

AFIP General Resolution 2885 (published in the Official Gazette on 29/07/2010) Value added tax. Investments in capital assets and infrastructure works. Early tax refund and/or crediting regime. Law 26360 and Decree 726/09. Requirements, terms and conditions. This Resolution establishes the formalities, time frames and other conditions for taxpayers as part of the temporary regime of tax incentives established by Law 23360 to encourage investment in new capital assets (except for automobiles) for use in industrial activity and infrastructure projects (except civil works); taxpayers are entitled to the benefit of an early refund of Value Added Tax, or application of the respective tax credits to offset other taxes. Under this regime, taxpayers may obtain these benefits or, in the alternative, proceed to the accelerated depreciation of these assets for income tax purposes, but they may not apply the two treatments to the same project, except when the approved project is exclusively for the export market and/or relates to a clean production program or sustainable industrial reconversion program. It is applicable to requests submitted as of the first business day in the month immediately preceding publication in the Official Gazette.

AFIP General Resolution 2886 (published in the Official Gazette on 29/07/2010) Income tax. Investments in capital assets and infrastructure works. Accelerated depreciation regime. Law 26360. Decree 726/09. Requirements, terms and conditions. This Resolution establishes the formalities, time frames and other conditions for taxpayers as part of the temporary regime of tax incentives established by Law 23360 to encourage investment in new capital assets (except for automobiles) for use in industrial activity and infrastructure projects (except civil works); taxpayers are entitled to the benefit of accelerated depreciation for income tax purposes of those infrastructure works or assets included in the investment project. Under this regime, taxpayers may obtain these benefits or, in the alternative, request the offset of the invoiced value added tax against other taxes levied by this Agency or, failing this, its early refund; however, the two treatments cannot apply to the same project, except when the project is exclusively for the export market and/or relates to a clean production program or sustainable industrial reconversion program. It is applicable to requests submitted as of the first business day in the month immediately preceding publication in the Official Gazette.

Law 26623 (published in the Official Gazette on 07/09/2010) Amendment Protocol to the Convention to avoid Double Taxation between Argentina and Chile. Retroactive application date. The Agreement for notes swap is approved, which modifies the scope of the provisions of Section 2 of the Amendment Protocol to the Convention to avoid Double Taxation between Argentina and Chile, related to the tax on Income or Benefits and on Capital and Assets, with the provisions of this Amendment Protocol retroactive to 12/31/2002. Through this protocol, it was established that assets consisting of shares or interest in a company's capital or shareholders' equity may be subject to taxation only in the contracting country where the holder is domiciled.

Decree 1225/2010 (published in the Official Gazette on 01/09/2010) Law 26522. Regulatory Decree. Audiovisual Communication Services. The regulatory decree of Law 26522 on Audiovisual Communication Services is passed. The most important provisions, among others, in this decree are as follows:

- For the purpose of determining the tax payable, the turnover tax paid in the Provinces and/or in the Autonomous City of Buenos Aires can be deducted from the gross invoiced amount.
- More precise regulations are introduced regarding the interruption of the statute of limitations on the actions for assessment and claim of payment of the tax and to set the percentages of temporary tax abatements or exemptions established by Law 26522.
- It is established that the tax base for foreign stations will be the gross amounts invoiced for any act or activity described by the law as a taxable event and has an effect in the Argentine territory, regardless of its place of origin, and without considering the nationality, domicile or place of residence of the holder or parties to the transaction, or the place of execution of contracts.

- When International Treaties or Conventions apply, the provisions of each will be observed to determine the applicability of the national treatment, for the purposes of deducting investments in advertising in the Income Tax returns.

Applicable as of the date of publication in the Official Gazette.

AFIP General Resolution 3008 (published in the Official Gazette on 04/01/2011) Income tax. Income on employee wages, pensions and survivors' benefits, and other income. Withholding system. General Resolution N° 2437. This resolution establishes that for fiscal period 2011 in the determination of income tax withholdings from employees' wages, the withholding agents will compute the deductions referred to in its Annex, which under AFIP General Resolution N° 2866/2010 includes a 20% increase. It also establishes that the balance resulting from the annual computation for fiscal period 2010 will be withheld on a one-time basis together with the one corresponding to fiscal period 2011. As regards this balance, it was established that the beneficiaries of the income will not be required to comply with the obligation to annually determine and deposit the respective tax (pursuant to Section 11 of AFIP General Resolution N° 2437), since the employer has not made the full tax withholding for the fiscal period 2010. This resolution is effective from January 4, 2011.

4. Outlook

The recovery of the world economy has been gaining strength, although there is a marked disparity in the GDP growth rates of different countries. According to the IMF, the growth of the world real GDP has been forecast at nearly 4.5% in 2011, with advanced economies growing at 2.5% and developing economies at 6.5%, on average. In light of this, the main macroeconomic concern in advanced economies is the high level of unemployment, while in developing economies the rising food and commodity prices are gaining policy concern. In Latin America, the outlook for commodity exporters has been largely positive, although some signs of overheating have been observed in, for example, high credit growth in Colombia and Brazil, where the growth of China's economy has been a key focus for their path to growth. In Argentina, presidential elections will be held in October 2011, as well as half of the members of the House of Representatives and a third of the Senate will also come up for re-election. Several political analysts agree that President Cristina Fernandez de Kirchner has maintained a high positive image that could encourage her to run for re-election. Opposition has no clear adversary as yet.

Regarding macroeconomic issues, the expected GDP growth for 2011 is 6% according to the Central Bank of Argentina survey (REM) and IMF calculations. This figure is higher than the average growth rate estimated for the region and in line with the growth rate for developing economies as a whole.

Much attention has been paid to the evolution of domestic prices, taking into account that 2011 is an electoral year where the government sector may increase consumption spending, and considering that trade unions have asked for nominal salary adjustments ranging from 24% on an annual basis. Food and energy prices are expected to rise internationally, putting more pressure on prices of the basket of consumer goods.

The Argentine external sector is the main source of foreign currency in the economy and will preserve a surplus thanks to the recovery of external demand for national products and the favorable prices of commodities in international markets. Still, after the recovery, imports have grown at a higher rate than exports posing concerns on the capacity of Argentina to maintain a trade balance surplus. With that in mind, there are elements that would lead one to expect no significant movements in the nominal exchange rate in the short-term; however, the dynamics of increasing domestic prices, as well as increased imports, casts doubts on sustainability in the long-run of the nominal exchange rate level.

In summary, the outlook for 2011 places special attention on political developments that could affect a favorable international context and internal equilibriums.

5. Main Economic Indicators

	2009	2010	Variations %	Source
GDP (current Ar\$) *	1,145.5	1,442.7	25.9	MECON
GDP (current US\$) **	306.8	368.4	20.1	MECON
GDP (Ar\$ 1993)	386.7	422.1	9.2	MECON
GDP (per capita US\$)	7,471.8	8,881.0	18.9	MECON
CPI	7.69%	10.92%	42.0	INDEC
PPI	11.48%	15.67%	36.5	INDEC
Exports **	55.7	68.5	23.0	MECON
Imports **	38.8	56.4	45.5	MECON
Balance of trade **	16.9	12.1	-28.6	MECON
Primary Fiscal Balance *	17.3	25.1	69.1	MECON
Fixed Gross Domestic Investment (Current Ar\$) *	239.6	317.4	32.5	MECON
Investment	20.92%	22.00%	5.2	MECON
Foreign Debt ** ***	119.7	127.4	6.4	MECON
Foreign Debt as % of GDP ***	39.22%	34.25%	-12.7	MECON
Foreign Debt in years of exports ***	2.1	1.9	-13.5	MECON
International reserves of the Argentine Central Bank **	48.0	52.2	8.8	BCRA

* In billion of current Ar\$
 ** In billion of current US\$
 *** As of the third quarter of the year

MECON Argentine Ministry of Economy and Public Finance
 INDEC National Institute of Statistics and Census
 BCRA Argentine Central Bank

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**A wrap-up of 2010
and a forecast for 2011**
 Highlights of Argentina



1. General Context

During 2010 the dynamics of the global economy were dominated by uncertainty, due to the marked asymmetries in the performance of economies. Developed countries exhibited a weak growth, partly reflecting the lingering effects of the international economic crisis and the depletion of the battery of fiscal packages. In contrast, emerging economies consolidated the growth rates observed before the crisis.

Overcoming the hardest moments of the global crisis was a key factor for the growth experienced by Argentina in 2010 and recovery from the sharp slowdown of 2009. GDP at constant prices increased more than 9% year-on-year.

Private consumption, a component of aggregate demand, which has been the principal engine of Argentina's economic growth according to official statistics, recorded positive growth rates in the four quarters of 2010, growing 24% at current prices compared to the previous year. Fixed gross domestic investment, defined as the addition of investment in construction and in durable goods, increased 32% year-on-year.

The trade balance showed a surplus in 2010, despite falling more than 28% against 2009. This was mainly due to a significant growth of imports, busted by the economic recovery, which exceeded the increase of the exports. The trade surplus accumulated in 2010 was USD 12.1 billion. Exports reached USD 68,500 million, an increase of 23% over the previous year. Imports for the twelve months of 2010 were USD 56,444 million, an increase of 45%. Prices for exported products increased 5% and amounts 17%, while in the case of imports, prices rose 6% and quantities 38%.

The Capital and Financial Accounts surpassed USD 700 million, moving into the black after a deficit of more than 9 billion dollars in 2009 and largely as a result of a considerable decrease in capital flight.

By applying pressure for tax collection, almost 29% according to official figures, the Government sector obtained a positive fiscal balance. While income grew 35% annually, expenses increased 34% as a result of a continuing expansive fiscal policy by the Government. The primary fiscal surplus was 45% higher than that recorded in 2009, and the financial fiscal result was positive, after the deficit of the previous year.

The year 2010 showed a solid recovery of economic activity, after the 2009 slowdown. However, several internal imbalances like inflation, a shortage of energy, long term funding have yet to be resolved. As 2011 is a presidential election year, it is hoped that candidates will focus on these issues.

2. Economic Indicators

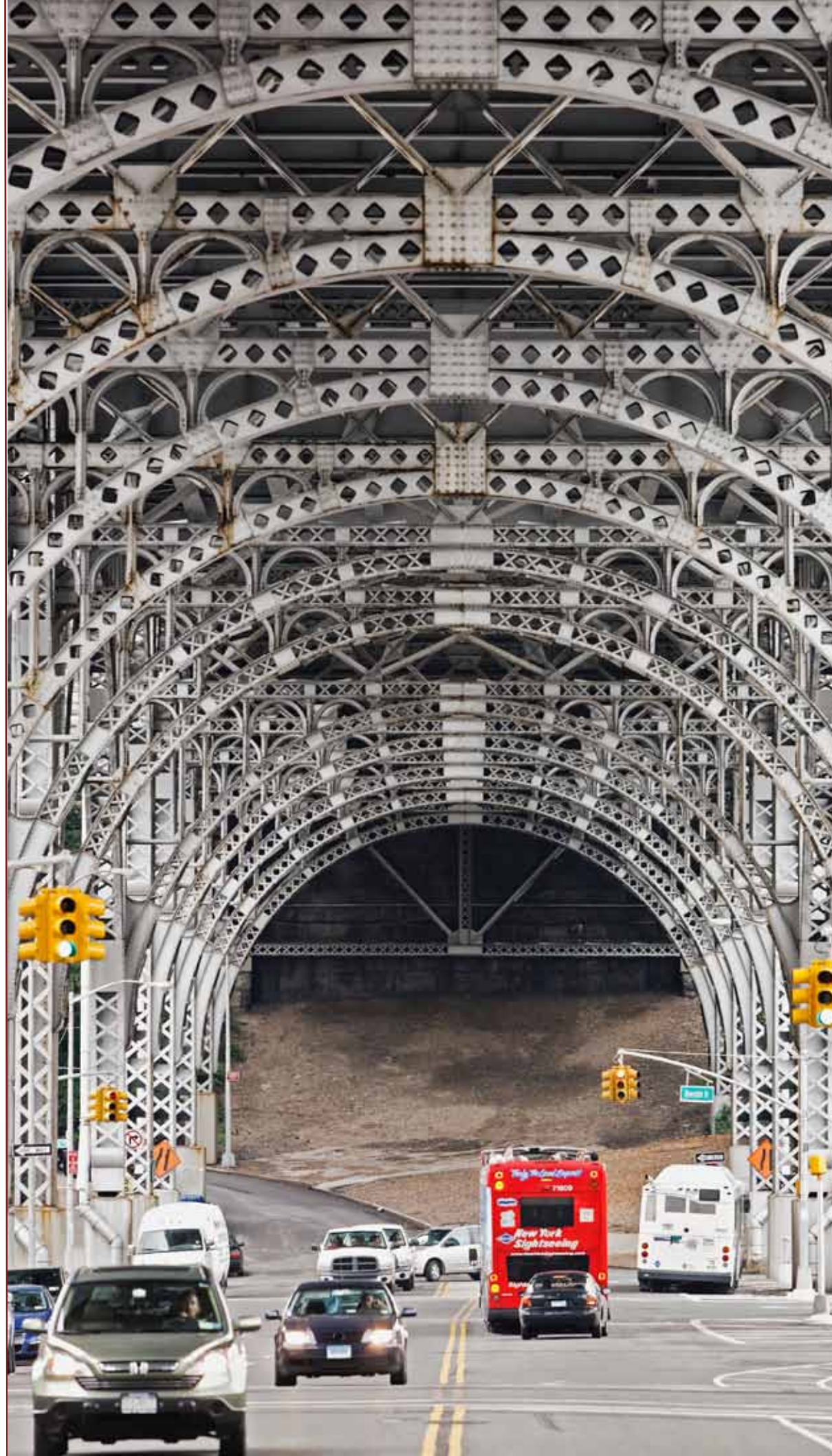
Gross Domestic Product (GDP)

GDP, at constant prices, increased 9.2% year-on-year, while the growth recorded in 2009 was 0.9%. In particular, the goods sector experienced a rise of 10.6%, whereas the service sector recorded an increase of 7.6% year-on-year.

The aggregate supply increased 11.7% in 2009, mainly due to a 34% increase in imports of goods and services.

The aggregate demand saw a 21.2% increase in fixed gross domestic investment and 14.6% for exports of goods and services.

Public consumption at 9.4% continued to contribute positively to growth, while private consumption was an important factor in Argentine growth at 9.0%.



Balance of Trade and Payments

Exports increased by an approximate USD 69 billion for a 23% y-o-y in 2010, within a context of generalized worldwide recovery in trading activity after the beginning of the international financial crisis in 2008.

Imports reached USD 56 billion, marking an increase of 45% year-on-year. The rise in foreign purchases was related to an increase in the level of domestic activity, which mainly lead to a net increase in the import of capital and intermediate goods, as well as fuel and similar products.

The balance of trade ended the year with a surplus of USD 12 billion, 28.6% lower than in 2009, where the rise in exports was offset by a greater rise in imports.

In 2010, the Capital and Financial Account recorded a surplus of USD 711 million, largely due to a decrease in flight of capital. The current account had a surplus during the year of USD 3.6 billion, while the financial account generated a net income of USD 645 million.

International reserves increased 8.8% to USD 52 billion in 2010, which is largely correlated with a slowdown in the demand for dollars by the private sector and the flight of capital as mentioned above.

Public and foreign debt

Total foreign debt amounted to USD 127.4 billion at the end of the third quarter of 2010, with a year- on-year increase of USD 7.7 billion, due to an increase in foreign debt in the nonfinancial public sector as well as the private sector; however, foreign debt in the financial sector decreased in the third quarter of 2010.

The Gross National Debt, excluding securities eligible for the Exchanges 2005 and 2010 which were not presented, at the end of the year rose to a sum equivalent to USD 164,330 million. This value represented approximately 45.8% of GDP and a reduction in the ratio, which a year ago stood at 48.8%. Despite an increase, a reduction in the level of debt as a percentage of GDP occurred, expressed in dollars, and was essentially due to the issuance of securities under the debt swap.

While the entire debt (including that eligible for the Exchange 2005) has not yet been restructured, on December 31, 2009 it was at USD 176,927 million; by December 31, 2010 this amount fell USD 1,379 million to USD 175,549 million, a reduction mainly attributed to the terms and level of acceptance of the Exchange 2010 offer.

Lastly, negotiation of the approximately USD 6 billion owed to the Club de Paris has still not been resolved.

Industrial activity

The Monthly Industrial Estimator for 2010 was near 9.7% - the highest growth achieved since the 10.7% of 2004, an indication of strong signs of recovery.

The industries that experienced the most significant increases were Automotive (40.6%), Basic Metals (22.3%), Textile Products (14.6%) and Rubber and Plastic (10.53%). Meanwhile, Paper and Cardboard (-1.52%), Tobacco Products (-1.39%), and Oil Refining (-0.16%) were the only sectors with decreasing indicators.

Further, the Synthetic Indicator of Construction Activity ended 2010 with a year-on-year increase of 10.9%.

Unemployment and Poverty

According to official statistics the unemployment rate decreased in the fourth quarter of 2010 by 1.1 percentage points on a year-on-year basis dropping to 7.3, with those persons receiving the Government subsidy granted under the *Beneficiaries of the Unemployed Heads of Household Welfare Program* % included as employed persons.

By the first half of 2010, the population below the poverty line fell to 12.0%, 13.7% less than the same period in the previous year.

Inflation and exchange rates

The official Consumer Price Index increased 10.9% in 2010, mainly driven by a 14.69% increase in Food and Beverages, 14.64% in Clothing and 14.64% in Leisure.

As in the past three years, the inflation rate published by the National Institute of Statistics and Census (INDEC) was significantly lower than that calculated by private consultants.

Wholesale prices increased 15.7% p.a., representing an increase of over 4 percentage points compared with the previous year, mainly due to a 22.9% increase in the prices of primary products.

In 2010 the exchange rate continued to depreciate and closed at AR\$/USD 3.978, 4.5% higher than that recorded at the end of 2009.

Interest rates

In 2010, the Argentine Central Bank decided to increase its interest rates for repos, from 10.7% in 2009 to 11.1%.

The main short-term interest rates on deposits increased during the year in line with the reference rates of the Argentine Central Bank. The average interest rate paid by private banks to the wholesale sector and for deposits of up to 35 days (BADLAR) was 11.1% in December 2010. The average interest rate for loans between banks for a one day period (BAIBOR) was 9.38% in December, expanding its margin in relation to the BADLAR.

Fiscal accounts

In 2010 the tax revenue growth rate was 33.1% in nominal terms, a variation considerably higher than the 26.7% average over the last 7 years. The increase was driven by Social Security resources (32.1%) and Value Added Tax (33.2%). In addition, Export Tax revenue increased 43.4% per annum due to the rise in prices and higher quantities exported.

Likewise, current expenses grew at a rate of 30.4% per annum, due basically to the expansion of Consumption and Operating Expenses, which include Public Employee Remunerations (42.2%), Social Security Benefits (28.6%) and Current Transfers to the Private Sector (44.6%).

Thus, primary surplus in 2010 stood at USD 25.1 billion (1.7% of GDP), representing an increase of 45% compared to 2009 results. This amount includes as income, the transfers of Special Drawing Rights by the IMF to all member countries and the profits of BCRA and ANSES. As well, the financial result (primary result less interest payments on the debt) showed a surplus of USD 3.1 billion, instead of the USD 7.1 billion deficit in 2009.

3. Tax

AFIP General Resolution 2866 (published in the Official Gazette on 12/07/2010) Income tax. Income on employee wages. Withholding system. This resolution establishes that for the purposes of the determination of the amount of income tax to be withheld, the withholding agents subject to the provisions of General Resolution N° 2437 shall use the tables containing the increased accumulated deductions for the July to December 2010 remunerations, as established by this norm. Any differences which by application of those tables may arise in favor of the individuals liable for withholdings shall be offset against the withholdings for the remaining months of the fiscal period. If there is any remainder at year end, it will be refunded with the annual computation of the tax, under the terms of section 14 of General Resolution N° 2437, its amendments and complementary provisions. This Resolution came into force as from July 12, 2010 and applies to fiscal period 2010.