



# The Republic of Ecuador

***U.S. \$ 2,000,000,000***  
***7.95 % Notes due 2024***

The Republic of Ecuador (the "Republic" or "Ecuador") is offering an aggregate principal amount of U.S.\$2,000,000,000 of its 7.95% Notes due June 20, 2024 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on December 20 and June 20 of each year commencing on December 20, 2014. The Notes will mature on June 20, 2024.

The Notes will contain provisions, commonly known as "collective action clauses," regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. These provisions differ from those applicable to certain of the Republic's outstanding External Indebtedness (as defined herein). Under such provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "Description of the Notes — Modifications," the Republic may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes. Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic. There is currently no public market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended. The Notes are and will be issued in registered form and, in limited circumstances, definitive form in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

**See "Risk Factors" beginning on page 14 regarding certain risk factors you should consider before investing in the Notes.**

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**Price: 100.00 %**

plus accrued interest, if any, from June 20, 2014

Delivery of the Notes will be made on or about June 20, 2014.

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be sold within the United States or to U.S. persons except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and offered and sold to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

The Notes will be represented by one or more permanent global notes in fully registered form without interest coupons, deposited with a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"). Beneficial interests of Euroclear participants in the global notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream Banking, *société anonyme*. See "Book-Entry Settlement and Clearance."

ANY OFFER OR SALE OF NOTES IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA (THE "EEA") THAT HAS IMPLEMENTED DIRECTIVE 2003/71 EC (THE "PROSPECTUS DIRECTIVE") MUST BE ADDRESSED TO QUALIFIED INVESTORS (AS DEFINED IN THE PROSPECTUS DIRECTIVE).

*Joint Bookrunners*

**Citigroup**

*Global Coordinator*

**Credit Suisse**

The date of this Offering Circular is June 17, 2014



**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.**

**You should rely only on the information contained in this Offering Circular or to which the Republic of Ecuador has referred you. Ecuador has not, and the Joint Bookrunners have not, authorized anyone to provide you with information that is different from the information contained in this Offering Circular. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate on the date of this Offering Circular.**

This Offering Circular may only be used for the purposes for which it has been published.

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## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT THE EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), as defined in "Description of the Notes", provided, that, such

ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") and Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, the "Global Notes"), in each case deposited with a common depositary for, and registered in the nominee name of a common depositary for Euroclear Bank S.A./N.V. ("Euroclear") for the respective accounts at Euroclear as such subscribers may direct. Beneficial interests of Euroclear participants (as defined under "Book-Entry Settlement and Clearance") in the Global Notes will be shown on, and transfers thereof between Euroclear participants will be effected only through, records maintained by Euroclear and its direct and indirect participants, including Clearstream. See "Book-Entry Settlement and Clearance." Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Description of the Notes - Form, Denomination and Title." For restrictions on transfer applicable to the Notes, see "Transfer Restrictions" and "Subscription and Sale."

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this document as a whole or any information included in this Offering Circular, misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Joint Bookrunners to subscribe to or purchase any of the Notes. Each recipient shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Offering Circular or any part of it and the offering, possession, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Joint Bookrunners to inform themselves about and to observe any such restrictions. See "Subscription and Sale" and "Transfer Restrictions" for a description of further restrictions on the offer, sale and delivery of Notes, the distribution of this Offering Circular, and other offering material relating to the Notes.

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reoffered, resold, pledged or otherwise transferred except as described under "Transfer Restrictions."

Each person purchasing Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein and acknowledges that the preliminary and final offering circulars supersede any other information or presentation regarding the Republic;

- it has not relied on the Joint Bookrunners or any person affiliated with the Joint Bookrunners in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Joint Bookrunners.

**IN CONNECTION WITH THIS ISSUANCE OF NOTES, EACH LEAD MANAGER MAY, ITSELF OR THROUGH ITS AFFILIATES, OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET, TO THE EXTENT PERMITTED BY APPLICABLE LAWS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

### **PRESENTATION OF INFORMATION**

Unless otherwise specified or the context requires, references to "U.S. dollars," "\$" and "U.S.\$" are to United States dollars.

References to the "Republic" and "Ecuador" are to the Republic of Ecuador, references to the "Government" are to the Government of the Republic of Ecuador and the use of the term "Governmental" shall be with regards to the Government of the Republic of Ecuador.

References to "FOB" are to exports free on board and to "CIF" are to imports including cost, insurance and freight charges.

Certain figures included in this Offering Circular have been rounded for ease of presentation. Percentage figures included in this Offering Circular have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding.

Certain economic and financial data in this Offering Circular is derived from information previously published by *Banco Central del Ecuador* (the "Central Bank") and other Governmental entities of Ecuador. This data is subject to correction and change in subsequent publications.

### **FORWARD-LOOKING STATEMENTS**

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain Government officials and others as well as a number of assumptions and estimates which are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include information contained in the sections "Offering Circular Summary," "The Republic of Ecuador," "The Ecuadorian Economy," "Balance of Payments and Foreign Trade," "Monetary System," "Public Sector Finances" and "Public Debt" as well as:

- External factors, such as:
  - lower petroleum and mineral prices, which could adversely affect Ecuador's economy, fiscal accounts and International Reserves (defined herein);
  - damage to and volatility in the international capital markets for emerging markets issuers caused by economic conditions in other emerging markets and the international capital markets generally, which could affect Ecuador's ability to engage in planned borrowing;

- changes in import tariffs and exchange rates of other countries, which could harm Ecuador's exports and, as a consequence, have a negative impact on the growth of Ecuador's economy;
- recession or low growth in the economies of Ecuador's trading partners, particularly of the United States and the European Union, which could lead to fewer exports and affect Ecuador's growth;
- a deterioration in relations between Ecuador and other countries in the region or other disruptions to Ecuador's international relations;
- changes in credit rating of the Republic;
- the impact of changes in the international price of commodities;
- higher international interest rates, which could increase Ecuador's debt service requirements and require a shift in budgetary expenditures toward additional debt service; and
- terrorist attacks in the United States or elsewhere, acts of war, or any general slowdown in the global economy.
- Internal factors, such as:
  - social and political unrest in Ecuador;
  - Ecuador's ability to continue to attract foreign investment;
  - continued public support for Ecuador's current economic policies;
  - Ecuador's level of domestic debt;
  - general economic and business conditions in Ecuador; and
  - other factors identified or discussed under "Risk Factors."

In addition, in those and other portions of this Offering Circular, the words "anticipates," "believes," "contemplates," "estimates," "expects," "plans," "intends," "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements.

Undue reliance should not be placed on forward-looking statements, which are based on current expectations. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Future results may differ materially from those expressed in forward-looking statements. Many of the factors that will determine these results and values are beyond the Republic's ability to control or predict. Because of the risks and uncertainties involved, an investment decision based on the estimates and forward-looking statements should not be made. All forward-looking statements and risk factors included in this Offering Circular are made as of the date on the front cover of this Offering Circular, based on information available to the Republic as of such date, and Ecuador assumes no obligation to update any forward-looking statement or risk factor.

## ARBITRATION AND ENFORCEABILITY

The Republic is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments in the courts of the United States or otherwise to enforce the Republic's obligations under the Notes. Under its Constitution, the Republic recognizes arbitration, mediation and other alternative dispute resolution proceedings for the resolution of controversies. The Republic has not consented to the jurisdiction of any court in connection with actions arising out of or based on the Notes and has submitted itself to arbitration under the LCIA Rules (as defined below), which allow state courts to decide certain matters as described below. See "Description of the Notes – Sovereign Immunity." The Republic has agreed to the following arbitration provisions (which shall be governed by English law) as part of the terms and conditions of the Notes:

- (a) Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by paragraph 17 of the terms and conditions of the Notes, in which LCIA Rules are deemed to be incorporated by reference. In particular:
  - (i) There will be three arbitrators.
  - (ii) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
  - (iii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions contained in paragraph 17 of the terms and conditions of the Notes will be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic:
  - (i) will appoint each of Mr. Juan Rafael Arcos Tuitza, Consul and Mr. Mauricio Fabian Dalgo Bernis, Vice Consul, of the Consulate General of the Republic, located at Consulate General of Ecuador, 144-146 Kings Cross Road, London, WC1X9DU, England (each individually an "Interim Process Agent"); and
  - (ii) will, no later than three months after the Closing Date, irrevocably appoint CT Corporation c/o Trident Company Services (UK) Limited, with its registered office at 7



Welbeck Street, London, W1G 9YE, London, England and/or any other entity or person in England and Wales acceptable to the Trustee (such entity or person so designated, the "Permanent Process Agent") to replace the Interim Process Agents, and provide such evidence of the appointment(s) as may be reasonably required by the Trustee,

in each case, as its agents under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by paragraph 17 of the terms and conditions of the Notes and/or in relation to recognition or enforcement.

The Permanent Process Agent will replace the Interim Process Agents on the date that the Trustee notifies the Republic in writing that it has received such evidence of the appointment of the Permanent Process Agent as it reasonably requires.

If any person appointed as an Interim Process Agent or Permanent Process Agent under the Indenture is unable for any reason so to act, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by an Interim Process Agent or, as applicable, a Permanent Process Agent or Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Under the terms of the Notes, each holder of the Notes is deemed to have agreed to the use of arbitration under the Rules of the LCIA to resolve any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Notes. Accordingly, any court proceedings brought against the Republic by a holder of the Notes (other than to enforce an arbitration award) may be stayed in favor of arbitration.

The Republic has not waived sovereign immunity in relation to the Notes. The Republic has, however, undertaken not to invoke any defence on the basis of any kind of immunity, for itself and/or its assets, which do not constitute "Immune Property" in respect of legal actions or proceedings in connection with the Notes.

"Immune Property", in accordance with the provisions of the laws of the Republic, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador; and
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.

The decision of any arbitral tribunal shall be final to the fullest extent permitted by law. The Republic submits to the jurisdiction of any Ecuadorian court or of any court outside the Republic in connection with a properly obtained arbitral award, and such an arbitral award may be enforced in any jurisdiction in accordance with the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958. The Republic also submits

to the jurisdiction of the English courts in connection with any proceedings invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to paragraph 17 of the terms and conditions of Notes.

Any judgment rendered by an arbitral tribunal properly constituted under the Purchase Agreement, the Indenture or the Securities (as the case may be), would be enforceable against the Republic without re-examination of the issues, by a first instance civil court in Ecuador in accordance with Article 32 of the *Ley de Arbitraje y Mediación*, which provides, inter alia, that any award rendered outside Ecuador may be enforced by Ecuadorian courts, provided that a certified copy of the award, granted by the secretary of the arbitral tribunal, the director of the relevant arbitration center, or the arbitrator or arbitrators, is submitted, with a declaration of being final.

The Indenture contains a further provision which provides that any dispute between the Trustee and the holders of the Notes only, will be subject to the non-exclusive jurisdiction of the courts of New York. This provision is as follows:

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

## EXCHANGE RATE INFORMATION

In January of 2000, following several weeks of severe exchange-rate depreciation of the sucre, the Republic announced that it would dollarize the economy. On March 1, 2000, the Ecuadorian Congress approved the *Ley para la Transformación Económica del Ecuador* ("Ecuadorian Economic Transformation Law" or the "Dollarization Program"), which made the U.S. dollar the legal tender in Ecuador. The Ecuadorian Economic Transformation Law provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1. In addition to providing an official basis to dollarize the economy, the law contained reforms aimed at strengthening fiscal stability, improving banking supervision and establishing rules to encourage direct investment. Since the passage of the Ecuadorian Economic Transformation Law, the U.S. dollar has been the legal tender in Ecuador. Due to the Dollarization Program, the ability of the Republic, and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited.

## OFFERING CIRCULAR SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

### **The Republic of Ecuador**

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950 mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west. The country encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos islands region located in the Pacific Ocean approximately 600 miles from the coast.

In 2006, current president Rafael Correa was elected with 56.67% of the vote. Prior to President Correa taking office, protests in Quito had led to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. President Correa was reelected in general elections held in February 2013 with 57.17% of the vote. President Correa holds the highest approval rating in South America at 84%.

Upon taking office, President Correa believed that significant reforms were necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly (the "2008 Constitution"). The 2008 Constitution provided the foundation for the economic and financial reform initiatives of his administration. These reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress.

### **The Ecuadorian Economy**

The U.S. dollar is the legal tender in Ecuador. In each of five years from 2009 through 2013 the Ecuadorian economy registered positive rates of growth. During the last five years, the Ecuadorian economy grew from a nominal gross domestic product ("GDP") of U.S.\$62,520 million in 2009 to U.S.\$93,746 million in 2013. During the same five-year period, GDP per capita, measured in real terms, grew from U.S.\$4,242 in 2009 to U.S.\$5,943 million in 2013. In 2013 the economy of Ecuador grew by 4.5%, in real terms, which was mainly driven by continued increases in fixed capital formation and private consumption, which increased by 6.6% and 3.4% respectively.

Inflation declined from 4.3% in 2009 to 2.7% in 2013 and unemployment declined during the same period from 6.5% in 2009 to 4.2% in 2013.

In 2013, manufacturing was the largest sector measured by percentage of GDP (11.88%), followed by petroleum (11.66%), construction (11.43%), trade (9.89%), community services (8.34%) and agriculture (7.91%). Oil field crude production, including that of private and state-owned companies, reached 192.1 million barrels in 2013, an amount that represented a 4.2% increase from the 184.3 million barrels produced in 2012 (or an increase of 4.4% in barrels per day ("bpd")). Other than in 2009, when there was a decrease in the price of oil, crude oil exports steadily increased from 2010 to 2013. Oil exports reached U.S.\$13,412 million in 2013, up 5.5% from U.S.\$ 12,711 million in 2012.

The Republic considers the following five sectors to be the most important strategic sectors of the economy: water, telecommunications, natural resources, electricity and infrastructure. During the period from 2009 through 2013 the total Government investment in these strategic sectors has increased from U.S.\$2,163 million in 2009 to U.S.\$6,899 million in 2013. The Government has targeted the electricity sector for significant capital investment. Currently, hydroelectric plants supply 42.5% of the power in Ecuador. By 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador. Ecuador's objective in developing hydroelectric power is to reduce its consumption of oil through oil-based generators, thereby decreasing oil imports and electric energy imports and improving energy independence.

## **Balance of Payments and Foreign Trade**

Between 2009 and 2013, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013, there were deficits for each year in 2009, 2010 and 2012. In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$1,232.1 million represents an increase in the deficit compared to the U.S.\$330.8 million current account deficit registered in 2012. This deficit is primarily the result of a deficit in the trade balance, due to an increase in imports, particularly with respect to imported capital goods and raw materials.

In Ecuador, total direct foreign investment has increased over the five-year period from 2009 through 2013, from U.S.\$307.7 million in 2009 to U.S.\$702.8 million in 2013. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sectors.

In 2013, exports increased to U.S.\$24,958 million, an increase of 5.0% compared to 2012. The increase was primarily due to the improved banana (14%) and cacao (24%) production, a sharp increase in shrimp exports (41%), and an increase in crude oil exports (5.5%). In the past five years, crude oil exports have represented approximately half of the Republic's total exports.

Although there has been an increasing level of imports since 2009, the rate of increase has declined over the last five years due to the Republic's promotion of domestic production. In 2010, imports increased by 36.5% as compared to the previous year, while the rate declined to 8.3% in 2011, 5.5% in 2012, and 7.3% in 2013.

## **Monetary System**

Since taking office the Government of President Correa has prioritized the stabilization of the monetary system and promoted the safety of the financial system. As of December 31, 2013, the Ecuadorian banking system had a total of 26 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank. As of December 31, 2013 the amount of assets in the private banking sector amounted to U.S.\$30.7 billion.

Banking deposits constitute the principal source of financing for the banking system. From December 31, 2009 through December 31, 2013, total deposits increased 76%, from U.S.\$13,748.8 million to U.S.\$24,250.5 million, and constituted the principal source of financing for the banking system. Total assets of the banking system increased from U.S.\$17.5 billion in 2009 to U.S.\$30.7 billion in 2013.

Average loan interest rates on short-term and long-term loans decreased from 9.2% in 2009, to 8.2% in 2013 primarily due to a policy of the Republic to reduce maximum lending rates. During the same period, the average interest rates on deposits decreased from 5.2% in 2009 to 4.5% in 2013 due to the decrease in loan interest rates. From 2009 to 2011, the banking system's delinquency rate has gradually improved and past-due loans declined from 2.9% in 2009 to 2.6% in 2013.

With respect to the various sectors, most loan interest rates declined during the period from 2009 through 2013. This reduction of interest rates from 2009 to 2013 resulted in increased credit, with loans increasing by 83% from 2009 to 2013.

## **Public Sector Finances**

Other than in 2009, for the five-year period from 2009 to 2013, the amount of total revenues met the approximate budgeted targeted amount. During the five year period from 2009 through 2013, the Central Government budget deficit as a percentage of GDP increased slightly from 4.2% in 2009 to 5.8% in 2013. In 2013, the non-financial public sector registered a deficit of U.S.\$4,439 million, equivalent to 4.7% of GDP, an increase from a deficit of U.S.\$949 million in 2012, which was equivalent to 1.1% of GDP. Total expenditures totaled U.S.\$41,607 million (equivalent to 44.4% of GDP) and total revenues totaled U.S.\$37,169 million (equivalent to 39.6% of GDP). The increased deficit from 2012 to 2013 was the result of increased spending on infrastructure projects.

## **Public Debt**

Total public external debt increased from U.S.\$7.39 billion in 2009 or 11.8% of GDP to U.S.\$12.92 billion in 2013, which represented 13.8% of GDP. This increase in debt was primarily due to increased debt from bilateral lenders. As of December 31, 2013, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$4,674.8 million (81.4% of the total bilateral debt), U.S.\$291.8 million (5.1% of the total bilateral debt) and U.S.\$204.9 million (3.4% of the total bilateral debt) respectively. The Government is current on all of its obligations to multilateral institutions and bilateral lenders.

In December 2005, the Republic launched an issuance of Bonds due 2015 (the "2015 Bonds"). The last interest payment on the 2015 Bonds, which was due on December 15, 2013, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2015 Bonds and intends to make all payments on the 2015 Bonds as they become due and payable.

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. In 2009 the Republic launched cash tender offers to the holders of the 2012 and 2030 Bonds and from 2009 through the date of this Offering Circular has repurchased additional 2012 and 2030 Bonds. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$107.7 million, which represents 3.4% of the original aggregate principal amount of the 2012 and 2030 Bonds.

## Selected Economic Indicators <sup>(1)</sup>

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
(in millions of US dollars, except percentages and where noted)					
<b>The Economy</b>					
Nominal GDP .....	62,520	69,555	79,780	87,499	93,746
Real GDP <sup>(1)</sup> .....	54,558	56,481	60,883	64,010	66,879
Real GDP growth.....	0.6%	3.5%	7.8%	5.1%	4.5%
Annual inflation.....	4.3%	3.3%	5.4%	4.2%	2.7%
Unemployment <sup>(2)</sup> .....	6.5%	5.0%	4.2%	4.1%	4.2%
<b>Balance of Payments <sup>(2)</sup></b> .....					
Exports <sup>(3)</sup> .....	14,412.0	18,137.1	23,082.3	24,568.9	25,700.3
Imports <sup>(3)</sup> .....	14,268.4	19,641.1	23,242.6	24,531.8	26,330.5
Trade balance <sup>(3)</sup> .....	143.6	-1,504.0	-160.3	37.1	-630.2
Services balance <sup>(3)</sup> .....	-1,281.8	-1,522.4	-1,562.7	-1,389.8	-1,472.7
Current account surplus/deficit of the balance of payments <sup>(3)</sup> .....	296.6	-1,607.7	-324.6	-330.8	-1,232.1
International reserves <sup>(4)</sup> .....	3,792.1	2,622.1	2,957.6	2,482.5	4,360.5
<b>Non-Financial Public Sector</b> .....					
Total revenues.....	18,378	23,186	31,190	34,530	37,169
Total expenditures .....	20,610	24,123	31,195	35,479	41,607
Surplus/Deficit.....	-2,232	-937	-5	-949	-4,439
As % of GDP.....	-3.6	-1.4	-0.0	-1.1	-4.7
<b>Central Government</b> .....					
Total revenues.....	11,583	15,075	17,198	19,522	20,400
Total expenditures .....	14,218	16,207	18,435	21,226	25,861
Surplus/Deficit.....	-2,635.0	-1,131	-1,236	-1,703	-5,461
As % of GDP.....	-4.2	-1.6	-1.5	-1.9	-5.8
<b>External Debt (in billions)<sup>(5)</sup></b> .....					
Total Public External Debt .....	7.39	8.67	10.06	10.87	12.92
Total External Debt (as % of GDP) .....	11.8%	12.5%	12.6%	12.4%	13.8%
Total Internal Debt .....	2.8	4.7	4.5	7.8	9.9
Total Internal Debt (as % of GDP).....	4.5%	6.7%	5.6%	8.9%	10.6%

Source: Unless specified below, based on figures from Central Bank April 2014 Monthly Bulletin

(1) Real GDP measures the Gross Domestic Product of Ecuador minus the effect of inflation. The Central Bank of Ecuador uses 2007 as its base year for all real number calculations.

(2) Unemployment figures based on figures from *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC").

(3) Figures reflect figures from "Balance of Payments" table. Figures from 2009 and 2010 are based on figures from the Central Bank 2013 Yearly Bulletin and are calculated using the same methodology as figures from the April 2014 Monthly Bulletin.

(4) Data corresponds to freely disposable international reserves. Before dollarization, Ecuador kept international monetary reserves with the aim of supporting the exchange rate of the sucre. Currently, Ecuador keeps freely disposable international reserves ("International Reserves"), whose variations are explained by the change in the deposits from Ecuador's financial institutions and non-financial public sector institutions held in the Central Bank. Data for 2009 to 2012 based on figures from Central Bank 2013 Yearly Bulletin.

(5) Debt figures in this Offering Circular are based on information from Ministry of Finance's April 2014 Debt Bulletin and reflect data for December 2013.

## THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

<b>Issuer:</b>	The Republic of Ecuador (the " <b>Republic</b> ").
<b>Issue Amount:</b>	U.S.\$2,000,000,000.
<b>Securities Offered:</b>	U.S.\$2,000,000,000 principal amount of 7.95% notes due 2024 (the " <b>Notes</b> ").
<b>Issue Type:</b>	Rule 144A/Regulation S.
<b>Issue Price:</b>	100.00 % plus accrued interest, if any, from June 20, 2014.
<b>Issue Date:</b>	June 20, 2014.
<b>Maturity Date:</b>	June 20, 2024.
<b>Interest Rate:</b>	7.95% per annum, computed on the basis of a 360-day year of twelve 30 day months.
<b>Interest Payment Dates:</b>	Each December 20 and June 20, commencing on December 20, 2014.
<b>Form:</b>	The Notes will be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants. Notes in definitive certificated form will not be issued in exchange for the global notes except under limited circumstances.
<b>Denominations:</b>	The Republic will issue the Notes only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
<b>Ranking:</b>	The Notes will be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), <u>provided, that</u> , such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness.
<b>Withholding Tax and Additional Amounts:</b>	Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, Ecuador will pay the holders of the Notes such



additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction.

**Representations and Covenants:** The Republic will agree to comply with, among others, the following covenants:

- a) The Republic will obtain and maintain in full force and effect all Ecuadorian Authorizations necessary under the laws of Ecuador for the execution and delivery of, and performance by the Republic under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture.
- b) The Republic will ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and will be backed by the full faith and credit of Ecuador and ensure that the Notes will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that the Republic make ratable payments on the Notes with payments made on its other External Indebtedness.
- c) The Republic will use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange.
- d) The Republic will not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness.

**Events of Default:** The Notes will contain, among others, the following events of default, the occurrence of which may result in the acceleration of the Republic's obligations under the Notes prior to maturity:

- a) The Republic fails, on the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment

is due.

- b) The Republic fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default.
- c) The Republic, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness).
- d) The Republic fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of US\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver).
- e) The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days.
- f) The Republic denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of the Republic, or any final decision by any court in the Republic having jurisdiction, renders it unlawful for the Republic to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture.
- g) The Republic fails to maintain its membership in the IMF.
- h) The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB.
- i) There shall have been entered against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and

120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment.

- j) There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

**Use of Proceeds:**

The Republic will use the proceeds of U.S.\$2,000,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code (defined herein), as further described in "Use of Proceeds." The total expenses of this offering, including underwriters' fees, will be approximately U.S.\$16,080,648.00.

**Collective Action Clauses:**

The Notes will contain provisions, commonly known as "collective action clauses," regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. These differ from those applicable to the Republic's outstanding External Indebtedness. Under these provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "— Modifications, Amendments and Waivers," the Republic may amend the payment provisions of the Notes and certain other reserved terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and other non-reserved matters with the consent of the holders of 66 2/3 % of the aggregate amount of the outstanding Notes.

**Transfer Restrictions:**

The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See "Transfer Restrictions."

**Listing:**

Application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF, the alternative market of the Luxembourg Stock Exchange.

**Absence of a Public Market for the Notes:**

The Notes will be a new issue of securities, and there is currently no established market for the Notes. The Republic and the initial purchasers cannot assure you that a liquid market for the Notes will develop. The initial purchasers have advised the Republic that they currently intend to make a market in the Notes. However, they are not obligated to do so, and any market-making with respect to the Notes may be discontinued without

notice.

**Trustee, Registrar and Transfer Agent:**

The Bank of New York Mellon.

**London Paying Agent:**

The Bank of New York Mellon, London Branch.

**Luxembourg Listing Agent,  
Transfer Agent and Luxembourg  
Paying Agent:**

The Bank of New York Mellon (Luxembourg) S.A.

**Governing Law:**

The Notes will be governed by the laws of the State of New York, except for the terms concerning submissions to arbitration which will be governed by English law.

**Submission to Arbitration:**

Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture which LCIA Rules are deemed to be incorporated by reference. In particular:

- (a) There will be three arbitrators.
  - (i) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
  - (ii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents will attempt to agree upon their respective nomination(s) such that the claimants will together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or

confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.

- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration will be English. The arbitration provisions of the Indenture will be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic:
  - (i) will appoint each of Mr. Juan Rafael Arcos Tuitza, Consul and Mr. Mauricio Fabian Dalgo Bernis, Vice Consul, of the Consulate General of the Republic, located at Consulate General of Ecuador, 144-146 Kings Cross Road, London, WC1X9DU, England (each individually an "Interim Process Agent"); and
  - (ii) will, no later than three months after the Closing Date, irrevocably appoint CT Corporation c/o Trident Company Services (UK) Limited, with its registered office at 7 Welbeck Street, London, W1G 9YE, London, England and/or any other entity or person in England and Wales acceptable to the Trustee (such entity or person so designated, the "Permanent Process Agent") to replace the Interim Process Agents, and provide such evidence of the appointment(s) as may be reasonably required by the Trustee,

in each case, as its agents under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture and/or in relation to recognition or enforcement.

The Permanent Process Agent will replace the Interim Process Agents on the date that the Trustee notifies the Republic in writing that it has received such evidence of the appointment of the Permanent Process Agent as it reasonably requires.

If any person appointed as an Interim Process Agent or Permanent Process Agent under the Indenture is unable for any reason so to act, the Republic must immediately (and in any event within ten (10) days of the event

taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by an Interim Process Agent or, as applicable, a Permanent Process Agent or Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute between the Trustee and any holders or holders only and where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders will irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

**Scope of sovereign immunity:**

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute, an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic will irrevocably and unconditionally agree that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;
- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture,
- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an

arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic will be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

"Immune Property," in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador; and
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.

"New York Convention" means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

**Further Issues:**

The Republic may, from time to time, without the consent of the holders of the Notes, create and issue additional notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) provided that:

- (a) the notes are consolidated and form a single series with the outstanding Notes; and
- (b) such additional notes do not have, for purposes of U.S. federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional notes (regardless of whether any holders of such Notes are subject to US federal income taxation).



## RISK FACTORS

*This section describes certain risks associated with investing in the Notes. You should consult your financial and legal advisors about the risk of investing in the Notes. Ecuador disclaims any responsibility for advising you on these matters.*

### **Risk Factors Relating to the Notes**

*There may be no active trading market for the Notes, or the trading market for the Notes may be volatile and may be adversely affected by many factors.*

The Notes will not have any established trading market when issued, and there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and the market or trading price and liquidity of the Notes may be adversely affected. Even if a trading market for the Notes develops, the Notes may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, and the financial condition of Ecuador. Although an application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange, there can be no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a material adverse effect on the market value of the Notes.

*The price at which the Notes will trade in the secondary market is uncertain.*

Ecuador has been advised by the Joint Bookrunners that they intend to make a market in the Notes but are not obligated to do so, and in the event that they do so, they may discontinue market making at any time without notice. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. No assurance can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain.

*The Notes will contain provisions that allow the payment terms to be amended without the consent of all holders.*

The Notes will contain provisions, commonly known as "collective action clauses," regarding acceleration of the Notes and voting on future amendments, modifications and waivers to the terms and conditions of the Notes. Under these provisions, which are described in the sections entitled "Description of the Notes — Events of Default" and "— Modifications, Amendments and Waivers", Ecuador may amend the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes and 66 2/3% for non-reserved matters.

*Recent federal court decisions in the United States create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.*

In litigation in federal courts in New York captioned NML Capital, Ltd. v. Republic of Argentina, the U.S. Court of Appeals for the Second Circuit ruled on August 23, 2013 that the ranking clause (which included ratable payment language) in certain defaulted notes issued by Argentina, prevents Argentina from making payments in respect of new performing notes that it issued in exchange for the defaulted notes in a restructuring in which a certain minority of holders elected not to participate, unless it makes *pro rata* payments in respect of the defaulted notes that rank *pari passu* with new notes. The defaulted notes in this case did not contain the "collective action clauses" referred to in the preceding risk factor. While the U.S. Court of Appeals for the Second Circuit's decision was narrowly tailored to the facts of the case, including the conduct of Argentina and the specific wording of the *pari passu* clause in the defaulted notes, the implication from this case is that it may be more difficult for sovereign debtors to restructure their debts.

On February 18, 2014, the Republic of Argentina filed a petition in the U.S. Supreme Court seeking review of the Second Circuit's August 2013 ruling. On June 16, 2014, the U.S. Supreme Court denied the Republic of Argentina's petition for review, thereby letting stand the Second Circuit's August 2013 ruling. Also on June 16, 2014, the U.S. Supreme Court issued an opinion in a related case ruling that the Republic of Argentina is not immune from complying with a judgment creditor's discovery demands seeking information about its assets outside the U.S. Ecuador cannot predict what impact, if any, these U.S. court rulings will have on sovereign issuers such as Ecuador.

*The ability of holders to transfer Notes in the United States and certain other jurisdictions will be limited.*

The Notes issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Notes may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Notes.

*Credit ratings may not reflect all risks of investment in the Notes.*

Credit ratings are an assessment by rating agencies of Ecuador's ability to pay its debts when due. Consequently, real or anticipated changes in Ecuador's credit ratings will generally affect the market value of the Notes. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the Notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

### **Risk Factors Relating to Ecuador**

*Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.*

In 2009, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds (as defined in "Public Debt – Debt Obligations" herein) in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. These defaults followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian Government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds at a discount to their par value. Holders responded to this offer by tendering substantially all of the 2012 and 2030 Bonds. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders in the years 2009 through 2014. For more information, see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer." Ecuador has remained current on its obligation to its other series of sovereign bonds due in 2015, as well as on its bilateral loans as further described in "Public Debt – External Debt." To date, no judgments have been issued against the Republic with respect to the 2012 and 2030 Bonds and none are pending. There is a risk, however, that holders of these defaulted bonds may institute proceedings against the Republic and may seek to enforce any judgments obtained by seeking to attach assets of the Republic. Any action by the holders of the 2012 and 2030 Bonds, or any further defaults by Ecuador on its sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment. Any action by the holders of the 2012 and 2030 Bonds making similar *pari passu* arguments as the holders in *NML Capital, Ltd. v. Republic of Argentina* "Risk Factors – Risk Factors Relating to the Notes – *Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt*" or any further defaults by Ecuador of its

sovereign debt obligations, could materially adversely affect the market value of the Notes and the ability of the Republic to make principal and interest payments free of the risk of attachment.

*Ecuador's past history has been characterized by institutional instability.*

Between 1997 and 2007, Ecuador has had eight presidents, and three of them were overthrown during periods of political unrest: Abdala Bucaram in 1997, Jamil Mahuad in 2000, and Lucio Gutiérrez in 2005. Since 2007, Ecuador has experienced political stability with President Correa's Alianza PAIS party having won five consecutive National Assembly elections, and President Correa having won re-election in 2013. For more information on presidential term limits, see "The Republic of Ecuador – Form of Government." However, a return to an unstable political environment could significantly affect Ecuador's economy and Ecuador's ability to perform its obligations under the Notes.

*Certain economic risks are inherent in any investment in an emerging market country such as Ecuador.*

Investing in an emerging market country such as Ecuador carries economic risks. These risks include many different factors that may affect Ecuador's economic results, including the following:

- interest rates in the United States and financial markets outside Ecuador;
- changes in economic or tax policies in Ecuador;
- the imposition of trade barriers by Ecuador's trade partners;
- general economic, political, and business conditions in Ecuador, Ecuador's major trading partners, and the global economy;
- the ability of Ecuador to effect key economic reforms, including its economic strategy to re-balance the economy by increasing the percentage of GDP represented by the non-petroleum economy. For more information see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector";
- political and social tensions in Ecuador;
- the prices of commodities, including oil;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Ecuador.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the liquidity of, and trading markets for, the Notes. See "Forward-Looking Statements" for further information on factors that may affect the Notes.

Ecuador's economy remains vulnerable to external shocks, including the negative global economic consequences that occurred as a result of the global economic recession that took place in 2008 and 2009, and those which could arise as a result of future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on Ecuador's economic growth and its ability to service its public debt.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments. Generally, investment in emerging markets is only suitable for

sophisticated investors who appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets.

A significant decline in the economic growth of any of Ecuador's major trading partners could adversely affect Ecuador's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Ecuador could be adversely affected by negative economic or financial developments in other emerging market countries or in Latin America generally.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Ecuador. In addition, there can be no assurance that these events will not adversely affect Ecuador's economy, its ability to raise capital in the external debt markets in the future or its ability to service its public debt.

*A significant increase in interest rates in the international financial markets could have a material adverse effect on the economies of Ecuador's trading partners and adversely affect Ecuador's economic growth and Ecuador's ability to make payments on its outstanding public debt, including the Notes.*

If interest rates outside Ecuador increase significantly, Ecuador's trading partners, in particular, could find it more difficult and expensive to borrow capital and refinance their existing debt. These increased costs could in turn adversely affect economic growth in those countries. Decreased growth on the part of Ecuador's trading partners could have a material adverse effect on the markets for Ecuador's exports and, in turn, adversely affect Ecuador's economy. An increase in interest rates would also increase Ecuador's debt service requirements with respect to Ecuador's debt obligations that accrue interest at floating rates. As a result, Ecuador's ability to make payments on its outstanding public debt generally, including the Notes, would be adversely affected.

*A number of factors have impacted on and may continue to impact on revenues and the performance of the economy.*

The economy of Ecuador and the Government's budget are highly dependent on petroleum revenues. For more information see "Public Sector Finances – Overview – Budget Process." For example, in 2013, 30.8% of Ecuador's revenues were from petroleum-related taxes and royalties. While the price of crude oil has returned to its levels of approximately U.S.\$100 per barrel, in the event the price of oil decreases, Ecuador's revenues from oil could significantly decline. There can be no assurance that Government revenues from petroleum exports will not experience significant fluctuations as a result of changes in the international petroleum market. Concerns with respect to the current global recession, weakness of the world economy, terrorism, market volatility and certain geopolitical developments, such as political instability in the Middle East, Venezuela, and Ukraine, may have a potentially adverse effect on the petroleum market as a whole.

In addition, in 2013 85.9% of Ecuador's petroleum exports by destination were to three countries - the United States (60.5%), Chile (14.7%), and Peru (10.7%). Worsening economic conditions in any of these countries can have a significant impact on Ecuador's revenues from oil and overall economic activity.

Further, operating difficulties in certain oil fields and the outages and the overhaul of its largest refinery, the Esmeraldas refinery (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector") have led to uneven production over the last few years. While Ecuador expects to increase production through the development of new fields, in particular the ITT fields (see "The Ecuadorian Economy – Strategic Sectors of the Economy – Oil Sector"), there can be no assurance that future political opposition will permit operations to proceed as planned. In addition, while Ecuador has contracted with a South Korean company to upgrade and overhaul the Esmeraldas refinery, which is expected to be completed by October 2015, further outages could result in a decline of refining capacity. Accordingly, any sustained period of decline in capacity, if exacerbated by a decline in oil production, could adversely affect the Government's fiscal accounts and International Reserves. In addition to the effects of the volatility of the oil market, the Ecuadorian Congress has passed several laws that have increased the Government's budget, altered the established budgetary agenda and resulted in higher deficits. Certain assumptions regarding the levels of future oil prices are contained in the budgetary process and in the *Plan Nacional para el*

*Buen Vivir* (the "National Development Plan"). Anticipated revenues contained in the budget could be lower if these assumptions about oil prices are not accurate. Furthermore, President Correa has stated, in light of the global economic climate, that Ecuador's priority will be to meet the Government's employment and social goals. Ecuador may need to balance its social and employment goals with its budgetary constraints.

*Commodity prices are volatile, and a significant decline in commodity prices could adversely affect Ecuador's economy and affect its ability to perform its obligations under the Notes.*

In addition to petroleum prices, see "Risk Factors – Risk Factors Relating to Ecuador - A number of factors have impacted on and may continue to impact on revenues and the performance of the economy," Ecuador's economy is exposed to other commodity price volatility, especially with regard to bananas, which make up approximately 20.5% of Ecuador's total non-petroleum production. A significant drop in the price of certain commodities, such as bananas, would adversely affect Ecuador's economy and could affect Ecuador's ability to perform its obligations under the Notes.

*Ecuador is a sovereign state and has not waived its sovereign immunity to the fullest extent permitted under the United States Foreign Sovereign Immunities Act of 1976; accordingly it may be difficult to obtain or enforce judgments against it.*

Ecuador is a sovereign state. Consequently, it may be difficult for investors to obtain or realize judgments against Ecuador in the United States or elsewhere. For example, Argentina defaulted on part of its external debt beginning in 2002. holders of those bonds issued by Argentina have had difficulty in obtaining payment from the defaulted issuer, and many have yet to be compensated. Litigation in relation to Argentina's default is still ongoing as described further in the risk factor entitled "*Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt.*" In the event holders of the Notes were to attempt to enforce a civil judgment against Ecuador, they may experience similar difficulty.

Furthermore, the dispute resolution provisions of the Notes require submission to arbitration at the London Court of International Arbitration while the contractual provisions of the Notes are governed by New York law. In order to obtain an enforceable judgment any disputes will have to be submitted first to the decision of an arbitral panel prior to being subject to enforcement by an applicable court.

To the extent holders of Notes were to bring suit in Ecuador or attempt to enforce a foreign judgment or arbitral award in Ecuador, under the laws of Ecuador certain property of Ecuador is exempt from attachment. In addition, pursuant to the terms of the Notes and the Indenture, Ecuador has limited its sovereign immunity (other than with respect to the laws of Ecuador) with respect to actions brought against it under the Notes or the Indenture. This limitation of immunity, however, may be more limited in scope than those under certain other sovereign issuances in which issuers may waive immunity to the full extent under the U.S. Foreign Sovereign Immunities Act of 1976. Given this limitation on the scope of immunity, as well as the limitations of the U.S. Foreign Sovereign Immunities Act of 1976 and the immunity granted to Ecuador under Ecuadorian law, or which may in the future be granted under Ecuadorian law, holders seeking to attach assets of Ecuador may not be able to do so within Ecuador and may face difficulties doing so outside of Ecuador.

*Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment.*

Ecuador is currently involved in several legal proceedings, mainly related to contracts in the oil and electricity sectors. For a description of these legal proceedings and other proceedings against Ecuador, see "Legal Proceedings." If the foreign companies were to succeed, the awards could adversely impact the finances of Ecuador. Ecuador can offer no assurances as to whether or not such proceedings will be resolved in its favor.

#### Occidental

In May 1999, *Empresa Pública de Hidrocarburos del Ecuador* ("Petroecuador") and Occidental Exploration and Production Company ("Occidental") entered into a participation agreement for the exploration and

exploitation of hydrocarbons in Block 15, in the Oriente region. On September 16, 2004, Petroecuador sent Occidental a notice of breach alleging various grounds for forfeiture of the participation agreement, including the unauthorized assignment of 40% of Occidental's rights and obligations thereunder to Canadian oil company Encana. Block 15 is one of Ecuador's most productive oil fields. In May 2006, the Ministry of Energy and Mines declared the participation agreement with Occidental to be terminated due to its alleged breach of the Hydrocarbons Law. As a result, all of Occidental's assets were transferred to the Republic. In July 2006, Occidental filed a claim before the International Centre for the Settlement of Investment Disputes ("ICSID") against Ecuador in an amount of U.S.\$3.3 billion, claiming that the termination of the participation agreement constituted the "equivalent of expropriation," in violation of the US-Ecuador Bilateral Investment Treaty, and that the forfeiture of the participation agreement was litigated for political reasons rather than due to an illegal assignment.

On October 5, 2012, the ICSID arbitral panel issued an arbitral award in favor of Occidental in the amount of U.S.\$1.7 billion, plus interest, but it also found that Occidental's assignment to Encana was made in violation of Ecuadorian law. The arbitral panel based the amount on the full value of the contract, with a reduction of 25% due to such violation. On October 9, 2012, Ecuador filed a petition for a stay of the enforcement of the arbitral award until an annulment procedure could be carried out. The petition was registered with ICSID on October 11, 2012. On January 18, 2013, ICSID appointed an ad hoc panel to resolve the petition for the stay. The first meeting of the panel occurred on March 25, 2013. On May 13, 2013, the panel met to consider a February 13, 2013 petition by Occidental to lift the currently effective stay of the arbitral award. In a September 30, 2013 decision, the panel ratified the stay of the award and held that it should continue unconditionally.

On August 12, 2013, Ecuador submitted its Brief of Annulment. On October 18, 2013, Occidental presented its response, arguing that there was no basis for an annulment. Ecuador presented its reply on January 6, 2014 and Occidental submitted its rejoinder on February 28, 2014. The hearing concerning annulment took place between April 7 and April 10, 2014. The proceedings were concluded on April 10, 2014. The result of the hearing is pending.

#### Chevron

In 2006, Chevron Corporation and Texaco Petroleum Corporation ("Chevron") brought arbitration proceedings against the Republic under the United Nations Commission on International Trade Law ("UNCITRAL") alleging the Republic's breach of certain "denial of justice" provisions under the US-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached such treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The tribunal accepted the position of Ecuador that any amount received by Chevron should be subject to the payment of a tax at a rate of 87.31% (the preliminary arbitral award was approximately U.S.\$700 million) and deducted the tax amount due to Ecuador from the preliminary arbitral award of U.S.\$700 million. Consequently, Ecuador filed a petition to annul the arbitral award before the District Court of The Hague, which was denied on May 2, 2012. Ecuador presented an appeal to the District Court decision, and on May 13, 2013, the Appellate Court of The Hague heard the arguments of the parties on appeal and rejected Ecuador's appeal on June 19, 2013. In September 18, 2013, Ecuador presented an appeal to the Supreme Court of the Netherlands which held hearings on February 14, 2014. The result of the hearing is pending.

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 7, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed for further appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013. The results of this appeal are pending. On September 6, 2013, because Ecuador did not have substantial assets in the District of Columbia, Chevron filed a motion to enable it to register the district court award "in any other district" in the United States. Ecuador objected, arguing that Chevron should be permitted to register the award only in "those districts for which Chevron has provided sufficient evidence that Ecuador has substantial assets." In October 29, 2013, the District Court of the District of Columbia granted Chevron's motion to register the award in any other district. To date, Chevron has not registered the award in any other district and the Republic is not aware that Chevron has taken any steps to execute on any assets of the Republic.

A number of foreign oil companies have sued Ecuador in connection with the application of law 42-2006, which levied a 99% tax on the windfall profits of a number of foreign oil companies. For a description of the windfall profits tax, see "The Ecuadorian Economy – Economic and Social Policies – Renegotiation of Oilfield Contracts." As a result of the implementation of the windfall profits tax law, Ecuador is a defendant in several arbitration proceedings.

### Burlington

Burlington Resources, Inc. ("Burlington") filed an arbitration claim before ICSID on April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the US-Ecuador Bilateral Investment Treaty. On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration. Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris.

The arbitral tribunal was scheduled to meet for a hearing on damages and Ecuador's counterclaims in August, 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the decision because of a conflict of interest. Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The arbitral tribunal is currently determining the procedural schedule for the assessment of damages.

*Part of the offering proceeds could be attached by creditors to satisfy outstanding arbitral awards and judgments (if applicable) against Ecuador.*

Creditors holding outstanding arbitral awards or court judgments present a risk of disruption to the offering. This could involve any type of creditor, including trade, supply, investor and finance creditors who obtain arbitral awards and possibly seek to enforce these awards or judgments. The risk with respect to the offering includes that the initial purchasers in the offering could be said to have an obligation to pay the offering proceeds to Ecuador, and that Ecuador's creditors may attempt to enforce their rights against Ecuador's interest in any such obligation. Further, Ecuador's creditors could attempt to attach the proceeds of the offering or the payment of principal and/or interest on the Notes.

*Payments to holders of the Notes could be attached by creditors, including holders of other debt instruments of Ecuador, to satisfy awards against Ecuador. As a result, Ecuador may not be able to make payments to holders of the Notes.*

There is a risk that creditors could attach payments of interest and principal by Ecuador to holders of the Notes outside of Ecuador because, until payments reach holders of the Notes, they could possibly be deemed to be the assets of Ecuador. For more information on these pending awards, see "Legal Proceedings" and "Risk Factors – Risk Factors Relating to Ecuador – Ecuador is involved in a number of legal proceedings and disputes that could result in losses to Ecuador as well as a decrease in foreign investment."

There is a risk that creditors could seek to attach part of the offering proceeds to satisfy pending awards against Ecuador. If creditors are successful in attaching payments to holders of the Notes, Ecuador may not be able to make payments to holders of the Notes. For further information about the attempts of creditors of Argentina to enforce payment obligations on defaulted sovereign debt, see "Risk Factors – Risk Factors Relating to the Notes – Recent federal court decisions in New York create uncertainty regarding the meaning of ranking provisions and could potentially reduce or hinder the ability of sovereign issuers to restructure their public sector debt."

Specifically, payments of principal or interest on the Notes may be attached, enjoined or otherwise challenged by holders of other debt instruments of Ecuador, including outstanding holders of the 2012 and 2030 Bonds. Some creditors have, in recent years, used litigation tactics against several sovereign debtors that have

defaulted on their sovereign bonds including Peru, Nicaragua and Argentina, to attach or interrupt payments made by these sovereign debtors to, among others, holders of the relevant defaulted bonds who agreed to a debt restructuring and accepted new securities in an exchange offer. Ecuador may also become subject to suits to collect on defaulted indebtedness. Ecuador cannot guarantee that a creditor will not be able to interfere, through an attachment of assets, injunction, temporary restraining order or otherwise, with payments made under the Notes.

*Ecuador faces challenges in its ability to access external financing.*

Ecuador may have to rely in part on additional financing from the domestic and international capital markets in order to meet its future expenses. Given the fluctuations in Ecuador's level of International Reserves in the last few years, as of December 31, 2013, International Reserves (defined herein) covered 54.9% of current account payments. Ecuador's ability to obtain diverse sources of international funding has become increasingly important. See "Public Sector Finances – Overview – Fiscal Policy." Since the U.S. dollar is legal tender of Ecuador, the level of International Reserves may not be an indicator of its ability to meet current account payments as would be the case in an economy where the dollar is not legal tender.

In 2008, CAIC issued a report that made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. See also "Risk Factors – Risk Factors Relating to Ecuador – *Ecuador has defaulted on its sovereign debt obligations in the past, in particular its obligations under the 2012 and 2030 Bonds.*" Following the report in 2008, Ecuador defaulted on its payments for the 2012 and 2030 Bonds in the aggregate amount, as of February 2009, of approximately U.S.\$157 million in interest and U.S.\$3,200 million in principal. However, Ecuador did not default, and is current, on its 2015 Bonds issued in 2005. Ecuador invited holders of the 2012 and 2030 Bonds to participate in two tender offers in April 2009 and November 2009 which resulted in the tender of 93.22% of the 2012 and 2030 Bonds. Given the history of defaults, and more recently, defaults with respect to the 2012 and 2030 Bonds as a result of CAIC determining that the bonds were issued illegally, Ecuador may not be able access external financing on favorable terms. For further information regarding the external debt payment record of Ecuador and the history of defaults, see "Public Debt – Debt Obligations."

*The ability of Ecuador to counter external shocks through economic policy is limited.*

Ecuador instituted the Dollarization Program in 2000, replacing the Ecuadorian sucre with the U.S. dollar. Due to the current market conditions, Ecuador may be at risk if it cannot export sufficient goods to receive additional U.S. dollars, as it has no ability to mint currency. In addition, due to the Dollarization Program, the ability of Ecuador and/or the Central Bank to adjust monetary policy and interest rates in order to influence macroeconomic trends in the economy is limited. The total income from its exports and remittances needs to outweigh the total cost of its imports. The disruptions currently experienced in the financial markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction in available financing. Furthermore, by law, Ecuador's oil revenues can only be used to finance infrastructure projects and its ability to use these revenues to address other sectors or fiscal policy in general is limited. Accordingly, Ecuador's ability to use the tools of monetary policy to correct external shocks to the economy may be limited. See "Exchange Rate Information."



## **USE OF PROCEEDS**

The use of proceeds for public debt is limited by the Public Planning and Finance Code (defined herein). Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the related debt obligations and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President of the Republic.

The Republic will use the proceeds of U.S.\$2,000,000,000 of the Notes in accordance with the limitations of the Public Planning and Finance Code. The total expenses of this offering, including underwriters' fees, will be approximately U.S.\$16,080,648.00.

## THE REPUBLIC OF ECUADOR

### Territory, Population and Society

Ecuador is one of the smallest countries in South America, covering an area of approximately 99,054 square miles (256,549 square kilometers). Located on the north-western coast of the continent, it shares a 950 mile border with Peru to the south and the east, a 373-mile border with Colombia to the north, and a 1,452-mile coastline to the Pacific Ocean to the west.

Ecuador encompasses a wide range of geographic areas and climates, including the Pacific coastal plains, the Sierra (consisting of the Andean highland region), the Oriente (characterized by the Amazonian tropical rain forest) and the Galapagos island region located in the Pacific Ocean approximately 600 miles from the coast. The Republic is traversed by the equator and lies entirely in the north and south tropical zones. The country's regional climates vary depending on altitude. The climate is tropical in the Pacific coastal plains and the Oriente, predominantly temperate in the Sierra, and maritime in the Galapagos.

There has not been a major natural disaster in Ecuador since a series of earthquakes in 1987. However, Ecuador is located in an active seismic area where the risk of an earthquake or tremors is high. Ecuador also has several active volcanoes, some of which have shown increased activity in the past several years. When it occurs, the irregular 'El Niño' climatic phenomenon has caused heavy rains, landslides, widespread flooding and hotter temperatures across Ecuador. In 2012, forest fires occurred in many areas of Ecuador. The Pichincha province on the outskirts of Quito was particularly affected.

In November 2011, the Republic published the *Ley de Fomento Ambiental y Optimización de los Recursos del Estado* ("Environmental Improvement and State Resources Optimization Law") to strengthen the environmental regulatory framework of the country. The law introduced new pollution and plastic bottle taxes and increased taxes on cigarettes and alcoholic beverages.

On October 26, 1998, Ecuador and Peru signed a comprehensive peace agreement that ended a long-standing territorial dispute concerning territory in the Oriente region. Although the territorial conflict spanned more than a century, the treaty ended multiple hostile encounters between the two governments over the course of the previous four years. As a result of this treaty, the two countries presented joint plans for the development of infrastructure and commerce in the border region.

On March 1, 2008, Colombian forces raided a camp of the *Fuerzas Armadas Revolucionarias de Colombia* ("Revolutionary Armed Forces of Colombia" or "FARC"), which was located in Ecuadorian territory. This led to the death of FARC's leader, Raúl Reyes. Despite some brief tensions that resulted in the end of diplomatic relations with Colombia, the restoration of diplomatic relations between both countries was announced in November of 2010 by the presidents of Ecuador and Colombia, Rafael Correa and Juan Manuel Santos respectively, during the UNASUR summit in Guyana.

According to the 2010 census conducted by the *Instituto Nacional de Estadística y Censos* ("National Institute of Statistics" or "INEC"), the total population of Ecuador is approximately 15.7 million. Approximately 50.2% of the population live in the Pacific coastal plains, 44.5% live in the Andean highlands, 5.1% in the Oriente and 0.2% in the Galapagos Islands. From 2001 to 2010 the population grew at an average annual rate of 1.9%, down from 2.05% between 1990 and 2001. Approximately 63.6% of the population is urban. Guayaquil, which is located on the coast, is the largest city with 2.4 million inhabitants. Quito, the country's capital, has a population of 2.2 million and is located in the highlands at 2,850 meters above sea level. Cuenca is the third largest city with 505,585 inhabitants, and is also located in the Andean highlands. Spanish is the official language, while Quecha and Shuar are considered official languages for intercultural relations.

Historically, Ecuador has been a Catholic country and while the country remains predominantly Catholic, evangelical Christianity has become increasingly popular.

The following chart sets forth certain demographic characteristics for Ecuador in the time period specified:

### Demographic Characteristics

	2009	2010	2011	2012	2013
<b>Total population (million)</b> .....	14.7	15.0	15.3	15.5	15.7
Female (%) .....	50.8	50.8	50.8	50.8	49.7
Male (%) .....	49.2	49.2	49.2	49.2	50.3
Urban (%) .....	62.6	62.7	62.7	63.2	63.6
Rural (%) .....	37.4	37.3	37.3	36.8	36.4
<b>Functional age groups (%)</b>					
Child (0–14).....	31.3	31.0	30.6	30.3	31.8
Adult (15–64) .....	62.7	62.9	63.1	63.3	62.4
Elderly (65+).....	6.1	6.2	6.3	6.4	5.8
<b>Demographic Indicators</b>					
Average Annual Growth (%) .....	1.7	2.0	2.0	1.3	1.3
<b>Birth Rate (per thousand)</b>	22.1	21.8	21.5	19.6	n/a
Infant Mortality Rate (per 1,000 live births) .....	25.3	24.8	24.1	23.3	n/a
Fertility Rate (per woman).....	2.7	2.7	2.6	2.4	2.6
<b>Average Life Expectancy (age)</b>					
Female .....	78.4	78.6	78.9	79.0	78.3
Male.....	72.5	72.8	73.1	73.2	72.9
Overall .....	75.4	75.6	75.9	75.9	76.0

Source: Based on INEC data as of December 31, 2013. Information identified as "n/a" was not available as of the date of this Offering Circular.

The following table sets forth certain comparative information for Ecuador in 2013 relative to certain countries:

### Selected Comparative Social Statistics As of December 31, 2013

	Ecuador	Bolivia	Paraguay	Honduras	Guatemala	Costa Rica	United States
Average life expectancy .....	76.0	68.2	76.6	70.81	71.5	78.1	78.6
Adult literacy rate.....	93.3%	91.2%	93.9%	85.1%	75.9%	96.3%	99.0%
Expected years of schooling.....	14	14	12	12	11	14	18
Population below the poverty line .....	25.5%	49.6%	34.7%	60.0%	54%	24.8%	15.1%

Source: Ecuador data based on INEC projections as of December 31, 2013, remaining country data based on World Bank data as of December 31, 2013.

(1) In Ecuador, as of December 2013, the poverty line was US\$78.10/month, per person.

### Historical Background

Until 1553, what is now Ecuador formed part of the northern Inca Empire. Under Spanish rule, Ecuador became a seat of the Spanish colonial government in 1563 and part of the Viceroyalty of New Granada in 1717. The territories of the Viceroyalty (New Granada (Colombia), Venezuela and Quito) gained their independence between 1819 and 1822 and formed a federation known as Gran Colombia. Quito withdrew from the Gran Colombia federation in 1830, and formed what was then known as the "Republic of the Equator."

The next 150 years were marked by domestic political instability and international border conflicts. Particularly, after the withdrawal from Gran Colombia, Ecuador saw a power struggle between conservatives from Quito and liberals from Guayaquil. Internationally, between 1904 and 1942, Ecuador lost territories in a series of conflicts with its neighbors, including a war with Peru in 1941.

After World War II, Ecuador saw periods of democratic rule juxtaposed with military dictatorships. Despite this instability, Ecuador's banana industry boomed in the 1950s as it became one of the largest exporters of the fruit in the world. In the 1970s the discovery of new petroleum fields in the eastern provinces transformed Ecuador into a producer of oil and made oil the Republic's most important export commodity. The rise in oil exports

fuelled economic growth and brought sharp increases to spending and employment, financed mainly by external borrowing and oil revenues.

Although Ecuador marked 25 years of civilian governance in 2004, the period was marred by political instability. Protests in Quito contributed to the mid-term ouster of three of Ecuador's last four democratically elected Presidents. In 2006, current president Rafael Correa was elected with 56.67% of the vote. Under his administration, which began in January 2007, voters approved a new constitution (the "2008 Constitution"), Ecuador's 20th since gaining independence. President Correa was reelected in general elections held in February 2013 with 57.17% of the vote. President Correa holds the highest approval rating in South America at 84%.

## Form of Government

Ecuador is a republic, with powers divided among five branches of government: executive, legislative, judicial, transparency and social control, and electoral branches. The Constitution provides for concurrent four-year terms of office for the President, Vice President, and members of the National Assembly. Presidents and legislators may be re-elected immediately. Citizens must be at least 16 years of age to vote.

The President is the head of Government and head of state, and is elected by direct popular vote for a four-year term. The 2008 Constitution implemented presidential term limits so that after the first four-year term, the president has only one opportunity for re-election, unless the 2008 Constitution is amended to negate these term limit requirements. The President's duties include the enforcement of the Constitution, the definition of economic, trade and foreign policy, and the enforcement of domestic law and order. The President is also Commander-in-Chief of the armed forces and appoints Ministers and heads the Government's cabinet. President Correa came into office in January 2007 under the previous Constitution, and is currently serving his second term under the new Constitution, after being re-elected in general elections held in February 2013.

The 2008 Constitution establishes a single chamber national assembly elected through direct popular vote for a four-year period (the "National Assembly"). The National Assembly has 137 representatives, of which 15 are elected at the national level, two are elected per province, one additional provincial representative for every 200,000 inhabitants above 150,000 per province threshold, and six for Ecuadorians living abroad.

In the most recent legislative elections held on February 2013, Alianza PAIS, President Correa's party, increased its control over the National Assembly with a total of 100 seats. The newly founded right wing party, *Creando Oportunidades*, won 11 seats and became the National Assembly's largest minority party. Several parties, such as PSC-Madera de Guerrero and MPD-Pachakutik formed alliances to gain 6 and 5 seats in the National Assembly, respectively.

The following table shows the current composition of the National Assembly:

### Legislative Assembly Composition by Political Party

<u>Political Party</u>	<u>Number of Members</u>
Alianza PAIS	100
CREO	9
PSC-Madera de Guerrero	7
MPD-Pachakutik	5
PSP	4
Avanza	5
Others	7
<b>Total</b>	<b>137</b>

Source: National Assembly of Republic of Ecuador

Ecuador is administratively divided into 24 provinces and 222 municipalities. Each province is governed by a prefect who is popularly elected. The Government also designates a governor for each province that coordinates and administers the initiatives of the Government; while mayors, who are elected by popular vote, govern municipalities. Each of the 24 provinces has a popularly elected provincial council headed by a prefect. A municipal council is responsible for the government of each municipality. All provincial and municipal officials are popularly elected to four-year terms. In the most recent municipal elections, held on February 2014, candidates from Alianza PAIS lost mayoral elections in Ecuador's three major cities of Quito, Cuenca, and Guayaquil.

The judicial system consists of the *Corte Nacional de Justicia* ("National Court of Justice"); *Cortes Provinciales de Justicia* ("Provincial Courts of Justice"); and *Tribunales y Juzgados de Justicia* ("First Instance Courts"). The National Court of Justice is composed of 21 judges appointed by the *Consejo de la Judicatura* ("Judiciary Council"), which is in charge of regulating, administering and auditing the judicial branch. The Judiciary Council is comprised of nine standing members with their respective alternates, who perform their duties for a six-year term of office and cannot be reelected. The designation of the standing members of the Judiciary Council and their alternates takes place by a competitive merit-based examination process, subject to citizen oversight.

In addition, the 2008 Constitution recognizes the possibility for indigenous communities to exercise their judicial authority in accordance with their tradition and their own sets of rules. The exercise of this authority must comply, and must not conflict with, the rights set forth by the Constitution and by international treaties ratified by the Republic of Ecuador.

The 2008 Constitution also creates two additional branches of government. *La Función de Transparencia y Control Social* (the "Transparency and Social Control Branch") is intended to serve as the auditor of the Government and of private entities that contribute to the Republic's general welfare. It is comprised of the *Contraloría General del Estado* (the "Office of the Comptroller General"), the *Consejo de Participación Ciudadana y Control Social* (the "Counsel of Citizen Participation and Social Control"), various superintendent organizations including the *Superintendencia de Bancos* ("Superintendent of Banks"), and the *Defensoría del Pueblo* (the "Public Defender"). The Counsel of Citizen Participation and Social Control appoints the chief executive of each superintendent organization, Office of the Comptroller General, the Public Defender and the Attorney General. It is also the entity principally responsible for corruption investigations and establishing citizens' committees for public consultation prior to the enactment of laws according to the 2008 Constitution. The purpose of these citizens' committees is to increase citizen participation and involvement in the democratic process and create an informed population who perform an active role in the enactment of laws.

The purpose of the *Función Electoral* (the "Electoral Branch") is to provide oversight for the Republic's political parties and elections. The Electoral Branch is comprised of the *Consejo Nacional Electoral* ("National Electoral Council") and the *Tribunal Contencioso Electoral* (the "Electoral Dispute Settlement Court"). The National Electoral Council organizes and oversees elections to ensure transparency and compliance with election law, supervises the activities of political parties, and establishes a civil registry. The Electoral Dispute Settlement Court hears and resolves, among others things, disputes regarding campaign finance violations and settles election results appeals.

## **Memberships in International Organizations and International Relations**

### *International Organizations*

Ecuador has diplomatic relations with approximately 78 countries, and is a member of a number of international organizations, some of which include the United Nations, Organization of the Petroleum Exporting Countries ("OPEC"), the Organization of American States ("OAS"), the World Health Organization ("WHO"), and the Union of South American Nations ("UNASUR").

In 2007, Ecuador rejoined OPEC as a full member after fifteen years of absence, having left due to OPEC's membership fee and its increase in production quotas. The Republic decided to rejoin OPEC due to benefits of the global producer network and the access to information that OPEC provides to its members.

In July 2, 2009, President Correa issued a decree declaring that Ecuador was terminating its agreement as a member of the International Centre for Settlement of Investment Disputes ("ICSID"). The decree stated that the ICSID convention violated principles of sovereignty enshrined in Article 422 of Ecuador's 2008 Constitution, which provides the rules for sovereign submission to arbitration proceedings. Notwithstanding the foregoing, Ecuador is a member of UNCITRAL and is still subject to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

Ecuador continues to be a member of both the International Monetary Fund and the World Bank. While it no longer borrows from the International Monetary Fund, the World Bank has provided several recent project level financing for projects in infrastructure, irrigation, transport and sanitation. These projects include the Chimborazo Development Investment project in 2007 and the Quito Metro line project in 2012. See "The Ecuadorian Economy—Strategic Sectors – Transportation."

#### *Treaties and Other Bilateral Relationships*

Ecuador is party to bilateral investment treaties with Argentina, Bolivia, Canada, Chile, China, Costa Rica, France, Germany, Spain, Italy, the Netherlands, Peru, Russia, Spain, Sweden, Switzerland, the United Kingdom, the United States, and Venezuela. Bilateral investment treaties with the following countries have either been terminated or expired: Cuba, the Dominican Republic, El Salvador, Finland, Guatemala, Honduras, Nicaragua, Paraguay, Romania, and Uruguay.

#### *Regional Organizations*

Ecuador also maintains close ties with most of its neighboring countries and participates in several regional arrangements to promote trade, investment and services. As a member of the Latin American Integration Association ("ALADI"), a regional external trade association, Ecuador and the other signatories (Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela) have worked to remove regional trade restrictions among member nations. Ecuador also forms part of the *Comunidad Andina de Naciones* ("Community of Andean Nations") along with Colombia, Peru and Bolivia. Among the organization's greatest achievements is the free flow of merchandise of Andean origin and the free mobility of member state citizens. Ecuador is also a member of the *Alianza Bolivariana para los Pueblos de nuestra América Latina* ("ALBA") along with Venezuela, Bolivia, Cuba, and other Caribbean nations. In February 2012, ALBA members signed an agreement to create an *espacio de interdependencia*, a shared economic development zone between all members. Ecuador is also linked to Mercosur (comprised of Argentina, Brazil, Paraguay, Uruguay and Venezuela), as an associate member and has been invited to participate as a full member and is a member of *Corporación Andina de Fomento* ("CAF"), who has helped Ecuador finance several transportation and infrastructure projects.

In 2008, Ecuador, along with eleven other nations (Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru, Uruguay, Venezuela and Suriname) signed a treaty establishing the *Unión de Naciones Suramericanas* ("Union of South American Nations" or "UNASUR"). The organization's General Secretariat has its permanent headquarters in the city of Quito, while its Parliament will be located in the Bolivian city of Cochabamba. In 2010, Ecuador formed part of the *Comunidad de Estados Latinoamericanos y Caribeños* ("Community of Latin American and Caribbean States" or "CELAC"). CELAC promotes the integration and development of Latin American nations.

Ecuador is a member of the United Nations Convention on Narcotic Drugs. Since 1990 the *Consejo Nacional de Control de Sustancias Estupefacientes y Psicotrópicas* (the "National Counsel for the Control of Narcotics and Psychotropic Drugs" or "CONSEP") has dictated policy against drug trafficking. In July 2013, pursuant to CONSEP's recommendation to decrease the illicit market for narcotics, the Ecuadorian penal code was reformed to decriminalize certain amounts of narcotics, including marijuana and cocaine. In the same month, Ecuador unilaterally rejected further benefits from preferential tariff program provided by the United States government under the Andean Trade Promotion and Drug Eradication Act (the "ATP-DEA"). These benefits bestowed preferential treatment to certain Ecuadorian products in exchange for the Republic's efforts in combating drug trafficking in Ecuador. The rejection of the tariff program ends tax-free treatment of approximately U.S.\$223 million worth of goods exported by Ecuador into the U.S. per year. The rejection of the ATP-DEA benefits, as well as the penal code reforms, reflect a change in Ecuador's approach towards narcotics. According to CONSEP, this

change is a policy that "criminalizes the drug, but protects the rights of the addict." The policy reflects the guideline set by Article 364 of the 2008 Constitution, which defines addiction as a public health problem and states that addicts must not be criminalized nor suffer an infringement of their rights due to their addictions.

## THE ECUADORIAN ECONOMY

### Gross Domestic Product

In 2007, when President Correa took office, GDP grew at a rate of approximately 2.2%. The balance of the Republic's foreign debt was U.S.\$10.6 billion, which was approximately 20.8% of the GDP, and represented a 4.1% increase from 2006. In 2007, President Correa proposed an economic reform plan, which focused on the distribution of national wealth, energy self-sufficiency, social security and food security among others.

Ecuador's economy grew at a rate of 6.4% in real terms in 2008. The balance of foreign debt was U.S.\$10.09 billion, which was approximately 16.3% of GDP. As of December 31, 2008, freely disposable reserves amounted to U.S.\$4.5 billion. The average annual price attributed to Ecuadorian crude oil was U.S.\$83.0 per barrel in 2008. The average rate of inflation in 2008 was 8.8%.

During 2009, Ecuador's economy grew by 0.6% in real terms, despite the international financial crisis. The nation's foreign debt decreased by 26.7%, to U.S.\$7.4 billion, which represented 11.8% of GDP. This decrease was in part due to the default and subsequent tender for the 2012 and 2030 bonds. The average price of oil was U.S.\$52.6 per barrel. Average inflation that year was 4.3%.

In 2010, Ecuador's GDP grew by 3.5% in real terms, boosted primarily by an increase in private consumption and gross fixed capital formation, 7.7% and 10.2%, respectively. The average price of oil was U.S.\$71.9 per barrel. Oil production decreased by 2.6% due to the prolonged renegotiation of oil field contracts and the closing of the Esmeraldas refinery for maintenance, while non-oil related sectors grew by 4.5%, witnessing a recovery in the majority of other industries and business areas. Foreign debt increased to U.S.\$8.67 billion primarily due to two loans, one from the China Development Bank and the other from the Export-Import Bank of China to finance the Coca Codo Sinclair project, see "Ecuadorian Economy – Strategic Sectors of the Economy–Electricity and Water." In 2010 foreign debt accounted for 12.5% of GDP and average inflation for the year was 3.3%.

In 2011, the economy grew by 7.8% in real terms, the second-highest growth rate in the last decade; the highest growth being 8.2% in 2004. Foreign debt reached U.S.\$10.06 billion, primarily due to a second loan with the China Development Bank in the amount of U.S.\$2 billion. This total external debt amount represented 12.6% of GDP, while average inflation for the year was 5.4%.

In 2012 the economy of Ecuador grew by 5.1% in real terms, which was mainly driven by an increase in fixed capital formation and private consumption, 11.0% and 4.3% respectively. Gross fixed capital formation in 2012 increased, in real terms, by U.S.\$1.67 billion due to the various infrastructure projects and public sector investments undertaken by Ecuador in that year. For more information, see "The Ecuadorian Economy – Strategic Sectors of the Economy – Electricity and Water." Foreign debt reached U.S.\$10.87 billion, which represented 12.4% of GDP.

In 2013 the economy of Ecuador grew by 4.5%, which was mainly driven by continued increases in fixed capital formation and private consumption, which increased by 6.6% and 3.4% respectively. Foreign debt reached U.S.\$12.92 billion, which represented 13.8% of GDP.

### Real and Nominal GDP

(in millions of US dollars, except percentages)

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
Real GDP (in millions of U.S.\$).....	54,558	56,481	60,883	64,010	66,879
Real GDP growth.....	0.6%	3.5%	7.8%	5.1%	4.5%
Nominal GDP.....	62,520	69,555	79,780	87,499	93,746

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 431)

**Nominal GDP by Economic Sector <sup>(1)</sup>**  
(in millions of U.S. dollars, except for percentages)

	For the Year Ended December 31,									
	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP
Manufacturing	7,699	12.31%	8,602	12.37%	9,654	12.10%	10,420	11.91%	11,138	11.88%
Construction	5,928	9.48%	6,501	9.35%	8,347	10.46%	9,833	11.24%	10,715	11.43%
Petroleum	4,916	7.86%	7,407	10.65%	9,429	11.82%	10,266	11.73%	10,933	11.66%
Trade (commerce)	6,524	10.43%	7,241	10.41%	8,201	10.28%	8,711	9.96%	9,275	9.89%
Agriculture	5,572	8.91%	6,071	8.73%	6,719	8.42%	6,932	7.92%	7,416	7.91%
Community services	5,185	8.29%	5,750	8.27%	6,336	7.94%	7,170	8.19%	7,819	8.34%
Government Services (Public Defense and Social Security Administration)	4,237	6.78%	4,539	6.53%	4,967	6.23%	5,708	6.52%	6,099	6.51%
Professional and Technical Administration	3,727	5.96%	4,302	6.18%	4,686	5.87%	5,179	5.92%	5,610	5.98%
Transportation	3,548	5.68%	3,700	5.32%	4,059	5.09%	4,586	5.24%	4,899	5.23%
Finance and insurance	1,714	2.74%	1,948	2.80%	2,319	2.91%	2,558	2.92%	2,624	2.80%
Telecommunications	1,554	2.49%	1,682	2.42%	1,841	2.31%	1,964	2.24%	2,111	2.25%
Electricity and water	542	0.87%	754	1.08%	999	1.25%	1,066	1.22%	1,104	1.18%
Shrimp	240	0.38%	298	0.43%	376	0.47%	428	0.49%	523	0.56%
Mining	204	0.33%	169	0.24%	193	0.24%	214	0.24%	239	0.26%
Others <sup>(2)</sup>	10,930	17.48%	10,592	15.23%	11,652	14.61%	12,464	14.24%	13,241	14.12%
<b>Total GDP</b>	<b>62,520</b>	<b>100%</b>	<b>69,555</b>	<b>100%</b>	<b>79,780</b>	<b>100%</b>	<b>87,499</b>	<b>100%</b>	<b>93,746</b>	<b>100%</b>

Source: Based on information from Central Bank

(1) Table measures gross value added by economic sector and corresponding percentage of Nominal GDP

(2) Includes fishing, petroleum refining, hospitality and food services, domestic services, and other elements of GDP



The following table sets forth Ecuador's real GDP growth by expenditure as a percentage of total real GDP growth for the periods presented.

### Real GDP and Expenditure Growth

(Percentage change from previous comparable period based on 2007 prices)

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
Real GDP Growth	0.6	3.5	7.8	5.1	4.5
Import of goods & services <sup>(1)</sup>	-9.9	14.8	3.9	1.9	4.2
<b>Total Supply of Goods &amp; Services</b>	<b>-2.0</b>	<b>6.1</b>	<b>6.8</b>	<b>4.4</b>	<b>4.4</b>
Public Sector Consumption	11.6	4.4	4.8	7.6	4.3
Private Consumption	-1.0	7.7	5.9	4.3	3.4
Gross Fixed Capital Formation	-3.6	10.2	16.1	11.0	6.6
Exports of goods and services <sup>(1)</sup>	-4.8	-0.2	4.6	2.7	4.5
<b>Total Final Demand</b>	<b>-2.0</b>	<b>6.1</b>	<b>6.8</b>	<b>4.4</b>	<b>4.4</b>

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 431)

(1) Corresponds to figures from "Real GDP by Expenditure" table

The following table sets forth Ecuador's per capita GDP statistics for the years indicated.

### Per Capita GDP

For the Year Ended December 31,

	2009	2010	2011	2012	2013
Per capita Nominal GDP (current U.S.\$)	4,242	4,633	5,226	5,637	5,943
Per capita Real GDP	3,702	3,762	3,988	4,124	4,240
Population (in thousands) <sup>(1)</sup>	14,738	15,012	15,266	15,520	15,775

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 431)

(1) Population figures correspond to projected population figures from 2010 census

The following table sets forth the real GDP growth by expenditure for the periods indicated.

### Real GDP by Expenditure

(in millions of dollars)

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
Consumption					
Public Sector Consumption.....	6,910.3	7,213.5	7,562.6	8,139.7	8,486.4
Private Consumption.....	34,648.4	37,320.6	39,539.0	41,234.7	42,629.2
Total Consumption .....	41,558.7	44,534.1	47,101.6	49,374.4	51,115.5
Gross Investment					
Gross Fixed Capital Formation .....	11,843.3	13,050.1	15,152.5	16,818.2	17,922.9
Change in Inventory.....	1,304.7	1,473.1	1,189.9	294.0	367.4
Exports of goods and services <sup>(1)</sup> .....	15,970.5	15,932.6	16,663.7	17,107.9	17,884.5
Imports of goods and services <sup>(1)</sup> .....	16,119.4	18,508.0	19,225.2	19,584.9	20,410.8
Real GDP .....	54,558	56,481	60,883	64,010	66,879

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 431)

- (1) The exports and imports figures in this chart are adjusted for inflation and reflect the contribution of exports and imports to GDP. They differ from the nominal exports and imports in the "Balance of Payments" table and stand-alone exports and imports tables in the "Exports-(FOB)" and "Imports-(CIF)" tables in this Offering Circular.

## **Economic and Social Policies**

Since taking office in 2007, President Correa has sought to reform certain aspects of the Ecuadorian economy in order to comply with constitutional mandates. Certain reforms were undertaken as legislative proposals, which require the National Assembly's approval. Other reforms were undertaken by the executive branch and do not require legislative approval. The reforms were consistent with the Correa administration's objective to promote economic growth, while reducing poverty and inequality and fostering social progress. Below is brief description of the most relevant major economic and financial reform initiatives of the past five years.

### ***The 2008 Constitution***

Upon taking office, President Correa believed that a "citizen's revolution" was necessary to rectify years of corruption, especially in regards to economic and financial matters. To do so, President Correa called for a referendum to write a new constitution, which was approved by the electorate and the National Assembly. The 2008 Constitution provided the foundation for the economic and financial reform initiatives of the past five years.

One of the most important objectives of the 2008 Constitution was to grant control over the Central Bank to the executive branch. Section 6, Article 302 of the 2008 Constitution states that "the drafting of monetary, credit, foreign exchange and financial policies is the exclusive power of the executive branch and shall be implemented through the Central Bank" hence limiting the autonomy and authority of the Central Bank for the purpose of effective implementation of reforms by the executive branch and its agencies.

Another relevant reform embedded in the Constitution is the creation of a debt and finance committee (the "Debt and Finance Committee"), tasked with evaluating and approving issuances or incurrence of sovereign debt. The Debt and Finance Committee is comprised of the President or his delegate, the Minister of Finance or his delegate, and the National Secretary of Planning and Development or his delegate. The sub-secretary in charge of public debt acts as the secretary for the committee. See "Public Debt – General." Other important reforms include the establishment of limitations on the proceeds of public borrowing (Article 289) (See "Public Debt – General"), the establishment of presidential term limits (Article 144) (See "The Republic of Ecuador - Form of Government"), the requirement of an evaluation structure for any public program in conjunction with the National Development Plan (Article 297), and the establishment of a single master account in the Central Bank (the "*Cuenta Única del Tesoro*") for the administration of the general budget (Article 299). In May 2011, certain amendments to the 2008 Constitution were approved by popular referendum. The most debated amendments included the change to the Judiciary Council to its current make up (see "The Republic of Ecuador - Form of Government"), and the prohibition of media owners to own stock in non-media companies.

### ***Budget Reforms***

Enacted in April 2008, the *Ley Orgánica para la Recuperación del Uso de los Recursos Petroleros del Estado y Racionalización Administrativa de los Procesos de Endeudamiento* ("Law for the Recovery of the Use of Oil Resources of the State and Administrative Rationalization of Indebtedness" or "LOREYTF") replaced Ecuador's then existing budget and transparency regulations. The objectives of the law were (i) to enhance the transparency and flexibility of the budget process by prioritizing investments and improving the management of Government resources and (ii) to terminate any distribution of budgeted amounts based on predetermined uses of resources. To achieve those objectives, the LOREYTF eliminated the *Cuenta Especial de Reactivación Productiva y Social del Desarrollo Científico-Tecnológico y de Estabilización Fiscal* (CEREPS) ("Scientific-Technological and Fiscal Stability Social and Productive Reactivation Special Account" or "CEREPS"). Also, pursuant to Article 299 of the 2008 Constitution, LOREYTF established the *Cuenta Única del Tesoro* – a single Central Bank master account for the management of Ecuador's resources. The *Cuenta Única del Tesoro* is comprised of various sub-accounts where amounts are allocated according to functional purposes. These sub-accounts include a social security account, accounts for public companies, a public banking account, and accounts for municipal and provincial governments (the "Autonomous Decentralized Governments"). The budget and transparency regulations established in LOREYTF were subsequently codified and superseded by the Public Planning and Finance Code (defined below).

### ***Bank Supervision***

Enacted in December 2008, the *Ley de Creación de la Red de Seguridad Financiera* ("Financial Safety Net Law") created a regulatory framework for Ecuador's banking sector. The objectives of the law were to strengthen the supervision of the financial sector, create a liquidity fund and a deposit insurance system for the benefit of the Ecuadorian banks and financial institutions, and to establish clear mechanisms for bank dissolutions. For more information on this law, see "Monetary System – Financial Sector."

### ***Tax Reforms***

Enacted in December 2008, the *Ley Reformativa a la Ley de Régimen Tributario Interno y a la Ley Reformativa para la Equidad Tributaria del Ecuador* ("Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador") reformed the existing tax system by improving the mechanisms by which the Government collects tax revenues. The objectives of the law were to reduce tax evasion, improve direct and progressive taxation, increase the tax base, and generate adequate incentives for investment in economic activity. For more information on these laws and other tax reforms see "Public Sector Finances –Taxation and Customs."

### ***Mining Law***

Enacted in January 2009, the *Ley Minera* ("Mining Law") created norms for the exercise of the Government's rights to manage and control the strategic mining sector. The objective of this law was to establish a sustainable and efficient administrative system to govern the relationship between the Government and domestic, foreign, public, or private individuals or legal entities involved in mining activities. Consequently, the Mining Law contains provisions regarding the attainment, preservation, and termination of mining rights and the performance of mining activities. Specifically, the Mining Law creates administrative agencies for the regulation, supervision and scientific investigation of the mining sector, sets specific geographic limits for mining activities, creates rules for public bids for concessions, and creates rules for concession and service contracts. Oil and other hydrocarbons are exempt from this law.

On June 13, 2013, the National Assembly passed an amendment to the Mining Law, imposing an 8% ceiling on previously open-ended royalties, streamlining the permits required for mining, and eliminating windfall taxes for companies until they have recouped their investments. For more information on the Mining Law, see "The Ecuadorian Economy–Strategic Sectors of the Economy –Mining."

### ***Public Corporations Law***

Enacted in October 2009, the *Ley Orgánica de Empresas Públicas* ("Public Corporations Law") created economic, administrative, financial and management control mechanisms for public companies in accordance with the 2008 Constitution. The objectives of the law were to regulate the formations, mergers, and liquidations of public companies outside the financial sector and that operate in Ecuador or abroad. To achieve those objectives, the Public Corporations Law:

- determines the procedures for the formation of public enterprises that are required to manage strategic sectors of the Ecuadorian economy;
- establishes the means to guarantee that the goals set forth by the Government are met by public companies, in accordance with the guidelines set by the *Sistema Nacional Descentralizado de Planificación Participativa* ("National Decentralized System of Participative Planning");
- regulates the economic, financial, and administrative autonomy of public companies, in accordance with the principles and norms of the Constitution and other applicable laws; and
- encourages the integral, sustainable and decentralized development of the Republic by requiring public companies to take socio-environmental and technological update variables into account in their cost and production processes.

### ***Renegotiation of Oilfield Contracts***

Enacted in July 2010, the reform to the *Ley de Hidrocarburos* ("Hydrocarbons Law") replaced the old system of oil revenue profit sharing contracts with a new contract system whereby the Republic owns oil production in its entirety, benefiting from all revenue windfalls that result from price increases. The objectives of the reform were to abide by Article 1, 317, and 408 of the 2008 Constitution, which state that natural resources, such as oil, are part of the national heritage of Ecuador and that the Government shall earn profits from the exploitation of these resources, in an amount that is no less than the profits earned by the company producing them. Under the renegotiated contracts, contractor's fees are established in accordance with the level and types of works and services to be performed, production costs, and a reasonable profit margin in relation to the level of risk. Under the old system, the Republic taxed between 17% and 27% of the first \$15 to \$17 in revenue for each barrel sold. Under the new system, the Republic taxes up to 80% of the revenue in each barrel sold. For more information on the Hydrocarbons Law, see "Strategic Sectors of the Economy – Oil Sector." A number of oil companies have sued Ecuador in connection with the modification of their contracts resulting from the reform of the Hydrocarbons Law. See "Legal Proceedings -Windfall Profits Tax Litigation."

### ***Public Planning and Finance Code***

Enacted in October 2010, the *Código Orgánico de Planificación y Finanzas Públicas* ("Public Planning and Finance Code") created a new financial regulatory system pursuant to the 2008 Constitution. The objectives of the law, among others, were to develop and coordinate national and regional governmental planning, guarantee the rights of citizens through equitable resource allocation and increased citizen participation in framing public policy, and strengthen national sovereignty and Latin American integration through public policy decisions. To achieve those objectives, the Public Planning and Finance Code:

- allows for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget without the prior approval of the National Assembly;
- sets an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and Autonomous Decentralized Governments (see "Public Debt – General");
- allows the Ministry of Finance to issue *Certificados de Tesorería* ("short-term treasury notes" or "CETES"), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allows for the establishment of citizens' committees for financial public policy consultations;
- determines that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establishes the functions and responsibilities of the Debt and Finance Committee (See "Public Debt – General").

Both the Republic and the Autonomous Decentralized Governments are subject to this law. For more information on the Public Planning and Finance Code, see "Public Sector Finances – Fiscal Policy."

### ***Production Code***

Enacted in December 2010, the *Código Orgánico de la Producción* ("Production Code") was created to stimulate investment and increase the production of good and services. The objective of this law was to create fair guidelines that would balance workers' rights with economic incentives for investors. To achieve that objective, the Production Code:

- provides guidelines for the *Consejo Nacional de Salarios* ("National Council on Wages") to consider in setting the minimum wage;
- provides guidelines for foreign investments and outlines the rights of foreign investors; and
- creates tax incentives for investors, including a 3% reduction on capital gains tax and the elimination of up-front taxes on any new investment.

### ***Law for Market Power Control and Regulation***

Enacted in October 2011, the *Ley Orgánica de Regulación y Control del Poder de Mercado* ("Law for Market Power Control and Regulation") was created to avoid, reform and penalize the abuse of market power. The objectives of the law were to prevent, prohibit and penalize collusive deals and other restrictive practices; control and regulate economic concentration operations; and prevent, prohibit and penalize disloyal practices, thereby seeking market efficiency as well as individual and collective well-being.

### ***Environmental Improvement and State Resources Optimization Law***

Enacted in November 2011, the Environmental Improvement and State Resources Optimization Law strengthened the environmental regulatory framework of the country. The law establishes, among others:

- an increase of the *Impuesto a la Salida de Divisas* ("ISD" or "Currency Outflow Tax"), from 2% to 5% (for more information regarding the Currency Outflow Tax see "Balance of Payments and Foreign Trade – Foreign Trade – Trade Policy";
- a tax increase on cigarettes and alcoholic beverages;
- the creation of a two-cent tax on plastic bottles; and
- the creation of a vehicle pollution tax.

### ***Law Reforming the Financial Institutions Law and the Law Restructuring Financial Taxes***

Enacted in March 2012, the *Ley Reformativa a la Ley General de Instituciones del Sistema Financiero y a la Ley de Reordenamiento en Materia Económica en el área Tributario Financiero* ("Law Reforming the Financial Institutions Law and the Restructuring Financial Taxes Law") was created to strengthen prior legislation related to mutual savings and housing credit associations. The objective of the law is to incorporate the concept of social capital and the framework of economic sustainability to mutual savings and housing credit associations. The law provides mutual savings and housing credit associations with political, economic and property rights to promote the social well-being of its members.

### ***Comprehensive Law for the Regulation of Housing and Automobile Loans***

Enacted in June 2012, the *Ley Orgánica para la Regulación de los Créditos para Vivienda y Vehículos* ("Law for the Regulation of Housing and Automobile Loans") was created to protect debtors in housing and automobile loan transactions. The law contains provisions, among others, that establish that collateral in these loans may only consist of the asset acquired through the loan and that the debtor of the loan may not use the acquired asset as collateral in other loan transactions.

### ***Comprehensive Law of Redistribution of Income for Social Expenditures***

Enacted in January 2013, the *Ley Orgánica de Redistribución de los Ingresos para el Gasto Social* ("Comprehensive Law of Redistribution of Income for Social Expenditures") was created to direct economic resources towards the financing of certain key social expenditures that generate economic activity. For more information on this law, which includes tax reforms, see "Public Sector Finances – Taxation and Customs."

### ***Law to Strengthen and Optimize the Corporate and Securities Sector***

Enacted by the National Assembly in May 2014, the *Ley Orgánica para el Fortalecimiento y Optimización del Sector Societario y Bursátil* ("Law to Strengthen and Optimize the Corporate and Securities Sector") was created to regulate the establishment and operation of securities firms and stock exchanges. The law created a new regulatory agency that will be responsible for establishing public policy for Ecuadorian stock markets and to make rules for their operation and control. The agency will consist of governmentally appointed members, one of which shall be a delegate for the President. This new regulatory body will replace the *Consejo Nacional de Valores* (the "National Services Commission" or "CNV") in formulating securities policies. The purpose of creating a new

regulatory body was to ensure that the regulation of this market was in the hands of public servants as opposed to public and private individuals, as was the case with the CNV.

### ***Further Reforms***

On January 4, 2014, President Correa announced that he would present the National Assembly with changes to several laws relating to Ecuador's financial system. These new laws would seek to overturn legislation from previous administrations that conflict with the current Ecuadorian financial system. Changes would include giving the government greater control over financial institutions that invest in international tax havens and credit markets. However, drafts of these potential reforms have not publicly circulated and once publicly announced, are subject to the modification and approval of the National Assembly.

### **Strategic Sectors of the Economy**

Ecuador's principal economic sectors are coordinated under the Ministry of Coordination of Strategic Sectors ("*Ministerio Coordinador de Sectores Estratégicos*" or "*MICSE*"). MICSE supervises and coordinates the activities of the Secretary of Water, Ministry of Telecommunications, Ministry of Electricity and Renewable Energy, and the Ministry of Non-renewable Natural Resources, who in turn are in charge of the water, telecommunications, electricity, and natural resources (oil and mining) sectors of the economy, respectively. The Republic considers these sectors as the most important aspects of its economy. Consequently, public investment in these segments has grown at a rapid rate. In 2009, the Government invested U.S.\$2,163 million in these strategic sectors, compared to a projected U.S.\$6,899 million in 2013. The total aggregate investment amount in the strategic sectors from 2009 to 2013 was U.S.\$18,945 million. The following chart sets forth accumulated investment in strategic sectors since 2009.

**Strategic Sector Investment**  
(in millions of U.S.\$)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Water .....	39.8	23.0	71.6	174.0	525.9
Telecommunications .....	276.0	258.6	412.7	331.9	640.1
Natural Resources .....	1,515.8	1,582.6	1,671.7	2,543.2	3,839.1
Electricity .....	331.8	607.4	735.4	1,357.9	1,647.7
Ecuador Estratégico .....	-	-	2.61	109.7	246.1
<b>Total Investment</b> .....	<b>2,163</b>	<b>2,472</b>	<b>2,894</b>	<b>4,517</b>	<b>6,899</b>

*Source: MICSE Information as of December 2013. Numbers reflect actual investment for each year.*

Strategic Ecuador ("*Ecuador Estratégico*"), is the state-owned company that administers all infrastructure projects carried out by MICSE. Its main functions are to evaluate project proposals submitted by municipalities, administer and distribute funds towards approved projects, and supervise the completion and progress of each project. According to *Ecuador Estratégico*, the projects with the highest priority include the Mirador and Fruta del Norte mines (see "Mining" below), and the Shushufindi oil field and Esmeraldas refinery (described in "Oil Sector" below). Financing for infrastructure projects has been procured through a selection process where competing financing offers are compared to determine the offer with the most favorable terms. The process, undertaken by *Ecuador Estratégico* in consultation with the Ministry of Finance, assigns a percentage value to different aspects of an offer (price, experience of the financing entity in the type of project, and overall experience, among others). Projects with high levels of financing emphasize the price offered by the financing entity and assign a large percentage value to price. Then, competing offers are granted points depending on their qualifications. The financing entity with the most points is then chosen to finance the project. Financing has also been procured through joint venture contracts and direct investment through a grant of a concession and service contracts.

### **Oil Sector**

Ecuador's oil reserves are administered directly by state-owned oil companies Petroecuador and *Empresa Pública del Ecuador Petroamazonas EP* ("Petroamazonas") and through specific services contracts with other Ecuadorian and foreign companies. Oil exploitation operations are conducted under the supervision and regulation

of the *Ministerio de Recursos Naturales no Renovables* ("Ministry of Non-Renewable Resources") acting through the *Agencia de Regulación y Control Hidrocarburífico* ("Hydrocarbons Control and Regulation Agency") and the *Secretaría de Hidrocarburos del Ecuador* ("Hydrocarbons Secretariat of Ecuador"). In November 2012, President Correa signed Decree 1351-A (the "Consolidation Decree"), which consolidated the operations of Petroecuador and Petroamazonas allocating exploration and exploitation of hydrocarbon resources to Petroamazonas and transportation, refining and commercialization activities to Petroecuador.

While oil exports have increased since 2009, they have increased at a lower rate than non-petroleum sources of revenue. As a result, the percentage of oil revenues with respect to GDP has declined in relation to the percentage of GDP of non-petroleum revenues over the five-year period since 2008. In 2013, Central Government oil revenues represented 5.0% of GDP and 22.9% of Central Government revenues and non-petroleum revenues represented 16.8% of GDP and 77.0% of Central Government revenues. For more information on Central Government revenues, see "Public Sector Finances – Central Government Revenues and Expenditures." In the same year, oil revenues for the non-financial public sector represented 12.2% of GDP and 30.8% of non-financial public sector revenues and non-petroleum revenues represented 24.0% of GDP and 60.6% of non-financial sector revenues. For more information on revenues of the non-financial public sector, see "Public Sector Finances – Non-Financial Public Sector Revenues and Expenditures." In 2009, the gross value added by oil decreased to 7.9% of GDP as a result of the drop in the price of oil in that year. Since then, the gross added value of oil to GDP steadily increased to 11.7% of GDP in 2013. For the gross added value of all economic sectors, see "The Ecuadorian Economy – Nominal GDP by Economic Sector Table."

Petroecuador and Petroamazonas are state-owned companies and are legal entities with their own assets and budgetary, financial, economic and administrative autonomy. The Hydrocarbons Secretariat of Ecuador is a Governmental institution under the management of the Ministry of Non-Renewable Natural Resources, with its own assets and administrative, technical, economic, financial and operational autonomy. It conducts the management of non-renewable hydrocarbon resources and is tasked with executing activities such as the administration of oil fields and the execution and modification of oil field contracts. The Hydrocarbons Secretariat of Ecuador also provides technical, economic and legal support in service contract origination and public bidding processes.

### *Exploitation*

Under the 2008 Constitution, all subsurface natural resources are property of the state, and in the case of petroleum, following the Consolidation Decree, its exploitation is undertaken directly by Petroamazonas. The Constitution, however, permits the Government to contract with the private sector for the development of these natural resources.

With the reforms to the Hydrocarbons Law, enacted in 2010, oil revenue profit-sharing contracts were replaced by contracts for the provision of specific services.

The reforms clearly define the public sector oil entities' functions as follows:

- the Ministry of Non-Renewable Natural Resources implements the hydrocarbon policies defined by the nation's president;
- the Hydrocarbons Secretariat of Ecuador conducts the public tender process for specific service contracts to develop oil fields, and executes and administers such contracts;
- the *Agencia de Regulación y Control Hidrocarburífero* (the "Hydrocarbon Regulation and Control Agency") controls and oversees hydrocarbon activity in all its phases; and
- Petroecuador and Petroamazonas are involved in the exploration, production, refining, and industrialization of hydrocarbon activities, as well as their internal and external marketing.

Under this new framework, Ecuador allows foreign investment in its hydrocarbon resources, which, under the 2008 Constitution and Hydrocarbons Law are exclusively owned by the state. In November 2010, the Government completed its contract renegotiations with foreign oil companies under the Hydrocarbons Law, which, as mentioned above, replaced production-sharing agreements for private companies with a fixed per-barrel fee for their exploration and production activities.

## Production

### Petroleum Production

	Year ended December 31,				
	2009	2010	2011	2012	2013
<b>Petroleum</b> (in thousands of barrels per day)	486	486	500	504	526
Public Companies <sup>(1)</sup> .....	102,768	109,944	130,528	133,656	144,921
Other operators.....	74,647	67,478	51,829	50,659	47,199
<b>Total</b>	<b>177,414</b>	<b>177,422</b>	<b>182,357</b>	<b>184,315</b>	<b>192,120</b>
<b>Natural Gas Production</b> (in millions of cubic feet)	<b>10,519</b>	<b>11,688</b>	<b>8,521</b>	<b>15,248</b>	<b>18,052</b>

Source: Petroleum data is based on figures from the Central Bank April 2014 Monthly Bulletin (Table 411). Natural gas information is provided by Petroecuador

(1) Petroecuador and Petroamazonas

Oil field crude production, including that of private and state-owned companies, reached 192.1 million barrels in 2013, an amount that represented a 4.2% increase in relation to the 184.3 million barrels produced in 2012 (or an increase of 4.4% in barrels per day ("bpd")).

In 2013, State-owned companies were responsible for 75.4% of production, while private companies extracted 24.6%.

The vast majority (95%) of Ecuador's oil blocks are located onshore. The most productive oil blocks are located in the northeastern part of the country, with Shushufindi and Auca as two of the oldest and most productive fields. Crude oil production has increased in the last ten years with the opening of the Oleoducto de Crudos Pesados (OCP) pipeline (see below "Transportation"), which removed a chokepoint on heavy crude oil transportation in the country. Production in existing fields has leveled off in recent years as the result of the natural decline in the productivity of existing blocks, particularly older blocks such as Shushufindi, which has been in operation for over forty years. In January of 2012, in order to boost production, Ecuador signed incremental production contracts with two oil company consortiums. The Shushufindi S.A. consortium, composed of oilfield services companies Schlumberger and KKR from the United States and Argentina's Tecpetrol, was awarded the contract for the Shushufindi field. The Pardaliservices S.A. consortium, which comprises of Tecpetrol, Canada's Canacol Energy, Schlumberger and Ecuador's Sertecpet, will work on the Libertador-Atacapi field. These companies will invest more than \$380 million to extract more than 14 million barrels of oil over the course of 15 years.

The Republic expects production to increase significantly through the development and inauguration of new fields. In 2010, Petroamazonas began production in the Pañacocha field in the Ecuadorian Amazon. On November 28, 2012, President Correa officially launched the 11th round of tenders for oil exploration of thirteen oil blocks in southeast Ecuador. Ecuador earmarked three additional fields for Petroamazonas, which will enter into exploration agreements with foreign state-owned oil companies. As of the date of this Offering Circular, Ecuador continues to evaluate the proposals of possible foreign state-owned oil companies for four-year joint venture contracts.

In August 2013, President Correa signed a decree authorizing the exploitation of oil from Blocks 31 and 43, which include the Ishpingo-Tambococha-Tiputini ("ITT") field in Yasuní National Park. The ITT field has estimated reserves of 920 million barrels of crude. This decree reversed a moratorium imposed since 2007 on the extraction of oil from ITT, which was created to protect biodiversity and avoid dislocation of isolated indigenous cultures with support from international donors to partially offset the opportunity costs of not developing the ITT fields. However, considering the low levels of support from international donors as well as the potential gains from the extraction of oil for this initiative, President Correa issued the decree allowing development of the ITT fields. Following the issuance of the decree in August 2013, environmental and indigenous groups have announced their opposition to the removal of the moratorium and the Presidential decree authorizing the development of the ITT fields; however, the National Assembly has approved the use of the ITT fields and, as of May 2014, the Environment Ministry has issued permits allowing Petroamazonas to develop the fields. Ecuador expects that the



output from the ITT fields will offset the decline from existing oil fields and increase overall production. According to estimates by Petroamazonas, investment to exploit the ITT fields is expected to equal U.S.\$2,100 million in the first four years of development and once fully operational, the oil field is expected to generate revenues of U.S.\$18,000 million over the life of the reserves.

### *Exports*

Other than in 2009, when there was a decrease in the price of oil, crude oil exports steadily increased from 2010 to 2013. Oil exports reached U.S.\$13,412 million in 2013, up 5.5% from U.S.\$ 12,711 million in 2012. In 2012, 92.1% of the value of oil exports was crude oil and 7.9% were oil derivatives. In 2013, 95.1% of the value of oil exports was crude oil and 4.9% were oil derivatives. In 2012, 60.6% of oil exports were exported to the United States, followed by Peru, Chile, Panama, and Japan with 12.0%, 12.0%, 6.3%, and 3.5%, respectively. In 2013, 60.5% of oil exports were exported to the United States, followed by Chile, Peru, Panama, and Japan with 14.7%, 10.7%, 4.1%, and 3.0% respectively.

PetroChina International Company, Limited, ("Petrochina") a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), has made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2 billion executed in August 2013, and Unipac Asia Co., Ltd ("Unipac"), a wholly-owned subsidiary of China Petrochemical Corporation ("Sinopec"), has also made prepayments to Petroecuador in connection with crude oil supply agreements, including an agreement providing for prepayments of U.S.\$2 billion, executed in May 2014.

### *Transportation*

Ecuador has two major oil pipelines. Most of Ecuador's crude oil production is transported through the Trans-Ecuadorian Pipeline System (the "SOTE"), which links Lago Agrio in the Oriente region to the Balao export terminal on the Pacific coast. The SOTE was built by Texaco (now Chevron) and was transferred to Petroecuador in 1998. The SOTE has a capacity of approximately 390,000 bpd. In 2012, the SOTE transported 129.0 million barrels, averaging 353,182 bpd, an increase of 2.4% compared to 2011. In 2013, the SOTE transported 131.9 million barrels, averaging 361,122 bpd, an increase of 2.2% compared to 2012.

On May 31, 2013, a rain-caused landslide ripped up a tranche of the SOTE near the Reventador volcano in the north-east region of Ecuador, near Peru and Brazil. It is estimated that approximately 11,500 barrels of oil were lost. Much of the oil spilled affected the waters of the Quijos, Coca and Napo rivers, and it is estimated that the oil may have reached the Amazon river and other territories or waters in Peru and Brazil. The Republic is in the process of analyzing the incident and is working closely with the governments of Peru and Brazil to contain any environmental damage that the accident may have caused. The Republic is not aware of any pending or threatened lawsuit or claim arising from this incident.

In June 2001, Ecuador awarded the construction and operation contract for its second pipeline, the OCP heavy crude oil pipeline, to Oleoducto de Crudos Pesados Ecuador S.A., a consortium of domestic and foreign oil companies. The OCP pipeline was constructed at a cost of U.S.\$1.4 billion, all of which was paid by the consortium. Construction was completed in September 2003, and operations began the same month. The contract for the operation of the OCP has a duration of twenty years and ends in 2023. At the end of the contract, the OCP pipeline will become national property. The Ministry of Energy and Mines and Petroleum (now Ministry of Non-Renewable Resources) oversaw the construction of the OCP pipeline, and now oversees its operation. The OCP pipeline is made up of two sections, the largest of which was designed to transport a maximum of 517,300 bpd and has a sustainable transportation rate of 450,000 bpd of crude oil of 18° to 24° American Petroleum Institute degrees. In 2011, the OCP pipeline transported 48.1 million barrels, averaging 131,690 bpd, an increase of 15.9% compared to 2010. In 2012, the OCP pipeline transported 48.4 million barrels, averaging 132,511 bpd, an increase of 0.6% compared to 2011. In 2013, the OCP pipeline transported 53.3 million barrels, averaging 145,927 bpd, an increase of 10.8% compared to 2012.

### *Refining*

Following the Consolidation Decree, Petroecuador is the only company that conducts refining activities in Ecuador. Petroecuador owns three refineries in Ecuador (Esmeraldas, La Libertad and Amazonas) with processing capabilities of 110,000, 45,000 and 20,000 bpd, respectively. Petroecuador also owns one associated gas processing plant (Shushufindi) which has a processing capacity of 637.8 million barrels of liquefied petroleum gas ("LPG") and average production of 1,747.6 barrels per day.

In 2012, the three main refineries produced 71.6 million barrels of oil derivatives including gasoline, diesel, fuel oil, jet fuel and liquefied petroleum. During 2011, the domestic consumption of oil derivatives was 63.4 million barrels, which represents an increase of 14.6% compared to 2010. It is important to note, however, that Ecuadorian refineries do not produce sufficient oil derivatives to meet internal demand. Accordingly, Ecuador is a net importer of oil derivatives, even though it is a net exporter of crude oil.

In February 2013, Petroecuador announced that the Esmeraldas Refinery will be undergoing a project of preventative maintenance, which will result in reduced operations until year end 2015, when all maintenance will be completed. The cost of the project, contracted with the South Korean firm SK Engineering, is approximately U.S.\$760 million. It is expected that the overhaul of the Esmeraldas refinery and its reduced production will require Ecuador to import an additional U.S.\$400 million in oil derivatives until the completion of the project. It is expected that the project will improve the efficiency of the Esmeraldas refinery.

As of the current date, there is no private sector participation in the production of oil derivatives. However, on July 15, 2008, Petroecuador and Petr leos de Venezuela Ecuador, S.A. ("PDVSA Ecuador") formed a new entity called *Refiner a del Pac fico Eloy Alfaro Compa  a de Econom a Mixta* ("RDP") in which Petroecuador is currently the majority shareholder (51%) and PDVSA Ecuador is the minority shareholder (49%). RDP will develop a refinery project with the same name to be built in the municipality of Manta, Manab  Province, with a total nameplate capacity of 300,000 bpd. The project will have two phases. Phase I will result in a refining capacity of 200,000 barrel per stream day ("bpsd"), while phase II will increase refining capacity by an additional 100,000 bpsd. It is expected that RDP will produce gasoline, diesel, heavy and medium crude, and LPG. The land rights and environmental licenses necessary to develop RDP have already been obtained, and a detailed feasibility study of phase 1 of the project is complete. The total estimated investment for phase 1 of RDP is approximately U.S.\$10,000 million. Negotiations are ongoing with Industrial and Commercial Bank of China Limited to provide financing for 70% of the costs of development of phase 1 of this project. Construction has commenced and the project is expected to be completed by year-end 2018.

#### *Domestic Fuel Distribution*

In 1993, the Government implemented a free market in domestic fuel distribution, which has led to a rapid modernization of distribution facilities. The price at which gasoline is sold to domestic distributors is fixed by the President in accordance with the Hydrocarbons Law, and set according to variables such as domestic demand and the impact of the price on public finances. Until 1998, the Government had fixed the maximum profit level for distributors at 18%. In 1999, the fixed margin was eliminated. In early 2000, the Government reinstated a 15% fixed margin for regular gasoline and diesel fuels (distributors remained free to set any margin for premium gasoline). Since 2003, the fixed margin has been determined in cents per gallon. In 2005, the margin increased to U.S.\$0.71 per gallon of regular gasoline and to U.S.\$0.137 per gallon of diesel. These margins were set by Presidential decree number 73 ("Decree 73"), which was issued in August 2005. Any future change to the profit margin would require a new Presidential decree.

Decree 73 also regulates the sales price of consumer petroleum derivatives, thereby creating consumer subsidies for gasoline and diesel products. The price of gasoline sold to consumers is fixed at U.S.\$1.68 per gallon for gasoline and at U.S.\$0.80 per gallon for diesel. The amount of the subsidy is thereby determined by the differential price between this fixed price of crude oil and the spot price of West Texas Intermediate ("WTI"), as determined by the New York Mercantile Exchange ("NYMEX").

Several private multinational petroleum companies, including ExxonMobil and PDVSA Ecuador, have established service stations in Ecuador. As of December 31, 2013, Petroecuador maintains a network of 46 service stations of its own and 200 affiliate stations.

### *Natural and Liquefied Petroleum Gas*

An important part of Petroecuador's commercial strategy includes the distribution of natural gas to southern Ecuador in order to reduce the consumption of LPG, the replacement of gasoline use with LPG for taxis and the creation of a network of service stations in order to compete in quality, service and price with private oil companies. Ecuador has 5.8 billion cubic meters of natural gas reserves, which it expects will be sufficient to meet internal demand for the next 20 years. Senior management at the natural gas unit of Petroecuador have prepared an investment plan of U.S.\$200 million over 3 years to increase the current production of 35 million cubic feet and extract new reserves.

Since 2010, the natural gas platform at the Amistad field which was previously operated by the U.S. Company Energy Development Corp. Ecuador Ltd. ("EDC") has been managed by Petroecuador, as a result of EDC failing to reach a contractual agreement with the Government. In 2012, Petroecuador announced the discovery of approximately 28.3 billion cubic meters of natural gas in block 6 of the Amistad field in the gulf of Guayaquil. In 2013, the creation of four new wells and exploration drilling in this block led to increased production from 35 cubic meters per day to 60 cubic meters per day.

In 2010, Spanish company Ros Roca Indox Cryoenergy began construction of a natural gas storage and distribution plant. The plant is due for completion in December 2014. In 2011, Ros Roca Indox Cryoenergy and Spanish company *Actividades de Construcción y Servicios S.A.* ("ACS") through their subsidiaries SEMI-MAESSA and Tesca Ingeniería del Ecuador S.A. were awarded a project to construct natural gas supply distribution infrastructure in Ecuador. The project will consist of the construction of natural gas and liquid nitrogen reception and storage stations and pipe networks to distribute natural gas. The total cost of the project is estimated to be U.S.\$49.3 million and will have the capacity to process 200 tons per day.

In August 2013, Petroecuador began tests at the Monteverde LPG terminal. The terminal is a new facility, built as part of a combined LPG storage, transport and distribution project in the Guayas and Santa Elena provinces. Ecuador has invested U.S.\$550 million in the combined project, which also includes the Monteverde-El Chorrillo pipeline. This new terminal replaced the floating LPG storage units and related maritime transport to Tres Bocas terminal, thereby generating expected annual savings of U.S.\$40 million and easing congestion in the access canal to the Port of Guayaquil. The new facilities, which became operational in 2014, have a capacity to store 76,700 tons of LPG and have storage tanks for diesel and petroleum.

### **Mining**

The mining sector represents an important source of potential resources for the development of the Republic. According to studies conducted by MICSE, Ecuador has potential mineral reserves of 47.7 million pounds of copper, valued at U.S.\$165.4 billion, potential gold reserves valued at U.S.\$45.5 billion, molybdenum reserves valued at U.S.\$15.2 billion, and silver reserves valued at U.S.\$3.5 billion. In total, the nation has estimated reserves valued at U.S.\$229.6 billion.

The Mining Law establishes norms for the exercise of the Government's rights to manage and control the mining sector, in accordance with the principles of sustainability, precaution, prevention and efficiency. It provides that it is the Government's responsibility to oversee all aspects of the mining process, such as exploration, development, industrialization and marketing and authorizes the Republic to invest directly or through joint ventures with domestic or foreign private sector entities. In addition, it authorizes the Republic to both hire and grant licenses and concessions to wholly owned private entities to conduct all phases of development. However, the Republic cannot grant ownership rights in the soil and subsoil mineralogical wealth to entities that are not controlled by state entities.

The mining sector represents a small portion of GDP (0.26% in 2013, 0.24% in 2012, 2011, and 2010 and 0.33% in 2009). In 2013, most production from mining was generated by domestic artisan and jeweler businesses. However, Ecuador expects mining exports to increase as a result of an expansion of the nation's mining projects. Currently, there are five projects in advanced stages of completion – two copper mines and three gold mines. Project Mirador is the largest copper project in Ecuador. The copper mine in the Zamora Chinchipe province is expected to begin production in 2015. Project Mirador is financed in part through a U.S.\$2,040 million concession

to Ecuacorriente S.A., joint-venture owned by the Chinese companies China Railway Construction Corporation (CRCC) and Tongling Nonferrous Metals Group. Investment in the project will be made by Ecuacorriente S.A. over a 15-year period, with 50% of the amount coming in the first seven years. The Government estimates that the project will produce 354,000 tons of copper annually for the Government over the course of 25 years. Other projects, mostly in the south of the country, are in different stages of negotiation and completion.

In 2008, Ecuador granted a concession in the Fruta del Norte gold mine to Kinross Gold Corporation, a Canadian company. After two years of negotiation, Kinross withdrew from the project.

### **Electricity and Water**

Currently, hydroelectric plants supply 42.5% of the power in Ecuador. By 2016, the Government predicts that hydroelectric plants will generate 93% of the power in Ecuador. This is expected to be achieved through the development of a matrix of hydroelectric plants built throughout Ecuador. Ecuador's objective in developing this matrix is to reduce its consumption of oil through oil based generators, thereby decreasing oil imports and improving energy independence. Ecuador also plans to replace household oil-based consumption (for cooking and heating as further described below) with electricity-based consumption through the hydroelectric power grid, thereby eliminating the need for a gas subsidy. The elimination of the subsidy is planned for 2017, immediately after the completion of Ecuador's largest hydroelectric plant project: the Coca Codo Sinclair plant.

The 1,500 MW Coca Codo Sinclair plant, which is expected to become operational in 2016, will be Ecuador's largest hydroelectric project. It is expected to generate an average of 8.63GWh per year and supply approximately 44% of the country's electricity needs. It is also set to reduce 4.5 million tons of carbon emissions per year and replace oil energy consumption for domestic purposes such as cooking and water heating. The plant will join the existing infrastructure of hydroelectric plants that include the 160 MW Mazar plant in the Azuay province, the 1,075 MW Paute-Molino plant near Cuenca, the 275 MW Minas San Francisco plant, the 50 MW Quijos plant, and the Sopladora and Cardenillo plants planned along the Paute River. Many of these hydroelectric projects are financed through agreements with bilateral lenders, including the Export-Import Bank of China, which has provided U.S.\$1,700 million to finance the Coca Codo Sinclair project, U.S.\$571 million to finance the Sopladora hydroelectric project and U.S.\$313 million to finance the Minas San Francisco hydroelectric project, the Brazilian National Economic and Social Development Bank which has provided U.S.\$90.2 million to finance the Manduriacu hydroelectric power plant project near Quito, and Societe Generale and Deutsche Bank which in April 2014 committed to together provide an additional U.S.\$50 million to finance the Manduriacu hydroelectric power plant.

The construction of these hydroelectric plants is due to an enhanced effort by the Government to invest in the sector. In 2013, the Government invested U.S.\$1,647 million in the electricity sector, a 396% increase from 2009, where the Government invested U.S.\$331.8 million in the sector.

In March 2014, President Correa announced a new program to substitute electricity use for gas use. Under this program, beginning in 2015, the Government will begin to sell subsidized stoves to replace gas stoves. While still in planning stages, President Correa has stated that the use of electric stoves will enable the Government to terminate the gas subsidies in 2017 and the net effect on the Government budget will be positive due to the elimination of the subsidies, with savings of approximately U.S.\$ 800 million a year.

The Government has also increased investment in the water sector in order to alleviate flood conditions and access to potable water in various parts of the country. Ecuador's national water authority, Senagua, currently has invested U.S.\$688 million out of a planned U.S.\$2,100 million for six multi-purpose projects to improve flood control and irrigation. In 2013, investment in water projects reached U.S.\$526 million, an increase of U.S.\$487 million from 2009, where investment totaled U.S.\$39 million. One of the most important projects in the water sector is the Multipropósito Chone project in the Manabí province. Financed by the Government and private partners, the U.S.\$20.3 million project sets out to construct a dam to alleviate the flood conditions of the region. The project will also construct a drain system, which will serve for irrigation purposes and provide a drinking water supply for Manabí.

Other water projects include: (i) the Cañar Naranjal project, which is expected to cost U.S.\$233 million to protect approximately 37,000 hectares along the Cañar River and its adjoining streams through a system of levees, including a 12-kilometer bypass, (ii) four new bridges, (iii) a flood regulatory system and (iv) the U.S.\$200 million Daule-Vinces project that is expected to redirect water from the Daule River and transport it along a 70 kilometer canal to dry farmlands.

These flood control projects will reduce the social and economic damage caused by floods in the winter season, allowing the Government to reallocate resources previously used to repair the damage to other projects. To repair the damage, the Government spent substantial resources to mitigate damages caused by floods (U.S.\$312 million in 2012 and U.S.\$415 million in 2013).

In 2013, the electric and water sectors contributed a total of U.S.\$1,104 million to GDP. Since 2009, the sectors represent an average of approximately 1% of GDP per year.

### **Telecommunications**

In 2007, only 2% of the Ecuadorian population was connected to the Internet. Under President Correa's administration the percentage has increased to 29% in 2013. Similarly, while only 27 of Ecuador's 221 municipalities had access to the national fiber optic network in 2007, this number increased to 149 by 2012.

In 2009, the telecommunications sector accounted for U.S.\$1,554 million of GDP. This amount steadily increased, and in 2013, the telecommunication sector accounted for U.S.\$2,111 million of GDP. Throughout this five-year term, the telecommunications sector represented an average of approximately 2.34% of GDP per year. In 2013, the Government invested U.S.\$640 million in the sector.

In 2008, Ecuador granted Spain's Telefónica (currently operating in Ecuador as "Movistar") and Mexico's América Móvil (currently operating in Ecuador as "Claro") fifteen-year concession contracts to provide the country with telephone and 3G services. The concessions are extensions of previous agreements both companies had with Ecuador and are expected to generate U.S.\$840 million in revenues for Ecuador over the course of the term of the concessions.

### **Other Sectors of the Economy**

#### **Agriculture**

Before the discovery of petroleum fields in provinces of the Orient region in the 1970's, the agriculture sector had traditionally been the largest contributor to Ecuador's GDP. Of Ecuador's total 27.1 million hectares, 7.8 million are devoted to agriculture and livestock. Ecuador's diverse climatic conditions, varying altitudes and rich volcanic soil are well suited to tropical and subtropical agriculture. Ecuador's primary products from this sector, which are also the nation's most significant non-oil export, are bananas. According to data from the Food and Agricultural Organization of the United Nations ("FAO"), Ecuador has represented approximately 25% to 30% of banana world exports for the ten years ending in December 31, 2013. Ecuador also exports significant amounts of coffee, flowers, and cacao. The agricultural sector constituted an average of 8.34% of GDP per year for the years 2009 through 2013.

Between 2009 and 2013, the volume of Ecuador's banana exports increased by 18.8%. In 2012, the value of Ecuador's banana exports decreased by 7.5%, primarily as a result of difficult growing conditions for that year. However, the value of these exports increased by 14.3% in 2013 when growing conditions returned to normal.

Ecuador also exports significant amounts of cacao. Cacao exports were U.S.\$343 million, U.S.\$350 million, and U.S.\$474 million in 2009, 2010, and 2011, respectively. In 2012 the value of cacao exports decreased to U.S.\$345 million due to difficult growing conditions for that year. However, exports increased to U.S.\$427 million in 2013 when growing conditions returned to normal.

Flowers and flower products are among one of the newest, but fastest growing exports for Ecuador. In 2013, flower exports reached U.S.\$837 million, or 3.4% of Ecuador's total exports. This amount represents a steady

increase in flower exports, which were U.S.\$547 million in 2009, U.S.\$608 million in 2010, U.S.\$676 million in 2011, and U.S.\$714 million in 2012.

### **Fishing**

Another important aspect of Ecuador's agriculture is its fishing exports. Ecuador exports significant amount of tuna and other fish, but its predominant fishing export is shrimp. Ecuador is the largest shrimp producer in the Americas, and one of the largest shrimp producers in the world. According to the FAO, over the ten years ending December 31, 2013, Ecuadorian shrimp exports have represented approximately 2% of worldwide shrimp exports. The amount of shrimp exports steadily rose in the period from 2009 to 2013, growing from U.S.\$664 million in 2009 and reaching U.S.\$1,789 million in 2013. Fishing exports, other than shrimp, grew from U.S.\$235 million in 2009 to U.S.\$265 million in 2013.

### **Manufacturing**

Manufacturing, excluding petroleum products, is dominated by consumer products such as food, beverages, textiles and paper, with a concentration of imported intermediate and capital goods. The manufacturing sector contributed 12.3%, 12.4%, 12.1%, 11.9%, and 11.9% to the GDP, per year for the years 2009, 2010, 2011, 2012, and 2013, respectively.

Ecuador's main manufactured, non-petroleum exports are canned seafood, automobile assembly, processed cocoa, and processed coffee. The manufacturing sector has grown an average of 12.11% between 2009 and 2013. During 2009, 2010, 2011 and 2012, manufacturing grew by 3.4%, 11.7%, 12.3% and 7.9%, respectively. In 2013 manufacturing grew by 6.9%, reaching U.S.\$11,138 million. According to reports from the Central Bank, 2011 saw an increase in the amount of credit extended towards manufacturing activities. This led to a substantial growth in the sector, particularly in the production of dairy products, wheat products, beverages, and the processing and conservation of meat, among others, which contributed to the 12.3% increase in that year.

Ecuador's membership in international trade organizations and its status as a party to various multilateral agreements such as ALADI, CELAC, and the Community of Andean Nations have contributed to the opening of new markets for the sale of Ecuadorian goods abroad and challenged domestic manufacturers to operate more competitively.

### **Construction**

The construction sector accounted for 11.43% of GDP in 2013, 11.24% in 2012, and 10.46% in 2011. In 2013, construction activity continued to increase, growing by 9.0%, compared to 17.8% in 2012 and 27.2% in 2011. In 2013, approximately U.S.\$1,023 million worth of raw materials used for construction were imported, an increase from 2012 when U.S.\$968 million worth of raw materials used for construction were imported. The steady increase in construction and the large percentage of GDP that it represents is a result of the construction activity in connection with the nation's infrastructure projects, particularly the development of new oil fields, and the hydroelectric and flood control projects of the past 5 years.

### **Science and Technology**

The Government has begun development of a very large education and research center north of Quito, known as "Yachay-the City of Knowledge" ("Yachay"). Construction of Yachay began in 2012 and is expected to be completed in 2028. It is an 18-square-mile planned community that is expected to house a large university and a dozen technology and innovation parks. The university opened its doors to 187 enrolled students in April 2014.

The goal of Yachay is to create a culture of scientific research in Ecuador and promote a long-term state-of-the-art site for technological research. Developers have mentioned that there will be an emphasis on nanotechnology, but add that Yachay will be multi-disciplinary. Long term goals include the development of knowledge based products to diversify the Ecuadorian economy and the development of new technologies for the country's well-being. Ecuador estimates that it will spend U.S.\$20,000 million over the course of 16 years to complete the project.

## **Tourism**

Ecuador's tourism industry has steadily grown over the past five years. In 2009, 968,499 tourists visited the country. The figure increased to 1.04 million in 2010 and to 1.14 million in 2011. In 2012, 1.27 million tourists travelled to Ecuador, representing an 11% increase from 2011. In 2013, 1.36 million tourists travelled to Ecuador, representing a 7% increase. The largest population of tourists came from Colombia, followed by the United States, and then Peru. There are also a significant number of U.S. expatriates and retirees who currently reside in the country.

The steady increase over the last five years in tourism is in large part due to promotional campaigns instituted by the Ministry of Tourism. In 2010, the "Ecuador loves life" campaign was launched in England, Germany, France and the United States. A second campaign, the "I discovered" campaign, was launched in 2011, and a third campaign, the "All you need is Ecuador" campaign, was launched in 2014. Since 2007, marketing investment in tourism has totaled U.S.\$145 million. The Ministry also provides financing and logistics advice to local businesses that cater to tourists such as tours and adventure companies.

## **Transportation**

In 2013, the Government invested a total of U.S.\$1,650 million in roads and highways, an increase of 25.2% from the previous year, where total investment was U.S.\$1,234 million. The most significant road projects in Ecuador are the Manta (Ecuador)-Manaus (Brazil) road network, linking the Pacific Ocean with the Atlantic and the Troncal-Amazonica road, which runs from north to south, linking the Colombian and Peruvian borders. These projects are expected to be completed by year-end 2014. Both projects are not toll roads and were financed by oil revenues and financing from CAF.

The 2014 budget allocates U.S.\$1.4 billion for all Government transportation projects including airport, road, and various municipal construction and maintenance projects. Two recent significant projects have recently been financed along with the municipality of Quito. In February of 2013, a new international airport opened in the suburbs of Quito. The airport cost U.S.\$700 million and was financed by Quiport S.A., an international consortium led by AECON Construction Group and HAS Development Corporation. The new airport features the largest control tower and the longest runway of any international airport in Latin America. Phase 2 of the airport, which includes the expansion of the passenger terminal, new jet bridges, and the expansion of the shopping areas will cost US\$70.5 million and will also be financed by Quiport S.A. Construction on phase 2 is expected to be completed by December 2014. The constructions of a new bridge and roads to reduce the congestion of the single bridge and highway that currently lead to the airport have also been announced. Construction of a subway system in Quito based on the Metro of Madrid has been underway since 2012. This metro system is expected to connect the northern business and resident areas of Quito to Quito's historic city center. The project is budgeted to cost U.S.\$1,680 million through completion and is expected to commence operations in 2016. This project was financed, in part, by a U.S.\$205 million loan from the World Bank, a U.S.\$259 million loan from the European Investment bank, a U.S.\$200 million loan from the Inter-American Development Bank ("IDB") and a U.S.\$200 million loan from CAF. In July 2013, the municipality of Cuenca began construction on the *Tranvía Cuatro Ríos*, a 14-kilometer tram system with 20 stations. The project is planned to connect the airport and city-center to the outlying suburbs of the city. The project is estimated to cost U.S.\$232 million and was financed, in part, by a 15 year loan executed in January 2013, pursuant to the French government's Emerging Country Reserve Loan program.

## **Employment and Wages**

The National Council on Wages sets the minimum wage for workers in the private sector on an annual basis. The monthly minimum wage for a job in the private sector has increased from U.S.\$218 as of December 31, 2009 to U.S.\$318 as of December 31, 2013. Public sector employee wages are based on the wage scale determined by the *Ministerio de Relaciones Laborales* ("Ministry of Labor Relations"). The following table shows the increase in minimum wage from 2009 to 2013.

**Monthly Minimum Wage <sup>(1)</sup>**  
(in U.S.\$)

For the year ended December 31,				
2009	2010	2011	2012	2013
218	240	264	292	318

Source: Ministry of Labor Relations

(1) Minimum wages set in the beginning of each year

Private employee salaries received a boost with the introduction of the "Living Wage" into the Labor Law. Enacted in December 2010, this law dictates that any company that generates a profit shall distribute it amongst its employees until their total income has risen to the level of the living wage. The value of the living wage is determined annually by INEC on the basis of the cost of living and the number of family members in each family unit.

The following table shows certain labor force and employment data for the five years ended December 31, 2013:

**Labor Force and Employment**  
(in thousands of persons, except percentages)

	For the year ended December 31,				
	2009	2010	2011	2012	2013
Total Population .....	14,768	15,012	15,266	15,520	15,775
Labor Force <sup>(1)</sup> .....	10,033	10,292	10,533	10,864	11,200
Labor Force Participation <sup>(2)</sup> .....	6,549	6,436	6,582	6,701	6,953
Labor Force Participation Rate .....	65.28%	62.54%	62.49%	61.68%	62.08%
Employed Labor Force .....	6,125	6,113	6,305	6,425	6,664
Unemployed Labor Force .....	424	323	277	276	289
Unemployment Rate <sup>(3)</sup> .....	6.47%	5.02%	4.21%	4.12%	4.15%

Source: Based on figures from INEC as of December 2013

(1) Refers to population above minimum working age (15 years old), whether or not they are willing to work

(2) Also referred to as economically active population

(3) As a percentage of economically active population

In 2009, in order to reduce unemployment, the Ministry of Labor Relations established the *Red Socio Empleo* ("Employment Partner Network"), a government agency designed to assist with employment searches and provide educational opportunities abroad for future work in Ecuador. The agency provides scholarships and allows individuals looking for work to post resumes, create their own web pages, and schedule interviews with potential employers online.

From 2009 to 2013, the unemployment rate decreased by 2.32 percentage points. Between 2009 and 2010, unemployment decreased from 6.47% to 5.02% as a result of Ecuador's recovery from the global economic recession. Underemployment, or individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, decreased from 59.40% to 56.23% during this time as well. During 2011 and 2012 unemployment decreased to 4.21% and 4.12% respectively and in 2013, unemployment slightly increased to 4.15%.

The rate of individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage, or underemployment, also steadily decreased from 56.23%, 54.26%, and 50.90% and, in 2010, 2011, and 2012, respectively. The underemployment rate slightly increased in 2013 to 52.49%.

The sectors that registered the greatest reduction in employment during the five year period from 2009 to 2013 were the trade and repair of vehicles with 2.56%, and telecommunications with 0.60%. The labor force



participation rate of the Ecuadorian economy decreased by an aggregate of 3.19%, from 2009 to 2013 while underemployment and unemployment decreased by 2.32% and 6.91%, respectively.

The following table sets forth information regarding the unemployment and underemployment rates, and real minimum wages as of December 31 for each year indicated:

### Wages and Unemployment

	For the year ended December 31,				
	2009	2010	2011	2012	2013
Unemployment rate (% of economically active population) <sup>(1)</sup>	6.47	5.02	4.21	4.12	4.15
Underemployment rate (% of economically active population) <sup>(2)</sup>	59.40	56.23	54.26	50.90	52.49

Source: Based on figures from INEC as of December 2013

- (1) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work) as a percentage of the total labor force
- (2) Refers to individuals who are unable to obtain full-time work to receive a salary meeting the official minimum wage

### Average Wages by Economic Sector (Monthly) <sup>(1)</sup>

(in U.S. dollars)

	Average Wage	Oil and Mining	Agriculture	Services (water and electric) (in U.S. dollars)	Manufacturing	Tourism (hotels and restaurants)
2009 .....	230.99	219.66	222.43	313.91	202.34	206.75
2010 .....	258.35	320.61	227.88	339.06	222.75	233.64
2011 .....	295.70	340.81	263.30	424.05	247.28	326.86
2012 .....	345.50	479.73	302.90	493.10	282.78	372.86
2013 .....	374.90	510.80	334.03	551.21	313.80	398.24

Source: Based on figures from INEC

- (1) These figures include mixed income (wage and non-wage income) by economic sector per month as of December 31 of each year indicated. Methodology to compute the data is based on all wages earned by individuals in a month. For the purposes of this data, there is no distinction made between full-time and part-time workers.

### Poverty

In recent years, Ecuador has seen decreases in levels of urban and rural poverty. The urban poverty rate decreased from 25% to 17.6% between 2009 and 2013, while the rural poverty rate decreased from 57.5% to 42.0% across the same time frame. As of December 2013, about a quarter of all Ecuadorian households lived in poverty. Extreme poverty rates have also decreased, from 8.2% of all urban households in 2009 to only 4.4% of all urban households in 2013 and from 29.3% of all rural households in 2009 to 17.4% of all rural households in 2013. At the same time, the total extreme poverty rate decreased from 15.4% in 2008 to 8.6% in 2013.

The Republic believes this decrease in poverty is partially the result, in part, of a significant expansion of the *bono de desarrollo humano* ("BDH"), a cash transfer program for those in the lower 40% of income distribution who are either mothers of children under the age of 16, above the age of 65, or disabled. Currently, the BDH transfers U.S.\$50 a month to qualifying individuals.

The following table shows the percentage of households in poverty between 2009 and 2013.

### Percentage of Households in Poverty

	Poverty Based on Income <sup>(1)</sup>			Extreme Poverty Based on Income <sup>(2)</sup>			Poverty Based on Lack of Basic Necessities <sup>(3)</sup>		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
2009.....	25.0	57.5	36.0	8.2	29.3	15.4	29.9	74.6	44.9
2010.....	22.5	53.0	32.8	7.0	25.1	13.1	26.4	72.2	41.8
2011.....	17.4	50.9	28.6	5.0	24.6	11.6	22.1	73.7	39.4
2012.....	16.1	49.1	27.3	5.0	23.3	11.2	20.1	70.3	37.0
2013.....	17.6	42.0	25.6	4.4	17.4	8.6	25.7	65.7	38.7

Source: Based on figures from INEC as of December 2013.

(1) Persons whose income is below the poverty line. As of December 2013, the poverty line, as determined by Ecuador, is US\$78.10/month, per person.

(2) As of December 2013, the extreme poverty line is US\$44.02/month per person.

(3) This number is based on information taken at the census regarding the lack of availability of basic necessities. Variables considered in this figure include literacy rates and access to potable water, sewage systems and hygienic services, electricity, running water, telephone lines, doctors and hospital beds per 1000 persons.

### Social Security

The social security system in Ecuador is administered by the *Instituto Ecuatoriano de Seguridad Social* (the Ecuadorian Social Security Institute or "IESS"), as well as by the *Instituto de Seguridad Social de las Fuerzas Armadas* and the *Instituto de Seguridad Social de la Policía Nacional* (the Social Security programs of the Armed Forces or "ISSFA" and the Ecuadorian Police Department or "ISSPOL", respectively). The Ecuadorian Social Security System is a trans-generational model where the current work force funds the benefits of those who are no longer in the work force and permits retirees to also make on-going contributions to their retirement fund.

Social security benefits are a constitutional right for all workers and their families, designed to protect the insured in case of illness, maternity, unemployment, disability, old age and death. The social security system also provides financing for workers' housing. Ecuador's social security system is financed by contributions from the Government, employers and employees. The level of employee contribution is based on an employee's income. The monthly pension is based on a percentage of the insured's average monthly earnings in his or her five highest years of earnings. The minimum monthly pension is U.S.\$132.

Retirees benefit from the IESS system once they have left employment. As of December 2013, IESS, ISSFA and ISSPOL had 2.84 million beneficiaries, of whom 79% worked in the private sector, 19% worked in the public sector, and 2% are included as voluntary beneficiaries. Between 2009 and 2013, the total number of beneficiaries increased at an average annual rate of 12.8%. In 2013, IESS collected approximately U.S.\$ 6,819 million in social security contributions. Of this amount, 66.4% of all contributions came from the private sector and 31.6% came from the public sector. To increase efficiency, IESS has increasingly collected contributions through electronic means. In 2013, approximately 99.66% of all contributions were collected electronically, compared to 99.63% in 2012.

Under Article 372 of the 2008 Constitution, the *Banco del Instituto Ecuatoriano de Seguridad Social* (the Social Security Institute Bank of Ecuador or "BIESS") is responsible for channeling investments and managing public pension funds. Resolution JB-2009-1406 enacted in July 2009 sets the parameters for the types of investments allowed. Investments in real estate are only allowed in the long term (over five years), investments in trusts are not allowed in the short term (less than 3 years), and investments in public sector securities cannot exceed 75% of the market value of the fund. A risk committee must approve all investments. Investments must be rated by an approved rating agency, and no investment may be rated lower than specific thresholds set for that type of investment, as determined by the risk committee. As of April 2014, BIESS is the largest holder of Government securities, with 44.25% of its portfolio investment, or U.S.\$5,288 million, in Government holdings.

The primary functions of the BIESS are, among others, the provision of different financial services such as mortgages, pledge-backed loans and unsecured credits. Additional services include portfolio re-discount operations for financial institutions and other financial services in favor of retirees and other affiliates of the IESS by means of direct operations or through the national financial system. Additional bank functions are investment in infrastructure projects that generate financial profitability, added value and new sources of employment, as well as investments in fixed and variable income securities through the primary and secondary markets.

## **Education**

In 2011, the Government implemented the *Ley Orgánica de Educación Intercultural* (the "Intercultural Education Law"). The law created a standardized curriculum for all high schools, consolidated school systems to eliminate single-teacher schools, created a stringent evaluation system for teachers and schools, and launched a nation-wide literacy program. Under the reform, students were to receive free medical attention, school lunches, and uniforms.

The 2014 annual budget allocated U.S.\$4.9 billion for Government education and education initiatives. Education initiatives include the continued construction of Yachay (See "The Ecuadorian Economy – Other Sectors of the Economy – Science and Technology"), the use of outside consultants to improve English education, the granting of scholarships to exceptional students for study in elite foreign universities, the inspection of Ecuador's universities to ensure that they met a high standard quality, and various other projects administered by individual municipalities.

Education is mandatory in Ecuador until the age of 14. The literacy rate for adults over fifteen years of age was 93.3% in 2013, and has been above 90% for the ten-year period ending in 2013.

## **Health**

The 2014 annual budget allocated U.S.\$2.4 billion for Ecuador's health sector. Recent reforms include a mandatory increase in hours and pay for medical professionals, and the creation of mobile clinics intended to ensure vaccinations in the most remote areas of the country. The Government has also signed various agreements with private companies to produce generic drugs in the country.

## **LEGAL PROCEEDINGS**

The Republic is involved in certain litigation and administrative arbitration proceedings described below. The proceedings described below are conducted pursuant to the mandatory arbitration provisions contained in the US-Ecuador Bilateral Investment Treaty and the Canada-Ecuador Bilateral Investment Treaty, as applicable. These treaties aim to protect investors of both nations in the other country. Please note that all of the proceedings mentioned below are currently being disputed by Ecuador. An unfavorable resolution of some of these proceedings could have a material adverse effect on the Republic.

### **Occidental - Breach of Contract Claim**

In May 1999, Petroecuador and Occidental entered into a participation agreement for the exploration and exploitation of hydrocarbons in Block 15, in the Oriente region. On September 16, 2004, Petroecuador sent Occidental a notice of breach alleging various grounds for forfeiture of the participation agreement, including the unauthorized assignment of 40% of Occidental's rights and obligations thereunder to Canadian oil company Encana. Block 15 is one of Ecuador's most productive oil fields. In May 2006, the Ministry of Energy and Mines declared the participation agreement with Occidental to be terminated due to its alleged breach of the Hydrocarbons Law. As a result, all of Occidental's assets were transferred to the Republic. In July 2006, Occidental filed a claim before ICSID against Ecuador in an amount of U.S.\$3.3 billion, claiming that the termination of the participation agreement constituted the "equivalent of expropriation," in violation of the US-Ecuador Bilateral Investment Treaty, and that the forfeiture of the participation agreement was litigated for political reasons rather than due to an illegal assignment.

On October 5, 2012, the ICSID arbitral panel issued an arbitral award in favor of Occidental in the amount of U.S.\$1.7 billion, plus interest, but it also found that Occidental's assignment to Encana was made in violation of Ecuadorian law. The arbitral panel based the amount on the full value of the contract, with a reduction of 25% due to such violation. On October 9, 2012, Ecuador filed a petition for a stay of the enforcement of the arbitral award until an annulment procedure could be carried out. The petition was registered with ICSID on October 11, 2012. On January 18, 2013, ICSID appointed an ad hoc panel to resolve the petition for the stay. The first meeting of the panel occurred on March 25, 2013. On May 13, 2013, the panel met to consider a February 13, 2013 petition by Occidental to lift the currently effective stay of the arbitral award. In a September 30, 2013 decision, the panel ratified the stay of the award and held that it should continue unconditionally.

On August 12, 2013, Ecuador submitted its Brief of Annulment. On October 18, 2013, Occidental presented its response, arguing that there was no basis for an annulment. Ecuador presented its reply on January 6, 2014 and Occidental submitted its rejoinder on February 28, 2014. The hearing concerning annulment took place between April 7 and April 10, 2014. The proceedings were concluded on April 10, 2014. The result of the hearing is pending.

### **Chevron**

In 2006, Chevron brought arbitration proceedings against the Republic under the United Nations Commission on International Trade Law ("UNCITRAL") alleging the Republic's breach under certain "denial of justice" provisions under the US-Ecuador Bilateral Investment Treaty. In August 2011, the arbitral tribunal established that Ecuador had breached such treaty and should pay Chevron U.S.\$96 million plus compound interest calculated from September 1, 2011 until the date of payment. The tribunal accepted the position of Ecuador that any amount received by Chevron should be subject to the payment of a tax at a rate of 87.31% (the preliminary arbitral award was approximately U.S.\$700 million) and deducted the tax amount due to Ecuador from the preliminary arbitral award of U.S.\$700 million. Consequently, Ecuador filed a petition to annul the arbitral award before the District Court of The Hague, which was denied on May 2, 2012. Ecuador presented an appeal to the District Court decision, and on May 13, 2013, the Appellate Court of The Hague heard the arguments of the parties on appeal and rejected Ecuador's appeal on June 19, 2013. In September 18, 2013, Ecuador presented an appeal to the Supreme Court of the Netherlands which held hearings on February 14, 2014. The result of the hearing is pending.

On July 27, 2012, Chevron filed a claim before the District Court of the District of Columbia (Washington, DC) seeking recognition and enforcement of the arbitral award. On March 25, 2013, Ecuador filed its brief in opposition with the court, and on April 25, 2013, Chevron filed its response. On June 7, 2013 the District Court confirmed the award in favor of Chevron. Ecuador filed for further appeal on July 1, 2013, to which Chevron filed an opposition brief on August 19, 2013. The results of this appeal are pending. On September 6, 2013, because Ecuador did not have substantial assets in the District of Columbia, Chevron filed a motion to enable it to register the district court award "in any other district" in the United States. Ecuador objected, arguing that Chevron should be permitted to register the award only in "those districts for which Chevron has provided sufficient evidence that Ecuador has substantial assets." In October 29, 2013, the District Court of the District of Columbia granted Chevron's motion to register the award in any other district. To date, Chevron has not registered the award in any other district and the Republic is not aware that Chevron has taken any steps to execute on any assets of the Republic.

On a separate matter, in September 2009, Chevron filed a UNCITRAL arbitration claim against Ecuador for an undetermined amount. The claim seeks indemnification for claims brought by indigenous communities in Lago Agrio, Ecuador, against Chevron for environmental damages. In 2011, an Ecuadorian court ruled in favor of the Lago Agrio community, ordering Chevron to pay U.S.\$19 billion in damages. This amount was reduced to U.S.\$9.5 billion in November 2013. Chevron argues that Ecuador and Petroecuador should be solely responsible for any judgments arising from claims resulting from the Lago Agrio litigation because of "hold harmless" provisions of a 1995 settlement agreement ("1995 Settlement") between Chevron and the Republic and also claims breach of the 1995 Settlement and the US-Ecuador Bilateral Investment Treaty. On the other hand, Ecuador argues that it has not assumed any obligation to indemnify, protect, or defend Chevron from third party claims. On January 25, 2012, the arbitral tribunal issued an interim award that ordered Ecuador to take all available measures to suspend the enforcement or recognition of the claims in the Lago Agrio case in Ecuador and abroad. On February 16, 2012, the tribunal issued a second interim award ordering Chevron to compensate Ecuador for the costs Ecuador incurs in performance of its obligations under the interim awards, and ordered Chevron to post a bond in the amount of U.S.\$50 million to secure payment of the same. The plaintiffs for the Lago Agrio case, in November 2012, obtained the seizure of certain bank accounts of Chevron in Argentina and the seizure of Chevron's interests in its Argentine subsidiaries. On February 7, 2013, the arbitral tribunal resolved that Ecuador has not complied with the decisions from the previous awards, and that each party shall argue whether Ecuador must reimburse Chevron for any expenses related to the enforcement proceedings. A schedule of arbitral hearings on the merits of the claims has been underway and is programmed to take place until May 17, 2015. The arbitration tribunal has divided the merits of the case into three tracks. The first track will decide issues relating to the 1995 Settlement and the obligation of Ecuador to indemnify Chevron from third party claims. The second track will decide issues relating to denial of justice claims by Chevron and the alleged breach of the US-Ecuador Bilateral Investment Treaty. Once tracks 1 and 2 have been decided on the merits, the third track will determine any monetary damages that resulted from the alleged breaches and will assess the monetary value of the environmental damage in the Lago Agrio community. On September 17, 2013 the arbitral tribunal issued a partial track 1 award where it agreed with the Republic in that the 1995 Settlement did not preclude the Lago Agrio plaintiffs from asserting claims "in respect of their own individual rights." According to the arbitration tribunal, the 1995 Settlement bars claims that Ecuador might raise in the exercise of their own rights, but does not bar to claims by third parties acting independently from the state in the exercise of their individual rights. It also held that the 1995 Settlement did not contain an indemnity provision that required the Republic to be held liable for any costs or any judgment rendered against Chevron. However, the arbitral tribunal held that Chevron was a "released party" under the 1995 Settlement. The arbitration tribunal did not decide on the claims of breach of the 1995 Settlement. In response, on January 7, 2014, Ecuador requested the annulment of the September 17, 2013 partial award and of the previous interim awards. A date for a hearing to determine the petition for annulment has not yet been scheduled.

In October of 2013, a provincial court of Ecuador ordered the *Instituto Ecuatoriano de la Propiedad Intelectual* (the "Ecuadorian Institute for Intellectual Property or "IEPI") to place an embargo on 50 trademarks of Chevron in Ecuador as a result of the Ecuadorian verdict against Chevron in the Lago Agrio case. According to IEPI, the embargo was placed in order to guarantee the payment of the verdict amount by redirecting the revenues from the trademarks to Ecuador, as opposed to Chevron.

## **Windfall Profits Tax Litigation**

A number of foreign oil companies have sued Ecuador in connection with the application of Ecuadorian law 42-2006, which levied a 99% tax on the windfall profits of a number of foreign oil companies. For a description of the windfall profits tax, see "The Ecuadorian Economy – Renegotiation of Oilfield Contracts." As a result of the implementation of the windfall profits tax law, Ecuador is a defendant in the following arbitration proceedings:

### *Burlington Resources, Inc.*

Burlington filed an arbitration claim before ICSID on April 2008 against Ecuador, seeking compensation for alleged modifications to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. Burlington argued that such unilateral modification resulted in an expropriation of the blocks that Burlington was operating, although, subsequent to the commencement of the proceedings, Burlington withdrew the contractual claims and based all claims solely on violations of the US-Ecuador Bilateral Investment Treaty. On September 30, 2011, Ecuador filed two counterclaims against Burlington for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On December 14, 2012, the tribunal decided the liability issue in favor of Burlington and consequently, on January 28, 2013, Ecuador submitted a petition for reconsideration. Hearings for the counterclaims took place from June 1 to June 7, 2014 in Paris.

The arbitral tribunal was scheduled to meet for a hearing on damages and Ecuador's counterclaims in August, 2013, but the hearings were suspended due to the request by Ecuador that one of the arbitrators recuse himself from the decision because of a conflict of interest. Burlington presented its assessment of damages memorandum on June 24, 2013, to which Ecuador responded on May 23, 2014. The arbitral tribunal is currently determining the procedural schedule for the assessment of damages.

### *Perenco Ecuador Limited*

On April 30, 2008, Perenco Ecuador Limited ("Perenco") filed an ICSID arbitration claim against Ecuador seeking compensation of U.S.\$440 million plus costs and interest for alleged changes to its contracts for the development of Blocks 7 and 21 in Ecuador imposed by Ecuadorian law 42-2006. The amount of the claim remains subject to adjustment. Perenco argued that law 42-2006 modified the participation of Perenco under contracts for development of Blocks 7 and 21 in Ecuador, in violation of the contracts and the US-Ecuador Bilateral Investment Treaty, and further, that the unilateral modification of the contracts resulted in an expropriation of the blocks that Perenco was operating. On December 5, 2011, Ecuador filed two counterclaims against Perenco for environmental damage and failure to maintain the facilities of Blocks 7 and 21, in an approximate amount of U.S.\$2 billion. On March 13, 2013, the parties presented their respective memoranda to the arbitral tribunal. Hearings took place from September 9 to September 17, 2013. The result of the hearings is pending.

### *Murphy Ecuador Oil Company, Ltd.*

Murphy Ecuador Oil Company, Ltd. ("Murphy") has claimed that law 42-2006 modified its contracts for exploration and production of crude oil in Ecuador, resulting in an expropriation and a violation of the US-Ecuador Bilateral Investment Treaty. Murphy filed its ICSID arbitral claim against Ecuador on September 30, 2011. The amount of the claim has not yet been determined. In November 2013, the arbitral tribunal rejected Ecuador's objection to jurisdiction. Hearings on the merits are scheduled to take place from November 17 through November 21, 2014.

## **William and Roberto Isaías Dassum**

In 2009, Ecuador commenced an action against William and Roberto Isaías, who were the President and Executive Vice-President of Filanbanco S.A, Ecuador's largest bank at the time of its bankruptcy in 2001. Arguing before a U.S. federal court, Ecuador alleged that the defendants embezzled funds and forged financial statements thereby resulting in losses suffered by AGD (defined herein) in the amount of U.S.\$ 661.5 million. On May 30, 2013, the federal court judge granted summary judgment against Ecuador. In August 28, 2013, Ecuador filed for appeal in the U.S. Court of Appeals for the Third Circuit, which accepted the appeal and to which both parties have submitted their briefs. The Third Circuit has not yet set a date for a hearing.

## **Copper Mesa**

Copper Mesa has argued that Ecuador breached the Canada-Ecuador Bilateral Investment Treaty based on the termination of the Junin, Chaucha and Telinbela concessions and has claimed indemnification for no less than U.S.\$120 million. Hearings to determine jurisdiction were held in September 2013. The result of the hearing is pending.

## **Zamora Gold**

On July 7, 2011, Ecuador was notified of an arbitration proceeding for allegedly depriving Zamora Gold of its investments in violation of the Canada-Ecuador Bilateral Investment Treaty. Since then, the plaintiff has not taken further action. The amount of the claim has not yet been determined.

## **RSM Production Corporation**

On May 13, 2010, Ecuador was notified of an arbitration proceeding for allegedly cancelling a mining license held by RSM Production Corporation in violation of the US-Ecuador Bilateral Investment Treaty. Since then, there has not been further action by the plaintiff. The amount of the claim has not yet been determined.

## **Merck Sharp & Dohme**

On February 2, 2011, Merck Sharp & Dohme ("Merck") filed a claim against Ecuador alleging denial of justice for not having provided judicial guarantees in a judgment initiated against Merck by the Ecuadorian company NIFA S.A. (currently PROPHAR, S.A.) in violation of the US-Ecuador Bilateral Investment Treaty. The amount of the claim in the international tribunal has not yet been determined. Hearings have been scheduled to take place from the 3<sup>rd</sup> to the 7<sup>th</sup> of November, 2014.

## **Hutchinson Port Investments Ltd**

In 2012, Ecuador commenced an arbitration proceeding against Hutchinson Port Investments Ltd. ("Hutchinson"), in the *Centro de Arbitraje y Mediación de la Cámara de Comercio de Quito* ("Center for Arbitration and Mediation of Quito Chamber of Commerce") to recover USD\$141 million in damages to the Manta Port Authority. Ecuador alleges that it suffered these damages as a result of Hutchinson's unilateral abandonment of the facilities and other defaults under a concession agreement to operate the port at Manta. Hearings are scheduled to take place from February 9<sup>th</sup> to the 13<sup>th</sup>, 2015 in Panama.

## **Arch Trading Corp.**

On June 26, 2013, Arch Trading Corp. and four other media companies filed a claim against the Republic of Ecuador and two other governmental entities for the alleged seizure of over 200 companies owned by the plaintiffs. The plaintiffs allege that they suffered damages exceeding U.S.\$1 billion dollars and request monetary damages plus interest and attorney's fees. Ecuador was served with notice on March 20, 2014 and is required to file its response with the U.S District Court for the Southern District of New York by June 21, 2014.

## **Petrobras Argentina (Ecuador TLC)**

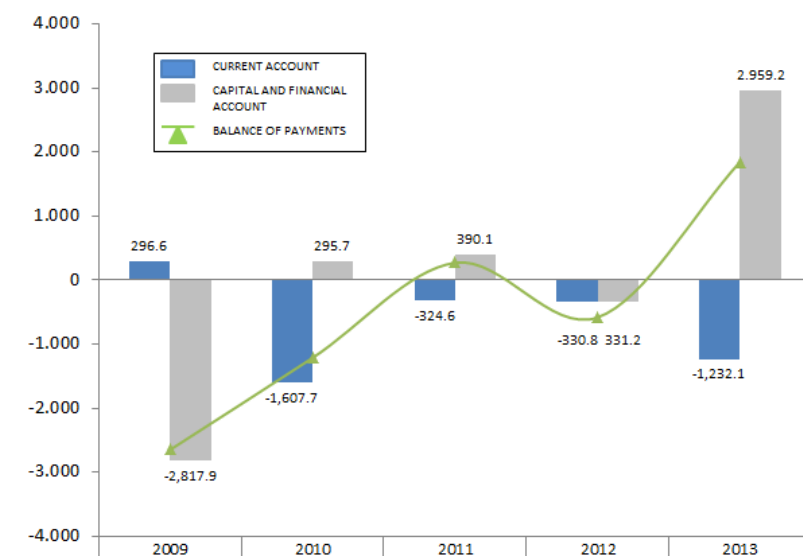
On February 26, 2014, Ecuador TLC, Cayman International, and Teikoku Oil filed a breach of contract arbitration claim against Ecuador. The claim is connection with an oil-field exploration contract that was terminated by Ecuador because the plaintiffs did not agree to the new renegotiated terms. See "The Ecuadorian Economy – Economic and Social Policies – Renegotiation of Oilfield Contracts." The parties have not yet determined the seat of the arbitration or the governing rules. The amount of controversy has also not been determined as it depends on the tribunal's calculations of the damages due to termination.

## BALANCE OF PAYMENTS AND FOREIGN TRADE

### Balance of Payments

Given Ecuador's dollarized economy, the balance of payments is important in determining money supply. A positive balance of payments would increase money supply and a negative balance of payments would decrease money supply. Between 2009 and 2013, Ecuador experienced fluctuations between balance of payment deficits and surpluses. While there were surpluses in 2011 and 2013 there were deficits for each year in 2009, 2010 and 2012. In 2009, there was a balance of payments deficit of U.S.\$2,647.2 million, which was a decrease of U.S.\$3,608.1 million compared to a surplus of U.S.\$933.9 million in 2008. This steep decrease was a result of the global economic crisis, which sharply lowered petroleum exports and decreased remittances and inflows into the country. The increase in the price of petroleum contributed to a recovery in the balance of payments with a U.S.\$1,212.3 million deficit in 2010 and a U.S.\$272 million surplus in 2011. The 2011 surplus represents a 110% increase from the deficit in 2009. In 2012, an increase in Government investment contributed to a deficit of U.S.\$581.9 million.

In 2013, an improvement in the financial account that was the result of an increase in bilateral debt and corresponding loan disbursements contributed to a balance of payments surplus of U.S.\$1,845.9 million. However, the current account deficit of U.S.\$1,232.1 million represents a decrease compared to the U.S.\$ 330.8 million current account deficit registered in 2012. This deficit is the result of an increase in imports, particularly with respect to imported capital goods and raw materials.



Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 3211). Figures from 2009 and 2010 based on 2013 Yearly Bulletin

In the past 5 years, the total balance of payments has heavily depended on petroleum exports. Although non-petroleum exports are increasingly becoming a larger portion of the Republic's GDP, there has been a non-petroleum trade balance deficit for the past five years. Increasing petroleum exports due to the increase in petroleum prices have offset this deficit and resulted in yearly trade balance surpluses or reduced deficits. The past five years have also seen a steady decrease in remittances from U.S.\$2,735.5 million in 2009 to U.S.\$2,591.5 million in 2010, a slight increase to U.S.\$2,672.4 million in 2011, a decrease to U.S.\$2,446.9 million in 2012 and slight increase to U.S.\$2,449.5 million in 2013. These decreases are due to the ongoing crisis in Spain, which represents a third of all remittances to Ecuador, and the global economic crisis that has reduced remittances worldwide. The increase in 2013 was due to the improved economic situation in the United States.

The following table sets forth information regarding the Republic's balance of payments for the periods indicated.



**Balance of Payments**  
(in millions of U.S.\$)

	For the year Ended December 31,				
	2009	2010	2011	2012	2013
	<i>(in millions of U.S. dollars)</i>				
<b>Current Account.....</b>	<b>296.6</b>	<b>-1,607.7</b>	<b>-324.6</b>	<b>-330.8</b>	<b>-1,232.1</b>
<b>Trade balance.....</b>	<b>143.6</b>	<b>-1,504.0</b>	<b>-160.3</b>	<b>37.1</b>	<b>-630.2</b>
Exports (FOB) <sup>(1)</sup> .....	14,412.0	18,137.1	23,082.3	24,568.9	25,700.3
Petroleum and derivatives.....	6,964.6	9,673.2	12,944.9	13,792.0	14,107.7
Non-petroleum.....	6,898.4	7,816.7	9,377.5	9,972.8	10,754.5
Non-registered commerce and other exports.....	548.9	646.7	760.0	804.1	830.2
Imports (FOB) .....	-14,268.4	-19,641.1	-23,242.6	-24,531.8	-26,330.5
<b>Services .....</b>	<b>-1,281.8</b>	<b>-1,522.4</b>	<b>-1,562.7</b>	<b>-1,389.8</b>	<b>-1,472.7</b>
Rendered services (credit) .....	1,336.5	1,472.2	1,587.5	1,808.5	2,057.6
Transportation.....	345.5	359.8	398.9	411.9	424.1
Travel.....	670.1	781.3	843.4	1,032.5	1,246.2
Other.....	320.9	331.1	345.2	364.1	387.3
Rendered services (debit) .....	-2,618.3	-2,994.7	-3,150.2	-3,198.4	-3,530.3
Transportation.....	-1,369.2	-1,716.2	-1,761.7	-1,708.4	-1,779.4
Travel.....	-548.7	-568.1	-593.7	-610.6	-621.4
Other.....	-700.5	-710.4	-794.9	-879.4	-1,129.5
<b>Investment income .....</b>	<b>-1,280.5</b>	<b>-1,039.6</b>	<b>-1,220.2</b>	<b>-1,304.7</b>	<b>-1,406.3</b>
Inflows (credit) .....	199.1	77.7	84.5	105.3	112.7
Outflows (debit) .....	-1,479.6	-1,117.3	-1,304.7	-1,410.0	-1,519.1
Employees' remuneration.....	-6.4	-6.9	-7.6	-8.4	-9.8
Direct investment income .....	-838.2	-546.9	-701.0	-675.7	-652.0
Portfolio investment income .....	-65.5	-64.3	-61.5	-64.0	-63.7
Other.....	-569.5	-499.3	-534.5	-661.8	-793.6
<b>Net transfers.....</b>	<b>2,715.4</b>	<b>2,458.4</b>	<b>2,618.6</b>	<b>2,326.6</b>	<b>2,277.2</b>
Emigrant remittances .....	2,735.5	2,591.5	2,672.4	2,446.9	2,449.5
<b>Capital and financial account .....</b>	<b>-2,817.9</b>	<b>295.7</b>	<b>390.1</b>	<b>-331.2</b>	<b>2,959.2</b>
<b>Capital account .....</b>	<b>76.3</b>	<b>78.8</b>	<b>49.6</b>	<b>72.9</b>	<b>27.7</b>
<b>Financial account .....</b>	<b>-2,894.2</b>	<b>216.9</b>	<b>340.5</b>	<b>-404.1</b>	<b>2,931.5</b>
Direct Investment .....	307.7	163.1	643.6	584.6	702.8
Portfolio Investment .....	-3,141.5	-731.1	41.0	66.7	-909.8
Other Investment .....	-60.5	784.9	-344.1	-1,055.4	3,138.6
<b>Errors and omissions .....</b>	<b>-125.9</b>	<b>99.7</b>	<b>206.5</b>	<b>80.1</b>	<b>118.8</b>
<b>Total balance of payments .....</b>	<b>-2,647.2</b>	<b>-1,212.3</b>	<b>272.0</b>	<b>-581.9</b>	<b>1,845.9</b>
<b>Financing .....</b>	<b>2,647.2</b>	<b>1,212.3</b>	<b>-272.0</b>	<b>581.9</b>	<b>-1,845.9</b>
International Reserves <sup>(2)</sup> .....	681.0	1,170.0	-335.6	475.1	-1,878.0
IMF loans .....	-	-	-	-	-
Exceptional Financing, net <sup>(3)</sup> .....	1,966.2	42.3	63.6	106.8	32.1

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 3211). Figures from 2009 and 2010 based on 2013 Yearly Bulletin

- (1) Figures differ from "Exports-(FOB)" charts and "Real GDP by Expenditure" chart due to the inclusion of non-registered commerce and "other exports." "Non-registered commerce" includes goods, which for some reason are not registered by customs. Ecuadorian customs may not register commerce under various situations including, but not limited to, delays in the submission of export forms, false declarations, different statistical treatment in the country with which Ecuador has engaged in trade, sales of contraband, and arms trade. "Other exports" includes exports of goods for processing, repair of goods, goods acquired in ports through various transportation means and non-monetary gold.
- (2) Data corresponds to changes in International Reserves. Negative numbers indicate an increase in International Reserves and positive numbers indicate a reduction.
- (3) Data refers to the refinancing of existing debt, financing necessary for repayment of arrears, and loans procured for the purpose of financing the balance of payments.

## Current Account

Ecuador recorded a current account surplus of U.S.\$296.6 million in 2009. In 2010, exports declined due to the global economic crisis and imports, with the exception of petroleum imports, increased causing a deficit of U.S.\$1,607.7 million in 2010 and U.S.\$324.6 million in 2011. The 79.8% reduction of the deficit in 2011 was due to the favorable performance of the balance of goods, particularly the increase in oil exports, which increased by 33.8%. In 2012, the oil exports continued to improve due to the increasing price of petroleum. Exports increased by 6.4% in 2012 and contributed to a reduced deficit of U.S.\$330.8 million, a 79.4% reduction with respect to 2010, but a 1.9% increase compared to 2011.

In 2013, the current account reflects a deficit of U.S.\$1,232.1 million, which was partly due to the result of lower services and investment income balances and primarily a result of a decrease in the trade balance due to an increase of imports. The current account deficits were financed by external debt, including Chinese bilateral credits.

Although there has been an increasing level of imports since 2009, the rate of increase has declined over the last 5 years due to the Republic's promotion of domestic production. In 2010, imports increased by 37.7% as compared to the previous year, while the rate declined to 18.3% in 2011, 5.5% in 2012, and 7.3% in 2013.

The trade balance registered a surplus of U.S.\$37.1 million in 2012, an increase from a deficit of U.S.\$160.3 million in 2011. The surplus was due to the increase in petroleum exports coupled with the reduced rate of growth in imports as compared to the previous year. The trade balance registered a deficit of U.S.\$630.2 million in 2013 due to the increase in imports from the previous year.

The services balance registered a deficit of U.S.\$1,389.8 million in 2012, which was a decrease from the deficits of U.S.\$1,562.7 million and U.S.\$1,522.4 million in 2011 and 2010, respectively. Although there has been a negative services balance from 2008 to 2012, increases in travel and transportation services have contributed to a decrease in the deficit. The services balance registered a deficit of U.S.\$1,472.7 million in 2013, which is a U.S.\$82.9 million increase from 2012. This increase was the result of an increase in the amount of services that were contracted to work on domestic infrastructure projects.

The investment income balance registered a deficit of U.S.\$1,406.3 million in 2013, which was an increase from the deficits of U.S.\$1,304.7 million and U.S.\$1,220.2 million in 2012 and 2011, respectively. The increase in the investment income deficit is primarily due to the increased outflows as compared to the previous year and year-to-year fluctuations since 2008 generally reflect trends on returns and investment performance experience throughout the global economy. The portfolio investment income decrease to U.S.\$65.5 million in 2009 is the result of the 2009 tender offer for the 2012 and 2030 Bonds. See "Public Debt—Debt Obligations." The investment income balance registered a deficit of U.S.\$1,406.3 million in 2013, which is an increase of the deficit from 2012. This increase was the result of an increase in interest payments related to the increase in bilateral debt and corresponding loan disbursements.

Remittances, which are primarily denominated in U.S dollars and Euros, are an important source of net transfers to Ecuador's current account. As a result of the global economic crisis, inflows from remittances declined by 11.3% and 5.3% in 2009 and 2010, respectively, with respect to previous periods. In 2011, remittances increased by 3.1%, but in 2012 decreased 8.4% with respect to 2011. In 2013, remittances increased to U.S.\$2,449.5 million as a result of the improved economic situation in the United States. In 2013, the majority of these remittances came from the United States, Spain and Italy with 48.0%, 32.2% and 7.1%, respectively. The year by year fluctuation in

aggregate remittance levels reflect the economic situation of those countries from where the remittances are generated.

### **Capital and Financial Account**

The capital and financial account measures valuations in Ecuador's assets and liabilities against those of the rest of the world (other than valuations from exceptional financings). Ecuador recorded a capital and financial account deficit of U.S.\$2,817.9 million in 2009. This decrease was due to the decrease in worldwide investment as a result of the global economic crisis and the repurchase of the 2012 and 2030 Bonds. See "Public Debt – Debt Obligations." In 2010 and 2011, the capital and financial account showed a surplus of U.S.\$295.7 million and U.S.\$390.1 million, respectively. These surpluses are due to the increase in direct investment explained below. In 2012, the capital and financial account registered a deficit of U.S.\$331.2 million due to the net flows of other investments such as trade credits, currency, and deposits. In 2013, the capital and financial account registered a large surplus of U.S.\$2,959.2 million due to the increase of bilateral investment in Ecuador's infrastructure.

In Ecuador, total direct investment decreased from U.S.\$307.7 million in 2009, to U.S.\$163.1 million in 2010. In 2009, most foreign investment was directed towards mining, transport, and communications. As with other accounts, the decrease in 2010 was due to the effects of the global financial crisis, which carried over from the previous year. After 2010, the heightened uncertainty in the global financial markets as a result of the debt crisis in developed countries generally resulted in increased capital flows into Latin America and resulted in increases in direct investment. Direct investment totaled U.S.\$643.6 million in 2011, a 295% increase with respect to the direct investment in 2010. Direct investment totaled U.S.\$584.6 million in 2012. Although this represents a decrease from 2011, Ecuador experienced an increase in direct investment for 2013, where direct investment totaled U.S.\$702.8 million a 20.2% increase from 2012. This increase was due to continuing investment in Ecuador's infrastructure, in particular, its electricity and water sector.

The investment portfolio showed a deficit of U.S.\$3,141.5 million in 2009, due to the repurchasing of 2012 and 2030 global bonds that year. After a deficit of U.S.\$731.1 million in 2010, the investment portfolio showed a surplus of U.S.\$41.0 million and U.S.\$66.7 million for the years 2011 and 2012, respectively. In 2013, the investment portfolio showed a deficit of U.S.\$909.8 million.

### **International Reserves**

Ecuador's International Reserves (defined herein), includes, among other items, cash in foreign currency, gold reserves, reserves in international institutions, and deposits from Ecuador's financial institutions and non-financial public sector institutions. In 2013, Ecuador's International Reserves totaled U.S.\$4,630.5 million, an increase from 2012, when International Reserves totaled U.S.\$2,482.5 million.

On May 16, 2014 the Central Bank and Goldman Sachs International ("GSI") entered into a 3-year gold transaction in which the Central Bank transferred an initial amount of approximately 465,619 ounces of gold (valued at the date of the transaction at approximately US\$604 million) and in return receives a fixed rate on the value of the gold transferred to GSI. Under this transaction, upon maturity, the Central Bank is entitled to receive the return of the gold from GSI without payment by the Central Bank, provided that certain credit events relating to the Republic do not occur. Upon the occurrence of any applicable credit event, GSI will retain the gold unless the Central Bank pays its dollar value. In the event the price of gold declines and is worth less than U.S.\$470 million, the Central Bank must deliver an additional amount of gold to make up the difference subject to a limit of a total of approximately 697,619 ounces of gold. Accordingly, the Republic's gold reserves could decrease in the event the price of gold declines or a credit event occurs. In certain limited circumstances some gold can be returned to Ecuador if the price increases above a certain threshold.

## Foreign Trade

### *Merchandise and Services Trade*

Ecuador has historically been an exporter of primary goods, and an importer of raw materials, capital, and intermediate goods, as well as manufactured products. The Republic's main exports are relatively limited in terms of sectors and export markets. Two of Ecuador's principal export markets, the United States and the European Union, have been significantly affected by the global recession that started in 2008-2009. In 2011, 2012, and 2013 the United States, the European Union and the Andean Community were the destinations for the majority of Ecuador's exports. Ecuador continues to seek to expand the types of goods it exports as well as its trading partners through engaging with, and obtaining funding from development banks and other strategic initiatives. Since 1972, petroleum and petroleum derivatives have comprised the majority of Ecuadorian export products. According to exports (FOB) data, in 2009, 2010, 2011, 2012, and 2013 exports of petroleum and petroleum derivatives accounted for approximately 48.3%, 53.3%, 56.1%, 56.1%, and 54.9% respectively, of total exports. Between 2009 and 2013, non-petroleum exports, which include, among others, flowers, vehicles, manufactured textile products and seafood, increased an average of 9.7% per year. Ecuador's total export trade has grown steadily during the period between 2009 and 2013, except in 2009, due to the financial crisis. According to exports (FOB) data, in 2013, total exports rose to U.S.\$24,958 million, compared to U.S.\$23,765 million in 2012.

The following table shows the overall balance of trade for the periods indicated:

<b>Overall Balance of Trade <sup>(1)</sup></b>			
(in millions of U.S.\$)			
	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
Year Ended December 31, 2009 .....	14,412.0	14,268.4	143.6
Year Ended December 31, 2010 .....	18,137.1	19,641.1	-1,504.0
Year Ended December 31, 2011 .....	23,082.3	23,242.6	-160.3
Year Ended December 31, 2012 .....	24,568.9	24,531.8	37.1
Year Ended December 31, 2013 .....	25,700.3	26,330.5	-630.2

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 3211)

(1) Data for exports and imports reflect figures from "Balance of Payments" chart

### *Trade Policy*

Ecuador's trade policy has focused on protecting dollarization, avoiding a decrease in the money supply, integrating into the international economy, as well as increasing the access of Ecuadorian goods and services to new markets and, until recently, reducing non-tariff barriers to trade.

Until the late 1980s, Ecuador used tariff barriers to protect its domestic industry against foreign competition. Import duties ranged from zero to 290%, with up to fourteen different rates.

In the early 1990s, the Government began to significantly liberalize its foreign trade policy. As a result of those reforms, the tariff structure was simplified and currently consists of a seven-tiered structure (0%, 3%, 5%, 10%, 15%, 20% and 35%), with levels of 5% for most raw materials and capital goods, 10% or 15% for intermediate goods, and 20% for most consumer goods. A small number of products, including planting seeds, are subject to a tariff rate of zero, and the 35% tariff is exclusively applied to the automobile industry. Average tariff levels were reduced from 29% in 1989 to 6% in 2004.

In January 2009, the Republic, through the *Consejo de Comercio Exterior e Inversiones* ("Foreign Commerce and Investment Council"), imposed tariffs of general applicability on some consumer goods imports, including products imported from countries with which Ecuador has commercial treaties honoring preferential status. Ecuador enforced these tariffs for one year, in order to restore its trade balance.

In 2007, Ecuador introduced an exit tax of 0.5% on any currency leaving the country (the "Currency Outflow Tax"), which was subject to a number of exemptions. Since December 2007, Ecuador has progressively increased the Currency Outflow Tax as a measure to support a positive balance of trade. The tax acts as a

devaluation of the U.S. dollar in Ecuador, thereby making imports more expensive and fostering local production. In December 2007, Ecuador increased the Currency Outflow Tax to 1% and eliminated the applicable exemptions. In December 2009, the Currency Outflow Tax increased from 1% to 2% and included an exemption for the first U.S.\$500 per transaction. In November 2011, the Currency Outflow Tax increased from 2% to 5% and included an exemption for the first U.S.\$1,000 in a 15 day period as long as no debit or credit card is used in the transaction. Payments of external public debt and dividends paid to foreign shareholders are also exempt from this tax.

There have also been measures taken to increase local production, including the creation of the Ministry of Commerce and the enactment of the Production Code, see "The Ecuadorian Economy – Economic and Social Policies – Production Code."

### ***Regional Integration***

Ecuador's trade integration policy consists of entering new markets strategically, promoting the growth of non-traditional exports, and encouraging investment. Ecuador has intensified its efforts to strengthen trade arrangements with its primary partners, including:

- Removing regional trade restrictions as a member of ALADI (a regional external trade association that includes Ecuador, Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela);
- Reducing or eliminating tariff barriers to trade, as a member of the Andean Community, except with respect to measures taken to increase the Republic's balance of payments in 2009 as a result of the global recession;
- Entering into bilateral trade agreements with Colombia, Venezuela and Bolivia that are aimed at levying uniform tariffs on goods from third parties;
- Entering into a bilateral trade agreement with Chile in 1994, which was expanded in 2008;
- Negotiating a bilateral association agreement with Paraguay;
- Maintaining preferential access to European Union through preferential trade status;
- Entering into the *Sistema Unitario de Compensación Regional* ("Regional Payment Compensation Unitary System" or "SUCRE"), with the governments of Bolivia, Ecuador, Cuba, Honduras, Nicaragua and Venezuela in 2009, which sets forth an account unit and function as a means of payment, intended to be used by national banks and to eliminate the use of currency for international trade transactions; and
- Restarting negotiations with the European Union in 2013, in respect of the Multiparty Commercial Agreement.

### **Composition of Trade**

In 2009, exports decreased by 26% to reach U.S.\$13,863 million. This was mainly due to the effects of the global financial crisis and decreases in oil prices. Crude oil exports decreased by 41% while other exports decreased 3% from 2008 levels. Thus, for this year crude oil exports were approximately equivalent to non-crude oil exports.

By 2010 exports recovered and grew 26% over 2009 levels, totaling U.S.\$17,490 million. This increase was primarily driven by the recovery in oil prices as well as products such as coffee (exports rose nearly 19% over 2009 levels) and shrimp (28 % growth in exports compared to 2009).

In 2011 the trend of increasing export activity continued, with total exports reaching U.S.\$22,322 million, an increase of 28% over 2010 levels. As in 2010, increases in both oil and non-oil exports resulted in overall export growth. Growth was particularly evident in crude oil (32%), petroleum derivatives (59%), coffee (109%), cacao (35%) and shrimp (39%).

In 2012, exports continued to grow, although at a slower pace than in 2010 and 2011. Exports increased 6% in 2012, reaching a total of U.S.\$23,765 million. Growth in this year was primarily the result of the increase in crude oil exports (8%), shrimp exports (9%) and tuna (and other fish) exports (26%).

In 2013, exports increased to U.S.\$24,958 million, an increase of 5.0% compared to 2012. The increase was primarily due to the improved banana (14%) and cacao (24%) production, a sharp increase in shrimp exports (41%), and an increase in crude oil exports (5.5%).

The following table sets forth information regarding exports for the periods indicated.

### Exports - (FOB) <sup>(1)</sup>

(in millions of U.S.\$ and as a % of total exports)

	2009		2010		2011		2012		2013	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Crude oil	6,284	45.3	8,952	51.2	11,800	52.9	12,711	53.5	13,412	53.7
Bananas and plantains	1,996	14.4	2,033	11.6	2,246	10.1	2,078	8.7	2,373	9.5
Petroleum derivatives	681	4.9	721	4.1	1,145	5.1	1,081	4.5	696	2.8
Shrimp	664	4.8	850	4.9	1,178	5.3	1,278	5.4	1,798	7.2
Cacao	343	2.5	350	2.0	474	2.1	345	1.5	427	1.7
Coffee	47	0.3	56	0.3	117	0.5	75	0.3	28	0.1
Tuna and other fish	234	1.7	237	1.4	257	1.2	324	1.4	265	1.1
Other products <sup>(2)</sup>	3,615	26.1	4,291	24.5	5,105	22.9	5,872	24.7	5,959	23.9
<b>Total</b>	<b>13,863</b>	<b>100.0</b>	<b>17,490</b>	<b>100.0</b>	<b>22,322</b>	<b>100.0</b>	<b>23,765</b>	<b>100.0</b>	<b>24,958</b>	<b>100.0</b>

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 311)

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.
- (2) "Other products" consist of non-traditional primary and manufactured products, including canned seafood, flowers, vehicles, manufactured metals and chemicals

The following table sets forth information regarding imports for the periods indicated.

### Imports - (CIF)

(in millions of U.S.\$ and as a % of total imports)

	2009		2010		2011		2012		2013	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
<b>Consumer goods</b>										
Non-durable goods .....	1,985	13.2	2,372	11.5	2,862	11.7	2,931	11.5	3,064	11.2
Durable goods.....	1,279	8.5	1,999	9.7	2,144	8.8	2,162	8.5	2,198	8.1
<b>Fuel and combustibles .....</b>	<b>2,642</b>	<b>17.5</b>	<b>4,338</b>	<b>21.1</b>	<b>5,369</b>	<b>22.0</b>	<b>5,612</b>	<b>22.0</b>	<b>6,270</b>	<b>23.0</b>
<b>Primary Materials</b>										
Agriculture.....	670	4.4	841	4.1	1,011	4.1	1,059	4.2	1,122	4.1
Industrial.....	3,798	25.2	4,975	24.2	5,877	24.1	5,796	22.7	6,226	22.8
Construction materials.....	547	3.6	586	2.8	853	3.5	968	3.8	1,023	3.7
<b>Capital Goods</b>										
Agriculture.....	96	0.6	91	0.4	108	0.4	121	0.5	126	0.5
Industrial.....	2,740	18.2	3,536	17.1	4,209	17.2	4,642	18.2	5,080	18.6
Transportation equipment.....	1,284	8.5	1,769	8.6	1,807	7.4	1,969	7.7	1,889	6.9
<b>Other.....</b>	<b>48</b>	<b>0.3</b>	<b>84</b>	<b>0.4</b>	<b>45</b>	<b>0.2</b>	<b>46</b>	<b>0.2</b>	<b>67</b>	<b>0.2</b>
<b>Total.....</b>	<b>15,090</b>	<b>100</b>	<b>20,591</b>	<b>100</b>	<b>24,438</b>	<b>100</b>	<b>25,477</b>	<b>100</b>	<b>27,305</b>	<b>100</b>

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 317)

Ecuador's largest trading partners are the United States, the European Union, Peru, Chile, and Colombia. The following table sets forth information regarding the country of destination of the Republic's exports.

**Exports - (FOB)<sup>(1)</sup>**

(in millions of U.S\$, and as a % of total exports)

	<b>2009</b>		<b>2010</b>		<b>2011</b>		<b>2012</b>		<b>2013</b>	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
<b>Americas</b>										
United States .....	4,626	33.4	6,078	34.7	9,771	43.8	10,617	44.7	11,131	44.6
Peru .....	939	6.8	1,336	7.6	1,766	7.9	1,991	8.4	1,883	7.5
Colombia.....	678	4.9	793	4.5	1,026	4.6	1,056	4.4	922	3.7
Chile.....	900	6.5	847	4.8	1,106	5.0	1,991	8.4	2,464	9.9
Other (Americas) .....	3,499	24.9	4,228	24.2	4,057	18.2	2,980	12.5	2,153	8.6
Total Americas.....	10,642	76.8	13,282	75.9	17,726	79.4	18,636	78.4	18,553	74.3
<b>Europe</b>										
European Union (EU) .....	2,082	15.0	2,265	13.0	2,690	12.0	2,446	10.3	3,041	12.2
Italy .....	579	4.2	582	3.3	582	2.6	487	2.1	422	1.7
United Kingdom.....	99	0.7	84	0.5	139	0.6	164	0.7	186	0.7
Germany .....	327	2.4	320	1.8	493	2.2	377	1.6	415	1.7
Spain .....	357	2.6	354	2.0	468	2.1	442	1.9	782	3.1
Other (EU) .....	720	5.5	924	5.3	1,007	4.5	975	4.1	1,236	5.0
Rest of Europe .....	756	5.5	765	4.4	923	4.1	947	4.0	1,057	4.2
Total Europe .....	2,838	20.5	3,030	17.3	3,613	16.2	3,392	14.3	4,098	16.4
<b>Asia</b>										
Taiwan .....	18	0.1	15	0.1	11	0.0	6	0.0	8	0.0
Japan .....	109	0.8	402	2.3	349	1.6	657	2.8	570	2.3
China.....	124	0.9	329	1.9	192	0.9	392	1.6	569	2.3
South Korea .....	7	0.0	9	0.1	29	0.1	40	0.2	45	0.2
Other countries.....	83	0.6	339	1.9	304	1.4	483	2.0	889	3.6
Total Asia .....	342	2.5	1,095	6.3	885	4.0	1,578	6.6	2,082	8.3
<b>Africa.....</b>	16	0.1	50	0.3	65	0.3	110	0.5	112	0.4
<b>Oceania.....</b>	22	0.2	30	0.2	31	0.1	31	0.1	36	0.1
<b>Other countries.....</b>	4	0.0	3	0.0	3	0.0	17	0.1	77	0.3
<b>Total .....</b>	<b>13,863</b>	<b>100</b>	<b>17,490</b>	<b>100</b>	<b>22,322</b>	<b>100</b>	<b>23,765</b>	<b>100</b>	<b>24,958</b>	<b>100</b>

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 314)

- (1) Total export figures differ with export figures from "Balance of Payments" chart and "Real GDP by Expenditure" chart due to the exclusion of "non-registered commerce" and "other exports" figures in calculation of total exports in this chart. See footnote 1 of "Balance of Payment" chart.

The following table sets forth information regarding the country of origin of the Republic's imports for the periods presented.

**Merchandise Imports (CIF) by Country of Origin**  
(in millions of U.S.\$, except percentages)

	For the Year Ended December 31,					Percentage of Total Exports	
	2009	2010	2011	2012	2013	2009	2013
<b>North America</b>							
Mexico .....	581.4	727.6	869.9	888.3	986.5	3.9%	3.5%
United States.....	3,962.4	5,736.4	6,120.6	6,802.4	7,879.1	26.3%	28.9%
<b>Central America</b>	40.8	102.2	88.7	94.4	108.3	0.3%	0.4%
<b>South America and the Caribbean</b>							
Argentina.....	495.3	584.9	543.7	479.9	416.5	3.3%	1.5%
Brazil.....	673.5	853.8	938.1	928.7	876.1	4.5%	3.2%
Bolivia.....	12.2	19.5	8.7	31.1	109.8	0.1%	0.4%
Colombia.....	1,537.9	2,022.3	2,220.9	2,198.2	2,296.2	10.2%	8.4%
Chile.....	498.8	564.3	618.8	628.0	629.5	3.3%	2.3%
Panama.....	-	-	-	1,601.3	1,824.9	-	6.7%
Peru .....	665.7	1,035.6	1,141.9	1,129.8	1,119.8	4.4%	4.1%
Rest of South America and Caribbean.....	1,595.0	2,477.4	3,598.7	1,097.9	696.3	10.6%	2.6%
<b>TOTAL AMERICA.....</b>	<b>10,063</b>	<b>14,124</b>	<b>16,150</b>	<b>15,880</b>	<b>16,943</b>	<b>66.7%</b>	<b>62.1%</b>
<b>Europe</b>							
Germany.....	384.3	475.6	568.5	592.2	585.3	2.5%	2.1%
Italy .....	242.1	274.6	283.7	284.1	292.8	1.6%	1.1%
Spain .....	167.9	268.8	325.0	612.5	739.6	1.1%	2.7%
UK.....	111.2	76.9	145.3	486.3	342.6	0.7%	1.3%
Rest of EU.....	675.2	732.7	996.4	939.1	974.2	4.5%	3.6%
Rest of Europe.....	190.3	182.4	295.1	360.6	287.5	1.3%	1.1%
<b>TOTAL EUROPE.....</b>	<b>1,771</b>	<b>2,011</b>	<b>2,614</b>	<b>3,275</b>	<b>3,222</b>	<b>11.7%</b>	<b>11.8%</b>
<b>Asia</b>							
China.....	1,100.2	1,606.5	2,289.8	2,828.5	3,484.9	7.2%	12.8%
Japan .....	560.1	692.6	660.7	731.6	600.8	3.7%	2.2%
Taiwan.....	122.9	168.2	194.6	192.8	207.0	0.8%	0.8%
South Korea .....	413.1	896.9	929.9	796.4	1,014.2	2.7%	3.7%
<b>TOTAL ASIA.....</b>	<b>2,945</b>	<b>4,209</b>	<b>5,191</b>	<b>5,913</b>	<b>6,754</b>	<b>19.5%</b>	<b>24.7%</b>
<b>Regions excluding North America, South America, Caribbean, Central America, Europe and Asia .....</b>	<b>310.6</b>	<b>246.3</b>	<b>483.2</b>	<b>409.1</b>	<b>384.4</b>	<b>0.7%</b>	<b>1.4%</b>
<b>Total.....</b>	<b>15,090</b>	<b>20,591</b>	<b>24,438</b>	<b>25,447</b>	<b>27,305</b>	<b>100%</b>	<b>100%</b>

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 314)

## Foreign Direct Investment

Ecuador's foreign direct investment policy is governed largely by national implementing legislation for the Andean Community's Decisions 291 of 1991 and 292 of 1993. Generally, foreign investors enjoy the same rights



Ecuadorian national investors have to form companies. Foreign investors may own up to 100% of a business entity in most sectors without prior Government approval, and face the same tax regime.

Currency transfers overseas are unrestricted with respect to earnings and profits distributed abroad resulting from registered foreign investment provided that obligations relating to employee revenue sharing and relevant taxes, as well as other corresponding legal obligations, are met.

Certain sectors of the Ecuadorian economy are reserved for the state. All foreign investment in petroleum exploitation and development in Ecuador must be carried out under contracts with the Hydrocarbons Secretariat of Ecuador.

Direct foreign investment reached U.S.\$307.7 million, U.S.\$163.1 million, U.S.\$643.6 million, and U.S.\$584.6 million in 2009, 2010, 2011, and 2012 respectively. Direct foreign investment in 2013 reached U.S.\$702.8 million, which is the largest amount of direct foreign investment in the last five years. In 2013, the petroleum sector represented the largest percentage of direct foreign investment with 34.1% of all investment. Manufacturing and commerce followed with 19.1% and 16.0% respectively.

The following table sets forth information regarding foreign direct investment by sector for the periods indicated.

<b>Foreign Investment by Sector</b>										
(in millions of U.S\$, and as a % of total foreign investment)										
	<b>2009</b>		<b>2010</b>		<b>2011</b>		<b>2012</b>		<b>2013</b>	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Agriculture, forestry, hunting and fishing .....	52.2	17.0	10.6	6.5	0.4	0.1	17.8	3.0	25.1	3.6
Commerce <sup>(1)</sup> .....	84.2	27.4	93.5	57.4	77.6	12.1	83.0	14.2	105.2	15.0
Construction .....	-13.9	-4.5	27.8	17.0	50.1	7.8	31.1	5.3	68.7	9.8
Electricity and water .....	3.0	1.0	-5.9	-3.6	-10.6	-1.7	46.9	8.0	28.1	4.0
Petroleum <sup>(2)</sup> .....	5.8	1.9	178.0	109.2	379.2	58.9	224.9	38.5	239.7	34.1
Manufacturing .....	117.7	38.3	118.1	72.5	121.8	18.9	135.6	23.2	134.4	19.1
Social and personal services .....	18.1	5.9	22.5	13.8	27.8	4.3	1.7	0.3	-2.4	-0.3
Services rendered to businesses .....	-23.6	-7.7	68.0	41.7	44.9	7.0	39.5	6.7	113.0	16.1
Transportation, storage and telecommunications .....	64.2	20.9	-349.6	-214.2	-47.4	-7.4	4.2	0.7	-8.9	-1.3
<b>Total .....</b>	<b>307.7</b>	<b>100</b>	<b>163.1</b>	<b>100</b>	<b>643.6</b>	<b>100</b>	<b>584.6</b>	<b>100</b>	<b>702.8</b>	<b>100</b>

Source: Central Bank Quarterly Balance of Payments Bulletin No. 46 (Table 9)

(1) Commerce includes investment in commercial infrastructure and real estate

(2) Includes mining and natural gas

The 2008 Constitution contains certain principles relating to foreign investment, including promoting national and international investment, with priority being given to national investment and a complementary role being attributed to international investment; subjecting foreign investment to Ecuador's national legal framework and regulations; prohibiting expropriation without indemnification; limiting access to strategic sectors, which will remain under state control; providing for disputes relating to international agreements to be resolved in a regional (Latin American) forum; and preventing disputes between the Republic and private companies from becoming disputes between sovereigns. These principles are materialized in the enactment of the Production Code, (see "Economic and Social Policies – Production Code"), the creation of the MICSE and *Ecuador Estratégico* in the procurement of foreign investment (see "The Ecuadorian Economy – Strategic Sectors of the Economy"), and Article 422 of the Constitution, which sets parameters for disputes relating to international agreements.

## MONETARY SYSTEM

### The Central Bank

The role of the Central Bank is to promote and contribute to the economic stability of the country. It acts as the manager of the public sector's accounts and provides financial services to all public sector institutions that are required to hold their deposit accounts in the Central Bank. Management of these accounts primarily involves transfer operations between entities, including from the Government to other entities, and transfers to accounts in other banks, both foreign and domestic. The Central Bank is also the central coordinator of the payment system. All domestic banks conduct their clearing operations through the Central Bank, and also use the bank to hold their liquidity reserves. In addition, the Central Bank monitors economic growth and economic trends. To accomplish this task, it has developed statistical and research methodologies to conduct analyses and policy recommendations on various economic issues.

The functions of the Central Bank were sharply reduced as a result of the Dollarization Program. It no longer sets monetary policy or exchange rate policy for Ecuador. Instead, the Ecuadorian economy is currently directly affected by the monetary policy of the United States, including U.S. interest rate policy. The Ecuadorian Economic Transformation Law, which made the U.S. dollar legal tender in Ecuador, provided for the Central Bank to exchange, on demand, sucres at a rate of 25,000 sucres per U.S.\$1. The law also prohibited the Central Bank from incurring any additional sucre-denominated liabilities, and required that the Central Bank redeem sucre coins and bank notes for U.S. dollars.

Pursuant to the 2008 Constitution, the role of the Central Bank has changed further in that its authority and autonomy have decreased. Currently, the main functions of the Central Bank are to execute Ecuador's monetary policy, which involves managing the system of payments, investing International Reserves, managing the liquidity reserve, and acting as depository of public funds and as a fiscal and financial agent for the Republic. The Central Bank also sets policy and strategy design for national development, executes the Republic's macroeconomic program, and maintains financial statistics, which it publishes in monthly bulletins.

On January 16, 2013, the Central Bank named Diego Martínez as its new president. The President of the Central Bank is appointed to a five-year term and heads the board, the *Directorio*, of the Central Bank. According to the *Ley Reformativa a la Ley de Régimen Monetario y Banco del Estado* (the "Law for the Monetary Regime and State Bank"), the board is comprised of the following members, who may all exercise a right to vote: (1) the President, (2) the Minister of Economic Policy or his delegate, (3) the Minister of Production or his delegate, (4) the delegate of public financial institutions of development, (5) the National Secretary of Planning or his delegate, and (6) the Minister of Finance or his delegate. The Superintendent of Banks and the General Manager of the Central Bank may attend board meetings but have no right to vote. Under the supervision of the board, the General Manager oversees operations of the Central Bank, which operates through the office of the Vice General Manager in Quito and two other branches in Cuenca and Guayaquil.

The Law for the Monetary Regime and State Bank also defines the role of the Government-owned *Banco del Estado* (the "State Bank"). Since 1979, the role of the State Bank has been to finance Government investment and infrastructure projects through loans to municipalities and provinces and to grant loans to municipalities and provinces. As of December 2013, the State Bank has U.S.\$977.8 million of outstanding loans to Ecuador's Autonomous Decentralized Governments.

Although it has the capacity to do so, the Central Bank has not issued any notes in the past 6 years. The Republic is not currently under a structural agreement, such as a stand-by or similar agreement, with the International Monetary Fund or similar international multilateral institutions. While Ecuador has not participated in an International Monetary Fund ("IMF") Article IV consultation since 2007, it has engaged in discussions with the IMF to participate in an Article IV consultation.

## Financial Sector

### Supervision of the Financial System

The financial sector consists of various financial institutions, insurance companies, and the securities markets, in accordance with the Law for the Monetary Regimen and State Bank Law and the *Ley General de Seguros* ("Insurance Law.") The Superintendent of Banks regulates financial institutions, and the securities markets are, to date, regulated by CNV. The *Ley General de Instituciones del Sistema Financiero* of 2004 ("Financial Institutions Law") regulates all private sector financial institutions including banks, finance companies, credit card issuers, brokerage houses, and insurance companies. The Financial Institutions Law regulates public sector and private financial institutions, with respect to their solvency, liquidation, financial prudence and other administrative matters.

The Ecuadorian banking system is composed of the Central Bank, the Ecuadorian Stock Exchanges (defined herein), private commercial banks, cooperative banks, and several state development and state-owned banks.

The Financial Institutions Law permits the establishment of universal banks (banks that can offer all types of banking services), and provides for equal treatment of foreign and domestic financial institutions. Ecuadorian financial institutions may establish foreign offices and invest in foreign financial institutions, with authorization from the Superintendent of Banks. Foreign subsidiaries of Ecuadorian financial institutions must also conform to the guidelines established by the Financial Institutions Law, in order to promote prudent banking and investment policies, and ensure financial solvency. Each year, external auditors must provide opinions regarding capital adequacy, concentration of loans, interested debtors, and asset classifications on both unconsolidated and consolidated bases for all banks. The Republic has structured its guidelines under the Financial Institutions Law so as to be consistent with the banking supervision guidelines established by the Basel Committee on Banking Supervision.

The Financial Institutions Law designates the Superintendent of Banks as the principal regulatory authority for the Republic's financial system. The Superintendent of Banks is tasked primarily with prudential matters including capital adequacy, liquidity earnings, management risks, and the solvency and risk asset quality of financial institutions. The Superintendent of Banks is headed by a Banking Board; the Banking Board is composed of five members: the Superintendent of Banks, the General Manager of the Central Bank, two members appointed by the President, and a final member appointed by the four other members.

Since the crisis of the banking system in the late 1990s, during which a number of banks became insolvent, the Superintendent of Banks has worked to improve banking supervision standards. Since 2001, the Superintendent of Banks reformed the regulatory framework for banking supervision. As part of the reforms, the Superintendent of Banks implemented measures that included the following:

- Programs for regulatory on-site audits and periodic reporting requirements. These are published in national newspapers, with the intention to ensure that banks comply with regulatory standards.
- Uniform accounting risks for the financial system.
- Liquidity risk, which derives from the incapacity of financial institutions to cover their liabilities and other obligations when due, in both local and foreign currency.
- Evaluation of market risk based on interest rate risk, which refers to the potential losses of net income or in the capital base, due to the incapacity of the institution to adjust the return on its productive assets (loan portfolio and financial investment) with the fluctuations in the cost of its resources produced by changes in interest rates.
- Evaluation of credit risk based on a detailed method for classifying financial assets in terms of risk.

This method increased the amounts which financial institutions are required to reserve in order to mitigate potential losses arising from their loans ("loan-loss reserves"). With respect to loan-loss reserves, current regulations impose reserve requirements based on risk categories and type of financial assets. These requirements have been introduced to bring them in line with international standards, and to increase the average quality of the

financial system's loan portfolio. As of December 2013, the majority of banks in Ecuador are in compliance with Basel II, and all banks are expected to be in compliance within two years. Compliance with Basel II is mandatory for all banks by 2017.

The following table sets forth information regarding the risk categories and loan-loss reserve requirements currently in effect.

<b>Risk Categories and Required Loan-loss Reserves</b> (in number of days past due, except for percentages)					
Category <sup>(1)</sup>	Commercial <sup>(2)</sup>	Consumer	Mortgage	Small Business <sup>(3)</sup>	Loan-loss Reserve
A	0-30	0-15	0-60	0-15	1%-5%
B	31-90	16-45	61-180	16-45	6%-19%
C	91-180	46-90	181-270	46-90	20%-59%
D	181-360	91-120	271-450	91-120	60%-99%
E	>360	>120	>450	>120	100%

Source: Superintendent of Banks as of December 2013

(1) Ecuador subdivides Categories A, B, and C into sub-categories. However, categories in chart are simplified for ease of presentation.

(2) For commercial loans, in addition to the number of days due, three factors are considered for classification among risk categories: (a) debtor payment capacity and financial situation; (b) experience of payment (risk information from the system, debtor's credit history); and (c) risk of the economic environment.

(3) Classified as loans up to U.S.\$20,000.

The following table sets forth information regarding loans of the banking system by risk category as of December 31, 2013.

<b>Classification of Aggregate Assets of the Ecuadorian Private Financial System <sup>(1)</sup></b> (as a % of total loans) As of December 31, 2013				
Category	Commercial loans	Consumer loans	Mortgage loans	Small business
A	84.64	94.92	86.33	90.72
B	10.57	1.52	0.76	1.20
C	3.72	1.02	0.18	0.74
D	0.54	0.44	0.41	0.43
E	0.54	2.11	0.49	1.93
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Superintendent of Banks as of December 2013

(1) Banks must hold 60% of deposits in Ecuador

### **The Financial Safety Net**

President Correa's administration determined that the financial safety net in place when he took office was insufficient, as there was no lender of last resort. In many countries, the central bank acts as the lender of last resort. Due to the Ecuador's Dollarization Program, however, the Republic's lending capacity was limited to the *Fondo de Liquidez del Sistema Financiero Ecuatoriano* ("Liquidity Fund"). President Correa's administration believed that the lack of a strong lender of last resort increased the risks to the financial system, and decreased liquidity within the system.

In light of these perceived deficiencies, the Government passed the Financial Safety Net Law in December 2008. The new law created a four-tiered framework for the banking sector. These four tiers are described below.

#### ***Lender of Last Resort***

In accordance with the Financial Safety Net Law, which was designed to strengthen the Liquidity Fund, the Liquidity Fund acts as the lender of last resort for private financial institutions. As of December 31, 2011, the

Liquidity Fund consisted of approximately U.S.\$ 725 million, and as of December 31, 2013, the Liquidity Fund consisted of U.S.\$1,622 million. The Liquidity Fund is overseen by the Superintendent of the Banks and administered by the Central Bank.

### ***Banking Resolution System***

The second tier of the Financial Safety Net Law is the creation of a banking resolution scheme called *Exclusión y Transferencia de Activos y Pasivos* ("Exclusion and Transfer of Assets and Liabilities" or "ETAP"). Under ETAP, healthier labor contingencies, deposits and assets can be excluded from the balance sheet of a troubled banking institution and transferred to a newly created entity or to one or more healthier banking institutions. This policy is intended to separate good assets from non-performing assets and create an efficient and orderly banking resolution process.

### ***Deposit Insurance***

The third tier of the Financial Safety Law consists of the *Corporación de Seguro de Depósitos* ("Deposit Insurance Corporation" or "COSEDE"). The COSEDE is the successor to the *Agencia de Garantía de Depósitos* ("Deposit Guarantee Agency" or "AGD"), which was previously responsible for insuring the accounts of depositors in Ecuador's banking systems. In December 1998, the AGD was created as a response to the banking crisis by the *Ley de Reordenamiento en Materia Económica en el Área Tributario-Financiera* ("Law Reorganizing Economic Matters in the Tax and Finance Areas"). The AGD had a dual role: to oversee the amounts the Republic deposited with the Central Bank in order to protect depositors, and to help restructure banks in liquidation.

In December 2009, the AGD closed. The net assets of the AGD were then temporarily transferred to the Ministry of Finance and to COSEDE and thereafter transferred to the *Corporación Financiera Nacional* ("CFN"), a separate Government institution. COSEDE had assets of U.S.\$453 million, U.S.\$622 million, U.S.\$800 million as of December 31, 2011, December 31, 2012, and December 31, 2013 respectively.

In accordance with the Financial Safety Net Law, and Resolution JB-2009-1280, COSEDE administers the private financial institutions insurance deposit system, which does not include any public banking institution. COSEDE insures deposits of up to U.S.\$31,000 per account, whereas the AGD could only guarantee up to U.S.\$12,000 per account. Pursuant to the Financial Safety Net Law, banks are required to contribute to COSEDE an amount determined annually in accordance with the total amount of deposits held.

### ***Superintendent of Banks***

Under the fourth tier of the Financial Safety Law, the Superintendent of Banks is authorized to increase the capital and reserves requirement of banking institutions.

## **The Financial System**

The following table sets forth, by type, the number of Financial Institutions in the Ecuadorian financial system as of December 31 for the last five years:

<b>Number of Financial Institutions</b>					
(As of December 31)					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Banks	25	25	26	26	26
National banks	23	23	25	25	25
Private	22	22	24	24	24
Government-owned banks	1	1	1	1	1
Foreign banks	2	2	1	1	1
Other financial entities	56	56	58	63	63
Savings and loans associations	38	38	40	39	39
Small lending institutions	4	4	4	4	4
Financial institutions	10	10	10	10	10

Public banks	4	4	4	4	4
Insurance companies	45	45	45	44	44
Insurance companies	43	43	43	42	42
Reinsurance companies	2	2	2	2	2
Credit-card issuing entities	2	2	2	2	2
<b>Total</b>	<b>128</b>	<b>128</b>	<b>131</b>	<b>135</b>	<b>135</b>

Source: Superintendent of Banks as of December 2013

## Banking System

### Overview

As of December 31, 2013, the Ecuadorian banking system had a total of 26 banking institutions, of which one was a foreign-owned bank and one was a state-owned bank. As of December 31, 2013 the amount of assets in the private banking sector amounted to U.S.\$30.7 billion.

The following table sets forth the total assets of the Ecuadorian private banking sector and the percentage of non-performing loans over total loans.

<b>Banking System</b>					
<b>For the Year Ended December 31,</b>					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Total assets (in billions of U.S. dollars).....	17.5	20.6	23.9	27.9	30.7
Non-performing loans <sup>(1)</sup> (as % of total loans)...	1.22%	1.08%	0.99%	1.24%	1.18%

Source: Superintendent of Banks as of December 2013

(1) Non-performing loans are classified by economic sector. Commercial non-performing loans are classified as loans 31 days overdue, consumer non-performing loans are classified as loans 16 days overdue, real estate non-performing loans are classified as loans 61 days overdue, and microcredit non-performing loans are classified as loans 16 days overdue.

The following table sets forth deposit information for the private banking system on the dates indicated.

<b>Private Bank Deposits</b>				
(in millions of U.S.\$, except for percentages)				
<b>As of December 31,</b>				
	<b>Demand deposits</b>	<b>Time deposits</b>	<b>Total deposits <sup>(1)</sup></b>	<b>Annual growth rate of deposits</b>
2009	9,706.9	4,101.9	13,748.8	6%
2010	11,979.5	4,242.7	16,222.2	18%
2011	13,360.0	5,198.0	18,557.9	14%
2012	15,991.8	5,920.8	21,912.7	18%
2013	17,619.0	6,631.1	24,250.5	11%

Source: Superintendent of Banks as of December 2013

(1) These data does not include reported operations, guarantee deposits and restricted deposits

Banking deposits constitute the principal source of financing for the banking system. From December 31, 2009 through December 31, 2013, total deposits increased 76%, from U.S.\$13,748.8 million to U.S.\$24,250.5 million, and constitute the principal source of financing for the banking system. Total assets of the banking system increased from U.S.\$17.5 billion in 2009 to U.S.\$30.7 billion in 2013. The majority of funding for the Ecuadorian banking system is comprised of demand deposits, which increased 81.5% from U.S.\$9,9706.9 million in 2009 to U.S.\$17,619.0 million in 2013. The lack of long term funding sources has resulted in loan portfolios with predominantly short tenors.

Foreign banks and financial institutions are also a source of liquidity in the Ecuadorian banking system. As of December 31, 2013, the balance of foreign liabilities in the banking sector amounted to approximately U.S.\$494.1

million, which is an increase from the balance of foreign liabilities in December 31, 2012, which was U.S.\$477.9 million.

The following table sets forth information regarding the principal sources of financing with respect to total liabilities as of the dates indicated.

**Classification of the Main Financing Accounts with Respect to Liabilities**  
(as % of total liabilities)

	As of December 31,		
	Demand deposits	Time deposits	Foreign financing
2009	62	26	4
2010	65	23	3
2011	62	24	3
2012	63	24	2
2013	63	22	2

*Source: Superintendent of Banks as of December 2013*

The following table sets forth information regarding the allocation of principal asset accounts, with respect to total assets of the banking system as of the dates indicated.

**Allocation of the Principal Asset Accounts with Respect to Total Assets of the Banking System**  
(as a % of total assets)

	As of December 31,	
	Portfolio of current loans	Investments
2009	50.1	12.7
2010	52.0	12.8
2011	53.9	13.0
2012	52.8	11.5
2013	52.6	12.7

*Source: Superintendent of Banks as of December 2013*

As of December 31, 2013, the banking system represented 81.5 % of the total assets of the private financial system. The banking system, for the year ended December 31, 2013, made a profit of U.S.\$268 million, which represented 0.29% of Ecuador's nominal GDP. The banking system strengthened between 2012 and 2013, and its assets grew by 10.27% due to a 10.88% growth in deposits.

Ecuador's banks use their resources primarily to extend loans. Between 2009 and 2013, the Ecuadorian banking system's total loan portfolio increased by U.S.\$ 7.8 billion (83% and 382% as a percentage of capital requirement) and past due loans increased by U.S.\$180 million (65% and 8.62% as a percentage of capital requirement). Regulations require that banks have a legal lending limit equal to 10% of their net worth for uncollateralized loans and up to 20% of their net worth if the excess over the first 10% is 140% collateralized.

The following table identifies the loans made to the private sector, and the deposits of the private sector as of the dates indicated.

### Loans to the Private Sector and Private Sector Deposits <sup>(1)</sup>

(in millions of U.S.\$)

As of December 31, 2013

Loans		Deposits	
Commercial and consumer loans	14,511.4	Demand Deposits	17,619.0
Development and mortgage banks	1,443.4	Time Deposits	6,631.1
Savings and loans associations	1,298.7	Guarantee Deposits	3.1
Education Loans	3.8	Others	655.2
<b>Total</b>	<b>17,257.6</b>	<b>Total</b>	<b>24,908.8</b>

Source: Superintendent of Banks as of December 2013

The following table sets forth information regarding the banking system's loan portfolio as of the dates indicated.

### Banking System Loan Portfolio Balances

(in millions of U.S.\$, except for percentages)

As of December 31,					
	Current loans	Past-due loans <sup>(1)</sup>	Total loan portfolio	Current loans as a percentage of the total loan portfolio	Past-due loans as a percentage of the total loan portfolio
2009	9,182	272	9,454	97.1%	2.9%
2010	11,106	255	11,361	97.8%	2.2%
2011	13,371	306	13,677	97.8%	2.2%
2012	15,332	442	15,774	97.2%	2.8%
2013	16,808	449	17,257	97.4%	2.6%

Source: Superintendent of Banks as of December 2013

(1) Past-due loans are classified by economic sector. Commercial past-due loans are classified as loans 31 days overdue, consumer past-due loans are classified as loans 16 days overdue, real estate past-due loans are classified as loans 61 overdue, and microcredit past-due loans are classified as loans 16 overdue.

From 2009 to 2011, the banking system's delinquency rate has gradually improved and past-due loans have represented 2.9%, 2.2%, and 2.2% of the total loan portfolio. The improvement of the financial portfolio has been due to economic stability and growth, which has allowed an increase in the financial portfolio with a low level of risk. The delinquency rate increased to 2.8% in 2012 as a result of an increase in consumer past-due loans which increased from U.S.\$175 million in 2011 to U.S.\$293 million in 2012. However the rate decreased to 2.6% in 2013 due to reduction in past-due loans of the commercial sector, which decreased to U.S.\$284 million.

As of December 2013, 46.8% of all current loans were commercial, 36.0% were consumer, 8.8% were housing and 8.2% were microcredit.

The following table sets forth information regarding the number of past-due loans in different sectors of the economy as of the dates indicated.

### Past due loans by sector of the economy

(in millions of U.S.\$, and as a percentage of past due loans)

	2009		2010		2011		2012		2013	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Commercial	100	36.6	79	31.0	68	22.3	62	14.0	65	14.5
Consumer	120	44.1	128	50.2	175	57.2	293	66.3	284	63.4
Real estate	20	7.4	22	8.5	23	7.5	25	5.7	27	6.0
Microcredit	32	11.9	26	10.3	39	12.9	62	14.0	72	16.1
<b>Total</b>	<b>272</b>	<b>100</b>	<b>255</b>	<b>100</b>	<b>306</b>	<b>100</b>	<b>442</b>	<b>100</b>	<b>448</b>	<b>100</b>

Source: Superintendent of Banks as of December 2013



## **Banking Sector**

The first, second and third largest banks in Ecuador are Banco del Pichincha, Banco de Guayaquil and Banco del Pacífico in that order. As of December 2013, the three banks accounted for about 50% of the reported combined income and 54% of Ecuador's banking assets. Return on equity for these three banks was 9.93% for 2013, a decrease from 11.42% in 2012, while net profit also decreased from U.S.\$155.3 million to U.S.\$134.9 million. The reasons for this decline are the increase in taxes levied on the banking sector and the effect of price controls imposed on the banking system.

Banco del Pacífico is 100% owned by the Republic, having been taken over from private shareholders during the banking crisis in 1999 and its shares transferred to the Central Bank. During 2010 and 2011 there had been discussions relating to the re-privatization of Banco del Pacífico, however, these plans were abandoned in 2011 when ownership was transferred from the Central Bank to CFN ("CFN"). As of December 2013, Banco del Pacífico had approximately U.S.\$ 3,859.8 million in assets. Its profits fell in 2013 when compared to 2012 from U.S.\$48.0 million in 2012 to U.S.\$40.9 million in 2013.

Pacific National Bank is Banco del Pacífico's U.S. subsidiary, based in Miami. Pacific National Bank had approximately U.S.\$355 million in assets, including U.S.\$154 million in loans (mostly commercial real estate), \$163 million in securities and \$3.6 million in repossessed property. In 2011, the bank was fined U.S.\$7 million by U.S. banking regulators for violations of the U.S. Bank Secrecy Act ("BSA") and anti-money laundering laws. In 2012, the Federal Reserve Bank of the United States placed Banco del Pacífico's shares in Pacific National Bank under the control of a trustee and ordered the sale of the shares to a third party. According to the regulatory consent order transferring the shares to the trustee, the share transfer to the trustee and sale are not related to the violations of the BSA, but due to the transfer of ownership of Banco del Pacífico from the Central Bank to CFN in 2011, which according to U.S. banking regulations does not qualify as a holding company for a U.S. chartered bank. In October 21, 2013, the shares were sold to a group of private investors.

As of December 2013, approximately 1.76% of the profits in the banking sector came from Citibank Ecuador S.A, which is the only foreign bank operating in Ecuador.

In March 2013, Banco Territorial S.A, one of the oldest banks in Ecuador with assets of U.S.\$135 million, entered a liquidation process one week after its operations were suspended. Banco Territorial primarily provided services to small and medium companies in Guayaquil and had approximately 79,000 depositors, with total deposits of approximately U.S.\$122 million, or less than 1% of the total deposits in the private banking sector in Ecuador. As of April 2014, the Banco Territorial had paid U.S.\$ 98 million to depositors, U.S.\$54 million of which was paid by COSEDE. There have been no other liquidations of banks of similar or greater size as Banco Territorial during 2013.

## **Cooperative Banks**

In 2008, the Correa administration created the *Programa de Finanzas Populares* ("Program for Public Finance") to expand lending to smaller financial cooperatives, in order that they could increase lending to small businesses. These cooperatives extend micro-loans to individuals and businesses that could otherwise not attain a loan at commercial banks. In January 2008 co-operative loans were at 11.1% of total non-publicly owned bank lending. As of December 2013, the percentage had increased to 19.6%.

## **Capital Markets**

Retail trading of debt and equity securities of private Ecuadorian issuers has remained relatively limited and has decreased in the five years ending in 2013. Most of the trading on Ecuador's capital markets involves the purchase and sale of bank securities and fixed income Government securities. In the last five years, Ecuador has experienced an increase in the issuance of corporate bonds. They have become an important financing alternative for companies and issuers that want longer terms than those available through bank loans. The Ecuadorian capital

markets consist of the Quito Stock Exchange and the Guayaquil Stock Exchange (the "Ecuadorian Stock Exchanges"), both opened in 1969. As of December 31, 2013, the Ecuadorian Stock Exchanges combined listed the securities of approximately 433 issuers. Issuers that subscribe to one exchange automatically become listed on the other exchange.

The Ecuadorian capital markets are regulated by the *Ley de Mercado de Valores* ("Capital Markets Law"). Under the Capital Markets Law, both stock exchanges are supervised by the CNV. The CNV is comprised of seven members, four from the public sector and three from the private sector. The CNV is responsible for formulating the general securities policies of the Ecuadorian capital markets and for regulatory oversight of those markets. The Capital Markets Law has been amended by the Law to Strengthen and Optimize the Corporate and Securities Sector as soon as the law is published. The Law to Strengthen and Optimize the Corporate and Securities Sector provides for the creation of a new regulatory body to replace the CNV in formulating securities policies. The purpose of creating a new regulatory body is to ensure that the regulation of the capital markets is in the hands of public servants as opposed to public and private individuals, as was the case with the CNV. The law was enacted in May 2014.

As of December 31, 2013 U.S.\$795.2 million worth of securities were traded in the secondary market, representing 21.4% of the Ecuadorian securities market. Repo trading represented 4.52% of the total market. The following table shows aggregate amounts of traded securities for the periods listed.

#### Aggregate Amounts of Traded Securities

	For the Year Ended December 31,				
	2009	2010	2011	2012	2013
	<i>(in millions of U.S. dollars)</i>				
Repos.....	34.7	30.9	42.2	54.1	168.1
Other <sup>(1)</sup> .....	6,392.1	5,062.6	3,718.7	3,695.6	3,554.2
<b>Total .....</b>	<b>6,426.8</b>	<b>5,093.5</b>	<b>3,760.9</b>	<b>3,749.7</b>	<b>3,722.3</b>

Source: *Bolsa de Valores de Quito* ("Quito Stock Exchange ")

(1) Includes Government securities, bank securities, and commercial paper, among others

In 2013, U.S.\$3,722.3 million worth of securities were traded on the Ecuadorian Stock Exchanges, representing a decrease compared to the U.S.\$3,749.7 million of the securities traded in 2012.

#### Interest Rates and Money Supply

In July of 2007, the *Ley del Costo Máximo Efectivo del Crédito* ("Maximum Actual Credit Cost Law") went into effect to establish a new system for calculation of interest rates. The principal aspects of this law are:

- the prohibition on charging commissions for credit operations and pre-payments;
- the prohibition on imposing any fee that is not in the nature of compensation for the rendering of a service; and
- a change in the methodology for calculating the maximum interest rate of the Central Bank, whose methodology has since been declared unconstitutional, and has been further amended so that the maximum rate equals interest rates of credit operations of private financial institutions in each relevant sector, multiplied by an amount determined by the Central Bank.

The following table sets forth average deposit interest rates for the economy as a whole and average lending interest rates per sector for the periods shown.

**Interest Rates**  
(in percentages)

	2009	2010	2011	2012	2013
Deposit interest rate .....	5.2	4.3	4.5	4.5	4.5
Lending interest rate .....	9.2	8.7	8.2	8.2	8.2
Corporate commercial lending interest rate <sup>(1)</sup> .....	9.2	8.7	8.2	8.2	8.2
Maximum corporate commercial interest rate .....	9.3	9.3	9.3	9.3	9.3
Business commercial lending interest rate <sup>(2)</sup> .....	9.9	9.5	9.5	9.5	9.5
Maximum business commercial interest rate .....	10.2	10.2	10.2	10.2	10.2
Medium and small business lending commercial interest rate <sup>(3)</sup> .....	11.3	11.3	11.2	11.2	11.2
Maximum medium and small business commercial interest rate .....	11.8	11.8	11.8	11.8	11.8
Consumer lending interest rate .....	17.9	15.9	15.9	15.9	15.9
Maximum consumer interest rate .....	18.9	16.3	16.3	16.3	16.3
Retail lending interest rate <sup>(4)</sup> .....	N/A	N/A	N/A	N/A	N/A
Maximum retail interest rate .....	N/A	N/A	N/A	N/A	N/A
Housing lending interest rate .....	11.2	10.4	10.6	10.6	10.6
Maximum housing interest rate .....	11.3	11.3	11.3	11.3	11.3
Microcredit increased accumulation lending interest rate <sup>(5)</sup> .....	23.3	23.1	22.4	22.4	22.4
Maximum microcredit increased accumulation interest rate .....	25.5	25.5	25.5	25.5	25.5
Microcredit simple accumulation lending interest rate <sup>(6)</sup> .....	27.8	25.4	25.2	25.2	25.2
Maximum microcredit simple accumulation interest rate .....	33.3	27.5	27.5	27.5	27.5
Microcredit subsistence accumulation lending interest rate <sup>(7)</sup> .....	30.5	29.0	28.8	28.8	28.8
Maximum microcredit subsistence accumulation interest rate .....	33.9	30.5	30.5	30.5	30.5

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 1102). Deposit and Lending Interest rates based on Table 1101

- (1) "Corporate commercial lending rate" refers to credit transactions larger than U.S.\$1,000,000. This is the rate provided to businesses whose annual sales are equal or higher than the level determined by the Central Bank's *Instructivo de Tasa de Interés* ("Instructions on Interest Rates"), by economic sector.
- (2) "Business commercial lending rate" refers to credit transactions larger than U.S.\$200,000 but smaller than U.S.\$1,000,000. This is the rate provided to businesses whose annual sales are equal or higher than the level determined by the Central Bank's Instructions on Interest Rates by economic sector.
- (3) "Medium and small business lending rate" refers to credit transactions smaller than U.S.\$200,000. This is the rate provided to businesses whose annual sales are equal to or larger than U.S.\$100,000 and lower than the minimum annual sales levels of the corporate productive segment.
- (4) Beginning in 2009, the "retail lending interest rate" and the "consumer lending interest rate" were consolidated into the "consumer lending interest rate."
- (5) "Microcredit increased accumulation lending rate" refers to credit transactions whose amount per trade and balance due to microcredit financial institutions exceed U.S.\$10,000. This is the rate granted to entrepreneurs who register levels and annual sales of less than U.S.\$100,000.
- (6) "Microcredit simple accumulation lending rate" refers to credit transactions whose amount per transaction and balance due to microcredit financial institutions is larger than U.S.\$3,000, but smaller than U.S.\$10,000. This is the rate provided to entrepreneurs who register a sales level or annual income of less than U.S.\$100,000 and to self-employed individuals.
- (7) "Microcredit subsistence accumulation lending rate" refers to credit transactions that are less than or equal to U.S.\$3,000. This is the rate provided to micro entrepreneurs who recorded a level of annual sales less than U.S.\$100,000 and to self-employed, individuals or a group of borrowers with joint liability.

Average loan interest rates on short-term and long-term loans decreased from 9.2% in 2009, to 8.2% in 2013 primarily due to a policy of the Republic to reduce maximum lending rates. During the same period, the average interest rates on deposits decreased from 5.2% in 2008 to 4.5% in 2013 due to the decrease in loan interest rates.

With respect to the various sectors, most loan interest rates declined during the period 2009 through 2013 except for the rate for the medium and small business sector, which slightly decreased from an average of 11.3% in 2008 to 11.2% in 2013. This reduction of rates from 2009 to 2013 resulted in increased credit, with loans increasing by 83% from 2009 to 2013.

The following table sets forth the principal monetary indicators for the periods presented.

**Principal Monetary Indicators**  
(in millions of U.S. dollars)

	At December 31,				
	2009	2010	2011	2012	2013
Currency in circulation.....	4,230.1	4,545.4	5,291.0	6,326.7	7,367.1
Demand deposits .....	4,902.2	6,148.3	6,718.8	8,100.4	8,818.0
Fractional Currency.....	77.3	82.4	83.2	84.5	87.3
M1.....	<b>9,209.6</b>	<b>10,776.1</b>	<b>12,093.0</b>	<b>14,511.6</b>	<b>16,272.4</b>
Savings.....	1,702.6	1,606.7	1,594.8	2,360.2	3,898.1
Term deposits.....	9,378.8	11,413.2	14,464.0	16,393.9	18,778.7
M2 (M1 plus savings plus term deposits).....	<b>18,588.4</b>	<b>22,189.3</b>	<b>26,557.0</b>	<b>30,905.5</b>	<b>35,051.1</b>

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 111). Figures from 2009 and 2010 based on March 2011 Monthly Bulletin

The reserve requirements applicable to checking accounts, savings accounts and deposit certificates are currently 25.0%.

In January 2000, following several weeks of severe exchange-rate depreciation, the Republic announced that it would dollarize the economy. On March 1, 2000, the National Assembly approved the *Ley para la Transformación Económica del Ecuador* (the "Law of Economic Transformation" or "LET"), which made the U.S. dollar legal tender in Ecuador. Further, pursuant to the LET, all sucre-denominated deposits were converted into U.S. dollars effective January 1, 2000, and the U.S. dollar became the unit of account in the financial system. As a result, U.S. dollar deposits that in prior periods were classified as deposits in foreign currency are for periods from and after January 1, 2000 classified as demand deposits, savings or term deposits, as applicable.

## Inflation

Ecuador measures the inflation rate by the percentage change between two periods in the consumer price index ("CPI"). The CPI is computed by INEC based on a standard basket of 299 items of goods and services that reflects the pattern of consumption of urban Ecuadorian households in eight cities. The price for each good or service that make up the basket is weighted according to its relative importance in an average urban household's consumption pattern in order to calculate the CPI.

Prior to the adoption of the Dollarization Program, Ecuador was plagued by high inflation. From 1994 to 1999, the inflation rate ranged from a 22.8% low in 1995 to a 60.7% high in 1999. In 1999 and early 2000, the sharp devaluation of the sucre contributed to an increase in the Republic's inflation rate, which became one of the highest in Latin America at 96.1% in 2000.

The restrictions imposed by the Dollarization Program brought this to an end. The inflation rate was 2.7% in 2004, 2.2% in 2005, 2.8% in 2006, 3.3% in 2007 and 8.8% in 2008. The increase in inflation in 2008 was primarily caused by increases in food prices, due to climatic changes that affected the agricultural sector. In addition, international prices of fertilizer and agricultural commodities also increased. As a result of these increases, Ecuador

fixed prices for some of these goods and limited the export of various agricultural products. During 2009, 2010, 2011 and 2012 the inflation rate was 4.3%, 3.3%, 5.4% and 4.2% respectively. The increase from 2010 to 2011 was principally due to increase in the prices of alcoholic beverages, tobacco and pharmaceuticals whose prices together increased 7.8% from the previous year, primarily due to increases in the taxes on alcoholic beverages.

At the end 2013, the inflation rate was 2.7%, a decrease from the 4.2% inflation rate recorded in 2012. This decrease was due to the imposition of price controls intended to curb price speculation on basic foodstuffs including, meats, various fruits and vegetables, and milk.

Given the constrains of dollarization, and Ecuador's inability to mint currency, the Republic is more vulnerable than other countries to external factors such as global recessions, the volatility of commodity and raw material prices and natural disasters affecting the agricultural sector. The relative strength or weakness of the dollar, relative to the currencies of Ecuador's Andean trading partners, has also affected Ecuador's inflation rate during those periods.

The following table sets forth inflation rates in the Republic as measured by the CPI for the periods presented.

	<b>Inflation</b>
	% Change in CPI from Previous Year at Period End <sup>(1)</sup>
2009	4.3
2010	3.3
2011	5.4
2012	4.2
2013	2.7

*Source: Based on figures from Central Bank April 2014 Monthly Bulletin Table (421)*

(1) The data reflects percentage change in consumer prices in urban areas over the 12 months ending on December 31 of each year

## PUBLIC SECTOR FINANCES

### Overview

#### Budget Process

The 2008 Constitution and the Public Planning and Finance Code set forth the public sector's budget process. According to Article 292 of the 2008 Constitution, the General State Budget (the "General State Budget") is the instrument for establishing and managing Government income and spending, and includes all public sector income and expenses, with the exception of those belonging to social security, public banks, public companies and the Autonomous Decentralized Governments. The drafting and implementation of the General State Budget adheres to the National Development Plan, while the budgets of the Autonomous Decentralized Governments and those of other public entities adhere to regional and provincial plans, with the framework of the National Development Plan. This plan is published by the Government every four years, and lays out the goals and priorities of the Government for the time period. The National Development Plan for 2013 to 2017 was released in August of 2013.

The executive branch formulates the annual budget estimate, and the four-year budgetary schedule, and presents both to the National Assembly for approval. The levels of revenue, expenditure, and debt are based on the macroeconomic projections and targets of the Ministry of Finance and the Central Bank. The Ministry of Finance is primarily responsible for the preparation of the public sector's annual budget, based on guidelines issued by various planning agencies and other ministries.

The executive branch submits the draft annual budget and the four-year budgetary schedule to the National Assembly within the first 90 days of its initial term and, in subsequent years, 60 days before the start of the relevant fiscal year. The National Assembly must adopt or object to the draft budget within 30 days. The objections of the National Assembly are limited to the areas of revenue and spending and cannot alter the overall amount of the draft budget. If the National Assembly objects to the draft budget or schedule, the executive branch may, within ten days, accept the objection and submit a new proposal to the National Assembly for approval. If the National Assembly does not object within 30 days, the draft annual budget and the four-year budgetary schedule become effective.

The 2008 Constitution also establishes predetermined budget allocations for the Autonomous Decentralized Governments, the health sector, the education sector, and for research, science, technology and innovation. The creation of any other predetermined budget allocations is forbidden.

The Ministry of Finance has the authority to modify the budget during its execution phase in an amount up to 15% of any approved allocation. These adjustments must be made in accordance with the priorities and goals established in the National Development Plan and the constitutional limits established in Article 126 of the Public Planning and Finance Code. For more information regarding the National Development Plan and constitutional limits, see "Public Debt – General."

Income and expenses belonging to social security, state banks, public companies and the Autonomous Decentralized Governments are not considered part of the General State Budget. As such, Autonomous Decentralized Governments prepare their budgets in accordance with the guidelines prepared by the *Secretaría Nacional de Planificación y Desarrollo* (the "National Secretary of Planning and Development" or "SENPLADES") but are not bound by these guidelines by the 2008 Constitution. The executive branch of each Autonomous Decentralized Government is responsible for drafting the budget and submitting it for approval before the corresponding legislative bodies. The General State Budget and local budgets, upon approval, are implemented and made public, as is the General State Budget, and are implemented by the respective local governments.

In 2002, in response to increasing Government expenditures, the National Assembly enacted the Law to Promote Responsibility, Stabilization and Fiscal Transparency, which was aimed at reducing public indebtedness and establishing greater transparency in the Government's use of public funds. During the second half of 2005, the Government, with the support of the National Assembly, replaced the *Fondo de Estabilización, Inversión Social, y Reducción del Endeudamiento Público* (the "Stabilization, Social Investment and Public Indebtedness Reduction

Fund or "FEIREP") that was previously created by the 2002 law. FEIREP was replaced by CEREPS. This resulted in an increase in Government investment in social and productive sectors of the economy to strengthen the economic performance while limiting the current expenses.

In 2008, CEREPS was eliminated due to the 2008 Constitution and the enactment of LOREYTF. The Republic believes that the new law enhances transparency and flexibility to the budget process by providing enhanced management of state resources and prioritizing social investments. The law also eliminated all predetermined use of resources; currently all of the Republic's resources go directly to a single system of accounts in the Central Bank. Title 3 of the Public Planning and Finance Code also provides transparency by providing unrestricted access to all budget and financial information of the Republic and annual financial statements of public companies.

In accordance with the terms of the 2008 Constitution, the macroeconomic rules and the restrictions on the assumption of public debt were changed as follows:

- permanent expenditures must be financed by permanent income; expenditures related to health, education and justice will be treated as preferential and may be, under exceptional circumstances, financed by non-permanent income; and
- public debt or income from petroleum products may not be used for current Government expenditures.

Under the 2008 Constitution, each of the following is subject to the National Development Plan:

- policies;
- programs and public projects;
- scheduling and execution of the state budget; and
- investment and allocation of public resources.

Pursuant to the Planning and Public Finance Law, each of the following is also subject to the National Development Plan:

- public actions, programs and projects;
- public debt;
- international cooperation;
- scheduling, formulation, approval and execution of the general state budget;
- state banks' budgets;
- national-level public companies; and
- social security.

At the request of the Ministry of Finance, or on its own, the Office of the Comptroller General can perform an audit of all public sector entities that administer public funds for compliance with proposed budgets and compliance under the law.

### **Fiscal Policy**

In October 2010, the National Assembly approved the Public Planning and Finance Code, which regulates the state planning process and coordinates planning with fiscal policy. This law establishes guidelines for fiscal management, including rules that:

- allow for more flexibility for the Ministry of Finance to reallocate and reassign expenditures up to 15% of the approved Government budget;
- set an explicit total public debt ceiling of 40% of GDP including Central Government, non-financial public sector and the Autonomous Decentralized Governments;

- allow the Ministry of Finance to issue *Certificados de Tesorería* ("short-term treasury notes" or "CETES"), at its discretion, without having to undergo the same approval process required for long-term internal and external sovereign debt;
- allow for the establishment of citizen committees for financial public policy consultations;
- determine that all excess cash not spent during a fiscal year will be accounted for as initial cash for the following fiscal year; and
- establish the functions and responsibilities of the Debt and Finance Committee. See "Public Debt – General."

The non-financial public sector deficit is primarily financed by the issuance of CETES and bonds placed with IESS. There is no maximum amount of CETES that may be issued per year nor is there a requirement to place a certain percentage in the public or private sector. However, IESS may only hold 75% of the value of its total portfolio in CETES. Towards the end of 2012, the Government drew on its International Reserves with the Central Bank to cover its liquidity. This led to a decrease in reserve levels in December 2012. As of December 31, 2013, International Reserves (defined herein) cover 54.9% of current account payments. For more information regarding International Reserves please see "Balance of Payments – International Reserves." The Government received external funding from the Latin American Reserve Fund ("FLAR"), which in September 2012 disbursed a balance-of-payments back-up credit of U.S.\$514.6 million. The China Development Bank also disbursed U.S.\$500 million. In the first several months of 2013, the Government received U.S.\$1.4 billion from China Development Bank under a new line of credit that was negotiated in December 2012. These funds were used to restore Ecuador's International Reserves.



## Non-Financial Public Sector Revenues and Expenditures

The following table sets forth actual revenues and expenditures for the consolidated non-financial public sector for the periods presented.

### Summary of Consolidated Non-financial Public Sector Revenues and Expenditures

(in millions of U.S.\$ and as a % of GDP)

	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP
Revenue										
Petroleum Revenue										
Exports <sup>(1)</sup> .....	5,212	8.3	7,845	11.3	12,935	16.2	12,412	14.2	11,433	12.2
Domestic sales .....	-	-	-	-	-	-	-	-	-	-
Total Petroleum Revenue (a).....	5,212	8.3	7,845	11.3	12,935	16.2	12,412	14.2	11,433	12.2
Non-petroleum revenue										
Income Tax .....	2,518	4.0	2,353	3.4	3,030	3.8	3,313	3.8	3,847	4.1
Value-added Tax .....	3,288	5.3	3,759	5.4	4,200	5.3	5,415	6.2	6,056	6.5
Specific consumption taxes.....	448	0.7	530	0.8	618	0.8	685	0.8	744	0.8
International trade taxes .....	951	1.5	1,153	1.7	1,156	1.4	1,261	1.4	1,352	1.4
Social Security Contributions.....	2,061	3.3	2,549	3.7	3,971	5.0	4,752	5.4	4,547	4.8
Other taxes .....	3,107	5.0	3,650	5.2	3,514	4.4	4,364	5.0	5,993	6.4
Total non-petroleum revenue (b) .....	12,373	19.8	13,994	20.1	16,489	20.7	19,790	22.6	22,539	24.0
Operating Income of Public Companies (c).....										
	794	1.3	1,346	1.9	1,766	2.2	2,328	2.7	3,196	3.4
Total Revenue (a+b+c).....	18,378	29.4	23,186	33.3	31,190	39.1	34,530	39.5	37,169	39.6
Expenses										
Current Expenditures										
Interest .....	349	0.6	413	0.6	502	0.6	652	0.7	971	1.0
Foreign.....	323	0.5	377	0.5	452	0.6	533	0.6	714	0.8
Domestic .....	26	0.0	35	0.1	50	0.1	119	0.1	257	0.3
Wages and salaries .....	5,929	9.5	6,786	9.8	7,265	9.1	8,345	9.5	8,896	9.5
Purchases of goods and services .....	1,924	3.1	2,090	3.0	2,543	3.2	3,473	4.0	4,435	4.7
Others .....	5,728	9.2	7,616	11.0	11,661	14.6	11,999	13.7	12,643	13.5
Total Current Expenditure .....	13,930	22.3	16,905	24.3	21,970	27.5	24,469	28.0	26,945	28.7
Capital Expenditure and net lending										
Gross capital formation.....	6,310	10.1	6,571	9.4	8,891	11.1	10,360	11.8	14,071	15.0
Central Government .....	3,507	5.6	3,698	5.3	5,174	6.5	6,191	7.1	8,538	9.1
Public Companies.....	1,685	2.7	1,494	2.1	2,152	2.7	2,545	2.9	3,988	4.3
Rest of General Government .....	974	1.6	1,156	1.7	1,545	1.9	1,560	1.8	1,528	1.6
Others.....	144	0.2	223	0.3	21	0.0	64	0.1	17	0.0
Other Capital Expenditure.....	370	0.6	647	0.9	334	0.4	650	0.7	592	0.6
Total Capital Expenditure.....	6,680	10.7	7,218	10.4	9,224	11.6	11,010	12.6	14,663	15.6
Total Expenditure .....	20,610	33.0	24,123	34.7	31,195	39.1	35,479	40.5	41,607	44.4
Surplus/Deficit.....	-2,232	-3.6	-937	-1.3	-5	-0.0	-949	-1.1	-4,439	-4.7

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 22)

- (1) This is figure is different than the crude oil exports figure in the Exports FOB table in that it includes derivate revenues, as opposed to only crude oil, and measures revenues from petroleum exports for the non-financial public sector, only.

Other than in 2009, for the five-year period from 2009 to 2013, the amount of total revenues met the approximate budgeted targeted amount. The large deficit in 2009 was primarily attributable to the fall in petroleum prices due to the global financial crisis. The subsequent recovery for the years 2010 and 2011 was due to the rise of petroleum prices and the increased performance of tax revenues due to improved Government tax administration and collection and the availability of newly created tax incentives that encourage participation in Ecuador's tax system. The increased deficit in 2012 is due to increased Government spending, particularly in wages and salaries.

In 2009, the non-financial public sector registered a deficit of U.S.\$2,232 million (equivalent to -3.6% of GDP). Total expenditures totaled U.S.\$20,610 million (equivalent to 33.0% of GDP) and total revenues totaled U.S.\$18,378 million (equivalent to 29.4% of GDP).

In 2010, the non-financial public sector registered a deficit of U.S.\$937 million (equivalent to 1.3% of GDP). In 2010, total expenditures totaled U.S.\$24,123 million (equivalent to 34.7% of GDP) and total revenues totaled U.S.\$23,186 million (equivalent to 33.3% of GDP).

In 2011, the non-financial public sector registered a deficit of U.S.\$5 million (equivalent to less than 0.1% of GDP). In 2011, total expenditures totaled U.S.\$31,195 million (equivalent to 39.1% of GDP) and total revenues totaled U.S.\$31,190 million (equivalent to 39.1% of GDP).

In 2012, the non-financial public sector registered a deficit of U.S.\$949 million (equivalent to 1.1% of GDP). In 2012, total expenditures totaled U.S.\$35,479 million (equivalent to 40.5% of GDP) and total revenues totaled U.S.\$34,530 million (equivalent to 39.5% of GDP).

In 2013, the non-financial public sector registered a deficit of U.S.\$4,439 million equivalent to 4.7% of GDP). This deficit was due to an increase in public sector investment, primarily in infrastructure projects financed by bilateral debt. The increase in spending on infrastructure projects is due to a number of projects that had been in the planning or initial stages in previous years and that reached or accelerated the construction phase in 2013 (including the Coca Codo Sinclair hydroelectric project, the Sopladora hydroelectric project, the Minas San Francisco hydroelectric project and the Cañar-Naranjal flood control project) and therefore required increased expenditures as construction began or accelerated. Total expenditures totaled U.S.\$41,607 million (equivalent to 44.4% of GDP) and total revenues totaled U.S.\$37,169 million (equivalent to 39.6% of GDP).

### **Central Government Revenues and Expenditures**

The Government derives its revenues primarily from sales of petroleum, tax collection and import duties, and other revenue, including transfers. The following table shows the actual Central Government revenues and expenditures for the periods presented. The Central Government ("Central Government") includes the Republic's ministries, supervising entities, and other Government entities.

**Summary of Consolidated Central Government Sector Revenues and Expenditures<sup>(1)</sup>**  
(in millions of U.S\$, and as a % of GDP)

	2009	% of GDP	2010	% of GDP	2011	% of GDP	2012	% of GDP	2013	% of GDP
<b>Revenue</b>										
<b>Petroleum revenue.....</b>	2,298	3.7	4,411	6.3	5,971	7.5	6,086	7.0	4,677	5.0
<b>Non-petroleum revenue.....</b>	9,285	14.9	10,665	15.3	11,227	14.1	13,437	15.4	15,723	16.8
<b>Tax revenue</b>										
Taxes on goods and Services										
Value-added tax.....	3,019	4.8	3,886	5.6	4,200	5.3	5,415	6.2	6,056	6.5
Selected excise taxes.....	448	0.7	530	0.8	618	0.8	685	0.8	744	0.8
Total taxes on goods and services.....	3,467	5.5	4,416	6.3	4,818	6.0	6,099	7.0	6,800	7.3
Taxes on income and profits.....	2,518	4.0	2,353	3.4	3,030	3.8	3,313	3.8	3,847	4.1
Taxes on International Trade										
Import duties.....	923	1.5	1,152	1.7	1,156	1.4	1,271	1.4	1,352	1.4
Exit tax.....	-	-	428	0.6	558	0.7	1,275	1.5	1,322	1.4
Total taxes on international trade.....	923	1.5	1,580	2.3	1,714	2.1	2,536	2.9	2,675	2.9
Vehicle tax.....	118	0.2	156	0.2	174	0.2	194	0.2	214	0.2
Other taxes.....	231	0.4	289	0.4	28	0.0	111	0.1	132	0.1
<b>Total tax revenue.....</b>	<b>7,257</b>	<b>11.6</b>	<b>8,794</b>	<b>12.6</b>	<b>9,765</b>	<b>12.2</b>	<b>12,255</b>	<b>14.0</b>	<b>13,668</b>	<b>14.6</b>
<b>Non-tax revenue.....</b>	<b>752</b>	<b>1.2</b>	<b>1,512</b>	<b>2.2</b>	<b>1,210</b>	<b>1.5</b>	<b>1,128</b>	<b>1.3</b>	<b>1,961</b>	<b>2.1</b>
<b>Transfers.....</b>	<b>1,276</b>	<b>2.0</b>	<b>359</b>	<b>0.5</b>	<b>252</b>	<b>0.3</b>	<b>54</b>	<b>0.1</b>	<b>95</b>	<b>0.1</b>
<b>Total revenues.....</b>	<b>11,583</b>	<b>18.5</b>	<b>15,076</b>	<b>21.7</b>	<b>17,198</b>	<b>21.6</b>	<b>19,523</b>	<b>22.3</b>	<b>20,400</b>	<b>21.8</b>
<b>Current expenditure</b>										
Interest accrual:										
Foreign.....	294	0.5	306	0.4	357	0.4	465	0.5	652	0.7
Domestic.....	180	0.3	224	0.3	316	0.4	363	0.4	516	0.6
Total interest accrual.....	474	0.8	530	0.8	673	0.8	828	0.9	1,169	1.2
Wages and salaries.....	4,708	7.5	6,017	8.7	6,466	8.1	7,353	8.4	7,897	8.4
Purchase of goods and services.....	824	1.3	1,095	1.6	1,279	1.6	1,658	1.9	2,035	2.2
Other current expenditures.....	966	1.5	843	1.2	983	1.2	884	1.0	1,664	1.8
Transfers.....	1,962	3.1	1,291	1.9	998	1.3	1,243	1.4	1,511	1.6
<b>Total current expenditure.....</b>	<b>8,934</b>	<b>14.3</b>	<b>9,775</b>	<b>14.1</b>	<b>10,399</b>	<b>13.0</b>	<b>11,965</b>	<b>13.7</b>	<b>14,276</b>	<b>15.2</b>
<b>Capital expenditure</b>										
Fixed capital expenditure.....	3,507	5.6	3,896	5.6	5,209	6.5	6,209	7.1	8,538	9.1
Other.....	-	-	136	0.2	159	0.2	328	0.4	-	-
Capital Transfers.....	1,777	2.8	2,399	3.4	2,668	3.3	2,723	3.1	3,048	3.3
Total capital expenditure.....	5,284	8.5	6,432	9.2	8,035	10.1	9,260	10.6	11,586	12.4
<b>Total Expenditure.....</b>	<b>14,218</b>	<b>22.7</b>	<b>16,207</b>	<b>23.3</b>	<b>18,435</b>	<b>23.1</b>	<b>21,226</b>	<b>24.3</b>	<b>25,861</b>	<b>27.6</b>
Adjustment on treasury accounts.....	-	-	-	-	-	-	-	-	-	-
Overall surplus or deficit.....	-2,635	-4.2	-1,131	-1.6	-1,236	-1.5	-1,703	-1.9	-5,461	-5.8

Source: Based on figures from Central Bank April 2014 Monthly Bulletin (Table 21)

(1) Revenues are cash, expenditures are accrued

(2) Includes all interest payments under foreign debt obligations

## **Taxation and Customs**

In 2009, Central Government revenues totaled U.S.\$11,583 million (equivalent to 18.5% of GDP), of which U.S.\$2,298 million (equivalent to 3.7% of GDP) corresponds to petroleum revenue, U.S.\$7,257 million (equivalent to 11.6% of GDP) corresponds to tax revenue, U.S.\$752 million (equivalent to 1.2% of GDP) corresponds to non-tax revenue and U.S.\$1,276 million (equivalent to approximately 2.0% of GDP) is in respect of transfers received.

In 2010, Central Government revenues totaled U.S.\$15,076 million (equivalent to 21.7% of GDP), of which U.S.\$4,411 million (equivalent to 6.3% of GDP) corresponds to petroleum revenue, U.S.\$8,794 million (equivalent to 12.6% of GDP) corresponds to tax revenue, U.S.\$1,512 million (equivalent to 2.2% of GDP) corresponds to non-tax revenue and U.S.\$359 million (equivalent to approximately 0.5% of GDP) is in respect of transfers received.

In 2011, Central Government revenues totaled U.S.\$17,198 million (equivalent to 21.6% of GDP), of which U.S.\$5,971 million (equivalent to 7.5% of GDP) corresponds to petroleum revenue, U.S.\$9,765 million (equivalent to 12.2% of GDP) corresponds to tax revenue, U.S.\$1,210 million (equivalent to 1.5% of GDP) corresponds to non-tax revenue and U.S.\$252 million (equivalent to approximately 0.3% of GDP) is in respect of transfers received.

In 2012, Central Government revenues totaled U.S.\$19,523 million (equivalent to 22.3% of GDP), of which U.S.\$6,086 million (equivalent to 7.0% of GDP) corresponds to petroleum revenue, U.S.\$ 12,255 million (equivalent to 14.0% of GDP) corresponds to tax revenue, U.S.\$1,128 million (equivalent to 1.3% of GDP) corresponds to non-tax revenue and U.S.\$54 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

In 2013, Central Government revenues totaled U.S.\$20,400 million (equivalent to 21.8% of GDP), of which U.S.\$4,677 million (equivalent to 5.0% of GDP) corresponds to petroleum revenue, U.S.\$13,668 million (equivalent to 14.6% of GDP) corresponds to tax revenue, U.S.\$1,961 million (equivalent to 2.1% of GDP) corresponds to non-tax revenue and U.S.\$95 million (equivalent to approximately 0.1% of GDP) is in respect of transfers received.

The Constitution grants the National Assembly the authority to create, amend or eliminate taxes by means of the law, without detriment to the attributions granted to Autonomous Decentralized Governments. Pursuant to the Constitution, only the President may submit bills that levy, amend or eliminate taxes. Municipal governments may also levy taxes. The Constitution provides that tax policy shall promote redistribution and shall stimulate employment, the production of goods and services, as well as ecologically, socially and economically responsible conduct. Furthermore, the Constitution expressly prioritizes direct and progressive taxes.

The value added tax applies to most sales of tangible assets as well as most services, except for educational, public transportation, public services, childcare services and others. The value added tax has been the largest component of tax revenues in the past 5 years, generating U.S.\$6,056 million of total tax revenues in 2013 and steadily increasing since 2009. This increase is not due to an increased rate, which has held steady at 12% for the past 5 years. Instead, the increase in revenues is due to the Government's increased capacity to collect this tax due to an improved administrative system and the tax reforms described in further detail below.

The second largest component of tax revenues is income tax, which accounted for U.S.\$3,847 million of tax revenues in 2013. Effective personal income tax rates for residents and non-residents who file tax returns in Ecuador range from 0% to 35%. The standard corporate tax rate in 2013 is 22%, down from 25% in 2012. Non-resident individuals are also subject to a flat income tax of 22% in 2013 (down from 24% in 2011 and 23% in 2012).

Revenues from income taxes have also steadily increased in the past five years. This increase is due to several tax reforms implemented during this period.

## **Tax Reforms**

Historically, many individuals and companies did not pay taxes in Ecuador. Upon taking office, President Correa aimed to change this behavior and institute a culture of paying taxes among citizens and companies. To that end, the Ministry of Education established the *Día de la Cultura Tributaria* ("Tax Culture Day") to be commemorated every April 27 and ran multiple television advertisements concerning the importance of tax payments. Ecuador completed these cultural efforts with legal reforms. Two of the most important reforms include the Reform Act to the Internal Tax Regime Law and the Reform Act for Tax Equity in Ecuador, which were enacted on December 23, 2009 and include the following measures:

- a 1% to 2% Currency Outflow tax, which was subsequently amended in November of 2011 to a 5% Currency Outflow Tax with an exemption for the first U.S.\$1,000 as long as no credit card or debit card is used (for more information regarding the Currency Outflow Tax see "Balance of Payments and Foreign Trade – Foreign Trade–Trade Policy");
- taxation on dividends received by company shareholders as profits;
- changes in the manner in which the *Impuesto a los Consumos Especiales* ("Special Consumer Good Tax" or "ICE") calculates taxes on certain items for products such as cigarettes, alcoholic beverages and soft drinks. See "The Ecuadorian Economy–Economic and Social Policies– Environmental Improvement and State Resources Optimization Law;"
- incentives for the production sector, such as a proposal to return the value added tax ("VAT") for certain tourism activities, and exemptions on tax for reinvestment in science and technology); and
- a refund of the 12% VAT for the public sector.

Other measures include the institution of numerous new individual tax deductions that encouraged the participation in payment of taxes. Taxpayers can apply these new deductions prior to the end of the tax year. Ecuador believes that the deductions and the advance payment system encourage participation and decreased the rate of tax evasion in the country. Ecuador has also improved its tax administration system to more easily identify tax evasion. Also, Ecuador believes that the decrease in the corporate tax rate in 22% in 2013, compared to 25% in 2012, has encouraged business growth and allowed for a larger corporate tax base.

In December 2012, the National Assembly enacted the Comprehensive Law of Redistribution of Income for Social Expenditures, which went into effect on January 1, 2013. This law expands the scope of the VAT to certain financial services provided by credit card administrators and private financial entities that were previously exempt.

## **Foreign Aid**

From 2009 to 2013, foreign aid to Ecuador consisted of less than U.S.\$123 million. The total amounts per year have been U.S.\$38.3 million, U.S.\$38.5 million, and U.S.\$45.8 million, in 2009, 2010, and 2011, respectively. As of 2012, Ecuador is no longer listed as a country in need for foreign aid based on revenues per capita requirements from the World Bank. As such, it did not receive foreign aid in 2012 or 2013.

## **Central Government Expenditures**

In 2009, Central Government expenditure as a percentage of GDP was 22.7%. Overall expenses in 2009 constituted U.S.\$14,218 million. Since then, the amount of Central Government expenditures has steadily increased to U.S.\$25,861 million in 2013. The continuing increases in Central Government spending over the last five years can be primarily attributed to increases in (1) wages and salaries, which have increased, in absolute terms, from U.S.\$4,708 million in 2009 (when they constituted 33.1% of Central Government spending and 7.5% of total GDP) to U.S.\$7,897 million in 2013 (when they constituted 30.5% of Central Government spending and 8.4% of total GDP) and (2) fixed capital expenditures, which have increased from U.S.\$3,507 million in 2009 (when they constituted 24.6% of Central Government spending and 5.6% of total GDP) to U.S.\$8,538 million in 2013 (when they constituted 33.0% of Central Government spending and 9.1% of total GDP). The Government has also increased the amount of investment in infrastructure projects, specially highways, bridges, and hydroelectric plants. For more information see "The Ecuadorian Economy – Strategic Sectors of the Economy."

## **2014 Budget**

In November of 2013, the National Assembly approved a U.S.\$34.3 billion budget for 2014, which is a 5.9% increase from the U.S.\$32.4 billion budget approved in 2013. The budget projects tax revenues at U.S.\$13.60 billion, assumes an average crude oil price of U.S.\$86.4 per barrel, and targets GDP growth of approximately 4.5% to 5.1% and a 3.2% inflation rate. It allocates U.S.\$1.4 billion for transportation, U.S.\$1.2 billion for electricity projects, U.S.\$2.4 billion for public health and U.S.\$4.9 billion for education and education initiatives. Overall, the budget proposes a deficit of U.S.\$5.4 billion, which is the result of the Republic's investments in infrastructure.

## PUBLIC DEBT

### General

Public sector debt, including internal and external debt of the financial and non-financial public sector and the external Central Bank debt balance, was U.S.\$22,846.7 million as of December 31, 2013, compared to U.S.\$18,652.3 million as of December 31, 2012 and U.S.\$14,561.8 million as of December 31, 2011. The increase in public sector debt in 2013 was mainly due to the increased capital expenditures by the Government on strategic projects. The ratio of total public sector debt to GDP increased from 21.3% as of December 31, 2012 to 24.4% at December 31, 2013.

Since President Correa was elected in 2007, Ecuador has changed the focus of its public debt. Ecuador has focused on its relationships with Latin American-based multilateral entities and new bilateral partners, such as China. Ecuador has executed several loan agreements with China in the past five years and continues to collaborate with long-time partners such as Spain and Brazil. In Latin America, Ecuador has strengthened ties with IDB, CAF, and FLAR.

Under the 2008 Constitution, the National Assembly has the power to adopt legislation governing the issuance of public debt and to appropriate funds required for debt service. Acting pursuant to this constitutional mandate, the National Assembly approved the Code of Planning and Public Finance, which governs the procedures that must be observed in all public debt matters. The Code of Planning and Public Finance rules concerning public debt apply to the Ministry of Finance, which is the only Government institution allowed to contract for the issuance of sovereign debt by the Republic of Ecuador, as well as obligations of the municipalities guaranteed by the Government.

Because all public debt governed by the Code of Planning and Public Finance must comply with the public indebtedness policies adopted by the executive branch, the Ministry of Finance must obtain the approval of the Debt and Finance Committee of the Republic of Ecuador before signing any agreement with respect to sovereign debt including the Notes. See "Monetary System – Fiscal Policy." This requirement is established by Article 289 of the 2008 Constitution and Article 139 of the Code of Planning and Public Finance. Approval is not required for any obligation that is less than 0.15% of the General State Budget and does not have a sovereign guarantee. Any contract executed by the Ministry of Finance that required, but did not obtain the approval of the Debt and Finance Committee is null and void and unenforceable and may give rise to civil and criminal liability for the individuals involved. Approval of the Debt and Finance Committee is evidenced by a signed memorandum signed by each member of the Debt and Finance Committee. Once the Ministry of Finance obtains approval of the Debt and Finance Committee, it may sign the agreement incurring debt obligations, provided that the Attorney General of Ecuador has approved any clauses providing for foreign applicable law and/or arbitration in a foreign jurisdiction. Loan proceeds are disbursed to the Ministry of Finance, which in turn, transfers such proceeds to the ultimate borrower.

The use of proceeds for public debt is limited by Article 126 of the Public Planning and Finance Code. Under the Public Planning and Finance Code, proceeds of public debt transactions may only be used to: (1) finance Government programs, (2) finance infrastructure projects that have the capacity to repay the debt obligation and (3) refinance an existing external debt obligation on more favorable terms. The Public Planning and Finance Code prohibits public transactions for the purpose of paying ongoing expenses, with the exception of expenses related to health, education, and justice, under exceptional circumstances as determined by the President.

Although public debt service is the primary responsibility of the entity for whose benefit the loan was received, debt governed by the Code of Planning and Public Finance is an obligation of the Government. Accordingly, transfers from the Government to any entity pursuant to the annual budget take into account debt service obligations for the following year.

This external debt process is in place as a mechanism to ensure that Ecuador does not reach the high levels of debt it had incurred before the Correa administration. The system of authorization through the Constitution and the Debt and Finance Committee, plus the 40% of GDP debt limit and other provisions from the Public Planning and Finance Code seek to maintain a stable external debt and have resulted in a low debt to GDP ratio as compared to

other countries. As of December 31, 2013, total public sector debt was U.S.\$22,846.7 million, an estimated 24.4% of GDP). Interest payments on all debt obligations represent less than 1% of GDP.

## External Debt

The total external debt of the public sector in Ecuador was U.S.\$12,920.1 million at December 31, 2013, compared to U.S.\$10,871.8 million at December 31, 2012, and U.S.\$10,055.3 million at December 31, 2011. The increase in public sector external debt since December 31, 2011 is primarily the result of the disbursements of loans to develop various major infrastructure projects, mostly related to hydroelectric energy in Ecuador, to promote energy independence and reduce reliance on non-renewable energy sources.

The following table sets forth information regarding Ecuador's public sector external debt as of dates indicated.

<b>Public Sector External Debt</b>					
(in billions of U.S. dollars at the end of the year, except percentages)					
	<b>At December 31,</b>				
	<b>2009<sup>(1)</sup></b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Central Government.....	6.50	7.73	9.18	9.88	11.86
Public financial and non-financial entities .....	0.90	0.94	0.88	0.99	1.06
<b>Total.....</b>	<b>7.39</b>	<b>8.67</b>	<b>10.06</b>	<b>10.87</b>	<b>12.92</b>
External public debt as a percentage of nominal GDP .....	11.8%	12.5%	12.6%	12.4%	13.8%

Source: Ministry of Finance April 2014 Bulletin

(1) Includes U.S.\$3.95 billion in aggregate principal amount of 2012 and 2030 bonds that were tendered in 2009

The following table shows the composition of the Republic's external public debt by type of creditor for the periods presented. Provincial governments and municipalities may incur debt through the Ministry of Finance if they follow certain requirements established by law, and certain provincial and municipal governments have issued external debt, which is included in the table above under the heading of "Public financial and non-financial entities."

<b>Public Sector External Debt by Type of Creditor</b>					
(in billions of U.S. dollars)					
	<b>At December 31,</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Multilateral.....	4.87	5.26	5.29	5.87	6.01
Bilateral.....	1.35	2.26	3.62	3.87	5.75
Commercial and Bonds .....	1.17	1.15	1.14	1.13	1.16
<b>Total Public Sector External Debt .....</b>	<b>7.39</b>	<b>8.67</b>	<b>10.06</b>	<b>10.87</b>	<b>12.92</b>

Source: Ministry of Finance April 2014 Bulletin

The increase in bilateral debt of the Government and public financial and non-financial entities from December 31, 2009 to December 31, 2013 was due mainly to new debt being obtained from bilateral lenders rather than from the international bond markets, following the repurchase by the Government of the 12% U.S. dollar Denominated Global Bonds due in 2012 and the U.S. dollar Denominated Step-Up Global Bonds due in 2030. For more information see "Public Debt – Debt Obligations – 2012 and 2030 Bonds and tender offer."

As of December 31, 2013, total indebtedness owed to multilateral institutions was U.S.\$6.01 billion. The Government is current on all its obligations to multilateral institutions.

In 2009 the top three bilateral lenders to Ecuador were Spain, Italy and Japan, with debt levels of approximately U.S.\$326.3 million (21.5% of the total bilateral debt), U.S.\$277.1 million (18.3% of the total bilateral debt) and U.S.\$258.4million (17.0% of the total bilateral debt). As of December 31, 2013, the top three bilateral lenders to Ecuador were China, Brazil and Spain, with debt levels of U.S.\$4,633.9 million (79.2% of the total



bilateral debt), U.S.\$292.6 million (5.1% of the total bilateral debt) and U.S.\$190.7 million (3.3% of the total bilateral debt) respectively. The Government is current on all of its obligations to bilateral lenders.

Since 2010, Ecuador has agreed to three separate loan agreements with China Development Bank totaling U.S.\$5 billion, which are related to a multi-party contractual structure that involves crude oil delivery contracts entered into with PetroChina and Unipetec. Deliveries under these contracts are based upon international spot prices, such as WTI plus or minus a spread, plus a premium paid due to the term of the contracts. The spread is calculated using Argus, a crude oil price assessment publication ("Argus") and the quality of crude oil as measured by the American Petroleum Institute. Under these agreements, Ecuador is required to invest the loaned amounts in specific infrastructure projects or programs in Ecuador.

The following table lists current material bilateral and multilateral indebtedness by agreement and lender.

### Material Public External Debt

(in millions U.S.\$)

Creditor	Interest Rate Type	Currency	Date Issued	Maturity	Balance as of December 31, 2013
<b>Multilateral</b>					
IDB .....	Variable, Fixed	U.S.\$	1996- 2013	2013-2049	2,714.1
CAF .....	Variable	U.S.\$	2004- 2013	2013-2029	2,590.1
FLAR .....	Variable	U.S.\$	2012	2015	450.3
Others <sup>(1)</sup> .....	Fixed, Variable	Euro, U.S.\$	1964- 2012	2013-2043	259.3
<b>Total Multilateral Debt .....</b>					<b>6,013.8</b>
<b>Bilateral <sup>(2)</sup></b>					
China .....	Fixed, Variable	RMB, U.S.\$	2010-2013	2013-2033	4,633.9
Brazil .....	Variable	U.S.\$	1997-2013	2013-2023	292.6
Spain .....	Fixed	U.S.\$	1987-2006	2016-2036	190.7
Italy .....	Fixed	Euro	1995	2025	151.4
Japan .....	Fixed, Variable	Yen	1995	2015	126.2
Others <sup>(3)</sup> .....	Fixed, Variable	DEG, Won, Libra, Chf	1983-2013	2014-2053	350.2
<b>Total Bilateral Debt .....</b>					<b>5,745.0</b>
<b>Other Debt <sup>(4)</sup> .....</b>					<b>1,161.2</b>
<b>Total External Debt .....</b>					<b>12,920.1</b>

Source: Interest rate, currency, date of issue and maturity information based on information from Ministry of Finance. Balance figures based on April 2014 Bulletin and December 2013 Bulletin

(1) Other multilateral loans include loans with the International Fund for Agricultural Development and the *Banco Internacional de Reconstrucción y Fomento*.

(2) Includes amounts from loans to Paris Club members.

(3) Other bilateral lenders include South Korea, Germany, France, and the United States, among others.

(4) "Other debt" includes commercial debt and amounts owed under the 2012, 2015, and 2030 bonds and the Brady Bonds.

The following table shows the rates of interest applicable to the outstanding principal balance of the Republic's public external debt at the dates indicated.

<b>Interest on Public Sector External Debt</b>				
	<b>At December 31, 2013</b>		<b>At December 31, 2012</b>	
	<b>Amount</b> (in millions of U.S. dollars, except percentages)	<b>Percentage</b>	<b>Amount</b> (in millions of U.S. dollars, except percentages)	<b>Percentage</b>
<b>Fixed Rate</b>				
0-3% .....	728.0	5.6	739.9	6.8
3-5% .....	457.6	3.5	592.7	5.5
5-8% .....	5,788.3	44.8	3,987.9	36.7
More than 8% <sup>(1)</sup> .....	979.6	7.6	965.4	8.9
<b>Floating Rate</b> .....	4,966.7	38.4	4,585.9	42.2
<b>Total</b> .....	<b>12,920.1</b>	<b>100</b>	<b>10,871.8</b>	<b>100</b>

Source: Ministry of Finance December 2013 Bulletin

(1) Reflect the amounts under the 2012 and 2030 bonds and the 2015 Bonds

The following table sets forth scheduled debt service for the Republic's the total public external debt for the periods presented.

<b>Public Sector External Debt Service Maturity 2013-2022</b>										
	(in millions of dollars)									
	<b>For the Year Ending December 31,</b>									
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Central Government</b>	1,089	1,398	1,923	1,209	1,702	1,590	1,186	1,075	701	672
Principal .....	464	742	1,314	687	1,235	1,225	902	851	525	527
Interest .....	625	656	609	522	467	365	284	224	176	145
<b>Rest of Public Sector</b> .....	145	104	116	109	97	93	86	76	75	60
Principal .....	104	56	69	66	59	59	57	50	54	42
Interest .....	41	48	47	43	38	34	29	26	21	18
<b>Total Debt Service</b> .....	<b>1,234</b>	<b>1,502</b>	<b>2,039</b>	<b>1,318</b>	<b>1,799</b>	<b>1,683</b>	<b>1,272</b>	<b>1,151</b>	<b>776</b>	<b>732</b>

Source: Ministry of Finance as of December 2013

In 2014, Ecuador's significant external debt transactions include a U.S.\$116 million 2-year loan from Deutsche Bank to finance projects of the Ecuadorian air force and a U.S.\$400 million 3-year loan facility from Goldman Sachs. Additionally, in April of 2014, the World Bank extended a U.S.\$1,000 million line of credit to Ecuador intended to help provide additional financing for Ecuador's hydroelectric projects.

## Internal Debt

The Government's internal debt consists of obligations to both public sector and private entities. Public sector internal debt increased from U.S.\$2.84 billion at December 31, 2009 to U.S.\$9.93 billion at December 31, 2013, due primarily to the issuance of bonds to finance investment projects.

The following table sets forth the public sector internal debt for the periods presented.

<b>Public Sector Internal Debt</b>					
	(in billions of U.S. dollars, except percentage)				
	<b>At December 31</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Central Government Notes .....	2.73	3.70	3.66	6.95	9.13
Governmental Entities <sup>(1)</sup> .....	0.11	0.97	0.85	0.83	0.80
<b>Total</b> .....	<b>2.84</b>	<b>4.67</b>	<b>4.51</b>	<b>7.78</b>	<b>9.93</b>
Internal public debt as a percentage of nominal GDP .....	4.5%	6.7%	5.6%	8.9%	10.6%

Source: Ministry of Finance April 2014 Bulletin

(1) Direct issuances backed by IESS and the State Bank. Government is the debtor under all internal debt issuances.

As of December 31, 2013, approximately 91.9% of Ecuador's internal public indebtedness consists of long-term originally issued dollar-denominated notes, of which approximately U.S.\$133 million consists of outstanding notes issued by AGD under the Constitution of 1998 that have not been repurchased by the Government and are still held by private investors. Currently, all internal debt obligations are issued through the Ministry of Finance. As of December 31, 2013, approximately 8.1% of Ecuador's internal public indebtedness is backed by Governmental Entities, such as IESS and the State Bank.

The Ministry of Finance and COSEDE, acting as trustees, temporarily assumed the debts and assets of AGD. They were then permanently transferred to CFN. For further information on these transfers, see "Monetary System - The Financial Safety Net- Deposit Insurance."

Public Sector Internal Debt										
(in millions of U.S.\$, except percentages)										
	2009		2010		2011		2012		2013	
	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%	U.S.\$	%
Short-term notes	—	—	—	—	—	—	—	—	—	—
Long-term notes <sup>(1)</sup>	2,545	89.5	3,565	76.4	3,525	78.2	6,817	87.6	8,991	90.5
AGD notes <sup>(2)</sup>	135	4.8	133	2.9	133	3.0	133	1.7	133	1.3
CFN notes <sup>(3)</sup>	49	1.7	—	—	—	—	—	—	—	—
Total notes	2,729	96.0	3,698	79.3	3,659	81.2	6,950	89.3	9,125	91.9
Governmental Entities <sup>(4)</sup>	113	4.0	967	20.7	848	18.8	830	10.7	802	8.1
<b>Total internal debt</b>	<b>2,842</b>	<b>100</b>	<b>4,665</b>	<b>100</b>	<b>4,507</b>	<b>100</b>	<b>7,781</b>	<b>100</b>	<b>9,927</b>	<b>100</b>

Source: Ministry of Finance April 2014 Bulletin

- (1) Securities placed by Ecuador according to decrees and resolutions issued to finance projects from the state budget and annual investment plan.
- (2) Law 98-17 of November 26, 1998, published in Official Gazette No. 78 of December 1, 1998 ("Law 98-17") authorized the issuance of government bonds as part of the resources for the operations of the Deposit Guarantee Agency. These bonds were issued for a term of 15 years, payment of principal at maturity and annual interest payments at a rate of 12%.
- (3) These bonds issued under Law 98-17 as a capital contribution to the National Finance Corporation. The value of these bonds was U.S.\$424.9 million and they had 7 and 11-year terms with semi-annual payments of principal and interest at Libor plus 180 days margin.
- (4) Direct issuances backed by IESS and the State Bank.

Ecuador has not issued any short-term debt (maturity equal to or less than one year), and it does not intend to issue such debt in the future. Ecuador's medium-term and short-term obligations have generally been issued to finance development projects and to restructure or provide for revenue shortfalls in the Government's budget for a given year. Notes issued for development projects are generally privately held by entities contracted to undertake these development projects. Notes issued for budget restructuring, which generally have a maturity greater than one year, are placed on the Quito and Guayaquil stock exchanges, and are currently held by both public and private holders.

## Debt Obligations

### *Brady Bonds and Eurobonds*

In May 1994, the Government reached an agreement with its commercial bank creditors to restructure the Republic's medium and long-term commercial bank debt (the "Brady Plan"). The Brady Plan offered creditors the opportunity to exchange existing principal for either: (i) 30-year notes of the same face amount (the "Par Notes"), with interest initially fixed at three percent (3%) incrementally increased over the first 10 years up to a rate of five percent (5%) or (ii) 30-year notes with a face amount equal to 55% of the face value of the debt exchanged (the "Discount Notes" together with the Par Notes, the "Brady Bonds") and bearing interest at the London Interbank Offered Rate ("LIBOR") plus 13-16%. The principal of Par Notes and Discount Notes was fully collateralized by 30-year U.S. Treasury notes and interest on those Notes was collateralized on a 12-month rolling basis. The Brady Plan also offered creditors the opportunity to exchange accrued and unpaid interest for two instruments: (i) 20-year notes bearing interest at LIBOR plus 13-16% (the "PDI Notes") and (ii) 10-year notes bearing interest at LIBOR

plus 13-16% and representing certain accrued and unpaid past due interest under the Consolidation Agreement (the "IE Notes").

On December 21, 1994, the Republic issued U.S.\$191.0 million of IE Notes. On February 28, 1995, the Republic issued U.S.\$1.9 billion, U.S.\$1.4 billion and U.S.\$2.4 billion of Par Notes, Discount Notes and PDI Notes, respectively. The Republic also agreed to make certain additional cash payments in respect of past due interest.

On April 25, 1997, the Republic issued U.S.\$350 million of its 11.25% Fixed Rate Eurobonds due 2002 and U.S.\$150 million of its Floating Rate Eurobonds due 2004 (together, the "Eurobonds"). In late 1999 and early 2000, the Republic defaulted on its Par Bonds, Discount Bonds, 11.25% Fixed Rate Eurobonds due 2002, Floating Rate Eurobonds due 2004, IE Notes and PDI Notes (together, the "Old Notes"). In June 2000, the Republic launched a global exchange offer whereby it offered U.S. dollar Denominated Global Bonds due 2012 (the "2012 Bonds") and U.S. dollar Denominated Step-Up Global Bonds due 2030 (the "2030 Bonds" together with the 2012 Bonds, the "2012 and 2030 Bonds") together with a cash payment for any and all of the Old Notes.

In December 2005, the Republic launched an issuance of the 2015 Bonds. The use of the proceeds of the 2015 Bonds was to buyback certain of the 2012 Bonds in accordance with their terms. The last interest payment on the 2015 Bonds, which was due on December 15, 2013, was paid by the Republic in accordance with the relevant indenture. The Republic is current on its financial obligations under the 2015 Bonds and intends to make all payments on the 2015 Bonds as they become due and payable.

#### *2012 and 2030 Bonds and tender offer*

In 2008, Ecuador defaulted on its interest payments for the 2012 and 2030 Bonds in the aggregate amount of approximately U.S.\$157 million and principal payments of approximately U.S.\$3,200 million. The 2012 and 2030 Bonds were originally issued in exchange for prior debt offerings of the Republic in order to extend the maturity dates of those prior obligations. This default followed the publication of a report in 2008 by the Commission of Integral Audit of Public Credit ("CAIC"), a committee composed of representatives from both the Ecuadorian government and private sector organizations and members of civil society. CAIC reviewed Ecuador's debt obligations from 1976 to 2006 and in its report made a number of findings regarding the legitimacy of Ecuador's debt obligations (including the 2012 and 2030 Bonds), in particular relating to concerns involving the public assumption of private debt, appropriate authorizations, sovereign immunity, and the relevant economic terms of the debt obligations incurred. After the default, which occurred during the first term of President Correa's administration, Ecuador offered to repurchase the 2012 and 2030 Bonds. In April 2009 and November 2009 the Republic launched tender offers, in cash, to holders of the 2012 and 2030 Bonds. Approximately 93.22% of the bonds were tendered in the April 2009 and the November 2009 tender offers and were bought out at 35 cents on the dollar. Although some holders continue to hold the defaulted 2012 and 2030 Bonds, Ecuador has successfully repurchased additional 2012 and 2030 Bonds from remaining holders in the years 2009 through 2014. As of the date hereof, the total aggregate amount of outstanding principal on the 2012 and 2030 Bonds is U.S.\$107.7 million, which represents 3.4% of the original aggregate principal amount of the 2012 and 2030 Bonds.

#### **Other obligations**

In June 2003, the Republic agreed with its Paris Club creditors to reschedule U.S.\$81 million of bilateral debt. Payments due on official development aid loans were rescheduled over a period of 20 years and those on other credits were rescheduled over a period of eighteen years. As of April 2014, the Republic was in compliance with all of the terms of its Paris Club loans. Further, in recent years, the Republic has launched successful debt exchanges in Germany, Spain and Italy.

## DESCRIPTION OF THE NOTES

*Ecuador will issue Notes (as defined below) under an indenture between Ecuador and The Bank of New York Mellon (the "Trustee"), dated June 20, 2014 (the "Indenture"). The following description summarizes the material provisions of the Notes and the Indenture. This summary does not contain all of the information that may be important to you as a potential investor in the Notes. You should read the Indenture and the forms of Notes before making your investment decision.*

### General

#### *Authorization*

The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No. 009 dated June 5, 2014 and Acta Resolutiva No. 011 dated June 17, 2014.

#### *Basic Terms*

The Notes will:

- be general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador, will be backed by the full faith and credit of Ecuador and will rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
- be initially issued in an aggregate principal amount of U.S.\$2,000,000,000 of 7.95% Notes due June 20, 2024 (the "Notes");
- mature at par on June 20, 2024 (subject to any Optional Redemption, prepayment or repurchase);
- be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof;
- be represented in the form of global notes, without coupons, registered in the nominee name of the common depositary for Euroclear and Clearstream for the accounts of its participants; and
- be redeemable at the option of Ecuador (see "–Optional Redemption").

The reimbursement price at maturity is equal to 100% of the Notes' principal amount plus accrued interest.

#### *Interest*

Interest on the Notes will:

- accrue at the rate of 7.95% per annum;
- accrue from and including the date of issuance or the most recent payment date;
- be payable semi-annually in arrears on December 20<sup>th</sup> and June 20<sup>th</sup> of each year, commencing on December 20, 2014;
- be payable to the holders of record at the end of the Business Day immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

## *Payment*

Ecuador will make payments of principal of, interest (including Additional Amounts (as defined below), if any) on and premiums, if any, on the Notes by wire transfer of immediately available funds to the London Paying Agent on the Business Day prior to each scheduled payment date. The London Paying Agent, will apply the amounts it receives from Ecuador towards the payment of principal, interest (including Additional Amounts, if any) and premiums, if any, then due. While the Notes are held in global form, the London Paying Agent will make such payments to Euroclear or Clearstream or its nominee, as the registered owner of the Notes, by check or wire transfer in immediately available funds. Euroclear or Clearstream will distribute the funds it receives from the London Paying Agent to beneficial holders of the Notes having accounts at Euroclear or Clearstream, in accordance with Euroclear's or Clearstream's records and operating procedures. To hold a beneficial interest in the Notes you must hold an account at Euroclear or Clearstream directly or through a financial or other institution that has a direct or indirect account with Euroclear or Clearstream.

None of Clearstream or Euroclear is an agent of Ecuador. The Trustee is a fiduciary of the holders of the Notes and any monies it receives from Ecuador will, pending payment, be held by it in trust for the exclusive benefit of the holders of the Notes. Euroclear and Clearstream are clearing agencies. The manner in which each of Euroclear and Clearstream maintains records of beneficial interest in the Notes and how it distributes payments made by Ecuador on account of such interest are within its sole discretion. None of Ecuador, the Trustee, the London Paying Agent or the initial purchasers shall have any responsibility or liability for any aspect of the records of, or payments made by, Euroclear or Clearstream or their nominees or direct participants, or for any failure on the part of Euroclear or Clearstream or their direct participants in making payments to holders of the Notes from the funds they receive. Ecuador's obligations to make payments of principal of and interest on the Notes shall be satisfied when such payments are received by the Trustee.

If Ecuador issues definitive Notes, the London Paying Agent will make payments by check mailed to the holder's registered address or, upon application by the holder of at least U.S.\$1,000,000 in principal amount of definitive Notes delivered to the Trustee not later than the relevant record date, by wire transfer to an account designated by such holder.

If any date for an interest or principal payment on the Notes is not a Business Day, Ecuador will make the payment on the next Business Day. No interest on the Notes will accrue as a result of this delay in payment.

If any money that Ecuador pays to the London Paying Agent for the purpose of making payments on any Notes is not claimed at the end of two years after the applicable payment was due and payable, then the money will be repaid to Ecuador. Ecuador will hold the money in trust for the relevant holders until six years from the date on which the payment first became due or a shorter period of time provided by law. Before any such repayment, the Trustee may mail or publish in an authorized newspaper notice that such money remains unclaimed. After any such repayment, holders entitled to receive payment from such monies may look only to Ecuador for such payment, and neither the Trustee nor any paying agent will be liable for such payment.

## **Additional Amounts**

Unless otherwise required by law, Ecuador will make all principal and interest payments on the Notes without withholding or deducting any present or future taxes imposed by Ecuador or any of its political subdivisions or taxing authorities. If Ecuador is required by law to deduct or withhold taxes, Ecuador will pay the holders of the Notes such additional amounts as may be necessary to ensure that they receive the same amount as they would have received without any withholding or deduction. Any such amounts to be paid by Ecuador in accordance with this paragraph shall be "Additional Amounts".

Ecuador will not, however, pay any Additional Amounts in respect of any tax, assessment or other Governmental charge that is imposed due to any of the following:

- the holder or beneficial owner has or had some connection with Ecuador other than merely holding the Note or the receipt of any payment of principal of or interest on that Note;

- the holder has failed to present, where presentation is required, its Note for payment within 30 days after the payment first became due or, if the full amount of such payment is not received by the London Paying Agent on or prior to such due date, the date on which notice is given to the holder that such payment has been received and is available to the holder except to the extent that holder thereof would have been entitled to Additional Amounts on presenting the same for payment as on the last day of such period of 30 days;
- the holder or beneficial owner has failed to comply with any certification or other reporting requirement concerning its nationality, residence, identity or connection with Ecuador or any of its political subdivisions or taxing authorities, and Ecuador or any of its political subdivisions or taxing authorities requires compliance with these reporting requirements as a precondition to exemption from all or any portion of any tax withholding or deduction and has notified the holder or beneficial owner, as applicable, in writing at least 60 days prior to the first scheduled payment date for which compliance will be required;
- where the withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- a Note has been presented for payment by or on behalf of a holder who would have been able to avoid the withholding or deduction by presenting the relevant Note to another paying agent in a member state of the European Union.

Ecuador will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in Ecuador or any of its political subdivisions or taxing authorities in respect of the creation, issue, execution, delivery or registration of the Notes. Ecuador will also indemnify the holder and the Trustee from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies in connection with the enforcement of Ecuador's obligations under the Notes following an event of default.

### **Repurchase**

Ecuador may at any time, in accordance with applicable laws, tender for or repurchase the Notes at any price in the open market or otherwise. Any Notes so purchased (including upon any redemption) shall not be re-issued or resold except in compliance with the Securities Act and other applicable law. Ecuador may hold Notes it purchases or may surrender them to the Trustee for cancellation.

### **Optional Redemption**

Ecuador will have the right at its option, upon giving not less than 30 days nor more than 60 days' notice to the holders of the Notes, to redeem the Notes, in whole or in part, at any time or from time to time prior to their maturity, at a redemption price equal to the greater of (i) 100.00% of the principal amount of such Notes and (ii) the sum of the present value of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 50 basis points (the "Make-Whole Amount"), plus in each case accrued and unpaid interest to the redemption date on the Notes to be redeemed on such date (an "Optional Redemption").

On and after the redemption date, unless there is a default in the payment of amounts due, interest will cease to accrue on the Notes or any portion of the Notes called for redemption. If less than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected on a *pro rata* basis, selected by lot or by such method as the Trustee shall deem fair and appropriate (subject to the procedures of Euroclear and Clearstream).

"Comparable Treasury Issue" means the United States of America Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the period from the redemption date to the maturity date of the Notes to be redeemed that would be utilized, at the

time of selection and in accordance with customary financial practice, in pricing new issues of comparable debt securities of a comparable maturity to the period from the redemption date to the maturity date of such Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if Ecuador obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations. When obtaining a Comparable Treasury Price, Ecuador must consult at least three Reference Treasury Dealers.

"Independent Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by Ecuador.

"Reference Treasury Dealer" means a dealer selected by Ecuador that is a primary United States government securities dealers.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker (after consultation with the Republic), of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to Ecuador by such Reference Treasury Dealer at 3:30 p.m., New York time on the third Business Day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (as defined below), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

#### **Certain Covenants**

Ecuador has agreed that as long as any of the Notes remain outstanding or any amount payable by Ecuador under the Indenture remains unpaid, Ecuador will:

1. obtain and maintain in full force and effect all Ecuadorian Authorizations, necessary under the laws of Ecuador for the execution and delivery of, and performance by Ecuador under, the Notes and the Indenture or for their validity or enforceability, and take all necessary and appropriate Governmental and administrative action in Ecuador in order to be able to make all payments to be made by it under the Notes and the Indenture;
2. ensure that at all times its obligations under the Notes are general, direct, unsecured, unsubordinated and unconditional obligations of Ecuador and shall be backed by the full faith and credit of Ecuador and ensure that the Notes shall rank equally in terms of priority with Ecuador's External Indebtedness (other than Excluded Indebtedness), provided, that, such ranking is in terms of priority only and does not require that Ecuador make ratable payments on the Notes with payments made on its other External Indebtedness;
3. use its reasonable best efforts to list and thereafter to maintain the listing of the Notes on the Luxembourg Stock Exchange; and
4. not create or suffer to exist, or permit the Central Bank to create or suffer to exist, any Lien upon any of its present or future assets or revenues to secure or otherwise provide for the payment of any External Indebtedness of Ecuador or the Central Bank unless, on or prior to the date such Lien is created or comes into existence, the obligations of the Republic under the Notes and the Indenture are secured equally and ratably with such External Indebtedness.

Ecuador may, however, create or permit to subsist the following Liens ("Permitted Liens"):



- any Lien on property to secure External Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, which matures (after giving effect to renewals and refinancings) no more than one year after it was originally incurred;
- any Lien upon property to secure the purchase price of such property or to secure any External Indebtedness incurred solely for the purpose of financing the acquisition of such property;
- any Lien on property arising by operation of law (or pursuant to any agreement establishing a Lien equivalent to one which would otherwise exist under relevant local law), including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);
- any Lien existing on such property at the time of its acquisition;
- any Lien in existence as of the date of issuance of the Notes;
- any Lien securing External Indebtedness issued upon surrender or cancellation of the principal amount of any of the Excluded Indebtedness, as defined under "—Certain Defined Terms" below, to the extent the Lien is created to secure the External Indebtedness;
- any Lien created in connection with any Project Financing, as defined under "—Certain Defined Terms" below, provided that the properties to which any such Lien applies are solely with respect to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such properties;
- additional Liens created in any calendar year upon assets, revenues or receivables of Ecuador having, when encumbered, a fair market value not exceeding an aggregate amount equal to U.S.\$50,000,000 (or the equivalent in other currencies) to collateralize, or to purchase collateral, guarantees or other credit support in respect of, new borrowings by Ecuador, provided that, to the extent that in any calendar year U.S.\$50,000,000 (or the equivalent in other currencies) exceeds such aggregate fair market value of the assets, revenues or receivables so encumbered during that year, the aggregate fair market value of assets, revenues and receivables which may be encumbered in subsequent calendar years shall be increased by the amount of such excess; *provided*, however, that the fair market value of the assets, revenues or receivables so encumbered in any calendar year shall in no event exceed U.S.\$150,000,000 (or the equivalent in other currencies); and
- any renewal or extension of any of the Liens described above; provided, that no renewal or extension of any permitted Lien shall (A) extend to or cover any property other than the property then subject to the Lien being extended or renewed or (B) increase the amount of financing secured by that Lien.

## Events of Default

Each of the following is an event of default under the Notes:

1. *Non-Payment:* Ecuador fails, after the applicable payment date, to (i) make any payment of principal or Make-Whole Amount on the Notes (unless such non-payment is due to an administrative or technical error and is remedied within five Business Days of the date when such payment is due) or (ii) make any payment of an interest amount or Additional Amount on the Notes within 30 days of the date when such payment is due;
2. *Breach of Other Obligations:* Ecuador fails to perform or comply with any other obligation under the Notes or under the Indenture and Ecuador does not or cannot cure that failure within 30 days after it receives written notice from the Trustee or holders of at least 25% of the aggregate principal amount of the Notes then outstanding regarding that default;

3. *Cross Default:*

- Ecuador fails to make any payment in respect of any External Indebtedness (other than Excluded Indebtedness) in an aggregate principal amount in excess of US\$50,000,000 (or its equivalent in any other currency) when due (as such date may be extended by virtue of any applicable grace period or waiver);
- The holders of at least 25% of the aggregate outstanding principal amount of any External Indebtedness (other than Excluded Indebtedness) having an aggregate principal amount in excess of U.S.\$50,000,000 (or its equivalent in any other currency), accelerate or declare such External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled prepayment), prior to its stated maturity, as a result of Ecuador's failure to pay the principal or interest on such External Indebtedness, and such acceleration, declaration or prepayment is not annulled or rescinded within 30 days;

4. *Moratorium:* Ecuador, or a court of proper jurisdiction, declares a moratorium with respect to the payment of principal of, or interest on, Ecuador's External Indebtedness (other than Excluded Indebtedness);

5. *Validity:* Ecuador denies, repudiates or contests any of its payment obligations under the Notes or the Indenture in a formal administrative, legislative, judicial or arbitral proceeding; or any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of Ecuador, or any final decision by any court in Ecuador having jurisdiction, renders it unlawful for Ecuador to pay any amount due on the Notes or to perform any of its obligations under the Notes or the Indenture;

6. *IMF Membership:* Ecuador fails to maintain its membership in the IMF;

7. *CAF, FLAR, and IDB Membership:* The Republic fails to maintain its membership in, or its eligibility to use the general resources or equivalent of, any of CAF, FLAR and IDB;

8. *Judgment:* There shall have been entered against Ecuador or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the entry of any such order without Ecuador having satisfied such judgment; or

9. *Arbitral award:* There shall be made against the Republic or the Central Bank in a matter related to External Indebtedness (other than Excluded Indebtedness) an arbitral award by a tribunal of competent jurisdiction from which no appeal or application to a tribunal or court of competent jurisdiction to set aside may be made, or is made within the time limit for doing so, for the payment of money in excess of U.S.\$50,000,000 (or its equivalent in another currency) and 120 days shall have passed since the making of any such award without the Republic having satisfied the award.

If any of the above events of default occurs and is continuing, the Trustee may, and at the written direction of holders of at least 25% of the aggregate principal amount of the then-outstanding Notes, will declare the principal amount of all the Notes to be immediately due and payable by notifying Ecuador in writing. The Notes will become due and payable on the date such written notice is received by or on behalf of Ecuador, unless prior to such date all events of default in respect of all of the Notes have been cured or waived by the holders of not less than a majority of the principal amount of the outstanding Notes as provided in the Notes or in the Indenture.

The Trustee will, on behalf of the holders of all of the Notes, by written notice to Ecuador, rescind and annul such declaration of acceleration and its consequences, if:

- all events of default (other than the non-payment of principal that became due solely as a result of such acceleration) have been cured, waived by the holders of not less than a majority of the principal amount of the outstanding Notes or remedied; and
- the Trustee will have been reimbursed or otherwise compensated by Ecuador for all documented costs, expenses and liabilities reasonably incurred by the Trustee as a result of any such event of default.

### **Limitation on Time for Claims**

Claims against Ecuador for the payment of principal of or interest on the Notes (including Additional Amounts and Make-Whole Amounts, if any) must be made within six years after the date on which such payment first became due, or such shorter period provided by applicable law.

### **Modifications**

Any Modification of the Indenture or the terms and conditions of the Notes may be made or given pursuant to a written or other action of the holders of the Notes in accordance with the applicable provisions of the Indenture or the Notes.

The Notes contain collective action clauses regarding future Modifications, as defined under "—Certain Defined Terms" below, of the terms and conditions of the Notes or the Indenture as described below:

In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Non-Reserved Matter, as defined under "—Certain Defined Terms" below, such Modification may be made with the consent of Ecuador and of holders of at least 66 2/3% in aggregate principal amount of the Notes then outstanding. In the case of any Modification of the terms and conditions of the Notes or of the Indenture which constitutes a Reserved Matter, as defined under "—Certain Defined Terms" below, such Modification may be made with the consent of Ecuador and of holders of at least 75% in aggregate principal amount of the Notes then outstanding.

If any Reserved Matter Modification is sought in the context of a simultaneous offer to exchange the debt securities of one or more series for new debt instruments of Ecuador or any other person, Ecuador shall ensure that the relevant provisions of the Notes, as amended by such Modification, are no less favorable to the holders of the Notes than the provisions of the new instrument being offered in the exchange, or if more than one debt instrument is offered, no less favorable than the new debt instrument issued having the largest aggregate principal amount.

Ecuador agrees that it will not issue new Notes or reopen any existing series of Notes with the intention of placing such Notes with holders expected to support any Modification proposed by Ecuador (or that Ecuador plans to propose) for approval pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes.

Any Modification consented to or approved by the holders of the Notes pursuant to the Modification provisions of the Indenture or of the terms and conditions of the Notes will be conclusive and binding on all holders of the Notes, whether or not they have given such consent or were present at a meeting of holders at which such action was taken, and on all future holders of the Notes (whether or not notation of such Modification is made upon the Notes). Any instrument given by or on behalf of any holder of a Note in connection with any consent to or approval of any such Modification will be conclusive and binding on all subsequent holders of such Note.

Before seeking the consent of any holder of a Note to a Reserved Matter Modification, Ecuador will provide the Trustee (for onward distribution to the holders of the Notes) the following information:

- a description of the economic or financial circumstances that, in Ecuador's view, explain the request for the proposed Modification;

- if Ecuador has entered into a standby, extended funds or similar financial assistance program with the IMF, CAF, FLAR, or IDB, a copy of that program; and
- a description of Ecuador's proposed treatment of its other major creditor groups (including, where appropriate, Paris Club creditors, other bilateral creditors and internal debt holders) in connection with Ecuador's efforts to address the situation giving rise to the requested Modification.

For purposes of determining whether the required percentage of holders has consented to or voted in favor of any Modification any Notes owned or controlled, directly or indirectly, by Ecuador or any Public Sector Instrumentality, as defined under "—Certain Defined Terms" below, shall be disregarded and deemed not to be outstanding. In determining whether the Trustee shall be protected in relying upon any Modification, only Notes that the Trustee knows to be so owned shall be so disregarded. Upon request of the Trustee, and together with any request for any Modification of the Indenture by Ecuador, Ecuador shall deliver to the Trustee a certificate signed by an authorized representative of Ecuador listing all Notes, if any, known by Ecuador to be owned or held by or for the account of Ecuador or any Public Sector Instrumentality.

Ecuador and the Trustee may, without the vote or consent of any holder, amend the Notes or the Indenture for the purpose of:

- adding to Ecuador's covenants for the benefit of the holders;
- surrendering any of Ecuador's rights or powers;
- securing the Notes pursuant to the requirements of the Notes or otherwise;
- curing any ambiguity, or curing, correcting or supplementing any proven error in the terms and conditions of the Notes or in the Indenture;
- making any formal, minor or technical change; or
- amending the terms and conditions of the Notes or the Indenture in any manner which Ecuador may determine so long as any such change does not and will not adversely affect the interests of any holder of the Notes.

The Notes will clear and settle through Euroclear and Clearstream and will be issued in global book-entry form and registered in the nominee name of a common depository for Euroclear and Clearstream. Beneficial interests in the Notes may be held through Euroclear and Clearstream and their direct and indirect participants. See "Settlement and Clearance" for a description of the procedures applicable to book-entry securities.

The Trustee shall not be required to sign any amendment that adversely affects its rights, duties, liabilities or immunities.

## **Definitive Notes**

Ecuador will issue Notes in definitive form (i.e. not in book-entry but physical form) only if:

- the depository notifies Ecuador that it is unwilling or unable to continue as depository, is ineligible to act as depository or, ceases to be a clearing agency registered under the US Securities Exchange Act of 1934, as amended and Ecuador does not appoint a successor depository or clearing agency within 90 days;
- Ecuador decides that it no longer wishes to have all or part of the Notes represented by global notes;
- the Trustee has instituted or been directed in writing by the requisite holders to institute any judicial proceeding to enforce the rights of the holders under the Notes and has been advised by its legal counsel that it should obtain possession of the Notes for purposes of the proceeding;

- an event of default has occurred and is continuing and (A) any holder requests the Trustee to exchange its interest in the Note in the form of a Global Note for a Definitive Note, or (B) 25% of all outstanding holders direct the Trustee to exchange all of Notes represented by global notes for Notes in definitive form; or
- certain other events provided in the Indenture occur.

In the event Ecuador issues Notes in definitive form, the beneficial owners receiving those Notes should review their terms and conditions, and in particular the restrictions on transfers of the Notes, set forth in the Note certificates.

### **Trustee, London Paying Agent, Luxembourg Listing Agent, Transfer Agents; Registrar**

The Bank of New York Mellon, London Branch will serve as the London paying agent and the Trustee will serve as the transfer agent and registrar for the benefit of the holders of Notes. The Republic, acting for the exclusive benefit of the holders of the Notes, may also appoint, one or more paying agents in London, England for the purpose of facilitating Ecuador's payment of amounts due on the Notes. Ecuador may at any time instruct the Trustee to terminate the appointment of any paying agent and instruct the Trustee to appoint other paying agents. So long as any of the Notes remain outstanding, there shall be maintained, at Ecuador's expense, (1) in London, England in an office or agency where the Notes may be presented for payment, (2) in New York, New York in an office or agency where the Notes may be presented for exchange, transfer and registration of transfer as provided in the Indenture and, (3) in New York, New York in an office or agency where notices and demands in respect of the Notes or the Indenture may be served. A paying agent will also be maintained in a Member State of the European Union that is not obliged to deduct or withhold tax pursuant to European Council Directive 2003/48/EC or any other European Council Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2002 on the taxation of savings income or any law implementing or complying with, or introduced in order to, conform to such Directive. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF, and the rules of such exchange so require, a paying agent and a transfer agent will be maintained in Luxembourg. Ecuador will provide prompt notice of the termination, appointment or change in the office of any paying agent, transfer agent or registrar acting in connection with the Notes.

### **Notices**

All notices to the holders of Notes will be published, at the expense of Ecuador, in the Wall Street Journal of New York, New York, the Financial Times of London, England, and, if and so long as the Notes are listed on the Luxembourg Stock Exchange (and, if applicable, traded on the Euro MTF market of the Luxembourg Stock Exchange), the Luxemburger Wort of Luxembourg. If any of such newspapers shall cease to be published, the Trustee or upon consultation with Ecuador, will substitute for it another newspaper customarily published in New York, London or Luxembourg, as the case may be. If, because of temporary suspension of publication or general circulation of any newspaper or for any other reason, it is impossible to make any publication of any notice in the manner provided above, any other publication or other notice which is acceptable to the Trustee shall constitute a sufficient publication of such notice. Notices will also be published on the website of the Luxembourg Stock Exchange. Notices shall be deemed to have been given on the date of publication or, if published on different dates, on the date of the first such publication. Notices will also be delivered to holders at their registered addresses or sent in accordance with the clearing system's then applicable procedures. Notices to holders of Global Notes shall be given in accordance with the Depositary procedures.

So long as a clearing system, or its nominee, is the registered holder of a global note, each person owning a beneficial interest in that global note must rely on the procedures of that clearing system to receive notices in connection with the Notes. Each person owning a beneficial interest in a global note who is not a direct participant in a clearing system must rely on the procedures of the participant through which the person owns its interest in the global note to receive notices provided to the clearing system. Ecuador will consider mailed notice to have been given three Business Days after it has been sent.

## Further Issues of Securities

Ecuador may, from time to time, without the consent of the holders of the Notes, create and issue additional Notes with the same terms and conditions as the Notes in all respects (or in all respects except for the amount of the first interest payment and the issue price) so long as the additional Notes are consolidated and form a single series with the outstanding Notes, provided that such additional Notes do not have, for purposes of US federal income taxation, a greater amount of original issue discount than the outstanding Notes have as of the date of the issue of such additional Notes (regardless of whether any holders of such Notes are subject to US federal income taxation).

## Submission to Arbitration

Any dispute, controversy or claim of any nature arising out of, relating to or having any connection with the Indenture, including any dispute as to the existence, validity, interpretation, performance, breach, termination or consequences of the nullity of the Indenture (a "Dispute") where the Republic is either a party, claimant, respondent or otherwise is necessary thereto, will not be referred to a court of any jurisdiction and will instead be referred to and finally resolved by arbitration under the Rules of the LCIA ("LCIA Rules") as at present in force as modified by the Indenture, which LCIA Rules are deemed to be incorporated by reference. In particular:

- (a) There will be three arbitrators.
  - (i) Each arbitrator will be an English or New York qualified lawyer of at least 15 years' standing with experience in relation to international banking or capital markets disputes. At least one of those arbitrators will be a lawyer qualified in New York.
  - (ii) If there are two parties to the Dispute, each party will be entitled to nominate one arbitrator. If there are multiple claimants and/or multiple respondents, all claimants and/or all respondents shall attempt to agree upon their respective nomination(s) such that the claimants shall together be entitled to nominate one arbitrator and the respondents will together be entitled to nominate one arbitrator. If any such party or multiple parties fail to nominate an arbitrator within thirty (30) days from and including the date of receipt of the relevant request for arbitration, an arbitrator will be appointed on their behalf by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above. In such circumstances, any existing nomination or confirmation of the arbitrator chosen by the party or parties on the other side of the proposed arbitration will be unaffected, and the remaining arbitrator(s) will be appointed in accordance with the LCIA Rules.
- (b) The third arbitrator and chairman of the arbitral tribunal will be appointed by the LCIA Court in accordance with the LCIA Rules and applying the criteria at clause (ii) above.
- (c) The seat, or legal place, of arbitration will be London, England.
- (d) The language to be used in the arbitration shall be English. The arbitration provisions of the Indenture shall be governed by English law.
- (e) Without prejudice to any other mode of service allowed by law, the Republic:
  - (i) will appoint each of Mr. Juan Rafael Arcos Tuitza, Consul and Mr. Mauricio Fabian Dalgo Bernis, Vice Consul, of the Consulate General of the Republic, located at Consulate General of Ecuador, 144-146 Kings Cross Road, London, WC1X9DU, England (each individually an "Interim Process Agent"); and
  - (ii) shall, no later than three months after the Closing Date, irrevocably appoint CT Corporation c/o Trident Company Services (UK) Limited, with its registered office at 7 Welbeck Street, London, W1G 9YE, London, England and/or any other entity or person in England and Wales acceptable to the Trustee (such entity or person so designated, the

"Permanent Process Agent") to replace the Interim Process Agents, and provide such evidence of the appointment(s) as may be reasonably required by the Trustee,

in each case, as its agents under the Indenture for service of process in relation to any proceedings before the English courts in relation to any arbitration contemplated by the Indenture and/or in relation to recognition or enforcement.

The Permanent Process Agent will replace the Interim Process Agents on the date that the Trustee notifies the Republic in writing that it has received such evidence of the appointment of the Permanent Process Agent as it reasonably requires.

If any person appointed as an Interim Process Agent or Permanent Process Agent under the Indenture is unable for any reason so to act, the Republic must immediately (and in any event within ten (10) days of the event taking place) appoint another agent (a "Replacement Agent") on terms acceptable to the Trustee.

The Republic agrees that failure by an Interim Process Agent or, as applicable, a Permanent Process Agent or Replacement Agent, to notify the Republic of the process will not invalidate the proceedings concerned.

Any Dispute where the Republic is not a party, claimant, respondent or otherwise is necessary thereto, will be subject to the non-exclusive jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan, the City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Indenture (except actions or proceedings arising under or in connection with U.S. federal and state securities laws), and the Trustee and the holders hereby irrevocably submit to such jurisdiction and agree that all claims in respect of such Dispute may be heard and determined in such New York state or United States federal court.

### **Sovereign Immunity**

The execution and delivery of the Indenture by the Republic constitutes, and the Republic's performance of and compliance with its obligations will constitute an act of commercial public credit as provided under the laws of the Republic. To the extent permitted by law, the Republic irrevocably and unconditionally agrees that:

- (a) the Republic submits to the jurisdiction of any Ecuadorian court and to any legal process in the Republic's courts (other than attachment proceedings prior to recognition or enforcement of an arbitral award), in connection with the enforcement of an arbitral award obtained in accordance with the Indenture, except with respect to the Immune Property, which shall be entitled to immunity from enforcement in accordance with mandatory provisions of the laws of Ecuador;
- (b) the Republic submits to the jurisdiction of any court outside the Republic and to any legal process, orders or other measures in courts outside the Republic, whether through service or notice, attachment in aid of execution, execution against property of any sort, actions in rem or the grant of injunctions or specific performance, in connection with the enforcement of an arbitral award obtained in accordance with the Indenture;
- (c) the Republic undertakes not to invoke any defense on the basis of any kind of immunity, for itself and/or its assets which do not constitute Immune Property in respect of any of the foregoing legal actions or proceedings; and
- (d) the Republic submits to the jurisdiction of the English courts in connection with any proceeding invoking the supervisory jurisdiction of those courts in relation to an arbitration conducted pursuant to the Indenture.

The levy of execution on assets of the Republic within the territory of the Republic shall be carried out in accordance with and under the laws of the Republic.

The Republic irrevocably waives, to the fullest extent permitted by law, any requirement or provision of law that requires the posting of a bond or other security as a condition to the institution, prosecution or completion of any action or proceeding.

An arbitral award obtained in accordance with the Indenture will be conclusive and may be enforced in any jurisdiction in accordance with the New York Convention or in any other manner provided for by law.

"Immune Property," in accordance with the provisions of the law of Ecuador, means:

- (a) any property which is used or designated for use in the performance of the functions of the diplomatic mission of Ecuador or its consular posts;
- (b) aircraft, naval vessels and other property of a military character or used or designated for use in the performance of military functions;
- (c) property forming part of the cultural heritage of Ecuador or part of its archives;
- (d) unexploited natural non-renewable resources in Ecuador;
- (e) funds managed in the national Treasury Account;
- (f) assets and resources comprising available monetary reserves of Ecuador;
- (g) public domain assets used for providing public services in Ecuador; and
- (h) national assets located in the territory of Ecuador and belonging to the Republic, such as streets, bridges, roads, squares, beaches, sea and land located over 4,500 meters above sea level.

"New York Convention" means the New York Convention on the Recognition and Enforcement of Arbitral Awards 1958.

### **Indemnity**

The Republic will indemnify the holders of the Notes and pay the Trustee on demand for the benefit of the holders of the Notes any attached amounts plus any accrued amounts to the date of payment at the interest rate set forth in the Notes in the event the Trustee or Paying Agent fails (without negligence or willful misconduct) to pay some or all of those amounts to the depositary for credit to the holders of the Notes because those funds are attached by one or more holders of Excluded Indebtedness prior to the receipt of such funds by the depositary or because any Trustee or Paying Agent is otherwise restrained or prevented from transferring the funds to the depositary as a result of legal action taken by one or more holders of Excluded Indebtedness.

### **Transfer Restrictions**

The Notes have not been and will not be registered under the Securities Act, and will be subject to restrictions on transferability and resale. See "Transfer Restrictions".

### **Governing Law**

The Notes and the Indenture will be governed by the laws of the State of New York, except for those parts concerning submissions to arbitration, which shall be governed by English law.

### **Judgment Currency**

U.S. dollars are the sole currency of account and payment for all sums due and payable by Ecuador under the Indenture and the Notes. If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum



due hereunder in U.S. dollars into another currency, Ecuador will agree, to the fullest extent that they may legally and effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures a person could purchase U.S. dollars with such other currency in New York, New York, on the Business Day immediately preceding the day on which final judgment is given.

The obligation of Ecuador in respect of any sum due to any noteholder or the Trustee in U.S. dollars shall, to the extent permitted by applicable law, notwithstanding any judgment in a currency other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt of any sum adjudged to be so due in the judgment currency such noteholder or Trustee may in accordance with normal banking procedures purchase U.S. dollars in the amount originally due to such person with the judgment currency. If the amount of U.S. dollars so purchased is less than the sum originally due to such person, Ecuador agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such person against the resulting loss; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such person, such person will, by accepting a Note, be deemed to have agreed to repay such excess.

### **Certain Defined Terms**

The following are certain definitions used in the Notes:

- "Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in London, the City of New York or Quito, Ecuador are required or authorized by law to be closed.
- "Ecuadorian Authorization" means any approval, authorization, permit, consent, exemption or license or other action of or by, and any notice to or filing with, any Governmental authority, agency, regulatory or administrative body of Ecuador or of any Ecuadorian political subdivision.
- "Excluded Indebtedness" means the following series of securities issued by the Republic:
  - (i) the 12 percent U.S. dollar Denominated Global Bonds due 2012; and
  - (ii) the U.S. dollar Denominated Step-up Global Bonds due 2030.
- "External Indebtedness" means all Indebtedness (other than the Notes) that is not (i) issued pursuant to agreements or evidenced by instruments that expressly submit the resolution of all disputes to the exclusive jurisdiction of the courts of Ecuador or (ii) governed by Ecuadorian law.
- "Indebtedness" means for any person (a) all indebtedness of or guaranteed by such person for or in connection with borrowed money, and (b) all obligations of or guaranteed by such person (other than those specified in clause (a) above) evidenced by debt securities, debentures, notes or other similar instruments; provided that Indebtedness shall not include commercial agreements not having the commercial effect of a borrowing.
- "Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or other preferential arrangement having the practical effect of constituting a security interest.
- "Majority" means greater than 50%.
- "Modification" means any modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver (other than a waiver of an event of default that is waived by the majority of the holders as set forth under "—Events of Default" above), or other action provided by the Indenture or the terms and conditions of the Notes.
- "Non-Reserved Matter" means any Modification other than a Modification constituting a Reserved Matter.
- "Project Financing" means any financing of all or part of the costs of the acquisition, construction or development of any properties in connection with a project if the person or persons providing such financing

expressly agree to look to the properties financed and the revenues to be generated by the operation of, or loss of or damage to, such properties as the principal source of repayment for the moneys advanced.

- "Public Sector Instrumentality" means the Central Bank, any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity owned or controlled by the Government or any of the foregoing.
- "Reserved Matter" means any Modification that would:
  - A. change the due date for the payment of the principal of (or premium, if any) or any installment of interest on the Notes;
  - B. reduce the principal amount of the Notes, the portion of such principal amount which is payable upon acceleration of the maturity of the Notes, the interest rate on the Notes or the premium payable upon redemption of the Notes;
  - C. change the coin or currency in which payment of interest, premium or principal in respect of the Notes is payable and the place where such payment must be made;
  - D. reduce the proportion of the principal amount of the Notes the vote or consent of the holders of which is necessary to make any Modification to or with respect to the terms and conditions of the debt securities of one or more series or the Indenture, or change the definition of "Outstanding" under the Notes;
  - E. change Ecuador's obligation to pay Additional Amounts on the Notes;
  - F. change the governing law provision of the Notes;
  - G. change the arbitral forum to which the Republic has submitted, the Republic's waiver of immunity, the scope of the Republic's indemnities in the Indenture or the Republic's appointment of the interim process agent or the permanent process agent without appointing a substitute process agent in London, in respect of actions or proceedings brought by any holder based upon the Notes;
  - H. change the seniority of the Notes; or
  - I. authorize the Trustee, on behalf of all holders, to exchange or substitute all their Notes for, or convert all their Notes into, other obligations or securities of Ecuador or any other person.

### **Registration and Book-Entry System**

Ecuador may issue the Notes in whole or in part in the form of one or more global notes, the ownership and transfer of which are recorded in computerized book-entry accounts, eliminating the need for physical movement of Notes. Ecuador refers to the intangible Notes represented by a global Note as "book-entry" Notes.

Ecuador will deposit any global Note it issues with the common depositary of the clearing system. The global Note will be registered in the name of the nominee of the common depositary. Unless a global Note is exchanged for definitive Notes, discussed above under "—Definitive Notes," it may not be transferred, except among the clearing system, its nominees or common depositaries and their successors. Clearing systems include Euroclear and Clearstream in Europe.

Clearing systems process the clearance and settlement of book-entry securities for their direct participants. A "direct participant" is a bank or financial institution that has an account with a clearing system. The clearing systems act only on behalf of their direct participants, who in turn act on behalf of indirect participants. An "indirect

participant" is a bank or financial institution that gains access to a clearing system by clearing through or maintaining a relationship with a direct participant.

Euroclear and Clearstream are connected to each other by a direct link.

Ecuador, the Trustee and any Paying Agent will treat the registered holder of a global note as the absolute owner of the note for all purposes. The legal obligations of Ecuador, the Trustee, and any agent run only to the registered owner of a global note, which will be the relevant clearing system or the nominee of the common depositary. For example, once Ecuador arranges for payments to be made to the registered holder, Ecuador will no longer be liable for the amounts so paid on the note. In addition, if you own a beneficial interest in a global note, you must rely on the procedures of the institutions through which you hold your interests in the note (including Euroclear, Clearstream, and their participants) to exercise any of the rights granted to the holder of the note. Under existing industry practice, if you desire to take any action that the holder of a note is entitled to take, then the registered holder would authorize the clearing system participant through which you own your beneficial interest to take the action, and the participant would then either authorize you to take the action or act for you on your instructions.

## SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited are acting as Joint Bookrunners of this offering. Subject to the terms and conditions in the purchase agreement dated the date of this Offering Circular (the "Purchase Agreement"), the Joint Bookrunners will agree to purchase severally, not jointly, and the Republic will agree to sell to the Joint Bookrunners, the respective principal amount of the Notes set forth opposite its name below.

	<b>Principal Amount of Notes</b>
Citigroup Global Markets Limited .....	U.S.\$ 1,000,000,000
Credit Suisse Securities (Europe) Limited.....	U.S.\$ 1,000,000,000
<b>Total:</b> .....	<b>U.S.\$ 2,000,000,000</b>

The Purchase Agreement provides that the obligations of the Joint Bookrunners to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Joint Bookrunners must purchase all the Notes if they purchase any of the Notes.

The Republic has been advised that the Joint Bookrunners propose to resell the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities law and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

Accordingly, the Joint Bookrunners have agreed that, except as permitted by the Purchase Agreement and set forth in "Transfer Restrictions," they will not offer or sell the Notes within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the Notes.

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Although application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market, the listing does not assure that a trading market for the Notes will develop. The Joint Bookrunners intend to make a secondary market for the Notes. However, they are not obligated to do so and may discontinue making a secondary market for the Notes at any time without notice. No assurance can be given as to how liquid the trading market for the Notes will be. The Republic cannot assure you that the prices at which the Notes will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering.

The Republic estimates that its portion of the total expenses of this offering, including underwriters' fees, will be U.S.\$16,080,648.00.

In connection with the offering, the Joint Bookrunners may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Joint Bookrunners of a greater number of Notes than they are required to purchase in the offering.

- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Joint Bookrunners for their own respective accounts, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Joint Bookrunners may conduct these transactions in the over-the-counter market or otherwise. If the Joint Bookrunners commence any of these transactions, they may discontinue them at any time.

The Joint Bookrunners are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Bookrunners and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Joint Bookrunners and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Joint Bookrunners against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Joint Bookrunners may be required to make because of any of those liabilities.

## **Selling Restrictions**

### **United States of America**

#### ***No registration under Securities Act***

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered only: (a) outside the United States in offshore transactions in reliance on Regulation S and (b) in the United States only to QIBs in connection with resales by the Joint Bookrunners, in reliance on, and in compliance with, Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

### **Canada**

The distribution of the Notes in Canada is being made only on a private placement basis exempt from the requirement that the Republic prepare and file a prospectus with the applicable securities regulatory authorities. The Republic is not a reporting issuer in any province or territory in Canada and its Notes are not listed on any stock exchange in Canada and there is currently no public market for the Notes in Canada. The Republic currently has no intention of becoming a reporting issuer in Canada, filing a prospectus with any securities regulatory authority in Canada to qualify the resale of the Notes to the public, or listing its securities on any stock exchange in Canada. Accordingly, to be made in accordance with securities laws, any resale of the Notes in Canada must be made under available statutory exemptions from registration and prospectus requirements or under a

discretionary exemption granted by the applicable Canadian securities regulatory authority. Canadian purchasers are advised to seek legal advice prior to any resale of the Notes.

Each Canadian purchaser who purchases Notes on a private placement basis pursuant to this Canadian offering circular will be deemed to have represented to and agreed with the Republic and the Joint Bookrunners that such purchaser: (i) is entitled under applicable securities laws to purchase such Notes without the benefit of a prospectus qualified under such securities laws; (ii) is resident in Canada; (iii) is not a U.S. person as defined in Rule 902 of Regulation S under the U.S. Securities Act of 1933; (iv) is purchasing the Notes with the benefit of the prospectus exemption provided by Section 2.3 of National Instrument 45-106 – Prospectus and Registration Exemptions ("NI 45-106") (that is, such purchaser is an "accredited investor" within the meaning of NI 45-106 and is either purchasing Notes as principal for its own account, or is deemed to be purchasing the Notes as principal for its own account in accordance with applicable securities laws); (v) if not an individual, the purchaser was not created or used solely to purchase or hold Notes as an accredited investor under NI 45-106; (vi) is a permitted client within the meaning of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations; and (vii) if required by applicable securities laws or stock exchange rules, the purchaser will execute, deliver and file or assist the Republic in obtaining and filing such reports, undertakings and other documents relating to the purchase of the Notes by the purchaser as may be required by any securities commission, stock exchange or other regulatory authority.

### **United Kingdom**

Each Joint Bookrunner has represented, warranted and agreed that:

- (a) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (b) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Republic of Italy**

The offering of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa ("CONSOB") pursuant to Italian securities legislation. Each Joint Bookrunner represents and agrees that any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

### **Switzerland**

The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, as such term is used under the Swiss Code of Obligations, and will not be listed on the SIX Swiss

Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes an Offering Circular as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing Offering Circular within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland, as such term is used under the Swiss Code of Obligations.

## **Singapore**

This Offering Circular has not been registered as an Offering Circular with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Notes may not be offered or sold, nor may the Notes be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor; or
- (c) the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
  - (1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;
  - (2) where no consideration is or will be given for the transfer;
  - (3) where the transfer is by operation of law; or
  - (4) as specified in Section 276(7) of the SFA.

## **Hong Kong**

Each Joint Bookrunner has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of

Hong Kong ("SFO") and any rules made under the Ordinance; or (b) in other circumstances which do not result in the document being an "Offering Circular" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (2) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or ready by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Joint Bookrunner has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Each Joint Bookrunner has acknowledged that the information contained in this Offering Circular does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Offering Circular is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

## **Dubai International Financial Centre**

Each Joint Bookrunner has represented and agreed that it has not offered and will not offer the Notes to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "DFSA"); and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

## **Qatar**

Each Joint Bookrunner has represented and agreed that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Notes in Qatar, except: (a) in compliance with all applicable laws and regulations of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

This Offering Circular has not been reviewed or approved by or registered with the Qatar Exchange, the Qatar Central Bank or the Qatar Financial Markets Authority. This Offering Circular is strictly private and confidential and may not be reproduced or used for any other purpose, nor provided to any person other than the recipient thereof.



## **Chile**

Neither the Republic nor the Notes are registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the Chilean Securities and Insurance Commission (*Superintendencia de Valores y Seguros de Chile*), or SVS, or is subject to the control and supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

This Offering Circular and other offering materials relating to the offer of the Notes do not constitute a public offer of, or an invitation to subscribe for or purchase, the Notes in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (*Ley de Mercado de Valores*) (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

## **General**

No action has been taken by the Republic or any of the Joint Bookrunners that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required.

Accordingly, each Joint Bookrunner has undertaken that it will not, directly or indirectly offer or sell any Notes or distribute or publish any offering circular, this Offering Circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## **BOOK-ENTRY SETTLEMENT AND CLEARANCE**

### **Global Notes**

The Notes will initially be issued in the form of two registered notes in global form (which Ecuador refers to in this Offering Circular as "Global Notes"), without interest coupons, as follows:

- Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the "Restricted Global Notes"); and
- Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by one or more Global Notes (which Ecuador refers to in this Offering Circular as the "Regulation S Global Notes").

Upon issuance, the Global Notes will be deposited with the common depositary and registered in the nominee name of the common depositary for Euroclear and Clearstream.

Ownership of beneficial interests in each Global Note will be limited to persons who either have accounts with Euroclear (which Ecuador refers to in this Offering Circular as the "Euroclear participants") or persons who have accounts with Clearstream (which Ecuador refers to in this Offering Circular as the "Clearstream participants") or to persons who hold interests through Euroclear participants or Clearstream participants. The Republic expects that under procedures established by Euroclear:

- upon deposit of each Global Note with the common depositary, Euroclear or Clearstream will credit portions of the principal amount of the Global Note to the accounts of the Euroclear or Clearstream participants designated by the Joint Bookrunners; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by Euroclear (with respect to interests of Euroclear participants) or Clearstream (with respect to interests of Clearstream participants) and the records of Euroclear or Clearstream participants (with respect to other owners of beneficial interests in each Global Note).

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Note through organizations other than Euroclear or Clearstream, Luxembourg that are Euroclear participants. The Bank of New York Mellon, London Branch will act as the common depositary for the interests in the Regulation S Global Note.

Beneficial interests in the Global Notes may not be exchanged for Notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under "Transfer Restrictions."

### **Exchanges between the Global Notes**

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day restricted period, and to which Global Note the transfer is being made, the Issuer or Trustee may require the seller to provide certain written certifications in the form provided in the Indenture (as defined in "Description of the Notes").

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

### **Book-Entry Procedures for the Global Notes**

All interests in the Global Notes will be subject to the operations and procedures of Euroclear and, if applicable, Clearstream, Luxembourg. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Republic, the Trustee, any agent or the Joint Bookrunners are responsible for those operations or procedures.

Euroclear was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. Euroclear's participants include securities brokers and dealers, including the Joint Bookrunners; banks and trust companies; clearing corporations; and other organizations. Indirect access to Euroclear's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Investors who are not Euroclear participants may beneficially own securities held by or on behalf of Euroclear only through Euroclear participants or indirect participants in Euroclear.

So long as the depositary is the registered owner of a Global Note, that depositary will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the Notes under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the Indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of Euroclear to exercise any rights of a holder of Notes under the Indenture (and, if the investor is not a participant or an indirect participant in Euroclear, on the procedures of the Euroclear participant through which the investor owns its interest in the Notes).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the Trustee to the common depositary as the registered holder of the Global Note. Neither the Republic nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by Euroclear, or for maintaining, supervising or reviewing any records of Euroclear relating to those interests.

Payments by participants and indirect participants in Euroclear to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and Euroclear.

Transfers between participants in Euroclear will be effected under Euroclear's procedures and will be settled in same-day funds. Transfers between participants in Clearstream, Luxembourg will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between Euroclear participants, on the one hand, and participants in Clearstream, Luxembourg, on the other hand, will be effected within Euroclear through the Euroclear participants that are acting as depositaries for Clearstream, Luxembourg. To deliver or receive an interest in a Global Note held in a Clearstream, Luxembourg account, an investor must send transfer instructions to Clearstream, Luxembourg, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Clearstream, Luxembourg, as the case may be, will send instructions to its Euroclear depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in Euroclear, and making or receiving payment under normal procedures for same-day funds settlement applicable to Euroclear. Clearstream, Luxembourg participants may not deliver instructions directly to the Euroclear depositaries that are acting for Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the Trustee nor any paying agent will have any responsibility for the performance by, Euroclear or Clearstream, Luxembourg or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

### **Certificated Notes**

Notes in physical, certificated form will be issued and delivered to each person that Euroclear or Clearstream identifies as a beneficial owner of the related Notes only if:

- the depositary notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- Euroclear or Clearstream ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days; or
- the Trustee receives a notice from the registered holder of the Global Note requesting exchange of a specified amount for individual note certificates following a failure to pay at maturity or upon acceleration of any Note.

## **TRANSFER RESTRICTIONS**

The Notes are subject to the following restrictions on transfer. By purchasing Notes, each prospective investor will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the Joint Bookrunners:

- (1) Each prospective investor acknowledges that:
  - the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
  - unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
- (2) Each prospective investor represents that it is not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that it is not acting on the Republic's behalf and that either:
  - it is a qualified institutional buyer (as defined in Rule 144A) and is purchasing Notes for its own account or for the account of another qualified institutional buyer, and it is aware that the Joint Bookrunners are selling the Notes to it in reliance on Rule 144A; or
  - it is not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and it is purchasing Notes in an offshore transaction in accordance with Regulation S.
- (3) Each prospective investor acknowledges that neither the Republic nor the Joint Bookrunners nor any person representing the Republic or the Joint Bookrunners has made any representation to such prospective investor with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. Each prospective investor represents that it is relying only on this Offering Circular in making its investment decision with respect to the Notes. Each prospective investor agrees that it has had access to such information concerning the Republic and the Notes as it has deemed necessary in connection with its decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.
- (4) Each prospective investor represents that it is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of that investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. Each prospective investor agrees on its own behalf and on behalf of any investor account for which it is purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the applicable resale restriction period pursuant to Regulation S or Rule 144, the Notes may be offered, sold or otherwise transferred only:
  - (a) to the Republic;
  - (b) under a registration statement that has been declared effective under the Securities Act;
  - (c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A;

- (d) pursuant to Regulation S; or
- (e) under any other available exemption from the registration requirements of the Securities Act; subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

Each prospective investor also acknowledges that:

- the Republic and the Trustee reserve the right to require, in connection with any offer, sale or other transfer of Notes before the applicable resale restriction period ends pursuant to Regulation S or Rule 144 under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the Trustee;
- Notes (other than those issued outside the United States pursuant to Regulation S) will, until the expiration of one year from the original issuance date of the Notes (or such other date as specified in Rule 144 or as specified in another applicable exemption under the Securities Act), unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO THE ISSUER OF THIS NOTE, (II) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 AND RULE 904 UNDER THE SECURITIES ACT, (IV) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (II) THROUGH (V) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THESE NOTES SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE INDENTURE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

- Notes issued outside the United States pursuant to Regulation S will, unless otherwise agreed by us and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN

ACCORDANCE WITH THE INDENTURE AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

Each prospective investor acknowledges that the Republic, the Trustee, any agent, the Joint Bookrunners and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. Each prospective investor agrees that if any of the acknowledgments, representations or agreements such prospective investor is deemed to have made by its purchase of Notes is no longer accurate, it will promptly notify the Republic and the Joint Bookrunners. If any prospective investor is purchasing any Notes as a fiduciary or agent for one or more investor accounts, such prospective investor represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgments, representations and agreements on behalf of each account.

## **TAXATION**

### **Ecuador Taxation**

The following is a general discussion of Ecuadorian tax considerations. The discussion is based upon the tax laws of Ecuador as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Ecuadorian tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Ecuador.

All payments of principal and interest for the Notes offered for sale pursuant to this Offering Circular and accepted by the Republic, and any gains made by a holder from such sale, will be exempt from any Ecuadorian income tax, including withholding tax, if the holder is a foreign holder, i.e.:

- The holder is an individual and is not resident in the Republic for tax purposes; or
- The holder is a non-Ecuadorian entity that does not hold the Notes through a permanent establishment or fixed base in the Republic.

There are no Ecuadorian stamp, registration or similar taxes payable by a foreign holder in connection with offers or sales of Notes pursuant to this Offering Circular.

### **United States Federal Income Taxation**

#### **UNITED STATES TREASURY CIRCULAR 230 NOTICE**

**ANY U.S. FEDERAL TAXATION DISCUSSION IN THIS OFFERING CIRCULAR WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR PURPOSES OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE NOTES TO BE ISSUED OR SOLD PURSUANT TO THIS OFFERING CIRCULAR. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

### **Generally**

The following summary of certain material U.S. federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing U.S. federal income tax laws, which are subject to change, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with all of such statements and conclusions.

This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, pension plans, tax-exempt organizations and investors holding Notes as a position in a "straddle," "conversion transaction," or "constructive sale" transaction). In addition, this summary does not discuss any non-U.S., state, or local tax considerations. This summary only applies to investors that hold Notes as "capital assets" (generally, property held for investment) within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the "Code").



For purposes of this summary, the term "U.S. Holder" means a beneficial owner of a Note who is an individual who is a citizen or resident of the United States, a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons," as defined for U.S. federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a United States person. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. As used herein, the term "non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder for U.S. federal income tax purposes.

**Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant state, local, foreign or other tax laws.**

## **U.S. Holders**

### **Payments of Interest and Additional Amounts**

Ecuador expects, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes. Accordingly, payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time they are received or accrued, depending on the U.S. Holder's regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include any tax withheld from the interest payment as ordinary interest income, even though such holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest generally will be classified as "passive category income" (or, in certain cases, as "general category income"), which may be relevant in computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws.

### **Sale, Exchange, Retirement or Other Taxable Disposition of a Note**

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest, which will be taxed as such to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. The amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. Holder's initial investment in the Note. Gain or loss generally will be capital, and will be long-term gain or loss if the Note is held for more than one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. Therefore, U.S. Holders may not be able to claim a credit for any Ecuadorian tax imposed upon a disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met.

### ***Medicare Tax***

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (i) the U.S. Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.\$125,000 and U.S.\$250,000, depending on the individual's

circumstances). A U.S. Holder's net investment income generally will include its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

### ***Information with Respect to Foreign Financial Assets***

Owners of "specified foreign financial assets" with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year, or U.S.\$75,000 at any time during the taxable year generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

### **Non-U.S. Holders**

#### ***Payments of Interest and Additional Amounts***

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a "non-U.S. Holder," as defined above, unless the interest is effectively connected with such non-U.S. Holder's conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by such non-U.S. Holder within the United States). In that case, the non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional "branch profits tax" in respect of any such effectively connected interest income currently imposed at a 30% rate (or, if attributable to a permanent establishment maintained by such non-U.S. Holder within the United States, a lower rate under an applicable tax treaty).

#### ***Sale, Exchange, Retirement or Other Taxable Disposition of a Note***

Subject to the discussion below of backup withholding, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business within the United States (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States), or (2) such non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the non-U.S. Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above. Non-U.S. Holders described under (2) above generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain U.S. capital losses (notwithstanding the fact that such holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "—Payments of Interest and Additional Amounts."

### **Backup Withholding and Information Reporting**

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate U.S. Holders if such payments are made within the United States or by or through a custodian or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding

will apply to such payments if a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Non-U.S. Holders are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from U.S. federal income tax), but such non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-U.S. Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder as a partner. The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless such non-U.S. Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term "U.S. Controlled Person" means:

- a "United States person;"
- a controlled foreign corporation for U.S. federal income tax purposes;
- a non-U.S. person 50% or more of whose gross income is derived for tax purposes from the conduct of a U.S. trade or business for a specified three-year period; or
- a non-U.S. partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder's U.S. federal income tax liability as long as the holder provides the required information to the IRS in a timely manner.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid (or deemed to be paid) by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise, which Luxembourg has done with effect from 1 January 2015) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirement described above. Investors who are in any doubt as to their position should consult their professional advisors.

## VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, Ecuadorian counsel to the Republic, and by Hogan Lovells US LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Joint Bookrunners by Pérez Bustamante & Ponce, Ecuadorian counsel to the Joint Bookrunners, and by Clifford Chance US LLP, U.S. counsel to the Joint Bookrunners. As to all matters of Ecuadorian law, Hogan Lovells US LLP will rely on the opinion of the *Coordinador General Jurídico* of the Ministry of Finance of the Republic, and Clifford Chance US LLP will rely upon the opinion of Pérez Bustamante & Ponce.

In connection with the issuance of the Notes, the Attorney General will issue a "Pronouncement" in relation to each of the Indenture, the Purchase Agreement and the Notes which will constitute the required authorizations for the Ministry of Finance to be able to agree to the laws of the State of New York as the governing law of the Indenture, the Purchase Agreement and the Notes, as well as the submission to arbitration provisions set out therein.

Local counsel to the Joint Bookrunners has confirmed that the provision of the legal opinion from the *Coordinador General Jurídico* of the Ministry of Finance and the Pronouncement is fully compliant from an Ecuadorean law perspective.

## GENERAL INFORMATION

1. The Regulation S Global Note and the Restricted Global Note will be accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The common codes for the Regulation S Global Note and the Restricted Global Note are 108033070 and 108033118, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Restricted Global Note are XS1080330704 and XS1080331181, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Ecuador in connection with the issue and performance of the Notes. The issue of the Notes was authorized by the Republic's Debt and Finance Committee under Acta Resolutiva No. 009 dated June 5, 2014 and Acta Resolutiva No. 011 dated June 17, 2014.

3. The Republic is involved in certain litigation and administrative arbitration proceedings. See "Legal Proceedings."

4. On September 13, 2012, Moody's Investors Service upgraded the Republic's long-term Government bond ratings from "Caa2" to "Caa1" with a "stable outlook." On August 6, 2013, Standard & Poor's Ratings Services upgraded the Republic's foreign long-term issuer rating from "B-" to "B" with a "positive outlook." On October 18, 2013, the Republic's long-term issuer default rating by Fitch Ratings was upgraded from "B-" to "B," with "stable outlook".

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained, free of charge, on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

- (a) the Indenture incorporating the forms of Global Notes;
- (b) this Offering Circular;
- (c) copies of the 2008 Constitution, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and
- (d) copies of the Republic's consolidated public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since December 31, 2013.

8. Save as disclosed in "Legal Proceedings," the Republic is not involved in any litigation or arbitration proceeding relating to claims or amounts which are material in the context of the issue of the Notes nor, as far as the Republic is aware, is any litigation pending or threatened.

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