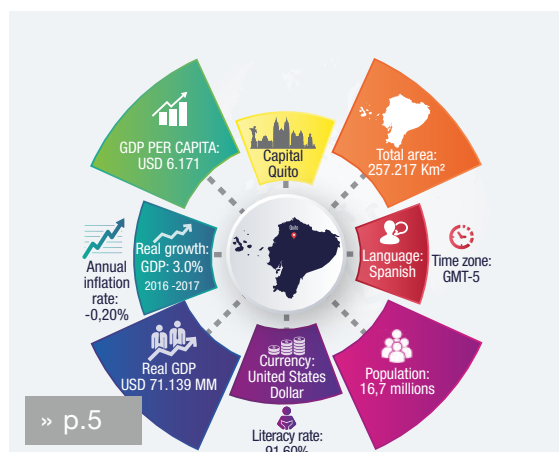


THE INVESTOR'S GUIDE



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THE INVESTOR'S GUIDE



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PRESENTATION

From the Ministry of Foreign Trade and Investment and the Institute for the Promotion of Trade and Investments PRO ECUADOR, we have developed this Investors Guide, 2018 – 2019 edition, in order to show investors that Ecuador is a country of opportunities, with safe public policies and a solid legal framework for investments.

Ecuador is known by having the greatest biodiversity per square kilometer of the world. It is a dollarized country, what makes it one of the most stable economies of Latin America.

Its sustained economic growth in recent years is the result of suitable government policies, which makes it a perfect destination for foreign investment. In 2017, the country's real GDP increased by 3%, reaching USD 71.139 billion.

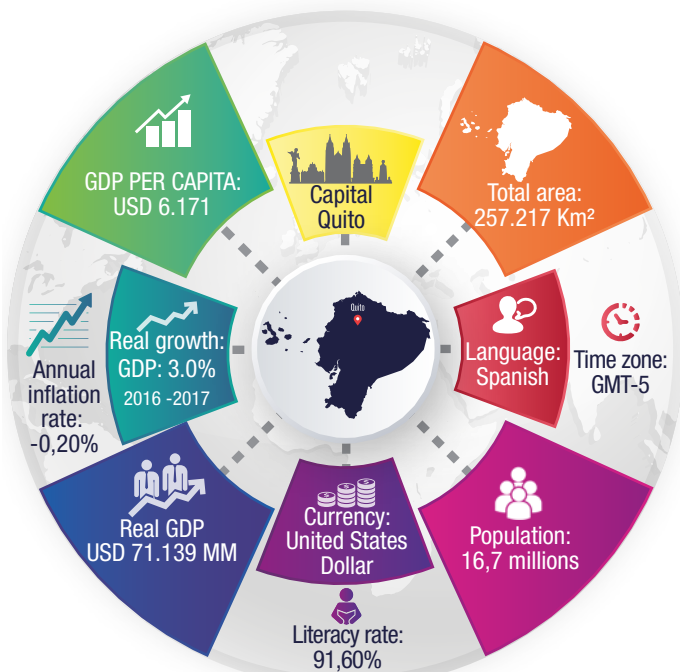
This guide allows the investor to know about the economic condition of the country, its competitive advantages, investment opportunities, investment incentives, and legal certainty.

For these and many other reasons, Ecuador is an ideal destination for your investments!

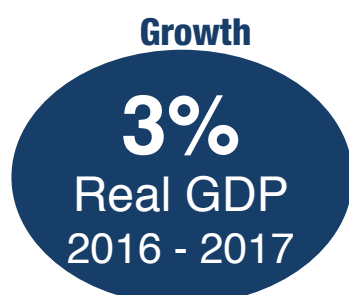
Ecuador
INVESTMENTS Destination

I. Country Profile: Ecuador

1.1 General information about Ecuador 2017



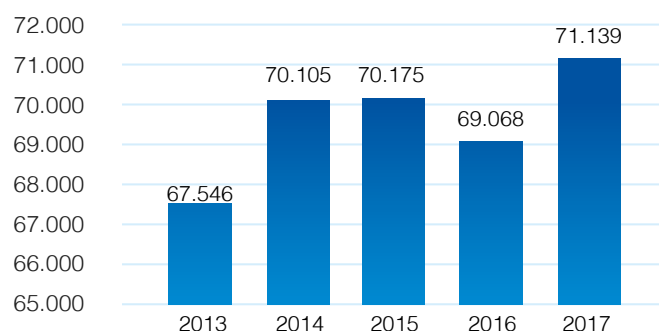
Source: Central Bank of Ecuador (BCE)
The National Statistics and Census Institute (INEC)



1.2 Economic situation

In 2017, the Ecuadorian economy has increased by 3%, in real GDP terms, in relation to the previous year. This dynamism is attributed, among others, to an increase in exports by 0.6%, where several products stand out such as: bananas, coffee and cocoa, elaborated shrimp, fish and all kind of seafood, flowers, among others.

Gross Domestic Product (GDP) Constant Million dollars



Source: Central Bank of Ecuador (BCE)

Main economic activities that comprise GDP in Ecuador in 2017:

Economic activity	GDP relation 2017 (%)
Manufacturing	11,5
Trade	10,2
Oil and Mining	9,4
Education, Social and Health Services	9,0
Construction	8,6
Agriculture, hunting and forestry	7,8
Transport	7,1
Public Administration, Defense, Social Security plans.	6,5
Professional, technical and administrative activities.	6,4
Water and electricity supply	3,0
Accommodation and catering	1,7
Other activities	18,9

Source: BCE

Average GDP growth in Latin America 2007- 2017



Source: Central Bank of Ecuador (BCE) and Preliminary Balance of the Economic Commission for Latin America 2015

1.3 Connectivity

During the last decade, the Government has invested in roads, ports and airport projects. Investment that facilitates the transportation of goods and services in a safe and timely manner.



USD 667 MM

4 ports: Guayaquil, Puerto Bolívar, Esmeraldas and Manta.

Private investment of USD 1.200 MM in the new Deep Water Port in Posorja.



USD 9.955 MM

Public investment in the road system, road network of 9.997.90 km.



USD 374 MM

4 international airports
2 cross-border airports
7 national airports, load capacity: 246 M Tons.

Passenger transport capacity: 10.03 MM per year.

Second place in the region in airport

1.4 Qualified Human Resources

The Ecuadorian government is committed to a higher education. For this reason, it offers international scholarships (masters, PHDs and medical specialties) in foreign universities of academic excellence. From 2007 to July 2018, approximately 29.303 scholarships have been granted in the following areas of study:

- Information and Communication Technologies (ICTs)
- Natural sciences, mathematics and statistics
- Engineering, industry and construction.
- Agriculture, forestry, fishing and veterinary medicine.
- Health & Wellness.
- Transport services.
- Arts and Humanities.

1.5 Openness to the world

Ecuador is a country of great opportunities!

It has access to a market of 800 million consumers, thanks to trade agreements that are in force with important countries, and to double taxation avoidance agreements.

Trade agreements: European Union, Andean Community (CAN), MERCOSUR, ALADI, Guatemala, Nicaragua, El Salvador, EFTA.



Currently, bilateral investment treaties are negotiated with several countries.

Double Taxation Avoidance Agreements: Signed and in force with 18 countries.

<http://www.sri.gob.ec/web/guest/fiscalidad-internacional2>

II. GENERAL REGULATORY FRAMEWORK FOR INVESTMENTS

2.1 Tax System

Ecuador offers clear regulations in the tax, corporate and labor system, which are key elements for the promotion of investment, entrepreneurship, innovation and productivity.

a. General Structure

The Internal Revenue Service of Ecuador (SRI) is responsible for collecting internal taxes established by law.

b. Tax system

Ecuador's tax system includes state and local taxes. State taxes are assigned by the central government and the local taxes are set by Decentralized Autonomous Governments (GADs).

State taxes:

CORPORATE INCOME TAX (IT)

For companies, the following rates will apply to the tax base: *

IT Rate on tax base (%)	Description
22%	For micro and small companies, or usual exporters.
25%	For companies established in Ecuador, as well as branch offices domiciled in the country established by foreign companies, and permanent offices of foreign companies not domiciled in the country. If a company has shareholders, partners, participants, constituents, beneficiaries or similar, residents or established in tax havens, or lower taxation regimes with a direct or indirect participation, shall inform about their participations, in accordance with current tax regulations.
28%	Companies must pay an IT rate of 3 additional points, in case of not reporting.

* Tax base. - Returns, discounts, costs, expenses and deductions, attributable will be deducted from the total taxable income amount.

For more information:

<http://www.sri.gob.ec/web/guest/impuesto-renta%C2%BFcu%C3%A1-es>

Zero 0% Value-added Tax (VAT) on:



material and supplies imported or purchased locally for the agriculture, livestock, aquaculture and fishing activities,



Machinery and spare parts for use in agriculture, aquaculture, and fishing,



Electric vehicles for private use, cargo and public transportation,



Batteries, chargers, chargers for charging stations used for hybrid and electric vehicles,



Solar panels and waste water treatment plants,



New fishing boats built in local shipyards,



Services for social housing projects approved by the Ministry of Housing and Urban Development MIDUVI in Spanish),



Land lease for agricultural use,



Deduction insurance for credits in different segments and prepaid medicine services; Health and life insurance and reinsurance for medical assistance, personal accidents. And those required by traffic and agriculture-related accidents.

VAT TAX

It taxes the value of local transactions or imports of personal goods, in all stages of trade, and the value of the services provided.

All natural and legal entities providing services and / or carrying out transfers or imports of goods must pay VAT. VAT rate in force: 0% and 12%.

Exemption and refund of VAT for the purchase of supplies, raw materials and services, related to productive activities.

For more information:

<http://www.sri.gob.ec/web/guest/impuesto-al-valor-agregado-iva#%C2%BFcu%C3%A1-es>

TAX ON SPECIAL CONSUMPTION

It taxes the consumption of certain goods (national or imported) and services considered of luxury, which are detailed in the Law of Internal Tax regime article 82. According to the tax base, the corresponding rate applies.

For more information:

<http://www.sri.gob.ec/web/guest/impuesto-consumos-especiales>

TSC must be paid by:

1. Natural people and societies Manufacturers of goods taxed with this tax.
2. Taxpayers who import goods taxed with this tax.
3. Taxpayers who provide services taxed.

To pay TSC, it must be determined the tax base of products and services, which are in the website:

<http://www.sri.gob.ec/web/guest/impuesto-consumos-especiales#%C2%BFcu%C3%A1-es>, "rate" option.

TSC Refund or exoneration for goods related to productive activities

EXIT CURRENCY TAX

It taxes sending or transfer of currency to other country, whether in cash or checks, transfers, Withdrawal or payment of any nature. The amount transfer is taxed with the current rate 5%.

- Exoneration to Exit Currency tax (EEC) when societies reinvest 50% of their profits in new productive assets.
- EEC Refund for purchasing supplies for export of service.
- EEC Refund for purchasing supplies for export of goods.

TRANSFER OF REAL ESTATE

The process of purchasing and selling real estate can be divided into three phases:

1. Compilation of documents such as Certificate of History of Ownership and liens of property, proof of payment of property tax (urban or rural), copy of documents of identification of sellers and buyers;
2. Preparation of Deed and tax payment: A legal professional must elaborate a Minute of Deed before a notary public in the country (regardless of the location of the property); Notary liquidates municipal taxes (Tax of alcabala generated by the transfer and tax to added value, which is based on the profit generated from the sale); After the tax payments and payment to the notarial service, the deed is issued;
3. Inscription in the Property Registry: a copy of the deed must be registered in the Property Registry corresponding to the city, in which the property is located. Without this registration, the sale is not perfected.

LOCAL TAXES – FIXED BY MUNICIPALITY

1. Tax on rural and urban property.
2. Tax on alcabalas (1%) on good
3. Tax on Registration and patent*.
4. Tax of 1.5 per thousand on Total Assets.

*The values of the tariffs are determined from the tax base of the products or services

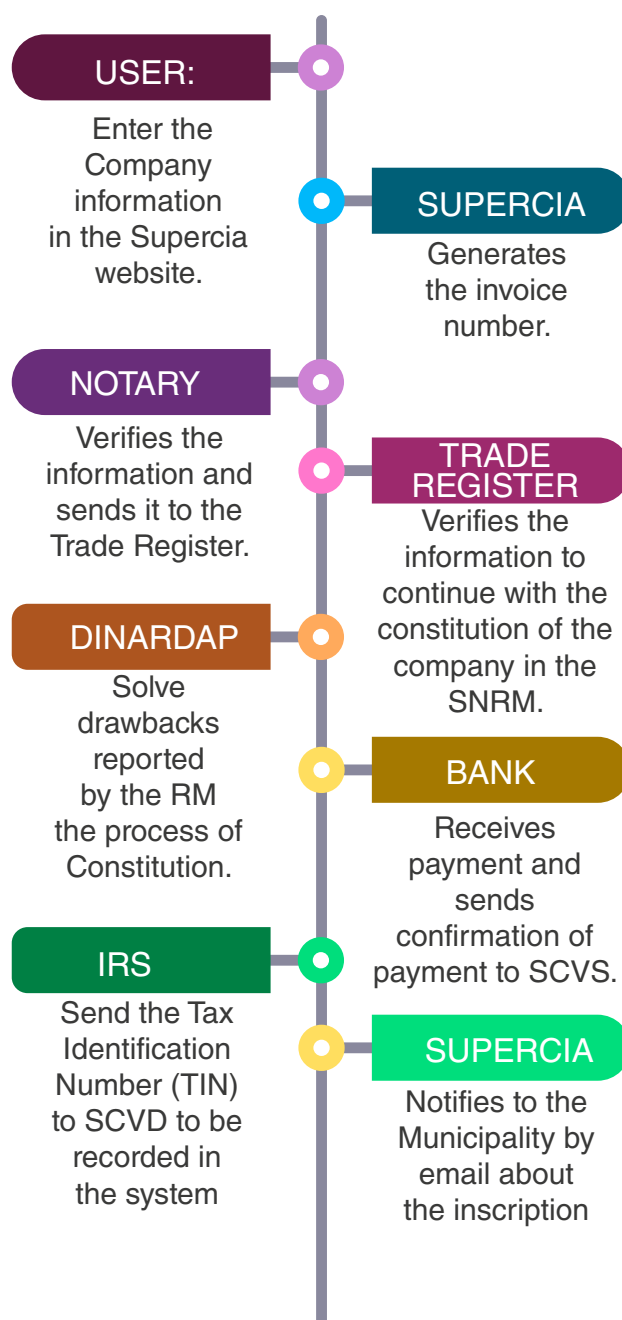
2.2 Constitution of a Company in Ecuador

To establish a company in Ecuador, it is done in the Electronic and Dematerialized Constitution System (SCED) provided by the Superintendence of Company Values and Insurances (SUPERCIA), through the website <https://portal.supercias.gob.ec>

Enter to the option “Company Constitution” <https://www.supercias.gob.ec/portalConstitucionElectronica/>



Company Constitution Process (CHART)



Glossary:

SUPERCIA: Superintendence of Company Values and Insurances

SNRM: Trade Register National System.

RM: Trade Register

DINARDAP: National Directorate of Public Data Registration

SCVD: Electronic and Dematerialized Constitution System

2.3 Labor System and Social Security

a. LABOR CODE

The Labor Code regulates the employment relationship between employers and workers, and the various modalities and conditions of labor.

The Ministry of Labor is the governing institution of public labor and employment policies, which regulates and controls fulfillment to labor obligations.

For more information:

<http://www.trabajo.gob.ec/>

Main points of the scheme of Work Contracts in Ecuador

LABOR SYSTEM	DESCRIPTION
Minimum Wage	US\$ 386 (Subject to revision in 2019)
Workday	<p>Maximum workday: it has a maximum of 8 hours per day, without exceeding 40 hours per week.</p> <p>Special Workday: are regulated by Sector and Work Commissions that decide in which industries are not allowed the complete workday.</p> <p>Night Shift: Hours between 7pm and 6am of the next day. Remuneration is the same as the day shift plus a 25%.</p>
Types of contracts	<p>Through the Workers Unique System (SUT), the contracts generated automatically are:</p> <ol style="list-style-type: none"> 1. Undefined 2. Certain Work 3. Permanent Part Time 4. Eventual Continuous 5. Eventual Discontinuous. 6. Seasonal 7. Learning 8. Stint 9. Between craftsmen and workers 10. Domestic Service 11. By work or service determined within the line of business. 12. by Task 13. Agriculture 14. At home 15. Occasional 16. Banana Sector 17. Floriculture 18. Maquila 19. Transportation 20. For teenagers 21. Free tax zone <p>The process consists in:</p> <ol style="list-style-type: none"> 1. Enter to the SUT System http://sut.trabajo.gob.ec/ with user and password. 2. Click on module "Worker Data and Settlement Certificates". 3. Choose option "Worker Data", click on "enter data worker". 4. Accept terms and conditions. 5. Enter information of the worker. 6. After all the information is registered, the work contract can be visualized to verify the data. 7. To finish the process, click on save and print work.

b. SOCIAL SECURITY LAW

All workers must be affiliated to the Ecuadorian Institute of Social Security (IESS), entity in charge of applying the Obligatory General Insurance System, of all the people who perform a job in dependence or without it.

The affiliation is made by the employer on the IESS www.iesg.gob.ec. In addition, the contributions must be paid on the 15th of each month.

Social Security	DESCRIPTION
IESS Contributions	<p>Dependence Workers:</p> <ul style="list-style-type: none"> • Employer Contribution: 11.15% • Employee contribution: 9.45%
Employers System	<p>Employers are obliged, under their responsibility and without need of a counterclaim, to register his employees as an affiliate of Obligatory General Insurance System from their first day of work, and send to the IESS admission notice within 15 days after.</p> <p>Employers must notify to the IESS about salary modification, worker separation or other important news for the worker's labor history, within 3 days after the event.</p>
Employers Register in the Labor History System	<ul style="list-style-type: none"> • Enter to IESS website www.iesg.gob.ec. • Choose option employer – new employer registration. • Enter RUC or identification number and choose the sector (private, public or domestic service). • Enter all the data required. • End registration, print password request and agreement for use of information. • Approach to an IESS agency with all the required documents, to get the employer password.

III. PRO INVESTMENT FRAMEWORK

3.1 Legal framework in investments

Since the end of the nineties, a series of regulations related to tax and customs incentives have been worked, creating an ideal scenario for investors, counting on stability, legal predictability, tax incentives and safe mechanisms for dispute resolution.



3.2 Institutional Framework within Investment Procedures

The Organic Code of Production, Trade and Investment - COPCI, is the regulatory framework that boosts and encourages productive investments, greater added value in production and the generation of quality jobs, through the application of tax incentives.

The Ministry of Foreign Trade and Investment, defines investment policies and the Institute for Export and Investments Promotion PRO ECUADOR, is the executor of promotion and assistance to foreign investors during their investment process.

On the other hand, the Organic Law of Incentives for Public - Private Partnerships (PPP) aims to establish incentives to attract national and foreign investment, for the implementation of priority public projects in which the State delegates to the private initiative the execution of such projects.



Finally, the Law of Productive Promotion, Investment Attraction, Job Creation, and Stability and Fiscal Equilibrium, aims to consider investment attraction as a State policy, in addition to expanding the incentives of the COPCI (Organic Code of Production).

3.3 Special Zones for Economic Development

Special Zones for Economic Development are delimited spaces on the national territory, identified as a customs destination for new investments in transfer and technology disaggregation and innovation, industrial diversification, logistics services, and tourism services, facilitating productive linkages and diversification of the exportable offer.

The Economic and Productive Sector Council is the one that authorizes the establishments of Special Zones for Economic Development.



3.4 Investment on Tourism

In tourism, Ecuador has the biggest diversity by square kilometer in the planet. We are the country of the four worlds: Coast, Highlands, Amazon and Galapagos Islands. With fertile fields where our premium and sustainable products grow. From 2010 to 2017, Ecuador registers an increase of 6.4% of tourists.

The Minister of Tourism (MINTUR) is the competent entity in touristic investment and offers specific incentives for this industry.



IV. Incentivos Para Invertir En Ecuador

Most of the incentives to attract investors are established in the Organic Code of Production, Trade and Investment (COPCI), the PPP law and the Productive Promotion law. Incentives on COPCI are classified by:

4.1 General Incentives:

For all new and productive investments

BENEFITS FOR ALL NEW AND PRODUCTIVE INVESTMENTS.

Additional deductions for income tax calculation, as mechanism to encourage productivity improvement, innovation and eco efficient production

Benefits for opening company's capital in favor of their employees.

Ease of payment for foreign trade taxes.

Additional deduction for calculation of income tax of additional compensation for payment of living wage.

Exemption of Outflow Tax (ISD) for external financing operations.

Reform of the calculation for advance of income tax;

Exemption of the advance of income tax for 5 years.
















Exemption of the income tax for 15 years for new productive investment within the provinces of Manabí and Esmeraldas.



4.2 Investment in Prioritized Sectors

For new and productive investment in the following sectors:

NEW INVESTMENTS SECTORS PRIORITIZED

	Agricultural sector; production of fresh, frozen, and industrialized foods
	Agroforestry chain and processed products
	Metalworking
	Petrochemical and oleochemistry
	Pharmaceutical
	Tourism, cinematography and audiovisual; and, international events
	Renewable Energies
	Foreign Trade Logistic services
	Biotechnology and applied software
	Service Exports
	Development and software services, production and development of technological hardware, digital infrastructure, computer security, products and digital content, and online services
	Energy Efficiency
	Industries of materials and sustainable construction technologies
	Industrial, agro-industrial and agro-social/ associative
	Sectors of strategic import substitution and export promotion, decreed by the President.

BENEFITS IN PRIORITIZED SECTORS

- Exemption of income tax and its advance for 12 years.
- Exemption of income tax and its advance for 8 years for investments within the urban perimeter of Guayaquil and Quito;
- Exemption on income tax for up to 15 years for new investments that are executed in the prioritized industrial, agroindustrial and agro-social/associative sectors and, within border cities;
- Exemption of income tax for up to 20 years for new investments in the sector of tourism and those established in the provinces of Manabí and Esmeraldas;
- Exemption of income tax for 20 years for new investments in the tourism sector for MSMEs, community and associative tourism;
- Double deduction of the annual depreciation expense for 5 years of investments in new and productive fixed assets.

4.3. Incentives in Basic Industries

For new investment in the following sectors:



Smelting and refining of copper and / or aluminum



Metallurgy and flat steel production



Hydrocarbons refining



Petrochemical industry



Cellulose industry



Construction and repair of maritime vessels

BENEFITS IN BASIC INDUSTRIES

- Exemption of income tax and its advance for 15 years, and up to 20 years if the investment is executed in border cities of the country.

4.4. Special Zones for Economic Development

For new investment located in Special Zones for Economic Development

- Exemption of income tax and its advance for 10 years.
- Exemption of Outflow Tax for imports of machinery and raw materials.

- Exemption of VAT on imports of machinery and raw material.
- Tax credit of VAT on national purchases in the acquisition of machinery and raw material
- Exemption of tariffs on imported merchandise.



4.5 Territorial Incentives

For new and productive investment in depressed and border areas, the following benefit is contemplated:

- Additional deduction of 100% of the cost of hiring new workers, for five years from the execution of the new investment.

V. Types of investment instruments

5.1 Investment Contracts

Ecuador, through investment contracts, offers the private investor optional agreements that the employer can request to guarantee their new and productive investments, and generate new direct employment.

BENEFITS:

- Stability over tax incentives, for up to 15 years, renewable once (maximum validity for 30 years).
- Aimed to investments of more than USD 1 million that generate new jobs.

With the signed contract, the company can request:

- Reduction of tariffs for imported capital goods;
- Exemption of the Outflow Tax (ISD) for payments made abroad for capital goods and imported raw materials and for dividends distributed to domestic or foreign companies domiciled in Ecuador;
- Establishes dispute resolution mechanisms: national and international arbitration.

5.2 Public-Private Partnership Contracts

For projects under the Public-Private Partnership modality, the delegating public entity presents its project to the APP Committee, for its respective approval and to be able to benefit from the following benefits:

- Exemption of 10 years in the income tax from the first year of operation.
- Exemption of Outflow Tax (ISD) on imports, financing and dividend payments.
- Exemption of tariffs on imports related to the project.
- AT exemption on imports related to the project.
- Legal stability on the essential aspects of investment development and applicable incentives.

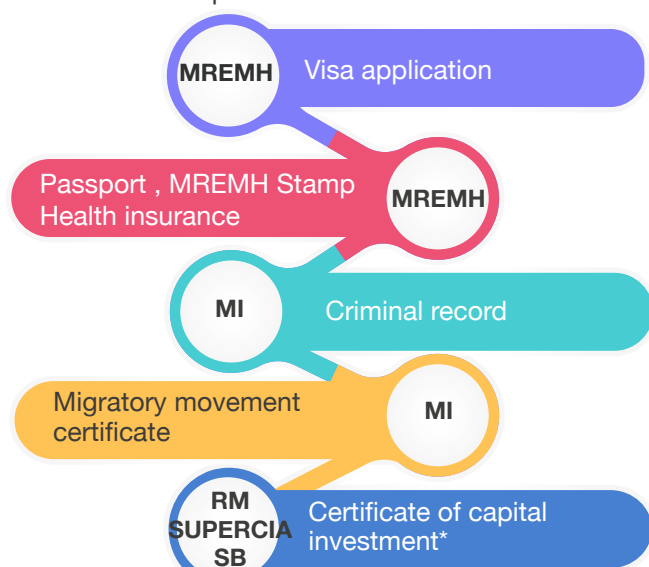
Strategic sectors PPP:

- Energy in all its forms
- Telecommunications
- Non-renewable natural resources
- Transportation and Hydrocarbons Refining
- Biodiversity and genetic heritage
- Radioelectric spectrum
- Water
- Others determines the law.

VI. Visa for foreign investors

The Ministry of Foreign Affairs and Human Mobility (MREMH) regulates immigration status and stay of foreign citizens who have assets and economic resources of legal origin for productive or commercial activities. The term of the visa is indefinite.

The Investor Visa process consists in:



ABBREVIATIONS

MI: Ministry of Interior

RM: Commercial Registry

SUPERCIA: Superintendence of Companies, Securities and Insurance

SB: Superintendence of Banks

MREMH: Ministry of Foreign Affairs and Human Mobility

* Document that reflects or proves the existence of the investment in a policy, title or certificate of deposit in a credit institution authorized by the Ecuadorian system, real estate or own business. For more information: <https://www.cancilleria.gob.ec/visas-sistema-virtual-para-emision-de-citas/>

VI. Portfolio of investment projects

The Government has designed a portfolio of projects with the objective of guiding investors and financial institutions, both national and international, on the public and private investment opportunities offered by Ecuador, which have been compiled in the "Investment Projects Portfolio Invest-Ecuador". The catalogue is available in the following link:

<https://gofile.me/2DJ1p/L8FxBKZNi>,

classified according to their development model.

Ecuador promotes its local and foreign investment, through its projects portfolio.

Public-Private Partnership

International Cooperation

Private investment

Social Responsibility



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