



TRIANA, URIBE & MICHELSEN

DOING BUSINESS IN COLOMBIA

1. Overview

General Data

Official Name: Republic of Colombia

Capital: Bogotá D.C.

Area: 2.129 748 km²: 1.141.748 km² of land masses; 928.660 Km² maritime areas.

Population: 47.121.089

Official Language: Spanish. English is also official in San Andrés and Providencia.

Currency: Colombian Peso (COP).

Currency exchange: TRM

Macroeconomic data

GDP (millions of USD\$): 378.125 (2013).

GDP per capita: 10.919 (2013)

GDP growth rate: 4% (2013)

Inflation: 1,94% (2013)

Exports 2013 (millions of USD\$): 58.822

Imports 2013 (millions of USD\$): 59.397

About Colombia...

- As far as population goes, Colombia is twice the size of Australia and far larger than all the Centro-American countries.
- 55% of Colombian population is below the age of 30. Furthermore Colombia possesses 7 metropolitan areas with more than one million inhabitants.
- Colombia is the second country with the largest bio diversity in the world and it is considered one of the 12 countries to be mega diverse.
- Colombia is the only country in South America that has a privileged access to both oceans the Atlantic and the Pacific.
- At the moment there are more than 2.500 multinational corporations working in Colombia.
- Colombia is the ninth purveyor of exotic fruits worldwide. Exports of fruits like gooseberry (uchuva), tamarillo (tomate de árbol), tamarind and sweet granadilla have had in the past three years a relevant growth.
- Agriculture is characterized by the technician regional plantations of sugar cane, coffee, flowers, cotton, plantain, bananas, sorghum, corn, rice, African oil palm, potatoes, cassava among others, because of the varied temperatures and soils throughout the country.
- Analphabetism among population older than 15 years of age went from 19% in 1993 to 5.9% in 2012.



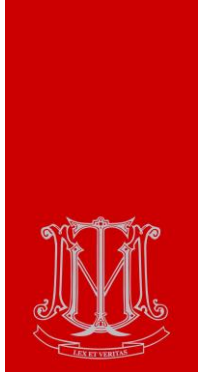
- Access to public utilities has presented a rapid rise: 97.6% of homes have electric power, 57.3% have access to natural gas and 87.4% have access to water and aqueduct.
- Health coverage is almost universal, 90.6% of homes are affiliated to a contributive regime or to a subsidy regime.
- Preferential access to more than 1.5 Billion consumers, due to international trade agreements.

IMF Survey / March 14th 2014

Prudent economic policy management and a strong policy framework have supported Colombia's remarkable economic performance in recent years and its resilience to adverse shocks, said the IMF in its regular assessment of Latin America's fourth largest economy.

“Colombia has maintained sound macroeconomic performance, weathering well the bouts of global economic and financial stress of recent years. A strong and competently-managed policy framework—anchored by an inflation-targeting regime, a flexible exchange rate, effective financial supervision and regulation, and a prudent medium-term fiscal framework—has allowed the authorities to respond adequately to shocks, using their policy tools to stabilize growth.” said the IMF’s mission chief for Colombia, Valerie Cerra.

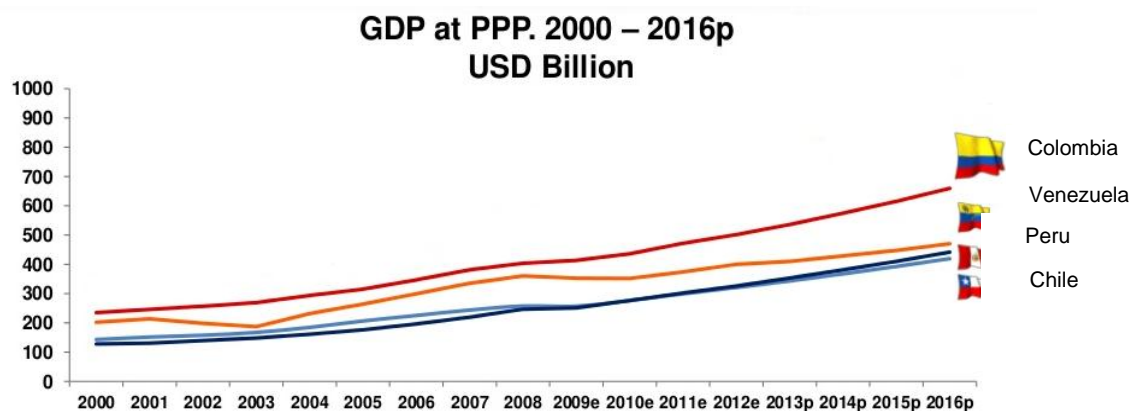
- Economic growth accelerated during the course of 2013, lifted by supportive monetary policy and fiscal measures that stimulated activity in construction and civil works, with annual GDP growth estimated at about 4 percent. Unemployment continued to decline, averaging 9.7 percent, the lowest level since the 1990s, and labor market formalization improved. Inflation was subdued at 1.9 percent, as temporary supply shocks lowered food and electricity prices late in the year. The central bank took advantage of buoyant capital inflows, mainly from foreign direct investment, to further bolster its foreign exchange reserve buffers.
- Economic prospects are favorable in 2014, with growth expected to be about 4.3 percent and inflation to remain within the 2-4 percent target band. As inflation gradually rises toward the 3 percent mid-point of the target range as one-off factors disappear, IMF staff considers that the policy rate could be increased toward its neutral level. The combined public sector deficit is expected to remain broadly unchanged, with the central government stance guided by the fiscal rule. External risks remain tilted to the downside; thus, it is expected that the authorities will continue to use the flexible exchange rate and monetary policy to cushion the impact of any external shocks
- Colombia has a strong fiscal framework, with a commitment to reducing the central government structural deficit and public debt over the coming years. To achieve this desirable goal, while also providing fiscal space for outlays to reduce poverty and overcome



Colombia's infrastructure deficit, the authorities will need strong efforts to expand non-oil fiscal revenues.

2. Main Aspects of Colombian Economy

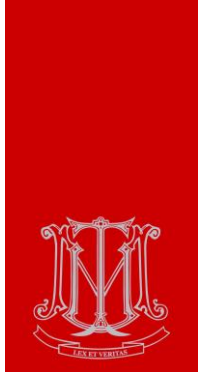
Colombia has placed itself as one of the highest growing economies in the region.



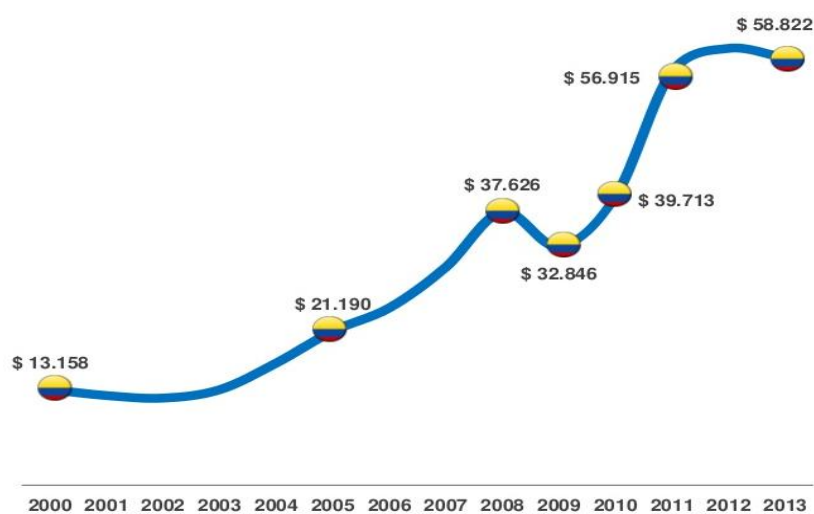
GDP, Inflation and Unemployment rate 2002 – 2018p (%)



p: Projected. e: Estimated
Source: DANE- Colombia Central Bank -.Bancolombia Group 2014

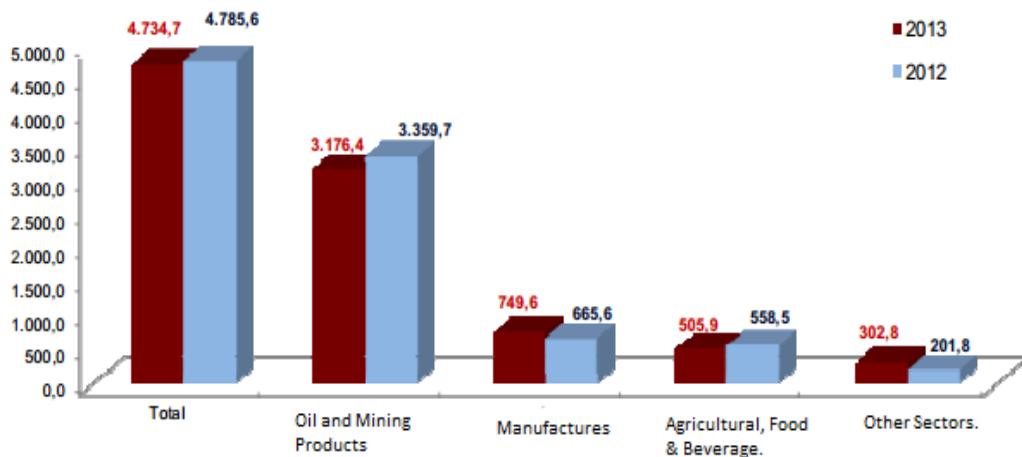


Growth of Exports (2000-2013). USD Million.

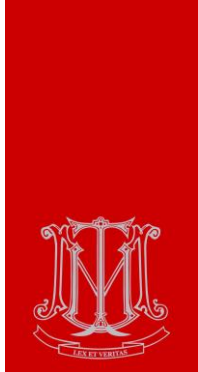


Source: DANE
Variation 2013/2012: -2,2%

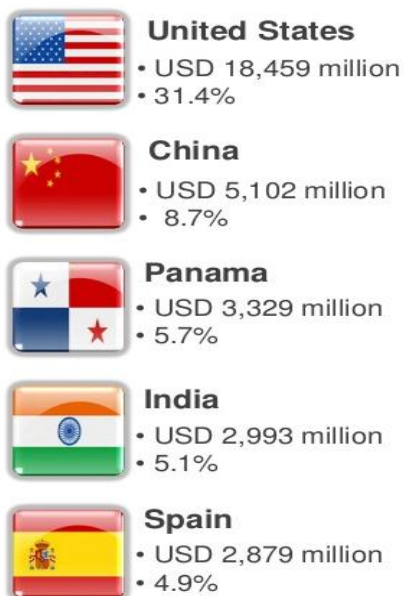
FOB Value of total exports (2012-2013) USD Million.



DANE, DIAN. Cálculos: DANE - COMEX

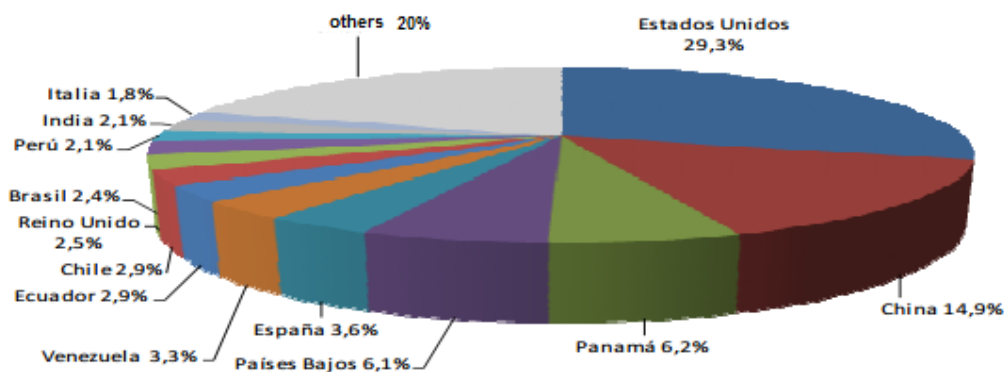


Top Exports destination countries (2013)

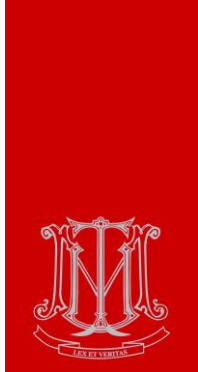


Exports by destination countries

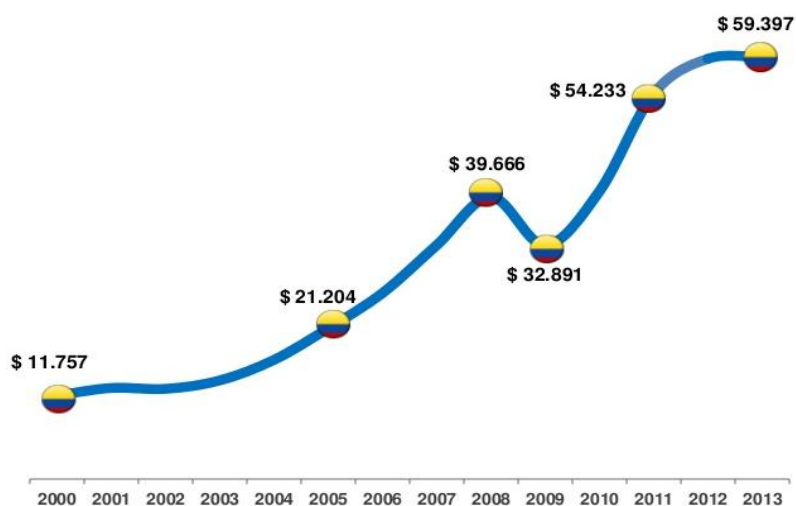
Percentage participation of FOB value by destination country.
January – December 2013



DANE, DIAN. Cálculos: DANE - COMEX



Growth of Imports (2000-2013). USD Million.




Source: DANE
Variation 2013/2012: 0,5%

Top Imports country of origin (2013)

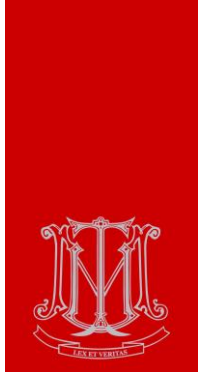
 **United States**
• USD 16,337 million
• 27.5%

 **China**
• USD 10,363 million
• 17.4%

 **Mexico**
• USD 5,496 million
• 9.3%

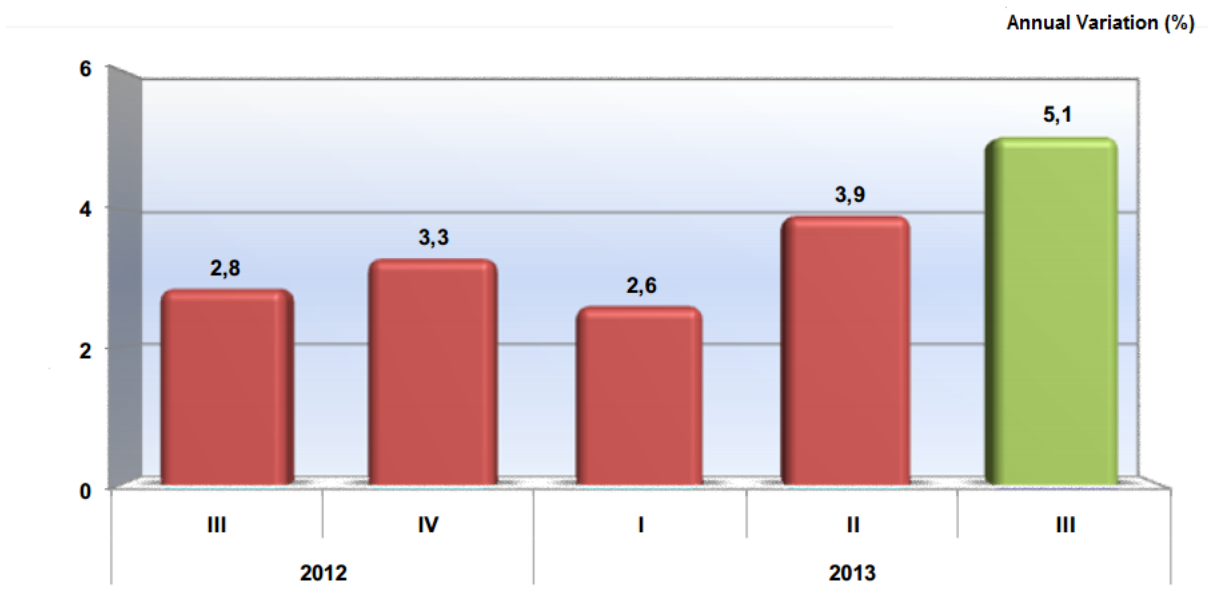
 **Brazil**
• USD 2,590 million
• 4.4%

Source: Dane – Dirección de síntesis y cuentas nacionales



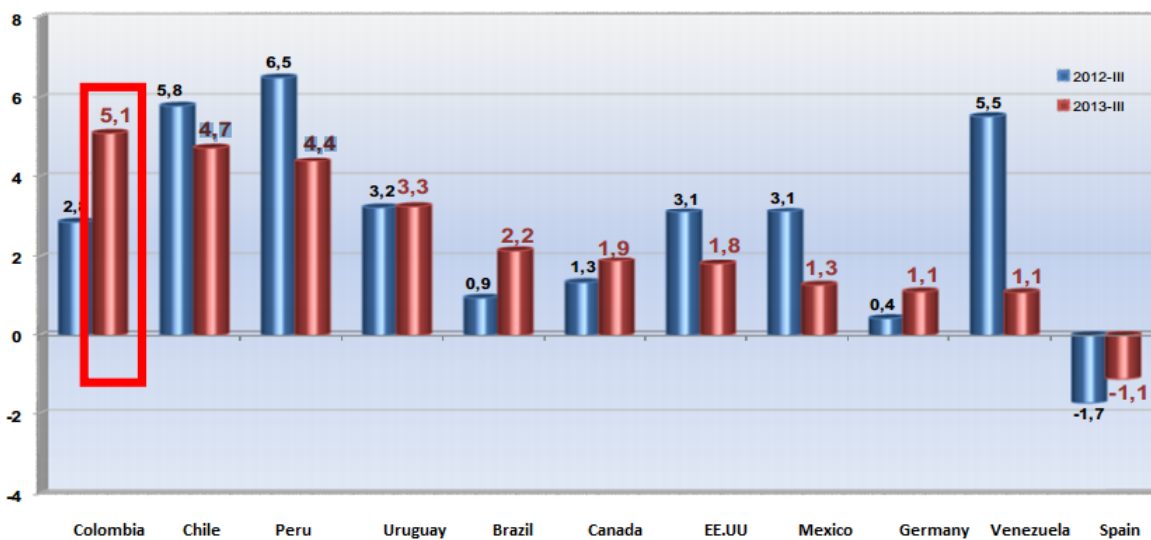
Inter annual behavior of the GDP

Third Trimester 2012 – Third Trimester 2013

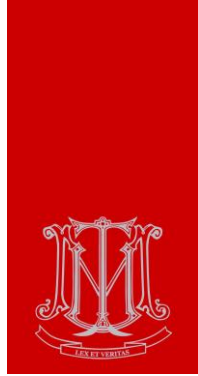


Source : DANE - Dirección de Síntesis y Cuentas Nacionales

GDP Annual Behavior by contry (2012-2013)



Source: Statistics offices in the respective countries



3. Foreign Investment

Any investment made from abroad into Colombian territory, including Free Trade Zones, by persons who do not reside in Colombia is considered as Foreign Investment.

Principles of the Foreign Investment Regime:

- **Equality:** Foreign investment must receive the same treatment as local investments, thus the imposition of discriminatory or more favorable treatments or conditions is not permitted.
- **Universality:** Foreign Investment is permitted and actually welcome in any sector of the economy, except for the following cases: 1. National Defense and Security; 2. Processing, disposal and dumping of toxic, hazardous or radioactive waste produced outside the country; and 3. Private surveillance and security.
- **Automaticity:** No authorization is required to carry out a Foreign Investment, except under special regimes governing mining, oil and gas, insurance, television, portfolio investments and the financial sector.
- **Stability:** Conditions and regulations regarding investment, the remittance of profits and reimbursement that were enforceable on the date of the investment's registration cannot be modified, with very few exceptions, in a way it negatively affects the investor.

Types of Foreign Investment:

1. Direct Foreign Investment:

- Acquisition of equity participation, shares, corporate interests, mandatory convertible bonds or any representative interest in a company's capital.
- Acquisition of rights in autonomous patrimonies created by a mercantile trust agreement as a means to develop an enterprise or for the purpose of purchasing, selling or administering shares in a company that is not registered in the National Registry of Securities and Issuers.
- Acquisition of real estate property, participation titles in processes of securitization or investments through real estate funds by means of private or public offers.
- Acts or contracts when the same do not represent equity participation in a company and the income generated by the investment depends on the company's profits. I.E.: Technology transfer contracts, collaboration, cooperation, concession, service administration and licensing contracts.
- In investments in assigned capital or as supplementary assigned capital in branches established in Colombia by foreign companies.
- Acquisition of participation interests in private equity funds.



2. Portfolio Investments:

- It is done through foreign equity funds in shares, bonds and other titles registered in the National Registry of Security and Issuers.
- It is mandatory for a purpose of carrying out investments in the public stock Exchange to be present.
- There must be both an international administrator and a local one.
- These investor funds may be **institutional** (registered in a country outside of Colombia); only needing an authorization from the Colombian Financial Superintendence and a NIT (Fiscal Identification Number) or **individual** when the investment is meant to cancel treasury excess, the latter do not need any form of authorization.

Investment Methods:

1. Transfer of foreign currencies through the Exchange market so as to contribute directly to a company's capital or to acquire rights or shares from third parties in already existing societies.
2. In kind, directly with the delivery or transfer of a tangible or an intangible asset; or indirectly by means of a capitalization in favor of the investor.
3. By means of resources in local currency originating in local credit operations that will be used in the acquisition of shares through the public stock market.
4. The contribution in kind of intangible assets to the capital of a company, such as technological contributions, trademarks, susceptible of depreciation according to Colombian accountancy standards.
5. By means of resources in local currency entitled to be dispatched to the investor of capital abroad, that come from operations that has to be channeled through the currency exchange market.

Treatment standards for investors.

It is materialized in obligations that are a development of the principle of equality. The main commitments are:

- **National Treatment:** It consists in treating foreign investments in a manner that is not less favorable than the one given to national investments.
- **Most favored nation treatment:** Colombia grants the same advantages, which have been agreed upon in another multilateral investment agreement, to foreign investors that are resident in another particular state.



- **Minimum level of treatment:** Colombia must grant to the foreign investors a minimum of guarantees and protection to their investments. Said minimum follows the rules of international customary law, meaning the minimum level of treatment generally given by other states to foreign investments, with the full conviction that such is the minimum they are obliged to respect. The minimum level of treatment is composed by the commitments to give a “fair and just” treatment, therefore complying with due process, justice, protection and full security to investments.

Registry of Foreign Investments.

The registry of Foreign Investment is administered by the Central Bank (Banco de la República) and to comply with the rules of registration is a necessary condition that has to be fulfilled by each and every investor for them to have access to the exchange rights granted by law.

The registration process can be conducted by the foreign investor or his representative in one of the following ways:

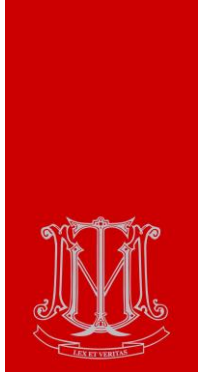
1. Directly through the Central Bank.
2. Through an authorized market intermediary.
3. By means of a current compensation account.

The registry is done automatically by filing the international investment exchange declaration (Form N. 4 of the Central Bank) with the exchange market intermediary or by means of an account deposit and subsequent filing of the exchange declaration.

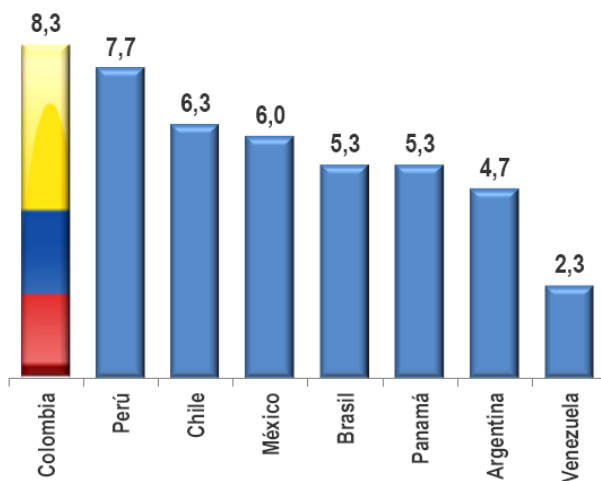
Each year, within the given time periods and following the procedures stated by the Central Bank, the foreign investments must be updated using Form N. 15 for companies or subsidiaries in general or using Form N. 13 for branches of foreign companies of the special regime.

Foreign exchange rights

- To remit abroad net profits generated by the investments.
- To reinvest profits or retain them in the surplus of undistributed profits with right of transfer.
- To capitalize sums with right of transfer, resulting from obligations derived from the investments.
- To remit abroad, in freely convertible currency, the sums received either from the transfer of the investment inside the country, from the liquidation of the company or the portfolio, or from a decrease in the capital of the company or the portfolio



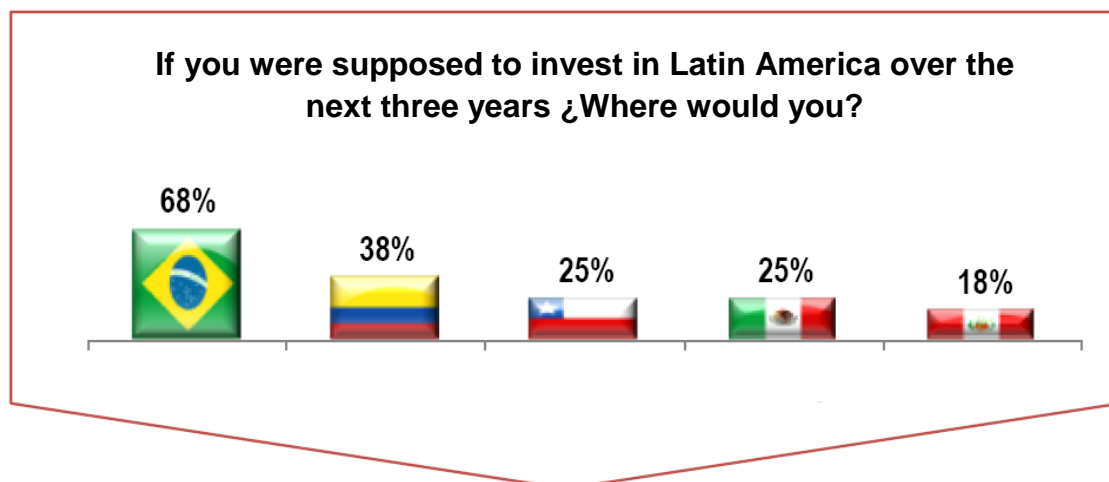
Colombia is ranked sixth in the world and first in Latin America in matters referring to protection of investors:

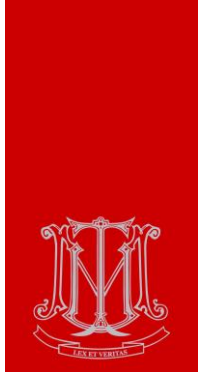


Ranking Mundial	País
6	Colombia
13	Perú
32	Chile
49	México
82	Brasil
82	Panamá
117	Argentina
181	Venezuela





Fuente: Reporte Doing Business. Banco Mundial. 2013.

Colombia is the second most attractive country to invest in, in Latin America, for the next three (3) years





Principal Investor countries 2000-2013 (III Trim)

	United States <ul style="list-style-type: none">• USD 25,229 million• 24.1% share
	Great Britain <ul style="list-style-type: none">• USD 15,275 million• 14.6% share
	Spain <ul style="list-style-type: none">• USD 7,831 million• 7.5% share
	Chile <ul style="list-style-type: none">• USD 4,423 million• 4.2% share

Source: Balance of Payments - Banco de la República.

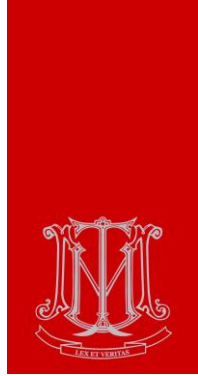
Share of all countries with positive cumulative investment, The information includes reinvested profits or investments in the oil sector
Note: the list of the top countries investing in Colombia does not include Panama.

Law 9 of 1991 is the frame law for exchange matters in Colombia (general guidelines for Colombian authorities). With the restructuring of the market and the country's economic openness, this law completely modified the exchange regime creating two (2) separate currency markets:

1. **Regulated Exchange Market:** Currency operations that necessarily must be channeled through the exchange market intermediaries or the established mechanisms (compensation accounts).

Regulated exchange market operations:

- Imports and exports of goods. For services, the operation is carried out through the open market, unless the national reserves are inferior to three months of exports.
- Foreign debt operations conducted by Colombian residents, as well as financial costs inherent in the same.
- Foreign capital investments as well as the returns linked to them.
- Colombian capital investments abroad as well as the returns linked to them.



- Financial investment or investments in assets abroad, unless made in currencies that do not have to be channeled through the exchange market.
 - Guarantees and surety agreements in foreign currencies.
 - Derivatives operations.
2. **Open Market:** Operations in currencies that do not have to be channeled through the exchange market.

Exchange aspects are currently regulated by frame laws, issued by the Colombian Congress, however, the Central Bank is the maximum exchange authority entitled of developing the applicable regime in accordance with the Constitution.

3. **Colombian Commercial relationships:**
- a. Export percentages for each product
 - b. Growth graphics
 - i. Exports
 - ii. Imports
 - c. Commercial treaties

Incentives for investors:

The applicable tax, customs and foreign trade regimes give a more favorable treatment to enterprises that carry out their activities in free trade zones, created by law.

In essence, whenever, when a company is based inside one of these Free Trade Zones, even though it is still considered part of Colombian territory, the regime grants certain benefits as:

- The applicable income tax rate is only 15% on the company's duly depurated income, as opposed to the standard rate of 25%.
- No V.A.T. is generated when importing goods from abroad into the free trade zone; however, V.A.T. is incurred as soon as these goods are permanently introduced to Colombia for their distribution.

Types:

- The Permanent Free Trade Zone is an area in which multiple companies are based, benefitting from the special tax and customs treatment, administered by an operating user (as defined in the Law).
- Special Permanent Free Trade Zones are, as the name implies, a type of free trade zones in which a company obtains a special recognition as a free trade zone, whenever it aims to develop an investment project that is especially relevant economically and socially for the entire country.



- “Unipresarial” Goods Free Trade Zone: These are special types of free trade zones in which, a single company requests the classification of free trade zone to the area where it wants to be based. Agro industrial projects can be installed in these zones whenever they comply with the following requirements:
 - a) Invest a sum of USD\$ 38,62 million.
 - b) Generate 150 direct and formal jobs. This requirement can be diminished by 15 for every USD\$ 5 million added to the investment amount. Nonetheless, the minimum jobs to be generated are 50.
- Imports of capital goods exempt from custom duties – “Plan Vallejo”: The “Plan Vallejo” system for imports basically implies that the person requesting the plan can import capital goods without being subject to custom duties and deferring payment for the V.A.T. In order to apply the following must be complied with:
 - a) The good to be imported must be one of the listed in Resolution 1148 of 2002 issued by the Colombian Ministry of Commerce.
 - b) The person requesting the application of the plan must export 1.5 times the FOB value of the capital goods to be imported.
 - c) The request must be addressed to the National Tax and Customs Authority – DIAN.
- Imports of Raw Materials exempt from V.A.T. and custom duties: Another modality of “Plan Vallejo” in which a person can request the plan to import raw materials for their productive process, without being subject to V.A.T. or custom duties, as long as, at least, 60% of the final product is exported.

4. Incentives by sector

Hotel Services

- A special tax treatment is in effect in Colombia for hotel services rendered in new hotels that are built between the years 2002 and 2017. The income generated in the rendering of said services is exempt from income tax for a term of thirty (30) years.
- A special tax treatment is in effect in Colombia for hotel services rendered in hotels that have been remodeled between the years 2002 and 2017. The income generated in the rendering of said services, proportional to the expenses incurred in the remodeling, is exempt from income tax for a term of thirty (30) years.
- Presently 80% of the imported goods for the hotel sector are imported from the United States. Since the signing of the Free Trade Agreement between both countries, the progressive reduction of custom duties will greatly benefit the import prices of the aforementioned goods.
- Currently there are numerous tax and custom benefits for capital goods utilized in tourism exports.

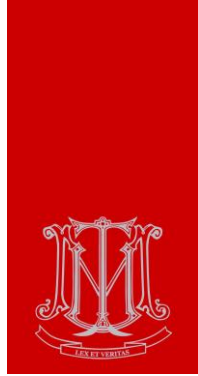
Cacao and long term plantations



- Exempt income: In Colombia is in effect a very relevant tax incentive regarding long term plantations (oil palm, cacao and fruits). In accordance with the latter, income generated in these types of plantations, that initiate their activity between January 1st 2003 up to December 31st 2014, is exempt from taxation for a period of ten (10) years counted from the start of the production.
- Productive alliances: This refers to a special program that looks to link the small producers with the industrial sector (processors and distributors) for the joint development of middle to long term projects accompanied by a supply agreement. To achieve said goal, every one of the aforementioned projects receives a subsidy of up to 30% of the value of the project.
- Support and benefits granted to producers:
 - a) Structuring and follow up of sustainable and profitable initiatives.
 - b) Assistance with implementation of value chains like suppliers (commercial allies).
 - c) Increase in their income (the base income is equal to 2 minimum monthly wages).
 - d) Financial sustainability – Revolving Fund.
 - e) Employment generation (2,6 jobs generated per involved beneficiary).
- Support and benefits granted to the private and corporate sector:
 - a) Production insurance (quality, opportunity, planning, customer loyalty and stability).
- Support and benefits for public and private institutions:
 - a) Proven platform on sustainable and profitable initiatives
 - b) Change in the assistance culture

Lumber and forestry

- Internal return rates between 11% and 16.6%. According to the study “Global Timber investments, Wood costs, regulation and risk” 2010, in Colombia it is easily achievable to obtain return rates, in real terms (without including inflation) before taxation, of amounts equal to the 11.2% in Pinus Patula, 14.7% in Pinus Maximinoi, 15.5% in Pinus Tecunumanii and 16.6% in E. spp.; attractive rates in comparison to our competitors like Chile 13.1% P. radiata for pulp and 15.6% in P. radiata for lumbering.
- Permanent income tax exemption: The profiting of new forestry plantations, after the classification done by the Autonomous Regional Corporation (CAR in Spanish), will be exempt from income taxation. Furthermore the investment in new sawmills is also exempt from income tax if the saw mill is directly linked to the profiting of the aforementioned plantations. This exemption is not limited in time.
- Requirements for new plantations:



- a) Registration of the new plantation before the Autonomous Regional Corporation – CAR.
 - b) Lease agreement or document that proves the ownership or right of exploitation of the plantation.
 - c) Certificate issued by the CAR classifying it as a new plantation.
 - d) Certificate issued by the Fiscal Auditor or accountant in which the sources of income are discriminated, indicating the income linked to the plantation and separating it from other income.
- Requirements for new Sawmills:
 - a) Invoices demonstrating the acquisition of the new sawmill, as well as the acquisition of the complimentary machinery after January 1st 2003.
 - b) Supply contract between the plantation and the sawmill.
 - c) Certificate issued by the Fiscal Auditor or accountant in which the sources of income are discriminated, indicating the income linked to the plantation and separating it from other income.
 - Certificate of Forestry Incentive (CIF in Spanish): This certificate is a monetary subsidy, given by the Ministry of Agriculture and Rural Development, which recognizes 50% of the costs for establishing and maintaining a forestry plantation up to its fifth (5th) year. This certificate is not compatible with other tax benefits or any other subsidies granted by the Colombian Government.

Energy

- Income received solely by companies dedicated to power generation, as a result of the sale of electricity generated using wind power, biomass or agricultural residue is exempt from income tax for a period of fifteen (15) years, as long as the following are complied with:
 - a) Obtain and sell carbon bonds in accordance with the Kyoto Protocol
 - b) At least 50% of the income received from the sales of the carbon bonds must be invested in socially beneficial projects in the region where the electric generation company is located.

Technology

- Income generated from the exploitation of Software that is developed in Colombia and duly registered before the national copyrights authority is benefitted with an income tax exemption for five (5) years counted from January 1st 2013. However the software must contain a high level of national scientific and technological research, certified by the national science institution – COLCIENCIAS.

Oil and Gas

- As a general rule, transactions between Colombian residents are not considered exchange operations and therefore must be paid in local Colombian currency, even if



they can be agreed upon in foreign currencies. However, the oil and gas sector is subject to the Special Exchange Regime, only applicable to branches of foreign companies that are dedicated to:

- a) Exploration and exploitation of oil, carbon, gas, ferronickel and uranium.
 - b) Rendering of services that are inherent to the oil and gas sector.
- Under this special regime all the monetary resources must be transferred through a special supplementary investment to assigned capital account (ISCA from its acronym in Spanish) since no access to the foreign exchange market is granted. Accordingly the sums resulting from the sales of the companies benefitted by this regime do not have to be channeled through the exchange market.
 - Currencies are kept in the ISCA account.
 - Supplementary diminishing of the assigned capital is every amount that the branch sends to its offshore holding company directly. This is one of the true benefits of this regime, since no obligation exists to channel the amounts through the exchange market.
 - Companies that benefit from this regime can request to be excluded from it; however the exclusion must be for a minimum of ten (10) years.

5. Colombian tax regime:

INCOME TAX

- First and foremost, in accordance with article 12 of the National Tax Statute, any and all companies located (both domicile and effective place of management criteria are applied) in Colombia are considered Colombian residents for tax purposes and therefore are taxed on their national and foreign sourced income. Furthermore, each year they must file a tax return for the annual income tax.
- Regarding individuals, residence is acquired after spending 183 days or more in Colombian territory, over a consecutive 365 day period. Foreigners are taxed on their local and worldwide income as soon as they acquire fiscal residency in Colombia.
- According to article 24 of the National Tax Statute, income generated in Colombian territory is to be considered as Colombian sourced income and therefore subject to Colombian tax rules.
- In Colombia, corporations are taxed on their annual income at a fixed rate of 25% applied on the taxable base determined as indicated below. Individuals are taxed progressively in accordance with their income.
- When determining the taxable base, in accordance with article 26 of the same Tax Statute, certain sums, namely specific costs and deductions determined by law and



that have a direct relation with the taxable income, are deductible, reducing the effective income amount subject to the tax.

- Furthermore, in accordance with article 254 of the Tax Statute, tax credits can be deducted from the effective tax to be paid. Said credits can only be deducted if the tax paid abroad does not exceed the amount to be paid in Colombia for the same income.
- Depending on the activity carried out, various rates of withholding tax are applicable, ranging from 0.1% to 11% when dealing with other Colombian residents.
- It should be noted that payments, made from Colombia to a non Colombian resident, be they royalties, interests, commissions, leases, payment for personal services, professional fees and the like, have to be withheld at a fixed rate of 33%. The exceptions to the latter, though few, are clearly defined in the Tax Statute, specifically regarding dividends as explained below.
- Dividends to be paid to a foreign investor in Colombia can be subject to withholding tax. The effective rate is to be applied solely on the portion of said dividends that is not considered tax exempt. To determine said portion the rules stated in articles 48 and 49 of the same Tax Statute have to be applied, basically the amount to be distributed as dividends to the shareholders has to be compared versus the taxes already paid by the company, and if the former surpasses the latter then that amount is to be subject to income tax, payable by the shareholders.
- Regarding windfall taxes and occasional income the applicable rate is 10%. Occasional income in Colombia can only occur in the following scenarios: 1. Income generated as a result of inheritances, legacies, bequests or donations; 2. Income generated as a result of the sales of fixed assets that were owned for more than two (2) years by the taxpayer; 3. Income generated in the dissolution and liquidation of a company; and 4. Income for lotteries, gambles, prizes and the like.
- Additionally, in accordance to article 188 of the National Tax Statute, in Colombia a presumptive income tax system must be applied by taxpayers. Said system constitutes an alternate method for determining the income tax, so as to ensure that the taxable base is not lower than 3% of the taxpayer's assets as of December 31 of the year prior to the current taxable year. In other words, presumptive income is the minimum estimated amount of profitability of a taxpayer based on which the law expects to quantify and collect the income tax.
- The return for income tax must be filed annually, depending on the dates determined by the Colombian Government and the last digit of the taxpayer's identification number. The tax returns for withholding taxes must be filed monthly.
- Law 1429 of 2010 implemented a progressive system regarding income tax for small and medium companies. To apply the company must comply with the following:
 - a) The company's total assets must be valued under 5.000 monthly legal wages, roughly USD\$ 1.574.166.00.



- b) The company must not have over fifty (50) employees

VALUE ADDED TAX

- In Colombia, most sales of taxed goods or the rendering of taxed services generate a 16% V.A.T. There are special rates; namely a 5% and a 20% rate for special goods or services.
- Every two months a tax return must be filed
- For the rendering of services by restaurants, coffee shops, bakeries, etc.; the sales of domestically manufactured goods and mobile telephony no V.A.T. is incurred, however a tax on consumption must be applied at a rate of 8% or 4%.
- Returns for the V.A.T. must be filed every two months.

GMF – TAX ON FINANCIAL TRANSACTIONS

- In Colombia every financial transaction is taxed at a standard rate of four (4) Colombian Pesos per every thousand involved in the transaction, thus the applicable rate is 0.4% on the value of the transaction. Nonetheless, after the last tax reform the rate will be gradually diminished, up to the point that for the year 2018 it will be reduced to 0. There is no need for the taxpayer to file a return for the GMF; the financial institution withholds the amount from each transaction.

MUNICIPAL TAXES

ICA – INDUSTRY AND COMMERCE TAX

- This tax is levied on industrial, commercial or service activities carried out within the jurisdiction of a municipality or district by a taxpayer with or without a business establishment, and it is collected and managed by the municipality or district where the activity is carried out. Actual rates range between 2 per thousand (0,2%) and 10 per thousand (1%) applied on the gross income of the taxpayer. A tax return must be filed, for taxpayers located in Bogotá, every two months.

PROPERTY TAX

- This tax is levied annually on the ownership, usufruct or possession of real estate property located in Colombia, and it is collected and managed by the municipality where the property is located. The rate of said tax ranges between 1 per thousand (0,1%) and 16 per thousand (1.6%) applied on the value of the property.

REGISTRY TAX

- For the registration of some documents before Colombian authorities, a registry tax is incurred. The applicable rates range from 0.7% to 1% on the value contained in the registered document.



TRANSFER PRICING RULES

- The Colombian Tax Authority, over the last decade, has been enforcing, on linked foreign business partners, the obligation of preparing and presenting documentation in compliance with transfer pricing rules. Transfer pricing rules that closely follow the OECD guidelines and the arm's length principle fully apply in Colombia.

CREE – FAIRNESS INCOME TAX

- With the last tax reform, Law 1607 of 2012, the new fairness tax was introduced. Specifically it is a tax on corporate income in benefit of social investment and employment generation. The applicable rate for this tax is 9% for the years 2013, 2014 and 2015; from there on the rate will be 8% on the taxable base. Regarding the determination of the taxable base, according to article 22 of Law 1607 of 2012, from the taxpayers' net income, costs, expenses and exempt income amounts must be deducted. Nonetheless the taxable base cannot be inferior to 3% of the taxpayer's assets as of December 31st of the year prior to the current taxable year.
- The fairness income tax replaces the amounts that used to be levied from the company's payroll at a rate of 9%. Thus, companies no longer need to contribute with the formerly known parafiscal contributions and are only taxed on their income.

TAXATION OF EMPLOYEES

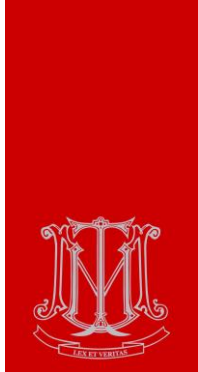
- Once again, the last tax reform implemented a special taxation regime for employees in Colombia that should be taken into account. According to article 329 an employee is the individual that receives at least 80% of his income from a labor contract. Now, in accordance with article 330 of the same Statute, if any employee, that is a Colombian resident for tax purposes, has a yearly gross income equal or superior than 4700 UVTs (Tax value units), roughly USD\$ 66.400, they must determine their income tax according to ordinary income tax procedure. Furthermore, the taxable base, determined by the taxpayer, cannot be inferior to the IMAN (National Minimum Alternative Tax), a presumptive taxable base and therefore the tax to be paid cannot be lower than the one established by law.

PERMANENT ESTABLISHMENT

- Furthermore, after the last tax reform, Colombia adopted new criteria so as to determine the source of income for non Colombian residents, specifically; the concept of "Permanent Establishment" was recently introduced into our legislation in accordance with the OECD definition.

DECREE 2193 OF 2013 – TAX HAVENS

- With this recently issued Decree, the Colombian Government has compiled the list of countries that are to be considered tax havens. This qualification by the national Government has a direct impact on any and all businesses that have relation with a



country regarded as a tax haven. Specifically, if revenues are to be transferred to one of the countries considered as a tax haven, the amount necessarily is to be subject to a withholding tax at the maximum rate of 33%. Furthermore, transfer pricing rules are to be applied, regardless of the link between the contracting parties. Since the mentioned Decree is very recent, further development can be expected by the National Tax Authority.

6. Labor Matters

Five things an investor should know about labor matters in Colombia:

- Employment agreements that are executed in Colombia, regardless of the nationality of the parties, are governed by local law.
- At the end of each year, the Government sets up establishes the current minimum monthly legal salary.
- Under Colombian labor law, all payments made as a direct retribution of the employees' work will be considered to constitute salary without exception and therefore any contractual term that attempts to exclude any such payments from the employees' base salary will be invalidated.
- Both nationals' citizen and aliens non-citizen employees are obliged required to join affiliate and contribute to the social security system.
- In addition to the employee's monthly salary, that employers and employees may define in the labor employment contract agreement several sums or payments which are deemed to be excluded from the employee's base salary base, but such payments that may not exceed 40% of the employee's base salary.

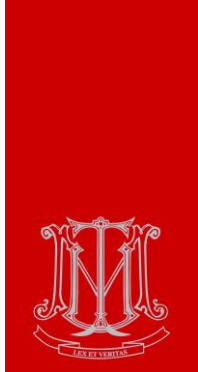
General Matters

In Colombia, a labor contract is an agreement whereby a person agrees to render to another (an individual or a company) his/her personal services under a continued subordination and receives periodical compensation which remunerates the work performed.

a) Formal requirements

Colombian labor legislation assumes that every personal work relationship is governed by an employment contract. Thus, for the purposes of declaring that a valid contract has been formed, the following elements must be set forth in such contract:

- (i) The personal activity of the employee;
- (ii) continued subordination or dependency of the employee with respect to the employer, granting the employer the authority to give orders and instructions at any time concerning mode, time, or quantity of work; and



- (iii) A salary that compensates the employee for the services rendered.

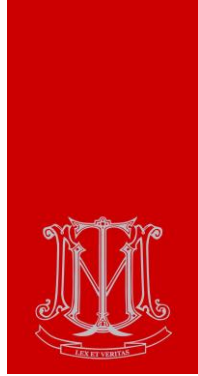
Once these requirements have been met, it is deemed that an employment contract exists, regardless of the name assigned to it. This means that in Colombia there are no special formalities, aside from the exceptions provided by law.

Labor Contracts

Labor contracts may be classified according to their duration, as follows:

Labor agreement	Characteristics
<i>Indefinite Term</i>	<p>The duration of this type of agreement depends on the subsistence of the causes that originated the relationship and the scope of the work to be performed.</p> <p>All verbal contracts are considered to be indefinite term agreements, regardless of the fact that the parties may have agreed otherwise.</p>
<i>Fixed Term</i>	<p>The parties establish a term for the duration of the contract, which may not exceed three years. There are two types of fixed-term labor contracts: those of less than a year and those of between one and three years. This type of contract is characterized by a special formality, as it must be in writing; otherwise it will be understood as an indefinite-term agreement.</p> <p>The fixed term labor contracts with a term of less than one year can only be renewed for three equal or lesser terms. If a new renewal is desired, the term may not be less than one year. If the term is between one to three years, it may be renewed indefinitely. However, fixed-term labor contracts between one and three years, may be renewed indefinitely, but will never turn into indefinite-term labor contracts.</p> <p>Since labor law establishes the automatic renewal of fixed-term labor contracts with an equal period to the one initially agreed, in the event that a further renewal is not desired, prior notice of at least 30 calendar days must be given to the other party, before the expiration date of the contract.</p>
<i>For the time that the performance of the work may last</i>	<p>The duration of the duty or the hired work is not defined by the parties. Rather, it depends directly on the period of time the duty lasts, or the work that has been contracted. In that sense, it does not permit any renewals.</p> <p>The necessity to describe in a detailed way the duty or work objective of the agreement means that the contract must be in writing.</p>
<i>Occasional, accidental or transitory</i>	<p>This type of contract is appropriate for the fulfillment of duties that vary from the normal activities of the Company and its duration is less than one month.</p>

Probationary Period



During the probationary period, the employer has the opportunity to evaluate the employee's performance, and, simultaneously, the employee may evaluate the work environment. During such period, which should be stated in writing, either party may terminate the employment contract without prior notice or incurrence of indemnification payments. The probationary period is related to the duration of the employment contract agreed, but it may not exceed two months.

Foreign Employees

Foreign nationals have the same rights and obligations as Colombian employees. However, when a foreign national enters into an employment agreement in Colombia, both the employer and the potential foreign national employee must meet additional requirements in connection with the administrative procedures at Ministry of Foreign Affairs for the physical entry of the foreign worker into Colombia and supervision during such foreign national's stay in Colombia.

Payments derived from a labor relationship

Salary

The salary is the employee's primary type of compensation for services rendered for the employer's benefit. Thus, the following elements should be considered in order to determine if the amounts granted by the employer to its employees are deemed salary:

- (i) Rewarding character: it is of the essence of a salary nature payment to reward a rendered service, disregarding the form or the name given to the payment.
- (ii) Non gratuity character: opposed to the rewarding character, the amounts granted by the employer to its employees occasionally, by gratuity and by its own free will, shall not be deemed as salary.
- (iii) Personal income character: salary nature payments have the purpose of enriching the employee. Thus working tools, transportation aid and any other benefit granted to the employee to perform his/her duties, shall not be considered as salary.

Types of Salary

1. **Regular Salary:** A regular salary compensates the employee recipient for services rendered, and it may be fixed or variable. In addition to the regular salary, the following must be added: (i) any additional compensation for overtime work, (ii) surcharges, (iii) percentage on sales and commissions, (iv) additional salaries and regular bonuses, (v) permanent travel expenses for employee's meal and lodging, and in general, any payment made as direct compensation of the employees' work.

It is important to bear in mind that in Colombia, no employee can earn a salary lower than the monthly minimum legal salary, that is, COP\$ 616.000 (Approx. USD315)¹ monthly for 2014.

¹ 1USD = COP 1.950



2. Integrated Salary: The integrated salary differs from the regular salary, as it constitutes the only payment that in addition to the compensation of the personal service, remunerates beforehand the value of surcharges, benefits and legal fringe benefits, such as severances, severance's interests, service bonuses, and generally all fringe benefits; except vacations. In conclusion, the employee only receives one monthly salary payment is not entitled to any additional payments for any legal fringe benefits.

An integrated salary arrangement must be stated in writing in the text of the employment agreement, or as an additional clause, or through crossed letters between the parties, indicating the factors included in such stipulation. Additionally, an integrated salary is only permissible for those employees that earn more than ten monthly minimum legal salaries plus a fringe benefit factor of at least 30%.

For year 2014, the minimum integrated salary is COP 8.008.000 (Approx.USD4.106).²

Extralegal Benefits

The specific determination of the payments that constitute salary is the most important issue for the purposes of liquidation of fringe benefits, vacations, indemnities and contributions to the social security systems, and payroll fees. Labor law provides that employers and employees may define in the labor contract which sums or payments are deemed to be excluded from the employee's salary base. This is an advisable formula for any company, because it reduces the value of its fringe benefit obligations.

Notwithstanding the above, it is important to bear in mind that all payments made as a direct retribution of the employees' work will be deemed to constitute salary without exception and therefore the contractual definition that attempts to exclude such payments from the employees' base salary will be invalidated. Payments or benefits that are excluded from the base salary cannot exceed 40% of the base salary the total amount must have proportionality to the salary of the 40%.

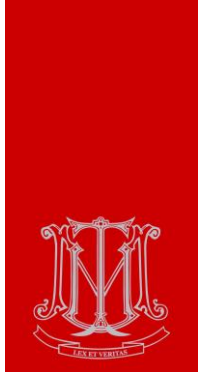
Travel Expenses (*Per Diem*)

Travel expenses include both travel costs, as the outlays for meals, and other expenses when the employee is traveling for the benefit of the employer to perform a particular task. Travel expenses when paid on a regular basis are deemed to constitute salary when destined for meals and housing (excluding those destined for transportation and expenses of representation). Any agreement regarding travel allowances when paid on a regular basis destined to subsistence and housing, as to not be considered salary, would have no legal effects whatsoever and would be null.

Fringe Benefits

Under Colombian labor law, every employer has the obligation to grant all of its employees certain benefits, in addition to their salaries, which are known as legal fringe benefits. However, an employee earning integral salary (which is an all comprehensive salary), is not entitled to additional fringe benefits.

² 1USD = COP 1.950.

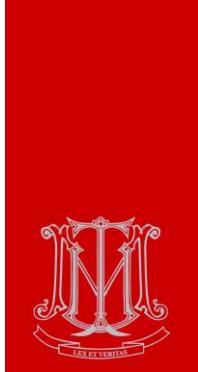


The following are said benefits:

Concept	Period of Payment	Description
Severance	Annual	Employers must make an annual direct deposit with a severance fund on behalf of every employee, equivalent to one monthly salary for every year of service and proportionally for a fraction thereof. Said deposit must be made before February 15 of each year. Upon termination of the employment contract, the employer must pay the employee the accrued severance until the date of termination. The lack of timely payment generates a compensation of one day's salary for each day of delay until payment is verified during the term of employment.
Interest on Severance	Annual	Equivalent to 12% per annum on the balance of each year's severance owed to the employee as of December 31 of the preceding year, which must be paid no later than January 31st of each year.
Service Bonus	Semi-Annual	Equal to one monthly salary for each year of service and 50% must be paid in June and the remaining 50% in December of each year.
Transportation aid	Monthly	Employer must reimburse each employee whose salary is no more than two times the SMLMV a monthly payment for transportation expenses for 2014, it is of COP \$72.000(Approx. USD37).
Footwear and dress aid	Every four months	It is an endowment of one pair of shoes and one labor dress that has to be provided three times a year to every employee, in accordance with the task to be performed. Employees entitled to this benefit are those that earn up to twice the minimum legal salary and that have been employed for at least three months (no later than April 30, 31 August, and 20 December of each year).
Family allowance	Monthly	It is a sum of money in-kind payments and services, provided and paid for by the government's family compensation bureau. Any employee whose pay does not exceed four SMLMV is entitled to this benefit.

Social Security

Every employer must affiliate its employees to the General Social Security System, and make monthly contributions in accordance with the employees' monthly salaries. Employees may voluntarily choose the entities regarding General Pensions System and the General Health Social Security, and the employer will be the one choosing the General Professional Risks System entity. Contributions' amount is calculated as follows:



System	Contributions (% of salary)	
	Employee	Employer
Pension	4%	12%
Health	4%	8.5%
Risks	-	Between 0.348% and 8.7% (varies in accordance with the exposed risk)

Pursuant to Law 797 of 2003, employees earning more than four SMLMV must make additional contributions to the Pension System which varies between 1% and 2% of the employee's salary³.

Vacations and working hours

a. Vacations

All employees have the right to enjoy 15 vacation days of remunerated rest for every year of service and proportionally for any fractions thereof, which vacation days can only be accumulated for up to two years, and in special circumstances such vacation days can be accumulated for up to four years.

b. Working Hours

Labor hours are limited to 48 hours per week, distributed in a maximum of six days per week. However, with the proper authorization, granted by the Ministry of Social Protection (*Ministerio de la Protección Social*), an employee is entitled to work up to 12 hours of overtime per week, this is two extra hours per day. Employees in positions of management and confidence are not subject to said restrictions.

In any case, it is possible to arrange that the daily working hours are increased in up to two hours daily, with the only purpose of permitting the employees to rest during Saturday. This increase in the working hours does not constitute overtime, thus no surcharges have to be paid.

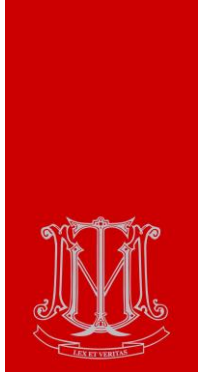
The work performed between 6:00 a.m. and 10:00 p.m. is considered daytime work; and the daytime overtime will be compensated with an additional 25% surcharge over the daytime hour.

On the other hand, work performed between 10:00 p.m. and 6:00 p.m. is considered nighttime work, and it has an additional 35% surcharge over the daytime hour, only for being nighttime work. Additionally, nighttime overtime is paid with an additional 75% surcharge over the daytime hour.

c. Mandatory Remunerated Rest on Sundays and Holidays⁴

³ The additional contributions will be as follow: up to 4 SMLMV: 16%; between 4 and 16: 17%; between 16 and 17: 17.2%; between 17 and 18: 17.4%; between 18 and 19: 17.6%; between 19 and 20: 17.8%; more than 20: 18%

⁴ National holidays in Colombia are observed on January^{1st} and 6th, March 19th, May 1st, June 29th, July 20th, August 7 and 15th, October 12th, November 1st and 11th and December 8th and 25th. Additionally, there are five religious holidays on dates specified by the Catholic Church.



Sundays and national holidays are considered by Colombian labor law as mandatory periods of paid rest. This implies that, as a general rule, the employee is not obliged to render services on these days but is still entitled to receive the relevant salary. In Colombia there are 13 national holidays and five religious holidays. Where employees have to render services on Sundays or national holidays they are entitled to special surcharges calculated according to the following rules:

- (i) If work on Sundays is regular or habitual (i.e. three or more Sundays in one month), the employee is entitled to an additional surcharge of 75% over the ordinary hourly rates, plus one day of compensatory rest in the following week.
- (ii) If work on Sundays is occasional (i.e. two Sundays or less in one month), the employee is entitled to one of the following benefits of his/her choice: one day's compensatory rest in the following week, or an overtime payment of 75% over the ordinary daytime hourly rate.

Termination of the Employment Agreement

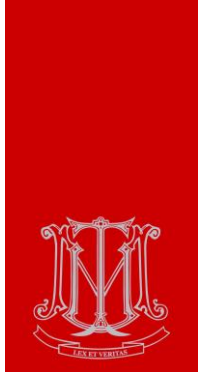
Generally, employment agreements may be terminated without prior notice by any of the parties. If the contract is terminated by the employer, the effects of the termination will vary depending on the type of contract and whether the contract is terminated with or without just cause.

Indemnification

Indemnification payments become payable in the event of the employer's failure to comply with any legal or contractual obligations, or for the failure to comply with any obligations that the labor law imposes on employers. The most common types of indemnifications include the following:

Indemnification for the termination of the employment agreement without cause (Severance):

Type of Employment Agreement	Severance
Fixed term	The salary payable for the time period remaining until the completion of the term.
For the time that the performance of the work may last	The salary corresponding to the term determined by the duration of the duty or the contracted work, in which event the indemnification will not be less than 15 days of salary.
Indefinite Term	Employees with salaries less than ten times the minimum legal monthly wage: For employment relationships of one year or less, thirty days of salary; plus twenty additional days for each subsequent year and proportionally for fractions thereof. Employees with salaries that are equal to or exceed ten minimum legal monthly



	<p>wage:</p> <p>For employment relationships of one year or less, twenty days of salary; plus fifteen additional days for each subsequent year and proportionally for fractions thereof.</p> <p>Employees with ten years or more of services as of December 27, 2002: forty-five days of salary for the first year, plus forty additional days for each subsequent year and proportionally for fractions thereof.</p> <p>Employees with ten or more years of services as of January 1st, 1991, have the right to be restored to their position, and in the event of a termination without just cause, the employer must pay an indemnification of forty-five days of salary for the first year and thirty days of salary for any additional years; without prejudice that the employee may initiate a labor law suit seeking restitution to such employee's original work place.</p>
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Default Indemnity

If the employer at the time of termination of the employment agreement does not pay the employee the sums owed for salary or additional benefits in due time and form, the employer will be required to pay a default indemnity corresponding to one day of the employee's last salary for every day of delay in the payment, during a period of time of two years from the day in which the right was accrued. From the month 25 on, the employer would have to pay current banking interests, until the day in which the payment is effectively completed.

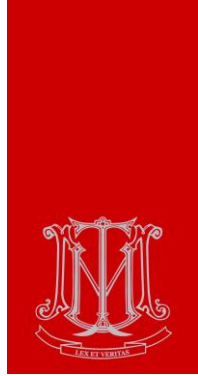
Reinforced Stability

In accordance with the Constitution, there are certain types of employees that cannot be dismissed without a previous authorization of a labor authority, such as: (i) pregnant women, or on maternity leave; (ii) certain unionized employees, (iii) employees with disabilities, and (iv) employees with reinstatement right, among others.

Collective dismissals

An employer who wishes to collectively dismiss its employees will require authorization from the Ministry of Social Protection to do so. The event of a collective dismissal is determined by the proportion of employees dismissed, starting with 30% of the employees within a six month period, in companies with 11 to 49 employees, and down to 5% of the employees within a six month period, in companies with 1000 employees or more.

Notwithstanding the above, if the employees are dismissed with just cause, or their termination is done by mutual consent between the parties, such events will not be considered to determine a collective dismissal.



Collective Rights

During the course of a collective work conflict, collective law rules (i) the relationships between the employer and union organizations, (ii) collective contracting and (iii) the defense of common interests, both of employers as well as of employees.

There is not a strong labor union culture in Colombia. Less than 8% of the total labor force of the country belongs to labor unions. The largest and most influential unions in the country are controlled by public employees, particularly in the state-owned oil industry, health and education sector.

However, it is important to bear in mind that the right to constitute labor unions is protected both by the Labor Code and by the Political Constitution, and the officials of the unions have special legal protection that prevents them from being dismissed and, in some cases, allow them to devote most of their time to union issues while being paid by the employer.

a) Unions

Unions are employee organizations lawfully constituted for the purpose of obtaining, improving and consolidating common rights vis-à-vis their employers. It is also the association of employees aimed at the union member's defense of their individual and collective interests. Pursuant to Colombian Labor Law, any group of 25 or more employees, regardless of whether they are employees of the same company or not, may constitute a labor union.

b) Collective Bargaining and Collective Agreements

The right of collective bargaining to rule labor relations is guaranteed and protected both by the Colombian constitution and by the Labor Code, for both unionized and non-unionized employees. The collective agreement is entered with the unionized employees and the collective accords are entered between employers and non-unionized workers only in cases where the union membership is not more than one third of the employees.

c) Strike

A strike is defined as the collective, temporary and peaceful suspension of work, carried out by the employees in a company or establishment, with the aim to effectuate change regarding certain economic and professional matters proposed to their employers, after compliance with certain procedures. Its exercise is only lawful and possible within the collective bargaining process as an option to employees, provided that they work for an employer in the private sector who does not carry out activities classified by law as public services.

Sub-contracting and temporary work undertakings

Although Colombian labor law permits companies to execute agreements with independent contractors (individuals), temporary employment agencies and outsourcing companies, in order to avoid any misunderstanding as to the nature of this type of contract, it is important to be certain that the relationship between the company and the party rendering the service (individual or legal entity) does not create any dependence or subordination, and that the service provider is truly independent and autonomous in the performance of his/her services. Additionally, in the absence of complete



compliance with all the legal requirements, the contracting party may be deemed to be the real employer of the personnel provided, and therefore responsible for all the labor payments.

a) *Temporary employment agencies (TEAS)*

A company may decide to enter a service agreement with a temporary employment agency, which is a company that provides personnel, and temporarily assists with the development of a user company's activities. The user company benefits from the services rendered, through 'mission employees', which are hired directly by the TEAS.

Under this arrangement, for all legal purposes, the TEAS will be the true and only employer of the individuals and therefore responsible for all legal labor obligations. The company will reimburse all payments completed by the TEAS and will pay a percentage of such amount as fees for the services of the TEAS.

The commercial agreement executed will be a service agreement, whereby the TEAS will supply the personnel required by the company. The agreement must be in writing and the TEAS must commit to abide by Colombian labor legislation in respect of individuals' salaries, fringe benefits, vacations, social security, payroll fees and overtime regime. Likewise, the TEAS must purchase an insurance policy to guarantee the fulfillment of all labor obligations towards the individual. The TEAS must also ascertain the way in which occupational hazards must be dealt with when the individual is engaged in risky activities.

User companies may enter service agreements with TEAS only in the following cases:

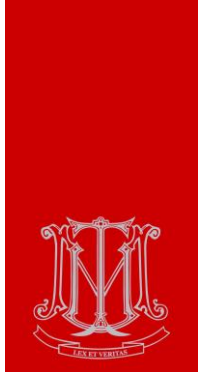
- (i) To attend occasional and temporary jobs. Such relationships should not last longer than a month, and should not be related to the regular activities of the company;
- (ii) to replace personnel on vacation or leave of absence or who are unable to work due to illness or maternity; or
- (iii) To address increases in production, transport, sales, harvest periods and in the rendering of services.

In these three cases, the relationship between the user company and a mission employee may not last for more than six months. The relevant period can be renewed, but not for longer than the original period. If the necessity of the particular service continues on the expiration of the relevant period, the user company may not enter a new agreement with the same TEA, nor with a different one.

A further legal obligation is that within the first 10 days of every month, the TEAS should report to the user company regarding its affiliation and payments to the social security system of the mission employees who have rendered services to them in the previous month.

b) *Outsourcing companies*

Companies may receive personal services from employees by means of outsourcing. Where this is the case, the relevant company and the company to which the services are outsourced will be



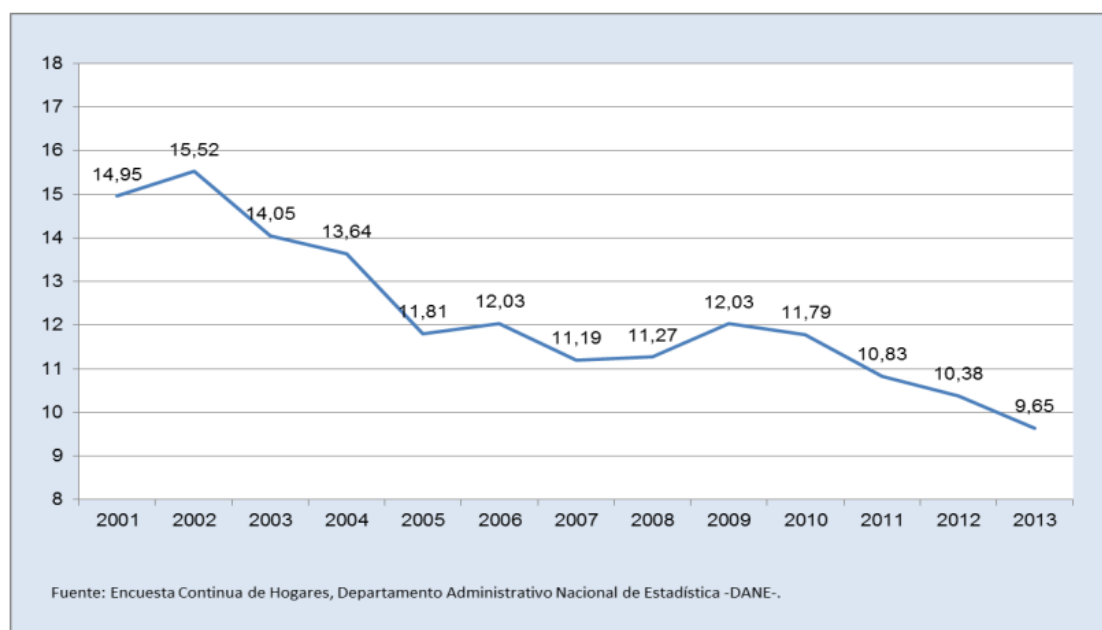
linked by means of a service agreement. For all legal purposes, the company which carries out the outsourced services will be the sole employer, and therefore responsible for all legal labor obligations with the employees that render their services. Labor law provides that the company to which the services are outsourced must have technical and administrative autonomy in rendering the outsourced services. This implies that the contracting party (the company, in this case) is not allowed to give orders relating to the mode, time, or quantity of the work either to the company to which the services are outsourced, or to its employees.

c) Independent contractors

A company may decide to execute a service agreement with an individual performing as an independent contractor. However, this agreement may only be arranged for intellectual or artistic occupations and, in such case, it must be clearly established that the performance of the contract will be carried out with technical and administrative autonomy, under the account and risk of the contractor, and therefore without a relationship of dependence or subordination to the hiring company.

Unemployment National Rate (2013)

Colombia is one of the countries in the region with the highest annual growth in labor force.



Source: Departamento Administrativo Nacional de Estadística – DANE-