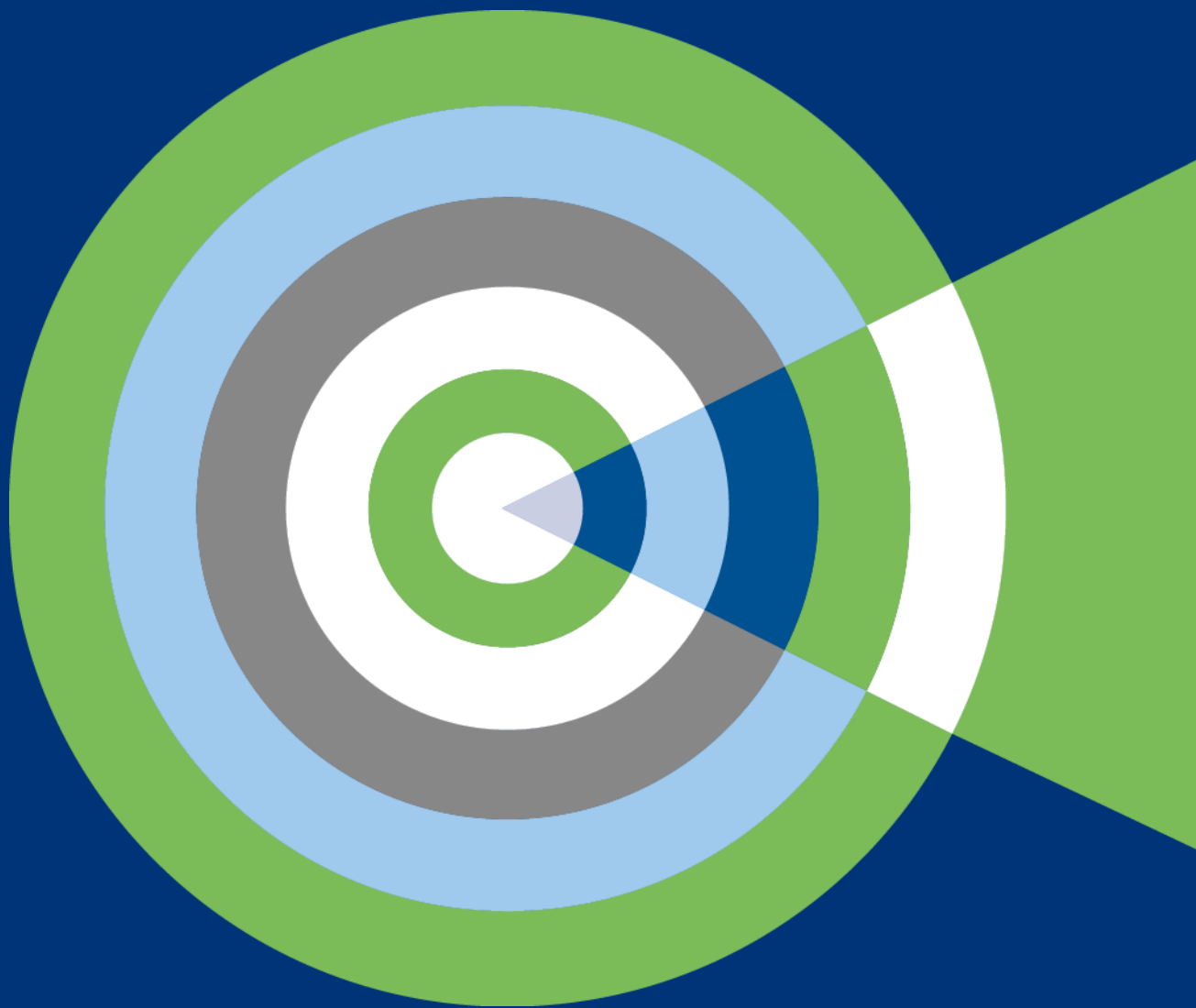


DOING BUSINESS

IN COSTA RICA



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

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

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at April 2019.

We look forward to helping you do business in Costa Rica.

2 – BUSINESS ENVIRONMENT

DEMOGRAPHY

Costa Rica's political stability, high standard of living, and well-developed social benefits system set it apart from its Central American neighbours. Through the government's sustained social spending - almost 20% of GDP annually - Costa Rica has made tremendous progress toward achieving its goal of providing universal access to education, healthcare, clean water, sanitation, and electricity. Since the 1970s, expansion of these services has led to a rapid decline in infant mortality, an increase in life expectancy at birth, and a sharp decrease in the birth rate. The average number of children born per women has fallen from about 7 in the 1960s to 3.5 in the early 1980s to below replacement level today. Costa Rica's poverty rate is lower than in most Latin American countries, but it has stalled at around 20% for almost two decades.

During 2016 the population of Costa Rica was reported to increase by 54,313 people and reach 4,890,751 in the beginning of 2017. The natural increase is expected to be positive, as the number of births will exceed the number of deaths by 50,251. If external migration will remain on the previous year level, the population will be increased by 4 063 due to the migration reasons. It means that the number of people who move into Costa Rica (to which they are not native) in order to settle there as permanent residents (immigrants) will prevail over the number of people who leave the country to settle permanently in another country (emigrants).

TABLE 1
Population statistics

POPULATION	4,987,142 MILLION INHABITANTS (JULY 2018 EST.)
Growth Rate	1.13%
Male population	2,500,090
Female population	2,487,052
Rural population	20.7%
Urban population	79.3%

The data in the table below (from the 'CIA World Fact Book) gives a segmentation of the Costa Rican population by age group:

TABLE 2
2018 population estimate by age group

AGE	PROPORTION
0–14 years	22.43%
15–24 years	15.94%
25–54 years	44.04%

55-64	9.48%
65 years and over	8.11%

The median age in 2018 was estimated to be as follows:

- Both sexes – 31.7 years
- Male – 31.2 years
- Female – 32.2 years

Other population indicators are as follows:

- Birth rate – 15.3 births / 1,000 population (2018 est.)
- Death rate – 4.8 deaths / 1,000 population (2018 est.)
- Net migration rate – 0.8 migrant(s)/1,000 population (2018 est.)
- Rate of urbanisation – 1.5% annual rate of change (2015 est.)

CULTURE/ETHNICITY

- Nationality – Costa Rican
- Ethnic groups – white or mestizo 83.6%, mulato 6.7%, indigenous 2.4%, black of African descent 1.1%, other 1.1%, none 2.9%, unspecified 2.2% (2011 est.)
- Religions – Roman Catholic, Evangelical, Jehovah’s Witnesses, Protestant, etc.
- Languages – Spanish (official), English

GEOGRAPHY

Costa Rica is in Central America, bordering both the Caribbean Sea and the North Pacific Ocean, between Nicaragua and Panama.

- Border countries – Nicaragua 313 km, Panama 348 km
 - Land 51,060 square km
 - Water 40 square km
- Climate – tropical and subtropical; dry season (December to April); rainy season (May to November); cooler in highlands
- Terrain – coastal plains separated by rugged mountains including over 100 volcanic cones, of which several are major active volcanoes.
- Administrative Divisions – Costa Rica is divided in 7 provinces (provincias, singular – provincia); Alajuela, Cartago, Guanacaste, Heredia, Limon, Puntarenas, San Jose
- Natural Resources: hydropower.

TRANSPORTATION AND PORTS

- Airports – 47 (paved runways)
- Pipelines – Refined products 662 km (2013)
- Railways – 278 km, narrow gauge: 278 km 1.067-m gauge (2014)
- Roadways – 39,018 km
- Waterways – 730km (seasonally navigable by small craft) (2011)
- Ports and harbours – Atlantic Ocean (Caribbean) – Puerto Limon; Pacific Ocean - Caldera

Ground Transportation – Bus: Local buses operate chiefly in San José, Puntarenas, San Isidro de El General, Golfito and Puerto Limón, connecting urban and suburban areas. Most local buses pick up passengers on the street and on main roads. For years, these buses

were converted school buses imported from the USA, but they have slowly been upgraded and now include coaches.

Taxi -In San José taxis have marías (meters) and it is illegal for a driver not to use it. Outside San José, however, most taxis don't have meters and fares tend to be agreed upon in advance. Bargaining is quite acceptable.

In some towns there are colectivos (taxis that several passengers are able to share). Although colectivos are becoming increasingly difficult to find, the basic principle is that the driver charges a flat fee (usually about US\$0.50) to take passengers from one end of town to the other.

In rural areas, 4WDs are often used as taxis and are a popular means for surfers (and their boards) to travel from their accommodations to the break. Prices vary wildly depending on how touristy the area is, though generally speaking a 10-minute ride costs between US\$5 and US\$15.

Taxi drivers are not normally tipped unless they assist with your luggage or have provided an above-average service.

Taxis are considered a form of public transportation in remote areas. They can be hired by the hour, half-day or full day, or you can arrange a flat fee for a trip. Meters are not used on long trips, so arrange the fare ahead of time. Fares can fluctuate due to worse-than-expected road conditions and bad weather in tough-to-reach places.

The condition of taxis varies from basic sedans held together by rust to fully equipped 4WDs with air-con. In some cases, taxis are pick-up trucks with seats built into the back. Most towns will have at least one licensed taxi, but in some remote villages you may have to get rides from whomever is offering – ask at pulperías (corner stores).

ECONOMY

Prior to the global economic crisis, Costa Rica enjoyed stable economic growth. The economy contracted in 2009 but resumed growth at about 4% per year in 2010-15. While traditional agricultural exports of bananas, coffee, sugar, and beef are still the backbone of commodity export trade, a variety of industrial and specialized agricultural products have broadened export trade in recent years. High value-added goods and services, including medical devices, have further bolstered exports. Tourism continues to bring in foreign exchange, as Costa Rica's impressive biodiversity makes it a key destination for ecotourism.

Foreign investors remain attracted by the country's political stability and relatively high education levels, as well as the incentives offered in the free-trade zones; and Costa Rica has attracted one of the highest levels of foreign direct investment per capita in Latin America. The US-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) entered into force on 1 January 2009 after significant delays within the Costa Rican legislature. CAFTA-DR has increased foreign direct investment in key sectors of the economy, including the insurance and telecommunications sectors. However, poor infrastructure, high energy costs, bureaucracy, weak investor protection, and legal uncertainty due to difficulty of enforcing contracts and overlapping and at times conflicting responsibilities between agencies, remain impediments to greater competitiveness.

Costa Rica's economy also faces challenges due to a rising fiscal deficit, rising public debt, and relatively low levels of domestic revenue. Poverty has remained around 20-25% for nearly 20 years, and the strong social safety net that had been put into place by the government has eroded due to increased financial constraints on government expenditures. Unlike the rest of Central America, Costa Rica is not highly dependent on remittances, which in 2014 represented 1% of GDP. Immigration from Nicaragua has increasingly become a concern for the government. The estimated 300,000-500,000 Nicaraguans in Costa Rica, legally and illegally, are an important source of mostly unskilled labour, but also place heavy demands on the social welfare system.

- Official Currency – Costa Rican Colón (CRC)
- Currencies – Costa Rican Colón (CRC)
- Fiscal Year – calendar year
- Exchange rates – Costa Rican Colones (CRC) per US dollar: 573.50 (2017) 544.74 (2016) 544.74 (2015) 534.57 (2014) 538.32 (2013)
- GDP (purchasing power parity): USD 83.94 billion (2017 est.)
- GDP (official exchange rate): USD 58.27 billion (2017 est.)
- GDP - real growth rate 3.3% (2017 est.)
- GDP - per capita (PPP): USD 16,900 (2017 est.)
- GDP - composition by sector: agriculture 5.5%, industry 20.6%, services 73.9% (2017 est.)

*For more information visit:

- www.bccr.fi.cr (exchange rates)
- www.cia.gov
- www.cinde.org

GOVERNMENT

Country name:

- Conventional long form: Republic of Costa Rica
- Conventional short form: Costa Rica
- Local long form: República de Costa Rica
- Local short name: Costa Rica

Government type: democratic republic

Capital: San José

Geographic coordinates: 9 56 N, 84 05 W

Time difference: UTC-6 (1 hour behind Washington, DC during Standard Time)

Administrative Divisions: 7 provinces (provincias, singular - provincia); Alajuela, Cartago, Guanacaste, Heredia, Limon, Puntarenas, San Jose

Independence and National holiday: 15 September 1821 (from Spain)

Constitution: previous 1825; latest effective 8 November 1949; amended many times, last in 2015 (2015)

Legal System: civil law system based on Spanish civil code; judicial review of legislative acts in the Supreme Court

BUSINESS PROTOCOL IN COSTA RICA

GREETINGS

It is common to say hello and goodbye to friends and acquaintances with a light kiss on the cheek – or an air kiss accompanied by a kissing sound. Note that women kiss women and women kiss men, but men do not kiss men; instead, they either shake hands or give each other a one-armed hug. In formal or business settings, a firm handshake is the typical greeting.

TIMELINESS

Costa Ricans are famous for observing Tico time, known locally as "la hora tica." Costa Ricans habitually arrive late, often by 30 minutes or more, to dinner, appointments, and get-togethers – anything but the movies or the appointments at the public health clinics, for which they line up hours in advance. Many Costa Ricans do not view late arrivals as rude – and their tardiness is not meant to offend – so it's best to adjust your expectations and tell your friends to arrive earlier than you'd like.

Similarly, the word "ahora," which is Spanish for "now," means "later" or "tomorrow" in Costa Rica. If someone tells you they'll meet you "ahora" or are leaving "ahora mas tarde," it's best to clarify exactly when you'll see each other.

GENDER ISSUES

Costa Rican culture is historically machista, or male-dominant – similar to 1950's America. For example, women traditionally take care of household chores, while men strive to be the breadwinners. Women are expected to dress nicely and wear makeup, and men don't hesitate to show their appreciation with whistles and verbal compliments. Machismo has also fueled relationship infidelity; taking (and flaunting) a mistress was once considered a source of pride.

However, Costa Rica has changed over the last several decades. While machismo and gender differences still exist, sexism and gender inequality are no longer as acceptable as they once were. Infidelity is mostly kept behind closed doors. Women often work outside the home, earning salaries equal to their male counterparts. However, Costa Rican men still appreciate female beauty, and they don't hesitate to show it. Women, try not to be offended if a man stares at you, whistles or tries out a pickup line; in most cases, these behaviours are harmless and are meant as a compliment.

NON-CONFRONTATION

Costa Rican culture is very courteous, and confrontation and accusations are usually considered impolite. It's uncommon for a Costa Rican to get angry in public, even when complaint is warranted. In fact, Costa Ricans are taught from a young age to protest peacefully, and civil unrest is almost always expressed in planned, organized marches.

Additionally, most locals are loath to say no, instead promising "maybe." Keep in mind that a maybe is not an attempt to lie or mislead; it's simply the Costa Rican way of not hurting a friend's feelings. To blend in, try not to stir the pot or get offended when a maybe turns out to mean no; just adjust your expectations and interpret "puede ser" the way a Costa Rican would.

DRESS

Costa Ricans take pride in their appearance and dress well. In business situations, both men and women dress formally but not as conservatively as in North America. Outside the office, men and women dress informally, although casual dress in Costa Rica is fancier than you might expect. For example, men rarely wear shorts except at the beach, and women's jeans are often accompanied by stiletto heels and heavy makeup.

TABOOS/UNACCEPTABLE BEHAVIOR

Costa Rica is a Catholic country, and religious values are respected, if not always observed. Topics such as pre-marital sex, abortion, and gay marriage are generally avoided. Costa Ricans are very polite, so be sure not to put your feet on furniture; always say please and thank you, and try not raise your voice in anger, at least in public.

Typically, small towns and rural areas are more conservative than big cities, especially those in the Central Valley. Beach towns, which are frequented by tourists and expats, are also more liberal than other parts of Costa Rica. The best tactic is to err on the side of caution at all times, or at least until you have discovered what behaviour is acceptable in your town.

GIFT GIVING

Giving gifts is common practice in Costa Rica. Presents are exchanged on Christmas, Father's Day and birthdays, and Mother's Day is one of the most important gift-giving holidays of the year. It is also appropriate to take a bottle of wine to a dinner party, or give flowers to celebrate any occasion. Avoid lilies, as they are usually reserved for funerals.

3 – FOREIGN INVESTMENT

LEGAL FRAMEWORK FOR FOREIGN INVESTMENT

OVERVIEW

Costa Rica has long been recognized as a regional leader of social and economic development in Latin America. The country provides the highest standard of living in the Caribbean Basin, economic stability, and political stability, with the longest-standing democracy in Latin America. As a result, the business environment in Costa Rica is also fairly stable.

The Costa Rican government welcomes foreign investment. All major political parties support this positive attitude. Since 1982, Costa Rica has consistently improved investment conditions. CINDE is Costa Rica's association of private sector leaders that actively promotes investment through its offices located in several countries.

Foreign investment in Costa Rica is strongly encouraged, as evidenced by the wide range of incentives available.

LOCAL BUSINESS STRUCTURES

Costa Rican law recognizes the following local business structures:

- General Partnerships ('Sociedad en Nombre Colectivo')
- Limited liability company ('Sociedad de Responsabilidad Limitada')
- Corporation or stock Company ('Sociedad Anónima')
- Limited Partnerships ('Sociedad en Comandita Simple')

Foreign companies may operate legally in Costa Rica through local branches, joint-ventures, wholly-owned subsidiaries and other variations of the standard organizations. Regardless of the method of operation, an enterprise doing business requiring a legal representative in Costa Rica must register with the Commercial Section of the National Registry (Registro Nacional), thus becoming a national enterprise and taxpayer for Costa Rican purposes, regardless of the nationality of its owners or officers. Foreigners may (i) act as officers, directors, partners or trustees in local companies, (ii) make use of negotiable commercial documents and (iii) execute any kind of legal contract. The corporation is by far the most common form of business entity in Costa Rica. In recent years, however, US and European tax advantages have made the limited liability company more desirable for some businesses. Corporations and LLC's are relatively easy to manage, especially with respect to powers of representation, decision-making issues and other day-to-day business administration activities. They both limit the financial exposure and liabilities of shareholders vis-à-vis third parties

Foreign companies may register branch offices, which are only liable for income tax on Costa Rican source income (see section on Taxes below). Although branch offices are not separate legal entities and therefore do not limit the potential liabilities of the foreign company in Costa Rica, foreign companies may in effect achieve limitation of liability by forming a special purpose subsidiary in their own or a third jurisdiction and registering a branch office of the special purpose company in Costa Rica, thus limiting liability in Costa Rica to the capital of the special purpose company.

CORPORATIONS

Formation - A Costa Rican corporation may be established either by private capital (closely held) or by public subscription. The organizers must execute a deed of incorporation before a Costa Rican notary public, register the deed of incorporation in the Commercial Section of the National Registry, and publish notice of the incorporation in the Official Gazette (La Gaceta). The corporation must establish a street address domicile in Costa Rica.

Shareholders and Shares - The corporation must be formed by a minimum of two organizers. After formation, the corporation may reduce its number of shareholders to a sole shareholder or may receive participations from any number of additional shareholders. Corporations have no minimum capital requirements, but at least 25% of the subscribed capital must be fully paid-in upon formation. Any shares to be subscribed by in-kind contributions must be fully paid-in at formation. The organizers must state a number of authorized shares of stock in the deed of incorporation and establish a par value, either in Costa Rican colones or in any recognized foreign currency.

Common shares have equal rights and one vote each. However, the deed of incorporation may provide for the issuance of different classes of shares with different denominations, preferences, privileges, restrictions and limitations, as well as the establishment of other terms and conditions regarding profits, assets, a specific business or any other corporate features. Voting rights of shares other than common shares may be restricted, but never with respect to special meetings convened to modify the purpose or duration of the corporation, to effect a corporate transformation or merger, or to change the corporate domicile to a place other than Costa Rica. The elimination of any preference of a class of stock must be approved by the holders of the stock of that class in a special meeting. The corporate secretary maintains a private stock registry book not open to the public, to record share ownership and transfers. Shares are freely transferable unless the deed of incorporation provides otherwise. Bearer shares are not permitted by law. Dividends may only be paid from profits (see section on Taxes below regarding withholding taxes).

Shareholders Meetings - The shareholder meeting is the ultimate authority in the corporation, and it retains all the powers not vested in any other corporate body by the deed of incorporation. Unless otherwise specified in the deed of incorporation, shareholder voting on the election of directors is cumulative. Meetings may be held by proxy or outside Costa Rica when so provided by the deed of incorporation but may not be held by circular resolution or by telephone.

Ordinary meetings must be held at least once a year for (i) approval or rejection of the financial statements pursuant to the auditor's report; (ii) distribution of profits; (iii) appointment or dismissal of members of the board of directors and auditors when necessary; and (iv) any other matters proposed in the agenda and not reserved for special meetings.

Special meetings must be convened for: (i) amendment of the bylaws; (ii) issuance of classes of shares not provided for in the bylaws; and (iii) other purposes when so required by law or the bylaws. Shareholders representing at least 25% of the capital of the corporation may request that a special meeting be called.

Management - A Costa Rican corporation is managed by a board of no less than three directors (directores), who must be individuals but need not be shareholders. The directors

may be named in the deed of incorporation or appointed later by a shareholders meeting, which may also remove them at any time. If specifically contemplated in the deed of incorporation, board of directors meetings may be held outside Costa Rica but may not be held by circular resolution or by telephone.

The corporation must name at least one local representative agent (who must be an attorney and may but need not be a director) to be vested with management powers and legally authorized to represent the corporation (*agente residente*). In practice, the chairman (*presidente*) of the board is usually the managing director and the other two directors act as treasurer and secretary. Thus, directors, officers and managers are often the same people. The deed of incorporation may designate other legal representatives and may permit them to delegate some or all of their powers to other persons. The board of directors may also appoint one or more corporate managers (*gerentes*) with powers and authorities of the board's choosing.

Supervision and Auditors - One or more statutory controllers (*fiscal*) report to the shareholders on the performance of management. Although technically required only for publicly held corporations, the local practice is to appoint a controller for every corporation. The controller is appointed by the shareholders, and cannot be a member of the board, hold any other office or be related to any other officer. In most privately held companies, the controller may be a figurehead employee of the company. The controller's legal duties include requesting monthly balance sheets, reporting on yearly balance sheets, calling shareholders meetings, being present at board of directors and shareholders meetings, receiving complaints from shareholders and reporting on such complaints to the board of directors.

Time and Expenses of Formation and Registration - Formation and registration procedures typically take three to four weeks from the time of filing. Government filing fees and legal fees for establishing a simple wholly-owned corporation average less than US\$4,000.

LIMITED LIABILITY COMPANIES

Formation - A Costa Rican limited liability company possesses many of the same attributes as the corporation, such as having independent legal existence and providing liability limited to the capital contributions of its owners. The organizers must execute the deed of organization before a Costa Rican notary public, register it with the Commercial Registry and publish notice of the organization in the Official Gazette.

Members and Membership Interests - The SRL (LLC) must be formed by a minimum of two organizers, whether individuals or companies, each of whom subscribes at least one membership interest. Upon formation, however, the membership interests may legally be concentrated in a single member. The minimum capital requirement (200 colones, which is less than US\$1) is nominal, but at least 25% of the stated capital must be fully paid in upon formation. All membership interests must be fully paid-in within one year of the SRL's constitution. Subscription of membership interests cannot be offered to the public. The number of membership interests and the value of each in Costa Rican colones (at least 100 colones, or some multiple thereof) must be stated in the deed of organization. Any member that allows the use of its name in the SRL name will be liable to the same extent as the member with the largest capital contribution. Membership interests have equal

rights and one vote each, and for this reason the SRL may be less suitable for special or complex control or equity structures than the corporation.

Membership interests may only be transferred with the prior approval of members representing at least three quarters of the company's capital.

Members Meetings - Members meetings may be held outside of Costa Rica when so provided by the deed of organization. Members meetings must be held at least once a year for (i) approval or rejection of the financial statements, (ii) appointment or dismissal of managers and assistant managers when necessary and (iii) dealing with other matters not delegated to a manager or representative. The manager or assistant manager must call the meeting, which may be attended by proxy, but not by telephone or circular resolution.

Management - A Costa Rican SRL is managed by one or more individual managers or assistant managers, who need not be members. The managers are either named in the deed of organization or appointed later in the members meetings, which may also remove them at any time. The SRL business form does not require a controller. The managers are attorneys-in-fact of the company, with their powers defined in the by-laws. They may have either a general power of attorney or an administrative power of attorney. The latter grants full powers except that it does not allow the representative to purchase or sell assets.

Time and Expenses of Formation and Registration - Formation and registration procedures are similar to those applicable to corporations.

BRANCHES

Foreign companies may establish branch offices in Costa Rica by appointing a representative with a general power of attorney for all of the branch's business.

The power of attorney must set forth:

- The business purpose of the branch and the capital "assigned" to it;
- The business purpose, capital, complete names of officers or administrators, and the duration of the foreign company;
- An express declaration that the representative and the branch submit themselves to the laws and courts of Costa Rica with respect to acts or contracts that they enter into or that are to be executed in the country, and that they expressly renounce the protection of the laws of their domicile that would otherwise be applicable to their investment in Costa Rica; and
- Evidence that the grantor of the power has sufficient authority to make the grant.

The foreign investor branch establishes the branch by presenting the power of attorney to the Commercial Registry, along with a certificate of good standing with respect to the foreign company's establishment and existence in its home country, as well as an acceptance of the power of attorney's terms by the representative. The certificate of good standing must be legalized by the appropriate Costa Rican consulate abroad.

Branches cost approximately the same amount to establish, and usually require approximately the same amount of time to form as subsidiaries (three weeks).

Foreign Investment Law -Costa Rica has no general foreign investment law, and its exchange controls were lifted in 1992. Costa Rican law permits national and foreign companies to operate bank accounts in colones or in dollars, both in Costa Rican banks and abroad. There are no technology transfer requirements.

Foreign remittances are taxed (see section on taxation) and some tax incentives include export performance requirements. Costa Rican law currently establishes some industries such as telecommunications, electricity generation and distribution, and insurance services as state monopolies, and prohibits private investment there. Under the Central American Free Trade Agreement with the US (CAFTA), these monopolies would be phased out in the near future.

4 – SETTING UP A BUSINESS

No.	Procedure	Time to complete	Associated costs
1	Check the availability of the proposed company name	Less than one day (online procedure)	No charge
2	A notary public drafts and notarizes public deeds of the incorporation charter for registration before the Mercantile Section of the Public Registry online	Less than one day (online procedure)	CRC 150,000
3	Deposit capital in the bank account, pay registration fees and stamp duties	1 day	see comment
4	Register the incorporation charter in the mercantile section of the public registry and obtain authorization to legalize the company books; send the notice of constitution of the company (edicto)	2 days	No charge
5	File Form D-140 with the before the Tax Department to register the firm as a taxpayer	2 days	See comment
6	Register for labor risk insurance with the National Insurance Institute (Instituto Nacional de Seguros)	1 day	No charge
7	Apply for sanitary permit	1 day	No charge
8	Register the company as an employer with Caja Costarricense de Seguro Social (CCSS, Social Security Institution)	1 day	No charge
9	Apply for the business license (patente municipal) from the municipality	15 days	Cost varies between CRC 10,000 and CRC 100,000 depending on the type of activity, number of

			employees, location.
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In the following section, you will find step-by-step procedures for company registration/filing.

5 – LABOUR

LABOUR & EMPLOYMENT – COMMON ISSUES

LABOR FRAMEWORK

Employment and labour laws are an important part of Costa Rica’s legal structure. Basic labour rights include minimum conditions of liberty and dignity for all workers; minimum wages and equal pay for equal work; an 8-hour workday and 48-hour workweek; time-and-a-half pay for overtime; and severance payment (but not the right to reinstatement as contemplated by other Latin American legislations) for “unjust” dismissal. The 1943 Labour Code follows the principle of minimum standards that can only be negotiated in the direction of improvements for the employee. The Labour Code also addresses collective bargaining rights, including the right to unionize and the right to strike pursuant to a mandatory conciliation process.

The Labour Code defines an employment relationship as one in which the employee receives money in exchange for services and is subject to direction and control by the employer. Employment agreements need not be in writing, but oral agreements are typically interpreted in favour of the employee. Even in the case of written agreements, the minimum standards of employment in the Labour Code cannot be reduced; however they may be improved by agreement among the involved parties.

The Employer may also implement internal work policies which do not need the approval of any government agency and may be considered as part of the conditions of the labour contract.

Among the most important aspects, we can mention the following:

Work Schedule -Standard working hours: 8 hours per day, 48 hours per week in ordinary or mixed shift. The latter in cases in which the labor is not unhealthy, heavy or hazardous. Special circumstances: Night shift (6 hrs./day, 36 hrs./wk), non-hazardous work accumulative shift (10 hrs./day, 8 hrs./night), trustworthy workers (12 hrs./day), other variations based on circumstances. Two 10-15 minute breaks (not regulated by law, but established by the parties) and a 30 minute lunch break are typically part of the paid day’s work. Lunch time may be longer but this additional period is not paid by the employer. One required day of rest per week.

Overtime - Payable as time-and-a-half, with the workday not to exceed 12 hours. Overtime is not permitted when the working conditions are dangerous or unhealthy.

Holidays - Nine mandatory paid holidays: January 1, April 11, Thursday and Friday of Holy Week, May 1, July 25, August 15, September 15 and December 25. Work on these holidays is voluntary and must be paid at double-time rates. August 2 and October 12 are also holidays, but payment is not mandatory. The Law allows to take the October 12th holiday on the Monday following the date.

Wages / Payment - Minimum wages are adjusted by the National Salary Council (made up of representatives from labour, employers and Government) twice a year based on the inflation index. The current minimum wage for unskilled labour in the San José metropolitan area is approximately US\$280 per month. Payment is by time period or unit/piece of work. The company is free to determine method and timing of payment, but blue-collar workers must be paid at least bi-weekly and white-collar and domestic workers, monthly.

Paid Vacations - Employees have a right to two weeks uninterrupted paid vacation per year. With employee consent, the vacation time may be divided into two portions. The Employer may determine when vacations are taken as long as it is no later than fifteen weeks from the end of the year in which the vacation was earned. Vacation time can only be compensated with money in the event of termination. Employees may not allow vacations to accumulate unless for technical or confidentiality reasons the Company asks the employee to take an earned vacation during a later period.

Trial period - The law permits a three-month trial period. If the employee is dismissed without cause during this time, only pro-rata vacation pay and Christmas bonus accrue.

Social Security and employee income tax retention - Costa Rica has a mandatory social security system that provides all citizens with medical care, disability payments, and retirement benefits. The employer acts as a collector of percentage deductions made to the employee's salary (9%). In addition, the employer contributes 25% of payroll.

Sick Leave - The employer must pay 50% of salary for the first 3 days of a approved sick leave. From the 4th day on, Social Security pays 60% of the employee's salary. The employer is not forced to pay any additional amount. Maternity leave is payable at 50% of salary for 4 months (1 month before birth and three months after), and Social Security covers the remaining 50%. In the event of on-the-job injuries, the mandatory insurance policy contracted by the employer pays the worker 75% of salary until the worker is able to resume work.

Christmas Bonus - The law requires payment of a Christmas Bonus (aguinaldo) equal to one-twelfth of total salary received during the twelve months ended November 30 of each year, to be paid within the first 20 days of December. In the event of termination before the Christmas Bonus is paid, the employer must pay immediately the amount accrued at the time of dismissal.

Reserve Provisions - The Law suggests that employers should keep cash reserves for the payment of vacations (3.85% of total payroll), Christmas Bonus (8.33%), holidays (2.47%), severance (3% mandatory and 5.33% recommended, for a total of 8.33%). The new law states that, instead of the auxiliary cease benefit being paid at the end of the contract, all employers must pay 8.33% of each workers monthly salary as a "real right" and

unemployment insurance. From that percentage, 5.33% will be deposited in a Labour Capitalization Fund, and the rest in a Complementary Pension Fund. The immediate financial effect, will be an actual salary increase. Since the new law the 8.33 percent will be deposited each month, independently to the cause by which the contract was breached

Termination of employment - Costa Rican employment law does not recognize the concept of at-will employment common in the United States. To avoid severance payments, an employer must only dismiss an employee if the employer has “just cause” as defined by the Labour Code. Employees terminated for just cause are due only accrued vacation time and Christmas Bonus, and any current wages. The following, among others, constitute “just cause” for termination:

- Physical or moral acts or libel committed against the employer or against a fellow worker at any time.
- Criminal acts or property damage related to the workplace
- Acts that endanger security and working conditions in the workplace.
- Release of the employer’s confidential information.
- Unjustified absence for 2 consecutive days or 3 or more days during any month.
- Disobeying rightful instructions or orders from the employer.

In the event of termination for any of these causes, action must be taken within thirty days of the employee’s behaviour and should be documented fully to avoid minimize liability in any future lawsuit.

The employee may also terminate employment in some cases with “just cause”, and in these cases the employer will also be liable for severance payment:

- Non-payment of agreed salary.
- Dangerous working conditions or contagious diseases in the workplace.
- Moral or physical damage, or defamation against the worker by the employer at any time.
- Intentional damage to worker’s tools by employer.

In the event of dismissal without “just cause” or employee resignation with “just cause,” the employer must give termination notice and severance payment, proportional to the total time worked by the employee.

Notice of Termination (Pre Aviso) - In the event of termination without “just cause,” the employee is entitled to notice according to the amount of time the employment has lasted, or to the salary that would correspond to the notice period. For periods between 3 and 6 months, the notice period is one week; for 6 months to a year, two weeks; and for employment periods over one year, a month. Employees must also give notice if they quit without “just cause”.

Severance Pay (Cesantía) - If the employer dismisses an employee without “just cause” or if the employee quits for a “just cause” attributable to the employer, the employee will be entitled to severance pay of roughly 20 days’ salary for each year worked, calculated based on average salary over the last six months and it may vary also depending on the time

worked and the Labour Code regulations. The maximum paid is 22 days' salary per each year worked.

Accumulated Vacation Pay - Independently of the cause, the employee is entitled to payment for unused vacation time upon termination.

Workers compensation insurance - All employers must obtain workers compensation insurance. Government inspectors can shut down businesses that do not comply with mandatory insurance, and employers are liable for all expenses incurred by the employee as a result of an injury if the employer was not insured. Employers must notify the authorities within 8 days of an accident and the policy must cover medical services and rehabilitation, as well as 75% of employee's salary until the employee recovers. The employer may also be responsible for independent contractors if they are under the employer's direction and not otherwise covered. Insurance premiums are based on the risk level of the employment.

Foreign employees - At present there is no limit on the percentage of foreign employees that may be hired. Foreign employees must obtain work visas from the immigration service (Dirección General de Migración y Extranjería). The free trade zone program allows some companies to obtain temporary work visas for managerial and technical staff.

Workplace Discrimination - The Costa Rican constitution guarantees employees the right to work in an environment free from discrimination based on ethnicity, sex or religious beliefs. The legislature has not yet attempted to implement these rights in more specific legislation, however, and this area is not a source of significant litigation at this time.

6 – TAXATION

In Costa Rica, the taxation of individuals is based on the principle of territoriality, meaning that all personal income that has a foreign source is tax exempt. Only revenue earned by an individual within Costa Rica is subject to an assessment by the tax authorities. You do not have to pay tax on your Social Security income, pension, investment income, etc. And if you telecommute to a job abroad, have a business or rental property in your home country, online business, or are a freelancer, you do not have to pay income tax in Costa Rica. You are still on the hook to the IRS or your home country's tax authority however. For U.S. citizens, be sure to ask your tax professional about the Foreign Earned Income Exclusion, which exempts you from paying taxes from an overseas job or business if you qualify.

INCOME TAX

General Principles - The Income Tax Act (1988) and its regulations, taxes income under various headings including profits, employment income, "available income," and remittances to foreign countries. Unless exempt under one or more provisions (such as Free Trade Zone status), all entities with a "permanent establishment" in Costa Rica are subject to the income tax. Individuals are taxed at 30% for income over CRC 3,600,000 (approx. US\$8,500 at CRC420/US\$). Corporations and SRLs are currently taxed at 30% for net income over CRC 43,000,000 (approx. US\$100,000 at CRC420/ US\$).

A Costa Rican subsidiary of a foreign company may deduct as expenses certain payments to its foreign parent company. Specifically, the subsidiary may deduct from gross income payments to its foreign parent for technical, financial or other assistance, or for patents, formulae, trademarks and similar items, up to an aggregate of 10% of gross sales. The deduction is available only if the Costa Rican company has duly withheld any corresponding withholding tax due.

Capital gains are excluded from gross income and not taxed at all, provided that the activities generating them are not "habitual" or "derived from the sale of depreciable assets." In addition, distributions to owners of a Costa Rican entity are excluded from gross income, although they may be subject to a tax on remittances abroad (see section 3 below).

By law, the fiscal year of Costa Rican taxpayers ends on September 30th. However, companies, individuals and other taxable entities may request a special fiscal year if they reasonably justify their need for it. Costa Rican tax law does not allow for consolidation of tax reporting. Costa Rican corporate taxpaying entities may carry forward up to three years' operating losses for most activities, and up to five for losses arising from agricultural activities. Carrybacks are not allowed. Although Costa Rican legislation generally requires accrual method accounting, companies may use cash-flow accounting upon prior approval of the tax authorities. Costa Rica does not currently have any asset or equity tax.

The Costa Rican Congress is currently debating what may be a significant overhaul of its fiscal system, but the details are not yet clear. Costa Rica does not have any tax treaties

currently in effect, except for a tax information exchange agreement with the United States.

Reorganizations - Costa Rican tax law and regulations do not include any specific provisions governing corporate reorganizations, including mergers and spin-offs. However, Costa Rican tax authorities have taken the position that transfers of real estate that are related to mergers are exempt from real estate transfer taxes, unless the real property is depreciable. All fiscal attributes of the merged company are transferred to the surviving company.

Tax on Remittances to Foreign Countries - The Remittance Tax is a withholding tax on income sourced in Costa Rica that will be remitted to a person or company in a foreign country. The types of income to which the tax applies include: dividends, salaries, rents, royalties, and interest. The withholding tax rate for profit distributions and interest payments for royalties is 25%, for privately held entities or branches 15%, and for salaries 10%. For all other categories, the tax rates vary between 5.5% and 30%. Interest payments to foreign companies, financial entities or banks recognized by the Central Bank of Costa Rica as institutions regularly performing international financial operations or as first order financial institutions are exempt from this tax.

The Tax Administration has the discretion to fully or partially exempt remittances that are taxed abroad as income but that are not fully compensated by credits, deductions or other exemptions in the country of origin. The exemption is proportional to the unrecognized portion of the tax.

SALES TAX

The Costa Rican Sales Tax (Impuesto de Venta) of 13% applies to all imports and sales of goods unless exempted, but only to a limited number of services. Unlike a typical sales tax in the US, it applies to all levels of the supply chain, not just to the retail level. However, unlike a value added tax (VAT), it does not provide for monthly set-offs between amounts paid and amounts collected to arrive to an amount payable to the tax authority. Most raw materials are exempt. In addition to the sales tax, some imported goods may be subject to a selective consumption tax (Impuesto Selectivo de Consumo) applied at various rates depending on the goods. The Costa Rican Congress is at this time considering replacing the Sales Tax with a traditional value added tax.

REAL PROPERTY TAX

A yearly national property tax of 0.25% of appraised value is collected and managed by each municipal government locally. Sales of real property are taxed at 3% of the property's registered value (see Reorganizations above for exemption).

PATENTES AND MUNICIPAL INCOME TAXES

Companies that desire to operate in Costa Rica must pay an activity-specific license tax (often referred to as a patente) to the relevant local government. These license tax works as an income tax usually based on gross profits generated by operations. Local governments have the constitutional right to levy additional taxes and fees, which vary by location.

CUSTOMS LAW

The Customs Act of 1995 (Ley General de Aduanas) governs imports to and exports from Costa Rica. The customs territory of Costa Rica is the territorial, aquatic and aerial space over which the State of Costa Rica exercises full and exclusive authority and sovereignty.

It is divided into two portions:

(a) The Primary Customs Zone or Customs Operation Zone (“COZ”) is made up of all areas where customs services are performed (including FTZs). Products must pass through the COZ to enter or exit the country legally.

(b) Secondary Customs Zone is the remaining area of free circulation. Upon import, goods are subject to import tariffs and duties. The SAC classification, along with any applicable trade agreements, determines the applicable ad valorem tariff rate in accordance with the type of goods. The sales tax, selective consumption tax, and other applicable taxes are regulated by their respective legislations and are collected upon importation. Costa Rica has enacted several temporary importation regimes to encourage value-added manufacturing activities that use foreign-sourced inputs.

7 – ACCOUNTING & REPORTING

TAX YEAR

The fiscal year runs from 1 October to 30 September in each year.

ACCOUNTING STANDARDS

The Costa Rican Institute of Certified Public Accountants is by Law the responsible entity to adopt and modify accounting principles in Costa Rica. Since year 2000, the Institute has adopted IFRSs as the sole accounting framework in Costa Rica, and made it public through a resolution published in the Official Newspaper. With the exception of 'public entities' (see next paragraph) all business entities in Costa Rica follow IFRSs and their audit reports refer to conformity with IFRSs.

Listed companies are required to prepare their financial statements under IFRSs, while regulated entities (namely banks and finance entities, stockbrokers, and pension funds) are supervised by government regulatory agencies that have established their own accounting guidelines. While those guidelines are based on IFRSs, there are some differences due to specific accounting policies adopted by those regulators. Accordingly, audit reports for those entities normally refer to financial statements prepared in accordance with the accounting framework set forth by the regulator rather than IFRSs.

On 30 September 2009, the Institute adopted the IFRS for SMEs, to be effective for financial years beginning 1 January 2010. However, the Institute is still deliberating which entities will qualify as SMEs, and therefore are eligible to use the IFRS for SMEs.

PROFESSIONAL ACCOUNTANCY BODIES

For more information, see the following websites:

- Costa Rican Association of Public Accountants (Spanish only)
- Costa Rican Association of Private Accountants (Spanish only)

CERTIFICATION AND AUDITING

Audited financial statements must be filed annually by an external auditor in the country.

8 – UHY REPRESENTATION IN ERROR! REFERENCE SOURCE NOT FOUND.

CONTACT DETAILS

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San José, Costa Rica

Tel: +506 2271 1440

www.uhy-cr.com

Year established: 1986

PCAOB registered? No

Number of partners: 3

Total staff: 22

ABOUT US

Our main goal as a firm is to always be an ally to our clients giving them our expertise as one of our most valuable assets as professionals.

BRIEF DESCRIPTION OF FIRM

We are a firm of certified Public Accountants, dedicated to provide Tax Consulting services, Public and Private Accounting, Audits, Financial, operational, forensic and diverse outsourcing services that satisfy the needs and responsibilities of our clients. Currently the firm helps its clients to respond successfully to the changes produced by external and internal factors at the business and institutional level, granting them services from highly qualified professionals, both nationally and internationally.

SERVICE AREAS

Audit & Assurance, Business Advisory & Accounting, Corporate Finance, Corporate Governance & Risk Management, Corporate recovery & Insolvency, Corporate Tax, Forensic accounting & litigation support, Fund Services, Legal, Internationalisation, Management Consulting & Solutions, Private Client Services.

PRINCIPAL OPERATING SECTORS

Banking, Financial services & insurance
Engineering & industrial
Food & Drink
Media & Communications
Construction & Real Estate
Not-for-profit
Public sector & services

LANGUAGES

Spanish and English

CONTACTS

Liaison contact: Omar Pérez

Position: Managing Partner

Email: operez@uhy-cr.com

CURRENT PRINCIPAL CLIENTS

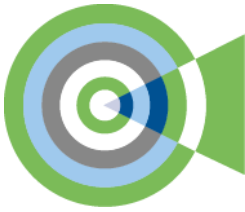
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