

DOING BUSINESS

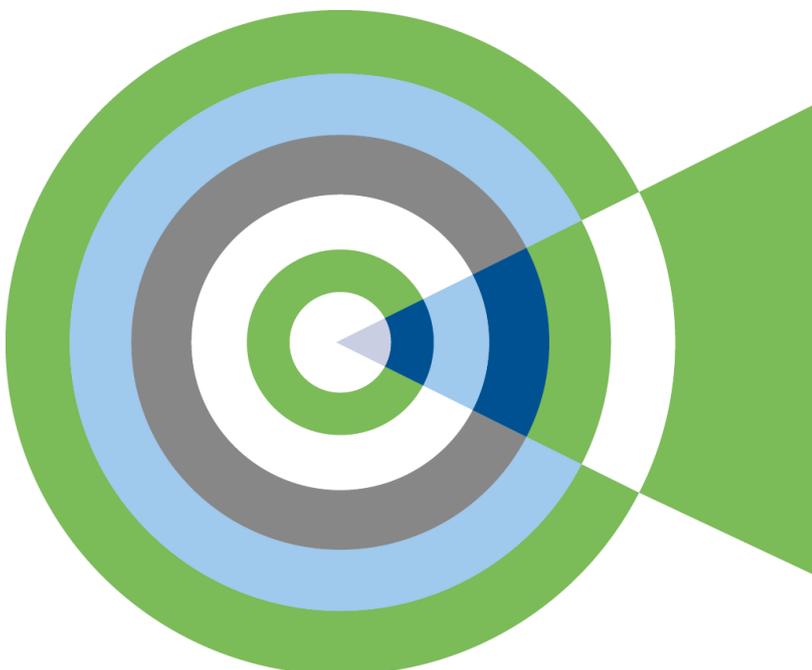
IN EL SALVADOR



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 El Salvador 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 March 2021.

We look forward to helping you do business in El Salvador.

2 – BUSINESS ENVIRONMENT

BACKGROUND

El Salvador achieved independence from Spain in 1821 and from the Central American Federation in 1839. A 12-year civil war, which cost about 75,000 lives, was brought to a close in 1992 when the government and leftist rebels signed a treaty that provided for military and political reforms.

El Salvador is classified as a lower middle-income economy with the GNI per capita reported at US\$3,780. The main economic sectors are remittances, agriculture and manufacturing. Their largest trading partner is by far the United States and they trade in the area of offshore assembly of coffee, textiles, shrimp, chemicals and sugar. El Salvador's main imports are goods and services, raw materials, food, fuel and electricity.

The World Bank Ease Doing Business Report 2016 shows an improvement in several areas such as company set up. While its ranking in 'Trading across borders' has dropped significantly from the 2015 report, its ranking of getting credit, an important factor in business set up, has increased massively from a ranking of 71 to 15. According to the 2016 report, "El Salvador improved access to credit by adopting the Law on Movable Property, which established a modern, centralized, notice-based collateral registry and allows a general description of a single category of assets granted as collateral."

POPULATION

TABLE 1

Population statistics

POPULATION	6,528,135 MILLION INHABITANTS (JULY 2021 EST.)
Growth Rate	0.67%
Male population	3,110,662
Female population	3,370,440
Rural population	25.9%
Urban population	74.1%

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

TABLE 2

2021 population estimate by age group

AGE	PROPORTION
0–14 years	25.83%

15–24 years	18.82%
25–54 years	40.51%
55–64	7.23%
65 years and over	7.6%

The median age in 2020 was estimated to be as follows:

- Both sexes – 27.7 years
- Male – 26.2 years
- Female – 29.3 years

Other population indicators are as follows:

- Birth rate – 18.22 births / 1,000 population (2021 est.)
- Death rate – 5.91 deaths / 1,000 population (2021 est.)
- Net migration rate – 5.57 migrant(s)/1,000 population (2021 est.)
- Rate of urbanization – 1.33% annual rate of change (2020-25 est.)

CULTURE/ETHNICITY

- Nationality – Salvadoran
- Ethnic groups – white or mestizo 86.3%, white 12.7%, Amerindian 0.2% (includes Lenca, Kakawira, Nahua-Pipil), black of African descent 0.1%, other 0.6% (est. 2007)
- Religions – Roman Catholic 50%, Protestan 36%, Other 2%, none 12% (est. 2014)
- Languages – Spanish (official), English, Nawat (among some Amerindians)

GEOGRAPHY

El Salvador is located in Central America, bordering the North Pacific Ocean, between Guatemala and Honduras

- Border countries – Guatemala 199 km, Honduras 391 km
 - Land 20,041 square km
 - Water 320 square km
- Climate – tropical; dry season (November to April); rainy season (May to October); tropical on coast; temperate in uplands.
- Terrain – mostly mountains with narrow coastal belt and central plateau.
- Administrative Divisions – El Salvador is divided in 14 departments (departamentos, singular - departamento); Ahuachapan, Cabanas, Chalatenango, Cuscatlan, La Libertad, La Paz, La Union, Morazan, San Miguel, San Salvador, San Vicente, Santa Ana, Sonsonate, Usulután
- Natural Resources: hydropower, geothermal power, petroleum, arable land

TRANSPORTATION AND PORTS

- Airports – 5 (paved runways)
- Railways – 13 km, narrow gauge: 12.5 km 0.914-m gauge (2014)
- Roadways – 9,012 km
- Waterways – Lempa River is partially navigable by small craft (2011)
- Ports and terminals – Puerto Cutuco – Acajutla offshore terminal (oil terminal)

The big cities in El Salvador have taxi services that are easy to hail, but are unmetered. Prices are reasonable, but must be agreed upon before setting off. Look for an "A" precursor on the plate, which denotes a licensed cab. It is not worth the hassle of taking an unregistered taxi as they are unreliable and the drivers not as well versed in dealing with tourists. *Acontaxis* (+503-2270-1176) and *Acacya Taxis* (+503-2271-4937) run all hours in the capital. Three-wheelers are also available in small cities.

While El Salvador's highway network is good, secondary roads are often heavily potholed and tough to traverse outside of the dry season.

Buses are the preferred method of travel across borders, with good service from Honduras, Guatemala and Nicaragua, as well as from Mexico and Panama (via Costa Rica). City buses run everywhere, in and between towns, with depots in the big cities and services from town squares and they are cheap but crowded.

ECONOMY

The smallest country in Central America geographically, El Salvador has the fourth largest economy in the region. With the global recession, real GDP contracted in 2009 and economic growth has since remained low, averaging less than 2% from 2010 to 2014, but recovered somewhat in 2015-17 with an average annual growth rate of 2.4%. Remittances accounted for approximately 17.1% of GDP in 2016 and were received by about a third of all households.

In 2006, El Salvador was the first country to ratify the Dominican Republic-Central American Free Trade Agreement, which has bolstered the export of processed foods, sugar, and ethanol, and supported investment in the apparel sector amid increased Asian competition. In September 2015, El Salvador kicked off a five-year \$277 million second compact with the Millennium Challenge Corporation - a US Government agency aimed at stimulating economic growth and reducing poverty - to improve El Salvador's competitiveness and productivity in international markets.

The Salvadoran Government maintained fiscal discipline during post-war reconstruction and rebuilding following earthquakes in 2001 and hurricanes in 1998 and 2005, but El Salvador's public debt, estimated at 68.1% of GDP in 2017, has been growing over the last several years. Total external debt was about 60% of GDP in 2017.

- Official Currency – US Dollar (USD)
- Currencies – US Dollar (USD)
- Fiscal Year – calendar year
- Exchange rates – the US dollar is used as a medium of exchange and circulates freely in the economy, 1 (2017 est.)
- GDP (purchasing power parity): USD 56.63 billion (2019 est.)
- GDP (official exchange rate): USD 27.02 billion (2019 est.)
- GDP - real growth rate 2.3% (2017 est.)
- GDP - per capita (PPP): USD 8,776 (2019 est.)
- GDP - composition by sector: agriculture 21%, industry 20%, services 58% (2019 est.)

*For more information visit:

- www.cia.gov
- <http://www.doingbusiness.org/data/exploreeconomies/el-salvador>

BUSINESS PROTOCOL IN EL SALVADOR

GREETINGS

Men greeting Men – Handshakes are the norm. Good friends and family may add a light pat on the back or hug.

Women greeting Women – When meeting for the first time a handshake is common. Sometimes a nod and verbal greeting will suffice. Good friends and family usually kiss on the cheek and engage in a light hug.

Men greeting Women – Informally, just a nod and/or verbal greeting is the norm. A handshake is common if it's a bit more formal. It's best to wait from the woman to extend her hand first. A light hug and a cheek kiss are common for friends and family.

BUSINESS DRESS CODE

For Men – In formal business situations, a suit and tie are appropriate. Dark colors and somewhat conservative styles are the norm. For informal situations, khakis, nice jeans and a collared shirt is usually appropriate.

For Women – In formal business situations, skirts or slacks, nice shoes and a nice shirt are acceptable. Stylish yet conservative is the way to go. Most women wear high heels, nice accessories, and a decent amount of make-up.

Shorts, sneakers, and overly revealing clothing tend to be unacceptable in business situations.

TIMELINES

Time tends to be a loose term in El Salvador. People usually run late to most things. About an hour or so is common.

Most buses run on a schedule—city buses run regularly but have no schedule; inter-department buses run about every half hour (but again, loose concept of time...no fixed schedule).

NEGOTIATIONS

Salvadorans value relationship building and harmony, so it is important to avoid hard selling, pressure tactics and any sort of conflict or confrontation.

Decisions are usually made from the top down and take a while to be reached. Expect several meetings before final decisions are made. Bargaining is expected when buying souvenirs and the like at outdoor marketplaces. Walking away if the price isn't right and usually helps lower the price.

BUSINESS MEETINGS

It is best to show up on time for an initial meeting although typically they will start ½-1 hour late. There is usually some form of small talk before getting down to business. It is best to allow your host to begin and end the business discussion. Conversation topics to avoid include: local politics, religion and the civil war.

GENDER ISSUES

Women are still seen as primarily tied to their husbands: their job is to cook, clean and tend to the children. However, women are increasingly assuming leadership roles and because of emigration to the States, there are also a lot of single women.

TABOOS/UNACCEPTABLE BEHAVIOR

El Salvador 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. Salvadorans 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 City. 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

Business gifts are not expected at an initial meeting but will most likely be appreciated.

If invited to a Salvadoran home, it is appropriate to bring flowers, a nice bottle of wine, or good quality candy.

HOLIDAYS IN EL SAVADOR

- January 01 – New Year’s Day
- Dates vary each Year (Every Thursday before Easter Sunday)– Holy Thursday
- Dates vary each Year (Every Friday before Easter Sunday)– Good Friday
- Dates vary each Year - Holy Saturday
- Dates vary each Year - Easter day
- May 01 – Labour Day
- May 10 – Mother’s Day
- June 17 – Father’s Day
- August 04 - 06 – Celebration of San Salvador
- September 15 – Independence Day
- November 02 – All Souls’ Day
- December 24 – Christmas Eve
- December 25 – Christmas Day
- December 31 – New Year’s Eve

3 – FOREIGN INVESTMENT

Companies from many countries, including the United States, Panama, Mexico, Spain, Canada, Costa Rica, Guatemala, Germany, and Italy, have invested in El Salvador. In 2010, the Central Bank estimated that foreigners invested \$528.6 million in El Salvador in sectors such as finance, industry, retail, services, electricity, communication, and textiles. The government has a medium-term objective to become a logistics/shipping hub for Central America, and construction of a deep-water port in the Gulf of Fonseca was completed in early 2009. The government began operating the port in June 2010. So far, the port has seen limited use. A new law for concession of the port was approved in September 2011.

The principal statutes governing foreign investment in El Salvador are the Investment Law, Export Reactivation Law, Free Trade Zones Law, and International Services Law. Other statutes establishing the basic legal framework for investment include the Monetary Integration Law, Banking Law, Insurance Companies Law, Securities Market Law, intellectual property laws, special legislation governing privatizations and credit cards, Competition Law, and Tourism Law. Additional information on each of these laws is available throughout this chapter. A new Public-Private Partnership law is expected to be presented to the National Assembly in 2012.

The 1999 Investment Law grants equal treatment to foreign and domestic investors. With the exception of small businesses (10 or fewer employees and sales of less than \$68,571/year), foreign investors may freely establish businesses in El Salvador. Investors who begin operations with 10 or fewer employees must present plans to increase employment to the National Investment Office (ONI) at the Ministry of Economy. The Investment Law created ONI as a one-stop shop to facilitate the registration of new investments in the country, a process that by World Bank estimates takes 17 days. Some U.S. investors have commented, however, that the permitting processes at the municipal level lack transparency and are inconsistent throughout the country. Several U.S. investors have commented on problems obtaining permits from the Ministry of Environment within the required time stipulated by Salvadoran law. The law establishes procedures to resolve disputes between foreign investors and the government and eases residence requirements for foreign investors who make significant investments. It also provides that underground resources (minerals) belong to the state, which may grant concessions for their extraction.

The government's trade, investment and exports promotion agency is the National Investments and Exports Promotion Agency (PROESA). PROESA organizes investment promotion tours overseas and provides information and facilitation services in El Salvador; identifies niche markets for Salvadoran exports, especially non-traditional goods; and provides trade capacity building to new exporters. PROESA also promotes investment schemes between the public and the private sector, including Public-Private Partnerships.

The government launched a privatization process in 1990 starting with the banking system. Privatization has played an important role in attracting foreign investment, especially in electricity generation and distribution, telecommunications, and pension funds.

4 – SETTING UP A BUSINESS

In El Salvador, companies can have natural persons or legal persons (companies, entities, NPO) as partners. A minimum of 2 partners is required to establish a Salvadoran company, and the minimum capital for the initial setup is USD 2,000.00.

REQUIREMENTS FOR STARTING A BUSINESS IN EL SALVADOR:

- Tax Identification Number - NIT - of the partners (in the case of not having one, we can help in obtaining one),
- Personal ID Card, Resident Card or Passport of each one of the partners. In the case of being shareholders of other companies, a document of company establishment is required.
- Name with which the company will be denominated; in order to investigate with the El Salvador Commercial Office, if the name is available.
- Purpose: The main activity that the Company will be dedicated to. -
- Share Capital: Business Law in El Salvador indicate that for Salvadorans as well as for Foreigners, the Share Capital must be of USD 2,000.00. From this capital, the amount of USD 100.00 must be paid to the order of the new company with a certified check from a Salvadoran Bank. (This is the equivalent of 5% of the minimum required capital). The balance of the Share capital will be paid in a period of two years. -
- The percentage of shareholder participation for each partner; the way in which the stock will be distributed.
- Who will be the Legal Representative and who will be the substitute.
- Registration of the companies at the El Salvador Commercial Office takes an average of 5 working days. -
- Companies with a share capital of USD 2,000.00 pay registration taxes of USD 11.40.

NOTE: If the shareholders, or any of them, are/is not able to be present for the signing of the articles of incorporation, another person may do it in his/her/their/its representation through a Power of attorney which can be signed locally or abroad.

PROCEDURES OF FORMAL REQUIREMENTS AND LAW REGISTRATIONS FOR COMPANIES IN EL SALVADOR

a) OBTAINING THE INCOME TAX CONTRIBUTION NUMBER (NIT) AND THE VALUE ADDED TAX CONTRIBUTION NUMBER (IVA), FROM THE MINISTRY OF FINANCE.

1. File a complete Form F210
2. File a copy of the Public Deed of Constitution duly authenticated along with a copy of the same.
3. File a copy of the Legal Representative's credential document, duly authenticated along with a copy of the same, or a copy of Power of Attorney granted to the proxy, duly registered.
4. File a copy of the Legal Representative's NIT and ID, duly authenticated.

5. Authorization to the person who will carry out the diligences, giving details of the company and of the legal representative; and also, indicating Folio from the Form 210.
6. File the NIT Receipt of Payment.
7. b) REGISTRATION AT THE CITY HALL
Municipality or city where the company will be domiciled.
8. File the Form for entrepreneurial processes.
9. Copy of the Public Deed of Constitution duly authenticated.
10. Copy of the Company's NIT duly authenticated.
11. Copy of the Legal Representative's or Proxy's credential document duly authenticated, along with the Legal Representative's NIT and ID
12. File the Opening Balance Sheet in original, duly sealed and signed by a Public Accountant duly authorized.
13. Tax payment of 0.2% over the initial capital stock. In case that a company is started up with the minimum amount of capital stock (of USD 2,000.00), the amount of USD 4.00 will be paid.

c) REGISTRATION AT THE GENERAL OFFICE OF STATISTICS AND CENSUS

14. File the Registration Form.
15. File a copy of the Public Deed of Constitution.
16. Copy of Company's NIT.
17. Copy of the opening balance sheet when the application is made within the same year. If the registration is made in a different year, a Balance Sheet as of December 31 of the prior year must be filed.
18. Payment of USD 5.00 is made when the Opening Balance or Balance Sheet is prepared with a Capital Stock of USD 11,428.57. When the Capital Stock is more than USD 11,428.58 and less than USD 57,142.86, the amount of USD 8.00 must be paid. When the Capital Stock is more than USD 57,142.87 and less than USD 114,285.71, the amount of USD 10.00 is paid. When the Capital Stock is more than USD 114,285.71 and less than USD 228,571.43, the amount of USD 15.00 is paid. When the Capital Stock is more than USD 228,571 44, the amount of USD 20.00 is paid.

d) REGISTRATION AT THE REGISTRY OF COMMERCE

19. File a document for registration, signed by the Legal Representative or Proxy.
20. File the payment receipt for USD 125.71 as registration rights.
21. File the company's Registration payment receipt at the City Hall where the company is domiciled.
22. File the company's registration at the Statistics and Census Office.
23. File the opening balance sheet, signed and sealed by a Public Accountant duly authorized.
24. Registration of initial balance sheet which cost is USD 17.14.

PROCESSES TO FOLLOW WHEN EMPLOYEES ARE HIRED

a) REGISTRATION AT THE SALVADORAN INSTITUTE OF SOCIAL SECURITY (ISSS)

1. File a complete registration Form, signed by the Legal Representative or Proxy.
2. Copy of the Public Deed of Constitution duly authenticated by a Notary Public.
3. Copy of NIT duly authenticated.
4. Copy of the Legal Representative's credential document or Power of Attorney, duly authenticated.
5. Copy of the Legal Representative's NIT and ID duly authenticated.
6. File a payroll, two employees as a minimum.
7. File an sketch of location of company's domicile.
8. b) REGISTRATION AT THE PENSION FUNDS ADMINISTRATOR OFFICE (AFP)
9. File a document with all company's details, before the selected AFP.
10. Attach copy of the company's NIT and IVA to the selected AFP.
11. If the employees are not affiliated to any AFP, encourage them to do it with the AFP of their preference (AFP CONFIA or AFP CRECER).
12. ACCOUNTING SECTION TO START UP A COMPANY
13. Elaboration of the Accounting System (description of the system, Chart of Accounts, and application manual) which has to be authorized by a certified public accountant duly registered and authorized by the Board of Accounting Profession of El Salvador.
14. Legalization of accounting books (journal book, ledger book, financial statements book, minute book, inventory book, balance book, cash book, general shareholders' and directors' meeting book, and capital increase/reduction book) which have to be authorized by a certified public accountant duly registered and authorized by the Board of Accounting Profession of El Salvador.
15. Legalization of tax books-IVA (Sales Book to Taxpayers, Sales Book to Consumers, and Purchase Book). Which have to be foliated and authorized by a certified public accountant duly registered and authorized by the Board of Accounting Profession of El Salvador.
16. Obtain from the Ministry of Finance, the authorization for elaborating the fiscal stationery (tax credit vouchers, final consumer invoices, tax remission notes, credit and debit notes). The Legal Representative or Proxy has to sign the application attaching a copy of company's Public Deed of Constitution, NIT, IVA, as well as his credential document or Power of Attorney.
17. When obtaining the authorization from the Ministry of Finance, the fiscal stationery is printed, against presentation of the mentioned authorization, by one of the printing houses duly authorized by the Ministry of Finance.

MANDATORY REQUIREMENTS FOR LEGAL OPERATIONS IN EL SALVADOR

1. To be registered at The Ministry of Finance.
2. To be registered at the City Hall of the municipality or city of its domicile.
3. To be registered at the General Office of Statistics and Census.
4. To be registered at the Registry of Commerce and obtain the Certificate of Registration.
5. To be registered at the Ministry which is in charge of regulate the company's line of business.
6. To be registered as employer at the ISSS and AFP.

7. The accounting system (Description of the system, Chart of Accounts, and Application Manual).
8. Legalization of accounting books (Journal book, ledger book, financial statements book, minute book, inventory book, balance book, cash book, general shareholders' and directors' meeting book, and capital increase/reduction book).
9. Legalization of tax books-IVA (Sales Book to Taxpayers, Sales Book to Consumers, and Purchase Book).
10. To have at disposition the fiscal stationery duly printed (Tax credit vouchers, final consumer invoices, tax remission notes, credit and debit notes).
11. The variation or range of professional fees depends on some conditions, such as: municipal location where the company is domiciled, the amount of folios for each accounting book to be authorized by the Certified Public Accountant, complexity of the Accounting System and its application manual, the company's amount of capital stock.

TYPES OF PARTNERSHIP

The commercial code recognizes two different types of partnerships, the personal partnership and the capital partnership. The personal partnership has general and limited partners. The general partnership is where two or more individuals enter into a written agreement to do business together. Partners are jointly and severally liable for all obligations relative to the business. Limited Partnership are made up of two or more individuals. There are general partners who run the day to day business and limited partners who are only investors. General Partners have unlimited liability to the firm's debts but limited partners are only liable to the extent of their investment.

The capital partnership is defined as a corporation or limited liability company. A capital partnership is similar to a public corporation where the equity of the firm is sold in equally valued stock shares. Shareholders are only liable up to the amount of stock owned. In a limited stock company the equity is held by a limited number of shareholders and ownership if the equity is not easily traded or exchanged. The partnership is a private corporation. Up to 25 partners are allowed and their liability is only the amount of their investment.

5 – LABOUR

El Salvador enacted its current Labor Code in 1972, with the main purpose of harmonizing relations between employers and employees through the establishment of their respective rights and obligations, based on principles that provide the welfare of the living conditions of employees, especially those set in Articles 37 to 52 of the Constitution. The Labor Code regulates the working relationship between private employees and their employers and between the State, Municipalities, autonomous and semi-official institutions and their employees. In case of conflict in the implementation of labor laws, the rule most favorable to the employee will prevail (“in dubio pro worker”).

FOREIGN EMPLOYEES

Although foreigners can work in local companies there are some restrictions that apply to them. At least 90% of employees in all companies must be Salvadoran or of Central American origin and their salaries should have a minimum wage of 85% paid by the company. However, the Ministry of Labor may grant authorization for a specific company to recruit more than 10% of foreign employees under special circumstances and with the purpose of giving employment to people who are difficult or impossible to replace nationally. In this case, employers are required to train personnel in El Salvador for a period not exceeding five years, under the supervision of the Ministry. However, this does not apply to those professionals who perform technical or administrative services in foreign companies or international companies whose function is to direct, control and manage companies established in different countries. To qualify for this exemption, foreign or international companies must obtain the appropriate authorization from the Ministry of Labor.

To calculate the percentage mentioned above concerning national employees and their salaries, foreigners will not be considered up till four, if they provide their services as directors, managers, administrators or have administrative functions within the company. Foreign workers are entitled to the liberty to work as employees of El Salvador, with the legal restrictions mentioned above.

LABOR CONTRACTS

According to the Salvadoran Labor Code, employment contracts, as well as any amendments or extensions thereof, shall be undertaken in writing in triplicate, each contracting party shall make one of these (employer and employee), and the third should be submitted by the employer to the Ministry of Labor in a period of eight days after its conclusion, amendment or extension (subject to administrative fines for failing to do so). It is important to note that the written employment contract is a guarantee for employees, and its failure is attributable to the employer (for example, in the case of a labor action, all facts alleged by the employee with respect to employment conditions, shall be deemed true, unless the employer proves otherwise.)

The existence of an employment contract is presumed once the person provides services to another person or entity for more than two consecutive days. If this dependence is shown, then the existence of an employment contract is presumed. If the tasks required of the employee are of permanent employment, contracts will be considered as indefinite or however it has been agreed to by the parties. To include a specific time and validity period in an employment contract it must meet the following requirements: (i) the employment contract should reflect that the task to be performed by the employee is classified as transient, temporary or casual, and (ii) circumstances or events that would lead to the termination of employment shall be included or considered. Nonetheless, employment contracts may provide for a trial period of 30 days, the period during which either party may terminate the relationship without justification or liability. After these 30 days, the contract is considered indeterminate, unless the parties have agreed a specific time limit in cases where the law allows. When an employment contract is terminated, together with the reasons for termination, the employer must give the worker a certificate specifying: (i) start and end dates of work, (ii) the type of work performed, and (iii) monthly salary earned by the worker at the time of termination. If the employee so requests, the record may also include the efficiency and conduct of the worker and the cause or causes of termination.

WAGES

The salary of an employee includes: (i) payment for the provision of its services, (ii) payment for overtime work, and (iii) payment for the provision of services during weekly rest days or holidays. Wages and benefits are considered by law as priority claims, in reference to other claims against the employer and therefore have a classification of priority over other secured or unsecured creditors. Employees performing similar tasks in a company or enterprise, in similar circumstances are entitled to receive the same salary, regardless of gender, age, race, color, national origin, political identification, or religious beliefs. Employees may sue for equal pay, if any discrimination with regard to these matters is observed. The salary cannot be compensated, but up to 20% can be retained to cover overall maintenance obligations, union dues, tax and social insurance. Employers are required to maintain formal forms of payments and provide receipts for payments to employees, detailing all wages earned (e.g., wages for regular work and overtime, wages for the provision of services during days off weekly rental, commissions, etc.). The salary of a full regular working day cannot be less than the minimum wage, which is set periodically by the National Minimum Wage Counsel. The minimum wage in force since May 2011 are as follows: a) in the areas of trade and services, U.S. \$ 7.47 per day; b) in the industrial sector, U.S. \$ 7.31 per day; c) in the maquila sector textile, U.S. \$ 6.25 daily, and d) for agricultural activities, of \$ 3.50 to \$ 5.07 per day, depending on the activity. Finally, night work is paid with a surcharge of 25% of base salary for work during the day shift. Overtime is paid at 100% surcharge on the base salary.

LABOR UNIONS

Both the Salvadoran Constitution and the Labor Code, regulate the right of private employers and employees to join professional associations or to form trade unions. The Members of Union Boards must be Salvadoran by birth and enjoy certain privileges during the election period and their term of office, for example, cannot be dismissed or suspended for disciplinary reasons, transferred, or affected in its labor conditions, unless

there is previously approved cause by a competent authority. These benefits will remain valid one year after the completion of its term. Employees have the right to strike and employers the right to lock-out. Employers can hire non-unionized or unionized employees, but clauses excluding non-union employees in collective bargaining agreements are prohibited. If a collective bargaining agreement is executed, its provisions apply to all employees who signed it, even if they do not belong to the union and those new employees who join the company during the period of the agreement. The Constitution and Labor Code dictate that labor disputes must undergo direct negotiation, conciliation and arbitration before the strike is declared.

INTERNAL LABOR REGULATIONS

A private employer, with more than 10 permanent employees, shall prepare and submit an Internal Regulation document for their company to be approved by the Ministry of Labor. This regulation shall be in accordance with the provisions of the Labor Code, other laws, agreements and conventions that affect it, and its purpose is to establish clear standards and guidelines, technical regulations, and administrative obligations that are subject to both the company and employees. Some of these rules are admission requirements, hours of work and meal time, date and place of payment, assigning a person to whom you direct any complaints, safety regulations, disciplinary, etc.

6 – TAXATION

INCOME TAX LAW

The Income Tax Law determines that all individuals, successions and trusts domiciled in the country and obtaining annual incomes above US\$4,064.01, must pay income tax in accordance with the percentages determined in a progressive chart ranging from 10%, 20%, and 30%. In the case of individuals, successions and trusts not domiciled in the country, the fixed rate of 30% over their net income obtained in El Salvador is applied. In the case of corporations, regardless of their domicile or nationality, these must pay income taxes consisting of a flat or fixed rate of 30%, if their annual gross incomes surpass US\$150,000.00 or 25% if their annual gross incomes do not surpass US\$150,000.00. It is important to notice that taxpayers, whether individuals or entities, must deduct 1.75% monthly over their net income, as advanced income tax payment. In addition, please also note that a 20% income tax withholding must be applied to any payments made from El Salvador to an individual, corporation, succession or trust, domiciled abroad, on any income perceived locally by such non-domiciled individual, corporation, succession or trust resulting from activities performed, assets located in, capital invested in, and services either rendered or used in El Salvador or a 25% rate if such non-domiciled subject is constituted, located or resident in a country, state or territory of no or low taxation or a tax haven. Besides, it is important to keep in mind that since the first day of January two thousand twelve, the dividends received by the shareholder are subject to the Income Tax under a tax rate of 5% and 25%, depending on whether the person receiving them is constituted, located or resides in a country, state or territory of no or low taxation or tax haven.

CUSTOMS LAW

The Uniform Central American Customs Code (CAUCA) and the Regulations for the Uniform Central American Customs Code (RECAUCA) comprise basic dispositions of custom legislation common to the signatory countries, and which regulates the organization of their custom services and their customs administrations, in accordance with the requirements of the general common market of Central America's integration economy.

OTHER TAXES

In addition to the two principal taxes detailed above (Income Tax and VAT), there are other taxes, which generate an important percentage in relation of all Salvadoran tax revenue. For instance, the Real Estate Transference Tax taxes the transfer of real estate when their value exceeds US\$28,571.43, with a flat 3% rate. There is also a tax on vehicle circulation, which is annual and is paid every time the owner renews the vehicle's permits to circulate within the country or when it is definitely imported from abroad. In addition, El Salvador has specific taxes corresponding to Alcoholic Beverages, Cigarettes and Carbonated Drinks. It is important to mention that since the commercialization of these products corresponds to certain corporations, the Tax application is not very complex and the control on behalf of the Tax administration is efficient and appropriate.

The Importation Tax or Tariffs Rights are calculated according to the Central American Tariffs Program common to all the countries in the region. At the present time, a gradual lowering of duties and tariffs is being carried out to become more competitive with international markets.

7 – ACCOUNTING & REPORTING

The law in El Salvador subjects a large number of companies, including small businesses, to the same requirements in terms of accounting and auditing. Accounting, financial reporting and auditing requirements for private, non-financial enterprises in El Salvador are governed by the Code of Commerce of 1970 as amended 1993 and related regulations.

The Code contemplates various forms of corporate entities, the most commonly used by far being the joint-stock company with variable capital (*sociedad anónima de capital variable* or SA de CV), mainly because it allows relatively simple processes for increasing or reducing capital. Enterprises with less than 20 shareholders may be incorporated as a limited liability company (*sociedades de responsabilidad limitada*), although such legal form is in effect seldom used in El Salvador. Under the Code, all joint stock companies must prepare annual financial statements, including a balance sheet, income statement, statements of changes in equity and related notes in accordance with “the evaluation criteria and accounting principles issued or authorized by the Accounting and Auditing Monitoring Board (Consejo de Vigilancia de la Profesión de Contaduría Pública y de Auditoría or CVPCA) or, by default, International Accounting Standards” (differences between accounting standards prevailing in El Salvador and IFRS are discussed in Paras. 31, 38 and 39). The annual financial statements of all SAs must be audited before they are presented at the shareholders’ annual general meeting (AGM; per Art. 289). Moreover, external auditors in SAs have extensive responsibilities including “verifying at all times the company’s operations”. Auditors are required to attend the AGM (Art. 291), which gives shareholders the opportunity to seek clarification of the financial statements, thus contributing to investors’ confidence. As for *limitadas*, they are also required to appoint an external auditor (Art. 122). The fact that small businesses are subject to relatively stringent financial reporting requirements represents a cost of doing business with no clear corresponding benefits for the society.

Listed companies, which by law include banks, insurance companies and pension funds, are subject to specific laws and regulations¹¹ prescribing accounting standards and rules for purposes of both supervision and external reporting. By law all banks and insurance companies must be listed on the BVES. Besides general provisions in the respective laws, questions pertaining to accounting, financial reporting and auditing are dealt with in the regulations of the Superintendencies of (i) the Financial System (Superintendencia del Sistema Financiero or SSF, which covers insurance), (ii) Securities (Superintendencia de Valores or SV) and (iii) Pensions (SP, Para. 9). Except for listed enterprises (i.e., non-financial companies, which are under the purview of SV), these regulations include compulsory charts of accounts, models of financial statements, and methods for accounting transactions of particular relevance to each market, including valuation of securities or real estate assets and loan loss provisioning (Para. 38). No distinction is made between regulatory financial reporting and general-purpose financial reporting. All the entities mentioned above must subject their annual financial statements to an independent audit. In terms of financial reporting, the following obligations apply:

a) For banks:

- Audited, annual financial statements are to be submitted to SSF and published in a large circulation national newspaper no later than 60 days after year-end; an SSF Norm (NCB-017) regulates the form and content of the financial statements as well as the accounting standards to be applied. These are defined as “International Accounting Standards and accounting norms issued by the Superintendence of the Financial System, the latter prevailing in case of conflict.” NCB-017 provides an overview of accounting treatments to be applied on key aspects, and a model of financial statements to be followed by banks, with a set of minimum explanatory notes.

- Half-year and quarterly financial statements (unaudited) on June 30 are to be submitted to SSF and published within a month.

- Monthly financial statements (unaudited) are to be submitted to SSF electronically within five business days.

- Weekly financial statements and other information are to be furnished for regulatory purposes; and

- A variety of data on the loan portfolio and other matters as prescribed in SSF’s prudential norms are also required to be made available.

(b) For insurance companies, similar requirements as the ones for banks apply, including a norm on the preparation of the financial statements (NCS-015) which mirrors NCB-017; sector-specific information to be reported includes a breakdown of investments and the auditor’s report on the liability adequacy test.

(c) For listed enterprises, the following must be submitted to SV:

- Annual, audited and half-year, unaudited financial statements within 45 days.

- Quarterly, unaudited financial statements on March 31 and September 30 within 30 days;

- Information on changes in the company’s capital, in accounting policies, etc. must be provided on an ongoing basis.

(d) For pension funds and AFPs, there are also reporting requirements regarding (i) annual, audited financial statements, which are due on February 10 of the following year; (ii) half-year and quarterly unaudited financial statements (due within 15 days); (iii) monthly financial reports (due within seven days); (iv) and different daily reports to be submitted to the SP on an ongoing basis.

In the banking and insurance sectors, independent auditors are subject to specific registration requirements and regulations pertaining to the conduct of their audits. SSF requires a minimum of five years of experience – for a sole practitioner, or for one of the partners in the case of an audit firm – and knowledge of the Statements of Auditing Standards (SAS) issued by the American Institute of Certified Public Accountants. Once the registration is approved, SSF updates its list of approved auditors, which currently includes 37 individuals or firms for banks (29 for non-banking financial institutions and 23 for

insurance companies). A firm cannot audit an institution with which it has any outstanding borrowings and cannot derive more than 25% of its revenues from one audit client. Rotation of the persons in charge of the audit is required after five years. Moreover, SSF's External Audit Norms for Banks and Insurance Companies (NBP2-05) provide detailed requirements on the conduct of audits, including: a) conduct audits applying SAS (see above in this Para.; Art. 19); b) submitting an audit plan to the SSF within one month after appointment, indicating the audit procedures contemplated on specific aspects (Art. 20-22); c) evaluating the internal control system and issuing a specific report thereon (Art. 25-26). In terms of reporting, SSF requires that the auditor's opinion be issued with reference to International Accounting Standards (IAS, since then incorporated into IFRS) and SSF Norms or, if there are differences with IAS/IFRS, to disclose them in the audit report (Art. 33).

Requirements on external auditors, albeit less stringent, also exist for pension funds, AFPs and listed (non-financial) enterprises. In the pension fund sector, these requirements are set in a Presidential Decree, which is less demanding and prescriptive than in the banking or insurance sectors: for instance, no minimum experience is required for auditors; much less emphasis is placed on internal controls; and the regulations require "auditing standards" to be applied in the conduct of audits, without further precision. As for listed enterprises, three years of experience are required, but no rotation of the audit team is prescribed.¹⁶ Six audit firms were registered with SP as of April 2005 and 25 individuals and firms were registered with the SV.¹⁷ Based on the above, external auditors in the financial sector are subject to different regulations and must apply for separate registrations. This represents redundant procedures both for auditors and regulators. A single process for registering auditors would be more cost efficient as in essence, the qualifications expected from external auditors are broadly the same in the different segments of the financial sector. A proposed merger of the three Superintendencies into a single SSF is being discussed currently at the Legislative Assembly; this could provide an opportunity to unify the registration process and harmonize auditor regulation. Furthermore, the regulations do not provide a sufficient system for selecting auditors, and therefore regulators should seek to promote a system of certification as was done in Mexico with the endorsement of the securities and banking supervisor and the insurance supervisor.

Companies above a certain size are required by the tax law to provide a certification by an independent auditor regarding compliance with their tax obligations. The auditor must be registered with the CVPCPA and can be the same as the one auditing the corporate financial statements. The tax compliance reports (dictamen e informe fiscales) must be submitted to the tax authorities no later than May 31 of the following year. The CVCA has issued a norm on how tax-purpose audits should be conducted.

SOEs must report using government accounting standards. The previously mentioned SOEs (Para. 9) are incorporated until special statutes, and do not fall within the scope of the Code of Commerce. As part of recently issued Guidelines on Corporate Governance of State-Owned Enterprises, the Organization for Economic Cooperation and Development (OECD) has recommended that "large or listed SOEs should disclose financial and non-financial information according to high quality internationally recognized standards".

Similarly, both the IASB and its public-sector counterpart advocate the application of IFRS by “government business enterprises” (SOEs whose activities are mainly commercial). The financial information on SOEs as published currently by the MoF would have to be expanded significantly to meet the requirements of IFRS in terms of presentation and disclosure.

Listed companies are required to publish year-end financial statements whereas non-listed companies are only to deposit their year-end balance-sheet without any notes to the commercial registry. Banks, insurance companies and other listed companies must make public disclosure of their annual and half-year accounts in a large circulation newspaper. Such publication must take place no later than 60 days after the end of the respective reporting period. With respect to non-listed enterprises, the Code of Commerce requires that they file their annual balance sheet with the government-administered Commercial Registry (Registro de Comercio). The public can have access to this information through the National Registration Centre. However, a balance sheet provides incomplete information and is not sufficient for third parties to carry out adequate analysis regarding the financial condition of an enterprise and therefore does not provide a sufficient basis for properly informed investment or business decisions.

At the same time, non-listed companies are subject to multiple filing requirements in relation to their financial statements. “SAs and limitadas” must file their annual financial statements with the Superintendence of Corporate Obligations (Superintendencia de Obligaciones Mercantiles or SOM), an entity within the MoE. In addition, companies are required to provide financial information to several other institutions including the Commercial Registry (Para.20), statistics department in the Ministry of Economy, tax authorities and line Ministries for public procurement. However, the filings with SOM are considered confidential and therefore not accessible to the public or any third party. The law does not require non-listed companies’ annual full financial statements (i.e. including an income statement, a statement of cash flows and accompanying notes) to be made available to the public. The unavailability of adequate financial information except for a very small number of enterprises (approximately 10) makes sectoral analyses difficult if possible, at all, and exposes the smaller creditors who are not able to obtain a copy of the financial statements to a greater level of risk as they cannot necessarily ascertain the financial condition of their debtors. This impedes investing, lending and, to a certain extent, commercial activities in the private sector.

8 – UHY REPRESENTATION IN EL SALVADOR

CONTACT DETAILS

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Year established: 1996

Number of partners: 5

Total staff: 22

ABOUT US

We are a firm that bases every effort and action on values that let us give our clients a high-quality service, such as honesty, diligence, and excellence.

BRIEF DESCRIPTION OF FIRM

Asesores Y Consultores, S.A De CV, was established in 1996 and is based in the capital San Salvador. The firm provides a wide range of audit, accounting, finance, tax and business process outsourcing (BOP) services. Their typical clients range from large corporates to small and medium-sized companies covering a variety of sectors: agriculture, catering, education, financial services, insurance, IT, non-governmental organisations, not-for-profit, pharmaceutical, real estate and retail.

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
 Hospitality, tourism & leisure
 Construction & Real Estate
 Not-for-profit
 Packaging
 Health sciences & care
 Engineering & industrial

LANGUAGES

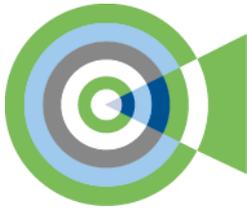
Spanish & English

CURRENT PRINCIPAL CLIENTS

Sigma Q
Canasa
Multitelas
PCR
Salsitas
Cupón Club

BRIEF HISTORY OF FIRM

Asesores y Consultores, S.A. de C.V. was founded by professionals with over 25 years of experience in the financial field. Our main goal has always been to offer a service with high professional and quality standards, and although we have accomplished that with our local clients, the need to offer an international support and standards to our clients kept getting stronger, until we find the perfect network to be a part of, UHY International, and since 2017 we proudly are a member of this prestigious global network, and since then we are now UHY Asesores y Consultores, S.A. de C.V.



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