: Canada, CARICOM, Chile, Mexico, DR-CAFTA. Costa Rica ratified the Constitutive Agreement of the Inter-American Investment Corporation of the Inter-American Development Bank and it is a member of the Multilateral Body of Investment Guaranties of the World Bank.

By the end of January, 2006, Costa Rica kept agreements on reciprocal promotion and protection of investments with fourteen commercial partners ⁸ while four similar new agreements were pending legislative approval. ⁹

⁸ Germany (Law No. 7695 of November 5, 1997); Argentina Law No. 8068 of March 02, 2001); Canada (Law No. 7870 of May 25, 1999); Chile (Law No. 7748 of March 23, 1998); Korea (Law No. 8217 of May 07, 2002); Spain (Law No. 7869 of May 21, 1999); France (Law No. 7691 of November 04, 1997); The Netherlands (Law No. 8081 of March 05, 2001); Paraguay (Law No. 8069 of March 5, 2001); United Kingdom (Law No. 7715 of November 26, 1997 – not in effect); Czech Republic (Law No. 8076 of March 02, 2001); Switzerland (Law No. 8218 of May 07, 2002); Chinese Taipei (Law No. 7994 of March 29, 2000); and Venezuela (Law No. 8067 of March 02, 2001).

⁹ Belgium, Luxemburg, Bolivia, Ecuador and Finland.



By way of press release number CP 801-08, the Foreign Trade Ministry announced the execution of a series of Agreements of Understanding with the Peoples Republic of China. Costa Rica achieved the execution of two relevant agreements of understanding the first of which was executed by PROCOMER and the Investment Promotions Agency through which cooperation is sought towards the attraction of investments in both countries.

The second was executed with the Trade Promotion Agency. "With this agreement the development of the small and mid-size concerns are expected as well as the exchange of commercial information that will allow the strengthening of the PYMES".

The most favored nation treatment is guaranteed to foreign investors in sections set forth in bilateral investment treaties, free trade agreements or under the General Trade Services Accord. Foreign investors are entitled to the same incentives benefits granted to Costa Rican companies. Section 45 of the Political Constitution delimits the regulatory frame within which expropriation is ruled. Due to public needs, Congress may, upon the votes of at least two thirds of the totality of its members, impose limitations of social interest to private property. The "Expropriation Law" (number 7495 of June 8, 1995) provides the principles to defining the indemnifications payable by the State using the "fair price" concept.

Restricted Activities

A number of laws restrict private investment in the following activities. All are public monopolies.

Alcohol Distillation

Alcohol distillation for the production of spirits-liquors (industrial distillation is allowed): the National Distillery Factory (a public company) is the sole alcohol distillery facility in the country.

Crude Oil Refinery

The Costa Rican Oil Refinery (RECOPE by its

Spanish name) is also one of the few State companies. RECOPE imports all crude oil required in Costa Rica, refines it and sells it to gas stations and to large clients.

Policy and Investment Incentives

General Aspects

There are no limits to foreign capitals invested in areas such as agriculture, industry, commerce or loans to institutions and the laws protect the established industries, propose sanctions and stimulate their development by means of:

- Tax Incentives
- Adequate credit policies granted by the National Banking System
- Exclusion of business practices that could affect new industries.

The Costa Rican legal system favors foreign investment by guaranteeing equal opportunities. Currently, there are various available options for foreign investors: the Temporary Admission System for passive perfection and the Free Trade Zone System.

Temporary Admission System for the Active Perfection

This system refers to the customs framework that allows the reception of merchandise to Costa Rica free of any types of taxes and under the submission of guarantees. Such merchandise must be re-exported within a term of one year after having been submitted to transformation, repair, reconstruction and assembling processes or incorporated into groups, machinery, transportation equipment in general or other mechanisms or machinery of higher technological and functional complexity or for use for other similar purposes.

Machinery and equipment needed for the functioning of the companies under this system may remain under automatic extendable terms of up to five years upon submission of guaranty of taxes.

This is not a system meant to exonerate settlement of other internal taxes (income tax, remittances and other taxes).

Companies wishing to resort to this system must thereof file a petition before the Ministry of Foreign Trade and comply with all applicable requirements to registering as auxiliary agents of the public function before the Customs General Office.

The system has two modalities: a) one hundred percent exports; and b) export activities plus local sales. In the latter case, all imported goods that are subsequently sold locally will settle the applicable taxes on a percentage basis.

In August 29, 2008, the Decree amending the By-Laws of the Active Perfection System whose purpose is to simplify a series of steps and provide agility to the operations incurred by the companies benefiting from the System as well as to eliminating unnecessary requirements and formalities. The applicable Decree has not been yet published in the Official Gazette.

Free Trade Zone System

Incentives granted by the State to the Free Trade Zones are defined by the World Trade Organization as prohibited subventions given that such incentives are subordinated to the results of exports as a condition to enjoying tax benefits.

However, developing countries were allowed to use these types of subventions given the relevant function they represent to their economic development.

Initially, these subventions should have been eliminated in 2003; however, Costa Rica, one year prior to the expiration of such period, submitted consultations to the Committee aimed to requesting an extension until 2007 and an additional period terminating in year 2009; nevertheless, the WTO granted Costa Rica and other countries an extension that would allow companies operating as Industrial Free Trade Zones to continue their entitlement to

tax incentives for another five years and up to 2015. This is, however, a final term given that the Decision sets forth the commitment from the relevant countries to abstain from requesting any more extensions.

Costa Rica will maintain its current status of export subventions (Industrial Free Trade Zone) but, as of 2016, it must eliminate all benefits causing distortions to free trade.

Free Trade Zone companies under the services modality are not included within said time limits given that the Subventions Agreement and Compensatory Measures provides and regulates solely the treatment of merchandise although not reaching services. The WTO must take a position concerning this issue.

Costa Rica is currently working on an amendment to the Free Trade Zone Law that considers the possibility of gradually reduce the income tax to regular companies and the establishment of a payment to those companies currently under the Free Trade Zone System.

The Free Trade Zone System is rated as an exempting system in regard to customs taxes; the system is defined as the group of incentives and benefits granted by the State to the companies performing new investments in the country provided, however, that said companies comply with the requirements and commitments set forth in the law. These companies are additionally rated as the premises designed to carry out economic operations based on the importation of supplies and raw materials, the manufacturing and assembling processes, or even marketing and commercialization of products as well as the development of services for export purposes.

The description set forth in Sub-section c) of the Law focuses on the receivers of the services and not actually on their characteristics as such; it does not provide for a specific classification of the services that may be admitted to the Free Trade Zone System. It remains at the discretion of the Operations Management of PROCOMER and of



the Ministry of Foreign Trade, once the request to enroll into the system has been analyzed, to define whether the description of the services sought by the relevant company may take advantage of the benefits of the system.

Companies qualifying for the Free Trade Zone System are classified as follows:

- Industries processing and assembling export or re-export products to third markets outside Central America.
- Non-productive export companies that handle re-pack or re-distribute non-traditional export or re-export products. Management companies entitled to concessions designed to managing and providing services to the Free Trade Zones.
- Service companies that operate and provide dockyard, reconstruction, repair and maintenance services to ships that transport export cargo.
- Corporations or individuals doing scientific investigation towards improving technological and agro-industrial activities.

Processing or industrial companies must re-export 75% of those merchandise manufactured while service companies must export at least 50% of such services. The merchandise and services imported into the national market will be subject to all applicable taxes and customs procedures as applicable to any similar imports coming from abroad. In addition, the tax exoneration percentage over imports such as machinery, equipment, raw materials as well as income taxes shall be reduced in the same proportion represented in the values of the goods and services imported to the national customs territory in relation to the total value of sales and services of the company pursuant to the by-laws of this law.

In addition, said companies must be aware, when applying for their Free Trade Zone status, that a new, start-up investment in fixed assets of at least US\$150,000 must be made and that those companies providing services must set up business within a Free Trade Industrial Park.

There are currently 261 transnational companies in Costa Rica operating out of Free Trade Zones and that by the end of 2009 their exports are exceed US\$4,620 This sector generates 53,000 employments in the country.

Tax Incentives

Companies entitled to Free Trade Zone System benefits enjoy the following incentives except in the cases stated hereafter:

1. Payment exemption of all consular taxes and duties over raw material imports, manufactured or semi-manufactured products, parts and components, packaging materials as well as of other merchandise and goods required for their operation.
2. Payment exemption of all consular taxes and duties affecting the importation of machinery and equipment as well as their accessories and spare parts, and the importation of motor vehicles needed in their operation, production, administration and transportation.
3. Payment exemption of all consular taxes and duties relative to the importation of fuels, oils and lubricants as required for the operation of the companies. This exemption will be granted solely when such goods are not produced within the country in the quantity, quality and timeliness required. For importation purposes thereof the Ministry of Economy, Industry and Commerce will grant prior authorization and must resolve via a reasoned decision therewith within a maximum term of fifteen working days.

4. Payment exemption of capital and net asset taxes, of territorial taxes and taxes over transfers of real estate property, all during a period of ten years as of the date operations start up. ¹⁰
5. Payment exemption of Sales and Consumer taxes over the purchases of goods and services. ¹¹
6. Payment exemption of all taxes applicable to foreign remittances.
7. Payment exemption of profits and other charges whose taxable base is determined per gross or net earnings, dividends paid to shareholders, or income or sales pursuant to the following scenarios:
 1. For companies located in areas of “higher relative development”, the exemption will be of 100% up to a period of eight (8) years and of 50% the following four years.
 2. For companies located in areas of “lesser relative development” the exemption will be 100% up to a period of twelve (12) years and of 50% the following six years.

Terms shall be computed as of the date the productive operations of the beneficiary company start as long as that term does not exceed two years as of the date the relevant executive act was published.

Exemptions set forth in this sub-paragraph shall not apply when the potential beneficiaries may discount in their country of origin those taxes exonerated in Costa Rica.

8. Payment exemption of any and all municipal taxes and permits for a term of ten years. Companies included in this section must settle municipal services they may require. In this event, the respective municipality may charge twice the amounts provided for tariffs for such services pursuant to the law. Notwithstanding the above, companies established within Free Trade Zones are authorized to hire such services with any physical individual or company.
9. Payment exemption of any and all taxes relative to importation and exportation of commercial or industrial samples, prior authorization from PROCOMER.
10. For the better development of their operations, companies under the Free Trade System may freely carry out any and all acts and contracts in foreign currency in which case the applicable amounts must be necessarily paid in said currency – relative to their international transactions or those executed with the other companies within the Free Trade Zone System.

Out of the ten tax incentives aforementioned, numbers 4, 5, 6, 7 and 8 are most tax-relevant for those companies providing services (ten-year tax payment exemption over capital and net assets, territorial and real estate transfer taxes and of any and all municipal duties and permits; payment exemption on sales and consumption taxes over purchases of goods and services; tax payment exemption on foreign remittances; all taxes on profits as well as any other whose taxable base is determined in relation to gross or net earnings; dividends paid to shareholders, or income or sales – the period depends place of location-). The remaining set of incentives is more oriented towards companies involved in production and commercialization of merchandise; however, the start of operations of a company whose product is a service requires the acquisition of equipment (imported or local) to provide it; therefore, initially and when it may require it, it may enjoy all incentives.

¹⁰ The Real Estate Law No. 7509 of May 09, 1995, published in the Official Gazette No. 116 of June 19, 1995, excludes the Territorial Tax exonerated. Please refer to the Opinion of the Republic Attorney’s General number C-056-96.

¹¹ National companies providing services, national raw materials, products, parts or components made fully or partially in the country, to companies within the Free Trade Zone System, are not to collect or withhold sales taxes or those taxes of selective consumption. National providers solely, are committed to register and consign on the applicable tax returns the amounts of exempt sales, whether these are associated with sales or consumption.



In order to appropriately face the end of certain incentive programs in 2015 according to WTO rules, Costa Rican Congress created a new category in the Free Trade Zone Regime for manufacturing activities. The main characteristic is that no export performance is required to be eligible. The new law establishes three eligibility criteria: 1) Belong to a strategic sector. A Special Commission will be established to define the guidelines required to classify the sector as strategic for the development of the country. Within those guidelines, the following must be included: Social development contribution projects; High-technology projects. 2) New investments in the country must be subject to international mobility. Investment mobility shall refer to whether the investment could reasonably be made or moved to another country. It shall be assumed that the investor's controlling entity operates overseas, and that at the time of applying to the FZR, it will have a processing plant, similar to the one to be established in Costa Rica, operating outside Central America and Panama. 3) Have total or partial exemption at the time of application for FZR; or be a non-tax payer at the time the amendment comes into effect. The regime is also available for

Significant providers of companies under the Free Zone Regime (making a new investment in the country will be the only requisite). Companies established in areas of lower relative development (do not need to belong to a strategic sector). If a company keeps a minimum \$10 million new investment in the country (calculated based on the book value of assets subject to depreciation and on the 8-year investment plan) and at least 100 employees duly listed on payroll, the exemptions stated in sections g) and l) of article 20 of the current Law will be applied. Should that not be the case, sections g) and l) of article 20 of the current Law will still be applied, but companies will pay a 6% income tax rate. Current FZR incentives remain the same, except the one pertaining to income tax exemption. Companies complying with the investment and employment thresholds, the income tax exemptions are maintained as stated in sections g) and l) of Article 20 of the Current Law. The Law establishes the possibility of applying a tax credit up to 10% of the taxable income for reinvestment and training expenses of Costa Rican personnel and for provider SMEs (when the amount of said expenses is greater than 10% in a year, the difference may be used in the subsequent 5 years)

Free Trade Zone Location

At the time of issuance of this guide, Free Trade Zones are located as follows:

- **Zeta-Cartago.** Located 45 kilometers (28 miles) from the Juan Santamaría International Airport and 23 kilometers (14 miles) from San José. It is the oldest private free trade zone in Costa Rica. Area: 100,000 square meters of built industrial area plus 6,600 square meters for future development.
- **Zeta-Alajuela.** Located two kilometers (1.2 miles) from the Juan Santamaría International Airport. It provides excellent access to companies exporting their products by air on a daily basis. Area: 8,200 square meters built out of its total capacity of 90,000 square meters.
- **Saret Airport.** Located 1.4 kilometers (less than a mile) from the Juan Santamaría International Airport on the Inter-American Highway. Area: 24,900 square meters of industrial space and 2,000 square meters available for rent.
- **Puntarenas.** Located in Barranca, five miles away from Puerto Caldera on the Pacific coast. It has free access to the Juan Santamaría International Airport and to the Daniel Oduber International Airport. It offers excellent premises: banking services, cargo transportation, customs agency and a center for employee hiring. Area: 41 hectares. This industrial park offers some special incentives due to its location therefore reducing operational costs.
- **Metropolitana.** Located five kilometers (3.2 miles) away from the Juan Santamaría

International Airport. Area: 11.5 hectares of industrial premises and eight hectares available for development. Its premises are impressive and comply with all the needs and requirements of industrial electronic and high technology concerns.

- **B.E.S. Taiwan.** Located 1.5 kilometers (one mile) from the Juan Santamaría International Airport. It was developed by the Government of Taiwan. Area: 1,200 square meters of available industrial space and 66,000 square meters for future developments.
- **Ultrapark.** Located four miles away from the Juan Santamaría International Airport. Area: 14 acres. 1.5 hectares of industrial infrastructure and eight available hectares for future development. It offers office space and industrial production, banks and customs. It also offers a database designed for workforce hiring.

Customs

Customs procedures

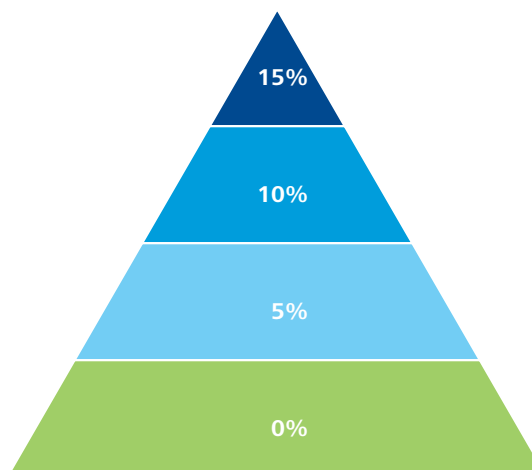
Customs procedures in Costa Rica are carried out through a customs agent who is responsible to conveying customs declarations to the Customs Office. However, the importer must provide the required documentation thereto: commercial invoices, bills of lading, insurances agreements, if any, technical chips to identifying the right designation and coding of the merchandise within the Central American Customs System.

Import Duties

Customs Import Duties (CID) are applicable to import merchandise as a percentage of their value (ad valorem); their taxable base is the customs value pursuant to what is provided for in the WTO Value Accord. The basis to defining import taxes consists of the real price paid or to be paid, international transportations costs, insurance cost and any applicable additions therewith per Section 8 of the WTO's Value Accord.

CIDs are fixed based on the Central American Duties schedule as provided for in the Central American Integration Agreement which orders the creation of a common external tariff for the region opposed to the other countries.

In Costa Rica, CIDs tariffs depend on the classification of the merchandise. The Central American Tariffs Policy is based on the following tariffs levels applicable to capital goods, raw materials, intermediate goods and final consumption goods:

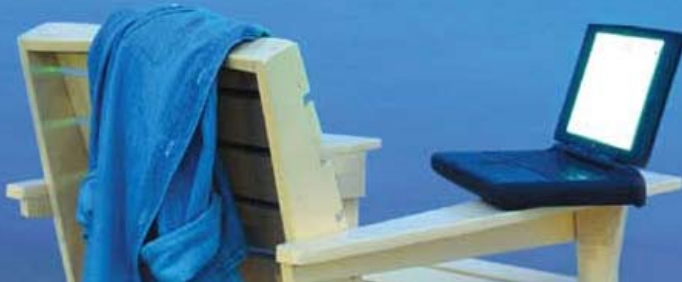


15% for final consumption goods

10% for intermediate goods produced in Central America

5% for raw materials produced in Central America

0% for capital goods and raw materials not produced in the region



About Tourism Incentives

Use of the Benefits

Costa Rica grants incentives to tourism activities in a number of ways. Such incentives were created upon the Incentives Law for the Development of Tourism number 6990 – ILDT.

Incentives set forth in the ILDT may be granted in full or in part, depending on the relevant company. Pursuant to Section 29 ILDT and to the executed Tourism Contract, benefits thereof may also be subject to certain requirements and conditions.

The Tourism Contract granted by the Costa Rican Institute of Tourism (ICT in Spanish) is required to become a beneficiary of the ILDT. Nevertheless, its attainment does not imply an automatic right to the ILDT.

The Contract provides which incentives may or may not be enjoyed by the requesting companies according to their characteristics and evidence is necessary that the company has previously and finally qualified as a tourism company before the ICT.

The Contract must be submitted to the relevant authorities (Treasury Ministry, Central Bank or the Ministry of Economy, Industry and Commerce). When applying for the incentive proof that the company complies with the requirements and that it has been authorized to enjoy the incentives is necessary. Said Authority is the one which finally grants the incentives.

Section 35 of the ILTD By-Laws provides that, in the case of exonerations granted under the ILTD and its by-laws, they must be handled, as a request, using the forms specifically designed to that effect by the Treasury Ministry. These requests shall be filed before the Ministry of Economy, Industry and Commerce and thereafter before the Technical Secretary's Office for the applicable review. In the event the exonerations are applicable, the relevant authorization will be recommended to the Department of Exemptions of the Treasury Ministry.

Incentives

Tax Incentives: Exemption of all taxes and rates applicable to imports or to local purchases: of assets and goods required for the functioning or the setting up of new companies or those companies, having been previously established, are offering new services, and in the case of building, expanding or remodeling of the relevant building, except in the case of motor vehicles and fuels.

This exemption is not applicable to imports of those similar goods manufactured in the national territory of the member countries to the Central American Agreement on Tariffs and Customs Systems in equal conditions in respect to quality, quantity and price, all at the sole judgment of the Ministry of Economy, Industry and Commerce.

Accelerated Depreciation: Accelerated depreciation of goods which given their use and nature are rapidly extinguished pursuant to the Income Tax Law and which are directly used in the hotel trade.

Concession of Municipal Patents (licenses): Required by the companies to develop their activities. Municipalities will grant these licenses within a maximum term of 30 calendar days as of the date of the filing of the request. The Municipalities will then collect the applicable tax. Licenses for prohibited

gambling as set forth in other laws will not be granted.

Concessions of municipal licenses and permits include national and foreign liquors so as to meet the needs of the population. Liquor licenses include all the positions the company has on its authorized premises and locations. However, liquor licenses granted under these conditions may not be used on other premises. Likewise, it is important to know that the price of the abovementioned license may not exceed the value of the last auction of a similar license in the same district – Section 30 of the ILTD BY-Laws.

Contract for Services as an Auxiliary Foreign Exchange Office. It is possible for your company to become authorized by the Costa Rican Central Bank to be an auxiliary office of foreign exchange to buy currency from foreign tourists. Operations would be performed in the name and in the account of the Costa Rican Central Bank which will provide, in the corresponding contract, everything related to terms and conditions whereby the hotels will transfer currency received as a result of such activity.

Exoneration of Territorial Taxes: Up to a period of six years as of the date of execution of the Contract and to those establishments located outside the Metropolitan Area as defined by the Planning Ministry. To these purposes, the company must demonstrate the exemption through which it holds such right to the Tax Administration by submitting a copy of the contract.

Foreign Trade Promotion Office (PROCOMER)

The Costa Rican Foreign Trade Promotion Office (PROCOMER) is the result of the merger of three entities linked to foreign trade: the Center for the Promotion of Exports and Investments (CENPRO in Spanish), the Free Trade Exporting Corporation, S.A. and the National Investment Council. PROCOMER is the official institution for the promotion of exports and investments in Costa Rica.

PROCOMER is a public, non-governmental organization. Its Board of Directors is chiefly represented by the private sector. The main operational areas are: the promotion of exports, attraction of investments, management of special systems (export contracts, free trade zones and temporary admissions), foreign trade single position, foreign trade statistical information.

Costa Rican Coalition of Development Initiatives (CINDE, in Spanish)

CINDE is a private not-for-profit organization whose purpose is to promoting the expansion of the manufacturing industries through foreign investments. In addition, it provides advisory services to interested companies and prepares projects oriented towards exporting activities and to setting up industrial premises in the country.

CINDE has excellent relations with both the private and the public sectors. Its professional team is capable to providing information in areas such as economy, trade, the country's economic profile, tax and labor regulations, incentives granted by the Government and the business climate in general. It also manages information on market opportunities resulting from trade agreements, international prices and market trends for Costa Rican products; international marketing services, contacts with high-end executives in both the private and public Costa Rican sectors, CINDE also has an office located in New York City (USA).

Representatives of Foreign Companies

Rules applicable to representation services; contingencies on foreign companies (home offices).



Regulations

Pursuant to Section 360 of the Code of Commerce, any individual or company involved in the promotion, facilitation or fulfillment of the sale or the distribution of goods and services, may act as a representative or distributor of foreign companies doing business or providing services in the country.

Representatives of foreign companies, specifically in regard to (i) their duties, (ii) rights and obligations, (iii) cancellation of contracts, (iv) just causes for termination of the representation, distribution or manufacturing agreement, WITH or WITHOUT liability to the foreign company, (v) responsibilities of the parties and those pertaining to indemnifications in the event of damages, are all ruled by the Law Protecting Representatives of Foreign Companies, law number 6209 of March 9, 1978 and its By-Laws. This law is of public order and the rights it grants cannot be waived. Therefore, any agreement or specific understandings whereby any of such rights are waived is invalid. This law was amended by Law number 8629 published in the official Gazette in December 18, 2007 with the purpose of complying with the commitments agreed upon in the RD-CAFTA.

According to the law, a “Representative of Foreign Companies” is any physical or corporate entities which in a continuous and autonomous manner, with or without legal representation, prepares, promotes, facilitates or perfects the sale or distribution of goods or services that foreign companies sell or provide in the country.

The following conditions are required to becoming a representative of foreign companies:

Be a Costa Rican citizen or a foreign individual or entity duly and permanently established within the national territory

Be sufficiently prepared in commercial matters and be of renowned solvency and honorability.

The above requirements must be evidenced as follows, first: by producing the identity or residence card of the applicant; second: upon written evidence necessarily issued by any of the following entities: Chamber of Representatives of Foreign Companies, the Costa Rican Chamber of Commerce, or any other businesspersons association legally acknowledged where evidence exists in that the applicant has carried out business activities in the country in any of their modalities for a period of no less than three years, that applicant is well prepared in business matters and of excellent solvency and honorability status; and third: by presenting the pertinent license once it has been recorded with the Mercantile Registry so that notice may be taken in the corresponding record book carried by the Treasury Ministry.

Amendments to the Law introduced as a result of the commitments assumed in regard to the DR-CAFTA are:

The elimination of sub-section b) of Section 361 of the Code of Commerce which originally stated, as a requirement to become a representative of foreign companies, the following: "Having carried out business activities in the country, in any of the fields, for a period not under a term of three years".

The following addition as a just cause to terminate the representation, distribution and/or manufacturing relationship, wherein the foreign company would be liable: for the appointment of a new representative, distributor or manufacturer, when the previous representatives, distributors or manufacturers who have performed such duties under terms of exclusivity, as agreed upon in the contract, become affected upon such new appointment; the termination of the agreement prior to its expiration date as agreed upon between the parties, or when the prior notice set forth in the contract is not performed; and the termination of the contract when notice thereof has not been delivered to the representative, distributor or manufacturer with at least a term of ten months in anticipation in the cases where the contract does not state a date of expiration or when the prior notice is not provided for.

The following just causes to terminating the representation, distribution or manufacturing relationship with no liability on the part of the foreign companies are added, as follows:

- The expiration of the contract at its due date as agreed upon by the parties or else, when prior notice as provided in the contract is delivered thereto; and
- The termination of the contract notified to the representative, distributor or manufacturer on at least a term of ten months in anticipation in the cases when the contract does not state a date of expiration or when the prior notice is not provided for.

In addition, Section 7 of the Law states the following: "The rights of the representative, distributor or manufacturer, pursuant to this Law, cannot be waived. The absence of any specific provision(s) in a representation, distribution or manufacturing agreement for the purposes of conflict resolution matters will be taken as a presumption whereby the parties had the intent to settling any disputes through a binding arbitration proceeding. The arbitration proceeding may be carried out in Costa Rica. Nevertheless, the above stated presumption will not apply when one of the parties objects the arbitration proceeding".

A new Section known as 10 bis is created to rule claims for damages.

It substitutes the previous formula for the calculation of damages with the general principle whereby any and all damages are cured as long as they are quantifiable and provable.

Source: Crecex – Foreign Chamber of Commerce <http://www.crecex.com>

Taxes

Introduction

Current Tax System

There exist a number of tax systems applicable in Costa Rica which, in general terms, are managed by the Tax General Administration and the Customs General Administration, both under the authority of the Treasury Ministry.

The first Administrative Directorate: (i) income and related taxes; (ii) general sales tax; (iii) selective consumption tax and other minor taxes. The second one collects customs taxes and other taxes from import operations.

Additionally, local municipal governments manage some taxes: (i) real estate taxes and (ii) municipal taxes on licenses or patents. License taxes include the authorization to operate in a lucrative activity within the limits of a given territorial jurisdiction and the tax payable is defined on gross and net income. Municipalities also manage liquor patents and taxes on public shows and collect the canon or license applicable to those individuals or companies entitled to a Maritime-Land Zone public concession.

There are other governmental offices responsible for collecting special taxes and other contributions of similar nature. For example, the Costa Rican Social Security Agency (CCSS, in Spanish) collects contributions subtracted from the wages of employers and employees toward financing public health.

Three basic characteristics rule taxable income in Costa Rica: (i) territoriality, (ii) the existence of a system of enlisted tax payers and (iii) the preeminence of the *rent-product* over the *rent-income*.

Comments of the Structural Tax Reform

The Tax Plan was studied for the first time in year 2001. From then, a number of versions of the proposed law have been submitted before the Legislative Assembly with no success.

Initially, the master features of the amendment were, on one hand the movement towards a global taxable income instead of the now existing tax payers' enlisted system, and the movement to a taxable worldwide income of the resident taxpayer (capitals of Costa Rican origin), on the other, regardless of the place the income is generated or attained as opposed to the current territorial model.

It was expected that discussion over the Tax Reform would resume again in 2008. However, the plan was postponed as a result of the implementation agenda related to the Free Trade Agreement (DR-CAFTA) and the Central Bank's capitalization project. In August, 2008, the President of the Republic publicly announced that discussions on the project would not continue at

A basic element to take into account by any investor. Suitable tax planning could stand as the difference between profits and losses.

the Legislative Assembly Plenary Meetings. Rather efforts that concentration on minor amendments that could move forward a higher increases of resources in terms of providing some stability to the national treasury have become the focus. Among them, the elimination of exonerations on foreign remittances and the special system anticipated by the Income Tax Law for Offshore Banking.

Treaties to Avoid Double Taxation and for Exchange of Information

Costa Rica has only one treaty in force to date on this subject matter: the Treaty for the Exchange of Tax Information with the United States of America. The purpose of the Treaty is to assure the correct taxation and collection of taxes as well as to prevent fraud or tax evasion and set forth the best information exchange sources in connection with tax issues.

In recent years, a number of treaties have been negotiated that have not reached their execution after negotiation rounds, amongst them: Mexico (the negotiations were deserted); Canada (the negotiations were dropped after the first round); Germany (negotiations were completed in 2006 but without the intent to execute the treaty. It was rated as harmful to Costa Rica and that it would be twice as harmful given that a "most favored Nation" clause was executed with Spain); Switzerland (negotiations are at the level of a first draft. Switzerland accepted, exceptionally, with Costa Rica, the inclusion of an information exchange clause that it did not include with other countries), and Romania.

In terms of Central America, the country has moved forward with a significant effort to drafting and executing a mutual cooperation model accord aimed at preventing tax avoidance and evasion and to cooperate among tax administration for collection purposes.

Income Tax on Business Entities

General Information

General Information: The tax applicable to the income of residing business entities (filial entities or branches) is the tax on profits. This tax applies to earnings received as a result of the development of lucrative activities of any type, excepting those activities assigned with a specific tax treatment by means of other enlisted taxes existing in the Law.

According to Section 2 of the Income Tax Law (ITL), income tax payers are, regardless of citizenship, domicile and place where the entities were formed or where they hold their board of directors meetings or where they execute their contracts, all public and private companies carrying out business activities and transactions for profit in the country.

Income taxes are applicable to net income and the applicable tariff is 30%. However, to those companies whose income is lower than 67,791,000 Costa Rican currency (Colones) and that are classified as "small", the following tariffs will apply:

CHART 1
Small Companies Income Tax

| Tariff | Gross Income |
|--------|--------------------------|
| 10% | ¢0 – 33.701.000 |
| 20% | ¢33.701.000 – 67.791.000 |

*Amounts stated in this document are expressed in currency of local use, to wit, the Costa Rican Colón-. Today's exchange rate is 518,92 Colones per One Dollar of the United States of America.

Capital Gains

Capital Gains pursuant to the principle of rent-product are not taxed, in principle and are excluded from the gross income. In spite of it, this rules finds its exemption on two assumptions: (i) when it is "habitual", and (ii) in the case of transfers of tangible assets subject to depreciation.

Deductions

General Information

One must be aware that taxable income, net income, is the result of deducting from the gross income (previously defined) those costs and useful expenses as needed and that are applicable to generate it.

Section 8 of the Income Tax Law defines expenses that are deductible. Following is a brief list of the most relevant expenses with the warning that deductibility of some are subject to certain particular requirements.



CHART 2 Deductible Expenses

The cost of goods and services sold; raw materials, parts, components and services for the production of the goods and services sold; fuels, moving strength, lubricants and similar items.

Salaries and other remunerations or employer gifts.

Taxes, charges and duties affecting the goods, the services and the negotiations of the habitual line of business of the company except for income taxes, sales and consumption taxes when the taxpayer is a payer of such taxes.

Fire, robbery, theft, earthquake and other risks insurance premiums contracted with the Instituto Nacional de Seguros or with other authorized insurance companies.

Interests and other financial expenses provided they have not been capitalized from an accounting point of view.

Debts clearly unrecoverable.

Depreciations to compensate the wearing out, deterioration or the economic, functional or technological obsolescence of those tangible assets that generate taxable income owned by the taxpayer, as well as the depreciation of permanent improvements. Depreciation on the value of real estate property is not admitted.

Amortization of losses of past periods when dealing with agricultural or industrial companies.

Employers' contributions.

Payments or credits granted to non-domiciled individuals for technical, financial or any other advice as well as for the use of patents, provision of formulas, trademarks, privileges, franchises, royalties and other similar services.

Representation expenses and similar expenses. Likewise, expenses incurred as a result of bringing technicians to the country or for the transfer of the taxpayer's employees for acquiring special skills abroad, are deductible as well.

Company organization expenses which may be deducted for the tax year when settled or credited or, if they became accumulated, during five tax consecutive years as of the date of the company's productive start up and until the balance is exhausted. All costs and expenses necessary to start up the production of taxable income that, pursuant to the Law, may be deducted from the gross income are all rated to organizational expenses.

Indemnifications, work benefits, retirements, limited to an amount three times as much as the minimum amount set forth in the Labor Code.

Advertisement and promotion expenses incurred in or outside the country as necessary for the generation of taxable income.

Transportation and communications expenses, salaries, fees and any other remuneration paid to non-domiciled individuals.

Authorized donations.

Losses as a consequence of the destruction of assets, for fire, for felonies against the company, duly proven and for the part not covered by insurance.

In addition to the expenses itemized above, deduction of any items that are concurrent with the general definition of necessary, useful or pertinent expenses to generate income should be admitted.

Taxes on Available Income

Taxes on available income affect the residue, income that can be disposed of after settling profit taxes starting from the net income. Dividends are part of this heading.

Section 16 of the ITL provides that when taxed or exempt income is received or accrued per the ITL or other laws, these must be added to the result of the applicable tax period in order to define the available income.

For the purposes of this tax, pursuant to Section 17 of the ITL, companies subject to payment of this tax are classified as 'capital companies' and 'companies of individuals' therefore "(...) *capital companies are stock companies (corporations), limited share partnerships and limited liability companies; and companies of individuals are limited partnerships, collective partnerships and professional activities companies and all other whose stock is not represented by shares, except for those referred to as capital companies*"

Individuals attaining taxable income for their activities; (i) limited liability partnerships; (ii) salaried workers ruled under Title II of this law; and (iii) all those physical individuals not specifically mentioned in Section 2 who perform income-generating activities, are all taxpayers as well.

In general terms, when the available income of capital companies is distributed in cash, in kind or in shares of stock of the company itself, the company must:

(i) Withhold fifteen percent (15%) from such amounts as a sole and definitive tax payable by the shareholder.

(ii) When it deals with dividends distributed by corporations ("sociedades anónimas") and whose stock is recorded with an officially recognized stock exchange and in addition said shares of stock have been acquired through said institutions, the withholding will be of five percent (5%), as a sole and definitive tax payable by the shareholder.

(iii) Neither the withholding nor the tax are applicable in the following cases: when the partner is another corporation domiciled in Costa Rica and subject to said tax and when dividends are distributed in the form of nominative shares of stock or corporate quotas of the company paying them.

Please note that in the case dividend payments from one entity to another, when both are domiciled in Costa Rica, are not subject to settling the available income tax.

On the other hand, branches, agencies and other permanent business concerns of persons not domiciled in the country where they have their activities are essentially subject to the same treatment in regard to this tax pursuant to Section 19 of the ITL.

Taxes on Remittances

The foreign remittances tax encompasses, as a sole and definitive tax, all incomes or benefits of Costa Rican source delivered abroad (Section 52 of the ITL). The tax is generated when an income or benefit of Costa Rican source is settled, credited or in any other form made available to persons domiciled abroad.

Taxpayers are those individuals and corporations domiciled abroad but receiving income from Costa Rican sources. However, those persons domiciled in Costa Rica delivering the remittances or crediting the taxed income or benefits, are joint and severally liable to settle the tax as well.

The tax must be withheld at the time it is settled, credited or made available to the non-domiciled person; it must be settled within the first 15 calendar days of the immediately following month. Jurisprudence understands that this payment refers to the physical remittance of the funds.

Tariffs are as follows:

| Tax Rates on Remittances | |
|--|--|
| Rate | Item |
| 8.5% | Transportation and communications. |
| 10% | Pensions, old-age pensions, salaries and any other remunerations resulting from work personally performed under subordinate conditions. |
| 15% | Fees, commissions, stipends and other payments for personal services performed without any work relationship. |
| 5.5% | Reinsurances, re-securing and insurance premiums of any type. |
| 20% | Use of motion pictures, movies for television, recordings, playing records, comic strips and, in general, any similar diffusion of images or sounds including the use of international news broadcasts. |
| 50% | Radio and television soap operas. |
| 15% or 5% | Profits, dividends or company participations as stated by Sections 18 and 19 of this law.* |
| 15% | Commercial leases. |
| 15% | Any payments based on interests, commissions and other financial expenses.** |
| 25% | Technical advice – financial or of any other type – (including administrative advice), as well as for payments relative to the use of patents, forms supplies, trademarks, privileges, franchises and royalties. |
| 30% | Any other remittance of income of Costa Rican source as set forth in Sections 49 and 50 of this law not previously provided for.*** |
| * The treatment of dividend distribution to non-resident persons is matched to the one applied to residents as discussed in paragraph 2.1.2 of the available income tax. | |
| ** Taxes are not applicable for interests, commissions and other financial expenses paid by companies domiciled in the country to banks abroad – or to financial entities being part of said banks – acknowledged by the Costa Rican Central Bank as institutions regularly dedicated to handling international operations, including payments entered for those purposes to foreign suppliers as a result of the importation of merchandise. The tax applicable to the leasing of capital goods and to interests on loans is not payable provided, however, these are used in industrial or agricultural activities by companies domiciled in the country, paid to institutions abroad acknowledged by the Costa Rican Central Bank as first level institutions involved in these type of operations. | |
| ***According to current interpretations, professional services provided by legal entities are included herein. | |

Tax Treatment of the Exchange Differential

Section 81 of the ITL states that all taxpayers committed to settling taxes as set forth in this Law as a result of the performance of operations or that otherwise receive income in foreign currency that in turn have an impact in the determination of their net taxable income, must carry out the conversion of such currency to national currency based on the “inter banking” exchange rate as established by the Costa Rican Central Bank applicable at the time the operation is effected or the income is received. All pending operations or income not received by September 30 of each tax period will be estimated at the exchange rate as fixed by the Costa Rican Central Bank up to the relevant date.

Pursuant to Section 8 of the ITL’s By-Laws, gross income is also part of the exchange differentials coming from assets in foreign currency associated with operation of the regular business activities of the taxpayers (taxable income). Thus, the exchange differential is subject to taxes on profits or taxes on remittances as applied to a resident or to a non-resident taxpayer.

Other matters Relative to Income Tax Transfer Pricing

Costa Rican laws do not provide for specific rules granting the tax administration due authority to assess transactions between affiliate companies pursuant to normal market value.

In regard to transfer pricing regulations, there are only a few, isolated, rules in the laws regulating income and selective consumption taxes. Thus, the law regulating the selective consumption tax sets forth the possibility for the Tax Administration to adjust the taxable base in the case of control transfers among affiliated companies at lower prices than normal or at gratuitous title.

The Income Tax Law provides that the portion of interests attributable to the fact that a rate had been agreed upon exceeding the usual market rates is not deductible. In that vein, the By-Laws

define the “usual market interest rate” as: (...) **that equivalent to the passive basic rate calculated according to the terms of the Costa Rican Banco Central plus a margin of up to fifteen percent points regardless of the activity as the case may be”.**

On some occasions, the General Tax Administration Office has applied Sections 8 and 12 of the Code of Norms and Tax Procedures to carry out transfer pricing tax adjustments between affiliated companies resorting to the principle of economic reality. This means that it has entered adjustments stating that the transaction as was agreed upon is hiding a different reality with the sole purpose of lowering tax payments.

When adjustments have been effected based on said rules, the Tax Administration has used as reference the recommendations issued by the ECONOMIC COOPERATION AND DEVELOPMENT ORGANIZATION in its 1995 report on transfer pricing.

Undercapitalization Rules

The Costa Rican tax laws do not provide for specific undercapitalization rules. Similar to transfer pricing, in those cases when the Administration sees an abuse through taking an advantageous position on the lack of such rules the Administration may resort to the principle of economic reality and take whatever measures it deems appropriate thereof. Such measures will depend on the characteristics of the specific case at hand and are not provided for in norms, notices or opinions from tax authorities.

For financial purposes there are prudential rules issued by Financial Entities General Superintendence (SUGEF, in Spanish) in regard to undercapitalization but it does not affect the tax treatment of companies in Costa Rica.



Sales Tax

Sales tax (ST) is 13% and it is calculated over the sales price of all products exception made on those specifically listed to that effect and of some specific services.

Tax exempt products are: the so called "basic basket" (groceries, production and basic articles for the home), human and veterinarian medicines, agricultural, cattle-raising and fishing implements, tools and other basic articles (fertilizers, plants, seeds, etc.); educational materials (notebooks, books, pencils, etc.), and miscellaneous articles (power consumption under 250KW/h, etc.

Services subject to tax payments (by exception): restaurants, bars, nightclubs, social clubs, hotels and other lodging means, motor vehicles, repair shops, parking lots, telephone, cable and telex, photography, customs deposits, dry cleaning, public events, except sports, theaters and movie theaters for children, advertisement, customs services, real estate services, and international moving activities.

Taxpayer may only recover the ST by means of a credit since cash reimbursements are not allowed. Credit may only be applied in the month corresponding to the tax payments on articles and services.

| Numeric Example to Calculating Sales Taxes | |
|--|--------------------|
| Purchase | |
| Cost of article | 100.000.000 |
| Sales Tax 13% | 13.000.000 |
| Total | 113.000.000 |
| Sale | |
| Sales of articles (plus 20% margin) | 120.000.000 |
| Sales Tax 13% | 15.600.000 |
| Total | 135.600.000 |
| Sales Tax Payment | |
| Payable tax for sales | 15.600.000 |
| Credit for purchases | 13.000.000 |
| Total tax payment | 2.600.000 |

In the event tax credits are not applied correctly, the taxpayer must demand reimbursement of the corresponding amounts in a specific request. No automatic compensation of credits for previous taxes is allowed. However, an excess amount of ST may be transferred to the following balance sheet to compensate for ST obligations. Costa Rican law used to allow for transfer excess tax credits to another taxpayer by means of a private negotiation. Nevertheless, this possibility of transferring tax credits to other taxpayers ceased to exist on 30 September, 2000.

In addition, there is a tax on consumption that is assessed on products rated "non-essential" as published in an official list at a rate oscillating between 5% and 75% of sales.

The latter taxes are: specific, extraordinary and consumption selective on certain merchandise and whose tariffs or rates are set forth in different laws. Such tax burdens fall mainly on alcoholic beverages, beer and cigarettes. There also are taxes on fuels, casinos, gambling tables, automobiles, certain non-alcoholic bottled beverages and toilet soaps.

Real Estate Taxes **Transfer Tax**

When performing any legal transaction whereby a piece of real estate is transferred, a transfer tax will apply whose rate is 1.5% of the value of the property according to the public registry.

The value according to the public registry is the one assigned to the property in the transfer agreement which is documented before a notary public by means of a public deed of transfer and thereafter recorded with the registry. However, the Tax Administration is authorized to adjust the value declared based on background elements such as prior appraisals, banking information, real market price per zone, similar regional real estate sales prices, price index established by the Central Bank of Costa Rica, the amount of the mortgage, if any, recorded in the transfer instrument and other applicable factors.

Sellers and buyers are the taxpayers in equal parts who for tax purposes are joint and severally liable. Payment of the tax is made in one single act by way of the settlement of a charge within the month following the execution of the transfer.

Entrusted real estate properties are exonerated from the transfer tax. Once the trustee transfers the entrusted property to a third party other than the original trustee, all charges and transfer duties and taxes must be settled in full as well as other applicable charges.

Real Estate Taxes (Territorial Taxes)

Municipal governments are authorized to collect and manage taxes on real estate properties.

The following are subject to said tax: plots or pieces of land, the premises or fixed and permanent constructions existing there. The tax base to calculate the tax will be the value of the real estate property as registered with the Tax Administration Office, to January 1 of the corresponding year, and, throughout the country the applicable tax is 0.25% of the tax base. This tax is on an annual basis and it is settled annually or in a six-month period or in four quarterly installments, as defined by each municipality.

In addition, notice must be taken that if the real estate property is located within the maritime-land zone, a concession must have been previously granted for the use of the ground; and, in such case, the holder of the concession will be liable to settling the applicable lease payments to the municipality.

Municipal Taxes

General Information

Licenses related to operational activities are requested by the developing company before the municipalities. Requests for permits related to building works, health matters, water, electric power, zoning, ground use, authorization of plans, and patents are made to local governments.

Some of the taxes collected by the Municipalities are:

- Waste pick up
- Cleaning
- Sewerage, drain systems
- Electric lighting
- Public parks
- New works
- Roads
- Taxes on timber
- Taxes on works performed
- Building taxes
- Taxes on the sales price of cement
- Municipal Stamp Taxes on real estate transactions
- Lease payments on maritime-land zones:
farming-stock breeding use: 2% use as home 3%; hotel, tourism and recreational use 4%; commercial, industrial and mining use 5%

All taxes, tariffs and special contributions as well as the procedures to follow vary depending on the municipality in which case a specific study would have to be carried out in each municipal office. For example, some municipalities charge environmental taxes while others do not.

Municipal Patents

Taxes on patents are of a local nature and are ruled by special laws for each one of the 81 municipalities across the country. There is no law of a general nature ruling their application.

In principle, the performance of any and all lucrative activities triggers patent taxes. For the application of said tax, in general, municipalities have divided lucrative activities into five groups: a) agricultural; b) commercial; c) industrial; d) miscellaneous; and e) consumption of national and foreign alcoholic beverages. Some municipalities have adopted the system whose amount is determined by the net taxable income and gross income according to a pre-established table. Others follow the gross sales concept.

In regard to the determination of the taxpayer of this tax, it must be explained that there exist different types of patents with different applicable taxes as a result of the taxpayers' activities, the tax fall upon certain person depending on the activities they perform.

Calculation of taxes or municipal patents varies depending on the law of each County. Regardless of the main applicable tariff, each municipality uses a different method to perform the calculation of the patent or license. There are two predominant calculation systems: the simple and the compounded.

Labor Relations

Obligations on the part of the investor-employer and rights of the employees.

General Comments

Costa Rican labor regulations are mainly provided for in the Labor Code in force and effect since 1943.

Given the age of said Code, in recent years new important amendments have been proposed and implemented on some subject matter so as to comply with the demands of the new global market as well as newer tendencies in labor laws.

In addition to the Labor Code, there are numerous legal norms regulating labor relations found in independent texts as is the case with year-end bonus to employees, social security, sexual harassment and others.

Nevertheless, the answers to specific cases happening on a day-to-day basis are not always found in the set of rules but in court decisions dealing with them and that could become amended with the passage of time.

Therefore, in addition to currently enforceable rules and to avoid any possible gaps therein, companies may implement their own set of rules by performing certain internal policies and manuals specifying and developing certain relevant issues.

As can be seen, given the diversity of sources that need be conciliated towards the appropriate handling of labor relations, it is convenient to seek advice from a law firm specializing in labor matters.

The Labor Agreement

Characteristics and Elements

In principle, the labor agreement should be in writing and provide, at least, the following formalities:

- Full names, citizenship, age, gender, civil status and addresses of the parties.
- Personal identification number or any other documentation identifying the parties.
- Employee's accurate address when performing his obligations away from his regular place of residence; otherwise, a general address will suffice.
- Length of job or an indication stating the type of labor contract.
- Works hours indicating the number of hours.
- Type of remuneration stating its calculation basis and the payment location.
- Place where labor is performed.
- Other agreed upon stipulations.
- Place and date of the execution of the contract.
- Signatures of the parties and, in the event an employee is unable to write his signature, two witnesses signing on behalf of the relevant party.

In the case of underage employees 15 to 18 years old, special legislation applies.

It is not mandatory for labor agreements to be in writing, however, it is recommended since it is important to document any and all commitments and conditions of the labor relationship.

Trial Period

There is no specific provision in Costa Rica whereby a trial period is specifically set forth on indefinite-term labor agreements. Nevertheless, since indemnifications for unjustified causes are only acknowledged after the third month of the labor relationship, it is then construed that during the first three months any of the parties may terminate it with no liability whatsoever for which reason said three-month period is understood as a trial period. However, for legal purposes, it must be clearly understood that the labor agreement starts from the very first day of labor.

Rights and Obligations resulting from the Labor Relationship

Work Day and Work Schedule

Costa Rican laws basically provide for two types of work days:

1. Ordinary work day which may be performed in three different shifts:
 - a) Day shift: This work day may be implemented from 5:00 a.m. to 7:00 p.m. and a maximum limit of 8 hours daily and 48 hours weekly. However, in work that is not of a dangerous or unhealthy nature, the 48 weekly hours could be accumulated in a manner such that they are worked in lesser days although the daily shift cannot exceed ten hours of effective work.
 - b) Night shift: This work day goes from 7:00 p.m. through 5:00 a.m. for a maximum limit of six hours per shift and 36 hours per week. However, accumulation of hours is not permitted regardless of the fact that the relevant work is or is not unhealthy or dangerous.
 - c) Mixed shift: The mixed shift is the one occurring during both the day and the night shifts; it has a maximum limit of seven hours per shift. Similar to the day shift. It can be expanded to eight hours in the cases where the work is not unhealthy or dangerous and to a maximum of 48 hours per week. However, if the night shift is equal or higher than 3.5 hours it will be rated as night shift for all legal effects which implies that it cannot exceed six work hours per day.
2. Extraordinary: Hours worked above the ordinary shifts as stated above are considered extraordinary work. Wages received by the employee during such extraordinary shift are paid an additional 50% of the work performed during the regular work hours.

It is important to bear in mind that the time it takes the employee to mend his or her own mistakes during the ordinary shift are not considered as extraordinary work.

There is however a limitation in respect to this type of work day. When added to the ordinary work day, when effectively worked, it cannot exceed twelve hours during the day.

Lastly, both the law and the case law demand that the expansion of the ordinary work day is actually due to the company's exceptional circumstances in a way that the extraordinary work day is not used in a manner to permanently expand the regular day work.



Work breaks during the ordinary work day

The work day may be on a continuous basis applying breaks not exceeding one hour which be accounted for as effective labor time, or on a fractional basis whereby workers enjoy breaks equal to or above one hour in which case it is not considered as effective work time.

Exceptions to the ordinary work days' limits

Notwithstanding the above stated limits, the law considers some assumptions where such limits are not applied. It deals with managers, administrators, representatives and all those employees who work with no higher, immediate supervision as well as those that hold positions of trust and agents and similar employees whose work performance is not carried out within the company's premises and in the case of those individuals who are not subject to the work day system due to the indubitable nature of their obligations.

However, these persons are not committed to remain in their jobs more than twelve hours per day and will have the right, within said time span, to take minimum breaks of up to one and a half hours. Time worked in excess is rated as extraordinary.

Days of Rest

Costa Rican laws provide that all workers have the right to enjoy a full rest-day after each week or after six days of continuous work. Such rest will be paid to those employees earning a monthly or a bi-monthly salary.

In exceptional cases and due to serious needs of the employer requiring employees to work during his or her rest-day, employees will receive twice their regular pay.

Holidays

There are two types of holidays in Costa Rica: those of mandatory pay which are: January 1 (New Years); April 11 (Juan Santamaría Day); Easter Thursday and Friday; May 1 (International Labor Day); July 25 (Annexation of Nicoya to Costa Rica); August 15 (Mothers Day and Ascend of the Holy Virgin); September 15 (Costa Rica Independence Day); December 25 (Christmas); and holidays where pay is not mandatory: August 2 (Virgen de los Angeles Day); and October 12 (Day of the Cultures). When salary payment is on a monthly basis or bi-weekly, or if the company's activities are related to commerce, all holiday payments are mandatory pursuant to national case law.

In the event April 11, July 25, August 15 and October 12 fall on Tuesday, Wednesday, Thursday or Friday, employer will order employees to work on those days and the relevant holiday will be taken on the Monday immediately following. However, if it deals with companies that have substantial work on Saturdays and Sundays or that cannot stop work on Mondays, employees will enjoy it on the day agreed upon with employer provided, however, that such day off is taken within a term not exceeding fifteen days as of the date of the holiday. All other holidays will be taken on the corresponding day.

In some specific cases, the employer may order employees to work on holidays, in which case, if it is a holiday of mandatory pay, the employee will have the right to receive twice the salary for that day. If the holiday is not of mandatory pay, the work performed by employee that specific day will be paid on an ordinary basis.



Vacation Time

Employees are entitled to a minimum two-week paid vacation period for every fifty continuous weeks of work with the same employer. If the work relationship terminates prior to completing fifty weeks, employee will receive payment equal to one day's work for each month worked.

Medical Disabilities

Pursuant to case law, in the event the employee is unable to work due to medical reasons, the employee will receive 50% of his salary during the first three days of the disability period which will be settled by employer and, from day four the social security system will pay employee a "disability allowance".

When an employee must leave his or her workplace due to a labor accident or professional disability, the Costa Rican National Insurance Institute will cover 75% of employee's salary during the time of disability.

Maternity Leaves

Female employees are entitled to salaried maternity leave during the month prior to delivery and for three additional months thereafter.

During such time, the employer will pay 50% of her salary and the Social Security System will pay the remaining 50%. However, a project whereby 100% of such benefit will be entirely covered by the Social Security System is currently under analysis in Congress.

Year-End Bonus

The year-end bonus is a payment additional to the salary paid to employees by their employer within the first twenty days of the month of December of each year.

Said bonus is calculated by adding all ordinary and extraordinary salaries received by employee during the period of December of the previous year through November 30 of the year of payment divided by twelve.

The Year-end Bonus is not subject to any reductions either for social contributions or taxes.

If the labor agreement terminates before the Year-end Bonus payment becomes due, employee is entitled to receive one twelfth of the average of salaries received during the proportional period corresponding to the months employee rendered his services.

Salaries

Costa Rica has a very competitive labor market that forces employers to pay higher salaries than those set forth as minimum salaries per the law, if employers wish to maintain a reasonable rotation.

Hence, each company may design and implement its own salary policies. Nevertheless, it must adjust to certain parameters dictated by law.

There exists a Decree that sets forth the obligation of the National Salaries Council (comprised of labor sector representatives, the private sector and the Government) to effect a determination of Minimum Salaries on a yearly basis per the cost of living index which will be in place from January 1 of the following year. This determination is published as a decree called "Minimum Salaries Decree".

Notwithstanding the above, during recent years said review on minimum wages has been carried out on semi-annually basis.

Once the salary increase has been defined by the National Salaries Council it is the obligation of all employers of the private sector to increase minimum salaries in the percentage defined by the Council. If an employee actually receives a salary above the minimum, the employer is not expected to increase it in the approved percentage except if there is an in-house rule, policy or accord between the parties in that direction.

As an example, the currently applicable Decree of Minimum Salaries for the second half of 2009 published 15 July, defines the following minimum monthly salaries for generic categories (Costa Rican currency):

| | |
|---|----------|
| Non-qualified workers | ¢196,233 |
| Semi-qualified workers | ¢211.388 |
| Qualified workers | ¢222.398 |
| Mid-Technicians of diversified education | ¢239.560 |
| Specialized workers | ¢256.719 |
| Higher Education technicians | ¢295.231 |
| Higher Education Trained workers (with Diploma) | ¢318.861 |
| Workers with University Bachelor's degree | ¢361.664 |
| University 'Licentiate' | ¢434.011 |

Complementary Benefits

Frequently, companies provide additional benefits to employees not provided for in law. They can vary and, among the most common ones are subsidized transportation and/or food allowances, uniforms, medical services, study scholarships and others. These benefits are subject to taxes and withholdings given their pay-in-kind nature. This rule may vary in the case of expatriates with temporary assignments in terms of their contributions to the social security system.

Severance Pay

The labor agreement may terminate for any of the following reasons: resignation, death, retirement, dismissal with responsibility on the employer, dismissal without employer responsibility and by the mutual agreement of the parties.

Severance paid at the end of the labor relationship will depend on the particular circumstances. For example, in cases of advance notice either party may terminate the labor agreement for no particular reason provided the other party is given notice, pursuant to the following rules:

- After continuous work relationship not under three months or above six months, notice must be submitted one week prior to termination;
- After continuous work relationship exceeding six months but under a year notice must be submitted fifteen days prior to termination; and
- After one year of continuous work with a minimum of one month in prior to termination.

Prior notice may be omitted by settling an amount equal to the salary applicable in each one of the above stated cases.

On the other hand, in regard to severance pay, it must be settled in the following cases: when employee is dismissed without just cause, employee dies, retires or when employee resigns for reasons attributable to employer.

Payment will be computed according to the length of time worked by employee taking as a reference the salary average for the previous six months and pursuant to the following rules:

- After continuous work not under three months and not above six months, an amount equal to seven days salary;
- After continuous work above six months but less than one year, an amount equal to fourteen days salary; and
- After continuous work above one year an amount equal to a salary as stated in the following table:

| Severance Pay Computation | |
|---------------------------|--|
| Year | Daily salaries for severance purposes |
| 1 | 19,5 days per year worked |
| 2 | 20 days per year worked or a fraction thereof above six months |
| 3 | 20,5 days per year worked or a fraction thereof above six months |
| 4 | 21 days per year worked or a fraction thereof above six months |
| 5 | 21.24 days per year worked or a fraction thereof above six months |
| 6 | 21.5 days per year worked or a fraction thereof above six months |
| 7 | 22 days per year worked or a fraction thereof above six months |
| 8 | 22 days per year worked or a fraction thereof above six months |
| 9 | 22 days per year worked or a fraction thereof above six months |
| 10 | 21,5 days per year worked or a fraction thereof above six months |
| 11 | 21 days per year worked or a fraction thereof above six months |
| 12 | 20,5 days per year worked or a fraction thereof above six months |
| 13 | and thereafter, 20 days per year worked or a fraction thereof above six months |

The upper limit (or cap) regarding severance pay is eight years.

Provisions

It is advisable for employers to keep provision percentages with respect to salaries settled, for the payment of:

| | |
|-----------------|-------|
| Vacations | 4.16% |
| Year-end bonus: | 8.33% |
| Holidays | 2.47% |
| Severance | 5.33% |

Contributions to Social Security

Costa Rica has a mandatory social security system providing medical attention and disability, old age and death pensions to those insured. Contributions to the Social Security System are entered as follows: employer must contribute 26% of employee's total salary and withhold 9% of employee's salary. Both contributions are settled on a monthly basis to the Social Security System.

Additionally, the Social Security System offers plans for voluntary and independent employees applicable to: 1), individuals not earning income but do receive a rent linked to Costa Rica (for example, housewives and students); and 2), independent professionals or other individuals generating their own income who are not dependent (for example, business persons or independent professionals).

It is valid also, with certain tax benefits, to contribute toward complementary pension plans of a voluntary nature managed by operators other than the Social Security System, according to the Law for the Protection of Employees.

Private pensions managed by agents other than pension operators authorized by law, are not banned nor permitted; these are not entitled to tax breaks and all contributions they may receive are taxed as salaries.

Solidarity Associations

General Information

Despite the fact that a significant percentage of the public sector is part of different labor unions, in the private sector unions represent a very small percentage of the national labor force: around 2% - 3%. An alternative workers' organization is the solidarity association offering benefits such as a system of loans and savings plans, among others. It is the sole employee association created in Costa Rica that has already expanded to other countries in Latin America. Employers are accepted as well as employees and their purpose

is to avoid adversary confrontations by means of mutual support and conflict resolutions.

Organization

Solidarity associations are headed by a board of directors which elects the employees' assembly. Some courses, seminars and training are offered to its members in areas such as: human relations, human rights, training for leaders, solidarity and democratic principles, among others.

Loans and Services

Solidarity organizations function as organizations that grant their associates some services and credit at very low interest rates for housing, education, medical expenses; cafeteria services, funeral services, laboratory exams, company doctor, dentist and others. In some companies there are stores or grocery outlets where articles are purchased at wholesale price thus at lower prices than regular super markets.

Interest collected from loans and investments are distributed, at year's end, among the associates according to the amounts saved.

Costa Rican Solidarity Movement

The Costa Rican Solidarity Movement was founded in 1980 by the leaders of a number of solidarity associations with the purpose of acting as promoters of new associations and to train leaders. To date, the Movement has over 2,000 solidarity associations fully accredited comprising some 300,000 members, which makes it the largest labor association in the country. Over 90% of all multinational corporations in Costa Rica have solidarity associations.

Source: Bufete Solís & Rodríguez. Prepared by attorney Xiomara Solís (xsolis@racsa.co.cr)



Current trends in regard to compensation packages in Costa Rica

Nowadays, salary matters are still a determining factor for an organization. There are many creative ways to compensate, salary wise, the staff of a company. However, please find a summary following focusing on the most recurring components of remuneration packages in the Costa Rican business sector.

Monetary Components

Fixed Salary: while this component is found in almost all salary structures in the country, lately many companies are moving toward lower percentages in regard to this component (from 100% to an 80% or 60%, according to position).

Variable Salary: The variable remuneration options may be classified in two groups:

- Short term variable remuneration: commissions for sales areas, executive bonus (one to three times a year usually referred to as a monthly pay), programs or plans to participate in the profits and/or in the results; incentives as a result of an increase in skills or knowledge, bonus for key people and incentives per projects
- Long Term Variable Remuneration: bonuses with long term payments per results and share participation (used less).

It is common to find variable remunerations in the Costa Rican corporate environment. There are certain positions, however, where this is more frequent, for example, positions in the sales area or in managing and executive positions which are largely comprised of variable pay within their full compensation.

In the specific case of executive positions, bonus payments for the achievement of results are more usual than receiving stock in the company as a benefit.

For the remaining positions in an organization, the market is betting on the evaluation of achievements which shows different payment policies and methodologies among the companies using this system.

Non-Monetary Benefits

There are a number of economic benefits other than salary. Such benefits are an integral compound of total compensations. However, their quantification is not usually practical due to their dissimilar nature.

Therefore, the stated benefits are not comprised within the full remuneration which, ultimately, is strictly circumscribed to monetary compensations.

Some examples of those benefits are as follows:

- Training abroad
- Company car or leasing and parking services
- Additional vacation time
- Company doctor/medical check ups
- Uniforms
- Scholarship programs
- Solidarity associations
- Special celebrations
- Recreational benefits
- Cellular phone receipt payment
- Financial assistance (housing, automobiles, portables)
- Insurance plans
- Food subsidies



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