

I. ECONOMIC HIGHLIGHTS

Guatemala has a population of over 15 million and is the country with the largest economic market in Central America. The 1996 Peace Accords, which ended 36 years of civil war, resulted in an important legislative reform and macroeconomic stabilization creating the environment for foreign investment.

The strength of the country's economy relies primarily on commerce, followed by agriculture, silviculture, hunting, fishing, manufacture and construction industry and tourism.

The greatest markets for export are the United States, Central America and Mexico, and the key agricultural export includes coffee, corn, sugar cane, bananas, fruits, vegetables, meat and poultry products. The greatest imports are textiles and manufacture, minerals, and chemicals from the United States, Central America and Mexico. The products of major industry are food, beverages, textiles, shoes, clothing and metal products.

Between the main countries that invest in Guatemala are the United States of America, México, and Spain with more than 200 companies established in the country.

An important factor of the economy is Guatemala's large expatriate community in the United States of America. The reception of family-remittances is a primary source of foreign income equivalent to nearly two-thirds of exports. Guatemala is the top remittance recipient in Central America.

The national currency is the Quetzal and its exchange rate with respect to the US Dollars is currently Q7.71 per US\$1.00.

According to the Central Bank (Banco de Guatemala), during 2013 the Gross Domestic Product (GDP) reached US\$54,82 million, and the inflation in 2013 was 4.39%.

By the end of 2013 exports were up to US\$10,030.10 million and the imports US\$17,515 million.

The direct foreign investment in 2013 was of US\$1,308.90 million.

The eligible requirements to commence doing business in Guatemala are either: the organization of a Guatemalan corporation; the establishment of a branch of a foreign corporation; or foreign investment.

II. CORPORATE STRUCTURE

Foreign investment is usually carried out by establishing a local company or a branch of a foreign company.

Creation of a local company

The procedure for establishing a company is usually quick, taking approximately 18 labour days to obtain a definitive registration at the Commercial Registry.

To form a company, it shall be considered:

- It is required a minimum of 2 persons (individual or corporate) to initiate a company.
- The Charter of Organization shall be authorized by a Notary Public;
- The initial equity shall be of at least Q5,000 in cash (equivalent to US\$648 approximately);

The Commerce Code (Decree 2-70) allows the formation of the following types of companies:

1. Stock Corporation (Sociedad Anónima). This is the type of company most commonly used. The equity is divided and represented in equal value shares and the liability of each shareholder is limited to the shares held. The corporation must have a Board of Directors or a Sole Administrator.
2. General Partnership (Sociedad Colectiva). The partners are jointly and severally liable to the full extent of their personal assets.
3. Limited Liability Partnership (Sociedad de Responsabilidad Limitada). Each partner is personally liable up to the amount of equity paid in. The number of partners is restricted to a maximum of 20.
4. Limited Partnership (Sociedad en Comandita Simple). Formed by two types of partners. One or more general partners who direct business and are jointly and severally liable for debts, and one or more limited partners whose liability is limited to the amount of equity paid in. The limited partners do not have management voice in the operation.
5. Special Limited Partnership (Sociedad en Comandita por Acciones). This type of company is the same as the Limited Partnership, but its equity is represented by shares.

Establishing a branch of a foreign company

A company established in a country other than Guatemala can register a branch office in Guatemala. Any document sent from abroad shall be notarized and legalized at the Guatemalan Consulate of the place of issuance, and translated to Spanish by a registered translator in Guatemala. The requirements are listed below.

- a) Certificate of organization from the country of origin (evidence that the corporation is duly organized under the laws of the country where such corporation has been organized);
- b) Certified copy of the articles of incorporation, by-laws and amendments;
- c) The minutes of the company containing the company's decision to operate in Guatemala and to initiate the registry process;
- d) Appointment in Guatemala of a legal representative, with both in court and out-of-court powers;

e) Allocate an amount of capital at a local bank for its operations in Guatemala, and execute a guarantee (a bond) of US\$50,000 at maximum in favor of third parties to secure possible liabilities left by the foreign corporation after termination of business operations. This guarantee shall remain in effect for the duration of the company's operations in the country.

f) A statement that neither the corporation nor its agents or employees may claim their rights as an foreigner, because they shall only have the rights granted by the laws to Guatemalan citizens, and the means to exercise such rights.

No registration of a foreign company is necessary for any of the following operations:

- a) Be a part of any proceeding or trial in Guatemala;
- b) Open and hold banking accounts in the country;
- c) Sell to or purchase from local independent trade agents;
- d) Manage orders through local agents which confirmation or acceptance takes place out of the country;
- e) Grant loans or credits to companies established in the country;
- f) Issue, hold, endorse or protest credit instruments in the country;
- g) Acquire goods that are not part of a usual commercial activity and are not part of a company assets;

Limitations for foreign investors

No general restrictions are placed on foreign participation, either for the formation of a company or for serving on a board of directors.

However, there are few exceptions that should be taken into consideration, for example:

- There are some restrictions concerning concessions for open TV channels to foreigners;
- Legal entities that provide public transport of passengers or freight shall have at least 51% of Guatemalan share capital;
- Only the following persons may be granted title to, rent, or use state-owned lands in the Department of El Petén: (1) Guatemalans by birth who do not own rural real estate anywhere in the country that exceeds 45 hectares; and (2) Guatemalans by birth who do not own industrial, mining or commercial enterprises. Enterprises owned 100 percent by Guatemalans by birth that meet the requirements set out in the preceding paragraph may be granted title to, rent, or use state-owned lands in the Department of El Petén.
- Only Guatemalans by birth and enterprises that are majority owned by Guatemalans by birth may take adverse possession of real estate.
- Only Guatemalans by birth and enterprises 100 percent owned by Guatemalans by birth may own real property located within 15 kilometers of the borders. Foreign nationals may, however, own or possess urban real estate and real estate for which rights were registered in the General Property Registry (Registro General de la Propiedad) before March 1, 1956 within the 15-kilometer area.

- Only Guatemalans by birth or enterprises organized under Guatemalan law may exploit and renew forestry resources.
- An enterprise organized under the laws of a foreign country that supplies a professional service that requires a legally recognized university degree, certificate, or diploma may not be established in Guatemala. However, such an enterprise may supply its services in Guatemala through a contract or other relationship with an enterprise established in Guatemala.
- Prior authorization from the Shows Office (Dirección de Espectáculos) is required to contract with foreign groups, enterprises, or artists. In order for foreign artists or artist groups to perform in Guatemala, they must have a consent letter from any of the legally recognized non-governmental artist unions in the country. In mixed performances, made up of one or more films and variety shows, preference will be given to Guatemalans if the circumstances of the cast, schedule, and contract so allow.
- Only Guatemalans by birth or nationals of a foreign country that are residents in Guatemala may provide tour guide services in Guatemala.
- In order to perform aeronautical duties on board foreign aircraft, individuals are required to have a certificate, license, or the equivalent, accepted by the Civil Aviation Authority (Dirección General de Aeronáutica Civil), or issued pursuant to an international agreement to which Guatemala is a party, under conditions of reciprocity.
- In the operation of specialty air services by Guatemalan operators, all personnel performing aeronautical duties on board the aircraft must be Guatemalans by birth. However, the Authority may authorize foreign nationals to perform such duties for a period not to exceed three months, counting from the date of authorization. The Authority may extend this period if it determines that there are no such trained personnel in Guatemala.
- Only Guatemalans by birth or enterprises organized under Guatemalan law may operate commercial air transportation services in Guatemala. For greater certainty, commercial air transportation services includes all domestic air transport, including of passengers, mail or cargo. In order to supply such services, an enterprise must also meet the following requirements: (a) the enterprise must have its principal place of business in Guatemala; and (b) at least one-half, plus 1, of the directors, managers and individuals who have responsibility for management and control of the enterprise must be Guatemalans by birth or be a permanent resident of Guatemala.
- To practice as a notary public, an individual must be a Guatemalan by birth domiciled in Guatemala.

III. TAX SYSTEM

Taxation

The main business taxes are:

1. Income Tax (Impuesto sobre la Renta -ISR-, Decree 10-2012)

This is a tax levied on the Guatemalan-source financial income, i.e., any income resulting from productive activities in Guatemala. A Guatemalan-source income is any income generated from capitals, goods, services, and rights invested

or used in the country, or originated from any activities developed in Guatemala, including foreign exchange earnings, of any nationality, domicile, or residence of the individuals or corporations engaged in the transactions, and the place of execution of the agreements.

The fiscal year for Income Tax payment is January 1st through December 31st, and must agree with the taxpayer's fiscal year.

Income Tax systems:

a) Optional simplified regime for lucrative activities income: This system is automatically applied, unless taxpayer chooses any other system. This payment may be made under the final withholding system, or directly to the Treasury, and is computed as follows: gross income minus exempted income, multiplied by 5% for income up to Q.30,000.00, when it exceeds Q.30,000.00 the taxpayer must pay Q.1,500.00 plus 7% for the amount that exceeds Q.30,000.00. It is important to emphasize that payroll workers are not eligible for this system.

b) Regime on profits for lucrative activities: The regime is for individuals or corporations engaged in business activities or otherwise. This tax 28% (25% from 2015) is paid on a quarterly basis following the end of each quarter, and cleared every year, by the following methods:

- Quarterly partial balancing and settlements;
- Paying one fourth of the tax in the previous final payment period;
- It is based on a total taxable gross income obtained in the respective quarter and estimated at 5%, except for tax-exempt income and capital gains.

2. Value Added Tax (Impuesto al Valor Agregado -IVA-, Decree 27-92)

The purpose of the Value Added Tax (VAT) is to levy consumption, and, therefore, this tax is borne by the consumer rather than by the taxpayer. This tax is levied to each transfer payment and it is paid on a monthly basis, and therefore, Value Added Tax returns are filed every month. Taxable income is taxed at a rate of 12% which, for sales, must be already included in the price of the transaction, and for services, the price thereof.

VAT's Law also regulates tax credit refund. Under Article 15 thereof, tax credit is a tax amount charged to a taxpayer for transactions subject to tax carried out during the same tax period. A right to tax credit is valid under Article 16 of the VAT's Law, for importation or acquisition of goods and for the use of services applied to encumbered acts, or transactions subject to tax by the VAT's Law. Such Section provides: any taxpayers engaged in export activities and taxpayers selling or providing services to individuals or corporations exempted in the domestic market, shall be entitled to tax credit refund when tax would have been created by the importation, acquisition of goods or the use of services applied to encumbered acts or transactions subject to the VAT's Law, associated with the productive or marketing process of goods and services of taxpayer.

3. Solidarity Tax (Impuesto de la Solidaridad -ISO-, Decree 73-2008)

This tax is paid on a quarterly basis and is generated by business, agriculture and livestock activities with a gross margin above 4% of its gross income. This tax levies whichever is greater that one fourth of the net assets, or

one fourth of the gross income. This taxable basis is multiplied by the rate of 1%. Companies are exempted of this tax the first year of operations. Taxpayers in the 7% Income Tax system are also exempted of ISO tax. This tax may be credited to Income Tax and the latter to the former.

4. Documentary Stamp Law Tax (Ley del Impuesto de Timbres Fiscales y de Papel Sellado, Decree 37-92)

This tax levies any documented act and agreement at a general rate of 3% of the transaction being documented, unless a specific fee applies. Therefore, the nonexistence of a document means the nonexistence of an obligation. Documentary Stamp Tax and Value Added Tax are mutually exclusive. This tax also applies for the second and subsequent transactions of properties.

5. Property Tax (Impuesto Único sobre Inmuebles -IUSI-, Decree 15-98)

This tax levies property and is payable annually on a quarterly basis by owners. For tax purposes, the value of machinery and equipment, are not to be computed within the taxable basis. Tax is computed by multiplying the value of the property by the following rates:

Registered value of property	Rate
Up to Q2,000	Exempted
Q2,000.01 - 20,000	0.2%
Q20,000.01 - 70,000	0.6%
Q70,000.01 and above	0.9%

Property value may be updated with any of the following options:

- Self-appraisal by the taxpayer;
- Appraisal conducted by the municipalities or by the Ministry of Finance;
- The prices established in the notices issued by notaries for ownership transfers.

Customs and Import Duties

Customs and other import duties are imposed on goods that enter the country or services delivered in the country. They include levies imposed for revenue or protection purposes and determined on a specific or ad valorem basis.

1. Agreement on the Central American Tariff and Custom Regime (Convenio sobre el Régimen Arancelario y Aduanero Centroamericano, Decree 123-84)

The Central American Importation schedule is integrated by the Central American Schedule System (Sistema Arancelario Centroamericano -SAC-) and the Importation Schedule Rights (Derechos Arancelarios de la Importación -DAI-).

The importation to any Central American country of products manufactured outside this region must pay the Value Added Tax and the Importations Schedule Rights (DAI). The importation of goods of origin within Central American countries is only exempt of the payment of DAI.

2. Trade Agreements

Guatemala has signed the following Agreements:

- Multilateral Agreements

WTO (GATT 1947)

- Customs Union

Central American Integration

- Free Trade Agreements

- o Colombia - Northern Triangle (Colombia - Guatemala, El Salvador y Honduras)

- o Republic of China (Taiwan)

- o Panama (Central America-Panama)

- o Mexico - Northern Triangle (Mexico- Guatemala, El Salvador y Honduras)

- o Chile (Central America - Chile)

- o Dominican Republic (Central America - Dominican Republic)

- o The Dominican Republic - Central America Free Trade Agreement DR-CAFTA (United States - Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Dominican Republic)

- o Perú (Guatemala-Perú) pending entry into force

- Partial Preferential Agreements

Venezuela, Colombia, Belize, Ecuador and Cuba

- Bilateral Investment Treaties

Argentina, Austria, Belgium and Luxembourg, Chile, Czech Republic, Cuba, Finland, France, Germany, Israel, Italy, Republic of China (Taiwan), Republic of Korea, Netherlands, Spain, Sweden, and Switzerland

Social Security contributions

The employer's contribution is the 12.67% of the salary of a payroll employee, which is integrated by the following rates: 10.67% contribution the Social Security (IGSS), 1% to the Employee's Recreational Institute (IRTRA), and 1% to the Technical Training Institute (INTECAP)

The payroll employee's contribution to the Social Security is of 4.83% of the salary.

IV. FOREIGN INVESTMENT

Foreign investment is allowed by direct investment either by registering a branch of a foreign corporation or by forming a local company. These forms of investment were already developed in Section II.

The Guatemalan State fosters and promotes investment, and has developed the following regulation:

1. Foreign Investment Law (Ley de Inversión Extranjera, Decree 9-98)

This law is based on the principles that the national and foreign investment must be treated equally in the exercise of their economic activities, and that any discriminatory act is prohibited.

This regulation recognizes and guarantees private property rights for national and foreigners; the right to participate in any lawful economic activity; full protection to the import and export of lawfully traded goods and services to ensure the investments activities in the country; free access to foreign exchange and the free convertibility of currency; the remittance of profits, earnings, dividends, and repatriation of capital with no restrictions except for applicable taxes; prohibits confiscatory taxes and internal double or multiple taxation on foreign investment; and the State's submission to international arbitration in any investment-related dispute that may arise.

The Ministry of Economy Investment Office is the agency that ensures the compliance of the investment regulation.

2. Free Currency Negotiation Law (Ley de Libre Negociación de Divisas, Decree 94-2000)

This law allows the using, holding, contracting, remitting, transferring, purchasing, selling, charging and paying of currency and in any currency. It is also permitted to hold and handle deposits and accounts on foreign currencies.

3. Free-Trade Zones Law (Ley de Zonas Francas, Decree 65-89)

This law promotes and regulates the establishment of Free-Trade Zones by subjecting certain areas of land to a special custom regime, whether of public or private domain, and granting tax benefits to its operation such as exoneration of taxes, tariffs and duties to importation, Income Tax and Value Added Tax.

The activities developed at the Free-Trade Zone may be industrial (i.e. production or assembly of goods for exportation or re-exportation, research, and technical development), commercial (i.e. commercialization of merchandise to be exported or re-exported), and services (the delivery of services associated with international trade). By December 2013 there were 264 active registered consumers among the 16 private authorized Free-Trade Zones.

In addition, the Organic Law of Santo Tomás de Castilla of Free- Zone of Commerce and Industry (Ley Orgánica de la Zona Libre de Industria y Comercio Santo Tomás de Castilla, Decree 30-2008) creates ZOLIC which is the only government-owned free-trade zone. It is a logistics and operations center of international trade since 1973, located next to Guatemala's largest port on the Atlantic Coast.

4. Promotion and Development of the Export and Drawdown Industry Law (Ley de Fomento y Desarrollo de la Actividad Exportadora y de Maquila, Decree 29-89)

This law intends to promote the manufacture of certain goods for their export to countries outside Central America, providing tax holidays such as the temporary exemption from tariffs and Value Added Tax on imported raw materials, machinery, equipment, etc.

As a result of the application of the abovementioned laws, the application of the tax laws that were already described in Section III is effective as follows:

Promotion and Development of the Export and Drawdown Industry Law
Free-Trade Zone Law

Income Tax Exempt on the earnings resulting only from exports. Sales income in the national territory is subject to Income Tax, according to the current rates.

Export income is Income-Tax exempted. Sales made in the national territory are subject to such tax.

Value Added Tax Temporary suspension Tax payment on: A) Raw materials (purchased both overseas and domestically. For raw materials acquired in the national territory, the law provides the mechanism of Certificate of Acquisition of Local Commodities when purchased directly from the manufacturer. If acquired from middlemen, the respective tax credit refund must be requested. Services and materials not directly linked to the productive process (including utilities such as power, telephone, and bunker-fuels- are subject to VAT, and may be offset with the VAT collected in local sales or request a tax credit), semi-manufactured products, intermediate products, materials, containers, packages and labels necessary to export or re-export goods manufactured in the country. Exempted is also the transfer of goods among beneficiaries. In both events the parties executing agreements with the beneficiary must appear as co-exporters. B) Samples, engineering, instructive samples, patterns and models necessary for the production process or for research and instruction demonstrative purposes. C) Machinery, equipment, parts, components and accessories deemed necessary for the productive process (whether new or used). Exemption on: A) Transfer of goods by and among foreign trade zones. B) Transactions carried out with the Managing Entity or with users of the Zone. C) Machinery, equipment, tools (whether new or used), raw materials (both purchased abroad and domestically), commodities, semi-manufactured products, containers, packages, components and generally goods used in the production of goods and in providing services. D) The dispatch and delivery of goods by and between a qualified company under Decree 29-89 and a foreign trade zone user.

Solidarity Tax Exempted under the ISO Law Exempted under the ISO Law

Stamp Tax No exemption No exemption.

Property Tax No exemption Free-Trade Zones shall be exempted from Property Tax, incumbent to the central government, during a 5-year period on property exclusively used for the development of the Zone.

DAI Temporary suspension of payment of customs duties and import duties on: A) Raw materials, semi-manufactured products, intermediate products, materials, containers, packages and labels necessary for the export or re-export of goods manufactured in the country. B) Sample books, instructive engineering samples, patterns and models necessary for the manufacturing process or for research and instruction exhibit purposes. C) Machinery, equipment, parts, components and accessories necessary for the productive process (whether new or used). Not

subject to taxes, custom duties and charges applicable to imports to a Free-Trade Zone of: machinery, equipment, tools (whether new or used), raw materials, commodities, semi-manufactured products, containers, packages, components and generally, any goods used in the production of goods and in providing services.

Visas, work permit and residence

Business visas are granted by Guatemalan Consulates to foreigners that wish to visit the country for legal business purposes.

The work permits are granted by the Labor Ministry for the term of 1 year renewable for a second year only. Foreigners are also required to apply for the Temporary Residency during their first 2 years of stay in the country. Afterwards, foreigners are candidates for the Permanent Residency.

The Labor Code requires that in each company at least 90% of its work force be Guatemalan employees, and collectively earn at least 85% of the total salaries paid by the employer. High-level positions such as general managers, directors, administrators, superintendents, and heads of the companies are excluded.

V. LABOR REGULATION

In accordance with the constitutional principles, the Labor Code (Decree No. 1441) develops the minimum guarantees, rights and obligations between employers and employees and the dispute resolution process.

There are relevant aspects of the labor regulation that should be considered:

Wages

The wages can be agreed upon:

1. Unit of time (month, 15-day period, week, day, or hour)
2. Unit of work (piece, assignment, or fixed price)
3. Profit sharing (Participation in utilities, sales, or collection on the employer's account)

The minimum wage varies according to type of work and its rates are fixed every year by a multilateral commission. The minimum wage rates for year 2014 are:

- For agricultural work: Q74.97 (US\$9.72 approx.) per day on ordinary workday
- For non-agricultural work: Q74.97 (US\$9.72 approx.) per day on ordinary workday
- For export and drawdown industry related works: Q68.91 (US\$8.93 approx.) per day on ordinary workday

Work periods

The ordinary working hours are:

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1. Daytime (between 6am and 6pm): May not exceed 8 hours per day and 44 hours per week of effective work. The payment shall be equivalent to 48 hours per week.
2. Night time (between 6pm and 6am): May not exceed 6 hours per night and 36 hours per week of effective work.
3. Mixed hours: May not exceed 7 hours per day and 42 hours per week.

The ordinary work period plus overtime shall not exceed 12 hours per day. The rate for overtime is 1.5 times the regular rate per hour.

All employees are entitled to a paid day-off per week and to paid holidays. If work is performed in a holiday, such time must be computed as overtime. Official holidays include: January 1st, Good Thursday, Good Friday and Easter Saturday, May 1st, June 30th, September 15th, October 20th, November 1st, December 24th (half day off after 12:00 p.m.), December 25th, December 31st (half day off after 12:00 p.m.), the day of the local town's festivity (August 15th for Guatemala City).

Other compensations and benefits

- Productivity Incentive bonus (Bonificación Incentivo): Employee is entitled to Q250.00 (US\$30.86 approx.) payable with its monthly salary.
- Annual bonus: Employee is entitled to receive the equivalent of one-month salary each year payable in July, after a whole year of effective work.
- Christmas bonus (Aguinaldo): Employee is entitled to receive the equivalent of one-month salary each year payable in December, after a whole year of effective work.
- Annual vacations: Employee has the benefit of 15 working days per year of paid vacations, after a complete year period of effective work. For agricultural workers the benefit is 10 working days.
- Vested rights: The regular payment of certain compensations to the employees beyond the minimum obligation creates rights to the employees and shall be taken into consideration for the calculation of the severance payment.
- Severance payment: In case of unfair dismissal, the employee is entitled to receive the equivalent to one month's salary (average of the last 6 months) for each year of effective work, plus a 30% of the non-economical benefits that were part of the salary (transportation, meals, etc.). This does not apply in case of termination of a two-month probation period.