

VII. TAX SYSTEM:

In general, any company doing business in Ecuador is subject to taxation of its transactions and activities, by means of income tax, value-added tax, consumption tax, and other applicable duties. Companies are also subject to taxation of the stock and securities which they may hold.

A company is considered to be resident in Ecuador, and therefore subject to taxation on its worldwide income, when the company has been established and is primarily based in Ecuador, its articles of incorporation being in conformity with the Ecuadorian laws regulating corporations. Foreign companies are taxed only on their income from Ecuadorian sources, or on stocks or assets that they may hold in the country. A company is considered to be non-resident when it has been incorporated in accordance with foreign statutes and its primarily based in a foreign country.

Companies who associate or combine to undertake joint ventures are taxed individually on any profits which they earn from the enterprise.

For companies contracted for Petroleum Exploration and Exploitation a rate of 44.4% is levied upon the the profits thus contracted, unless they choose to reinvest their profits in the same activity in Ecuador. In such case their net income will only be subject to the domestic income tax rated of 25% on the amount of their reinvestment, and need be reflected in the increase of their net assets in the country.

In addition to income taxes, petroleum companies must pay a tariff based on their average daily production for each operating month and the type of hydrocarbons exploited:

* No tax is levied on production of up to 30,000 barrels of oil or natural gas equivalent.

* A 3% rate is levied on production of more than 30,000 barrels, with an additional 1% tax levied upon every additional 10,000 barrels. The total additional tax assessed, however, may not exceed 30% of the total production.

Others taxes include a:

A tax assessed by the Superintendency of Companies of up to 1.000% of the real assets of those companies under its control. This tariff must be deposited in the Central Bank to the credit of the Superintendency of Companies by September 30 of every year.