



Belgium

Background

During 2006, private equity funds raised (including realised capital gains) amounted to €721.7 million. The amount invested in 2006 added up to €940.3 million and divestments increased by 9.6% to €391.6 million. 2006 saw an increase in new funds raised and a decrease in realised capital gains. In 2006, the favourable economic and financial climate overall had a positive effect on the private equity activity level when compared to previous years.

In 2006, amounts invested in buyouts and expansion capital increased significantly. Furthermore, the proportion of funds raised that is allocated to buyouts increased, while venture capital experienced a slight decrease in the allocation of funds raised.

Sources of capital

Fundraising reached €721.7 million during 2006, which is double the 2005 amount. This increase was mainly attributable to a €413.9 million increase of the amount raised by captives, representing more than seven times the funds raised by captives in 2005. On the other hand, the contribution of realised capital gains fell to €107.4 million (a 54.0% decrease compared to 2005). As a result, new funds raised represented the main source of funds raised in 2006, representing 85.1% of the total funds raised.

The bulk of new funds raised came from banks, which provided 78.8% of the total funds raised in 2006 (28.3% in 2005). The new funds raised by corporate investors were rather stable in 2006 at €19.2 million, compared to €22.9 million in 2005. Funds raised by government agencies saw an increase of €66.0 million to €73.9 million, representing 12.0% of the total funds raised in 2006 compared to 6.6% in 2005.

In contrast with 2005, funds in 2006 were fully raised from domestic sources (compared to 70.1% in 2005).

The allocation of funds raised showed a trend towards fewer high-tech funds than in 2005 (5.3% of the total funds raised in 2006 compared to 34.8% in 2005). Regarding the allocation to venture capital or buyout, 28.6% of the total funds raised were allocated to venture capital in 2006, versus 59.7% in 2005, and the trend towards an increased share of funds allocated to buyouts continued (71.4% in 2006 compared to 40.3% in 2005 and 32.4% in 2004).

Investment patterns

In 2006, 349 private equity investments were closed, which is a slight increase on the 2005 level of 315 deals. The total amount invested in 2006 (€940.3 million) is more than four times the total amount invested in 2005, reflecting an increase of the average value per deal from €0.6 million in 2005 to €2.7 million in 2006. This is explained by fewer early-stage deals in 2006 than in 2005 (42 investments compared to 132 in 2005). In 2006, investments in expansion capital increased to 201, along with the investments in buyouts (101). The average deal value of buyout investments increased from €1.1 million in 2005 to €4.0 million in 2006.

Independent and semi-captive investors were the most important investors in 2006, representing 45.0% and 35.2% of the total investment amount respectively. The investments made by independent organisations increased from €124.1 million in 2005 to €422.8 million in 2006. The second most active investors in 2006 were semi-captives, which increased their investments in 2006 to €331.6 million, a considerable increase on the €22.5 million raised in 2005. Investments by captive organisations and the public sector also gained ground in 2006, representing an increase to €150.4 million and €35.5 million respectively.

Looking at the sectoral distribution of investments in 2006, major investments were made in the field of consumer related industries (37.7% compared to 32.6% in 2005) and other services (29.5% in 2006 compared to only 1.6% in 2005). The share of investments in biotechnology dropped from 26.7% of the total amount invested in 2005 to 14.0% in 2006.

Domestic investments by Belgian private equity firms represented the majority of transactions. Their share increased significantly to 90.9% of the total amount invested (compared to 71.8% in 2005 and 81.1% in 2004). The share of investments in other European countries decreased from 28.2% in 2005 to 7.5% in 2006. The remaining 1.6% represented investments in non-European countries, which were non-existent in 2005.

Legal and fiscal environment

On 29 January 2007, the Council of State annulled the provision stipulating that insurance companies were not able to benefit from the *Dividend Received Deduction* ('DRD') on participations that did not qualify as "financial fixed assets" as a result of their particular accounting rules.

In principle, withholding tax of 15 per cent applies to interest payments and of 25 per cent to dividends. However, a lot of exemptions are provided for by Belgian internal tax rules (i.e. implementation of the parent-subsidiary directives and the interest-royalty directive in Belgian internal tax rules, exemption for banks established in treaty countries, application of an exemption similar to the parent-subsidiary directive to all companies in treaty countries,...) or pursuant to numerous double taxation treaties (86 tax treaties worldwide). Please note that in case of liquidation, the liquidation surplus is subject to 10 per cent withholding tax, nevertheless the qualified shareholder will benefit from withholding tax exemption of the EU parent-subsidiary directive.

The NID (*Notional Interest Deduction*) legislation, compliant with the EU 'state aid' rules, amends the Belgian tax law so that Belgian companies and Belgian branches of foreign companies are able to claim a tax deduction for the cost of capital by allowing them to deduct a notional interest rate calculated on their equity (including reserves). The long term risk free loan rate (10 Year Belgian Government Bonds or OLOs) is taken as a basis, which amounts to some 3.442 per cent for the NID of assessment year 2007 (i.e. financial years ending on or after 31 December 2006) and 3.781 per cent for the NID of assessment year 2008 (i.e. financial years ending on or after 31 December 2007). In case there is no tax base, the notional interest deduction can be carried forward for maximum 7 years.

As for determining the basis on which the interest is calculated, certain adjustments need to be made. The most important one is that the basis needs to be reduced by the net amount of own shares and holdings accounted as fixed financial assets so as to avoid (potential) double use.

Along with the introduction of the NID legislation and in view to increasingly encourage equity investments, the 0.5 per cent Belgian capital duty has been reduced to 0 per cent as of 1 January 2006. Capital contributions in a Belgian company should consequently only attract a fixed duty of €25 whatever the amount contributed.

On Thursday, 15 March 2007, Royal Decree no. 55 on VAT grouping was published. This means that, as from 1 April 2007, VAT grouping is possible in Belgium. Under the proposed rules, taxable persons established in Belgium that are legally independent but closely bound to one another by financial, economic and organisational links can opt for a group for VAT purposes.

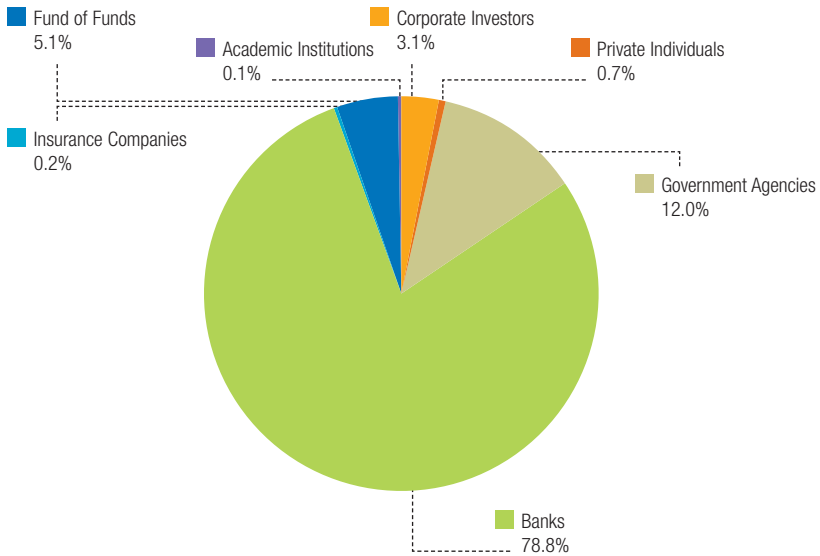
This could be an interesting item for active private equity funds, as there is (1) no loss of the limitation of the right to deduct input VAT or no double application of the limitation of the right to deduct input VAT in certain circumstances (e.g. existence of a real estate company within a VAT group, re-charging of car costs within a VAT group, etc.), (2) no risk of incorrect VAT treatment anymore on intra-group transactions (e.g. chain supplies, application of reverse charge, treatment of the operations, etc.), (3) a positive cash flow impact (especially in situations with one group company in a VAT refund position and another group company in a VAT payable position), (4) a cost cut thanks to a reduction in compliance work (one VAT return, one intra-Community listing, no inter-company invoicing, one yearly client listing, etc.).

The most widely used structure for private equity funds is the “PRIVAKs” (Private Equity Investment Funds) regulated in the Belgian legislature by the law of 16 April 1997. PRIVAKs are vehicles investing in unquoted companies under the form of companies with a capital limited by shares (private PRIVAK) or under the form of a fund (public PRIVAK). The Belgian legislation has been adapted in order to open the PRIVAK Funds regime to private investors in unquoted companies.

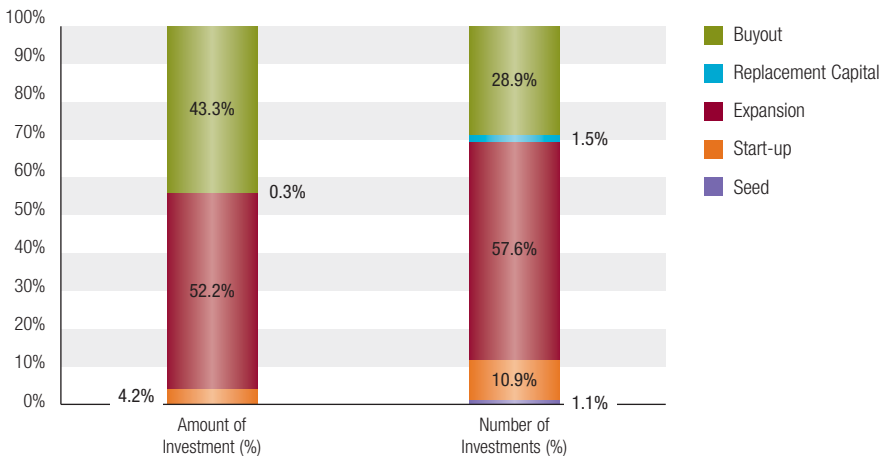
Exiting

Total divestments increased to €391.6 million (109 transactions) in 2006, compared to €357.3 million in 2005 (112 transactions) and €286.4 million in 2004 (118 transactions). Contrary to 2005, when public offerings were the most common exit route, management buy-backs took the lead in 2006 with 26.0% of the total amount divested, compared to just 11.3% in 2005. Divestments by public offerings and through repayment of principal loans were the other popular divestment routes (22.8% and 12.5% of the total amount divested respectively). Sales to another private equity house increased considerably in value, from only €1.0 million in 2005 (6 transactions) to €34.4 million in 2006 (5 transactions). Although popular in 2005, there were fewer trade sales in 2006 (6.8% of the total amount and 15 transactions in 2006 compared to 20.1% of the total amount in 2005 and 26 transactions).

Private equity raised by type of investor in 2006



Stage distribution of investments in 2006



Funds raised

Amount (in € x 1,000)	2005		2006	
	Amount	%	Amount	%
Private Equity Raised by Source				
Independent Funds Raised in Year	54,337	15.4	135,403	18.8
Amount Raised by Captives	64,988	18.4	478,864	66.3
Subtotal New Funds Raised	119,325	33.8	614,267	85.1
Realised Capital Gains	233,342	66.2	107,419	14.9
Total Funds Raised	352,667	100.0	721,686	100.0
Private Equity Raised by Type of Investor				
Corporate Investors	22,875	19.2	19,204	3.1
Private Individuals	0	0.0	4,267	0.7
Government Agencies	7,931	6.6	73,934	12.0
Banks	33,762	28.3	484,235	78.8
Pension Funds	0	0.0	0	0.0
Insurance Companies	0	0.0	869	0.2
Fund of Funds	0	0.0	31,323	5.1
Academic Institutions	0	0.0	435	0.1
Capital Markets	0	0.0	0	0.0
Not Available	54,757	45.9	0	0.0
Subtotal New Funds Raised	119,325	100.0	614,267	100.0
Realised Capital Gains	233,342	-	107,419	-
Total Funds Raised	352,667	-	721,686	-
Geographical Breakdown of Private Equity Raised				
Domestic	247,113	70.1	721,686	100.0
Other European Countries	105,554	29.9	0	0.0
Non-European Countries	0	0.0	0	0.0
Total Funds Raised	352,667	100.0	721,686	100.0
Expected Allocation of Funds Raised				
High-Tech Early-Stage	64,845	18.4	29,167	4.0
Non High-Tech Early-Stage	25,600	7.3	0	0.0
High-Tech Expansion/Development	58,038	16.4	9,129	1.3
Non High-Tech Expansion/Development	62,206	17.6	168,278	23.3
Venture Capital	210,689	59.7	206,574	28.6
Buyout	141,978	40.3	515,112	71.4
Not Available	0	0.0	0	0.0
Total Funds Raised	352,667	100.0	721,686	100.0

Investments

Amount (in € x 1,000)	2005			2006		
	Amount of Investments	%	Number of Investments	Amount of Investments	%	Number of Investments
Initial Investment	134,848	69.9	98	647,564	68.9	109
Follow-on Investment	57,995	30.1	217	292,687	31.1	240
Total Investment in Year	192,843	100.0	315	940,251	100.0	349
Distribution of Investments by Investor Type						
Independent	124,147	64.4	238	422,820	45.0	199
Captive	35,584	18.5	20	150,379	16.0	35
Semi-Captive	22,450	11.6	23	331,589	35.2	75
Public Sector	10,662	5.5	34	35,463	3.8	40
Total Investment	192,843	100.0	315	940,251	100.0	349
Stage Distribution of Investments in Year						
Seed	3,588	1.9	15	126	0.0	4
Start-up	58,169	30.2	117	39,049	4.2	38
Expansion	51,589	26.7	90	490,987	52.2	201
Replacement Capital	5,114	2.7	24	3,161	0.3	5
Buyout	74,383	38.6	69	406,928	43.3	101
Small	54,983		68	120,323		94
Mid-market	19,400		1	286,605		7
Large	0		0	0		0
Mega	0		0	0		0
Total Investment	192,843	100.0	315	940,251	100.0	349
Syndication of Investments in Year						
No Syndication	184,215	95.5	305	902,866	96.0	295
National Syndication	8,628	4.5	10	5,985	0.7	13
Transnational Syndication	0	0.0	0	31,400	3.3	41
Total Investment	192,843	100.0	315	940,251	100.0	349

Amount (in € x 1,000)	2005				2006							
	Amount of Investments	%	Number of Investments	%	Amount of Investments	%	Number of Investments	%				
Geographical Distribution of Investments in Year												
Domestic	138,549	71.8	233	74.0	159	73.3	854,789	90.9	311	89.1	222	91.0
Other European Countries	54,294	28.2	82	26.0	58	26.7	70,907	7.5	24	6.9	12	4.9
Non-European Countries	0	0.0	0	0.0	0	0.0	14,555	1.6	14	4.0	10	4.1
Total Investment	192,843	100.0	315	100.0	217	100.0	940,251	100.0	349	100.0	244	100.0
Sectoral Distribution of Investments in Year												
Communications	7,384	3.8	28	8.7	23	10.6	38,171	4.1	42	12.0	19	7.8
Computer Related	21,851	11.3	52	16.5	41	18.9	52,861	5.6	74	21.3	50	20.5
Other Electronics Related	3,775	2.0	13	4.1	10	4.6	6,363	0.7	17	4.9	11	4.5
Biotechnology	51,571	26.7	91	28.9	43	18.9	131,344	14.0	39	11.2	23	9.4
Medical/Health Related	14,661	7.6	37	11.6	27	12.4	26,676	2.8	30	8.6	26	10.7
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Consumer Related	62,874	32.6	26	8.3	20	9.2	354,981	37.7	42	12.0	30	12.3
Industrial Products and Services	4,141	2.2	26	8.3	20	9.2	8,965	0.9	34	9.7	30	12.3
Chemicals and Materials	1,787	0.9	4	1.3	3	1.4	749	0.1	4	1.1	4	1.6
Industrial Automation	0	0.0	0	0.0	0	0.0	10,181	1.1	13	3.7	11	4.5
Other Manufacturing	11,936	6.2	13	4.1	10	4.6	7,391	0.8	8	2.3	8	3.3
Transportation	0	0.0	0	0.0	0	0.0	2,856	0.3	8	2.3	8	3.3
Financial Services	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other Services	3,045	1.6	13	4.1	10	4.6	276,985	29.5	18	5.2	5	2.0
Agriculture	7,612	4.0	4	1.3	3	1.4	0	0.0	4	1.1	4	1.6
Construction	0	0.0	0	0.0	0	0.0	6,738	0.7	8	2.3	8	3.3
Other	2,206	1.1	9	2.8	7	3.2	15,990	1.7	8	2.3	7	2.9
Total Investment	192,843	100.0	315	100.0	217	100.0	940,251	100.0	349	100.0	244	100.0
Subtotal High-Tech	84,581	43.9	183.5	58.3	115	53.0	112,257	11.9	164	47.0	98	40.2

Divestments

Amount (in € x 1,000)	2005						2006					
	Amount of Divestments	%	Number of Divestments	%	Number of Companies	%	Amount of Divestments	%	Number of Divestments	%	Number of Companies	
Divestment by Trade Sale	71,721	20.1	26	23.2	26	24.5	26,760	6.8	15	13.8	15	14.7
Divestment by Public Offering	115,800	32.4	23	20.5	21	19.8	89,415	22.8	15	13.8	15	14.7
Divestment by Flotation (IPO)	96,209		6		6		74,514		6		6	
Sale of Quoted Equity	19,591		17		15		14,901		9		9	
Divestment by Write-Off	1,452	0.4	3	2.7	3	2.8	33,449	8.6	12	11.0	12	11.8
Repayment of Principal Loans	57,622	16.1	35	31.2	35	33.0	48,804	12.5	14	12.8	9	8.8
Sale to Another												
Private Equity House	989	0.3	6	5.4	6	5.7	34,388	8.8	5	4.6	5	4.9
Sale to Financial Institution	0	0.0	0	0.0	0	0.0	26,342	6.7	21	19.3	21	20.6
Sale to Management (Buy-back)	40,421	11.3	6	5.4	6	5.7	101,964	26.0	14	12.8	12	11.8
Divestment by Other Means	69,296	19.4	13	11.6	9	8.5	30,520	7.8	13	11.9	13	12.7
Total Divestment in Year	357,300	100.0	112	100.0	106	100.0	391,642	100.0	109	100.0	102	100.0

Portfolio at cost

Amount (in € x 1,000)	2005			2006		
	Amount	Number of Investments/ Divestments	Number of Companies	Amount	Number of Investments/ Divestments	Number of Companies
Portfolio at Cost 1st Jan	2,485,236			2,320,779		
Total Investment in Year	192,843	315	217	940,251	349	244
Total Divestment in Year	(357,300)	112	106	(391,642)	109	102
Portfolio at Cost 31st Dec	2,320,779			2,869,388		

Geographical flows of private equity

Amount (in € x 1,000)	2005	2006
Funds		
Funds raised by Local Private Equity Houses (1)	352,667	721,686
Investment		
Investment by Local Private Equity Houses (2)	192,843	940,251
(-) Foreign Investment by Local Private Equity Houses	(54,294)	(85,462)
Local Investment by Foreign Private Equity Houses (3)	336,550	543,482
Total Investment in Country	475,099	1,398,271

Notes:

- (1) Also includes funds raised by local offices of foreign groups that have a distinct local fundraising activity.
 (2) Also includes domestic investments made by local offices of foreign groups.
 (3) Investments made by foreign private equity (PE) houses with no local offices.

Macro economic indicators

	2005	2006
Number of Private Equity Executives	142	142
Private Equity Investment as % of GDP	0.065%	0.299%
GDP (€ billion)*	298.2	314.1
Private Consumption (€ billion)*	158.7	166.0
Public Consumption (€ billion)*	68.8	70.9
Consumer Prices (2004=100)*	102.8	104.6
Producer Prices (2000=100)*	107.4	112.8
Interest Rates (3-month)**	2.15%	2.49%
Interest Rates (10-year)**	3.43%	3.81%
Retail Sales (1995=100)*	138.0	138.0
Unemployment Rate*	12.8%	11.7%
Total value of completed M&A (€ million)	34,931	5,508
Number of completed M&A	181	196
Total value of IPOs (€ million)	2,202	819
Number of IPOs	8	14

Source: Thomson Financial

* National Source

** European Banking Federation & Financial Market Association

*** European Central Bank & EUROSTAT

Note:

Number and amount of M&A deals are split per country based on the location of the target

Number and amount of IPOs are split per country based on the location of the issuer