



Doing Business in **Rio**

Brazil in the path of a sustainable future

EY Building a better
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The right city. The right way.

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Why Rio is the Wonderful City to live, work and invest

Rio de Janeiro is the city of the future...A smart city that innovates its management program by deploying a pioneer operation center dedicated to monitoring potential problems or risks to its citizens such as, among others, severe weather conditions, energy shortages, traffic problems and urban mobility bottlenecks. A city that easily and straightforwardly engages with its citizens through a single, innovative, integrated communication platform where government agencies and available services are accessible via hotline, mobile applications or internet, with capacity for 600 thousand population requests per month. This city of the future is a reality today!

Six million people live in Rio, the third largest city in Latin America. It is a true world hub with direct connection to other global economic centers and easy access to over 56% of the Brazilian Gross Domestic Product within a 500 miles radius. The global visibility provided by the coming major sporting events, combined with major investments in most of the relevant economic sectors, with special highlight to energy and oil & gas, allow Rio to claim that, on top of being one of the most beautiful cities of the world, it is also one of the best and biggest business destinations of the globe.

Rio is a growing economy, and the investment grade recently granted by a major rating agency crowns this title. In 2010, the investment ranking published by the Financial Times showed the city had become the primary destination of foreign investment among all the cities in Latin America and the fourth in the world. A very positive side effect of this economic growth environment is that Rio has the lowest unemployment rate among all the Brazilian state capitals, as well as to being the headquarters for companies which represent 50% of the market share of the Brazil's stock market.

Rio is energy, and that is the reason why it was invited to join the World Energy Cities Partnership last year. The State is responsible for 85% of national oil and gas production, is the headquarters of main decision-making agencies and industry regulators, headquarters of most of major players, both the National Oil Companies (NOCs), the International Oil Companies (IOCs), and as well as being the strategic location for the exploration of the pre-salt layer.

Rio is tourism, with the highest average rate of hotel occupancy in the country. In the coming years, 70 new hotels and 15 thousand new rooms will be built in the city, increasing by 75% the number of existing units. Aligned with this development, five new international airlines launched

their operations in Galeão airport in 2012, increasing by 28% the number of international routes connecting Rio to major cities.

Rio is innovation and technology. The largest oil and gas research center in the world - CENPES - is located in Rio as well as the main health development institution in the country - FIOCRUZ. With 22 incubators, the future of startups is also here. Additionally, US\$ 1.8 billion will be invested in new research centers in the city.

Rio is academic excellence with major iconic educational institutions such as UFRJ, UERJ, PUC, FGV, IBMEC, IME, IMPA and COPPEAD - the only Latin America business school ranked by the Financial Times among the 100 best business schools in the world. In technical education, there are a significant number of students enrolled in courses in the areas of information technology, computers and telecoms.

Rio is creativity. Being a major cluster of media and communication companies, Rio has been elected one of the 14 creative districts in the world by Districts of Creativity Network. The city accommodates companies responsible for over 50% of the international cinema productions produced in the country.

Rio is transformation and evolution, and Porto Maravilha ("Wonderful Port"), the revitalization project of the port area, is one of the symbols of this transformation in progress. This program, which is the largest public-private partnership in progress in Brazil, will receive US\$ 4.5 billion and will revitalize an area of the city with a privileged location. Another symbol of transformation is the significant investment plan to be directed to a new integrated intermodal transport system that will provide cross-city transportation, through the implementation of 140 km of Bus Rapid System lanes serviced by 1,300 new buses, combined with new trains and new subway lines. This program will transform the way "Cariocas" (the nickname for people who live in Rio) commute. High transport capacity will represent in 2015 to 63% of citizen's inter-city commuting versus the current 16%. In summary, Rio is and will continue to be a wonderful city to live, work and invest.

Olavo Monteiro de Carvalho
*Chairman of the board Rio Negócios**

Marcelo Haddad
*Executive Director of Rio Negócios**

* Rio de Janeiro's official agency responsible for developing and supporting new investments.



A roadmap for foreign investors

EY is very proud to present the second edition of Doing Business in Rio, a comprehensive guide to the city's business environment and opportunities.

Supporting Rio's development and helping to explain its business environment to foreign investors is a mission strongly linked to EY's purpose of Building a Better Working World. With our insights and services, we intend to help build trust and confidence in global capital markets and economies, promoting development and growth.

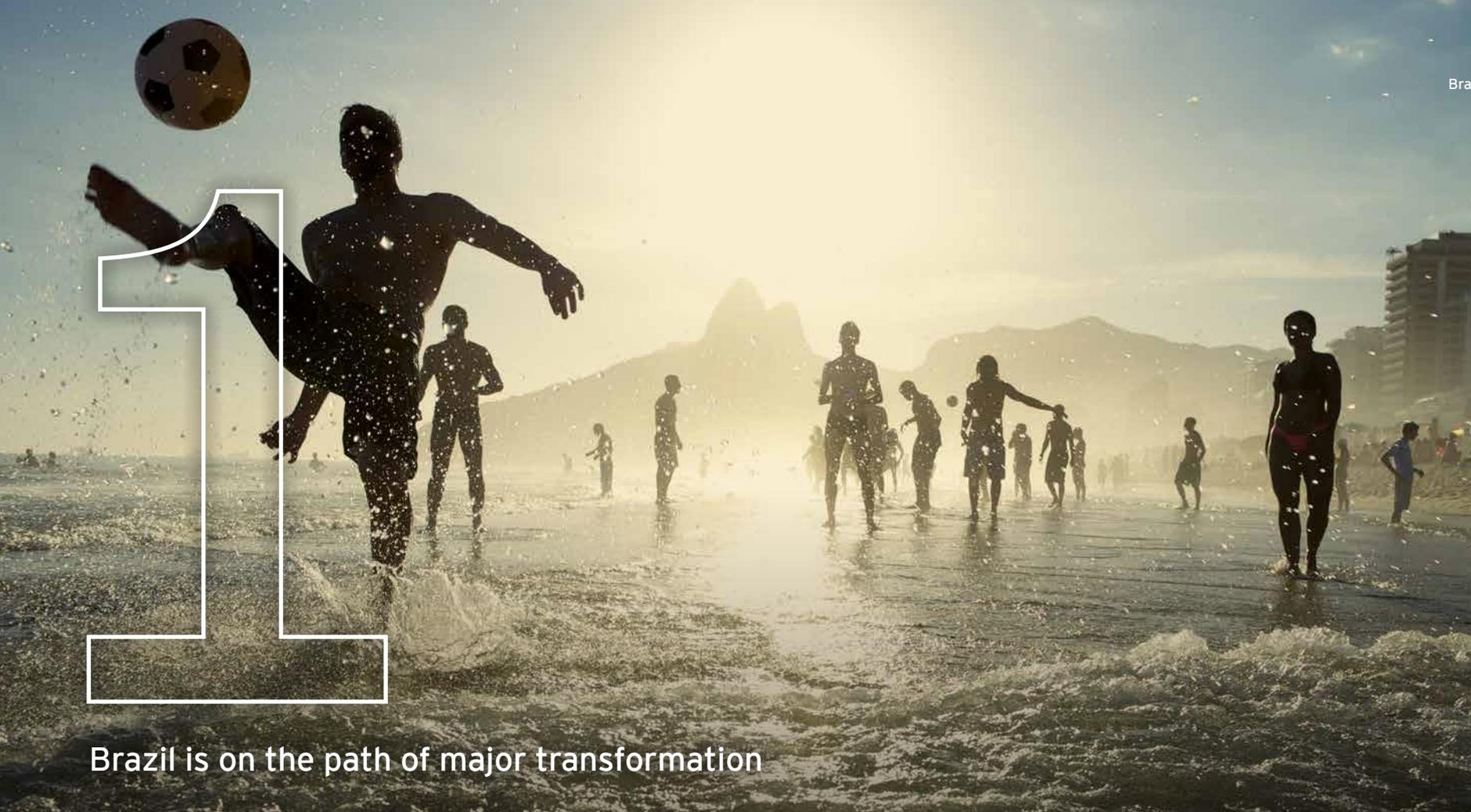
We present this book as a roadmap to help foreign investors navigate the business environment, identifying challenges and opportunities in terms of corporate structure, labor force, taxation among other rules and systems.

We have mobilized our leaders and their teams to focus on Tax, Supply Chain, Advisory, Government & Public Sector as well as know-how from several industries in order to convey our extensive knowledge through this guide, based on decades of local and global experience.

EY hopes the second edition of Doing Business in Rio sheds light on those areas and is a useful companion to anyone interested in knowing more about Rio's business environment and in seizing its opportunities.

Yours truly,

Jorge Menegassi
CEO Brazil and South America, EY



Brazil is on the path of major transformation

The beginning of the 21st century suggests very positive signs that Brazil will finally be able to unleash its potential. Following the democratization process in the mid 1980's, the financial stabilization of late 1990's and the rise of an emergent middle class in the 2000's, it could be said that Brazil has finally become a 'country of the present' rather than the perpetual 'country of the future'.

Brazil is finally realizing its potential through a combination of converging factors: it is one of the few emerging markets where all three levels of government are aligned in delivering socioeconomic development; it has access to vast range of important natural resources; and it boasts a strong consumer market. All of this is underpinned by solid financial institutions and a region that is renowned for its absence of geopolitical threats, both internally and from neighboring countries.

Amazing as it may sound, there is still today only a limited international perception of this "new Brazil". It is possible that many people would recall the widespread skepticism, when in 2001 Jim O'Neill published a paper entitled "Building Better Global Economic BRICs", in which the "BRIC" term was first coined. The paper described Brazil as one of the world's superpowers-to-be in the near future. Nevertheless, many analysts had reservations as to whether Brazil should be included in the group; the criticism had its reasons as for many decades Brazil clearly under-delivered on what it had promised. High inflation, widespread social inequality, structural poverty, inefficient state policies and services, high corruption

levels and, to a certain extent, a benevolent attitude towards inefficiency pervaded political, economic and social development. These factors led Brazil to have periods of accelerated growth followed by stagnation (called "chicken flight syndrome" in Brazil), which was the major roadblock to Brazil reaching a sustainable path to achieve its desire to be part of the new trend inaugurated by the Asian Tigers and China to shift global economic power away from the developed G7 economies toward the emerging markets.

Brazil by no means has overcome all its challenges. Many issues and bottlenecks are still in place and must be addressed and overcome. However, very important milestones have been achieved in a recent period in Brazil's history, most notably in the last twenty-years.

Moreover, those changes, more than government driven, seem to be absorbed by Brazil's society, which led EY to believe the potential of Brazil, in spite of all future economic ups and downs - as any country will have plenty of those - will finally claim its place in the world stage.

1.1 Brazil's Strategic Ambitions

Brazil's recent emergence on the world stage, following a history of short-lived growth spells, led many experts to question whether the new trend will be sustainable, if Brazil will be able to put together consistent structural reforms to sustain the emerging growth. To address this issue Brazil must not only look at developing social and economic foundations, but it is equally important that Brazil understands its society ambitions for the future, those that, as will be shown, are quite different and unique from most emerging and even BRIC's countries.

In summary, Brazil's strategic ambitions can be described as follows:

- ▶ Economic success is not defined exclusively by economic growth, but by a platform for social inclusion and moving people out of poverty. Therefore, in this scenario, Brazil's official policies focus on shifting the relevance of some capital investments to fuel further short-term GDP growth for investments on social inclusion programs that are expected to deliver economic results in a longer term perspective.
- ▶ Geopolitically, Brazil believes in the use of "soft power", avoiding engaging in diplomatic conflicts or even not supporting any interventionist economic/military actions. At local level, Brazil acts to support South America protection as its political and economic zone of influence while, at same time, promotes regional integration as a non-colonial player and open up opportunities for neighboring countries' development even at the sacrifice of Brazil's own economic interests.
- ▶ Brazil still believes in a certain isolationistic approach when it comes to commerce, trying to protect as much as it can its domestic market from extra-regional imports, through tax barriers or other non-tariff mechanisms, such as minimal local content requirements. On a general perspective, Brazil tries to emulate Japan's Zaibatsu or Korea's Chaebol strategy of developing national big conglomerates, some with government stakes, to become the national economic champions to drive internal economic policy or to act as an international arm of the Brazilian economic globalization.
- ▶ Central state control of the economy is still very prevalent. Although private business investment is virtually free and not constrained, the government exerts a lot of influence on the economy through financial investment banks, tax incentives and major national economic groups where the government has some relevant stake and/or control.

To transform those strategic goals into reality, in the last 30 years Brazil has been building and deploying an economic and social transformation roadmap where the greatest achievement is the sense of a continuous positive execution regardless any change of governments or political parties. Some of the milestones of this roadmap that we believe have been achieved and incorporated as structural beliefs in Brazil's society are:

Creating an industrial capital intensive base on post-war (1950's and 1960's) ▶

In the boom years after WWII, leveraged by strong government funds and extensive use of foreign capital, Brazil developed a very strong capital intensive industrial base ranging from steel to automotive industries, from major hydro to nuclear power stations, as well as very strong state-owned companies in most of the strategic economic sectors, such as telecom, oil and gas, mining, logistics and others. On the other hand, through strong government funding, major infrastructure investments were made to decentralize the economy and promote economic development to the inner part of the country (e.g. moving the federal capital city from Rio to Brasilia) and creating the basis for large scale world class agribusiness production. Although this process pushed Brazil to be the very economic diverse and industrialized country it is today, the level of leverage required was above the country's financial capacity. This environment resulted in excessive government overspending and consequent high debt rates over the military regime years [end of 60's to 80's and was worsened by the end of the golden cycle post-WWII triggered by the Oil crisis in the beginning of 1970's which led to almost 16 years of stagnation (1973-1989)].

Establishing a solid Democracy (late 1980's) ▶

Reaching a full democratic state, when freedom of expression, freedom of the press and freedom of political process did irreversibly become a Brazilian value. A major outcome of a new Brazilian democratic state

has been society's increasing mobilization to confront and modernize old bad behaviors such as corruption and state-run inefficient services delivery. Being able to impeach a president and to prosecute several high profile politicians without any visible threat to the democratic state, nor any social tensions, are strong examples that democracy in Brazil is solid and a pillar to further inclusive development.

Gradual opening of Brazil's economy (early 1990's) ▶

In the 1970's and 1980's Brazil boasted to be an almost "self-contained economy" once imports and exports combined were a fraction of the nation's GDP. This was partly due to explicit commercial barriers and partly due to a strategy to favor Brazilian-owned companies by replacing imported goods with alternative home-made products. This proactive campaign to promote 'made in Brazil' was even so intense that, sometimes, quality and price for those homemade alternative products were sub-par compared to what was available on the global market. Even today Brazil could be considered a closed (restricted) market from an international commerce point of view, as international trade is still less than 20% of GDP, either on exports (2002 - world's 26th, 2011 - 22th) or on imports (2002 - world's 29th, 2011 - 21th) [source: OMC April 2012]. Nevertheless, after the 90's there was a gradual flexibilization and incremental opening and incentives for select imports, especially for those areas which could lead for improvement in the quality and competitiveness of Brazilian made industrial products as well as an increase in trade agreements, especially with third world countries and developing nations. Although not to the extent that it would be necessary to call Brazil a full open economy, the increased demand for international trade not only helped consumers to be more selective and demanding on product quality and price, but also led Brazilian industry to upgrade their production processes, technologies and standards to compete on a global level.



Tackling Inflation (late 1990's) ► Most Brazilians under 20 years of age do not remember the days when average inflation hit levels over 80% per month (in some instances +2,400% per year) [source: FIPE, 2012] from the late 1970's to the beginning of 1990's. Under this chaotic economic environment, triggered by inflation, no business plan could resolve the inflation factor, nor could it allow businesses to develop any reasonable long-term plan, let alone feel confident to invest in enabling projects. Once inflation was under control, businesses were able to establish long-term plans and felt confident to contract debt as well as to acquire more expensive and sophisticated fixed assets and goods. Even for the most socially excluded parts of the population the end of hyperinflation resulted in an increase in 'real' disposable incomes.

Structuring the macro-economic pillars (fiscal responsibility, floating exchange rate, inflation targeting - late 1990's) ► Brazil soon realized that keeping inflation under control had to be a major goal of the society, but if the macro economic scenario of unplanned overspending leading to currency printing to pay investments and public debt was not halted, all gains would soon to be eroded. The solution was very well engineered and executed through the introduction of three-axis macro-economic pillars represented by: (1) the introduction of the "Fiscal responsibility Law" that restricts public spending at any local or federal level and allows expenditures and debts to be paid by current collections; (2) a floating exchange rate replacing the dollar pegging system therefore allowing Brazil to be in a better position to absorb external crisis and to keep an adequate cushion of international monetary reserves; and (3) inflation targeting, which made it a priority to put inflation under control first, while delivering confidence and credibility to the Central Bank. These pillars remained untouched up to today

and are seen today, by all the political and business community, as an undisputed success factor of Brazil's development.

Sanitizing and regulating the banking system (late 1990's) ► One of the consequences of high inflation was the development of a very sophisticated Information Technology (IT) environment to support a banking system that was capable of dealing with high-volume and real-time transactions. This state-of-the art IT environment was required as both financial institutions and their clients faced the challenges of preventing their savings from being eroded by a hyperinflationary environment. While the technological capability was outstanding, banks did not capitalize on their investments by improving their operational efficiency. Instead, they realized that, to profit in this hyperinflationary scenario, they would have to be able to collect high interest spreads from government and private clients to provide either finance or inflation protection. The reduction of inflation showed almost immediately that many bank's operations were significantly inefficient and led the government to establish a large scale banking support program (PROER) and a severe market regulation established by the Central Bank. The significant rescue package provided by PROER, although highly criticized at the time, laid the foundations for the Brazilian financial system to move problem free through all subsequent international financial crisis, being an anchor that shielded the country from external pressures.

Privatization of major state-owned related companies late 1990's early 2000's) ► Brazil's historic mindset of having the Government as the main economic provider and almost sole investor in infrastructure and base industries, mainly from 1930's up to 1980's, led the country to develop a large group of state-owned companies. These companies were set up at Federal, State and Municipal levels as providers of the most consumed products and

services in the country, these ranged from oil and gas, mining, telecommunications, banking, logistics, transportation, to various utilities. Through a series of privatizations and deregulation performed over 1990's, Brazil became largely effective in encouraging the participation of private investors to take over, or to take a relevant stake in those state-owned companies resulting in increasing markets for competition. This move created a much better economic momentum, a more efficient environment to improve the country's infrastructure and it also released government funds to other priority areas such as social and education (Telephone lines: 1980 - 5 Mi, 2011 - 285 Mi) [source: Anatel, 2012].

Reducing structural inequality and systemic poverty (late 1990's early 2000's) ► Brazil used to suffer from what was called "systemic poverty", whereby over 50% of the population was trapped in outright poverty and one of the main reasons for this was the fact that children were kept out of school in order to help their parents to generate some minimal, but critical, additional income. This lack of investment in their children's education meant that families were stuck in perpetual poverty. To break this cycle, a series of social programs were developed and implemented to provide basic social assistance to families, such as funding basic needs for food and searching for jobs. The basis of those programs relied in the requirement that, in order to receive financial support, families have to keep their children under education and health programs. Even though there was criticism around some of these programs, it is hard to contradict the evidence that illiteracy decreased from 12.4% to 3.9% in 20 years [source: IBGE, 2012] and the average years of education increased from 3,5 years in the 1980's to almost 7 years in 2011 [source: IBGE, 2012]. Much is yet to be done, especially on education quality, but the results are already very encouraging. Associated with this, other support programs to reduce

extreme poverty and hunger, particularly in countryside locations and city shantytown areas, were also able to trigger the emergence of a more dynamic economy. These programs promoted a more intense entrepreneurship environment in small businesses and led to the consumption by million of families of industrial consumer goods instead of only focusing on food. It subsequently led to the formation of a new middle-class of approximately 50 million people, pushing the entire social pyramid upwards and giving Brazil the internal consumption increase it is currently experiencing despite the 2008-2012 international economic crises.

Accelerating investment in infrastructure (early / late 2000's) ► The release of funds from privatization, inflationary control and improved taxes collection from a more dynamic economic environment helped the Government and private companies to push for tackling logistic and infrastructure bottlenecks. The 1997 energy shortage crisis is an example of how severe the bottlenecks were in most basic industrial sectors in Brazil. More recently, programs aiming at increasing public investment in infrastructure, such as PAC (Programa de Aceleração do Crescimento) and PPPs for major urban revitalizations and logistic projects, although far from delivering their original expectations, are demonstrating that there is now a broadening consensus that improving infrastructure requires not only government investment, but also private money and this must be treated as a priority on every economic player's agenda. (PAC - US\$ 250 Bi {2007-2010} and PAC 2 - US\$ 800 Bi {2011-2014}) [source: Ministry of Planning, 2012].

Public spending control on future social retirement: (late 2000's) ► The basis of the Brazilian welfare system has its genesis traced back to the influence of mixed policies developed by the social-democratic / European socialist post-Second World War. While Brazil used to have a high population growth rate

and a younger-than-average population profile, this situation wasn't a major concern until social programs of education and health started to deliver results and the general population started, not only to be more educated, but also to have access to birth prevention methods resulting in a very rapid demographic shift from a birth rate of 5.8 births per woman in 1970 to 1.8 births per woman in 2010 [source: IBGE/PNDS-MS, 2010]. Once this happened, it became clear that there would be no economic sustainability for the government and national treasury in continuing to provide life-long benefits unmatched by previous contributions either from the private-sector or, even more seriously, from the highly deficient public employees retirement system. Resistances to

change the public benefits system have been very intense, but over the 15 years Brazil has been able to establish first caps and limitations on its subsidized retirement fund of private employees, and more recently, to extend those limitations on the retirement funds of public employees. Although real financial surplus will not be achieved before 2023, at least a major threat for the countries' financial stability was disarmed. Moreover, as additional individual contributions will be required to provide desired requirement, especially from public sector employees, an increase in the percentage of national savings/GDP ratio is expected, what has been historically below the 20%, a threshold recognized as the minimal necessary level to achieve a sustainable, non-inflationary

growth. By leveraging new savings and pensions funds, it is expected that the national savings ratio will finally increase.

Reducing of interest rates spreads

(early 10's) ▶ While the inflation targeting system was effective in bringing Brazilian inflation to a reasonable level of 4.5% per year [source: Central Bank, 2014], it also delivered an expected and required interest rate balance, moving annual rates from over 45% in 1997 to under 10% in 2013. Nevertheless, the impact on end-consumer interest rate still did not follow this downward speed. Many reasons contribute to that situation, from legally required higher compulsory deposits from the Central Bank, higher taxes on financial transactions and also a certain level of lack of competitiveness of the sector. As one of the latest actions of the development roadmap, Brazil is starting to tackle this issue, working in the multiple dimensions of the problem. As this process was still unfolding at the time this study was developed, a reduction of average 50% in the existing rates for customers and small-medium business demonstrated that even better results can be achievable. Those significant levels of reduction can also be a new trigger not only of consumption development, but also to release funds of low income families that are traditionally very leveraged to other investments and savings and help to sustain, if not to increase, the growth and inclusion cycle, even in a general international crises moment.

1.2 Challenges yet to be overcome

Nevertheless, we do not want to leave the impression that all that has been done in Brazil so far will resurrect the famous metaphor of the 'Sleeping Giant'. So to reach its desired vision of being a major economic player in a global economy and to keep the pace of consolidating its sustainable economic growth,

Brazil still has a lot to do. The good news is that, increasingly so, some of the following items, just like those discussed before, are leaving the realm of being "taboo" and are now starting to gather more social and political consensus in order to be seriously discussed and addressed. Looking to the future development of a more sustainable Brazil, we could highlight:

Establishing a new tax system ▶ As will be presented across this document, the tax system in Brazil is very complex to understand, cost consuming to be managed and, if not properly considered by investors, a major cost factor for companies that may cause a roadblock for investment projects to deliver the expected ROI. There is a wide consensus that the tax system must be changed and modernized, but major changes have failed to be implemented due to the complexity of the system and the federative nature of Brazil. Changes will require considerable negotiations to deliver a detailed proposal that can satisfy all states, cities, government and taxpayers.

Improving the cost-efficiency of the Public Sector spending ▶ As a very efficient tax collector, Brazil's government has in 2013 close to 40% of GDP [source: IBGE / Receita Federal, 2014] equivalent as its collections to be used to pay its operational costs and to use the remaining collections for investments. Nevertheless, issues such as overspending, inefficiencies on investments allocation, lack of spending control leading to low value for money returns and corruption have led to the perception that services provided by the Government are far below the expected level given the amounts of funds collected and available. At some levels of federal, state and municipal administration, it is becoming clear to leaders that the population is becoming more demanding on this subject and recent elections have shown the trend that administrators in most developed regions of the country are being rewarded when they demonstrate efficiency



and care with taxpayer's money instead of being rewarded, as we saw in the past, by the implementation of populist programs and costly non-sustainable investments. Although this is not widespread, the trend is gaining momentum and we expect to see more of this in future as a new, more educated, population reaches the voting age in next decade.

Privatization of remaining infrastructure related and non-strategic assets (Late 1990's early 2000's) ► Whilst we may have seen positive signs of divestiture of some of the non-strategic assets in the State control, such as airports in some major cities, we believe that there is still an ongoing ideological debate that prevents decisions on what has to be state-controlled versus what could be managed or owned by the private sector. Reaching a consensus on the role of State versus private sector is one of the few areas that might take time to be achieved.

Dynamising labor relations and its associated laws ► As part of the Brazilian welfare system culture and a historical association between trade unions and politics, a series of labor development protection mechanisms were created in the past. Ancillary to those mechanisms were all the taxes and fees to sustain the policies associated with them. Although it is not foreseen in the near future, structural changes on mechanisms that are, considered by most, fundamental rights are required. There are many tactical aspects of labor laws, especially those that might lead to lower costs of formal employment and others aiming at increasing the flexibility of work relations, which need to be updated. For example, there is the need for updating laws to recognize more modern trends such as outsourcing, off shoring, virtual work and other working models that did not exist in the mid 20th century when most of the original labor laws were developed.

Reducing bureaucracy on doing business ►

According to a recent EY publication (Growing Beyond: Entrepreneurs speak out - a call for G20 governments), although Brazil has presented a significant development improvement, it is still one of the most bureaucratic countries to start a new business, whether to open a small business or to develop a major industrial project. The complexity of Federal State and Municipal laws that impose a series of complex approvals and permit requirements to grant authorization are virtually unmatched anywhere else in the world. Although there is a perceived gradual trend to integrate and simplify the process and to use the internet as a fast and efficient channel of communication between business and government, it still requires a more systemic approach at a national level to improve the position of the country against other comparable nations.

Developing an operational excellence culture on state-provided services and projects ►

Having a significant amount of funds available for the first time in history, the Brazilian Government, at all levels, is starting to realize their execution structures are not optimized to deliver either the new increased demanding service levels expected by taxpayers, nor to deliver required and planned capital projects at the pace it is required to enable economic growth at +5% CAGR, which is the level that many private and government analysts believe would be a adequate pace for non-inflationary growth for Brazil . Many root causes can be traced back from this situation: from inefficient bureaucratic laws driving governmental procurement processes, low level or professional qualification of public servants and, maybe more fundamentally, the lack of a culture of operational excellence, at the government level, which regularly tracks goals versus actual delivery, analysis issues, adjusts strategies and monitors the effectiveness of



those new strategies on delivering measurable outcomes. Although some local municipalities, states and areas of central government are clearly increasing their focus on culture and people development, this is still not a nationwide trend and some time will be required for those benchmark practices to be consolidated and widely in place.

Dealing with the shortage of qualified labor ►

Although the level of education of the Brazilian population is growing at unprecedented levels, the existing level of the workforce qualification, in general, is still not enough in some areas to sustain the expected growth rate, or at least the planned one. Although many programs have existed for some time and other successful local initiatives are being rolled out by either private and government sectors, established programs in this area still have a long leading time to deliver meaningful results. In the meantime Brazil will have to heavily rely on foreign specialized

workforce and develop the legal environment to attract and retain them under a competitive scheme. This attitude will require, for example, tax exemption treaties or more streamlined work visa authorization processes, as other countries of the world also compete, in many cases, for this very restricted pool of specialized workers.

The discussion now in place is not so much whether Brazil will reach a significant relevance in the world, in terms of its economic and political strength, but how long it will take to be achieved, what will require new standards of life to all its citizens, reconciling economic growth with a strong social agenda to reduce inequality.

The quicker Brazil overcomes the remaining challenges and creates a Sustainable Path for moving forward, the quicker it will be able to fully deliver its promises and reach its well-known potential.



Rio – Gateway to Business in Brazil

Most analysts would agree that Rio de Janeiro is living at a new “Golden Age”. The economic improvement is highlighted by the awarding of investment grade status by all major rating agencies.

On the social recovery front, Rio is showcasing remarkable progress, from the significant improvement in health and security indicators to the uplifting of Carioca’s self-esteem represented by the election of the city as a world heritage status and the election of the city’s landmark, Christ the Redeemer, as one of the new Seven Wonders of the World.

On the economic front, the FIFA World Cup, the Rio 2016 Olympic Games and the discovery of giant pre-salt oil reserves at its shores, is transitioning Rio into one of the most sought after destinations for business development opportunities.

As shown by the examples above, we believe Rio is the true business gateway to invest in Brazil and presents one of the most promising prospects for developing strong partnerships with the Brazilian Government and/or already established businesses. We present in this section Rio’s vision and an overview of some of its most dynamic business sectors.

2.1 Rio’s Path to Transformation

Throughout the Brazilian history, Rio de Janeiro (“Rio”) has always had a prominent role in its development, from initially being an important commercial harbor during the Portuguese colonial period, to almost two centuries of being the capital of Brazil and one of its largest cities, economically, culturally and population wise.

After having lost the title of Capital city to Brasilia in 1960, Rio struggled for a while to structure its long-term view of how to reconcile its natural strengths and challenges with a new strategic position. Nevertheless, in the last few

years, Rio has been showing a remarkable capability not only to structure a very consistent vision and strategy, but more importantly, to plan its execution with ambitious milestones and even deliver better-than-expected results.

A central cornerstone of this is the Rio Strategic plan, which, in its second cycle, is the master guideline for all initiatives for all three layers of government to define actions plans, expected results and the corresponding monitoring of Key Performance Indicators.

The plan spans a 4 years horizon, where public investment is a priority and focuses the following dimensions: health, education, city ordering, economy, city infrastructure, environment, transport, culture/sports/leisure, social assistance and city financial management.

Assessing the results of the first cycle (2009-2012), more than 80% of the goals were fully achieved and most of the remaining ones are on track for completion in the next cycle. The next cycle (2013-2016) will be key as it contains both the execution of FIFA World Cup matches and finals in 2014, and the delivery of the Rio 2016 Olympic and Paralympics Games in 2016.

2.2 Rio’s Strategic Ambitions

Possibly the most important aspiration of Rio is its strategic ambition to be not only an important metropolis in Brazil, but to become one of the most important cities in the world, using the foundation of its natural beauty and its warm and welcoming people, the Cariocas.

Therefore, as an outcome of open discussions with Rio’s society, its academia and its business community, as part of the city’s strategic plan, Rio has set some foundations to support a vision that the city is projecting for its future, a vision that aligns the private and government actions onto the same path.

In summary, Rio's strategic ambitions are:

- ▶ Be renowned for its importance in the international business community as a major business and economic center for the world, competing on a par with key business locations such as Hong-Kong, Shanghai, Johannesburg, Moscow, Dubai and São Paulo.
- ▶ Be an unmatched destination for innovation and entrepreneurs.
- ▶ Be a major reference for culture, creative economy and arts.
- ▶ Be the preferred business gateway to the South American market.
- ▶ Continue to be one of the best cities in the world to live and work.

To drive the accomplishments of this vision, Rio not only leveraged the benefits derived from the overall development of Brazil, but it also recognized that, in order to deliver strategic ambitions of its own, it would need to leverage its natural advantages as well as tackling its major gaps.

As a result, Rio was able to reach important milestones in this vision. In order to give some idea of the milestones we highlight six key areas:

Government Operational excellence ▶

Rio realized that professionalizing the city administration and having an efficient public management capable of using available funds efficiently and effectively would be a major enabler of the strategy. One example that illustrates this achievement is the fact that Rio was recently recognized as investment grade by all major rating agencies, the only city in Brazil to have such recognition.

Political Alignment ▶ there was a tradition in Rio that the city historically positioned itself as a fierce opposition of whatever political leadership existed at the state and federal level, a reminiscent culture from the military regime years where Rio was one of few pro-democracy

enclaves. Nevertheless, in a democratic society such as Brazil, this stance led to a loss of synergies. In the past few years, Rio has changed its stance and has now developed a strong partnership with the Rio de Janeiro State and the Federal Government in a joint-planned investment roadmap. The Federal Government is now seen as a source of funds, through initiatives such as the PAC program. The Rio 2016 Olympic Games in Rio has been clearly made possible mainly because of this integration of the three levels of Government.

Leveraging and supporting business development

▶ Rio is supporting new business development through incentives and by creating mechanisms, such as Rio Negócios that professionally promotes and attracts new investments. Rio has the vision to see that the private sector, as a strategic partner to the city's development, will help the city to become the leader in Brazil in structuring a new way of creating a professional and transparent relationship between Public and Private sectors. One example of this is on the PPP (Private-Public-Partnership) arena, where Rio is the leading city in Brazil to successfully use this mechanism. At the first quarter, 2012 the city had the two biggest existing public private partnerships (PPP) in Brazil: the Porto Maravilha PPP and the Olympic Park PPP.

Tackling security, health and education gaps

▶ Because of the federative nature of Brazil, important areas of the public services such as security, health and education have diluted responsibilities between federal, state and municipal governments. Given this split of responsibilities and the historic political isolationism of the city, Rio suffered for more than 20 years from low investments, a lack of consistency on policies and an outcome in the early 2000's that showed below average performance in most of the indicators in these three dimensions. As a result of strong political coordination, combined with better public

management capabilities and a social consensus of tackling these issues, the city is experiencing a fast recovery in all three dimensions. It is worth mentioning a few of them to demonstrate the progress: major crime indicators such as homicides fell 46% in the last five seven years [ISP-RJ]; families enrolled in regular health monitoring increased from 3.5% in 2008 to 27.3% by 2011 and expect to reach 70% by 2016 [included 2013-2016 Rio Strategic plan] and it is expected that in the next 4 years 35% of municipal schools will be enrolled at the new full time school curricula [2013-2016 Rio Strategic plan].

Having a consolidated plan ▶ Rio, for a long time, lacked a triad of elements characterizing a structured plan. It required the elements of a strategy that would allow it to achieve a desired level of ambition, namely: (1) a City Strategic Plan, (2) a City Director Plan and (3) a City long-term budgeting plan. As we look forward through 2012 and to the second cycle of revision of the three major city planning elements, we can see a consistency of action and a perceived improvement in city services, business climate and citizens quality of life all together.

Define its business strategic sectors ▶

All cities have their differentiation strategies which have to be laid on the foundations of its strategic capabilities and vocations. Besides the beaches and Carnival, Rio is the home to the most important oil & gas, media and entertainment, telecommunications and infrastructure companies in Brazil. It also has a significant presence in pharmaceutical and life sciences and the biggest R&D facilities concentration in South America, due to the extensive availability of high quality universities and government research centers. Therefore, it is natural that the city strategic plan develops a priority focus on these business segments, and promotes Rio as the best destination for business in these segments.

2.3 Rio's key strategic segments

As part of Rio's strategy to develop Business Segments (Clusters), in this section we briefly highlight each of these. The objective is not to provide an exhaustive and detailed industry-specific analysis as this is not the goal of this document but it is to allow potential investors to get a flavor of the segment for future contacts and research.

Oil & Gas (O&G)

Rio has advanced enormously over the past decade, with thriving social and economic development. The Rio de Janeiro State per capita income, the country's second-largest economy, has more than doubled since 2000, surpassing by far the national average ["Decision Rio Investments 2012-2014" - FIRJAN - 2012]. It is the largest national producer of oil and gas, with oil reserves comparable to some OPEC countries and other major oil-producing countries.

Having major reserves alone would not be enough to boast that Rio is a flagship destination for O&G investment. Availability of proper logistics, financial investments and a well-trained specialized workforce are critical to the foundation of a solid O&G industry.

With regard to a logistic infrastructure to support the industry, Rio de Janeiro State also boasts a significant differential compared to other O&G frontiers, allowing access to 50% of Brazilian GDP within a radius of 500 km, thanks to the existence of roads, an extensive rail network, ports and airports. Situated in an extremely privileged location, the state already stands out as one of the major logistics hubs in the country.

In the State of Rio de Janeiro, the oil and gas industry will receive about US\$ 59.8 billion in investments [2014-2016] ["Decision Rio

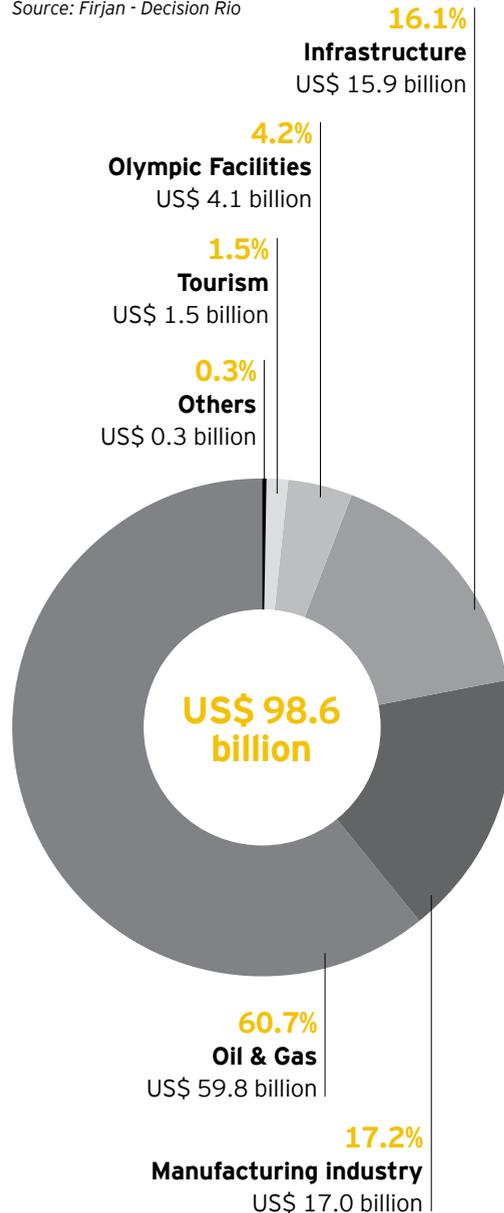
Investments 2014-2016" - FIRJAN - 2014] by Petrobras and partner companies [British Gas, Repsol, BP (Devon), Shell, Galp, Amerada Hess, Queiroz Galvão etc], which represents 60.6% of the total investment amount for the same period [US\$ 98.6 billion] ["Decision Rio Investments 2014-2016" - FIRJAN - 2014]. The main projects comprise the development of oil and natural gas production in the Campos, Santos Basins and in pre-salt fields, in addition to other investments planned for supporting activities. Accordingly, the federal government, in the framework of PAC, forecasts investments of US\$ 261.8 billion for the period 2011-2014, throughout the country. Most of these resources (about 61%) are intended for oil and gas projects.

In fact, the State of Rio de Janeiro is the largest oil producer in Brazil with 80% coming from the Campos Basin. The State already boasts the refinery of Duque de Caxias (REDUC), belonging to Petrobras, which has great national importance in the production of petroleum and the gas-chemical center of Duque de Caxias, that brings together companies in the first, second and third generation of the petrochemical chain, with special emphasis on Rio Polímeros S.A. (Riopol). Investments in the petrochemical sector also stands out with US\$ 8.3 billion in 2014-2016, led by the construction of Comperj in Itaboraí ["Decision Rio Investments 2014-2016" - FIRJAN - 2014].

On the human capital side, the State of Rio de Janeiro is on its way to get the title of world center in developing technologies focused on the area of oil and gas, especially in pre-salt operations. A major research and development center is being created in the Technology Park at Ilha do Fundão. The park that already shelter CENPES, the Petrobras's research center, COPPE, the UFRJ University engineering research, Baker Hughes, FM Technologies, and Schlumberger research centers, has plans to receive additional units by 2020. Of the

Investments by sector of activity in the State of Rio de Janeiro for 2014-2016

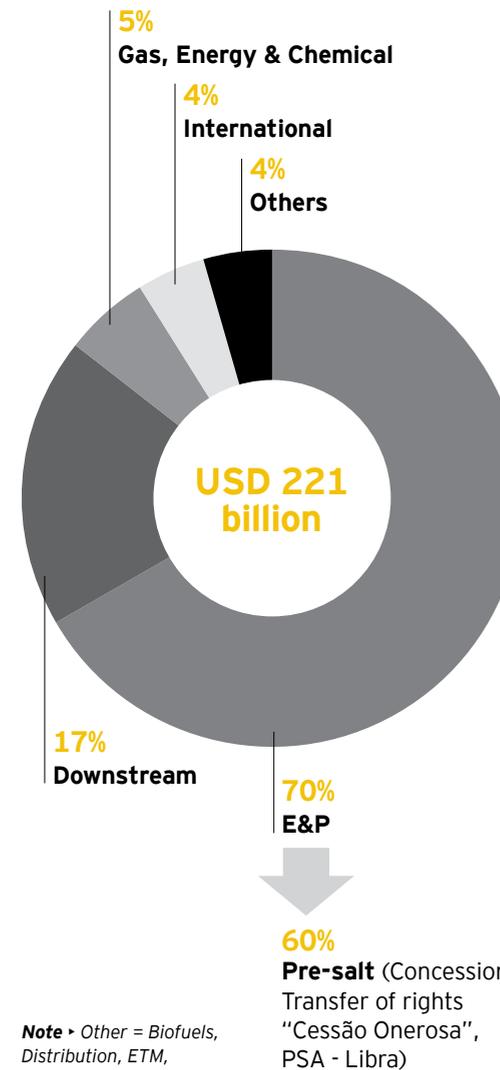
Source: Firjan - Decision Rio



Petrobras Investment 2014-2018

Source: Petrobras

63% of worldwide deep water discoveries



Note - Other = Biofuels, Distribution, ETM, Financial Area, Strategy and Corporate Services

US\$ 340.3 million earmarked for the state by 2014, by 2014, almost all of it will be applied to the Technology Park ["Decision Rio Investments 2012-2014" - FIRJAN - 2012]. As a result, this sector can become a major driver of Rio's economy in the coming years, generating employment, income and opportunities for investors.

Telecom

Although Brazil is a huge country from a territorial point of view, the national Telecomm regulation, aiming at providing an efficient economic environment to promote and stimulate the sector development, was designed to promote a national market structure where operators can provide telecomm services national wide.

National operations allow operators to objectively select the most convenient city to establish their headquarter based on a series of relevant business fundamentals like investment and tax incentives, business community importance and diversity, leading education infrastructure, etc.

In doing business with the Telecomm community in Brazil, Rio is a key piece of the business puzzle. The city embraces the headquarters and decision making centres of three major Telecomm companies operating in Brazil which are responsible for over 50% of the US\$ 105 billion Telecom sector turnover [source: "O Desempenho do Setor de Telecomunicações no Brasil" - Telebrasil - 2013].

On top of that, being the second biggest city in Brazil and one of the most important and relevant economic poles in the country, all Telecomm operators have major local operations in the city to serve national and local clients through a whole complex supply ecosystem to support them on establishing, building, operating and maintaining their business structure and provide services to customers.

Looking ahead the forecast is highly positive. Being one of the cities to host world cup matches in 2014, Rio is building the basis to promote an intense development in the Telecomm space and the implementation of the high speed mobile broadband through 4G technology. On the other hand, the social-economic development experienced by the city in the last 10 years is sustainable and increasing levels of development are expected for the next decade what will result, among other things, in a relevant market growth with a very positive impact to operators and the whole Telecomm value chain.

Continuous regulatory and technological development, a major characteristic of the Telecomm segment, will keep evolving and other market transformation waves will invariably take place. Ultra speed broadband, MVNO, mobile money, M2M communication, geo advertising are some key examples of developing business areas to lead that transformation in the middle term and Rio, whether for its economic importance or its touristic appeal, will definitely be a key demanding market for that sort of services in Brazil.

Looking at Rio from a demand or supply point of view, the city is and will continuously be a strategic market for Telecomm operators. Any company that wants to leverage their current business activities in Brazil or even start any relevant operation within the industry value chain will have to be and stay in Rio.

Media & Entertainment (M&E)

Across Brazil and to some extent the worldwide arena, Rio is well-known by its vibrant cultural and media content generation. Behind this perceived capability, the M&E sector in Rio is considered a strategic differentiator for the city in relation to other regions of the country, enabling the city to claim a leadership position on investments in this industry.

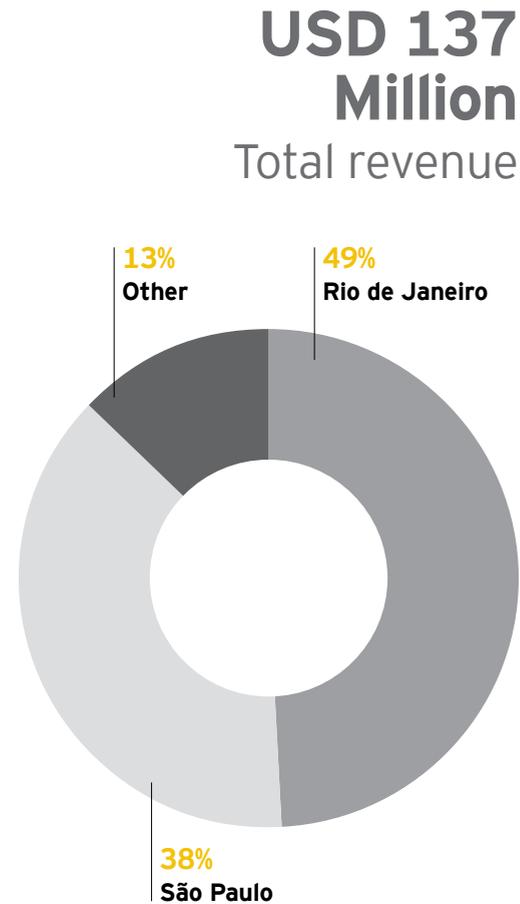
As examples of Rio's M&E sector we could highlight the fact that the main Brazilian media group, composed by its television station's main producing hub, internet, newspaper and magazine publications and all the media / advertising business ecosystem, is located in Rio, as well as part of other national media corporations, which also were attracted by the M&E suppliers concentration in the city. To name a few, important companies such as the Globo Television Network (largest media conglomerate in Brazil), Record producing Operations, Polo de Cinema Rio (the largest Film producing hub in Brazil), most of the record labels and many book/magazine publishers are headquartered in Rio. Another number that exemplifies the importance of the segment in Rio is that 50% of international productions (TV or movies) and 49% of Brazil's films are produced in Rio, resulting in more than 30,000 direct jobs [source: Rio Negócios, 2014], not even counting Brazilian TV productions, where this percentage is even higher. Due to this strong presence, the sector has a large weight in wealth of what is called the city's "creative economy", what is considered one of the strategic pillars of the city business development plan.

Figures only confirm what is already seen empirically: the image sold in the media in Brazil is Rio. The city has a splendid natural beauty coupled with a developed service infrastructure, and has the necessary characteristics to increasingly become a concentration point for the national media. This has led to the existence of a well-qualified workforce in the M&E segment and the necessary physical and logistic capabilities to absorb new investments

The musical vocation of Rio must also be exalted: from the traditional and world famous Carnival, to the already established, but relatively new, tradition of Rock in Rio, last held in 2013. Most tickets for this event were sold out upon release with massive queues at the points of ticket purchase, even with ticket

Brazilian film industry 2013 Market share

Source: ABITV, Ancine, Rio Negócios Analysis



28 Million
Total audience

Note: Market share based on Brazilian movies launched in 2013

prices well above global average for comparable events. This shows the appetite for consumption by the Rio population for world class shows. Also, leveraging the internet 2.0 trend, a new starting successful business trend in the city is "crowd funding", a collective cooperation, attention and trust by people who network and pool their money and other resources together, usually via the internet and social media as a viral communication strategy, to support efforts initiated by other people or organizations internet. In this case, crowd funding is either for attracting artists or to launching new ones to mainstream. This way, a company named "Queremos" appears. Using the internet to raise financing to attract to Rio some shows that usually happens only in São Paulo. Since 2010, the group brought thirty international shows to the city. In the mega-events arena, Rio's media & entertainment sector has a very prominent role, being chosen as the location for both IBC (FIFA World Cup Official Media and Broadcast center) and OBS (Olympic Broadcast Service Center). Also the major Fan Fests (World Cup) and Live Sites (Olympic Games) are going to be held in Rio and the concentration of major events such as the World Cup Final and the Olympic Games is pushing media sectors and its ancillary activities (advertising, sponsorship, video producing, etc) to a level of global excellence.

The current scenario that Rio provides to the entertainment industry is very attractive and this is improving since the city consolidates its service chain through new investments for the Soccer World Cup and the Olympic Games. Another city advantage is the growing consumption market that appears because of the economic stability achieved: increasing equality of income distribution and a rise of new social classes that will consume even more media, entertainment and culture.

Pharma & Healthcare

The Brazilian life science industry is undergoing a unique period in its history. The recent period

Federal Program - Startup Brazil

www.startupbrazil.org.br



5 of the 9 accelerators HQ in Rio: **Papaya, 21 212, Microsoft, Pipa, Outsource Brazil**



A **global** selection process of the startups (25% of the approved projects can be foreign)



Startups will receive **full support** of the accelerators



Each project will receive **USD 100 k**

USD 20 Million by 2015 invested by the Federal Government.

Public-Private Initiative to Promote Entrepreneurship Culture - Startup Rio

www.startuprio.org/english/



Brazilian and foreigners digital tech **entrepreneurs**



R\$ 100,000.00 in Seed Capital for project development



Educational Program with the best mentors



1.000 m² **free coworking** space

Status: Entrepreneurs chosen, coworking space done in May. Program should start 2nd semester of 2014.

has been marked by the implementation of industrial policies favoring companies in the health and life science areas, with the approval of non-reimbursable funds, establishment of government programs, support to the internationalization of the sector and progress in university-industry interaction mechanisms. Brazilian life science companies, characterized by strong technological content and potential for innovation, can play a fundamental role in the economy.

Brazil is the sixth largest market for drugs and medicines in the world [source: IMS Market Prognosis, September 2013], and its importance is increasing leveraged by massive investments in new production and research capacity, and the authorization of generics drugs leading to the growth of many national providers. According to the Ministry of Health, the pharmaceutical market is responsible for annual revenue of US\$ 26.8 billion in 2012 and the trend is positive. Brazil has specific programs to provide free medicines such as drugs that are considered exceptional (e.g. high cost or continued use) and medications for the treatment of AIDS/HIV. In addition, some states and municipalities also have specific programs that provide free medicines to the general population.

According to the Commercial Association of Rio de Janeiro, of the 250 laboratories in the country, 80 operate in Rio, mostly in the capital. This means that Rio has built the basis to promote a continuous development in the Pharma & Life sciences industry. Rio is the headquarters for major pharmaceutical multinationals such as Merck e GlaxoSmithKline. Fiocruz, the major government hub to promote pharmaceutical development, is based in Rio, what also fuels the R&D investment and availability of the highly specialized human capital for this segment.

Also, on the healthcare arena, most of the major health & insurance providers such as Amil,

Golden Cross, Valia, Petros-AMS and Bradesco Seguros are also based in Rio, creating a vibrant business network and lots of opportunities to new companies take part in the industry value-chain.

Looking at the current scenario with the development experienced in the last few years, Rio provides the environment for the Pharma & Healthcare industry to continue to be one of the major economic drivers in the coming years, generating employment, income and opportunities for investors.

Technology Innovation

Since the 1800s, when the Portuguese royal family, escaping from Napoleon's invasion, established the Kingdom's capital here, Rio became the cultural, education and technological center of Brazil.

Brazil is investing US\$ 30 Bi/year or 1.62% of GDP in innovation, with nearly 500,000 people (researchers and staff) involved on R&D&I alone (MCT, 2010). Nowadays Rio represents 10% of the total innovation investments and 10% of the university graduation students in the country, with some of the best universities in the country, including the Federal, State and Catholic universities, and major research centers on Mining, Oil & Gas, Electricity and Information Technology, among others.

The Center for Electric Energy Research (Eletrobras Cepel), another main research center established in Rio, was established in 1974 and its headquarters is located in Rio (Ilha do Fundão). Part of the Eletrobras group (a major Brazilian electric utilities company, also Latin America's biggest power utility company, tenth largest in the world and is also the fourth largest clean energy company in the world) and over 30 years in research and development (R&D) projects related to generation, transmission and distribution of electricity. CEPEL is considered the largest

center for research into electrical energy in the Southern Hemisphere. It comprises 30 laboratories, 20 of them located at Ilha do Fundão, while other 10 are located in Nova Iguaçu (near Rio), promoting researching initiatives involving high voltage, current and power. Other main focus areas are Automation Systems, Electrical Systems, Plants and Equipment, Environment and Energy Optimization. CEPEL also houses the Brazilian Reference Center for Solar and Wind Energy (CRESESB).

On Mining research, CETEM (Centre for Mineral Technology), has the mission of developing technology for the sustainable use of mineral resources. CETEM comprises 15 laboratories, three pilot plants and a specialized library. Its recognized first class infrastructure, exclusively dedicated to the development of mineral technology, unique in the country, is leveraged by a highly qualified technical staff. CETEM has credibility to meet the challenges of the mineral-metallurgical sector.

The almost 100 years old INT (Instituto Nacional de Tecnologia or National Institute of Technology), located in Rio downtown, is another recognized excellence research center that focuses on nanotechnology, health, biofuels, hydrogen/renewable energies, oil & gas, climate changes and social development. The INT's 5 year plan (2011-2015) defines its focus on R&D&I, basically for oil & gas and petrochemical industries.

The RNP (National Research Network), also located in Rio, provides innovative use of Advanced Networks in the country. Focusing on R&D&I, highlighting up projects Cinegrid (network for artistic, educational, scientific and entertainment content distribution) and the Internet of the Future, in collaboration with the PUC (Catholic University), seeks to contribute to the future architecture of the Internet.

At PUC, research related to Information Technology and Internet, have focused

on computer networks and Multimedia and Hypertext, among others.

Funding is other important innovation issue. The State of Rio de Janeiro holds its own research funding agency (FAPERJ) for science, technology and innovation. Another source of funding "around the corner" is Brazilian Development Bank (BNDES) which has its headquarters in downtown Rio.

Logistics and Infrastructure

The growth of the national economy and the raising of average income for the Brazilian population have ensured an increase in demand in several sectors. According to a BNDES (Banco Nacional de Desenvolvimento Economico e Social) study, Brazil is about to invest around R\$ 378 billion (US\$ 189 billion) in infrastructure over the 2011-2014 time period, about R\$ 94.5 billion (US\$ 47.25 billion) per year and Rio will attract the largest volume of investment. Globally recognized by its natural beauty, Rio now must show its ability to host large events and provide the required infrastructure and logistics requirements to support giant projects in O&G, mining, automotive and chemicals that have been carried out. Examples of giant projects are:

- a) Industrial Complex Açú Superport, EBX Group.
- b) Terminals Ponta Negra, a DTA Engenharia project.

Investments in the terminal Açú are US\$ 2 billion, but in the back area are already provided US\$ 25 billion, including projects such as the Anglo American Mineral Pipeline, the steelmaker from Ternium, the shipyard from OSX (EBX Group subsidiary) and companies have already announced investments for the area as NKT and Technip.

Terminals Ponta Negra (TPN), in Jacaré beach, Maricá (also called Pre-Salt Port) consume

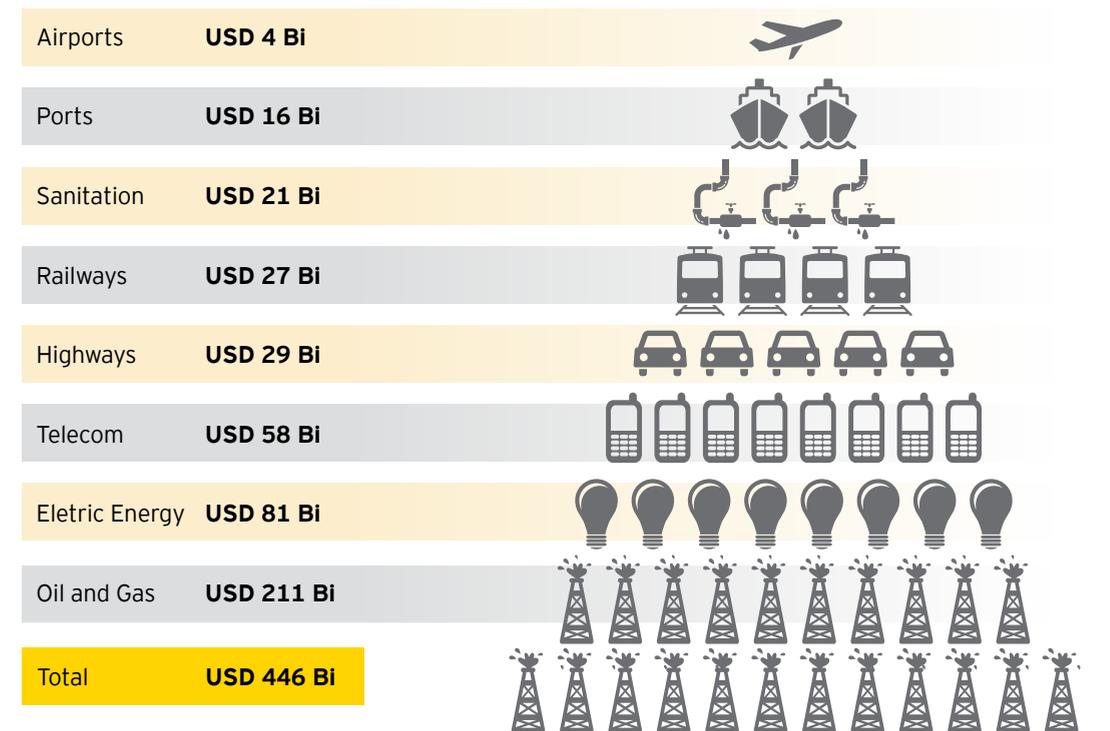
Investment	Sector	Municipality	Destination	Investment amount for 2014-2016 (US\$ billion)
COMPERJ	Petrochemical	Itaboraí	Deployment	8.3
Angra 3 Nuclear Plant	Electricity	Angra dos Reis	Deployment	3.5
PROSUB*	Shipbuilding	Itaguaí	Deployment	3.2
Line 4 - Metro	Transport/Logistics	Rio de Janeiro	Expansion	2.0
CEDAE Investments	Basic Sanitation	Various	Deployment and Expansion/Modernization	1.9
Porto Maravilha	Urban Development	Rio de Janeiro	Modernization	1.7

* The Brazilian Navy's Submarine Development Program (PROSUB) encompasses the construction of a naval base and a shipyard for manufacturing and maintenance of submarines, as well as the manufacture of four conventional submarines and one nuclear submarine.

[source: "Decision Rio Investments 2014-2016" - FIRJAN - 2014]

Infrastructure - Investment Projections by BNDES for 2013-2016

Source: BNDES, Rio Negócios Analysis



investments of US\$ 750 million in port infrastructure, but another US\$ 1.75 billion are planned for projects in the area, which will have a fuel storage space and a maintenance yard and for offshore vessels repairs. This port will be the anchor of the Petrochemical Complex of Rio de Janeiro State (Comperj) and will be able to receive 850,000 barrels of oil per day, equivalent to 40% of the current production of the country.

Beyond the organization of the World Cup or the Olympics, Brazil has many challenges ahead related to infrastructure investment programs, with funding from public and private initiatives,

projects contemplated in the areas of construction, oil, pre-salt, steel, ethanol and others.

According to the Federation of Industries of Rio de Janeiro (Firjan), the state received around US\$ 102 billion in investments between 2011 and 2013 mainly due to major works such as the multi-industry/shipyard Port of Açú, the "Metropolitan Arc" road system, the major petrochemical hub COMPERJ, the new Nissan factory to mention a few. Among the various investments in infrastructure, much will be applied in the projects of urban mobility, such as the BRT (Bus Rapid Transit), a metro line extension and construction of lines 3 and 4,

also there will be investment in the national road structure, resulting in the logistics sector becoming more evident. Another area of investment includes road maintenance, which involves recovery services, restoration, conservation and signaling, as provided in the Draft Annual Budget Act of 2012 for the transportation sector, as shown by the Ministry of Planning.

For the period between 2014 and 2016 according with "Decision Rio Investments 2014-2016" - FIRJAN the estimative of investments is around US\$ 80 billion.

Mega-events Industry

Rio has always had a natural vocation to host mega events considering the climate, the scenery and the natural exuberance and welcoming characteristic of the Cariocas.

Despite these favorable attributes, for decades Rio was passed over in favor of other cities around the world including Sao Paulo, due to a lack of an efficient and effective infrastructure and to some extent a lack of experience in organizing these events.

This scenario began to change in 2007 when the city hosted the Pan American Games. From this point on a radical transformation, fuelled by winning the World Cup (2014) and the Olympics and Paralympics (2016), put Rio on the path to becoming one of the most significant cities in the world to host mega events. Before Rio, only two cities faced the challenge of doing the double (World Cup and the Olympics) within a cycle of at least two years apart: Mexico City and Munich. The realization of Mega Events is a great catalyst for private investment and public sector actions. Investments to be made in Rio comprehend a series of different initiatives, among others, the reconstruction of the Maracanã (biggest Brazilian soccer arena), the remediation of the pollution of Guanabara Bay,

construction of 150 km of Bus Rapid Transport lines and the revitalization of the Port Zone, the major national Public Private Partnership program comprising over US\$ 4.5 billion to be invested. Overall, the budget of the Games in Rio is estimated to reach a staggering figure of US\$ 16.9 billion, generating around 100,000 jobs. Using the Games as the main stimulant, it is expected that the city will attract US\$ 30 billion in investments by 2016.

The sector has strong synergy with many industries. The tourism industry will leverage the hospitality segment through the expansion of the 31,600 rooms (in 2010) to 52,500 rooms (2016). Construction segment is expected to provide intense professional training and experience the development of new technologies. On the ITC (Information Technology and Communications) arena, in order to meet the proper infrastructure level required by mega events, it will have to experience an intense development.

From 2012 until 2016, Rio hosted the United Nations Rio +20 (2012), the World Youth Day (2013), the Confederations Cup (2013), and will host the World Cup (2014) and the Olympics and Paralympics (2016).

To proper deliver this schedule of events, Rio should include a good mix of the public and private sector in order to successfully achieve all the necessary milestones. As a result of this series of events, Rio will be well positioned to become a place of prominence in the global mega-events sector. Rio's future, looking beyond the natural vocation of its beauty, will have strong infrastructure and experience on delivering mega events comparable to more developed cities. All this experience will promote Rio to be one of the main contenders in the international events arena, what will attract more tourists and investments, resulting in a virtuous cycle that has the potential to leverage a period of sustainable development.





Fundamentals of Doing Business in Rio

In this section, we will present an Overview of tax, legal and reporting regulations and business practices that are existent in Rio and Brazil.

3.1 Regulatory Constraints and Relief

Exchange Background

Brazil is among the ten largest economies in the world and the country one of the most attractive country for foreign investors due to its growth potential, large and competitive market and political stability. Current investment climate has been aided by measures adopted by the Brazilian government in recent decades aimed at promoting economic competitiveness by controlling inflation through the adoption of the floating exchange rate regime and strict monetary policies.

Current political and economic stability largely resulted from the Real Plan, the economic program adopted in 1994 to control a historical high inflation reality that Brazil and the strong foreign exchange policy based on a gradual depreciation of the local currency, the Real (R\$), against the US dollar (US\$) until 2002. From 2003 to 2011, the Brazilian currency was appreciated against the US dollar due to an increase in the trade surplus. Over the first half of 2012, partially due to both reduced commercial surpluses and also to an increased risk aversion profile in international capital markets, the Brazilian currency started a gradual depreciation; nevertheless, this is a very recent event to make any forecast on how the Brazilian currency will perform in the future.

Aiming at attracting foreign capital, Brazil has also adopted a high interest rate policy in order to make the country more attractive to financial investors. However, leveraged by a more robust economic health, recent measures have been adopted in order to increase long term investments relevance, not just focused on the financial market, but mainly on the productive sector. The most evident of those measures put in place in the last few years is a consistent and significant reduction of the interest rates. Although current rates remain within the upper quartile level when compared with other peer economies, this initiative represents a major macroeconomic shift in recent history.

Exchange Controls

Brazil has historically imposed strict controls over cross border currency transactions through a foreign exchange policy that required the registration of transactions and placed controls mainly on transactions involving outflows of funds from the country.

Changes were introduced in early 2005, through the Brazilian Central Bank's normative ruling 3.280/05 ("called RMCCI"),

Foreign Ownership of Business

Generally, few limitations are imposed on the foreign ownership of Brazilian enterprises. Imposed restrictions are intended to limit the control of foreign investment over strategic segments rather than to prohibit it altogether. For example, existing controls limit foreign business ownership in certain sectors such as communications, news media, public utilities and transportation. In recent decades, however, the Brazilian government has chartered the exploitation of certain Brazilian businesses, including telecommunications and electricity companies, to foreign investors as part of a privatization and modernization process.



Foreign Ownership of Real Estate

Foreigners may own buildings in Brazil without restriction. However, limitations are imposed on the acquisition of rural real estate by resident foreigners or by Brazilian companies controlled by resident foreigners. Nonresident foreigners and foreign companies generally are prohibited from the direct acquisition of rural real estate located near national borders.

3.2 Government Attitude and Incentives

Government Attitude to Foreign Investment

The Brazilian government is deploying efforts to improve the economic climate to foreign investment as it seeks to develop a more market-oriented economy. Import barriers have been consistently reduced and many state-owned enterprises have been privatized. However, proposed tax reforms aiming at simplifying current tax system, especially for the national value added tax (VAT) and state taxes (mainly ICMS), have been discussed but are still pending approval.

Government Financial Incentives

Foreign investors that operate through branches or subsidiaries in Brazil generally have access to the same sources of finance that are available to Brazilian companies. However, financial instruments offered by banks and other financial institutions are equally unavailable to individual nonresident investors.

In general incentives are available to promote export production and local production of capital assets, apply to new investments and are offered by State or Municipal governments. Most commonly incentives are related to substantial tax reductions (mainly State VAT, ICMS), utility charges and other expenses.

3.3 Tax System

Companies established in Brazil, as well as branch offices, agencies and representative offices of foreign companies are subject to Brazilian corporate taxation as independent entities. Income derived from foreign subsidiaries and foreign branches of Brazilian companies is also subject to corporate income and social contribution taxes in Brazil.

Corporate Income Tax Rates

Brazilian corporate Income Tax is charged at a 15% rate, with a surtax of 10% applicable to profits exceeding R\$ 240,000 (US\$ 120,000) a year. In addition, Brazil imposes a social contribution tax on corporate profits. The Social Contribution Tax works similarly to Income Tax and it is charged at a 9% rate. Ordinary tax losses may be carried forward with no time limit; however, loss utilization is limited to 30% of taxable income.

Capital gains recognized by Brazilian residents are included as ordinary income and taxed at the standard corporate tax rates. In general, capital losses incurred in a calendar year may offset operating profits derived in that same year. Excess capital losses may be carried forward without a time limit, but they may only be used to offset future capital gains (with a 30% limitation).

Capital gains recognized by non-residents as a result of the disposal of assets located in Brazil (including shares in a Brazilian company) are also subject to taxation in Brazil at a general 15% rate (or 25% for a resident of a low-tax jurisdiction).

Dividends paid out of profits accrued with effect from January 1, 1996 are not subject to withholding tax in Brazil, regardless of whether the beneficiary is a resident or non-resident shareholder. Profits recognized before 1996 are subject either to a 15% or a 25% withholding tax when distributed to non-resident shareholders.



Individual Rates and Expatriate Taxation

Residents of Brazil are taxed on their worldwide income. Nonresidents are taxed on their Brazilian-source income only.

The rates of personal Income Tax are 0.0%, 7.5%, 15.0% and 27.5%. Capital gains are taxable at a rate of 15%. A taxable gain arising from the sale of real estate is reduced for real estate acquired between 1969 and 1988. Special exemptions may apply and should be examined on a case-by-case basis.

As a general rule, non-resident taxpayers are subject to flat tax rates of 15% or 25% on income and a flat rate of 15% on capital gains.

3.4 Financial Reporting and Audit Requirements

Companies and individuals engaged in commercial activities must comply with legal requirements governing the maintenance of accounting records. Official records must be written in Portuguese and amounts must be specified in Brazilian currency (Reais). Other currencies and languages may be used for management purposes.

Companies must prepare annual financial statements, in accordance with Brazilian GAAP, which is aligned with International Financial Reporting Standards, that include a balance sheet, an income statement and a statement of retained earnings, which is generally included in a statement of shareholders' equity. In addition, the financial statements of public limited companies (sociedades anônimas or S.A.s) must include a statement of the source and application of funds and notes to the financial statements. Companies subject to control of the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM)

must have their financial statements audited. Publicly traded companies with investments in subsidiaries must also prepare and publish audited consolidated financial statements in addition to their own financial statements.

These audited statements must be submitted annually to the CVM and, for companies engaged in regulated activities, to other government agencies as well. For example, financial institutions and leasing companies must submit audited statements to the BACEN - Banco Central do Brasil, and insurance companies must submit their statements to the Superintendence of Private Insurance (Superintendência de Seguros Privados or SUSEP). Companies in these sectors must also present semi-annual audited financial statements.

Public limited companies must publish financial statements in the Official Gazette and in at least one well known newspaper. Large private limited companies (with total assets greater than R\$ 240 million or turnover greater than R\$ 300 million) must have their financial statements audited but there is no publishing requirement for these companies.

3.5 Other Matters of Concern to Foreign Investors

The Brazilian tax system is very complex and imposes a variety of taxes charged at the federal, state and municipal levels. Considering the complexity of the system, as well as the ever-changing legislative environment, foreign investors are advised to seek professional tax advice before structuring investments in Brazil.

The Brazilian government is making efforts to reduce the bureaucracy associated with tax obligations to facilitate tax compliance. However, although public administration has improved in recent years, inefficiency and significant bureaucratic procedures are still a reality in Brazil.





Foto: Marina Henriques / Riotur

Business Environment

On top of the Brazil growth cycle, Rio de Janeiro is living a unique moment in its history: from being the first and only state to reach investment grade status in Brazil by all major rating agencies, to the major investments, (up to R\$ 211 billion already announced for the 2012-2014 period) [source: Decisão Rio Report], Rio is the place to be in Brazil's growth cycle. In this section we will present, a high level overview of the Brazil and Rio business environment for investors who might not be familiar with doing Business in Brazil and in Rio.

4.1 Investment and Business Environment

Brazil has historically experienced strong economic growth. In the 1970's, real gross domestic product (GDP) grew by approximately 8% annually. However, due to high inflation, large public sector deficits and the debt crises, annual growth fell to approximately 3% throughout most of the 1980's. Forced to take strong anti-inflationary measures to curb hyperinflation (with rates running at 1,700% in 1989 and 1,600% in 1990) [source: FIPE, 2012], the government carried out eight economic stabilization plans since the 1980's. The most recent of these plans, the Real Plan,

was launched in 1994. It introduced a new currency (the Real) and succeeded on reducing the effective annual inflation rate to 3% to 6%, which has resulted in political and economic stability thereafter. Currently the Brazilian nominal GDP is the 7th largest in the world, according to the IMF, and the largest in Latin America. In 2013, the growth rate was approximately 2.3% with a GDP of approximately US\$ 2.2 trillion.

The achieved stabilization level created excellent conditions for the rapid growth of foreign investment and substantial amounts of new funds have flowed into the country, especially in the last decade when Brazil successfully adopted the floating exchange rate system. According to the Brazilian Central Bank, in 2009, total foreign direct investment in Brazil was US\$ 25.949 billion and US\$ 38 billion is estimated for 2010.

4.2 Economic Trends and Performance

Brazilian population is estimated at around 202 million according to the Brazilian Institute for Geography and Statistics (Instituto Brasileiro de Geografia e Estatística or IBGE) and the annual per capita income in 2013 was estimated at US\$ 11,800. The annual inflation rate was approximately 5.91% in 2013 (IPCA - Consumer Prices National Index) and according to the Central Bank Focus Report it is expected to achieve around 6.39% in 2014. In 2014 (February) foreign debt was US\$ 311,776 billion, which comprised medium and long-term debts of US\$ 279,170 billion and short-term debts of US\$ 32,606 billion.

4.3 Currency

The Brazilian currency, the Real (R\$), was adopted in June 1994 as a measure to curb hyperinflation. The BACEN administrates

foreign exchange transactions. Various mechanisms have been established to hedge movements in foreign currency exchange rates.

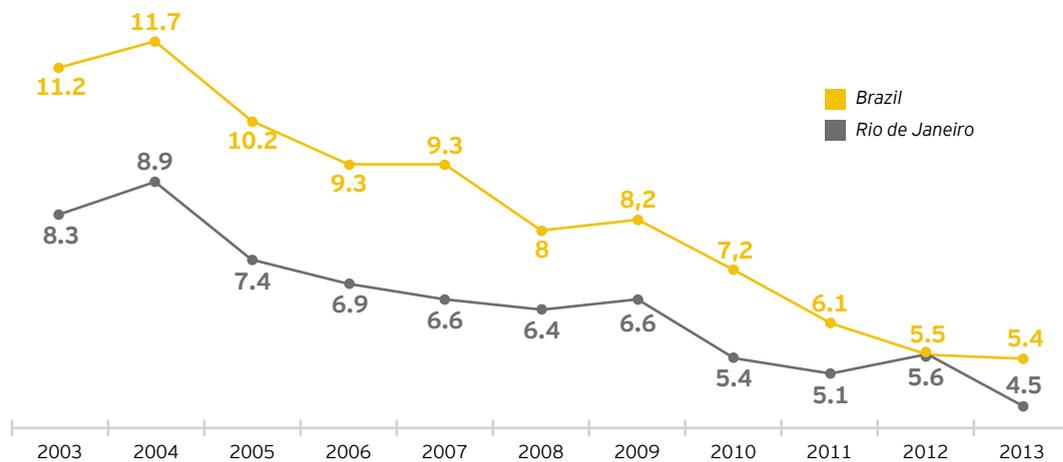
4.4 Workforce Structure

Brazil has a large and dynamic private sector, which is heavily leveraged by foreign investments where, in 2009, the manufacturing

sector accounted for approximately 28% of GDP, the services sector accounted for approximately 65% and agriculture accounted for approximately 7%. This dynamic internal market allowed Brazil to achieve one of the major socioeconomic achievements in the last 3 decades: an unemployment rate of 8.8% according to the last IBGE survey performed in May, 2009.

Unemployment Rate

Source: IBGE



4.5 Relationship of Government and Business

In the four decades preceding the 1990's, government investment played a leading role in financing the country's economic development. Government bodies invested heavily in steel plants, oil exploration, petrochemicals and mining, as well as in infrastructure such as, hydroelectric projects, ports, railways and telecommunications. However, the foreign debt crises in the late 1980's, and the resulting scarcity of public financing, combined with the chronic overall deficit in the public industrial sector, spurred the government to implement a privatization program. Although political pressure

hindered privatization initially, the Federal government took significant steps to break down resistance in the general public perception and at the Brazilian Congress and the privatization program accelerated and became a source of finance for the significant public deficit.

The decision made in the 1990's to privatize state-owned companies was also a key factor in improving Brazilian industry and in triggering significant foreign direct investment. Privatizations focused mainly on steel, petrochemical and certain chemical industries, mining, telecommunications and energy sectors, as well as some of the major state-owned banks. The government privatization agent was the National Bank for Economic

and Social Development (Banco Nacional de Desenvolvimento Econômico e Social or BNDES), that was also responsible for determining the minimum price at which companies were sold for improving national economic development and for strengthening the national business sectors.

Formerly state-owned companies that have been privatized include Companhia Vale do Rio Doce (a mining company), Companhia Siderurgica Nacional and Usiminas (the national steel mills), Rede Ferroviária Federal S.A. (the national railway line), Maferasa (a manufacturer of railroad equipment), regional state banks such as Credireal, Banerj, Banespa, Meridional and Bemge as well as energy companies and utilities including Comgás, Elektro, CPFL, Gerasul, Cerj, Coelba, Coelce, Metropolitana, Enersul and Riogás.

Regulatory Environment

The state in Brazil has traditionally exercised considerable control over private businesses through extensive, and constantly changing regulations, most notably exchange controls, price controls, import barriers, licensing requirements and a complex labor laws. However, the government has been committed to implement economic reforms and has improved his focus on providing a market driven economy development. The government has conducted open discussions and performed objective decisions to optimize the cost of doing business in Brazil (the "Brazil Cost"). Price controls are no longer in place, and import barriers, including import duties, have largely been reduced. On the other hand the government has been working to improve regulation of major industry sectors such as energy, mining, telecommunication and transportation as a second modernization wave following the privatization program in the late 1990's when the Brazilian Federal government established federal regulatory agencies to regulate specific sectors, such as energy (ANEEL) communications (ANATEL)

and petroleum (ANP) aiming at establishing a regulatory framework to boost investment in these sectors.

Since 2002, an amendment to the Federal Constitution has also permitted foreign companies and individuals to invest in Brazilian media entities. Foreign investments must not exceed 30% of an entity's voting capital. The investment must be done through a company duly incorporated under Brazilian law, since the foreign participation may not be directly held by the foreign investor.

Federal government agencies regulate certain industries. The BACEN regulates banking; the SUSEP regulates insurance; and various regulatory agencies supervise the utilities. The CVM regulates all publicly traded companies listed on the Brazilian stock exchanges. Limitations on foreign equity are also imposed in sectors such as banking and insurance.

State-owned companies are managed by the Ministry of the Economy and the Ministry of Planning, and regulated by the government regulatory authorities.

Federal labor law regulates the minimum wage and conditions of employment, including hours and vacations, and the union rights of employees.

The federal, state and municipal governments have their own regulations relating to environmental laws. The Federal government has established as its environmental protection agency, the Brazilian Environment and Natural Resources Institute (Instituto Brasileiro do Meio Ambiente or IBAMA), which is charged with establishing and enforcing anti-pollution standards. Industrial zoning is required in many cities and regions that have actual, or potential, pollution problems, among its other responsibilities.

The Brazilian Code of Consumer Protection (CDC) is, in the Brazilian legal system, a set of rules aimed to protecting consumer

rights, as well as to discipline relationships and responsibilities between the supplier (manufacturer of the product or service) and the consumer, setting standards of conduct, deadlines and penalties).

4.6 Financial Sector

Banking System

The National Monetary Council (Conselho Monetário Nacional or CMN), responsible for formulating monetary and credit policies comprises representatives from both government and private sector. CMN is the highest deliberative body of the National Financial System. CMN shall: establish the general guidelines of the monetary, exchange and credit regulate the conditions of formation, operation and supervision of financial institutions and disciplinary instruments of monetary policy and exchange rate.

The Central Bank of Brazil (Banco Central do Brasil or BACEN) administers monetary policy through the following mechanisms:

- ▶ Establishing reserve requirements (compulsory deposits) for the commercial banking system;
- ▶ Purchasing or selling government securities;
- ▶ Determining the BACEN rediscount rate on loans to banks;
- ▶ Setting the primary interest rates for the economy;
- ▶ Establishing controls and exert oversight of the financial system.

The Brazilian banking system comprises commercial and investment banks, multiple banks (i.e. banks that provide both commercial and investment banking services, consumer financing and other services, such as fund management and real estate financing), savings and loan institutions and leasing activities. Some major banks are still state-owned

institutions, while the biggest share of the market is privately owned.

Working under an inefficient operating framework, the banking system faced major difficulties to cope with a new profitability reality after the implementation of the Real Plan in 1994. In order to ensure the system integrity while promoting structural adjustments, the Federal government established a series of public lending mechanisms to assist private banks to acquire other institutions experiencing financial difficulties, (named "PROER" plan) what leveraged Brazil to become one of the most developed and robust financial market with strong foundations to absorb financial turmoil, as it was verified on the 2008 global credit and banking crisis.

Not only because PROER but also because as a consequence of years of hyperinflation at the 1980's and beginning of 1990's, the Brazilian banking system had to developed a sophisticated and highly automated structure, today it is recognized as a very sophisticated, profitable and efficient industry, which was able to extend its reach to all Brazil's major and small cities, towns and even very remote areas such as the Amazon inner villages.

Approximately 156 banks [source: Febraban bank association] and their 18,308 branches [source: IPEA 2007] are the primary sources of short-term credit (i.e. credit to be paid within a 180 days period). However, the availability of long-term financing is hindered by the relatively low level of domestic savings and still higher interest rates compared with more mature markets. Long term loans are granted by the following entities:

- ▶ Government financial entities;
- ▶ Foreign private banks, in foreign currency equivalents;
- ▶ Local Brazilian banks, in local currency and;
- ▶ Multinationals to their subsidiaries.

Under Brazilian legislation¹, cross border leasing is permitted, however foreign loans are subject to registration with the BACEN.

With more than 5,000 branches and total assets of US\$ 362,628 billion, Banco do Brasil is the largest state-owned commercial bank as of 2010 [source: America Economia]. The bank sometimes co-directs monetary and credit policy with the BACEN. The two largest private commercial banks in 2010: Itaú/Unibanco, has more than 4,900 branches and total assets of approximately US\$ 352,920 billion, and Bradesco with 5,900 branches accounts for assets of US\$ 313,189 billion. Due to privatization, most Brazilian states no longer control commercial banks, but they do control certain development banks.

Foreign banks operate in Brazil either through branches or through minority investments in local banks. They generally enjoy the same rights, and are governed by the same regulatory frameworks as domestic banks. The operation of banks and other entities in the financial services industry is highly regulated by BACEN.

Some foreign banks have acquired Brazilian commercial banks and increased their positions in the local financial market. These acquisitions increased the participation of international banks in Brazil banks' assets from 5.67% in 1996 to 25.79% in 2001 (according to the Brazilian Central Bank website). The most important acquisitions of Brazilian banks were the purchase of Banco Real by ABN/AMRO Bank from the Netherlands, Banespa and Bozano/Meridional by Santander from Spain and Bamerindus by HSBC from the United Kingdom.

Considering total assets, the three biggest private commercial banks in Brazil are Itaú/Unibanco with assets of US\$ 300 billion; Bradesco with assets of US\$ 240 billion and Santander with assets of US\$ 150 billion as of 2009.

Securities Markets

Until 2003, initial public offerings (IPOs) were not a very familiar source of corporate finance in the Brazilian business community. However, in recent years, Brazil has seen a significant increase in IPOs, both in the volume of transactions and in the amounts involved. In terms of the volume of deals, Brazil has consistently led the region in this regard, with 26 IPOs implemented in 2006 and 64 in 2007 [source: EY]. Nevertheless, 2008/2009 financial crisis and reduced availability of capital led to a strong reduction of IPO volumes, resulting in only 6 in 2009 [source BM&FBovespa] and 11 in 2010, volume also repeated in 2011 [source: EY].

Most of the shares traded in Brazil are preferred shares that do not carry voting powers. The stock exchange is generally fairly volatile. Although companies' shares registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM) are traded at nine regional stock exchanges, approximately 97% of transactions are carried out at the São Paulo and Rio exchanges, which have their own listing requirements (the Rio de Janeiro stock exchange is currently used only for special negotiations, therefore, most transactions are carried out on the São Paulo stock exchange). In the past few years, trading volume has risen substantially because of the increased activity of large institutional investors such as pension funds, insurance companies and mutual funds. In addition, the government allows foreign investment funds to operate in Brazil, by registering in the CVM and BACEN and the Brazilian tax law offers favorable treatment for foreign investment in securities listed on the stock exchange.

The stock markets also trade stock futures and options commodity contracts. Companies increasingly obtain funds through the issuance of bonds, which must be registered with the CVM.

1 • Circular 3,027/01

Commodities Exchanges

Brazil has commodities exchanges where futures and options commodity contracts such as metals, grains and currencies are traded. The following four types of futures markets operate in Brazil:

- ▶ Futures (“Mercado Futuro”) - parties commits for physical or financial settlement at a future date. The cornerstone of the futures market is the system of administering contract value positions, which translate into daily gains or losses, and margin guarantees.
- ▶ Spot Options (“Mercado de Opções”) - one party acquires from the other the right to purchase or sell the commodity being traded, up to or on a specific date, at a pre-set price.
- ▶ Forwards (“Mercado a Termo”) - the parties commit to buy or sell for future settlement. No daily adjustment or exchange of the position is possible on the forward market because it is based on the future options market. The parties remain bound to each other until the settlement of the contract.
- ▶ Swaps (“Mercado de Swaps”) - a financial strategy whereby the two parties agree to exchange future payment flows, with no exchange of the principal. In practice, settlement is handled through payment of the amount corresponding to the difference between the agreed basic referential prices. These operations may be carried out at stock exchanges or directly between financial institutions.

4.7 Essential Industries

Every major industry is represented in the Brazilian economy. Brazilian main industries consist of: production of aluminum, cement, fuel, machinery, paper, plastics and steel; the consumer and food industries, consisting of: manufacturing cleaning supplies, food production and hygiene, medicine and textile manufacturing; and the durable goods industry, consisting of: manufacturing domestic appliances and vehicles. Financial services represent the principal

service industry. Brazil is also a major world producer of various agricultural products such as banana, coffee, corn, orange juice concentrate, rice, soybeans, alcohol and sugarcane.

4.8 Energy and Natural Resources

Brazil is one of the leading producers of hydroelectric power. Brazil's Itaipu Dam is the second largest hydroelectric power plants in the world and a major energy supplier to supply the about 92 terawatts hour, according to Itaipu Binacional website.

Oil production is slightly 2 million barrels per day, accounting for a very high percentage, but not the total of domestic demand. In 2009 Brazil was considered as the 4th largest oil producer on a worldwide basis, with the new pre-salt reserves (PFC Energy - anuary/2010). Brazil has also developed fuel (alcohol) derived from sugarcane, which serves as a fuel for transportation.

Brazil is one of the world's largest producers and exporters of iron ore. Other principal mining industries include bauxite, copper, gold, lead, manganese, nickel and zinc.

4.9 Foreign Trade

Trade Balance

In recent years, Brazil has had a trade surplus as a result of several factors including the devaluation of the Real and high foreign demand for many of its products. The Brazilian Trade Balance in 2013 consisted of exports of US\$ 242,178 billion while imports reached US\$ 239,617 billion, resulting in a trade surplus of US\$ 2,561 billion for the year [source: Ministry of Development, Industry and Foreign Trade, 2013].

In order to boost exports and balance foreign trade, the BNDES provides financing through special low interest rates for Brazilian exporting

companies aiming at improving their ability to compete in the international market.

Exports and Imports

In 2011, top exported items were iron minerals and extracts, passenger vehicles, crude petroleum, frozen chicken, aircraft, soy, bran and residues of soy as well as other industrial goods. Brazil's principal imports were crude petroleum oil, electric engines and parts, automotive and tractor equipment, drugs for human and veterinary medicine, chemical and electronic components.

Trading Partners

The main Brazilian trading partners are the United States, Argentina and other Latin American countries, the members of the European Union (EU), Japan, Saudi Arabia, South Korea and China.

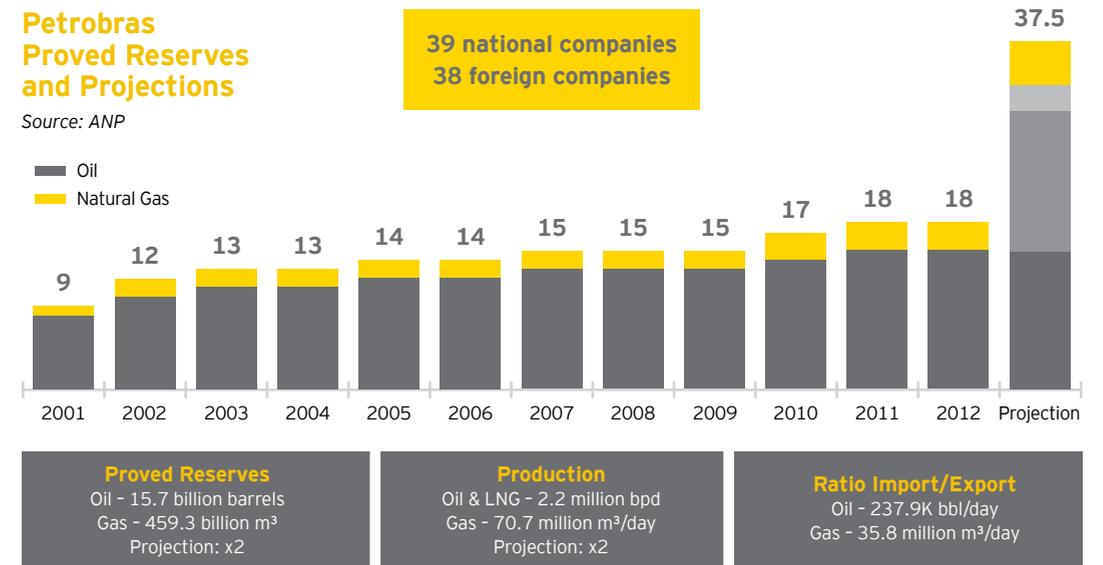
Regional and International Trading Associations

After decades of seeking to integrate their markets through trade liberalization, Brazil,

Argentina, Paraguay and Uruguay formed the common market of the South America called Mercosul. Mercosul represents a market of more than 250 million potential consumers and a combined GDP of approximately US\$ 4,113.8 billion [source: IMF]. Mercosul potentially offers many opportunities to entrepreneurs and international investors alike. It currently provides a common external import tax rate for imports from non-member countries, while imports from trade members are generally tax exempt. Mercosul also allows free pass of goods and people among member countries.

In addition to Mercosul, Brazil belongs to the Latin American Integration Association (LAIA, Associação Latino-Americana de Integração). LAIA provides reduced duties and other benefits to member countries which are Argentina, Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Brazil is also a member of the World Trade Organization (WTO) and has trade agreements with various other countries.





Foreign Investment

As companies plan to invest in Brazil and Rio, it is very important that they understand all legal and tax requirements involved in such operations. Within this section we intend to highlight some of these regulations.

5.1 Exchange Controls

Despite the intention to make regulations more flexible, the Brazilian Central Bank still imposes strict controls over cross border currency transactions. This is a significant issue for foreign and domestic investors that seek to invest abroad or in Brazil. In principle, prior approval from the Brazilian Central Bank is not an issue to the extent that the transactions are supported by appropriate documentation, however the intention is to make procedures less bureaucratic and stimulate the inflow and outflow of funds to and from Brazil.

In practice, the control over inbound and outbound transactions has been passed to

Brazilian private banks that are responsible for ensuring compliance with the Brazilian foreign exchange rules. In general, foreign investments are still subject to controls requiring their registration with the Brazilian Central Bank electronic system (called RDE-IED/SISBACEN) while remittances of funds out of the country must be made using specific routes or codes, regulated by Brazilian Central Bank through International Capital and Foreign Exchange Market Regulation (RMCCI).

Failure to comply with the foreign exchange regulations and associated requirements is still subject to significant penalties - this is especially true in the case of evasion, making false statements and for private offsetting transactions.

Remittance of Dividends and Profits

No restrictions are imposed on the amount of dividends distributed to shareholders domiciled abroad, provided the foreign investment is properly registered with the Brazilian Central Bank. However, foreign shareholders are not able to receive dividends related to unpaid capital. In order to distribute dividends it is required to have profits on the period of the relevant distribution.

A corporation (S.A.) is required to allocate 5% of its annual net income to a reserve (reserva legal) before distribution to shareholders. This annual allocation is required until the reserve equals 20% of total capital. It is under discussion if this requirement applies to limited liability companies (LTDA).

Dividends paid out of profits generated on or after January 1, 1996 are not subject to withholding tax. Dividends paid out of profits generated on or before December 31, 1995 are subject to withholding tax at a rate of 15% or 25%, unless otherwise provided by an applicable tax treaty.

Remittance of Interest

No restrictions apply to interest paid to a foreign lender (related or unrelated) as long as the loan contract is entered into under market conditions and it is properly registered with BACEN.

Interest paid or credited for loan agreements signed with related parties abroad and not registered with BACEN must comply with Brazilian transfer pricing rules.

Regarding deductibility of interest expenses, please note the following: On 16 December 2009, the Brazilian government enacted Provisory Measure 472 (MP 472, later converted into Law 12,249 on 11 June 2010), which introduced significant changes to Brazilian income tax rules, including thin cap rules.

Prior to MP 472, interest expenses arising from intercompany borrowing were deductible as long as they were compliant with the general rules governing deductions of expenses (i.e. necessary and ordinary for the business).

With the introduction of MP 472, regardless of whether intercompany loans are compliant with the general rules governing the deduction of expenses and transfer pricing rules, interest expenses arising from any financing arrangement executed with a related party are only deductible if the related Brazilian borrower does not have a debt to equity ratio greater than 2:1, any excess therefore will not be deductible for income tax purposes. Moreover, thin cap rules also sets up back-to-back provisions whereby if the guarantor of a third-party financing is related to the Brazilian company, the thin cap rules will also apply.

Additionally, any interest expense deriving from a financing arrangement executed with a contracting party established in a low-tax jurisdiction (LTJ) or benefiting from a privileged tax regime (PTR), whether related or

not to the Brazilian borrower, will only be deductible if the debt to equity ratio of the Brazilian borrower does not exceed 0.3:1, and the back-to-back rule described above also applies here.

Remittance of Royalties and Fees

Royalty payments are allowed and deductible provided the underlying intangible is duly registered in both the country of origin and in Brazil. Remittances of royalties abroad for trademarks, patents and technical assistance that involve the transfer of know-how are subject to prior registration with and approval from the Brazilian Industrial Property Agency (Instituto Nacional de Propriedade Industrial or INPI). They must be also registered with the BACEN.

The deduction of royalty expenses is generally limited to an amount between 1% and 5% of the net receipts derived from the product manufactured or sold (excluding software and similar copyrights). The same limitation may also be imposed on the amount of the royalty that may be effectively remitted abroad.

The payment of royalties and technical assistance fees is generally subject to 15% withholding tax (or 25% of payments made to a low-tax jurisdictions) and a 10% special contribution called CIDE. CIDE is charged on royalty payments including fees for technical assistance and technical services and it is imposed on the Brazilian company. A CIDE credit system is available for trademark payments only.

Remittances to individuals or companies resident in a low-tax jurisdiction or under a privileged tax regime

In addition to the insertion of the thin capitalization rules described above, Law

12,249 also introduced a general cross-border remittance rule regulating the deductibility of expenses related to any remittances made to entities resident in a LTJ or benefit from a PTR. Based on such, any payment made, direct or indirectly, to an individual or company resident in a low-tax jurisdiction or under a PTR is not deductible for income tax purposes, unless the following requirements are met: proper identification of the beneficial owner of the entity abroad with regard to the income on such remittances, evidence of the operating capacity of the recipient to perform the transaction and supporting documentation regarding the price paid for rights, goods and services.

Further, it also establishes that the term beneficial owner refers to the individuals or entities not created for the sole or main purpose of saving taxes, and which earn the income on their own account and not as an agent or on behalf of a third party.

Repatriation of Capital

The repatriation of share capital is not generally restricted if the investor registers the original investment and any capital increases or capitalized earnings with the BACEN. Generally, repatriation is accomplished after the sale of the shares to a local resident, by a capital reduction or liquidation of the company. Commercial law contains specific rules on share redemptions and on companies re-acquiring their own shares.

Capital is most commonly repatriated through the sale or redemption of shares. Any capital gain recognized as the result of a sale transaction is subject to withholding tax in Brazil at a general 15% rate (25% if the seller is located in a low-tax jurisdiction) unless otherwise provided by the tax treaties signed with Brazil. Capital gains are generally computed as the positive difference between the sales price and the cost of acquisition of the investment. If the seller is a non-resident entity,

some controversy exists as to whether the cost basis should be the original investment in foreign currency (as registered with the Brazilian Central Bank) or the original investment in local currency plus inflationary adjustments (up to 1995). In practice, the election for one or the other method results in different amounts of capital gain.

Share capital may be also repatriated through a capital reduction, which may also trigger withholding tax provided certain conditions are met. If a Brazilian company has accumulated losses, it may be required to first offset such losses before implementing the capital reduction. A limited liability company must observe, a 90 day waiting period before implementing a capital reduction to allow creditors the opportunity to approve the reduction. For a corporation, the waiting period is 60 days.

Liquidations are audited by tax authorities and they may take a long time to be finalized. They are taxed similarly to a sale of shares. Repatriated funds in excess of the amount of foreign capital registered with the BACEN are subject to a 15% withholding tax (or 25% if paid to a low-tax jurisdiction).

Foreign Currency Accounts

Brazilian resident individuals/companies are permitted to maintain bank accounts denominated in foreign currency. However, the funds must be declared on an individual's personal income tax return and on a special report for BACEN (under certain conditions).

Patrimony

Individuals are allowed to remit money out of the country.

Salaries and Wages

Brazilian companies are authorized to remit salaries and wages captured and taxed

via local payroll to a foreign bank account held by the employee. Such a possibility was used to be limited only to engineering companies and is now authorized to all industries.

Share Plans

Individuals and legal entities are allowed to remit funds abroad to enable local employees to participate in Corporate Share Plans sponsored by the parent company. These remittances should be supported by documentation associated with the plans. It is important to note the local agent closing the foreign exchange transaction may require as many additional documents as they understand necessary to support the remittances.

Structure of Business Entities

Laws governing the organization of business entities in Brazil are the same for Brazilian residents and for foreigners.

5.2 Restrictions on Foreign Investment

In general, Brazil does not restrict foreign ownership of domestic enterprises. However, foreign individuals and companies are not permitted to control investments in certain sectors, including the news media, where participation of foreign investors is allowed only up to the limit of 30% of a company's capital. Other sectors, such as transportation, are subject to specific operational restrictions. In addition, exploration of atomic energy projects is restricted, due to national concerns, to entities controlled by Brazilian citizens.

Non-resident individuals and companies incorporated abroad are not permitted to directly acquire rural real estate located near the Brazilian borders. The direct acquisition of rural real estate by resident foreigners and locally incorporated companies controlled by

non-resident foreigners may also be restricted. No restrictions are imposed on foreign ownership of urban real estate.

5.3 Taxpayer Identification Numbers for Foreign Entities

The Brazilian Federal Revenue Service has introduced a requirement that certain foreign entities must obtain a taxpayer identification number in order to carry out any of the following activities: owning real estate; owning a vehicle, vessel or airplane; holding an interest in a Brazilian company; holding a bank account; holding investments in the Brazilian financial market or the Brazilian capital market; executing a leasing operation or leasing or renting of equipment or chartering a vessel; importing assets without exchange cover for capitalization in a Brazilian company; and investing funds in Brazil.

Foreign resident entities that are required to obtain a Federal Taxpayer identification number (called CNPJ) must appoint a local resident attorney for this purpose. The mandate should also include powers to manage or otherwise administer the foreign entity's assets in Brazil. Furthermore, copies of the foreign entity's bylaws or articles of incorporation or equivalent, notarized and certified at the consulate, must be filed with the Federal Revenue Service at the same time.

Recent regulations do not stipulate a monetary penalty for failure to obtain a taxpayer identification number. However, a foreign entity that does not comply with this requirement could be subject to administrative penalties, including denial of approval of its corporate documentation (filed with the State Board of Registration of Companies or the Central Bank of Brazil). In practice, this type of sanction could

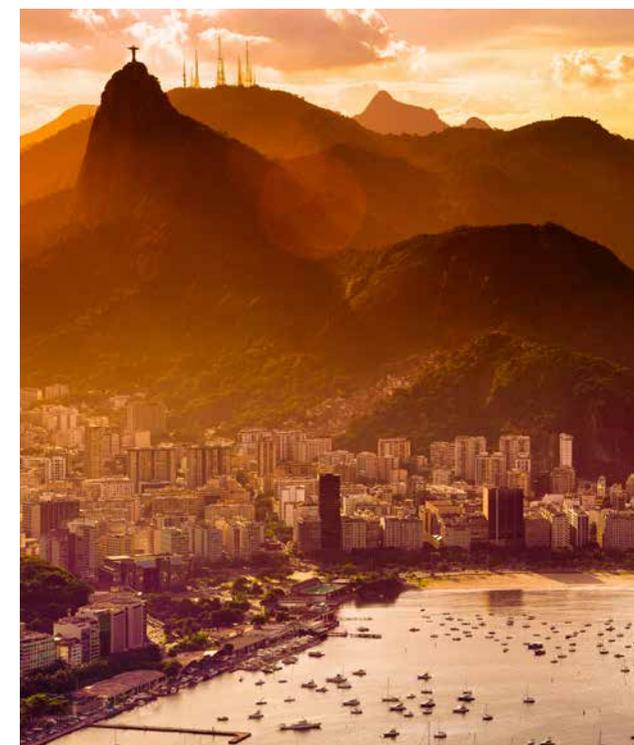
lead to other difficulties such as the inability to repatriate earnings, participate in public bids, or create or liquidate entities in Brazil.

5.4 Investment Incentives

Over the last fifteen years, the Federal government has increased foreign investment and export incentives. State and municipal governments also continue to provide tax and other incentives for investments in their regions. The two large upcoming sporting events – the 2014 FIFA World Cup and the 2016 Olympics – have led to a significant increase in the number of tax incentives available at federal, state and local levels. Incentives include deferment or reduction of the state based value-added tax (ICMS), free land or free building leases, and exemption from municipal service tax (ISS).

In addition to the regional or industry-specific incentives described above, legal entities may reduce their income tax due if they qualify for the Workers Nourishment Program (Programa de Alimentação do Trabalhador or PAT), a program aimed at enhancing the nutrition of employees. The combined maximum amount that may be deducted from the corporate income tax related to the PAT is 4% of the income tax due.

Legal entities may also reduce income tax by investing in cultural or artistic projects approved by the National Committee of Culture Development (CNIC), or by investing in the film industry (this incentive has specific requirements and is only valid until the end of 2016). The combined maximum amount that may be deducted from the corporate income tax related to these incentives is 4% of the income tax due. Legal entities investing in sporting projects approved by the Ministry of Sports may deduct 1% of the income tax due.



5.5 Specific Tax Incentives

Research & Development (R&D)

Companies that invest in technological innovation are entitled to this R&D federal tax incentive. The definition of technological innovation is “the design of a new product or manufacturing process, as well as new functionalities or characteristics added to products or to processes, which results in incremental improvements and an actual gain in quality or productivity, thus leading to increased market competitiveness.”

Based on the qualifying conditions, the application of this tax incentive is associated with the design of new manufacturing processes or products or with new functionalities or characteristics being added to existing processes or products.

In summary, the tax incentives offered include:

- ▶ Deduction for purposes of CIT of 60% to 100% of the total expenditures made during the computation period in connection with R&D of technological innovation, which are classified as operating expenses pursuant to Brazilian legislation, in addition to the regular deduction of these operating expenses.
- ▶ Accelerated depreciation by deduction, in the acquisition year, of the total cost of machinery, equipment, devices and instruments used in activities regarding R&D of technological innovation.
- ▶ Accelerated amortization by deduction (only for CIT purposes), in the tax year in which they are incurred, of the expenditures classified as deferred assets relating to the acquisition of intangible assets associated exclusively with R&D or technological innovation activities.
- ▶ Reduction to zero of the WHT rate applicable to foreign remittances for purposes of registration and retention of trademarks, patents and cultivars (variety of cultivated plants).

- ▶ Reduction by 50% of federal VAT (IPI) levied on equipment, machinery, devices and instruments, as well as on their related spare accessories and accompanying tools that were intended for use in R&D technological activities.

No prior approval is necessary to take advantage of this tax incentive. However, the taxpayer is required to provide information to the Science and Technology Ministry (Ministério da Ciência e Tecnologia) on its technological research programs by 31 July of each subsequent year and must have a regular status, in both semesters of the year, regarding its federal tax liabilities. Under Brazilian tax legislation, all documentation related to the use of these incentives must be available for tax inspectors during the open period under the statute of limitation.

REPES and RECAP - Tax Incentives on Exports

The Special Tax Regime for Technology Information Services Export (Regime Especial

de Tributação para a Plataforma de Exportação de Serviços de Tecnologia da Informação or REPES) benefits Brazilian legal entities engaged in the development of software and in supplying information technology services if they have equal or higher than 50% of their annual gross sales income derived from exports.

The tax benefits associated with the REPES comprise the suspension of PIS and COFINS charged on imports of goods and services destined for the development of software and technology information services, provided the import is directly made by the beneficiary of the REPES. The suspension is converted to zero-rate tax after three years from the date of the import transaction. REPES also grants PIS and COFINS suspension on local sales of goods to be incorporated in the fixed asset of companies benefited from REPES.

Besides, REPES grants IPI suspension on the importation of certain goods listed in the law, which will be incorporated in the fixed asset of the beneficiary of the REPES. The suspension is converted to exemption after three years from the date of the import transaction.

Another special tax regime for Brazilian exporters is the Special Regime for the Acquisition of Capital Goods by Export Companies (Regime Especial de Aquisição de Bens de Capital para Empresas Exportadoras or RECAP). To benefit from the RECAP, a company must have recognized gross revenue derived from exports in the prior year equal to or higher than 50% of its total annual gross income and it must maintain a minimum of 50% export revenue for the following two calendar years (or the following three years, if the company does not comply with the first requirement).

RECAP applies to certain equipment, instruments and machinery imported directly by the RECAP beneficiary to be incorporated as fixed assets. Under RECAP, PIS and

COFINS taxes triggered on the import are suspended and converted into a zero tax rate upon compliance with the requirements of the scheme. The regime also provides for the suspension of PIS and COFINS on local acquisitions made by the beneficiary of the RECAP.

The RECAP does not apply to Brazilian companies subject to the PIS and COFINS under the cumulative regime.

In addition to the conditions outlined above, to benefit from both REPES and RECAP, a Brazilian legal entity must not have any outstanding debts with the Brazilian Federal Revenue Service.

The benefits are cancelled if the legal entity does not comply with the minimum export revenue of 50%; if the beneficiary does not comply with the requirements for REPES and/or RECAP; or at the beneficiary's request. A legal entity excluded from REPES or RECAP must pay interest and penalties on the taxes suspended, calculated from the date of acquisition of the imported products and services or the registration of the import transaction with the electronic Customs system (SISCOMEX).

REPETRO - Tax Incentives for the Oil and Gas Sector

REPETRO (Regime Aduaneiro Especial de Exportação e Importação de Bens Destinados às Atividades de Pesquisa e de Lavra das Jazidas de Petróleo e de Gás Natural) is a Brazilian special customs regime, which applies to the importation and exportation of equipment and other qualifying assets and products for the oil and gas industry. It allows the exportation of goods without the physical exit of the Brazilian Territory with subsequent importation into Brazil through the temporary admission regime. REPETRO also allows the importation of raw material to be used in the industrialization process with import duty, PIS, COFINS and IPI suspension through the



drawback suspension special customs regime. REPETRO also grants import duty, PIS, COFINS and IPI suspension upon importation of finished goods under the temporary admission regime.

Notwithstanding, please observe that REPETRO is not applicable to the importation of goods originated from abroad under a leasing agreement with a foreign entity.

This regime is applicable to companies that hold an authorization or concession to exploit oil and gas in Brazil and to its subcontractors. The importation process under REPETRO is complex and attracts specific requirements, such as an electronic inventory control online with the tax authorities. ICMS tax consequences of REPETRO are defined by Convênio ICMS 130, which an agreement signed by Brazilian states through which they may authorize taxpayers to elect to import equipment and qualifying assets used for the production of oil and gas under a cumulative or a non-cumulative ICMS regime, at rates of 3.0% and 7.5%, respectively.

The Brazilian states may also exempt, or reduce to 1.5%; the cumulative ICMS on the temporary admission of equipment and other Repetro-qualifying assets used for the exploration of oil and gas fields, and may either exempt from ICMS or apply non-cumulative and cumulative regimes at the rates of 7.5% and 3.0%, respectively.

In addition, the Brazilian states may exempt from taxation locally manufactured equipment and Repetro-qualifying assets used for the exploration of oil and gas fields, or used for the production of oil and gas, as long as they are fictitiously exported and are subsequently temporarily imported under the REPETRO rules. ICMS credits for the exporter in these cases are not allowed.

Finally, ICMS exemption may apply to:

(I) ► Equipment and Repetro-qualifying assets exclusively used in exploration activities.

(II) ► Production platforms in transit for repair or maintenance.

(III) ► Equipment and Repetro-qualifying assets used in exploration and production activities that remain in Brazil for less than 24 months.

Instead of granting ICMS tax exemption, States may opt to tax equipment and Repetro-qualifying assets within (i) and (iii) above at the cumulative rate of 1.5%.

Taxpayers must formally opt for taxation under the Convênio ICMS 130 regime. The State of Rio de Janeiro has already ruled the application of such rules within the state, but as of the current date, not all Brazilian states have regulated this matter.

REIDI - Special Regime for Investments in the Infrastructure Sector

REIDI (Regime Especial de Incentivos para o Desenvolvimento da Infra-Estrutura) is a special regime aimed to foster the investments in the infrastructure sector by private entities, specifically by companies interested in investing in the transport, port facilities, energy, sanitary and irrigation sectors. In order to be able to be granted by REIDI, the company shall apply before the appropriate Ministry within the Federal Government.

REIDI benefits mainly constitute the suspension of PIS and COFINS charged on local acquisition and importation of new machinery, tools and equipments to be used in or integrated to infrastructure investments destined to be incorporated in the fixed asset of the beneficiary. Furthermore, the material used in the construction of infrastructure is granted with the suspension of PIS and COFINS under the REIDI regime. Upon the use or incorporation of such goods to the infrastructure investments the suspension of the PIS and COFINS social contributions will be converted into zero rates.

Moreover, REIDI benefits will be valid by a period of five years, counted as from the approval of the infrastructure project by the competent tax authorities.

REPORTO - Special Regime for Investments in the Port Facilities

REPORTO (Regime Tributário para Incentivo à Modernização e à Ampliação da Estrutura Portuária) is a special regime aimed to foster investments in the modernization and enlargement of Port Facilities by port operators, port concessionaries, public use port lessees, companies authorized to operate port facilities of private and public use and dredging companies.

REPORTO regime grants the suspension of the Import Duty, IPI, PIS and COFINS upon the acquisition of certain machinery, equipment and spare parts, among other goods, destined to be incorporated to the fixed asset for use in port facilities operation. The Import Duty is only suspended when there is no similar substitute to the imported available in Brazil. The IPI and Import Duty suspension is converted into an exemption five years after the purchase of goods. The suspended PIS and COFINS are converted in zero rates five years after the purchase of goods.

In addition, REPORTO benefits regime was extended to certain goods to be used in the execution of transport of merchandises through railways, in which case the beneficiary will be the railway transportation concessionary.

Other Special Benefits for Exporting Companies

Companies that have at least 50% of its revenues originated from exportations qualify for the incentives granted to "preponderantly exporter companies". Preponderantly exporter companies are granted with the suspension of IPI, and to the contributions to PIS and

COFINS, upon the importation of raw material, intermediate products and packing materials. In addition, producers of certain goods defined in Law (i.e. leather wallets, shoes and harvesting equipment) may obtain the same benefits as per the obtainment of 60% of its revenues originated from exportations.

Special tax regime for construction, expansion, renovation or modernization of soccer stadiums

The Special Tax Regime for Construction, Expansion, Reform and Modernization of Soccer Stadiums (Regime Especial de Tributação para Construção, Ampliação, Reforma ou Modernização de Estádios de Futebol, or RECOPA) grants tax benefits for projects approved by the Ministry of Sports, on or before 31 December 2012, for the construction, expansion, renovation or modernization of stadiums to be used in the 2013 FIFA Confederations Cup and in the 2014 FIFA World Cup official matches.

Tax benefits consist of the suspension of IPI, PIS and COFINS levied on the local acquisition, by the RECOPA beneficiary, of machinery, devices, instruments, new equipment and construction materials to be applied or incorporated into the soccer stadiums hosting FIFA competitions matches. For those items that are produced in Brazil, when imported by the RECOPA beneficiary, may benefit from suspension of IPI, PIS-Import and COFINS-Import. Local services may also benefit from the suspension of PIS and COFINS, while imported services may benefit from PIS-Import and COFINS-Import.

The tax benefits apply to projects approved on or before 31 December 2012 and may suspend the taxes mentioned above with respect to acquisitions and importations carried out over 21 December 2010 and 30 June 2014 time period, as from the qualification date (as beneficiary or co-beneficiary).

It is considered a RECOPA beneficiary the entity holding an approved project, while co-beneficiaries are those entities hired by such beneficiary entity to execute the civil construction work and the assembly of industrial installations, including the supply of goods. Brazilian states have also signed an ICMS Agreement (Convênio 108/2008) allowing them to grant ICMS exemption for transactions relating to the acquisition of supplies for the construction, extension, renovation or upgrading of stadiums to be used in the 2014 FIFA World Cup.

The State of Rio de Janeiro enacted a Resolution incorporating the benefits allowed by Convênio 108/2008 to its internal legislation, by which it grants ICMS exemption to the internal and interstate output of goods and assets destined to the construction, extension, renovation or upgrading of stadiums to be used in the 2014 FIFA World Cup, provided that the transaction benefits from an exemption or a reduction of the applicable rate to zero, for either II or IPI, as well as being discharged from PIS and COFINS.

The ICMS exemption also applies to the importation of goods and assets for the construction, extension, renovation or upgrading of stadiums to be used in the 2014 FIFA World Cup, when the imported product has no similar in the local market.

Tax benefits relating to the 2013 FIFA Confederations Cup and with the 2014 FIFA World Cup

Federal taxes ► As required by FIFA from all hosting countries, Brazil has granted certain tax benefits for the elimination or reduction of the tax burden associated with various activities required for the realization of such sporting events from 1 January 2011 through 31 December 2015.

In that context, the importation of products to be used or consumed in the organization or for the realization of such sporting events,

such as food, medical supplies, fuel, trophies, medals, marketing material and folders, amongst other non-durable items (with a maximum lifetime of one year), not only by FIFA itself, its subsidiary incorporated in Brazil and by entities associated with it, but also by its service providers (nominated as such by FIFA and listed as beneficiaries by specific rulings to be enacted by the Brazilian tax authorities) shall be exempt from federal taxes (II, IPI, PIS-Import and Cofins-Import, AFRMM, and certain other customs charges) otherwise levied upon customs clearance.

Fixed assets and equipment, such as sporting, technical, medical and other equipment, may be imported under the Special Customs Regime of Temporary Admission, which grants temporary suspension of the same federal taxes otherwise levied upon importation. After the end of the competition, such imported goods shall be exported or donated to public-interest entities no later than 28 June 2016 in order to convert the suspension into tax exemption.

The acquisition of products directly from local manufacturers (apart from equipment and other durable products) by FIFA, its Brazilian subsidiary and other related entities, as well as by its official broadcaster, shall also be exempt from the IPI and suspension of PIS and COFINS. Equipment and other durable products can be purchased with suspension of the IPI, PIS and COFINS. In all hypotheses, the suspended taxation shall be converted into exemption upon consumption of consumable products or upon exportation or donation to public-interest entities of equipment and other durable products. The incorporation of a temporary basis of business in Brazil for the specific purpose of organizing and realizing such sporting events shall not be considered to characterize a permanent establishment for any of the following entities: FIFA (or its Brazilian subsidiary), FIFA confederations, foreign associations that are members of FIFA, FIFA's official broadcaster, FIFA's service



providers and by FIFA's commercial partners, which shall be exempt from corporate income taxes (CIT and SCT) on any income generated by those activities, as well as from WHT, IOF, PIS-Import and COFINS-Import and CIDE. A formal request for the qualification as temporary basis of business is required and shall be conditioned to the appointment of a representative domiciled in Brazil and to obtaining a taxpayer identification number (CNPJ) as well.

State taxes ► Brazilian states have also signed an ICMS Agreement (Convênio 39/2009, later revoked by Convênio 142/2011, which is currently in force, and whose wording was amended by Convênio 32/2012) granting ICMS exemption and suspension for operations related to the 2013 FIFA Confederations Cup and 2014 FIFA World Cup, for transactions carried out from 1 January 2012 through 31 December 2015.

Under the terms of the agreement, ICMS tax benefits shall only apply to transactions carried out by entities accredited by FIFA (and listed in a

proper act to be issued by the state authorities), and by State and Municipal Governmental entities (of the locations that will host such soccer matches and the training centers for the participating soccer teams) and that have been subject to exemption or suspension of at least one of the following federal taxes (II, IPI, PIS, COFINS, PIS-Import, COFINS-Import).

ICMS tax benefits may include:

- The exemption of ICMS on the importation of durable products (those with a minimum lifetime of one year and with a maximum cost of R\$ 5,000) and goods for the exclusive use or consumption in the organization and realization of FIFA sporting events;
- The suspension of ICMS due upon importation of durable products and equipment (with a minimum cost of R\$ 5,000) imported under the Special Customs Regime of Temporary Admission, which will be converted into exemption when proved that the suspension of federal taxes granted under such regime was duly converted into exemption;

- ▶ Not charging the ICMS in cases of donation of equipment and other durable assets to public-interest entities;
- ▶ The exemption of ICMS due on internal and interstate outputs of goods made directly by the manufacturer to FIFA, its Brazilian subsidiary or the FIFA's source broadcaster;
- ▶ The suspension of ICMS due on internal and interstate outputs of equipment and other durable assets made directly by the manufacturer to FIFA, its Brazilian subsidiary or the FIFA's source broadcaster, for products granted with IPI suspension. The ICMS suspension shall be converted into exemption when proven that the suspension of the IPI was duly converted into exemption;
- ▶ The suspension of ICMS due on internal and interstate outputs of goods made to FIFA, its Brazilian subsidiary and any other entity accredited by FIFA (and listed in a proper act to be issued by the state authorities), for products granted with PIS and COFINS suspension. The ICMS suspension shall be converted into exemption when proven that the suspension of the PIS and COFINS was duly converted into exemption;
- ▶ The exemption of ICMS due on transportation services, at interstate level and within city limits, executed by the Brazilian Organization Committee and FIFA service providers (duly incorporated in Brazil through a specific purpose entity for the development of activities relating to the competitions) to FIFA, to its Brazilian subsidiary and to the State and Municipal Governmental entities (of the locations which will host the soccer matches and the training centres for the participating soccer teams), their agencies and foundations, provided that they are related to the organization or realization of such sporting events; and

- ▶ ICMS tax credits generated by inputs applied on the transactions above may be kept by the taxpayer benefiting from the agreement.

The State of Rio de Janeiro enacted a Resolution incorporating the benefits allowed by Convênio 39/2009 to its internal legislation, limiting though its application to transactions carried out from 1 January 2011 to 31 December 2014 (when was the initial term set forth by such Convênio 39/2009). No further ruling was enacted after the publication of the Convênio 142/2011.

Another agreement signed by the Brazilian states (Convênio 134/2011) provides ICMS exemption for the importation of locomotives, wagons, rails, machinery, equipment, components and spare parts, for use on urban mobility projects related to the preparation for the 2014 FIFA World Cup. Such exemption also applies to ICMS differential tax rate on interstate transfers. This benefit expires on 31 July 2014 and may only be enjoyed by projects listed by the States as beneficiaries of this agreement, what also requires that the imported product has no similar product produced in Brazil and goods and assets are effectively applied on the projects. Although ratified by the State of Rio de Janeiro, no internal ruling has been enacted yet to fully regulate this incentive.

Municipal taxes ▶ In Rio, a services tax (ISS) exemption is also granted by Rio Municipal Law 5,230/2010 for all services related to the 2013 FIFA Confederations Cup and the 2014 FIFA World Cup, applicable to all entities accredited by FIFA. A list of all such accredited entities shall be provided by FIFA to local tax authorities. This exemption is in force from 29 November 2010 until the sixtieth day after the end of the 2014 FIFA World Cup.

Individual Income Tax Exemption ▶ Non-resident individuals entering the country on a temporary visa who are employed or otherwise hired to work personally and directly in the organization or realization of events

will be exempt from Individual Income Tax (IRPF) on any amount earned from FIFA (or its Brazilian subsidiary), its Confederations, foreign associations, source broadcaster and service providers in case a local company is not set up in Brazil.

2016 Olympics and Paralympics

In the coming years, in addition to the World Cup in 2014, other major international sporting events will be held in Brazil: the Olympic and Paralympic Games in 2016.

The Brazilian tax system is extremely complex. The high tax burden associated with the massive administrative bureaucracy could, ultimately, affect the events.

In this context, in response to International Olympic Committee (IOC) requirements the Brazilian government, at all levels – federal, state and municipal – has signed agreements that will significantly reduce the tax burden on operations that are directly related to the organization and realization of the Olympic and Paralympic Games.

As a general rule, according to Law 12,780/13, the importation of trophies, medals, plaques, statuettes, badges, pennants, flags and other memorabilia, as well as promotional material to be distributed for free in any official sporting events held in the country, is exempt from II, IPI, PIS-Import and COFINS-Import and Fuel-CIDE (where applicable). The exemption is extended to sporting goods imported by athletes, provided these items are only used in the official sporting event to which they refer.

Moreover, there is also an exemption to the importation of equipment or materials destined exclusively to the Brazilian athletes and Brazilian teams training and preparing for sporting competitions in Olympics, Paralympics, Pan-American, Parapan-American and world games. Such exemption applies to triggering events occurring until 31 December 2015.

With regards to the 2016 Olympics and Paralympics, Brazilian states have also agreed to grant an ICMS exemption (Convênio 133/2008) on operations for the acquisition of machinery, equipment and other tools and products, either locally or in the international market, including animals. The beneficiaries of the exemption are exclusively the Olympic committees, sports confederations, accredited media, sponsors, and suppliers involved in the organization and realization of the 2016 Olympics and Paralympics. This exemption covers transactions carried out from 11 May 2010 to 31 December 2016 and allows transactions to benefit from an exemption or a reduction of the applicable rate to zero, for either II or IPI, as well as being discharged from PIS and COFINS.

And, under the terms of Rio Municipal Law 5,230/2010, services provided to or rendered by the Olympic committees, sports confederations, accredited media, sponsors, and suppliers involved in the organization and realization of the 2016 Olympics and Paralympics and related events, will be exempt from Services Tax (ISS). This exemption is in force from 29 November 2010 until the sixtieth day after the closing of the 2016 Paralympics. Other municipal tax incentives apply to specific entities or situations.

Individual Income Tax Exemption

Non-resident individuals entering the country who are employed or otherwise hired to work personally and directly in the organization or realization of the Rio 2016 Olympics and Paralympics will not be deemed resident of Brazil for tax purposes and therefore exempt from Individual Income Tax (IRPF) on any amount earned from the IOC, companies associated with the IOC, NOCs, International Sports Federations, WADA, CAS, source broadcaster and service providers and the Rio 2016 Organizing Committee as of the date an administrative process is filed with and approved by the Brazilian tax authorities before December 31, 2017.

Construction and Accommodation Services Tax Incentive - Rio

In order to foster investments in the construction of new buildings for hosting services and the conversion of existing buildings in order to increase the number of hotel units and reduce the deficit of accommodation for the World Cup in 2014 and the Olympics and Paralympics in 2016, the Brazilian states signed an agreement granting some specific tax incentives, mostly to sectors directly affected by the upcoming sporting events. Rio incorporated such incentives to its internal legislation through Rio Municipal Law 5,230/2010.

The acquisition of real estate, until 31 December 2012, aimed at the construction of hotels, inns, resorts, hostels in Rio, as well as at the construction of hotels-residence in two areas considered to be of special urban interest - Downtown and Port region (as defined by local regulations) - shall be exempt from:

- ▶ Tax on Transfers of Real Estate Rights (ITBI), otherwise levied upon the transfer of ownership;
- ▶ Urban Property Tax (IPTU), from the year following the year when the application for the construction license is filed, until the issuance of a final "dwell license"; and
- ▶ Any outstanding IPTU debt related to the real estate purchased until 31 December 2012 will also be forgiven.

All such exemptions require property to start functioning as a hotel, inn, resort, hostel, or as a hotel-residence (being the latter, located at Downtown and Port Regions) on or before 31 December 2015, otherwise the conditioned exemption will be revoked and taxes will be due with applicable penalties.

Services consisting of construction, repair, renovation and maintenance provided in the context of the construction of hotels, inns, resorts, hostels, as well as hotel-residences (located at Downtown and Port Regions)

shall be subject to a reduced ISS rate of 0.5% until 31 December 2015.

5.6 Sources of Funding for Foreign Investors

Foreign investors that operate in Brazil through a subsidiary or a branch generally have access to the funding sources that are available to Brazilian companies. Generally, the instruments available are similar to those used in most developed countries. Suitable hard currency hedges against inflation are available at reasonable cost.

As a result of the Brazilian historically inflationary economic environment, most credit instruments are repayable in the short or medium-term. The structure of financial instruments frequently changes due to constantly changing market conditions that require banks to change their sources of funding. BACEN regulations also change over time. Depending on specific monetary policy needs, BACEN may issue treasury bonds denominated in dollars. Because of the rapidly changing nature of financial instruments, prospective investors should try to obtain the most up-to-date information available before investing in Brazil.

Contracts between Brazilian residents may not be denominated in foreign currency. A hedge against inflation is generally provided by investments that have a clause for monetary correction based on an official inflation index or by acquiring a specific commodity within the Futures and Commodities Market (Bolsa de Mercadorias & Futuros or BM&FBovespa).

Resolution 3,568/08 from the Monetary Council (CMN), amended by Resolution 4,051/12 allows Brazilian exporters to maintain up to 100% of their revenue offshore.

Export proceeds may be used for new investments, for financial transactions and for the settlement of obligations abroad.

The following forms of financing are available to foreign investors:

- ▶ Lines of credit from Brazilian banks;
- ▶ Factoring of short-term receivables;
- ▶ Placement of notes, bonds and commercial papers abroad;
- ▶ Leasing;
- ▶ Issue of stock and debentures; and
- ▶ Advances against foreign exchange export contracts and receivables.

Medium-term loans are generally funded through certificates of deposit that compensate investors for inflation plus interest.

Long-term financing is generally available through "repass" loans; these are long-term loans made to local banks by foreign banks in foreign currency, which local bank passes on to final borrowers for shorter terms (generally one year). The final borrower assumes the foreign currency risk and pays the interest, the withholding tax and a repass fee. Another long-term financing source is the Special Agency for Industrial Financing (Agência Especial de Financiamento Industrial), which makes funds available for the purchase of capital equipment produced in Brazil.

Export financing may be available from the following additional sources:

- ▶ ACC (Adiantamento sobre Contrato de Câmbio) - an advance on export transactions which allows a Brazilian company to receive an advance payment equal to the export transaction to be effected. This export financing may be obtained from any private bank duly authorized to operate in the foreign currency exchange market.
- ▶ ACE (Adiantamento Sobre Cambiais Entregues) - an advance on previously-made export transactions which are generally used after an ACC transaction and after the

shipment of the goods. This financing may also be obtained from a private bank duly authorized to operate in the foreign currency exchange market.

- ▶ Bonus bonds issued in the international financial market for long-term export financing contracts.
- ▶ Long-term export financing transactions available under the Export Finance Program (Programa de Financiamento às Exportações or PROEX). Managed by Banco do Brasil, this financing scheme is composed by two main programs:
 - *PROEX Financing, which is a direct financing program available to the Brazilian exporter with resources from the Brazilian National Treasury; and*
 - *PROEX Equalization, under which Brazilian exports are financed by local or foreign financial institutions, while financial expenses charged by private banks are equalized by Brazilian government to bring them into line with international market conditions.*

- ▶ Long-term financing for exports of manufactured products, granted by the National Bank of Social and Economic Development (BNDES), which comprises the financing of the entire export chain (the manufacturing, shipment and trade of the finished products abroad) and aims to improve the competitiveness of Brazilian products exported and traded abroad.

5.7 Importing and Exporting

Brazil has continuously recognized trade surpluses in the last couple of years. Trade surplus has arisen from several economic and political factors, mainly associated with the local currency devaluation against the US dollar and the measures introduced by the Brazilian government to improve exports

(such as the increase in the financial and tax incentives for exporters).

Brazil has attempted to make import and export transactions less bureaucratic from the regulatory and foreign exchange perspectives. For example, imports and exports generally do not require the importer or exporter to obtain prior licenses and exports are generally tax free. On the other hand, the Brazilian foreign exchange rules might present an issue for importers because of the registration requirements relating to financing import transactions (if payments exceed a 360 days period).

Restrictions and Controls

Import and export transactions are subject to control by the Chamber of Foreign Trade (Secretaria de Comércio Exterior or SECEX), an agency of the Ministry of Development, Industry and Foreign Trade. Brazilian importers

and exporters are required to register with the SECEX to obtain an Exporter and Importer Registration (Registro de Importadores e Exportadores or REI), before they may enter into cross border trade transactions. Enrolment is granted automatically at the time of the first import or export transaction.

In order to import goods into and export goods out of Brazil, companies are also required to register with RADAR, an electronic system operated by the Brazilian Federal Revenue Service. This registration requires a specific application form to be completed and the presentation of a list of documents to the Brazilian customs authorities. Once registered with RADAR, Brazilian importers and exporters must be qualified by the Federal Revenue Services to operate through the SISCOMEX electronic system that deals with all customs operations (imports and exports of goods). Provided a Brazilian company is properly

registered with the federal, state and local tax authorities, the registration with RADAR may generally be obtained within three to six months from the date of application.

To the extent that both import and export transactions represent outflows and inflows of funds from and into Brazil, all exchange contracts must be registered in the electronic system maintained by the Brazilian Central Bank (RDE-ROF).

Few imports and exports are forbidden or restricted. Imports of certain products are subject to a quota control rule, while exports of certain types of products require special procedures such as obtaining prior approval from the Brazilian government (this procedure applies to products of animal origin, oil, gas and other products). Prior license may also be required for transactions involving used goods (including capital goods) and for products related to human and animal health. In general, the importation of used consumer goods for commercial purposes is forbidden.

Imports ▶ Importing transactions must be registered in the SISCOMEX electronic system to generate the Import Declaration (Declaração de Importação - DI) once customs will only clear goods/shipment/air shipment with this document in hand.

If a prior import license is required, it must be obtained before the shipment of the goods to Brazil and before the Import Declaration (DI) register. The license is generally valid for 90 days after shipment of the goods to Brazil. The need for a prior license must be verified based on the tariff code of the goods to be imported. Importers may also obtain an import license for drawback operations or import operations destined for the Manaus Free Trade Zone.

Certain products, such as human blood, drugs, weapons and ammunition, nuclear material, petrochemicals, herbicides and pesticides, also require authorization from special agencies as a condition for the issue of an import license.

After obtaining the import license, importer must complete the Import Declaration (Declaração de Importação - DI) and register the importing good in the SISCOMEX electronic system to get customs clearance.

Exports ▶ Export transactions must also be registered in the SISCOMEX electronic system. An Export Registration (Registro de Exportação - RE) must be obtained for goods to be cleared by customs. Export transactions must occur within 60 days after the RE is obtained, which may be postponed if the RE is not used, otherwise, it is automatically cancelled.

The following export operations require special procedures:

- ▶ Transactions involving a non-convertible currency;
- ▶ Transactions without currency coverage;
- ▶ Consignment of goods;
- ▶ Goods that are scarce on the internal market; and
- ▶ Goods containing nuclear and radioactive materials, weapons and ammunition.

Exports of raw lumber, animals and certain other products are either specifically prohibited or severely restricted. The Ministry of Agriculture regulates the export of certain goods of animal origin and certain vegetables (including beans, coffee and potatoes). The Ministry of Health regulates the export of medicine, and the Ministry of Defence controls the export of weapons and ammunition. A license must be obtained prior to the exportation of any of these goods.

Customs Duties

Customs duties are generally assessed on an "ad valorem" (by value) basis. In order to determine the majority of the customs duty rates and regimes, customs laws require that all imported goods must be classified.



In Brazil, the current classification system is known as “Mercosur Common Nomenclature” (hereinafter “NCM”) and is based on the Harmonized System (hereinafter “SH”). Each NCM code is composed of 8 digits related to the description of a product by following a criterion for grouping by genus, species, or derivation. We stress that the tariff classification of goods cannot be performed randomly by the importer and it is necessary to have detailed knowledge of the goods and respective technical information, in order to determine the correct fiscal framework. We also point that all Mercosul’s members have the same import duty to be applied for Mercosul’s outsider countries (with minor exceptions), and the duty rates are assembled on a table so called Common External Tariff (hereinafter “TEC”).

The import duty (Imposto de Importação - II) is levied on imported goods based on the customs value of the goods. The customs value is generally based on the cost plus insurance and freight (CIF) value of the goods plus other costs specified by the customs valuation rules. The applicable import duty rate may vary depending on the tariff classification code of the goods – as above mentioned -, according to the TEC, and the average rate is 15%. It is a non-recoverable tax, what means that no credits are available against it, representing a common cost to importer, (as II is not a creditable tax and, consequently, II paid upon the import cannot be deducted from any subsequent import transaction taxed by the II).

Capital goods and data processing and telecommunications goods may benefit from an II reduction to 2% (Ex-Tarifário Special Program) if the importer is able to attest and demonstrate that no similar goods are manufactured in Brazil.

Import transactions are also subject to federal and state value added taxes (IPI and ICMS respectively). IPI is calculated on the CIF value of the goods plus import duty and average rates range between 10% and 20%. IPI is a recoverable

tax, what means that, in principle, the amount paid upon the import transaction may be offset in the future, provided some requirements are met. ICMS is charged on the CIF value of the goods plus import duty, IPI, ICMS itself and PIS-Import and COFINS-Import (federal social contributions), plus other customs charges. Generally, the ICMS rate ranges from 17% to 19% but lower rates may apply, depending on factors such as the state where the importer is located, the nature of the product imported and benefits granted because of special customs regimes. If the imported goods are used in a manufacturing process in Brazil or if they are resold, the Brazilian importer may recover these import taxes.

PIS-Import and COFINS-Import are both social contribution taxes charged on the importation of goods and services, charged at a combined rate of 9.25% or 10.25%. The tax base for PIS-Import and COFINS-Import on imported products is the customs value plus ICMS and PIS and COFINS, which leads to an effective tax rate of around 13.45%. The Brazilian importer may compute a PIS and COFINS tax credit for inputs acquired under the non-cumulative PIS and COFINS regime (in similar fashion to a VAT type of tax). This credit may be used to offset local PIS and COFINS tax liabilities. PIS and COFINS exemptions may apply to certain imports.

The Additional Freight for the Renovation of the Merchant Navy (AFRMM) is a federal freight surcharge levied on maritime transportation. AFRMM is charged at a rate of 25% based on the international freight value on entry of the shipment into the national harbours and at 10% on the coastal navigation freight (based on the bill of lading and the cargo manifest).

The AFRMM does not apply upon the transportation of goods in connection with exploration activities of hydrocarbons and other underwater minerals in the Brazilian Exclusive Economic Zone. In addition, goods imported by autarchies and other entities directly connected to federal, state and

municipal governments, such as Petrobras, are not subject to the AFRMM.

Similarly, AFRMM is suspended for assets imported under a special customs regime up to the term granted by the Ministry of Transportation (Ministério dos Transportes) or under DI registration, such as under the drawback or the temporary admission regime with suspension of taxes. The exemption or suspension of AFRMM depends on a previous analysis and approval by the Ministry of Transportation.

Duty reductions may be available based on recently issued tax incentive programs or depending on the nature of the goods to be imported, their destination, origin and value. Optimization of import duties may also be achieved through structuring the supply chain under specific schemes to leverage benefit from applicable free trade agreements.

The main fees applicable to the customs clearance of imported equipment or goods are storage fees, demurrage, terminal handling charges (capatazias), unstuffing and cargo handling fees and deconsolidation of bill-of-landing fees. Rates and amounts vary.

Anti-dumping Regulations

Imports are also subject to anti-dumping regulations in Brazil. In practice, the Brazilian customs authorities verify import prices based on information gathered from international commodities exchanges, specialized publications, price lists of foreign producers, prices declared by importers and by other means are used to evaluate prices of both imports and exports. The Brazilian authorities exercise control over import and export prices and investigate cases in which they suspect dumping may have occurred. If this is the case, the Brazilian importer must prove the price adopted in the import transaction through the use of one of the methods provided under

the Brazilian customs valuation rules, which tends to be a very bureaucratic process.

Special Customs Regimes

Ex-tarifário ► This regime consists of a reduction of the import duty charged on the import of machinery or equipment if there is no similar machinery or equipment produced in Brazil. The tax benefit is granted after the importer has proved the non-existence of similar machinery or equipment and has obtained prior approval from the Brazilian trade authorities.

Temporary Admission ► Under certain circumstances, goods may be temporarily imported with suspension of import duties, IPI, PIS and COFINS-imports and ICMS for a period of 6 months (with a possible 6 months extension) provided the goods are subsequently exported. Under contracts between the beneficiary of the regime and a foreign company, the admission period is equivalent to the period of the contract. For goods imported under operational leases or rentals and goods imported for the rendering of services, import duties, IPI, PIS and COFINS-imports and ICMS must be paid proportionally to the period the goods remain in Brazil – 1% per month, limited to 100% – and will be paid the moment the goods clear customs. This rule also applies to contract manufacturing structures that involve low manufacturing levels mainly for exported finished products.

Temporary Export ► In accordance with Brazilian legislation, goods may be temporarily exported and re-imported free of import duties and ICMS, even if the goods undergo some industrial process. The temporary export regime must be approved by the Brazilian tax and customs authorities following special request. For goods exported for repair or to be used in the manufacture of a finished product that is to be imported into Brazil, import duty and ICMS are charged only on the value added to the product.

Certified Bonded Warehouse Regime ▶

Under the Certified Bonded Warehouse Depósito Alfandegado Certificado or DAC regime, goods are fictitiously exported but remain physically stored in a bonded warehouse in Brazil under the name of the non-resident awaiting a subsequent transaction. Remittances to DAC are exempted from all federal taxes (IPI and PIS/COFINS) and the exemption from ICMS will be determined by each state. Goods may remain stored in this special regime for no longer than one year.

Bonded Warehouse Regime ▶ A bonded warehouse allows a foreign company to maintain goods stored in Brazil under customs coverage by deferring payment of import duties and other taxes for a certain period.

RECOF Regime ▶ Under the RECOF Regime (Regime Aduaneiro Especial de Entrepósito Industrial sob Controle Informatizado or RECOF), companies are permitted to import raw materials and other goods without paying import duty, PIS and COFINS-import, IPI and ICMS, as long as the goods are used in an industrial process for manufacturing of goods to be exported. The imported goods may remain stored inside the Brazilian company's facilities under the tax authority's control. This regime is available only for certain manufacturing sectors (including computers, automobiles and airplanes among others defined by legislation) and it is subject to specific requirements.

Goods manufactured under this industrial warehouse regime are subject to all export benefits provided under Brazilian tax law. If the finished products are not exported but are sold locally, import duty, PIS and COFINS-imports, IPI and ICMS will be charged on the value of the imported parts applied to the goods. The goods may remain in the bonded warehouse for one year. This period may be extended for one additional year, and under special circumstances (as in cases where the productive process is considered long), the bonded warehouse storage period may be extended to a total of five years.

Drawback Regimes ▶ The Brazilian customs legislation has five types of drawback regime:

- ▶ Drawback suspension: under this regime, raw materials and goods imported and exported after an industrial process are free of import duty, PIS and COFINS-imports, IPI and ICMS (depending on each state's legislation). This regime is regulated by DECEX and the Brazilian company must comply with certain requirements to obtain approval.
- ▶ Drawback exemption: this regime involves an exemption from import duty, IPI, PIS and COFINS-imports, and ICMS (depending on each state's legislation) on the importation of raw materials and goods for the inventory of a company, provided the goods were used in the manufacturing process of an exported final product. Subsequent imports of the same raw materials and goods previously imported in equal quantity and quality benefit from an exemption of import taxes. To obtain the exemption the Brazilian company must prove its export transactions using export documentation.
- ▶ Drawback refund: under this regime, a Brazilian importer may obtain a refund of the import taxes (import duty, IPI and PIS-Import and COFINS-Import) paid within 90 days after the export of finished products manufactured locally with raw materials that were previously imported under this drawback regime. Import and export transactions must be proved using the import and export documentation and the tax payment forms. If the request is approved, the importer obtains a tax credit certificate to be used against its next import transaction.

Blue Line Regime

The Express Customs Clearance regime (or Blue Line) is a special customs regime that enables certain companies to benefit from a preferential treatment for exports, imports and transactions under customs transit. To use

the Blue Line clearance procedure, companies must obtain a prior, voluntary qualification, which is granted to companies that satisfy a number of requirements to prove their internal controls enable full compliance with tax and customs liabilities and allow ongoing monitoring by the Brazilian customs authorities. The regime aims to speed up the customs clearance of imports and exports made by approved companies, thus reducing costs and timing.

Blue Line benefits include priority for loading and unloading goods at ports and airports, accelerated customs clearance without physical or documentary inspection, lower customs clearance charges, priority clearance of the goods if they are selected for customs inspection, and mitigation of risks arising from extended storage periods and strikes.

5.8 Registration of Intellectual Property

Patents

Patents are regulated by the Industrial Property Code² (Código de Propriedade Industrial). The holder of a patent possesses ownership rights to the patented item under Brazilian legislation and international conventions. Patents titles are transferable.

Eligible Property ▶ The INPI (National Institute of Industrial Property) issues patents for inventions, utility models and industrial designs. Protection is also granted to medicines of any kind, to chemical and pharmaceutical products or preparations and to processes for research or alteration of substances. To be eligible for patent protection, inventions, utility models and industrial designs must be considered:

- ▶ Novel and not patented, known by or used in Brazil or abroad;
- ▶ Of industrial use, that is, capable of being produced or applied in an industrial process; and
- ▶ Not obvious from a technical development perspective.

Duration, Fees and Procedures ▶ Patents are granted for the following periods, commencing on the day that the registration is filed with the INPI:

- ▶ Inventions - 20 years;
- ▶ Utility models - 15 years; and
- ▶ Industrial design rights: 10 years, extendable for 3 consecutive periods of 5 years each.

Fees vary for the initial filing, request for examination, issuance and maintenance.

Trademarks and Trade names

Trademarks are words, names, letters, symbols or devices that are adopted and used by manufacturers or merchants to identify their goods and distinguish them from those manufactured by others. In contrast, trade names identify particular manufacturers or dealers.

Trademarks are registered with INPI according to the Industrial Property Code. Trade names are registered with the local Commercial Register (Junta Comercial) upon incorporation of a company.

Eligible Marks ▶ The following kinds of marks are legally protected in Brazil:

- ▶ Industrial marks used by manufacturers to distinguish their products;
- ▶ Trademarks used by merchants to identify their merchandise;

2 ▶ Law 9,279, dated May 14, 1996



- ▶ Service marks used to protect services or activities; and
- ▶ General marks used to identify the origin of a series of products or services that are individually distinguished by specific marks.

Duration, Fees and Procedures ▶ Owners of trademarks have the exclusive right to use particular names, symbols, devices or any combination thereof in connection with products or services for a period of ten years. Extensions are available for successive periods of the same duration. Owners may dispose of trademarks or license them to others, but the resulting royalties may be paid only during the first ten-year period and only if the license application is made within the priority term of the Paris Convention.

5.9 Licensing Arrangements

In the past, some companies faced difficulties in transferring technology to Brazil from abroad because of strict registration requirements for licensing agreements and limitations on the remittance of royalty payments abroad (especially between related companies). However, these restrictions were partially minimized when the Brazilian legislation was modified in 1991 to come into line with international standards.

Royalty payments may not be remitted abroad unless the underlying contracts for the transfer of technology are approved by the INPI and registered with the BACEN.

The INPI observes the following guidelines for approval of contracts for the transfer of technology:

- ▶ Generally, contracts that concern transfers of technology aimed at encouraging technological innovation are approved.
- ▶ The contract must clearly state its objective, specify in detail the process for transferring the technology and indicate the industrial property rights involved.

- ▶ Contracts for technical and scientific assistance must state the conditions for obtaining the technique, planning and programming methods, as well as research, study and project activities aimed at the rendering of specialized services.
- ▶ The patent license agreement must stipulate the conditions for the effective exploitation of the patent, which must be registered in Brazil.
- ▶ Technical and scientific assistance contracts must define the period during which services will be rendered, specifying the technical activities and training programs involved and the terms of remuneration.
- ▶ The contract should specify the following details, which concern the payment of technicians abroad in foreign currency:
 - *The number of technicians;*
 - *The amount of daily remuneration, which should conform to normal standards in the home countries of the contracting parties, considering the specialty and level of each technician and the type of service to be rendered;*
 - *An estimate of the time necessary to carry out the technical assistance and training programs;*
 - *The expenses to be incurred by foreign technicians when present in Brazil, such as transportation, daily expenses and allowances, must be specified for each individual and must be paid directly to each technician in local currency; and*
 - *The remuneration must be stated as a fixed price.*
- ▶ The patent license agreement must define the possible rights to exclusive use as well as possible subcontracting rights. The period of the license agreement may not exceed the period of the patent's validity.
- ▶ In the contract, the licensor must specify to the licensee all data and technical information

involved, as well as any technical assistance required for the implementation and updating of the objective to facilitate local implementation of the technology.

- ▶ The technology transfer contract must state the responsibility of each party to the contract concerning financial and tax obligations.

The remuneration of the licensor may be calculated in the following ways: as a fixed price, as a percentage of the licensee's net sale price or profit, or as a fixed price for each unit produced. For this purpose, net sale price is defined as the sales price, less taxes, duties and other charges as agreed between the parties. In determining the remuneration, the contracting parties must consider compensation provided in similar contracts in Brazil and abroad.

A request for approval of a licensor contract must be made on a separate form and submitted with the original license contract or a substitute document. INPI has the power to request additional documentation. A justification letter is also required, explaining the objectives of the technology transfer contract and stating any possible share ownership arrangement between the parties to the contract.

If the parties do not satisfy an INPI request for additional information, the approval request is suspended. Rejected approval requests may be submitted for reconsideration if the parties can prove that the INPI's decision was unlawful.

Deductibility of royalties paid in connection with licensing agreements approved by both BACEN and INPI is limited to between 1% and 5% of the net sales of the products manufactured with the use of the licensed technology (the limitation of 1% applies to royalties associated with trade names or trademarks). Generally, the same limitations that apply to the deductibility of the royalty payments for corporate tax purposes are adopted to determine the maximum amount that may effectively be remitted abroad.



Corporate Structure

In this section we will present how companies in Brazil are established and structured.

Doing business in Brazil is sometimes unfairly judged as being challenging, expensive and having a bureaucratic entry process in order to start working in trade or by establishing a business in Brazil. Although legislation and requirements are more complex than most developed countries, there is plenty of support available for establishing a business in the country. Especially in Rio, there is a wide network of supporters for new and expanding business, such as Rio Negócios and EY.

6.1 Companies

The most common business entities in Brazil are the corporation (sociedade anônima or S.A.) and the limited liability company (sociedade limitada or limitada). The main difference to consider when electing for one or the other form of business is that only corporations are entitled to issue shares to be publicly traded in the stock exchange, while a limited liability company tends to be a more appropriate vehicle for structuring foreign direct investments in Brazil as the management and other requirements are simpler than for a corporation. With respect to responsibility of the investors, a corporation is limited to the amount subscribed by the individual or the company,

while in a limited liability company the quota holders are liable for the full amount of the company's legal capital until it has been paid in.

Corporations are similar in form to both US and European corporations. Limitadas are similar in form to European limited liability companies (such as French SARLs and German GmbHs).

Corporations

The main requirements for the constitution of a corporation are as follows:

- ▶ The share capital must be subscribed by at least two original subscribers. The subscribers may be Brazilian or foreign individuals or legal entities. Foreign subscribers, who are not resident in Brazil, must be represented by a Brazilian citizen empowered to receive summons.
- ▶ A nonresident shareholder must obtain a tax identification number from the Brazilian Internal Revenue Services (CNPJ or CPF).
- ▶ For publicly traded corporations, at least 10% of the issue price of shares subscribed for in cash must be paid in and deposited in an authorized bank by CVM. The 10% rule also applies to subscriptions in kind (for example, machinery and products.). In this situation, an evaluation prepared by experts or/and a specialist firm is required.
- ▶ An application for registration and the bylaws of the company must be filed with the local Board of Trade.
- ▶ Depending on the corporation's intended activities, other registrations might be required.
- ▶ A corporation must publish its documents and certificate of registration in the Official Gazette (Diário Oficial) and in another wide circulation newspaper within 30 days of registration. This requirement must be complied with before the corporation commences business.

- ▶ Publicly traded corporations are required to be audited every year for CVM purposes. Privately held corporations are required to have their financial statements audited, when their assets are greater than R\$ 240 million or turnover greater than R\$ 300 million.

Capital of a Corporation ▶ In addition to the information mentioned above, the bylaws must state the value of the share capital in local currency, which may contain a provision authorizing capital increases independently of any amendment to the bylaws after the initial shares have been subscribed, up to a limit expressed as a number of shares or an amount of capital (the authorized capital).

Payment of Dividends ▶ Dividends may be paid from the net profit of the company during the fiscal year or as set out in its bylaws, based on a percentage of profits, share capital or any other criteria.

The law requires an annual payment of dividends with reference to the minimum portion established in the bylaws, considering the minimum limit of 25% of the net profit of the year or, if not prescribed, half of the year's net profits adjusted for the following items: appropriations to the legal reserve, contingency reserves, and reserves for unrealized profits. Payment of a minimum dividend may also be avoided if the payment is shown to be incompatible with the company's financial situation.

Payment of interim dividends out of current year profits or existing profits reserves from previous years is also possible, as long as this is provided for in the bylaws.

Shares

Shares must be denominated in Brazilian currency. The bylaws must determine the number of shares of the corporation and whether they are to be issued with or without a nominal (par) value. Common

(ordinary) and preferred shares may be issued. Ordinary shares generally grant voting rights, while preferred shares may carry preferential rights to receive dividends, a refund of capital or both (which must also be established in the bylaws of the company). Preferred shares without voting rights may not exceed 50% of the total capital.

Shareholders' Rights ▶ Fundamental rights of shareholders that rather not be denied by either the bylaws or shareholders agreements, include the following: participation in yearly profits; participation in the net assets if the investment is liquidated; supervision of the conduct of the business; preference in subscribing for new shares, debentures to be converted to shares and subscription bonuses; and withdrawal under certain circumstances, with reimbursement of shares.

Management of a Corporation ▶ A corporation is administered by an executive board (diretoria) and, optionally, by an administrative council (conselho de administração)/board of directors. An administrative council is mandatory for a corporation with authorized capital and for a publicly traded corporation.

The executive board must be composed of at least two directors, who may or may not be shareholders of the company. They are elected and dismissed by the administrative council or, if there is no administrative council, by the shareholders at a general shareholders meeting. Directors must be residents of Brazil but not necessarily Brazilian citizens.

The executive board is responsible for representing the corporation in its dealings with third parties, for the day-to-day management of the business, and for implementing resolutions of the administrative council (if appropriate).

In the case where a corporation chooses to establish an administrative council, it must have at least three members. All members must be shareholders of the corporation

and they are elected and dismissed by the shareholders in a general meeting. Unlike the executive board, members of the administrative council may be foreign individuals who are not resident in Brazil. A nonresident foreigner must be represented by a Brazilian citizen empowered to receive summons. Responsibilities of the administrative council include defining the corporation's overall strategy, electing and dismissing directors and supervising their performance, calling shareholders' meetings, and choosing and dismissing the independent auditors, if any, among others.

Another body that may be appointed at a general meeting of shareholders is the fiscal council (conselho fiscal), an audit committee that may function permanently or not. In general, it is composed by between three and five members. The fiscal council basically oversees administrative acts performed on behalf of the corporation to ensure they are in accordance with the articles of incorporation and current legislation, and provides an analysis of the corporation balance sheet.

Meetings and Votes in a Corporation

An annual general meeting of shareholders must be held within four months after the end of the corporation's financial year to review the financial statements presented by officers of the corporation. The meeting agenda comprises the decision on the dividend distribution and the election of members of administrative council or Executive Board and, if existing, of the Fiscal Council.

Extraordinary general meetings of shareholders may be called to discuss other matters that are not dealt with in the annual general meeting. All general meetings of shareholders must be held in Brazil. Each common share generally carries one vote.

Resolutions at a general meeting of shareholders generally require approval by a simple majority of the votes present or represented; absentees are not counted.



However, changing certain important provisions in the bylaws, such as those dealing with the corporation's objectives and other matters prescribed by the law, may require a higher voting quorum.

Financial Statements ► Corporations are required to prepare and publish the financial statements with the local Board of Trade and publish them in the Official Gazette (Diário Oficial) and in another wide circulation newspaper. In addition, the Securities Exchange Commission may require publication in the localities where open corporations trade their securities. This requirement does not apply to privately held corporations with less than 20 shareholders and net worth of less than R\$ 1 million. Companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million are called "large companies" and shall have its financial statements audited by independent auditors. Companies subject to control of the Brazilian Securities Commission (Comissão de Valores Mobiliários or CVM) must always have their financial statements audited.

Limited Liability Companies

A Limited Liability Company (limitada) is a useful corporate form for businesses with few owners and with no intention to raise public funds (by issuance of shares or bonds). Members may be foreign or resident individuals or corporate entities. Limited liability companies are regulated by Brazilian Civil Code³ and they may also be governed by the provisions set forth in the Corporation Law (in the absence of proper regulations in the Civil Code). In general, a limited liability company is subject to fewer legal formalities than a corporation and the most important features of a limited liability company are:

- The company (limitada) must have a minimum of two partners (called quota holders);

- The company's capital is divided into quotas (instead of shares);
- Any nonresident quota holder must grant a power of attorney to a Brazilian citizen or resident;
- A nonresident quota holder must obtain a tax identification number from the Brazilian Internal Revenue Services (called CNPJ or CPF);
- The administration of the limited liability company must be held by Brazilian residents or citizens;
- The company name must make reference to the core business of the company. This means that the company name cannot be simply XYZ do Brasil Ltda., but it must mention the company's main business purpose such as, XYZ do Brasil Information Technology Equipment Ltda.
- In general, 75% of the votes are required for amendments to the articles of incorporation;
- Quota holders' Meetings - The articles of association must disclose whether approval of accounts (annual financial statements), election, removal and resignation of company officers, definition of remuneration, amendments to the articles of association, take-over, mergers or spin-offs, among others, shall be resolved in a quota holders' meeting. In practice, if the company has more than ten quota holders, resolutions must be made in a quota holders' meeting. The articles of incorporation must also provide for the form of convening partners as well as quorum for validity of meetings and resolutions thereof. Changes that were once made through a simple contractual amendment must now be made through agreement at a quota holders' meeting;
- If the limited liability company has more than ten shareholders, it is required to publish

the calls for quota holders' meeting, as well as the minutes of certain meetings in the Official Gazette (Diário Oficial) and in another wide circulation newspaper;

- The entire capital must be subscribed on incorporation of the company, but no minimum percentage needs to be paid upon subscription;
- Until the full capital is paid in, the quota holders are jointly and severally liable for the total capital subscribed;
- No legal reserve or minimum dividend is required;
- Members may withdraw and receive the repayment of their quotas in case of disagreement; and
- A limited liability company does not need to publish its articles of incorporation, financial statements or minutes of quota holders' meetings in an Official Gazette or newspaper, as required for the Corporations.

A limited liability company may be converted into a corporation (and vice-versa) easily and inexpensively and without triggering any corporate tax consequences.

Limited Liability Companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million are called "large companies" and must follow the rules of the Corporations regarding to the preparation of their financial statements. Also, large companies shall have its financial statements audited by independent auditors. There is a discussion if large companies shall publish their financial statements and in some states of Brazil this is already required.

6.2 Partnerships

A partnership is incorporated when individuals are mutually obligated to contribute goods or services for an economic activity, and to share the results. Brazilian corporate legislation

provides for different types of partnership. However, other than for professional partnerships, the partnership form is not often used.

General Partnerships

A general partnership (sociedade em nome coletivo) is an association of two or more individuals operating under a collective name. All partners participate actively in the business and each bears unlimited liability for the partnership's debts.

Limited Partnerships

In a limited partnership (sociedade em comandita simples), one or more individuals are fully liable for the company's obligations, and others (who may not take part in its day-to-day operations) are liable only to the extent of their investments.

Partnerships Limited by Shares

A partnership limited by shares (sociedade em comandita por ações) issues certificates of transferable shares representing the partners' ownership interests. The partnership's activities are governed by the Corporation Law. Like partners in a limited partnership, partners in a partnership limited by shares include those with full liability for the partnership's debts and those with liability limited to the extent of their contributions.

Participation in a Partnership Account

A participation in a partnership account (sociedade em conta de participação) is not considered a corporate entity (legal status). This kind of entity has a silent partner that is not responsible for the partnership's obligations. Although this type of partnership is not a legal entity, it is often established for specific projects (for example, forest development projects). Taxation is generally applied on a pro rata basis.

De facto corporation (sociedade em comum)

The Brazilian legal system also recognizes the concept of a de facto corporation (sociedade em comum). Accordingly, under certain circumstances a group of persons whose activities are not organized according to a formal contract (for example, by laws not duly registered with the competent authorities) and who jointly perform business may be regarded as a legal entity for tax purposes.

6.3 Joint Ventures

Joint ventures may take either form of a corporation, a limited liability company

or the form of a consortium agreement, which is generally adopted for significant infrastructure projects in Brazil.

6.4 Trusts

Trusts are not recognized as entities under Brazilian law.

6.5 Branches of Foreign Companies

Foreign companies may not operate branches in Brazil unless they submit a special request to the Ministry of Industry and Commerce and receive prior authorization through a Presidential

decree. In practice, due to the bureaucratic difficulties in obtaining such authorization, few branches of foreign companies operate in Brazil.

A branch must be registered with the Commercial Register and adopt the same name as its head office. A permanent representative of any nationality, who is fully authorized to act on behalf of the branch, must be resident in Brazil. No minimum capital requirement is imposed. Liability is not limited to the capital of the branch, but extends to that of the head office.

Branches of foreign companies must publish their annual financial statements and are subject to requirements similar to those applicable to corporations.

If losses are recognized during the first years of operation, the branch form may be advantageous for companies that are permitted to consolidate losses with income derived from other sources.

6.6 Establishing a Limited Liability Company

Time Required

As a general rule, establishing a Brazilian limited liability company (limitada) takes around 40 to 60 days.

Number of Quota holders

A minimum of two quota holders is required to form the company. The quota holders do not necessarily need to be Brazilian citizens, as long as a Brazilian resident is appointed as the legal representative of the company.

Permissible Types of Quotas

A limitada generally has only one class of quotas, however, other classes may be available.

Directors

A limitada may be managed by one or

more quota holders if they are nominated in the articles of incorporation or by a general manager or director appointed by the quota holders. The overall company management must be conducted by a Brazilian resident.

Initial Capital Requirements

No minimum capital requirements are imposed to Brazilian companies (limitadas or corporations). Capital must be denominated in Brazilian currency.

Although Brazilian corporate law has no formal minimum capital investment requirement, in practice, the immigration authorities require a minimum investment for nonresidents of R\$ 50,000 in cash or the equivalent in transfers of technology or other capital goods to the Brazilian company in addition to the generation of at least ten new jobs within a two-year period. Alternatively, a minimum investment of R\$ 200,000 in the capital of a Brazilian company is required if a nonresident is nominated as the manager of the company and in order to obtain the proper visa. Also, in case the company wishes to import/export, the customs authorities may require a corporate capital compatible with the company's activities to grant the license to import/export (called "RADAR").

Foreign Capital Registration

A foreign equity investment must be registered with the BACEN within 30 days to allow future repatriation of the original amount invested as well as payments of dividends in foreign currency (see Section 6.1).

6.7 Annual Requirements

Annual Meetings

Both corporations and limited liability companies (limitadas) must hold annual general shareholders' meetings within four months of the end of their fiscal year.



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Financial Statements

Corporations must prepare and publish their financial statements. Although limited liability companies must prepare financial statements, they are not required to publish them, except large limited liability companies, what depends of the Brazilian State where they are established.

Income Tax Filing

Brazilian companies must file annual tax returns based on their consolidated results for the calendar year (see Section 9.1 for further information on income tax filing requirements).

Audit Requirements

Public Corporations must have their financial statements audited once a year by independent auditors, as well as any companies with assets greater than R\$ 240 million or turnover greater than R\$ 300 million.

6.8 Corporate Reorganizations

Corporate reorganizations are generally tax-free transactions provided they are implemented at book value, as allowed by the Brazilian tax law. However, proper structuring considering all the tax consequences is highly recommended in Brazil. Care is needed to ensure compliance with all tax reporting obligations and tax consequences of the transaction for the entities involved in the reorganization, including tax obligations that may be carried over to the new entity or that may even be triggered by the transaction, depending on the structure adopted.

One of the main issues associated with a corporate reorganization is whether the transaction should take the form of an asset deal or a stock deal. This is because tax impacts of each transaction are very specific and the decision may raise significant tax and non-tax issues that should be considered carefully before implementation.

Generally, an asset transaction tends to be less advantageous from a tax perspective than a stock deal. This may be the case, for example, if an amount is to be paid for goodwill in addition to price for the assets or business involved. An asset deal may also trigger indirect taxation to the seller depending on the assets involved. It also reduces the opportunity for recovering any goodwill paid in addition to the assets faster than through depreciation of the assets themselves (in contrast to a stock deal, for instance).

Some asset transactions may also be structured as an acquisition of a business as a going concern (TOGC - Transfer of Going Concern). TOGC tends to bring more tax benefits to the parties involved to the extent that indirect taxation is minimized and the main tax attributes (such as VAT tax credits, for instance) may be maintained and carried over by the seller.

As mentioned, stock transactions provide more tax benefits, especially if the seller pays a price that exceeds the book value of the assets or business involved. If the transaction is structured properly, any premium (or goodwill) paid, may be generally recovered faster than under standard depreciation rates, provided certain requirements are met (that is, the transaction complies with the requirements of the Brazilian income tax regulations). This may be a significant benefit especially if the acquired company is profitable, as the goodwill may become a tax-deductible expense that may be used to offset or reduce corporate tax liabilities of the acquired company triggered by the corporate reorganization. Taxation is often triggered by merger transactions.

It is important to note, however, that the Brazilian accounting regulations regarding the premium (or goodwill) treatment changed in December 2007. Some tax practitioners understand that the new accounting regulations could potentially compromise the tax-deductibility of the goodwill expense.

Nevertheless, to the extent that the Brazilian tax authorities have not yet issued their understanding on the subject, the aforementioned tax benefits established in the law currently in force are still applicable to stock transactions whereby the seller's price exceeds the book value of the transferred asset.

For sales of shares, a gain or loss on the disposal is calculated using the book value, regardless of whether the investments are accounted for by the equity method or by the cost method. The gain is taxed as normal business profits (that is, at the combined rate of 34%). For an asset sale, any capital gain is also subject to corporate taxes charged at a combined rate of 34%, calculated on the positive difference between the cost of the asset sold and the sales price. However, in contrast to a stock transaction, sales proceeds are, in principle, also subject to gross revenue taxes (depending on the assets traded) charged at a maximum rate of 9.25%. Indirect taxes (ICMS and IPI) may also be imposed.

Brazilian legislation does not impose any restrictions on mergers, acquisitions and other types of corporate reorganizations. No special restrictions apply to foreigners. The Brazilian Securities Commission (CVM) requires certain procedures be followed for mergers or consolidations that include one or more publicly held companies.

Corporate entities may be combined in different ways. In a merger, one or more companies are merged into another company, with the surviving company succeeding to all the rights and obligations of the merged companies, except for carry forward tax losses (NOLs - Net Operation Losses), which are generally lost upon a merger event. In addition, corporate reorganizations may also take place through a spin-off transaction or consolidation, both of which are generally followed by the creation of a new company. After a spin-off transaction, tax losses (NOLs) of the spun-off company



are also lost in the proportion to the net equity transferred to the new (or existing) company.

Losses incurred on sales of shares or any fixed assets are deemed to be non-operating losses. With effect from January 1, 1996, non-operating losses may be offset in subsequent periods exclusively against non-operating profits. Carry forwards are limited to 30% of non-operating profits. Non-operating profits and losses from all sales occurring in the calendar year are computed together in calculating the ordinary taxable profit. Operating and non-operating profits must be separated only if non-operating losses and tax losses occur in the same calendar year.

A corporation that holds shares in another company accounts for the investment using either the equity or the cost accounting method, depending on its ownership interest in the other company and its relevance.

The equity method is required for both accounting and tax purposes if the investment is made in a controlled or affiliated company, or in other companies that are participant of the same economic group or that are under the same corporate control.



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Labor Force

The Brazilian labor force is flexible, creative, abundant, with great capacity for learning, and reflects the country's continental dimensions. As a result of the immense territory, each state - and even regions within the same unit - has social, cultural and economic specific, representing a competitive advantage for companies or sectors. The Rio de Janeiro in this context has a workforce of more abundant and qualified in Brazil. In this section we describe the more relevant legislation and labor regulations applicable to Brazil and Rio.

7.1 Labor Supply and Relations

Availability of Skilled Workers

According to figures published in 2010, Brazilian workforce consists of approximately 94 million people [source IPEA]. Unskilled workers are readily available, but certain regions have shortages of skilled workers and of mid-level workers such as managers, supervisors and technicians.

Unskilled workers from regions other than the main metropolitan areas in the South and Southeast often need substantial training before they reach a satisfactory skill level.

The government operates programs to improve the quality of the unskilled labor force, such as industrial training schools (the SENAI program), commercial trade schools (the SENAC program) and professional education programs for rural workers. In 2010, the gender breakdown of the workforce was estimated at 58% men [source IPEA].

Nationality Requirements

In order to preserve job opportunities for Brazilians, the government generally requires that at least two-thirds of the employees in any Brazilian company are Brazilian citizens, and that two-thirds of the total remuneration is received by Brazilians. Companies must prepare an annual report for the Ministry of Labor with a statement showing the proportion of national to foreign employees. This statement must specify employees' remuneration and other relevant data. For this purpose, a foreigner is deemed to be a Brazilian citizen if he or she has lived in Brazil for at least ten years and the foreigner is either married to a Brazilian citizen, is a parent of a Brazilian-born child or has Portuguese citizenship.

Wages

The Brazilian Federal constitution stipulates a national minimum wage. Currently, the national minimum monthly wage is R\$ 724 (approximately USD 290).

Salaries are payable at least monthly and they may not be reduced. If an employer makes certain payments regularly, such as bonuses or overtime, these payments are treated as part of the salary for labor law purposes. Currently, labor law does not provide for mandatory salary increases, therefore any increases are generally a result of free negotiations between employees and employers usually represented by their category union.

Executive Compensation

Executive compensation in Brazil is competitive comparing to international standards. In addition to a base salary, executives are often entitled to fringe benefits such as a health insurance plan, a company car, life insurance and a private pension plan. Certain benefits are considered part of the base salary. However, because the tax advantages of these benefits have been reduced, it is anticipated that employers will increasingly grant direct salary increases and participation in profit-sharing schemes instead of granting fringe benefits.

Termination of Employment

An employment contract may be terminated either by the decision of the employer (dismissal) or by the decision of the employee (resignation). Dismissal may occur for just cause (such as dishonesty, improper conduct, or indiscipline) or without a just cause (also termed “unfair dismissal” for causes not listed as “just causes” under labor legislation).

If either party terminates an indefinite employment contract without just cause, the party terminating the contract must give the other party prior notice of at least 30 days.

Employees who are dismissed unfairly have the following rights:

- ▶ 30-day of prior notice period, increased by 3 days per year of service, limited to 90-days, with the salary paid in cash;
- ▶ A 13th monthly salary payment, proportional to the time worked in the year;
- ▶ The balance of salary for the remainder of that month; and
- ▶ Proportional vacation (see Section 8.3).

The employer must also pay the employee 40% of the total amount of the deposits made into the Severance Pay Indemnity Fund (Fundo de Garantia de Tempo de Serviço or FGTS)

while the employee is entitled to withdraw the total balance out of the severance fund (see Section 8.2).

Companies may not terminate the employment contract of any worker who is a candidate for a labor union post. If the worker is elected, the employer may not terminate the employee's contract within one year after the election, provided that the employee has not committed any serious fault. Under Brazilian labor legislation, any act that may give rise to dismissal for just cause is considered to be a serious fault. The same rules apply to employees elected to the Internal Accident Prevention Commission (Comissão Interna de Prevenção de Acidentes or, CIPA). A pregnant worker may not be dismissed during the period between the announcement of the pregnancy and five months after the birth, provided, that the pregnant employee has not committed any serious fault. Employees that have suffered an accident during the working period may be entitled for tenure of a year after the return.

Labor Legislation

Labor relations are governed by the Consolidated Labor Laws and other numerous complementary laws and regulations. The Brazilian Constitution guarantees employees a series of labor rights and benefits. If any of these rights or benefits is not observed, an employee may make a claim in court for a period of up to two years after the termination of the employment contract. Claims may be made for the five year period preceding the exercise of these rights. An employee is not permitted to waive rights or benefits stated in a law or in an employment contract (see Civil and Labor Law Rights, and). A change in the legal structure or ownership of an employer does not affect the rights of employees under the labor laws.

Employees' basic rights may be increased through collective negotiation between employers and employees. Employee

negotiations are generally led by the unions or representatives. In certain cases, these negotiations may grant workers broader rights than are granted under the general labor law, which may increase expenses for employers.

Every worker must hold a work card (carteira de trabalho or carteira profissional) which must record the terms of his or her employment contract. Employers must maintain files containing detailed information about each employee and submit this information to the labor authorities annually.

For temporary activities, temporary labor contracts may be used. Labor contracts are generally concluded in writing for a limited or unlimited period of time. Although labor legislation recognizes the validity of verbal contracts, labor agreements for a limited period of time must be concluded in writing. A labor contract for a limited period of time (fixed term) may be renewed once and its total duration may not exceed two years. Upon expiration of the contract, the employee is entitled to all labor rights granted on dismissal, except for the right to prior notice of dismissal (see Termination of Employment) and the 40% payment of the total amount of the deposits made to the Severance Pay Indemnity Fund (see Social Security).

Another type of labor contract, called an Experience Labor Agreement, also exists. An Experience Labor Agreement is used to hire a worker for a fixed term and it allows the employer the chance to verify whether the employee's capabilities meet the expectations for the position before the employee is hired for an unlimited period. Under this contract, the employer is under no obligation to hire the employee definitively on termination of the fixed term. This type of agreement may be renewed once and its total duration may not exceed 90 days. After that period, if the employee continues to work, the contract is considered to have been made for an unlimited

period. Upon termination of the experience period (up to 90 days), the employee is entitled to all labor rights granted on dismissal, except for the prior notice of dismissal and the payment of the 40% of the total amount of the deposits made to the Severance Pay Indemnity Fund. An Experience Labor Agreement may be used in any industry.

Civil and Labor Law Rights

Civil and labor law rights provide that all workers must be treated equally regardless of gender, race or age. The Federal Constitution grants the right to strike to workers in private sector companies, and to civil servants that do not carry out activities considered to be essential (such as military, policeman and others). Other principal labor rights include the following:

- ▶ Pregnancy leave of 120 days for the mother, 28 days before the birth and 92 days following the birth and 5 days leave for the father. Tax benefits are available for companies extending the maternity leave to 180 days.
- ▶ Unemployment insurance for workers dismissed without just cause. This benefit, which is financed by the government, provides financial assistance to the employee for a certain period of time. The amount payable varies according to the employee's salary; and
- ▶ Employers must supply their employees with transportation vouchers, which entitle them to free transportation to and from work. Employees contribute a maximum of 6% of their monthly salaries to the cost.

Labor Union Organization

The political strength of labor unions in Brazil has grown since the country returned to democracy the most powerful labor unions are the Central Única dos Trabalhadores (CUT), the Força Sindical and the Central Geral dos Trabalhadores do Brasil (CGTB), which

compete to obtain new members. The strongest labor union organizations in Brazil are those related to leading industrial centers, especially in the steel, automobile and transport industries based in the Southeast. Not all workers join labor unions, but all workers registered with a specific company must make an annual contribution to the unions equal to one day salary. The payment is withheld by the employer.

7.2 Severance Pay Indemnity Fund and Social Security

Severance Pay Indemnity Fund

Companies are obliged to make monthly contributions to the Severance Pay Indemnity Fund (Fundo de Garantia de Tempo de Serviço or FGTS). Contributions may be withdrawn by employees under certain circumstances, including retirement and unfair dismissal. The company deposits an amount correspond to 8% of the employee's monthly remuneration including certain fringe benefits, into a limited access linked bank account.

If an employee is dismissed arbitrarily or unfairly, the employer must pay the employee an additional amount equal to 40% of the company's deposits made into the employee's FGTS account during the time of his or her employment with the company (subject to monetary correction and interest). With effect from January 2006, in the case of unfair dismissal, a company must pay an extra 10% of the company's deposits into the employee's FGTS in addition to the 40% deposit. However, the additional amount is not paid to the dismissed employee but to the Brazilian government as an additional social security contribution.

Social Security Contributions

Both employers and employees must make social security contributions. Contributions

are used to fund government pensions paid to retired citizens, as well as other social security benefits (see Section 8.3).

Employees who receive remuneration from a Brazilian source are subject to local social security tax, withheld by the payer. Contributions from employees range from 8% to 11%, depending on the amount of compensation, with a maximum monthly contribution of R\$ 482.93 (as of January 1, 2014). Company contributions range from 24.5% to 28.8%, depending on the type of economic activity, and are levied on the total compensation paid on a monthly basis.

From March 2000 onwards, a company that uses the services of a self-employed person must pay 20% of the self-employed person's total remuneration as a social security contribution. The company must also collect 11% of the total amount paid on behalf of the self-employed person, limited to R\$ 482.93. The same rules apply to partners receiving fees if they work for their own companies.

7.3 Other Payroll Taxes and Employee Benefits

Pensions

Although private pension schemes funded by contributions from employees or employers are still comparatively rare in Brazil, they are becoming increasingly more common. The public pension scheme, controlled by the National Institute of Social Security (Instituto Nacional da Seguridade Social or INSS), is funded by contributions from active workers (see Section 8.2), but it generally provides very low benefits.

Regarding urban employees, government old age pension or retirement pension schemes are available to men aged 65 years or older and to women aged 60 years or older, if the person has made at least 180 monthly pension contributions.

Vacation

After each 12 month employment period, employees are entitled to 30 calendar days of vacation, to be taken in the subsequent 11 month period. In case vacation days are not taken in the mentioned period, the employer will be subject to pay the amount in double.

Vacation payment should be added up by 1/3 (one-third) over the base salary as compulsory vacation allowance. In addition, employees may choose to receive in advance 50% of their 13th monthly salary at the beginning of the vacation period, and request the conversion of 1/3 of their vacation days into a tax-free payment. Also, employees are entitled to sell 10 calendar days of their vacation period

Working Terms and Overtime Pay

Brazilian legislation establishes that the maximum working week is 44 hours, spread over five or six working days. The working day may not exceed ten hours, made up of eight regular work hours and a maximum of two overtime hours. A lunch period of at least one hour must be given to workers who work more than six hours a day, and 15 minute break is mandated for those who work more than four hours a day.

An employer may ask employees to work overtime or enter into a union agreement for that purpose. Overtime work is not mandatory (unless there is a prior agreement between the employer and employee) and it must be compensated at a premium rate of at least 50% of the regular salary, unless previously agreed otherwise (with the assistance of the union). Managers or employees in a position of trust or who are not subject to working time controls and other special employee groups are not entitled to overtime payment.

Bonus

Workers have the right to receive an annual bonus, referred to as the 13th monthly salary,

which is proportional to the amount of time worked during the year. The 13th month salary is paid in two installments, the first payment in the period between February and November, and the second in December.

Incentives

Employees may also receive incentives in the form of transportation and meal subsidies. Meal vouchers may be used in restaurants and other eating establishments. Companies generally receive tax deductions or other beneficial tax treatment for the related expenses. In addition, under certain conditions, this benefit is not included in the employee's taxable income. As previous described, the transportation subsidy is a compulsory benefit that employers must grant to their employees. The meal subsidy is generally optional for employers, except in cases where this benefit is governed by a union agreement.

Profit Sharing

The Federal Constitution expressly grants workers the right to participate in profit sharing



schemes. Profit sharing schemes must result from negotiations between labor unions and employers and payments should not occur more than twice a year. For the purpose of labor and social security legislation, profit sharing is not considered to be remuneration; therefore, payments are not subject to social or labor charges, only withholding income tax.

7.4 Special Requirements for Foreign Nationals

Travel for the purpose of working in Brazil requires that the foreigner, regardless of his nationality, holds a work visa prior to his arrival in Brazil. There are several types of visa issued for working in Brazil. An analysis of the activities to be performed is necessary in order to apply for the correct type of visa.

Types of Work Visas in Brazil

Temporary Olympic Visa - Legal grounds ► Normative Resolution 98/2012 - which regulates the granting of work permits to foreigners who will work exclusively in the preparation, organization, planning and execution of the FIFA Confederations Cup 2013, FIFA World Cup 2014 and Rio Olympics and Paralympics 2016.

Objective ► The application will be examined only the binding of the foreign professional activities to these events and the linking of these foreign professionals to these events.

Advantages ► Faster processing times by the Ministry of Labor; and fewer documents required for the application and issuance of the visa.

Temporary Visa with Local Work Contract - Legal Grounds ► Normative Resolution 99/2012 - Regulates the provision that allows employment of foreigners entering Brazil on a Temporary basis.

Objective ► Allow paid activities through an employment relationship with an entity

established in Brazil.

Applicant ► Legal entity established in Brazil.

It is important to note that, under no circumstances can the bearer of a Temporary visa hold a position or function as an administrator, manager or director in a Brazilian company or establish an individual proprietorship, under penalty of being deported or having his visa canceled.

A temporary visa with employment contract is valid for up to 2 (two) years and may be extended, transforming the visa into a Permanent visa.

To obtain a Temporary visa with employment contract, some requirements must be met the company and by the foreigner:

Company ► *The Brazilian company must provide proof that it has at least 2 Brazilian employees for each foreigner hired. This 2:1 ratio serves for both the proportion of Brazilian-foreign employees and payroll amounts.*

Foreigner ► *The foreigner intending to work in Brazil must have at least one-year of professional experience in the area that he is going to work in Brazil, after completing his/her university program. For positions that do not require a college degree, the foreigner must provide proof of at least nine years of formal education and two years of experience related to the duties to be performed in Brazil. If the foreigner holds a graduate or master's degree relevant to the function in Brazil, no proof of professional experience is necessary.*

Technical Visa - Legal Grounds ► Normative Resolution 61/2004 - Regulates the granting of a work permit to a foreigner under a technology transfer contract or technical assistance service contract based on a cooperation or convention agreement without employment relationship.

Valid for 1 year.

Objective ► Allow technical assistance and/or technology transfer services from a foreign company to a legal entity established in Brazil. Not applicable to foreigners who perform merely administrative, financial or management functions for the company established in Brazil. The foreigner cannot be used to replace domestic labor. There can be no employment relationship between the foreigner and the Brazilian employer.

Applicant ► Legal entity established in Brazil

Foreigner ► To obtain a one-year technical visa, the foreigner must have at least 3 years of professional experience in the technical service provision area (related proof of experience shall be provided through a declaration by the current employer, duly legalized by the Brazilian Consulate abroad). Depending on the documents supporting the application, the professional is not required to be an employee of a company of the same group abroad.

Company ► The Brazilian company must have 1 (one) of the documents required by law, namely:

- a) *a document issued by the Brazilian Federal Revenue Service for purchase and sale of equipment with technical assistance (Import and Export Authorization - DI);*
- b) *a document signed with the identification of the parties, for technical cooperation among companies of the same group, with proper proof of commercial relationship, or a technical assistance contract signed by and between the Brazilian company and the foreign company.*

A detailed Plan of Training must also be presented which specifies the activities to be performed by the foreigner in Brazil, detailing the type of project involved, the methods used, and the technology and know-how to be passed on to local workers.

With this type of visa, the foreigner is not paid

any compensation in Brazil, since the employment relationship is kept abroad; however, compensation will be taxed in Brazil (and the professional must pay compulsory individual income tax on certain earnings - "carnê leão" after 183 days).

This visa may not be transformed into a permanent visa.

Valid for 90 days.

For short-term technical services, up to 90 days, the same type of visa may be applied for, this time directly at the Brazilian Consulate, by presenting an invitation letter containing detailed information on the activities to be performed, in addition to other information. This visa may be granted only once, for each 180-day period for the same foreigner.

Temporary Visa for Professional Training - Legal Grounds ► Normative Resolution 87/2010 - Provides for the granting of visas to foreigners intending to enter Brazil for professional training in a Brazilian subsidiary belonging to the same group, without an employment relationship in Brazil.

Objective ► Allow the foreigner to take part in professional training, aimed at developing practical skills and knowledge, without an employment bond.

Applicant ► Legal entity established in Brazil.

The foreigner must provide proof of employment with the foreign company and that his/her source of income will originate abroad. The visa is valid for up to 1 year and may not be extended.

Temporary Offshore Visa - Legal Grounds ► Normative Resolution 72/2006 - Regulates the entry of foreign professional who will work on board a foreign embarkation or platform.

Objective ► Allow temporary work for up to 2 (two) years to a foreign citizen who is not



a permanent visa.

Permanent Visa - Administrator - Legal Grounds

► Normative Resolution 62/2004 - Regulates the concession of a work permit and permanent residence to a foreign Administrator, Manager, Director or Executive with the power to manage a Civil or Commercial Association, Group or economic Conglomerate.

Objective ► Allow foreigners to hold legal management positions in Brazil-based companies. The visa can be applied for if the Brazilian company provides proof of foreign investment in two ways:

Minimum of R\$ 600,000 (six hundred thousand reais) ► the visa restriction shall depend upon the administrator's term of office, which shall be no longer than 5 years. The visa is extendable at the Federal Police, removing the restriction on the foreigner from the company who applied for the visa.

Minimum of R\$ 150,000 (one hundred and fifty thousand reais) ► as well as a commitment to create 10 (ten) new jobs during the following 2 (two) years. The visa will be restricted to 2 (two) years and may be extended at the Federal Police.

Applicant ► Legal entity established in Brazil.

The foreign administrator shall hold a statutory position and be formally appointed in a document filed with the Commercial Registry, i.e. the applicant shall be appointed as an administrator.

If the foreigner needs to combine legal management positions in other companies belonging to the same economical group, prior authorization from the Ministry of Labor is necessary.

Permanent Visa - Individual Investor - Legal Grounds

► Normative Resolution 84/2009 - Regulates the granting of a permanent visa to a foreign investor - individual.

Objective ► Allow a foreigner investor to stay permanently in Brazil in order to invest own foreign-sourced funds in production activities. The investment shall be paid-in to the company's equity capital.

Applicant ► Legal entity established in Brazil (company in which the investment is made).

In order for a foreigner to obtain a Permanent Visa based on the referred to resolution, he would have to make a minimum investment of R\$ 150,000.00 in his Brazilian company from personal funds. It is important to mention that the foreigner will not be able to repatriate this investment or transfer his shares to another associate during the period his Visa is linked to the company in which he invested, which is three years. An investment plan must also be presented in order to demonstrate to the Ministry of Labor how the amount invested will be used, and all the benefits the business will bring to the region where it will operate.

After the visa is granted, there are some bureaucratic steps that should be taken:

Register with the Federal Police ► Upon arrival in Brazil with the visa, the foreigner (and dependants, if applicable) must register at the Federal Police in the jurisdiction of the residence, within 30 days. This registration is a legal requirement and a necessary step to obtain a Brazilian ID document and subsequently Brazilian documentation for employment.

Employment Record Book ► All workers are required to have a "Carteira de Trabalho e Previdência Social" or "Employment and Social Security Document." No company may legally hire a worker without such a document. All foreigners who seek to work in Brazil, whether on a temporary or permanent basis, with an employment relationship, must obtain this document from the closest regional office of the Ministry of Labor.

Tax Registration number ► This is known as CPF "Cadastro de Pessoa Física" or "Register of Individual Taxpayers." It is mandatory to work in Brazil and required to open a bank account. The registration contains the individual's name and unique tax registration number with the Brazilian Federal Revenue Service.

7.5. Taxation of Temporary and Permanent Visa holders

A foreign resident must obtain either a permanent or temporary visa to start working in Brazil. A foreign individual will be subject to Brazilian taxation as a local resident in the following situations:

- As a general rule, a person holding a Temporary Visa is subject to taxation in Brazil:
 - if the individual has a labor contract from the date of arrival in Brazil; or
 - if the individual has no labor contract, taxation applies if the person stays in the country for longer than 183 days, consecutive or otherwise, in any 12 month period, starting from the date of any entry in Brazil and ending on the day following the completion of the period; and
- As a general rule, a person holding a Permanent Visa is subject to taxation from the date of arrival in Brazil. To serve as a director or officer of a Brazilian subsidiary of a foreign company, a foreigner must hold a permanent visa. A permanent visa is valid for a period no longer than five years.

Tax exemptions may be applicable in the case of non-resident individuals who are employed or otherwise hired to work personally and directly in the organization or realization of the 2014 World Cup and 2016 Olympics and Paralympics.

employed in Brazil but enters the country in order to perform continuous professional activities on a foreign carrier or platform that is operating or will operate within Brazilian territorial waters.

This visa is granted for up to 2 (two) years, according to that established in the service agreement, with the possibility for extension by the Ministry of Justice for another 2 (two) years.

Applicant: Legal entity established in Brazil.

Important: Dependants of foreigners holding any type of temporary visa shall not carry out any paid activity in Brazil, restrictions not applicable to dependants of a foreigner holding



Taxation

Tax legislation is considered to be one of the most complex in the world, therefore, most companies coming to Brazil for the first time, or have already been established in the country for a long time, require a lot of professional support to deal with the regulations. On top of federal taxes, states and cities have their own ancillary tax legislation. Although this document does not intend to be exhaustive about this subject, we intend to provide a solid introduction to the tax environment in Brazil and Rio to support investors in making their decisions.

8.1 Overview of the Brazilian Tax System

Introduction

Brazil imposes taxes at the federal, state and municipal levels for individuals and companies.

A Brazilian company is subject to income tax at a general rate of 25% on its worldwide income. A Brazilian branch office, agency or representative office of a company domiciled abroad is also subject to Brazilian tax on its worldwide income. Losses incurred on foreign transactions may not be used to offset income generated in Brazil; however, a foreign tax credit is available for corporate taxes paid abroad.

In addition to corporate income tax, a Brazilian company is subject to social contribution tax, charged at a rate of 9% on its worldwide income (social contribution tax applies similarly to income tax). Additionally, since May 1, 2008, social contribution tax rate was increased to 15% for financial institutions, private insurance companies and capitalization companies. An individual who is resident in Brazil for tax purposes is subject to income tax at a rate of 15%, 22.5% or 27.5% on his or her worldwide income, and to capital gains tax at a 15% rate.

The federal government imposes a VAT-type of tax (IPI) on imports and transactions involving manufactured goods, while states also impose a VAT-type of tax (ICMS) generally charged on sales transactions (including any movements of goods out of the company's facility as well as certain types of services). PIS (Programa de Interação Social and COFINS - Contribuição para o Financiamento da Seguridade Social are two additional taxes charged on imports of goods and services and on gross receipts.

The main municipal tax is the service tax (ISS - Imposto Sobre Serviços) charged on the importation and the local provision of certain services. ISS applies at rates that vary from 2% to 5%. Exported services may be exempted from ISS, provided certain conditions are met.

Sources of Tax Law

The Brazilian Federal Constitution sets out the principles and guidelines for the tax system and it is also the authority for infra-constitutional legislation (including tax treaties). Taxation is regulated by the National Tax Code (Código Tributário Nacional or CTN); federal, state and municipal tax laws; international tax treaties and government decrees. Administrative and judicial court decisions are generally used as guidelines but they are not binding for third parties. The Income Tax Regulations (Regulamento do Imposto de Renda or RIR) is a compendium of Federal tax legislation.

Federal taxes are enacted through congressional legislation and through provisional measures issued by the President. In practice, the President is permitted to issue legal provisions to regulate issues or transactions that are deemed to be urgent (so-called Provisional Measures or MPs). MPs are hierarchically equivalent to Federal law. An MP becomes effective until final approval from the Brazilian Congress, which must happen within a maximum period of 120 days; otherwise the MP is automatically revoked with effect from the date of the publication. Because Brazilian governments have frequently used MPs to introduce significant changes in the tax system (including introducing new taxes, and revoking tax benefits,) long-term tax planning has become difficult to implement. This practice has also led to the enactment of laws that were later declared to be unconstitutional by the courts.

Decisions issued by higher courts are binding only for the case in question. However, several similar decisions being issued by the higher courts generally results in the tax authorities issuing a general ruling for that specific question. With effect from 2005, with the enactment of Constitutional Amendment 45/2004, certain Supreme Court rulings on tax matters that involve constitutional law and resolutions issued by the Federal Senate may be binding on the tax authorities and consequently on all taxpayers. These binding rulings require approval of the Supreme Court and publication of the resolution in the Official Daily Government Newspaper (DOU).

Advance Rulings

Formal tax rulings are available at the federal, state and municipal levels; however answers generally take a significant time to be issued and a ruling is only binding for the taxpayer that submitted the ruling request. Also, the ruling must generally be based on actual facts and figures, that is, it may not generally

be based on hypothetical situations or assumptions. In practice, therefore, it is very difficult to obtain advance rulings.

Tax Administration

The Federal tax system is administrated by the Federal Tax Revenue (Receita Federal do Brasil or RFB), which is part of the Ministry of the Economy. States and municipalities maintain similar administrative departments.

Filing

The tax year is the calendar year (January 1 to December 31). Regardless of the accounting year adopted by a company, or of any election made to pay corporate taxes based on actual profits or deemed profits, a Brazilian company must file an annual income tax return based on its consolidated results for the calendar year. The return must generally be filed by the last working day of June following the end of the tax year.

A small entity with taxable income below specified amounts is also generally required to file an annual income tax return but using a simplified method of accounting (“Simples”). A tax exempt entity must also generally file annual income tax returns. Individuals are generally required to file their annual income tax returns by the end of April following the end of the tax year.

Tax Payment

Legal entities ► A company may elect to pay corporate taxes based on a presumed profit method (*lucro presumido*) or based on actual taxable income (*lucro real*). The election is annual and binding for the entire calendar year.

Under the actual profit method, corporate taxes are calculated on the actual profit made, adjusted for nondeductible expenses and nontaxable revenue on an annual or quarterly

basis. The tax rate is 15% plus a surtax of 10% on annual income that exceeds R\$ 240,000. The company may choose to calculate the actual profit on a yearly or quarterly basis. While the first regime requires monthly prepayments, the latter requires quarterly payments. The monthly corporate tax payments may be calculated using deemed or actual taxable income, and they are considered to be advance payments of the actual corporate tax due by the end of calendar year. If the taxpayer elects to use a quarterly tax period, the difference between the prepayments made and the actual corporate tax due at the end of each quarter must be paid by the last working day of the month following the previous quarter (installment payments are available plus interest).

If taxpayers elect for an annual period, any positive difference between the prepayments and the actual corporate tax due at the end of the calendar year must be paid by the last working day of March of the following year.

The corporate income tax due may be reduced by income taxes paid or withheld and certain tax incentives may also apply. A Brazilian taxpayer may claim a refund if an overpayment has been made (although the process tends to be very time-consuming) or the taxpayer may recognize a tax credit that may be used to offset other federal taxes (under special conditions).

A company that uses the presumed profit system calculates corporate taxes based on a deemed taxable base made up of a set percentage of gross sales and service receipts. The percentage that applies varies depending on the type of business carried out by the company, but for sales of goods the percentage is generally 8%, while for services the percentage is generally 32%. Passive income (such as capital gains or financial revenue) is not included in the presumed taxable income and this income is taxed in full. For the social contribution tax, the presumed percentage

is 12% (or 32% for gross service receipts).

Small entities with taxable income below specified amounts may follow simplified payment procedures.

Individuals ► An individual taxpayer is generally required to pay income tax on a monthly basis (cash method) based on worldwide income. Employees are subject to tax withholding on remuneration received (using a Pay-As-You-Earn or PAYE system). Companies that make payments to self-employed persons must withhold tax at source. If a company makes several payments to a self-employed person during the month, the tax withheld must be calculated in accordance with the tax rate for the total amount paid for the month.

Income tax on foreign earnings or earnings received from Brazilian sources on which no Brazilian tax has been withheld at source must be paid monthly using a specific voucher (*carnê-leão*). The tax is due on the last working day of the month following the month when the income was received.

Tax on capital gains is generally not included in the annual tax liability calculated on the income tax return for individuals. Instead, the tax is due on the last working day of the following month when the gain is realized. Special rules apply to gains derived from stock exchange transactions.

Brazilian taxpayers may also benefit from a self-assessment by spontaneously paying taxes due plus interest on late payments before any tax audit procedure (such as a Notification of Assessment, for example) to avoid fines that may apply.

Tax Audits

All Brazilian taxpayers are subject to tax audits. Although the criteria for selecting taxpayers for inspection are not publicly known, it is common for the tax authorities to audit companies with relatively high income and net worth. A Brazilian



company must maintain proper records and supporting documentation for taxes paid for a minimum of six years, in case of a tax audit.

Tax Assessment

A Brazilian taxpayer is notified through a Notice of Assessment (Auto de Infração) if the tax authorities find any irregularity in the income tax return. The taxpayer has 30 days to file a defense based on the tax assessment. If this defense is rejected, an administrative appeal may be made to the Taxpayers' Council (Conselho de Contribuintes).

If a company receives a Notice of Assessment, it may reduce the penalty by paying the amount due within 30 days following the issuance of the Notice. If payment in full is made in this period, the company receives a 50% reduction in the normal penalty rate of 75% (therefore, the effective penalty rate is 37.5%).

Interest and Penalties

Income tax paid after the due date may be subject to the following interest and penalties:

- ▶ Official interest (SELIC -Brazil central bank interest rate, "Sistema Especial de Liquidação e de Custódia") charged at a monthly rate published by the government; and
- ▶ A daily fine of 0.33% on the tax due, up to a maximum penalty of 20% (excluding interest).

Tax assessments arising from failure to pay tax attract an automatic penalty of 75% of the tax not paid, while the penalty for fraud is 150% of the tax due.

Appeals

An appeal at the administrative level must be filed with the Taxpayers' Council, an administrative court with members composed of tax practitioners and judges nominated by the tax authorities.

Tax litigation initiated by a taxpayer is generally either a legal defense against an assessment after administrative remedies have failed or a challenge to the constitutionality of a tax law. Federal courts analyze Federal claims; State courts analyze both State and Municipal claims.

Appeals at the judicial level are then analyzed initially by a local Federal or State court while a subsequent appeal is generally decided by a Regional Federal Court. Last instance is appeal to a superior court located in Brasília. The appeal is addressed to the Superior Court of Justice or, if the litigation involves a discussion on the compliance of the law with the constitution, the appeal must be addressed to the Federal Supreme Court. Certain appeals must be made to both superior courts simultaneously.

Statute of Limitations

The statute of limitations in Brazil for tax purposes is generally five years, beginning on

the first day of the calendar year following the year when the tax could have first been assessed (in practice, up to six years). Longer statute of limitation periods apply for the Severance Pay Indemnity Fund - FGTS (up to 30 years).

8.2 Resident Corporations

Permanent Establishment

Brazilian legislation does not clearly define Permanent Establishment (PE); however, there are certain articles in the Brazilian tax law that could create a PE exposure for a nonresident doing business in Brazil. In particular, a taxable presence may be recognized in case nonresidents fall within one of the following categories below:

- ▶ Branches (filiais), offices (sucursais), agencies or representations in Brazil of a foreign legal entity;
- ▶ Foreign principal (comitentes) of a foreign entity, to the extent it relates to the income generated by their representatives (representantes) or commission agents (comissários) in Brazil;
- ▶ Sales made in Brazil by a Brazilian agent with powers to bind the foreign entity;
- ▶ "Em comum" (formerly "de facto") enterprise;
- ▶ Transactions performed by mandatory commission agents, representatives or other types of agencies of the foreign entity in Brazil associated with the remittance of goods into the country to be sold in Brazil, for the account of the non-resident, under a consignment arrangement.

Rates

The standard corporate income tax rate is 15% plus a surtax of 10% on taxable profits that exceed R\$ 240,000 annually (or R\$ 20,000 per month). Social Contribution Tax is generally levied at a rate of 9%. The taxable base for social

contribution tax is very similar to the base used for income tax purposes, with small differences. Therefore, the combined corporate tax rate is 34%.

Exemption from or reduction of income taxes is granted to certain types of businesses. For an example of a corporate income tax and social contribution tax calculation, see Appendix 1.

Worldwide Income

Companies domiciled in Brazil and Brazilian branch offices, agencies and representative offices of companies domiciled abroad are subject to Brazilian corporate income tax and social contribution tax on profits on their worldwide income and they are required to pay corporate taxes under the actual profit system.

The amount of foreign tax paid by an entity may be used to offset Brazilian corporate tax but limitations may apply (up to the amount of Brazilian corporate tax charged on the foreign income earned).

Under the "Brazilian Controlled Foreign Corporation (CFC) rules," CFC income must be included in the company's taxable income at the end of each calendar year, regardless of the availability or qualification of the income.

It is important to highlight though, that the Brazilian CFC rules are currently in the process of being amended. New tax rules are in the process of being introduced with respect to the treatment of foreign profits accrued abroad by Brazilian companies. A Provisory Measure was issued on 11 November 2013 (MP 627/2013) but it is not definitive yet. Although changes are expected for the future, in principle the new rules will be optional for 2014 and mandatory as of 2015.

Income Subject to Tax

A Brazilian company may elect to pay corporate taxes based on its actual profit (actual profit

system) or on a presumed profit (presumed 100 // Doing Business in Rio // Brazil on the path of a sustainable future Brazil on the path of a sustainable future // Doing Business in Rio // 101 profit system). The election is annual and is generally driven by the profitability of the company and its plans for future investments, among other factors.

Under the presumed profit system, corporate taxes are charged on a presumed profit that is generally calculated by applying a fixed percentage to the gross sales or service revenue (the percentage is based on the type of activity undertaken by the company), plus 100% of the company's passive income. Therefore, no expense deductions are allowed and tax losses may not be deducted or carried forward. Corporate taxes are computed on a quarterly basis. Only Brazilian companies that comply with certain requirements may elect to pay corporate taxes using this method.

A Brazilian company may also adopt the actual profit method to pay corporate taxes. In this case, the tax is charged on the company's actual profit adjusted for nondeductible expenses and nontaxable revenues. Corporate taxes may be calculated and paid on a quarterly or annual basis (with prepayments made during the calendar year).

In general, operating expenses are deductible for corporate tax purposes provided they are necessary and usual for a company's activity. Deductible expenses also comprise in general:

Depreciation ► fixed assets may be depreciated using the straight-line method at rates provided by the Brazilian Federal Revenue Service for various classes of assets: for buildings, the rate is 4% a year; for machinery and equipment, the rate is 10%; for vehicles the rate is 20%; and for computer hardware and software, the rate is 20%. However, there is the possibility of using a different useful life, but the taxpayer would have to prove that the different

useful life is accurate. For issues related to useful life, the tax authority or taxpayer may request an appraisal report from the National Institute of Technology (INT) or another official institute of research and technology, which would have the prevailing useful life. Companies that operate two work shifts per day may depreciate machinery and equipment at 1.5 times the normal rate. If a company operates three shifts, it may double the normal rate. Other methods of depreciation may be authorized by the Brazilian authorities.

Provisions ► the following provisions are deductible for computing taxable income:

accrued vacation pay based on employees' remuneration and the number of vacation days to which employees are entitled to at the end of the calendar year; and the 13th monthly salary paid to employees. Under certain conditions, effective losses on receivables are deductible. Provisions not expressly mentioned by Brazilian law, such as the provision for bad debts, are not deductible.

The following expenses are in general treated as nondeductible for corporate taxes:

- Expenses related to fixed assets, including financial and operating lease payments, depreciation and amortization, if the assets are not directly used in the production or commercialization of products and services.
- Fringe benefits given to shareholders and officers if the beneficiaries are not identified and individualized. In these circumstances, withholding tax at a rate of 35% (with an effective rate of 53.84%) is imposed. Neither the fringe benefits nor the withholding tax is deductible.
- Donations in general, gifts and other non-mandatory payments.

Small businesses may use simplified methods to calculate their tax liabilities.

Rents, Royalties, Dividends and Interest

Rental, royalties and interest income derived by resident corporations are subject to tax as ordinary income.

Dividends paid by other Brazilian resident companies are excluded from taxable income if the recipient records the investment at cost. If the recipient records the investment by using the equity method, dividends received are deducted from the value of the investment. Dividends derived from nonresident legal entities are taxable in Brazil (see Worldwide Income).

Capital Gains

Capital gains are generally included in taxable income and are subject to tax at the regular corporate income tax and social contribution tax rates. Capital gains effectively received by Brazilian companies from the disposal of investments in foreign branches, subsidiaries, agencies or representative offices are taxable in Brazil. For capital losses, see Losses Carried Forward. In general, capital gains derived by nonresidents on disposal of Brazilian assets are subject to capital gains tax at a rate of 15%. A 25% rate applies to nonresidents located in low-tax jurisdictions.

Losses Carried Forward

Tax losses may be carried forward indefinitely, but carryback and inflation adjustment are not permitted. Tax losses that are carried forward may be used to offset up to 30% of a company's taxable income in a tax period. Restrictions on the offsetting of carried forward tax losses may be imposed if there is a change of ownership control and in the business activity between the period when the losses were generated and the period when the losses will be effectively used. Non-operating tax losses (for example, capital losses) accrued with effect from 1996 may only offset non-operating taxable income (for example, capital gains). In a corporate

restructuring involving a merger, the tax losses of the merged company must be written-off.

Losses arising from transactions carried out on stock, future or commodity exchanges or on organized over-the-counter markets in Brazil may only be used to offset gains realized on transactions of the same nature. Day-trading losses may only be used against day-trading gains.

Losses generated outside Brazil are subject to specific tax treatment and should be analyzed on a case-by-case basis.

Valuation of Assets

Inventories ► Companies that have an integrated costing system must value inventory for tax purposes at the lower of cost and market value, using either the average cost or the first in, first out (FIFO) method. Direct cost and last in, first out (LIFO) methods may not be used. In general, companies that do not have an integrated costing system must value finished products at 70% of the highest sale price used in the tax period. Work-in-progress must be valued at either 80% of the finished product cost or 1.5 times the highest cost of the material content. Supermarkets and similar enterprises that sell a large number of goods may use a specific system for inventory valuation based on periodic and simplified counting.

Marketable Securities and Fixed Assets

► Marketable securities and fixed assets are generally valued at cost for tax purposes. Different rules may apply for financial institutions.

Treatment of Groups of Companies

Brazilian tax law does not permit the filing of consolidated tax returns, nor does it recognize the concept of a group of companies (consolidation rules).

Dividends, Interest and Royalties Paid to Foreign Affiliates

Dividends related to profits accrued as of January 1, 1996 and distributed to nonresidents are not subject to withholding tax in Brazil.

Interest remitted abroad is generally subject to withholding tax at a rate of 15% (or a lower treaty rate). Interest paid to residents of low-tax jurisdictions is subject to a 25% withholding tax.

Royalties paid to foreign companies are subject to a 15% withholding tax. A special contribution (CIDE - Contribuições de Intervenção no Domínio Econômico) charged at a 10% rate is also imposed on royalty payments, including payments for technical assistance and technical services. The tax is payable by the Brazilian payer (it is not a withholding tax). If the payment is made to a low tax jurisdiction, a 25% withholding tax rate plus a 10% CIDE applies.

The impacts of Service tax (ISS), taxes on gross revenues (PIS and COFINS) and foreign exchange tax (IOF-FX) should also be considered on a case-by-case basis in the context of royalty payments remitted abroad. As far as deductibility is concerned, royalties may be deducted from taxable income and limited to 1% to 5% of net sales. For trademark royalties, the applicable limit is 1%. In order for royalty payments to be treated as a tax-deductible expense, the contracts must be approved by the Brazilian Intellectual Property Agency (Instituto Nacional de Propriedade Industrial or INPI) and they must be registered with the Brazilian Central Bank to allow remittances to be made abroad.

On April 4, 2012, a new Decree was enacted by the Brazilian Government (Decree 7,708/2012) establishing a Brazilian coding system to be adopted on the classification of information relating to transactions with services, intangibles and other operations that may produce changes in the assets of individuals, legal persons or pass-through

entities, carried out between individuals or legal entities domiciled in Brazil and individuals or legal entities domiciled abroad. Following such regulations, tax authorities issued IN 1,277/12, introducing an online system named SISCOSERV where taxpayers must report the transactions outlined in the Brazilian Codification of Services, Intangibles and Other Transactions that result in Equity Variations (Nomenclatura Brasileira de Serviços, Intangíveis e Outras Operações que Produzam Variações no Patrimônio -NBS).

Notional Interest on Equity

A Brazilian company may calculate notional interest on the net equity value (adjusted by the deduction of certain accounts) paid to both resident and nonresident shareholders. Notional interest on equity is a hybrid mechanism to remunerate capital to the extent that amounts paid are treated as deductible expenses for corporate tax purposes (similar to financial expenses) while shareholders are remunerated for their investment in capital.

Interest on equity is calculated on the adjusted net equity by applying the official long-term interest rate (TJLP) but subject to limitation established by law, specifically, 50% of current earnings or accumulated profits. It should be noted, however, that in December 2007 the Brazilian accounting regulations were amended to determine, among other things, that the accumulated profits account was extinguished.

Interest on equity paid to foreign shareholders is subject to withholding tax in Brazil charged at a general 15% rate (or 25% if of payment is made to a low-tax jurisdiction). Interest on equity payments tends to be advantageous to profitable Brazilian subsidiaries (to the extent that the interest generates tax-deductible expenses) although the overall tax benefit should be evaluated in the light of the country of residence of the foreign shareholder.

If a Brazilian legal entity is a shareholder, gross revenue taxes (PIS and COFINS) also apply on interest on equity received.

Foreign exchange variations

Brazilian tax law allows a Brazilian taxpayer with cross border transactions (for example, operations in foreign currency such as imports and loans) to elect to calculate and pay corporate taxes on foreign exchange gains and/or losses on a cash or accrual basis. Under the cash basis of accounting method, taxation is triggered upon liquidation of the transaction, while under the accrual method; taxes are computed on a monthly basis upon the corresponding accounting entry.

As of January 1, 2011, taxpayers must elect the taxation method (cash or accrual basis) upon filing January's DCTF Return (Declaração de Débitos e Créditos Tributários Federais) and, this election cannot be changed for the entire calendar year (even by means of filing of amendments).

Digital bookkeeping

The Public System of Digital Bookkeeping (Sistema Público de Escrituração Digital, or SPED) is a unified electronic storage of accounting and tax bookkeeping. It is intended to replace bookkeeping prepared on paper and to unify the preparation, storage, and certification requirements of the Board of Trade and of the tax authorities at the municipal, state and federal levels. The final date by which companies must adopt the SPED depends on the companies' activities and corporate tax regime.

Transitional tax regime and Provisory Measure 627/13

Law 11,638/07 introduced changes to the Brazilian Corporate Law (Law 6,404/76) with respect to the preparation of financial statements for corporations as well as for large companies, regardless of whether

they are organized as corporations. This new law represents a major step in the process towards harmonization with International Financial Reporting Standards (IFRS).

Law 11,941/09 (which resulted from the conversion of Provisory Measure 449 into law) determined that the adoption of these new accounting standards shall be tax neutral, through the creation of a transitional tax regime (Regime Tributário de Transição or RTT). Under the regime, taxpayers shall continue to use the accounting methods and criteria existing on 31 December 2007 to determine taxable income for income taxes, and PIS and COFINS purposes. Taxpayers are to keep track of these adjustments in a specific tax accounting book named "FCONT," as they result in deferred taxes. RTT was optional for 2008 and 2009 and mandatory from 2010.

On November 12, 2013, Brazil's Federal Government published Provisory Measure 627/13 that revoked the RTT and introduced new rules aligning the Brazilian tax system with the accounting model set forth by Law



11,638/2007. These rules, which are optional for 2014 but will be mandatory from 2015 on, govern the adjustments arising from the adoption of new accounting methods and criteria. The Provisory Measure is currently in the process of conversion into Law and, thus, changes on its current wording are still expected.

8.3 Transfer Pricing

A Brazilian company that elects to pay corporate taxes using the actual profit method is required to comply with Brazilian transfer pricing rules for its export and import transactions, while a company that elects the deemed profit regime will only need to observe transfer pricing rules for its export transactions.

Brazilian transfer pricing rules came into force on January 1, 1997 and they differ in several aspects from the arm's length principle as adopted under OECD⁴ guidelines and by the majority of the countries with transfer pricing regulations. For example, Brazilian taxpayers are required to adopt fixed profit margins to demonstrate compliance with transfer pricing regulations under one of the methods provided that do not necessarily reach a profit margin under arm's length conditions.

Concept of Related Parties

The legislation has a very broad definition of related parties involving concepts of direct and indirect control utilizing voting power and business control criteria. This includes companies associated in joint ventures, consortiums and other forms or joint ownership. In addition, there are rules in the sense that exclusive distributors and interposed parties are also considered related parties for the purposes of Brazilian transfer pricing regulations.

Transactions with Low-Tax Jurisdictions

Brazilian transfer pricing rules also apply to residents of low-tax jurisdictions regardless of a corporate relationship with the Brazilian company exist. Countries treated as low-tax jurisdictions are included in a Federal list (black list). They are generally defined for Brazilian tax purposes as countries that do not impose income tax or that impose income taxes at a rate that does not exceed 20%. The list, in principle, also includes countries that maintain secrecy for the shareholding ownership of companies resident in such countries.

The law 11,727, published on 23 June 2008, broadened the scope of low-tax jurisdiction for transfer pricing purposes. According to the new law, low-tax jurisdictions should now include those jurisdictions which do not allow access to information with respect to the beneficial owner (beneficiário efetivo) of income attributed to nonresidents.

Additionally, the law 11,727 introduced the concept of Privileged Tax Regimes (PTR) and the transfer pricing rules should be applied to transactions performed under these regimes whether or not carried out with related parties.

A PTR is defined as any tax regime where one or more of the following is present:

- ▶ Income is not taxed or the maximum income tax rate is less than 20%;
- ▶ Tax advantages are granted to non-residents without an obligation of having substantive economic activity in the country;
- ▶ Tax advantages are granted to non-residents conditioned to the non-conduction of substantive economic activity in the country;
- ▶ Income generated abroad is not taxed or the maximum income tax rate is less than 20%;
- ▶ Information on the company's owners,

ownership of assets or rights or economic transactions performed is confidential.

The Brazilian Internal Revenue Service (IRS) enacted Normative Instruction nº 1,045/10, which allows listed countries and entities to request review (through a formal petition to the IRS) of their listing through a legal representative of the relevant jurisdiction. The request must be based on the relevant country's local tax legislation. The new blacklist of low-tax jurisdictions increased the number of jurisdictions from 51 to 65. Note, however, that, as from June 2010, the effects that may derive from the inclusion of Switzerland on this list are currently suspended.

Together with the new blacklist, the Brazilian tax authorities also included a list of regimes that should be considered as a PTR under Brazilian tax rules (grey list). In March 2011, this list was amended to exclude Luxemburg. Now, this list includes the Uruguayan Sociedad Anonima Financiera de Inversion (SAFIS), the Spanish Entidad de Tenencia de Valores Extranjeros (ETVEs), Dutch and Danish holding companies without substantive economic activity, the American Limited Liability Companies (LLCs) with some specific characteristics, among other entities.

These inclusions have been much debated and changes are expected in the near future. Currently, the effects that may derive from the inclusion of Dutch holding companies and Spanish ETVEs on this list are suspended.

Brazilian Transfer Pricing Rules for Imports

The deductibility of costs and expenses associated with the importation of goods, services or rights from related parties abroad

is limited to the price arrived at by using one of the transfer pricing methods provided under Brazilian legislation. Prices are generally based on the following transfer pricing methods: cost plus, resale minus or the use of comparables. There is no "best method" rule; a Brazilian taxpayer may demonstrate compliance with the transfer pricing rules by choosing the method that best fits the transaction.

The portion of the import price that exceeds the value based on one of the transfer pricing methods is treated as a nondeductible cost for Brazilian corporate tax purposes and is added back to the company's taxable income that is subject to corporate taxes at a 34% rate. The price methodologies must be applied on a product-by-product basis. The transfer pricing methods provided for import transactions are:

- ▶ The Comparable Independent Price Method (PIC) – this is the Brazilian equivalent of the Comparable Uncontrolled Price Method (CUP) set out in the OECD Guidelines on Transfer Pricing. The Comparable Independent Price Method is defined as the weighted average price charged by the same exporter when selling to third parties abroad, the weighted average price paid by the Brazilian company to third parties abroad or the weighted average price paid in a buy-sell transaction between unrelated parties, resident in Brazil or abroad, on the sale/acquisition of identical or similar goods, services or rights.
- ▶ The Resale Price less Profit Method (PRL)⁵ – this equivalent of OECD's Resale Profit Method (RPM) is defined as the weighted average price of resale of goods during the calendar year minus: unconditional discounts⁶, taxes on sales, commissions and a statutory gross profit margin applied over the value added by

⁵ ▶ It is worth noting that until calendar year 2012, the applicable gross profit margins were 20% for products acquired for resale, and 60% for value added to the imported products, services or rights prior to resale, regardless of the industry, where the current margins are a result of the recent amendments to Brazilian transfer pricing rules, by Law 12,715 in 2012.

⁶ ▶ Considered those that do not depend on future events, that is to say, those granted on each resale and disclosed in the sales invoice.

the imported product to the resale price. The applicable statutory profit margins are the following:

(I) 40%: for pharmaceuticals, tobacco products, optical, photographic and cinematographic equipment and instruments, commercialization of machines, equipment and appliances for dental-medical-hospital use, extraction of oil and natural gas and oil derivatives;

(II) 30%: for chemical products, glasses and glass products, cellulose, paper and paper products, and metallurgy; and

(III) 20%: for all other segments.

- ▶ The Production Cost plus Profit Method (CPL) – this is the Brazilian equivalent to the Cost Plus Method set out in the OECD Guidelines on Transfer Pricing. It is defined as the weighted average cost of production of identical or similar goods, services or rights in the country where they were originally produced, plus taxes and charges on exports in that country, plus a 20% profit margin, calculated on the pretax cost.

Brazilian Transfer Pricing Rules for Exports

Revenues derived from export transactions entered into with foreign related parties are subject to adjustment under the Brazilian transfer pricing rules if the average price used for the export transaction is lower than 90% of the average price for identical or similar goods, services or rights traded by the Brazilian company in Brazil during the same period and under similar payment terms (the absolute safe harbor provision).

Brazilian transfer pricing regulations also provide for two other safe harbor provisions (Dispensa de Comprovação or “relief of proof” rules), which exempt taxpayers with relatively

small export revenue or with minimum profitability on exports made to related parties abroad from compliance with the Brazilian transfer pricing rules through the use of one of the methods provided for exports. Brazilian taxpayers are entitled to demonstrate the adequacy of the export price adopted by disclosing regular commercial documents that support the export transaction (and the burden of proof is shifted to the Brazilian tax authorities in case of future tax audit).

The safe harbor provisions apply in the following situations:

- ▶ Taxpayer’s net export revenues do not exceed 5% of total net revenues during the fiscal year; or
- ▶ Taxpayer demonstrates that a minimum pre-tax profit of 10% is reached on the export transactions (for the analyzed fiscal year and the two preceding years) and also that the net revenue from exports to related parties does not exceed 20% of the total exports net revenue⁷.

Due to the appreciation of the Brazilian currency, the government has previously granted relief to exporters to foster compliance with transfer pricing rules. In calendar years 2010 and 2011, for instance, the Tax Authority allowed an increase to export revenue of 9% and 11%, respectively. For calendar years 2012 and 2013 no increase was allowed. Taxpayers are also allowed to increase intercompany export revenue by the same percentages mentioned above for the application of the CAP Method and for the absolute safe harbor provision.

In general, Brazilian transfer pricing rules require minimum export revenue to be recognized by the Brazilian company when trading with a related party abroad based on a parameter export price reached by applying one of the transfer pricing methods provided

for exports, which are based on: resale minus; cost-plus; or comparables. There is no “best method” rule for export transactions either. If the export price reached by applying one of the transfer pricing methods is higher than the export price effectively adopted for the export transaction, the positive difference must be added to the exporter’s taxable income and is subject to corporate taxes in Brazil. The transfer pricing methods provided for export transactions are:

- ▶ The Export Sales Price Method (PVEx) – this is the Brazilian equivalent to the Comparable Uncontrolled Price Method (CUP) in the OECD Guidelines on Transfer Pricing. It is defined as the weighted average export sales price charged either by the company itself or any other Brazilian exporter for identical or similar goods, services or rights, during the same period and under similar payment conditions to third parties.
- ▶ The Wholesale Price in Country of Destination less Profit Method (PVA) – this is the Brazilian equivalent of the Resale Price Method in the OECD Guidelines on Transfer Pricing. It is defined as the weighted average wholesale price of identical or similar goods in the country of destination, under similar payment conditions, less taxes included in the price, and a 15% profit margin calculated on the gross wholesale price.
- ▶ The Retail Price in Country of Destination less Profit Method (PVV) – this method is defined as the weighted average retail price of identical or similar goods in the country of destination, under similar payment conditions, less taxes included in the price, and a 30% profit

margin calculated on the gross retail price.

- ▶ The Purchase or Production Cost plus Taxes and Profit Method (CAP) – this is the Brazilian equivalent of the Cost Plus Method in the OECD Guidelines on Transfer Pricing. It is defined as the weighted average purchase or production costs of the exported goods, services or rights, increased by taxes and contributions charged in Brazil on exports and a 15% profit margin calculated on the sum of costs, taxes and contributions.

Methods for Commodities

As of the calendar year 2013⁸, transactions involving commodities are subject to the following mandatory transfer pricing methods: the PCI (Quotation Price on Imports) and the PECEX (Quotation Price on Exports), for imports and exports, respectively.

The PCI and the PECEX are both defined as the quotation of daily average values of goods or rights subject to public prices in internationally recognized commodity exchange markets, adjusted by the average market premium⁹.

Additionally, when there are no listed prices in internationally recognized commodity exchange markets, the comparison may be made with independent data obtained from internationally recognized research institutions¹⁰.

The Brazilian Tax Authority has issued regulations listing the products that should be considered commodities for transfer pricing purposes, as well as Futures Stocks Exchange Markets and internationally recognized research institutions.

⁸ ▶ Until calendar year 2012, the import and export of commodities were subject to the regular transfer pricing rules detailed above. However, the amendments to the legislation made by Law 12,715 in 2012 established specific mandatory transfer pricing methods for imports and exports of commodities.

⁹ ▶ The Tax Authority’s regulations provide that the average premium value derives from the market evaluation, either positive or negative, which must be added to the quotation from the international stock exchange or from the research institute in order to obtain the price paid by the importer and variations in quality must also be considered in the characteristics and content of the sold good.

¹⁰ ▶ In the case of exports, also with prices defined by the governmental agencies and regulatory bodies.

⁷ ▶ Please note that until calendar year 2012, the minimum pre-tax profit margin required was 5% and there was no maximum cap for total exports.



Finally, with respect to the exportation of commodities, the law and the regulations expressly provide that none of the safe harbors mentioned above will apply, and the exporter of commodities is always obligated to use the actual transfer pricing calculation.

Financial Transactions

Before December 2012, interests arising from loans with related parties duly registered before the Central Bank of Brazil (BACEN) were not subject to transfer pricing. In cases where the loan was not registered with BACEN the interest arising from it would be subject to a Libor (London Interbank Offered Rate) plus 3% minimum revenue requirement and limitation on its deductibility.

However, due to the recent amendments to the transfer pricing rules¹¹, starting calendar year 2013, the applicable rates to determine the minimum revenue and the deductibility limit of interest on intercompany loan agreements are:

- ▶ In the case of transactions in US dollars with prefixed rates: market rate for Brazilian Sovereign bonds issued on the international market in US dollars;
- ▶ In the case of transactions abroad in Brazilian Reais with prefixed rates: market rate for Brazilian Sovereign bonds issued on the international market in Brazilian reais;
- ▶ In all other cases: Libor for a 6-month period.

Hence, in order to determine the minimum amount of revenue to be recognized or the maximum deductible amount of interest as of calendar year 2013, a spread percentage determined annually by the Secretary of Treasury based on the average market rate should be added to the applicable rate. For the calendar year 2013, the Secretary of Treasury has established¹² spreads of 2.5% and 3.5% to determine the minimum revenue and maximum deductible amount, respectively.

The law and regulations make it clear that the new rules will only apply to loan agreements executed as of calendar year 2013. Therefore, all agreements executed before December 31, 2012 remain subject to the previous rule, being released from transfer pricing if registered before BACEN¹³.

Deduction of Royalties and Technical Assistance Services

Brazilian transfer pricing rules do not apply to royalty and technical assistance payments associated with agreements registered with the Brazilian Intellectual Property Agency (INPI) as long as the deductibility of these payments for corporate taxes in Brazil are subject to limitations based on domestic legislation

(that is, a maximum of 5% of the corresponding net revenue).

Transfer Pricing Documentation

Brazilian taxpayers are required to provide transfer pricing information on inter-company import and export transactions on an annual basis as part of the corporate income tax return (DIPJ - Declaração de Informações Econômico-fiscais da Pessoa Jurídica). The information generally includes the total transaction values, the name and place of residence of related trading partners, methodologies used to demonstrate compliance with transfer pricing rules and the calculated benchmark price. Due to the complexity of the calculations required to prove the adequacy of the transfer price adopted, taxpayers are expected to include price calculations as well as documentation to support the information provided and to maintain such information in case of future tax audit.

In an effort to strengthen the enforcement of the transfer pricing rules, the Brazilian Tax Authorities are testing a program that will allow taxpayers to send detailed data about their inter-company and internal transactions directly to the Federal Revenue of Brazil (RFB - Receita Federal do Brasil) via internet - the International Audit Generator Programme - AUDIN.

In order to comply with AUDIN rules, apart the normal transfer pricing documentation, taxpayers will be required to generate electronic data about the company's domestic sales, imports, exports, cost of products sold, inventory, and other relevant information in a specific layout determined by the RFB. In the event of a transfer pricing audit, the taxpayer will be required to upload the electronic data into the AUDIN system, which will first validate, and then submit the data to RFB's computers.

Therefore, RFB will be able to make its own calculation and compare the results with the documentation prepared by the taxpayer. In

case a difference is found, the taxpayer will be automatically assessed.

Consultation with Tax Authority

Questions or ruling requests related to transfer pricing methods, regulations and changes in statutory profit margins may be submitted to the tax authorities by means of a formal ruling request; however the tax authorities generally take a significant time to respond.

Fixed Profit Margins

The Brazilian government is permitted to change the fixed profit margins provided under Brazilian transfer pricing regulations. Taxpayers are also entitled to negotiate specific profit margins if they can prove the inadequacy of the fixed one or the lack of applicable methods. To this end, taxpayers must apply internationally accepted methodologies to gather information supporting lower profit margins as well as prepare economic analysis as complementary proof.

On 29 September 2008, Brazilian Treasury Ministry Ordinance MF nº 222 (Portaria do Ministério da Fazenda nº 222) was published introducing several changes to the process of submitting requests to the Minister of Finance to change the Brazilian transfer pricing rules' statutory profit margins. This new rule also revoked the Ordinance MF 95/97, which previously regulated the changing of transfer pricing profit margins but in more generic and bureaucratic terms.

The purpose of the Ordinance MF 222/08 is to provide guidance on how to apply for changes in the Brazilian transfer pricing margins, in order to reflect real economic conditions faced by taxpayers. Changing these profit percentages is possible if the taxpayer submits a petition, in which the taxpayer proposes a different margin, and proving that those set forth by the Brazilian transfer pricing rules are not

11 • Implemented by Law 12,715/12 and Law 12,766/12.

12 • Ordinance # 427, July 30, 2013.

13 • It is worth mentioning that the amended law expressly provides that novation and renegotiation are considered new contracts. Thus, any novation or renegotiation as of January 1, 2013, will fall under the new rules.

compatible with the margins practiced among unrelated parties in similar conditions.

It is the first initiative from the Brazilian authorities towards allowing more flexibility to the Brazilian transfer pricing rules and it is certainly an improvement over the old regulation.

Compliance Dates

The contemporaneous documentation required as part of the annual tax declaration (DIPJ) generally has to be filed by the end of June of the following fiscal year. Taxpayers are expected to have the detailed calculations, and the documentation necessary to support the information filed as part of the DIPJ, ready for potential tax audits before the filing date.

Penalties

In the absence of specific penalties related to failures in transfer pricing compliance, standard tax penalties apply. Penalty may be 20% of the unpaid taxes as a result of a lack of transfer pricing adjustments if corporate taxes are paid before a tax inspection, or it may range from 75% to 150% of the tax unpaid tax if identified by an audit assessment.

8.4 Foreign Tax Exemption and Credit

In general, income taxes paid abroad qualify for tax credit to offset corporate taxes charged in Brazil over foreign income, but offsetting is limited to the Brazilian corporate taxes charged on such income regardless of the actual tax paid abroad. Foreign tax that exceeds the limit may not be registered as a tax credit in Brazil or carried forward - it is essentially lost.

8.5 Nonresident Companies

Branches of foreign companies are taxed at the same rates as resident companies. Capital

gains realized by nonresidents and related to assets located in Brazil (including shares in Brazilian companies) are generally subject to withholding tax at a 15% rate (or 25% for residents of low-tax jurisdictions).

8.6 Partnerships and Joint Ventures

Partners in a consortium are subject to income taxes on their proportional share of partnership profits. For all other forms of partnerships, the partnership itself is subject to taxation as a legal entity.

8.7 Taxation of Individuals

Residents and Nonresidents

Territoriality ▶ As a general rule, residents are taxed on their worldwide income while nonresidents are taxed on their income from Brazilian sources (i.e. payments borne by a Brazilian source) only.

Expatriates who become resident in Brazil are subject to Brazilian income tax on their worldwide income, including all of their foreign source income.

Definition of Resident ▶ As a general rule, individuals are considered to be resident in Brazil, for tax purposes, if they meet any of the following criteria:

- ▶ Individuals living in the country on a permanent basis.
- ▶ Holders of permanent resident visas. Resident status begins on the date of arrival in the country.
- ▶ Holders of temporary resident visas with a local labor contract. Resident status begins on the date of arrival in the country.
- ▶ Holders of temporary resident visas without a local labor contract and who have been in the country for at least 183 days, during



any 12 months period. Residence status begins on the 184th day of presence in Brazil;

- ▶ Brazilian citizens who had become nonresidents and returned to Brazil definitely. Resident status begins on the date of arrival in the country.
- ▶ Former resident taxpayers who left Brazil temporarily or permanently without obtaining a tax clearance certificate before departure. These individuals are deemed to be resident taxpayers for a 12 months period following their departure.

Taxation of Residents

Income Subject to Tax ▶ Gross income is taxable whether it is received in cash or in kind. Income includes compensation, directors' fees, interest, and dividends from foreign sources, rental income and certain capital gains. Taxable compensation consists of salaries, wages, bonuses, fees, commissions, foreign service premiums and other types of remuneration.

Personal expenses paid by an employer are considered as an indirect benefit for the employee and are generally included in gross income. The value of housing provided by an employer, cost-of-living difference and home leave are taxable on the employee if the beneficiaries are identified and individualized, otherwise the tax burden is borne by the employer. Schooling allowances are also considered indirect salary and are taxed accordingly. No distinction is made between personal expenses paid directly by the company and personal expenses reimbursed by the company to an employee.

Employees are not taxed on the mandatory monthly deposits corresponding to 8% of the employee's monthly remuneration, which are paid by the employer to the Severance Pay Indemnity Fund (Fundo de Garantia por Tempo de Serviço or FGTS). Amounts deposited plus interest may be withdrawn tax free by the employee under certain conditions, including retirement and unfair dismissal. In addition,

an employee unfairly dismissed is entitled to a tax free indemnification from the employer in an amount equal to 50% of the company's deposits in the employee's FGTS linked account – 40% for the employee and 10% for the government.

Under Brazilian law, individuals are taxed on a cash basis. Therefore, payments from foreign sources, including bonuses or premiums related to services rendered that are paid prior to or following an assignment are generally not taxable if received during a period when the individual is not resident for tax purposes. Consequently, it may be advantageous to schedule payment of these allowances so that they are received before the individual is a resident for tax purposes or after the tax clearance is requested prior to departure.

Gifts, donations and inheritances are exempt from Brazilian individual income tax. However, specific state legislation governs inheritance and donation when the beneficiary has established his domicile in a specific state. States may levy gift tax on transfers of real estate by donation and inheritance at any rate up to 8%. The rate applicable in Rio de Janeiro is generally 4%.

Treatment of Capital Gains ► Capital gains are calculated as the difference between the sale price and the acquisition cost of an asset. Capital gains are generally taxed at a 15% rate.

Shares traded in the Brazilian stock market ► Individuals who derive net gains from sales of stock in the stock market are subject to income tax on the monthly gains at a rate of 15%. If the aggregate sale price of all shares sold in any month is less than R\$ 20,000 (approximately US\$ 10,000), transactions for that month are treated as nontaxable. In case of a loss, it may be carried forward and it may only be used to offset capital gains from the sale of shares in the stock market.

Real Estate ► Capital gains derived from

the sale of real estate are subject to income tax at a 15% rate on the difference between the sale price and the acquisition cost. Special exemptions for residents of Brazil for tax purposes:

- Gains from the sale of real estate in Brazil acquired between 1969 and 1988 and, based on the time of ownership, for those acquired before January 1, 1989;
- Gains from the sale of the sole property, provided the beneficiary has not sold any real estate in the previous five years and the sale price does not exceed R\$ 440,000;

Gains from the sale of residential properties in Brazil if fully taken to purchase other residential properties within 180 days countable from the first transaction. The exemption is available once each 5 years.

Other Personal Assets ► Capital gains derived from disposal of personal assets are subject to income tax at a 15% rate. The amount of taxable gain is the difference between the sale price and the acquisition cost. There is no loss carry forward. This provision does not apply to sales of assets and rights of the same nature for less than R\$ 35,000 per month, which are exempt, and to the disposal of shares traded on the Brazilian stock market, as explained above. For transactions performed in the Brazilian Stock Market, the exemption applies if the total value does not exceed R\$ 20,000 within the same month.

Deductions ► The following are the only deductible expenses permitted in calculating monthly income tax liability:

- Social security taxes paid to Brazilian federal, state or municipal entities;
- Private pension contributions made to Brazilian pension funds;
- Amounts paid as alimony and pensions in accordance with a court order;

- For self-employed individuals, expenses incurred to produce business revenue and maintain its source, excluding depreciation and transportation expenses, if proper books and fiscal documentation are maintained;
- Old age pension (over 65 years), up to the monthly limit of R\$ 1,787.77; and
- Standard deductions for dependents (R\$ 179.71 monthly), without limit on the number of dependents.

On the annual Federal income tax return 2015, fiscal year 2014, a taxpayer may deduct the following items:

- From taxable income:
 - *Payments made by the taxpayer or a dependent for educational expenses up to an annual limit of R\$ 3,375.83 for each individual;*
 - *Payments made during the calendar year to doctors, dentists, psychologists, physiotherapists, phonoaudiologists, occupational therapists and hospitals, and expenses for laboratory tests and X-rays (medical expenses that are covered by insurance or reimbursed to the taxpayer are not deductible), without limit;*
 - *Payments for medical treatment plans managed by Brazilian companies or by companies authorized to carry out activities in Brazil and healthcare insurance premiums, without limit; and*
 - *Contributions made to the Retirement Pension Fund (FAP), up to an annual limit of 12% of the total annual taxable income. The limitation also includes the amount deducted for the monthly private pension contributions made to Brazilian pension funds.*

- From the income tax due:

Certain charitable contributions and donations up to a maximum of 8% of the income tax due; and

Employer contributions to the INSS for domestic employees up to R\$ 1,152.88.

Rates ► Personal income tax is imposed on a progressive scale which is updated every year. For fiscal year 2014, the following brackets apply:

Calculation basis (R\$)	Income tax rate	Standard deduction (R\$)
Up to 1,787.77	-	-
From 1,787.78 to 2,679.29	7.5%	134.08
From 2,679.30 to 3,572.43	15%	335.03
From 3,572.44 to 4,463.81	22.5%	602.96
Over 4,463.81	27.5%	826.15

For a sample individual income tax calculation, see Appendix 2.

Taxation of Nonresidents

Nonresidents are taxed on their income and capital gains from Brazilian sources only. They are subject to tax at a rate of 15% or 25% in case of income and 15% in case of capital gains. The source of the income is determined by the location of the payer, regardless of where the work is performed (in case of income). Individuals are considered to be nonresident for tax purposes if they meet any of the following criteria:

- Individuals that do not live on a permanent basis in Brazil.
- Holders of a temporary visa without a local labor contract. Nonresident status is kept during the first 183 days in Brazil within a 12 month period, or until an employment relationship is established.
- Former residents that have obtained a tax clearance certificate prior to definitive departure from Brazil. Nonresident status

begins on the date of departure.

- ▶ Former residents that have been absent from Brazil for more than one year after having left the country without obtaining a tax clearance certificate.

Tax exemptions may be applicable in case of nonresident individuals who are employed or otherwise hired to work personally and directly in the organization or realization of the 2014 World Cup and 2016 Olympics and Paralympics.

8.8 Inheritance and Gift Taxes

Transfers of real state are subject to a tax on immovable property (Imposto sobre Transmissão de Bens Imóveis or ITBI), at rates ranging from 2% to 6%, according to municipal law (see Section 9.11 for rules in the City of Rio de Janeiro).

If the real estate transfer is done through donation or inheritance an inheritance tax applies, (Imposto sobre Transmissão Causa Mortis e Doação de Bens e Direitos or ITCMD) which is levied at a maximum rate of 8% (see Section 9.11 for rules in the State of Rio de Janeiro).

8.9 Indirect Taxes

Value Added Taxes

Both the Federal and State governments impose value-added tax (VAT in Brazil). Each manufacturing plant or branch of a Brazilian company is generally considered an autonomous tax unit for both federal and state VAT purposes (see Section 9.11 for rules in the State of Rio de Janeiro).

At the federal level, VAT (Imposto sobre Produtos Industrializados or IPI) is charged on imports of goods, on the first sale of imported goods and on transactions involving manufactured goods and exports are taxes

exempt. The tax rate varies depending on the product traded and ranges from 0% to 365%. IPI paid on an import transaction or on local acquisitions generally becomes a tax credit to offset IPI charged on subsequent transactions. Special rules apply to the import and sale of fixed assets.

Other Taxes

Financial and Exchange Operations

Tax ▶ Under certain circumstances, financial operations tax (Imposto sobre Operações Financeiras or IOF) is imposed by the Federal government at rates varying from 0% to 25% on loan transactions, investments in fixed income funds, transfers of amounts from foreign to local financial institutions and investments by non-residents in short-term funds.

Domestic loans between legal entities, including related parties, are subject to IOF, on the credit transaction, at a maximum rate of 1.88% per year.

Foreign credits are subject to IOF on the foreign currency exchange transaction, but not on the lending (foreign credit) transaction itself. As a general rule, a 0% rate applies for long term loans. Minimum maturity dates required for such reduced rate has varied in recent years (from 90 days in 2000 to 1,800 days from 12 March 2012 to 13 June 2012). As of 5th December 2012, foreign loans with average maturity terms of up to 360 days are subject to IOF at a 6% rate. Most currency exchange transactions are subject to IOF at a 0.38% rate.

This tax may be altered by the executive branch of the Brazilian government with immediate effect. It is used as an instrument to manage the country's foreign currency flows.

Turnover Taxes (PIS and COFINS) ▶ PIS (Programa de Integração Social) and COFINS (Contribuição Social para Financiamento da Seguridade Social) are turnover taxes charged on gross receipts under two different regimes:

non-cumulative or cumulative.

Under the non-cumulative regime, PIS and COFINS are generally charged at a combined rate of 9.25% on gross receipts. Tax credits are allowed for certain business related costs and expenses, which may be used to offset PIS and COFINS liabilities. Brazilian taxpayers using the cumulative regime are subject to a reduced PIS and COFINS tax rate (a combined rate of 3.65%) but without any tax credits.

Federal Land Tax (ITR) ▶ Federal land tax (Imposto sobre Propriedade Territorial Rural or ITR) is levied annually on the ownership or possession of real estate in rural areas. Rates vary from 0.03% to 20% depending on the value and the level of utilization of the land.

8.10 Tax Treaties

Brazil has been extending its tax treaty network in the last couple of years. Currently Brazil has reciprocal tax treaties signed with numerous countries in Latin America (including Mexico, Chile and Argentina) and Europe, as well as Japan and Canada, but the main absence is the United States.

Although the main definitions of transactions covered by each reciprocal tax treaty are generally based on the model treaty convention of the OECD, Brazil does not follow the commonly adopted interpretation under OECD guidelines for some of the articles provided (in particular, the business profits article) once Brazil is not an OECD member country.

Tax credit mechanisms as well as the definition of the maximum withholding tax rates, including provisions on tax sparing, are set forth in the majority of the tax treaties currently in force. Notwithstanding, dividend payments are not subject to withholding tax based on domestic legislation while royalties and interests are subject to maximum 15% rate - although recent treaties have provided for lower rates especially for royalty payments.

For a complete chart of applicable withholding taxes on the main cross border payments, see Appendix 3.

8.11 Rio de Janeiro State and Rio de Janeiro Municipal Taxes

State Taxes

State Value-added Tax (ICMS) ▶ State VAT (Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação or ICMS) is levied on the import of goods and on the local sale of goods, even if between branches of the sale legal entity. Exports are tax exempt. ICMS paid on imports as well as on local acquisitions generally becomes a tax credit to offset ICMS due on subsequent transactions. Special rules apply to the offset of ICMS tax credits associated with the acquisition of fixed assets. ICMS is also charged on the provision of transportation services, communication and electricity. ICMS tax rates vary according to the state where the company and the acquirer of the goods are located.

In the State of Rio de Janeiro, imports are generally subject to a 13% or 15% rate, whether the import is arriving through an airport or other means, while local transactions are subject to an 18% rate. In both cases, rates will be increased by 1%, which will go towards a state fund to fight poverty (Fundo Estadual de Combate à Pobreza e às Desigualdades Sociais or FECP).

Transactions between a company located in Rio de Janeiro with taxpayers located in the states of the North, Northeast, Center-West regions and Espírito Santo are subject to a 7% rate, while a 12% rate applies to transactions with taxpayers located in all other states.

Tax on Inheritance and Donations

(ITCMD) ► ITCMD (Imposto sobre Transmissão Causa Mortis ou Doação) is levied on the complimentary transfer of any assets and equity rights, which means, it applies to donation or inheritance transfers. Each State determines the tax rate applied, up to the maximum percentage established by the Federal Senate, which is currently 8%. In the state of Rio de Janeiro the tax rate is currently 4%, to be applied upon the market value of the transferred real estate.

Imposto sobre a Propriedade de Veículos Automotores (IPVA)

► IPVA is a state tax levied annually on the ownership of new or used automotive vehicles. In the state of Rio de Janeiro, IPVA is levied at rates varying from 1% to 4% on the assessed value of the vehicle, according to the type of vehicle and the fuel it runs on.

Municipal Taxes

Municipal Service Tax (ISS) ► Municipal service tax (Imposto sobre Serviços de Qualquer Natureza or ISS) is charged on the rendering of certain services included in a Federal list of taxable services. Rates vary from 2% to 5%. Imported services are also subject to ISS taxation regardless of whether the service is performed abroad. Exported services are tax exempt, provided certain conditions are met.

For rates currently in force in the city of Rio de Janeiro, see Appendix 4.

Municipal Property Tax (IPTU) ► Municipal property tax (Imposto sobre a Propriedade Predial e Territorial Urbana or IPTU) is levied annually on the ownership of real estate in urban areas. The tax basis is the market value of property, adjusted by different factors, such as size, age, use and location of the property. Those factors are adjusted periodically by local tax authorities.

In Rio, IPTU rates vary according to the use of the property (residential or non-residential) as well as whether it is an actual building or simply land in an urban area. For residential and non-residential buildings, rates range from 0.6% to 1.2%, according to size. When property consists solely of urban land, rates range from 0.5% to 7%, according to size.

Tax on the Disposal of Real Estate (ITBI)

► The municipal tax on the disposal of real estate (Imposto de Transmissão de Bens Imóveis Inter-Vivos, ITBI) is levied in the case of a burdensome real estate transfer, such as a sale.

Transfers of real estate resulting from corporate reorganizations or resulting from incorporation may be exempt from ITBI, if the corporate reorganization or incorporation does not characterize a prevalent activity of the acquiring company. In Rio, ITBI is levied at a 2% rate on the market value of the transferred real estate.

8.12 Brazilian Tax Law - Olympic and Paralympic Games 2016

Federal Taxes

Federal Law 12,780/13 established and detailed, in general, the tax incentives that will be applicable to the following transactions:

- (I) Purchase of goods for use or consumption (local market and abroad);
- (II) Purchase of durable goods (local market and abroad);
- (III) Services contracted (local market and abroad);
- (IV) Temporary import of durable goods (under temporary admission);
- (V) Employment of individuals (outside).

The law provides in detail for each type of transaction, the applicable tax benefit for Import Tax (II), Federal VAT (IPI), Individual Income Tax, Contribution for Intervention in the Economic Domain (CIDE), Contribution to Social Security (INSS) and Gross Receipt Taxes (PIS and COFINS).

Additionally, they define the beneficiary entities eligible for the tax benefits, based on the condition that such entities will be established in Brazil. The following are some entities framed in the law: Organizing Committee Rio 2016, International Olympic Committee (IOC) and sponsors. In this context it is appropriate to emphasize that registration and approval from the Brazilian Federal Revenue Service, as defined by Normative Instruction 1,335/13, will be required in order for such tax benefits to become effectively applicable.

The exemptions applicable to Rio 2016 and the International Olympic Committee were addressed in specific articles and are more extensive than those applicable to other beneficiary entities. The tax benefit also affects Corporate Income Tax (CIT), Social Contribution on Net Profits (SCT) and Income Withholding Tax (WHT).

State Taxes

ICMS Agreement 133/08 was published on the State level establishing the tax treatment to be observed in the case of State VAT (ICMS). Brazilian States agreed to grant an ICMS exemption on operations for the acquisition of machinery, equipment and other tools and products, either locally or in the international market, including animals.

Such tax treatment is applicable to essentially the same entities listed on the federal level: the Olympic committees, sports confederations, accredited media, sponsors and suppliers involved in the organization and realization of

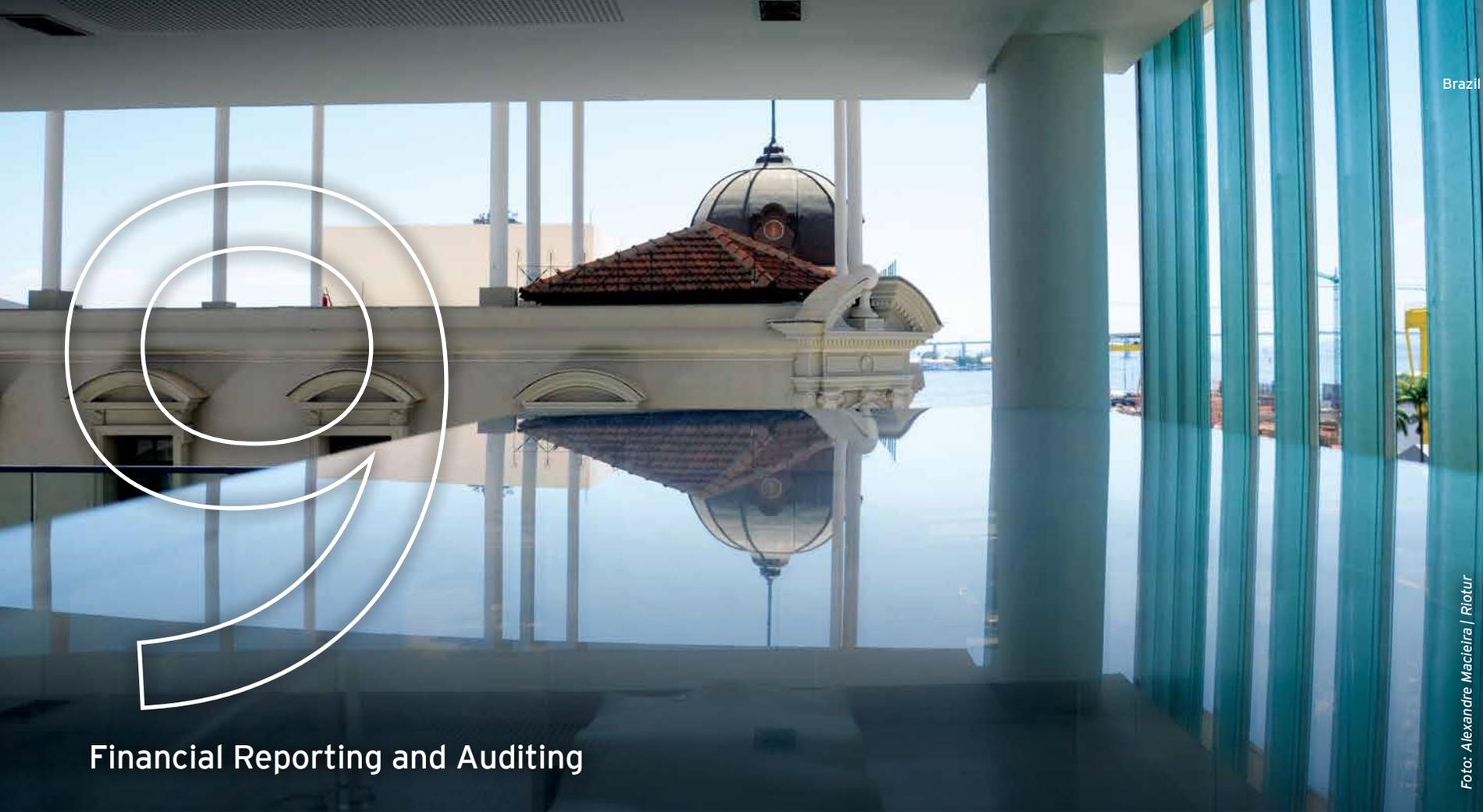
the 2016 Olympics and Paralympics. No special procedure is required to apply the ICMS tax benefit. The tax benefit is granted through registration and approval on the Federal level.

Specifically in relation to ICMS, although there is standard legislation establishing the tax treatment to be observed exempting and/or suspending payment of ICMS itself, it is important to mention the lack of legal provisions establishing the rules applicable to the operational structure itself (movement of goods). In this sense, if the general rules already in place must be observed by the taxpayers, this may significantly impact the administrative cost of the legal entities involved in the events.

Municipal Taxes

On the Municipal level, each Municipality will be responsible for granting exemptions to the Service Tax (ISS). It is important to stress that, although the Olympics Games is being held in the municipality of Rio de Janeiro, which has already published rules exempting organizations from ISS, some sports events (e.g. soccer) will occur in other Municipalities.

Under the terms of Rio Municipal Law 5,230/2010, services provided to or rendered by the Olympic committees, sports confederations, accredited media, sponsors, and suppliers involved in the organization and realization of the 2016 Olympics and Paralympics and related events, will be exempt from Service Tax (ISS). This exemption is in force from 29 November 2010 until the sixtieth day after the end of the 2016 Paralympics. Other municipal tax incentives apply to specific entities or situations.



Financial Reporting and Auditing

Our goal of this section is to provide an assessment of accounting, financial reporting and auditing practices within the corporate sector in Brazil, which have adopted International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as mainstream practices.

9.1 Statutory Requirements

Books and Records

Corporate entities and individuals engaged in commercial activities must maintain proper accounting books and record transactions in these books as required by law.

Corporate entities must maintain the following books and records:

- ▶ A general ledger;
- ▶ Federal and State VAT books;
- ▶ A book reconciling accounting income with taxable income (named "LALUR - Livro de Apuração do Lucro Real"); and

- ▶ Registers of inventory and goods shipped and received.

Official records must be written in Portuguese with values expressed in Brazilian Reais. Transactions must be recorded in chronological order. Manual or computerized subsidiary ledgers for cash receipts and disbursements and for purchases and sales are permitted if they are properly registered. Records must be clear and without erasures. Blank lines and alterations are not permitted.

Most of the bookkeeping records may already be digital, on SPED (Sistema Público de Escrituração Digital) environment.

From 2015 on, the LALUR is going to be digital (e-LALUR), referring to 2014, through the implementation of the ECF (Escrituração Contábil Fiscal), as well the inventory book (estoques).

Method of Accounting

Companies in Brazil must use the accrual method for computing the results of their activities. For tax purposes, the cash method is available for small companies that elect for the simplified taxation system.

Financial Statements

On December 28, 2007, after seven years of discussions in the Brazilian Congress, Law nº 11,638 (the new "Brazilian Corporate Law") was approved. This new law makes relevant amendments to Law nº 6,404, of December 15, 1976, regarding the preparation of financial statements for corporations and large companies, even if they have not been organized as corporations ("S.A."). This new Brazilian Corporate Law led to the harmonization of Brazilian accounting practices with International Financial Reporting Standards (IFRS).

Large companies, even if not organized as corporations ("S.A."), must comply with the provisions contained in Law nº 11,638 regarding preparation of financial statements.

These financial statements shall be audited by an independent auditor registered with the Brazilian Securities Commission (“CVM”). For the purposes of this Law, large company means a company, or a group of companies under common control, with total assets greater than R\$ 240 million (approximately US\$ 120 million) or gross sales greater than R\$ 300 million (approximately US\$ 150 million), in the prior year.

9.2 Sources of Accounting Practices

Financial statements must be prepared in accordance with the accounting practices adopted in Brazil, which comprise the practices set forth by the Brazilian Corporate Law (Lay nº 6,404/76, as amended by Law nº 11,638/07 and Lay nº 11,941/09), and the standards and pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), which are in conformity with the International Financial Reporting Standards (IFRS).

CVM has the authority to specify accounting and reporting practices for publicly traded companies as well as promulgate disclosure requirements for the quarterly and annual financial reports required from such companies. The Commission generally relies on CPC to establish accounting standards and practices.

Companies in the banking, insurance and other specialized business sectors must comply with specific accounting practices established by the regulatory agencies for these sectors.

The Law, however, determines that any new accounting standard must be in aligned with IFRS.

9.3 Financial Reporting Preparation Requirements

General Requirements

In addition to the requirements of IFRS, there are a number of corporate law requirements

relating to the presentation of financial statements. Required financial statements must be two year comparative, and include balance sheets and statements of income, comprehensive income, changes in shareholders’ equity, cash flows, and value-added (only mandatory for public companies). In addition, notes to the financial statements are required, including disclosures of the accounting practices adopted by the company.

All financial statements must be expressed in Brazilian Reals and be prepared in Portuguese. Statements must be in accordance with Brazilian GAAP applied on a consistent basis and they must include appropriate information disclosures.

Closely held corporations and limited liability companies (“Limitadas”) are subject to disclosure requirements similar to those of publicly held companies, but the audit of their financial statements is not mandatory, unless they meet the large company’s definition of Law nº 11,638.

Corporations (S.A.’s), regardless of whether they meet the definition of large company, must publish their financial statements in newspapers of wide circulation (the Official Gazette and in at least one well-known newspaper). Limitadas that do not meet the definition of large company are not required to publish their financial statements.

Balance Sheet

Assets and liabilities are presented in order of liquidity. The balance sheets must disclose the following items:

- ▶ Current assets;
- ▶ Non-current assets (long term assets, investments, property, plant and equipment and intangibles);
- ▶ Current liabilities;
- ▶ Non-current liabilities;

- ▶ Deferred income;
- ▶ Share capital;
- ▶ Capital and income reserves, and equity valuation adjustments;
- ▶ Retained earnings (not allowed for public companies) or accumulated losses.

Income Statement ▶ At a minimum, the income statement must disclose the following items:

- ▶ Gross income from sales of goods and services, sales deductions, discounts and sales taxes;
- ▶ Net proceeds from sales of goods and services, cost of goods and services sold, and gross profit;
- ▶ Selling expenses, financial expenses (less financial income), administrative expenses and other operational expenses;
- ▶ Income (or losses) from operations, other income and expenses;
- ▶ Income for the year before income taxes;
- ▶ Income taxes;
- ▶ Participation in profit payable to employees and directors and contributions to employees’ pension and welfare funds;
- ▶ Net income; and
- ▶ Net income per share (outstanding at end of the period).

Statement of Cash Flows

This statement is similar to the requirements of IAS 7 - Statement of Cash Flows.

Statement of Value-Added (mandatory only for public companies)

This statement gives further analysis into the nature of company’s cost and expenses.

Disclosures

To comply with Corporate Law and certain accounting regulations, in preparing financial statements companies must provide the following information, among others, in the notes to the financial statements to the extent the information is applicable:

- ▶ The principal accounting practices used statements, including the method used for valuing inventories and determining depreciation, amortization and depletion; and adjustments made to cover losses expected to be incurred on the disposal of assets;
- ▶ The basis of consolidation and the companies included in consolidation;
- ▶ The major categories of all significant accounts, for example, inventories and fixed assets;
- ▶ Details of material investments in other companies;
- ▶ Details of transactions with related parties;
- ▶ Increases in the carrying values of fixed assets as a result of spontaneous revaluation;
- ▶ Pledges of assets, guarantees given to third parties and other contingent liabilities;
- ▶ Interest rates, maturity dates and guarantees for short and long-term loans;
- ▶ Details of income tax calculation (current and deferred);
- ▶ Details of all derivative instruments used;
- ▶ The number, type and classes of the company’s shares;
- ▶ Dividend distribution policies;
- ▶ Prior year adjustments, which are made for a variety of reasons (often involving immaterial amounts); and
- ▶ Significant events occurring after the balance sheet date that have or might have a material effect on the company’s financial position or on the results of future operations.

Other minimum disclosures are applicable depending upon the related accounting pronouncement applied.

Directors' Report

Listed companies must issue a directors' report containing basic information about the company, any significant changes and information on the business segments in which the company is engaged.

Additional Requirements for Listed Companies

Listed companies must file their audited financial statements annually, together with the report of independent auditors, at the CVM and, if applicable, to the appropriate government agency if the company is a public utility, and to the BACEN, SUSEP or other regulatory agencies if the company is engaged in banking, leasing or insurance activities.

Listed companies must also file at the CVM their quarterly information, similar to the information required by the Securities and Exchange Commission (SEC) of the United States. The quarterly information should also be reviewed by the independent auditors.

Additional Reporting Requirements for Banks and Insurance Companies

Banks and insurance companies must publish their audited financial statements twice a year (as of June 30 and December 31). There are also several additional regulatory filings required by the regulators other than the financial statements.

Offering Requirements

A company that offers shares or other securities to the market must file a registration statement for the public offering with the CVM. The registration statement must include audited

financial statements and, depending on the timing, the most recent unaudited interim financial information. The Brazilian Stock Exchange has four corporate governance segments: Levels 1 and 2, "Bovespa Mais" and "Novo Mercado". Each segment has different requirements to be complied with by the registrants.

9.4 Audit Requirements

Listed companies, government-owned companies, financial institutions, insurance companies, entities classified as large corporations under the corporate law, and legal entities applying for public funds must engage qualified independent auditors registered with the CVM. Independent auditors are engaged or dismissed by the Conselho de Administração (Board of Directors). Independent auditors must attend the annual shareholders' meeting to supply information in connection with the audit performed during the year, if necessary.

BACEN and SUSEP require that all financial institutions and insurance companies be audited by independent auditors. Legislation provides for submission of semi-annual audited financial statements by financial institutions and insurance companies. The CVM requires that independent auditors be replaced at least every five years but there is no audit firm rotation requirement for financial institutions and insurance companies. The auditor must declare in the audit report whether, in the auditor's opinion, the financial statements present fairly the company's financial position and the results of its operations. Independent auditors that are registered with the CVM are liable for damages incurred by third parties relying on their audits.

CVM has the authority to examine the accounting records and other financial information such as:

- ▶ Individuals and legal entities engaged in activities related to trading marketable securities; and
- ▶ Listed companies, mutual funds, independent auditors, consultants and experts operating in the capital market.

CVM may also require regulated entities to restate financial statements and related reports if they are found to be misleading or if other changes are considered necessary.

9.5 Accounting Profession

Professional Associations

All accountants in Brazil must be registered with the CFC, which has primary responsibility for regulating and overseeing the accounting profession in Brazil. The CFC is also responsible for issuing statements on professional ethics, bylaws and auditing standards. Until recently, IBRACON (Brazilian Institute of Independent Auditors) has been one of the entities responsible for issuing statements on accounting and auditing, but currently these standard setter functions are exclusively managed by CFC.

However, the institute remains supporting the CFC on issuing the Brazilian generally accepted auditing standards, and is a certified translator of the International Financial Reporting Standards issued by the International Accounting Standards Board into Portuguese. Membership in the institute is voluntary and its members consist primarily of independent auditors.

Professional Standards

Accountants must have an accounting degree from an university and be registered with the Regional Accountants' Council (Conselho Regional de Contabilidade or CRC).

Foreign accountants may practice in Brazil if they provide the following documents, and after obtaining local license at a CRC office:

- ▶ An original (or a notarized copy of a) university degree;
- ▶ A letter from the foreign employer stating the individual's position in the foreign company, length of employment, remuneration earned abroad, and the position and remuneration of the individual with the Brazilian company; and
- ▶ A criminal clearance certificate.



Appendix 1

Corporate Income Tax and Social Contribution Tax Calculation

The following is a sample corporate tax calculation for a non-financial company.

Calculation of the Corporate Income Tax	R\$	R\$
Net profit per financial statements	-	1,000,000
Add back of items disallowed for tax purposes	-	-
Penalties on unpaid taxes (a)	50,000	-
Private car expenses (b)	2,000	52,000
Less non-taxable items	-	-
Dividends (c)	62,000	-
Equity adjustments	15,000	(77,000)
Taxable income	-	975,000
Losses carried forward	-	-
(limited to 30% of taxable income)	-	(292,500)
Taxable income less losses carried forward	-	682,500
Calculation of the Corporate Income Tax	-	-
Basic corporate income tax at 15%	-	102,375
Surtax of 10% on taxable profits exceeding R\$ 240,000	-	44,250
Gross Corporate Income Tax	-	146,625
Less withholding tax paid	-	(6,000)
Net Corporate Income Tax payable	-	140,625

Calculation of the Social Contribution Tax	R\$	R\$
Net profit per financial statements	-	1,000,000
Add back of items disallowed for tax purposes	-	-
Private car expenses (b)	2,000	2,000
Less non-taxable items:	-	-
Dividends (c)	62,000	-
Equity adjustments	15,000	(77,000)
Taxable income	-	975,000
Negative Bases carried forward:	-	-
(limited to 30% of taxable income)	-	(277,500)
Taxable income less negative bases carried forward	-	647,500
Calculation of the Social Contribution Tax:	-	-
Social Contribution tax at 9%	-	58,275
Calculation of total Income Tax and Social Contribution Tax due		R\$
Net Corporate Income Tax payable		140,625
Net Social Contribution Tax		58,275
Total Income Taxes payable		198,900

(a) This is an assessment penalty. It is only acceptable as an addition for income tax purposes and not for social contribution.

(b) This expense must be grossed up to include withholding tax.

(c) Dividends received from investments recorded at cost from Brazilian companies.

Appendix 2

Individual Income Tax Calculation

The following is a sample individual income tax calculation for the year of assessment 2013.

Calculation of Taxable Income	R\$	R\$
Foreign-source salary income	247,382	-
Brazilian-source salary income	12,533	259,915
Brazilian-source rental income	-	16,481
Total income	-	276,396
Less allowable deductions	-	-
<i>Social security contributions(a)</i>	5,795.04	-
<i>Annual dependant allowances (R\$ 2,156.52 x 3 dependants)</i>	6,469.56	-
<i>Tuition expense (b)</i>	3,375.83	-
<i>Medical expenses</i>	14,285.00	(29,925.43)
<i>Taxable income</i>	-	246,470.57

Calculation of Tax	R\$	R\$
0 to R\$ 21,453.24 Exempt	0	-
R\$ 21,453.25 to R\$ 32,151.48 at 7.5%	1,608.99	-
R\$ 32, 151.49 to R\$ 42,869.16 at 15%	4,020.35	-
R\$ 42,869.17 to R\$ 53,565.72 at 22.5%	7,235.54	-
Over R\$ 53,565.72 (c) at 27.5%	9,913.83	57,865.58
Minus tax withheld on local-source income	(0)	-
Minus monthly income tax payments	(58,116.22)	-
Tax refund	-	250.64

(a) The maximum annual withholding contribution is R\$ 5,795.04.

(b) Payments made by the taxpayer or a dependant for educational expenses are deductible up to an annual limit of R\$ 3,375.83 for each individual. This example assumes tuitions paid for one dependant.

(c) These values are only applicable to 2014 and will be adjusted in 2015 Income Tax Return.

Appendix 3

Treaty Withholding Tax Rates

The rates reflect the lower of the treaty rate and the rate under domestic tax law.

	Calculation of Taxable Income %	R\$ %	R\$ %
Argentina	0	15 (d)	- (m)
Austria	0	15 (d)	15 (b)(k)
Belgium (o)	0	15 (a)(d)	15 (c)(l)
Canada	0	15 (a)(d)	15 (k)
Chile	0	15	15
China	0	15 (d)	15 (k)
Czechoslovakia (h)	0	15 (d)(f)	15 (k)
Denmark	0	15 (d)	15 (k)
Ecuador	0	15 (d)	15 (k)
Finland	0	15 (d)	15 (c)(k)
France	0	15 (a)(d)	15 (c)(k)
Hungary	0	15 (d)(g)	15 (k)
India	0	15 (d)	15 (k)
Israel	0	15 (d)	15 (i)
Italy	0	15 (d)	15 (k)
Japan	0	12.5 (d)	12.5 (e)
Korea (South)	0	15 (a)(d)	10 (k)(n)
Luxemburg	0	15 (a)(d)	15 (k)
Mexico	0	15 (d)	10 (n)
Netherlands	0	15 (a)(d)	15 (k)
Norway	0	15 (d)	15 (k)
Peru	0	15 (d)	15
Philippines	0	15 (d)	15 (k)
Portugal	0	15 (d)	15
South Africa	0	15 (d)	10 (o)
Spain	0	15 (d)(f)	10 (n)(o)
Sweden	0	15 (d)	15 (k)
Ukraine	0	15 (d)	15
Non treaty countries	0	15	15

- (a) The withholding rate is 10% for interest on certain bank loans with a minimum term of seven years.
- (b) The withholding rate is 10% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works, excluding cinematographic films and films or tapes for television or radio broadcasting, produced by a resident of a contracting state.
- (c) The withholding rate is 10% for royalties for the use of, or the right to use, copyrights of literary, artistic or scientific works or for the use of, or the right to use, cinematographic films or television or radio films or tapes produced by a resident of a contracting state.
- (d) Interest paid to the government of the other contracting state, a political subdivision thereof or an agency (including a financial institution) wholly owned by that government or political subdivision is exempt from tax.
- (e) The withholding rate is 15% for royalties with respect to copyrights of cinematographic films and films or tapes for radio or television broadcasting.
- (f) The withholding rate is 10% for interest on certain long-term (at least 10 years) bank loans.
- (g) The withholding rate is 10% for interest on certain long-term (at least eight years) bank loans.
- (h) Brazil is honoring the Czechoslovakia treaty with respect to the Czech Republic and Slovakia.
- (i) This rate applies to royalties related to the use of, or the right to use, trademarks. For other royalties, including payments for technical assistance and technical services, the rate is 10%.
- (j) The tax treaties do not apply to the CIDE (see footnote [d] to Section A).
- (k) The withholding tax rate is 25% for royalties paid for the use of trademarks.
- (l) The withholding tax rate is 20% for royalties paid for the use of trademarks.
- (m) The treaty does not provide a maximum rate for royalties.
- (n) The withholding rate is 15% for royalties for the use of, or the right to use, trademarks.
- (o) The withholding tax rate applicable to royalties was reduced as a result of the most favorable clause contained in the protocol to the treaty. This clause provides for a rate reduction if a future treaty establishes a lower rate. Because of the treaty between Brazil and Israel, the withholding tax rate on royalties was reduced to 10% (except for trademark royalties).

Appendix 4

ISS rates for the city of Rio de Janeiro

Type of Service	ISS Rate (%)
Services in general	5%
Cleaning and dredging of harbors, rivers and canals, construction, waterworks, engineering consulting, repair and renovation of buildings, roads, bridges and similar.	3%
Leasing services	2%
Services concerning the design, writing, production and placement of advertising, including dissemination of advertising material.	3%
Services of exhibition of cinematography movies.	3%
Services provided by independent professionals or professional partnerships.	2%
Services of development of tailor-made software, registered as developed in the country.	2%
Services consisting of (i) execution by administration, contract or subcontract, of civil works, electrical and hydraulic or other similar works, including drilling, well drilling, excavation, drainage and irrigation, grading, paving, concreting and the installation and assembly of products, parts and equipment (except for the supply of goods produced by the service provider off-site, which is subject to the ICMS), and (ii) repair, maintenance of buildings, roads, bridges, ports and the like (except from goods produced by the service provider outside the place of service delivery, which is subject to ICMS); when components of licensed work, aiming at: construction of building for use as a hotel, conversion of property into a hotel, adding the building to increase the number of hotel rooms already in operation, or incorporation into an existing in operation of property or part of a property not previously used for accommodation purpose, creating new rooms.	0.5%
Services provided by institutions that are dedicated exclusively to research and management of scientific and technological projects for junior companies and technology-based companies set up in business incubators.	2%
Services relating to the film industry, only when linked to Brazilian films, natural or plot, when (i) directly competing for the production of an audiovisual work; (ii) corresponding to revenue from licensing for display of the cinematographic work; (iii) corresponding to revenues from film distribution, and in this case only when the distributor is dedicated exclusively to Brazilian films, natural or plot.	2%
Services of health and medical care provided by hospitals, sanatoriums, asylums, nursing homes, emergency rooms and clinics, all able to make admissions.	2%
Public transportation services operated exclusively by bus, by concession granted through a bidding process conducted by the Municipal Government.	0.01%
Other transportation of passengers services.	2%
Management services of any funds and portfolio of clients, except consortium, credit card or debit card and alike, post-dated checks and alike.	2%
Agency services, brokerage or intermediation of securities, provided by institutions authorized to operate by the Central Bank of Brazil and those made under the Securities and Commodities Exchange Market.	2%
Services consisting of trade fairs, exhibitions, conferences and similar events.	2%
Representation services, active or receptive, conducted through telemarketing centers, provided by establishments within certain areas listed by the law [a].	2%

Type of Service	ISS Rate (%)
Taxi services, when provided by cooperative entities formed exclusively by independent professionals.	2%
Services provided in establishments in the area bounded Urban Operation of the Port of Rio de Janeiro Region [b], as listed below: (i) Gymnastics, dance, sports, swimming, martial arts and other physical activities; (ii) Regular education preschool, elementary, middle and top; (iii) Education, training, mentoring, education, assessment of knowledge of any kind; (iv) Accommodation in hotels of any kind, apart-service condominium, flat, apartment hotels, residence hotels, residence-service, suite service, hotel sea, motels, pensions and the like; (v) occupation season with service provision [c]; (vi) Theatrical performances; (vii) Cinematography film exhibitions; (viii) Circus; (ix) Talk shows; (x) Amusement parks, leisure centers and alike; (xi) Nightclubs and alike; (xii) Concerts, ballet, dances, parades, dances, operas, concerts, recitals, festivals and similar events; (xiii) Billiards, bowling alleys and other electronic or not amusement services; (xiv) Races and other animal competitions; (xv) Sports competitions or physical prowess or intellectual, with or without the participation of the viewer.	2%
Services research, development and management projects in science and technology, implemented in areas A and B, corresponding to the old Ilha do Bom Jesus and to the Rio Technology Park of Ilha do Fundão.	2%

(a) Planning Area 2 and Planning Area 3, as defined by the Master Plan of the City of Rio de Janeiro (Supplementary Law 16, of 6 June 1992).

(b) Except those located at Avenida Presidente Vargas and Avenida Rio Branco.

(c) The amount of food and tip, when included in the daily rate is liable to service tax.



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Business Promotion | Business Intelligence | Facilitation Product | Development

Rio Negócios is Brazil's first international promotion agency. Created by the Municipality of Rio in 2010, the company is organized as a PPP (public-private partnership) engaged in attracting new business to the city.

Since its inception Rio Negócios has attracted many companies, such as GE, EMC, Cisco, Microsoft, Siemens, Intel, L'Oréal and Rolls Royce, which established Research and Development Centers in the city. The 55 projects conducted by Rio Negócios corresponded to an investment of USD 3 billion and 5,800 new qualified jobs in the city.

The consolidation of Rio de Janeiro's image as an attractive business place to invest in is another achievement of Rio Negócios, which, through business intelligence and business promotion initiatives, presented the city in 12 international roadshows and meetings attended by more than 5,000 companies from 57 different countries.

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Credits

Rio de Janeiro City Hall	Eduardo Paes	Mayor
EY	Jorge Menegassi	CEO, South America and Brazil
Rio Negócios - Investment Promotion Agency	Marcelo Haddad	Executive Director

Technical team EY

José Carlos Pinto	Risk Leader
Liliana Junqueira	Government and Public Sector Leader
Frank de Meijer	Chemical Industry and Life Sciences Leader
Alexandre Rangel	Advisory Partner
Raquel Teixeira	Human Capital Partner
José Manuel Silva	Tax Partner

Collaborators

Marcos Nicolas	Strategic Growth Markets Executive Director
João Pereira	Advisory Executive Director
Heron Miguens	Advisory Executive Director
Cristiane Pacheco	Tax Executive Director
Rafael Fanchini	Advisory Director
Luis Pontes	Advisory Director
Leonardo Gallo	Advisory Director
Leandro Souza	Tax Senior Manager
Juliano Araujo	Knowledge Assistant Director
Julian Eduardo Zebibbo	Knowledge Supervising Associate

Technical team Rio Negócios

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Collaborators	
Victor Barone	Geographer
Juliana Borges	Analyst
Rebeca Ferrão	Analyst




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