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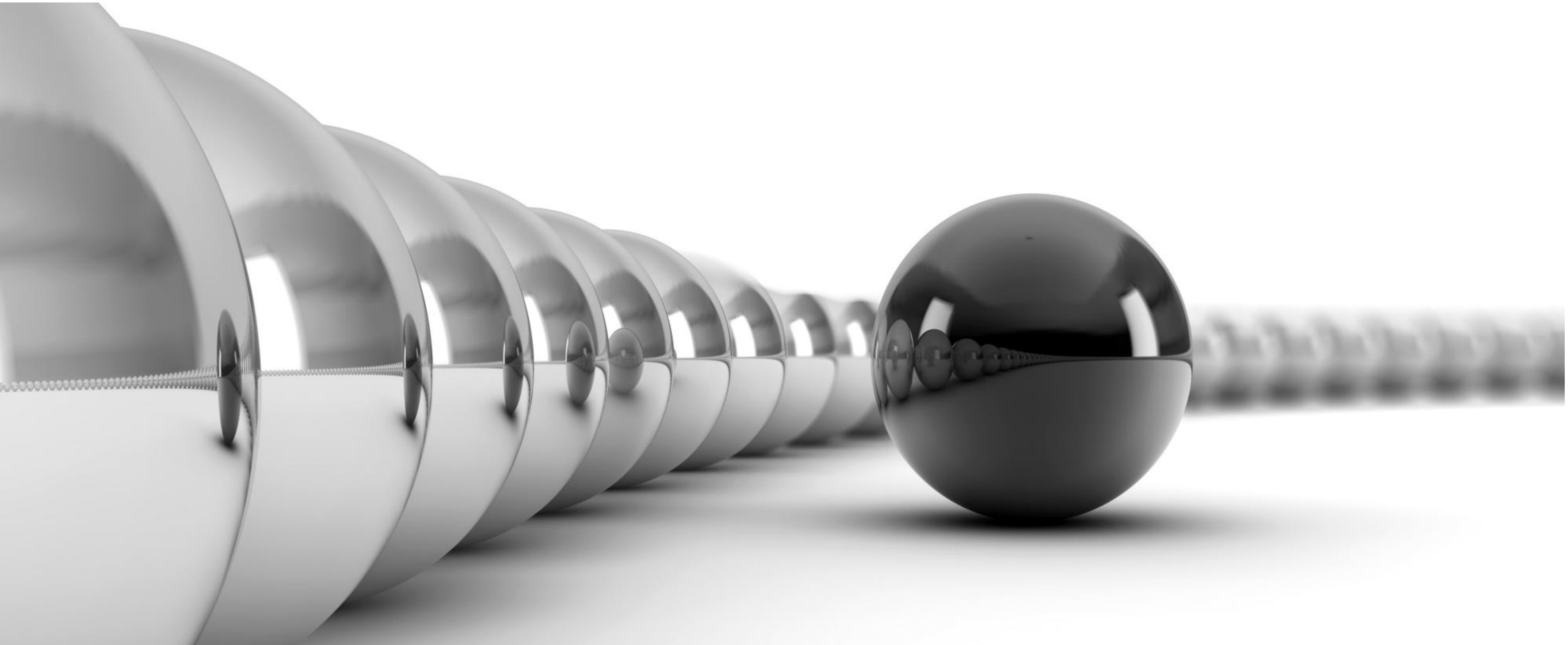
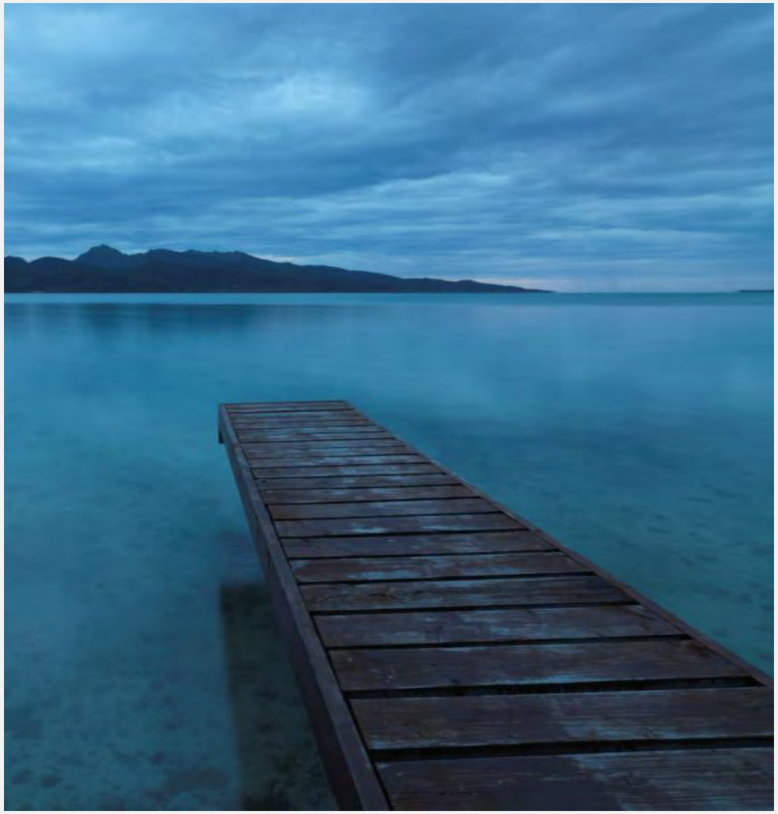


SOPARFI – THE FINANCIAL PARTICIPATION COMPANY IN LUXEMBOURG

This memorandum aims at giving its readers an overview of the main characteristics as well as the tax regime applicable to the société de participation financière ("SOPARFI") which is one of the most common Luxembourg investment vehicles in private equity.

The SOPARFI is a tax-efficient vehicle for holding shares of local and foreign companies, participations or other businesses. The SOPARFI can also provide services or obtain a business license like any other commercial company. It is an unregulated entity which is not subject to the supervision of the Commission de Surveillance du Secteur Financier. Though not specifically designed for private equity, the time-efficiency of the SOPARFI makes it very suitable for private equity. It is not subject to risk-spreading requirements and to investment restrictions. In addition, the SOPARFI regime does not impose any restrictions on the eligibility of investors.

These characteristics make the SOPARFI an interesting vehicle for managing holdings in a group of businesses.



A SOPARFI can be incorporated in the legal form of :

- a public limited liability company (SA – société anonyme),
- a private limited liability company (Sàrl – société à responsabilité limitée),
- a partnership limited by shares (SCA – société en commandite par actions),
- a special limited partnership (SCSp – société en commandite speciale) (*),
- a common limited partnership (SCS – société en commandite simple) (*),
- a cooperative company (SC – société coopérative), or
- a European company (SE – société européenne).

The management of the SOPARFI depends on its legal form. It is essential that the board of directors/ managers is composed of individuals able to meet regularly in Luxembourg.

(*) Please note that the section "Tax Considerations" does not fully apply to the SCSp and the SCS as these companies could benefit from a special tax treatment.

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The SOPARFI will be treated as a tax resident in Luxembourg if its registered office or place of central administration is located in Luxembourg. However, a SOPARFI must operate in such a way that it cannot be disregarded by the tax authorities of the investment jurisdictions or considered as tax resident in jurisdictions where investors or investments are located.

There are several substance elements which would immunize the SOPARFI from potential challenge by foreign tax authorities. However, if the SOPARFI has strong links with Luxembourg during its lifetime, the risk of such a challenge will be reduced. Therefore, the nature and level of activities will determine the substance requirements of a SOPARFI.

For more information about substance, please refer to the flyer "***Substance Environment in Luxembourg***" on our website.

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A. GENERAL TAX REGIME

1. Corporation taxes

The overall combined rate of corporation taxes is 29.22% in Luxembourg-City. Corporate taxes include a 21% corporate income tax *(impôt sur le revenue des collectivités)* on which a 7% solidarity surcharge is added, leading to an affective corporate income tax of 22,45% and a municipal business tax *(impôt commercial communal)* (the "**MBT**") of 6.75% in Luxembourg-City.

As from 1 January 2013, a minimum corporate income tax (the "**MCIT**") of EUR 3,210 (including the 7% solidarity surcharge) was introduced. The MCIT was not a final tax but an advance tax payment on the corporate tax due in the future.

2. New tax measures for fiscal year 2016

On 17 December 2015, the bill of law 6891 on certain amendments to income and wealth tax and the budget bill for 2016 were adopted by the Luxembourg Parliament.

The following tax measures are introduced :

- Replacement of the MCIT by a minimum wealth tax (the "**MWT**")
- Introduction of a digressive net wealth tax rate
- Repeal of the IP tax regime

- Replacement of the MCIT by a minimum wealth tax (the "**MWT**")

  As from tax year 2016, the MCIT is abolished and replaced by a MWT which will also apply to securitization vehicles and SICARs which otherwise remain exempt from net wealth tax.

  The MWT will be introduced with the same two-level approach as the MCIT:

  - for entities with financial assets, receivables on related entities, transferable securities and cash at bank exceeding 90% of their total gross assets and EUR 350,000, the MWT will amount EUR 3,210.
  - for all other companies which are subject to net wealth tax ("**NWT**"), the MWT will range between EUR 535 and EUR 32,100 determined to a progressive tax scale in accordance with the total balance sheet.

  In addition, the new MWT would not be seen as an advance payment against future NWT liabilities, as was the case for the MCIT.

- Introduction of a digressive NWT rate

  The NWT rate is amended in order to introduce a digressive net wealth tax rate. The rate will continue to amount to 0.5% for the taxable net asset value amounting up to EUR 500,000,000. The net asset value exceeding the threshold of EUR 500,000,000 will be subject to a reduced rate of 0.05%.

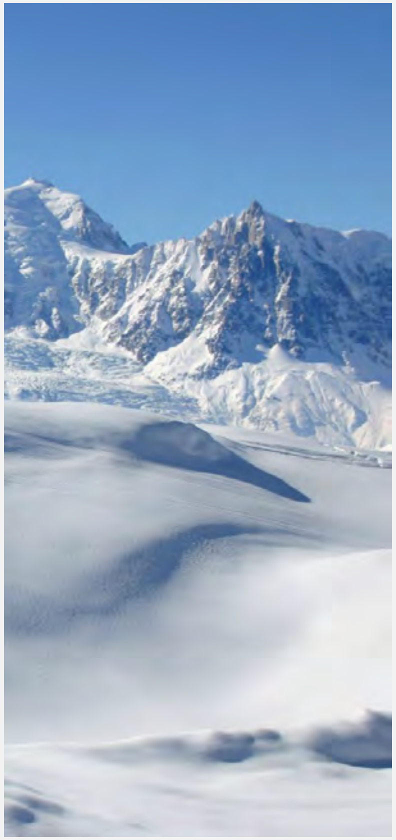
- Repeal of the IP tax regime

Under the current regime, a 80% corporate income tax exemption on net income and capital gains deriving from qualifying IP rights was available. The Budget Bill aims at repealing, as from 1 July 2016, the existing IP regime as regards income tax (and as of 1 January 2017 regarding NWT). The Budget Bill also contains a grandfathering rule whereby taxpayers shall benefit from a transitional period of 5 years (expiring on 30 June 2021) for qualifying IP that has been acquired or created before 1 July 2016.

This grandfathering rule comes with two safeguards:

❑ Should qualifying IP be acquired by a related party after 31 December 2015, the grandfathering provision will only remain applicable until 31 December 2016 with respect to the income tax exemption (until 1 January 2018 regarding the NWT), unless the related transferor itself had already benefitted from the Luxembourg IP Box regime or a similar foreign regime prior to the transfer; and

❑ The tax transparency is reinforced by the requirement of an automatic exchange of identity of the Luxembourg taxpayers benefitting from the Luxembourg IP Box regime in connection with qualifying IP created or acquired after 6 February 2015.



3. VAT

SOPARFI whose activity is limited to passive holding of shares are not considered as VAT taxable persons based on Luxembourg and EU rules. If the SOPARFI also carries out other activities or services and starts acting as a mixed holding company, it must be determined on a case by case basis whether VAT registration is required and whether input VAT may be deducted and/or recovered.

B. PARTICIPATION EXEMPTION REGIME

1. Dividends

Luxembourg law provides for a dedicated tax regime for parent and subsidiary companies. Therefore, dividends received by a Luxembourg fully taxable limited company from a subsidiary are tax exempt, provided that:

- the subsidiary is an entity within the scope of Article 2 of the European Parent-Subsidiary Directive 2011/96/EU (the "**Parent-Subsidiary Directive**") **or** an entity that is subject in its country of residence to corporate income tax corresponding to Luxembourg corporate income tax; and
- at the time of the dividend is made available, the beneficiary has held for an uninterrupted period of at least 12 months a participation representing at least 10% of the share capital of the subsidiary or which has been acquired at a cost of at least EUR 1,200,000.

On 5 August 2015, bill of law 6847 (the "**Bill**") implementing Directive 2014/86/EU on anti-hybrid instruments and Directive 2015/121/EU on the European General Anti-Abuse Rule (the "**GAAR**") amending the Parent-Subsidiary Directive was submitted to the Luxembourg Parliament. The Bill and the GAAR were adopted by the Luxembourg Parliament on 17 December 2015.

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Beginning in January 2016, dividends received by a Luxembourg company from another EU company falling within the scope of the Parent-Subsidiary Directive will no longer benefit from the corporate income tax (the "CIT") exemption and from the MBT exemption if:

- the dividends are tax deductible in the other EU member state; and
- if they derive from an arrangement or a series of arrangements that have been put in place for the main purpose or one of the main purposes of obtaining a tax advantage that defeats the object or purpose of the Parent-Subsidiary Directive, but that are not genuine in light of all the relevant facts and circumstances. An arrangement may comprise more than one step or part.

The exemption regime will remain applicable if the income is treated as a dividend and is not tax deductible in the source country.

1. *Capital gains*

Capital gains realised on a disposal of shares in the subsidiary are fully exempt from Luxembourg corporation taxes if:

- ❑ the subsidiary is an entity within the scope of Article 2 of the Parent-Subsidiary Directive **or** an entity that is subject in its country if residence to corporate income tax corresponding to Luxembourg corporate income tax; and
- ❑ the beneficiary holds for an uninterrupted period of at least 12 months a participation representing at least 10% of the share capital of the subsidiary or which has been acquired at a cost of at least EUR 6,000,000. During this entire period, the level of the participation must not fall below the threshold of 10% or the acquisition price below EUR 6,000,000.

The main difference between the eligibility requirements for the dividend exemption and those for the capital gains exemption lies in the acquisition price threshold. The new provisions introduced by the Bill and the GAAR don't affect the taxation of capital gains deriving from the sale of shares under the Luxembourg parent-subsidiary regime.

2. *Net wealth tax*

Participations held by a Luxembourg company are exempt from the 0.5% NWT provided:

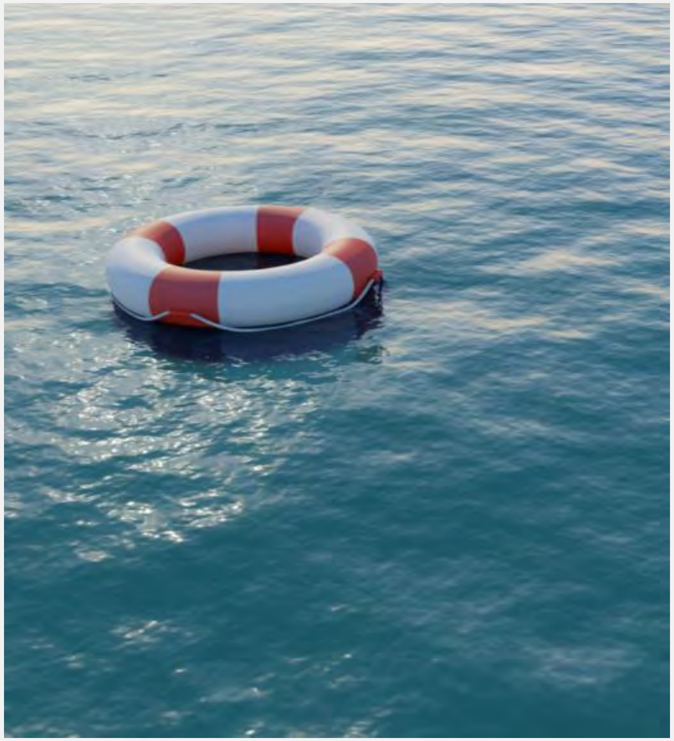
- ❑ the subsidiary is an entity within the scope of Article 2 of the Parent-Subsidiary Directive **or** an entity that is subject in its country of residence to corporate income tax corresponding to Luxembourg corporate income tax; and
- ❑ the direct participation held at the end of the financial year preceding the key date for fixing the company's net wealth value is at least 10% or has been acquired at a price of at least EUR 1,200,000.

C. BASE EROSION AND PROFIT SHIFTING ("BEPS")

The Organisation for Economic Cooperation and Development released on 5 October 2015 final reports under its Action Plan on BEPS (the "**Plan**").

The reports reflect an impressive degree of consensus between the tax authorities of the major economies of the world. The reports are a significant step in the process of designing a framework for the global taxation of cross border business.

However, they do not complete the process as substantial further developments, such as implementation into domestic laws, remain ahead as countries decide which measures to enact in the implementation phase of the Plan, a timescale of several years rather than months is very likely.



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D. TRANSFER PRICING

The Luxembourg Parliament adopted a draft law that provides for changes to both the Luxembourg Income Tax Law of 1967 and the General Tax Law (the "**Law**"). Effective as from 1 January 2015, the Law restates the arm's length principle, and as a separate measure makes explicit the need for a transfer pricing documentation.

The Law also provides that a lack of a proper transfer pricing documentation can lead to a reversal of the burden of proof towards the taxpayer.

We can expect that the focus on transfer pricing will continue to increase in Luxembourg.

"Luxembourg is the second largest investment fund centre in the world after the United States, the premier captive reinsurance market in the European Union and the premier private banking centre in the Eurozone. The financial sector is the largest contributor to the Luxembourg economy. From its origins as a Euroloan centre, the city subsequently developed as a private banking centre and then, from the 1980s, as a leading domicile for investment funds. The success of the financial centre is founded on the social and political stability of the Grand Duchy and on a modern legal and regulatory framework that is continuously updated, inspired by regular consultation between the government, the legislator and the private sector. Thus, over the years, specific regulatory frameworks have been created for alternative investment funds, venture capital investment funds, international pension funds, specialised investment funds, captive reinsurance companies, covered bond issuing banks, securitisation vehicles and family wealth management companies. This legal framework, combined with Luxembourg's openness to the world, has attracted banks, insurance companies, investment fund promoters and specialist service providers from all over the world. The Luxembourg financial centre is characterised by a strong culture of investor protection and rigorous anti money-laundering policies. Its specialist teams are multilingual and multicultural, with a long tradition of financial expertise and extensive knowledge of the needs of an international clientele."

Source: www.luxembourgforfinance.lu

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- ✓ A truly **independent financial and corporate services provider** able to leverage on the existing expertise by providing a fully integrated solution.
- ✓ Our own offices and dedicated partners network are offering to deal with **cross border solutions** in several jurisdictions.

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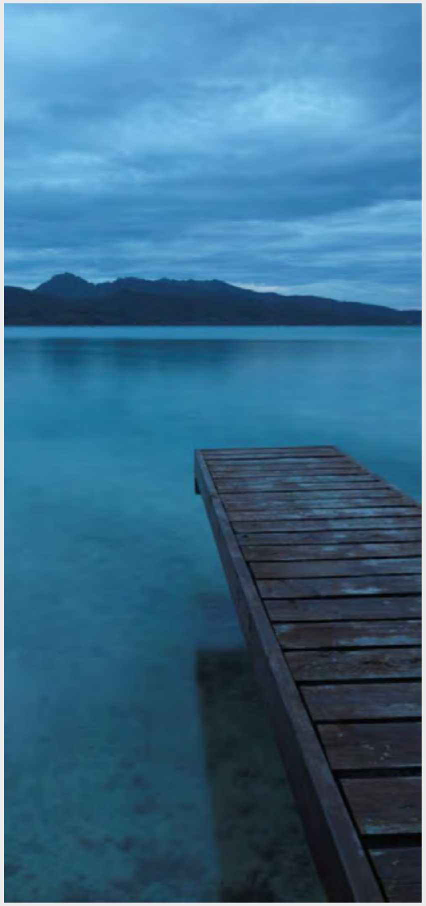

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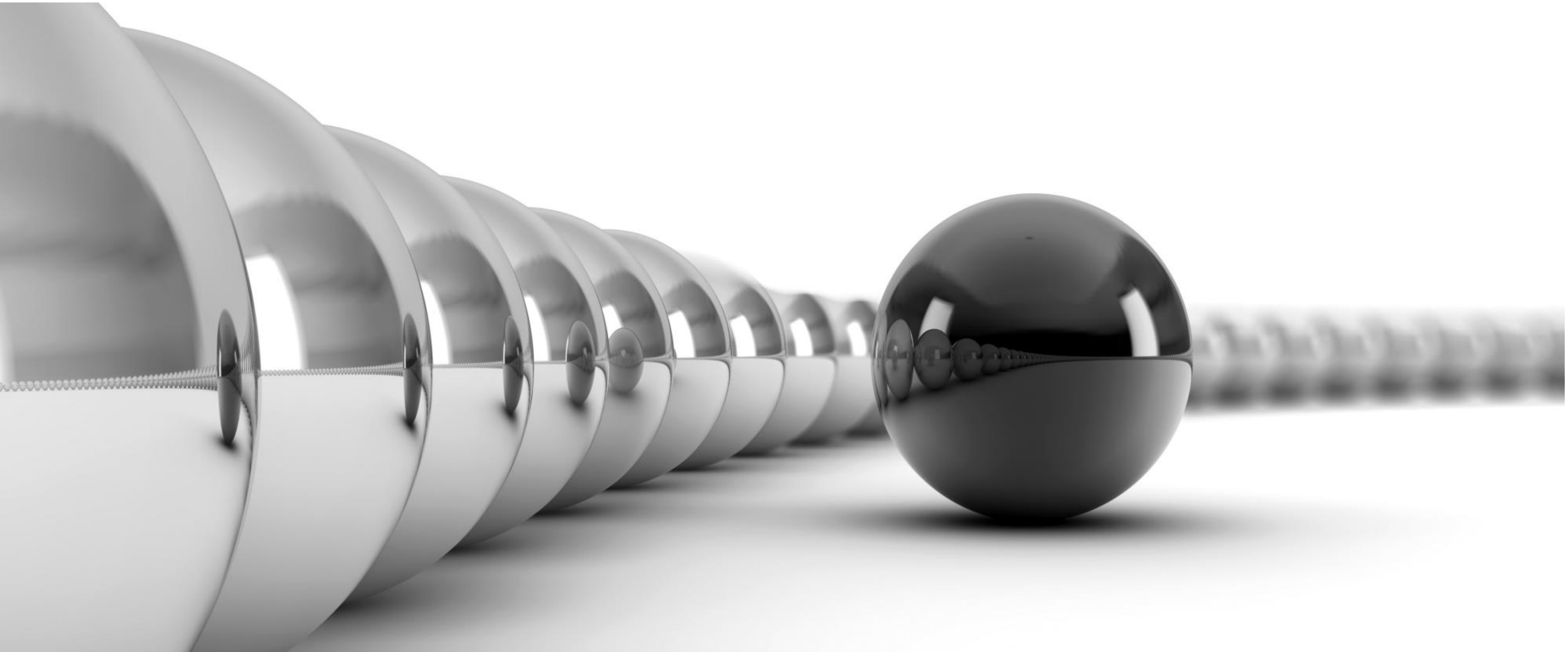

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