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SOPARFI HOLDING COMPANY
SOCIÉTÉ DE PARTICIPATIONS FINANCIÈRES

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DEFINITION

A SOPARFI is a fully taxable Luxembourg resident company, which takes advantage of the participation exemption in Luxembourg, which may benefit from double taxation treaties signed by Luxembourg with several countries as well as the provisions of the EU Parent-Subsidiary Directive. Its primary activity is holding and/or financing activity and it therefore benefits from the so called “participation exemption” under the EU Parent-Subsidiary Directive in respect of some or all of its investments.

OBJECTIVE, PURPOSE

A Soparfi is a regular commercial company and as such may have a more or less specific corporate purpose defined in its statutes. It can be used in various investment schemes, e.g. holding and financing of participations, acquisitions of real estate, acquisitions of intellectual property rights and other assets.

A SOPARFI can hold participations in resident or non-resident companies, purchase, sell or exploit intellectual property rights, acquire shares in real estate companies or own real estate property directly as well as perform any type of commercial or industrial activity.

LEGAL BASIS

The main law governing incorporation and operation of companies in Luxembourg is the Commercial Companies Act of August 10, 1915 (as amended). Tax regime is regulated by the General Tax Law (L.I.R.) of 22 May 1931 as amended.

LEGAL FORM

The SOPARFI can adopt one of the following legal forms:

- **Société anonyme (S.A.)** – similar to a Public Limited Company or an Aktiengesellschaft (AG) (also in a form of a single shareholder S.A.);
- **Société à responsabilité limitée (S.à r.l.)** – similar to a Private Limited Company or a Gesellschaft mit beschränkter Haftung (GmbH) (also in a form of a single shareholder S.à r.l.);
- **Société en commandité par actions (SCA)** – similar to Partnership Limited by Shares or Kommanditgesellschaft auf Aktien (KGaA);
- **Société co-operative (S.C.)** - co-operative (a co-operative can also be incorporated as a public company);
- **Société européenne (S.E.)** a société anonyme incorporated in conformity with article 2 of the European Council regulation (CE) no. 2157/2001 dated 8 October 2001 on the articles of incorporation for a European company.

Contributions can be paid in cash or in kind. The shares may be issued as registered or bearer shares.

ADMINISTRATION

A public company may utilize one of the following types of management:

- Single tier management (Board of Directors)
- Two-tier management (the Management Board; the Supervisory Board).

There are no legal requirements relating to residence or nationality of the directors. They may be natural or legal persons and resident or non-resident.

A SOPARFI may distribute interim dividends and/or end of the period dividends. The obligation to audit company’s financial statements depends on size criteria. An audit is performed either by an internal auditor (commissaire aux comptes) or a statutory auditor (réviseur d’entreprises).

An annual balance sheet, a profit and loss account and notes to the accounts must be prepared in the form required by the law of December 19, 2002 and submitted for shareholders’ approval within six months after the financial year end.

TAX TREATMENT

A SOPARFI is a fully taxable company subject to the general Luxembourg tax regime. Generally a SOPARFI is subject to corporate income tax and municipal business tax at the global rate of 29.22%.

Provided certain requirements are fulfilled, some types of income generated by a SOPARFI will benefit from the participation exemption under the EU Parent- Subsidiary Directive. Furthermore, a SOPARFI is entitled to benefit from reduced withholding tax rates provided for in double tax treaties concluded by Luxembourg with several individual countries.

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Advantages offered by a SOPARFI are:

- dividends received and capital gains on disposal of shareholdings are tax exempt (subject to conditions) ;
- no withholding tax on dividends paid to a company resident of a country with which Luxembourg has concluded a double tax treaty (subject to conditions) ;
- no withholding tax on dividends paid between EU resident companies (subject to conditions) ;
- no withholding tax on liquidation proceeds ;
- possibility of offsetting financial charges in respect of taxable activities, capital losses on the disposal shareholdings and, under certain conditions, foreign tax credits against profits made from other taxable activities ;
- very flexible thin capitalization rules ;
- possibility of VAT registration.

A SOPARFI can take advantage of:

- Luxembourg double tax treaty network ;
- offsetting of foreign withholding taxes, in so far as the provisions of Luxembourg domestic law permit ;
- dividend income and medium and long-term capital gains on disposals which are tax exempt.

A SOPARFI does not have to pay any subscription tax and is not obliged to withhold tax on liquidation proceeds.

Net wealth tax is charged to Luxembourg legal persons at a rate of 0.50% of the company's net assets valued on January, 1st of each year. However, holdings which benefit from the Parent/subsidiary regime are exempt from this tax (without applying the minimum holding period condition).

A debt-to-equity ratio of 85/15 is generally accepted by the Luxembourg tax authorities. Within this limit, interest on debt paid or accrued is tax-deductible and payments do not suffer from a Luxembourg withholding. A third party debt is generally not subject to any debt-equity limitations, as long as the debt is not guaranteed by related parties.