



BELGIUM

■ Background

The amounts raised and invested by private equity houses continued to decline in 2002. Lower company valuations, increasing difficulties in exit routes and the weak economic climate contributed to these declines. Nevertheless, this global trend does not mask the increasing activity of independent private equity houses in Belgium in 2002, compared to 2001.

The Belgian private equity market is quite fragmented. The market is still dominated by a large number of small private equity companies, although the number of large investment funds is increasing. This trend is sustained by the increasing presence of foreign investors on the Belgian market and by the appearance of new, smaller private equity funds in Belgium.

The proportion of amount invested in buyout continued to increase. Historically active investors in Belgium include pure Belgian private equity and venture capital practitioners. However, the largest transactions are, in most of the cases made by foreign companies who typically structure and finance deals from foreign countries. In general a continued growing interest of large international venture capitalists in the Belgian market could be noticed.

■ Sources of Capital

Fundraising reached €125 million during 2002, a decrease of 81 per cent compared to the previous year. This decrease was mainly due to the decrease in exits generating capital gains. In 2001, the main source of funds was realised capital gains available for reinvestment with about 80 per cent of the total funds raised, while capital gains only represented 23 per cent of the funds raised in 2002. The appetite of private individuals for private equity recovered in 2002 (€27 million) compared to 2001 (€3 million). Nevertheless, this figure was still approximately 30 per cent below the funds raised from private individuals in 2000. Only 7 per cent of new funds were raised by government agencies, even if the Belgian authorities continue to underline the importance of private equity as a driver for economic growth. As in previous years, banks remain an important contributor with a share of 55 per cent of new funds raised. The bulk of funds were raised in Belgium, only 8 per cent was raised from abroad.

■ Investment Patterns

The number of investments increased from 329 in 2001 to 343 last year, while the total amount invested slid by 12 per cent to €360 million. As in 2001, the fall in seed capital was even more pronounced and decreased by more than 70 per cent to €7 million. The decrease in the amount and number of investments dedicated to expansion/growth capital continued in 2002.

Independent private equity organisations were very active in 2002 compared to 2001 and 2000. Meanwhile, public sector organisations continued to account for a large proportion (49 per cent) of the activity for 2002.

Looking at the sectoral distribution of investment in 2002, investments made in the field of computer or other electronic related industries continued to fall back considerably. The only technology related sector to be spared by the downturn was communications, which enjoyed an increase in investment. The shift toward investment in more traditional industries was reflected in the amount invested in industrial products. Investment in the construction sector also benefited from an upward trend, rising from €10 million in 2001 to €35 million in 2002.

Like previous years, investment in Belgium represented more than 60 per cent of the total amount invested. The percentage of investment in the other European countries was around 37 per cent. The number of investments outside Europe increased from 56 to 67, but the average investment decreased from €1.5 million in 2001 to €0.1 million in 2002.

■ Legal and Fiscal Environment

The Belgian Company Code allows various legal forms for the incorporation of a new company. The most widely used form for private equity funds is the Belgian company limited by shares (*'société anonyme' S.A./ 'naamloze vennootschap' N.V.*). The S.A./N.V. must have at least two shareholders which may be corporate entities or individuals, whether Belgian or foreign. The minimum share capital is €61,500, the shares can be registered or bearer, with or without a nominal value. In principle, shares are freely transferable, although company law allows share transfers to be restricted by means of either a shareholders' agreement or a statutory clause.

Investors in any Belgian limited liability company enjoy advantageous tax treatment for capital gains and dividends received. Capital gains realised by a Belgian company on the sale of shares in an EU or non-EU subsidiary are exempt from corporate income tax, irrespective of the size or duration of shareholding. Capital losses on the sale of shares are not tax deductible. Participation exemption applies with respect to dividends attributable to a Belgian permanent establishment.

Under the exemption, the qualified dividends received (i.e. dividends coming from an entity that is not subject to a more favourable tax regime, such as tax haven company) are first included in the taxable income, and then 95 per cent of the dividends are deducted from this taxable income (Dividend-Received-Deduction regime – 'DRD'). If insufficient profits are available, or if the Belgian company is in a loss position, the qualifying dividends cannot be deducted. Following the tax reform of 24 December 2002, the existing DRD regime will be modified as from 31 December 2003 (tax year 2004). The DRD regime will apply under the following conditions:

- (1) a holding requirement of at least 10 per cent or €1,200,000;
- (2) twelve-months holding period appreciated 'post-factum' (share-by-share); and
- (3) the shares must be held as financial assets (exclusion of portfolio investments).

These conditions do not apply for capital gains exemption.

The tax reform will also result in a decrease of the statutory income tax from 39 per cent (40,17 per cent including the 3 per cent surtax) to 33 per cent (33,99 per cent including the 3 per cent surtax). An additional decrease to 30 per cent with abolition of the crisis contribution is expected in the future.

As a result of the tax reform, a 10 per cent withholding tax on liquidation surplus is applicable as from 1 January 2002 for all liquidations not yet closed per 26 March 2002. Nevertheless, the qualified shareholder will still benefit from the withholding tax exemption of the EU parent-subsidiary directive.

Belgian company law does not have general thin capitalisation rules. As a result, no debt/equity ratio has to be observed within the Belgian company. Only under very particular circumstances and only for corporate income tax purposes may specific thin capitalisation rules impose a debt/equity ratio of 1:1 (where the lender is a director or an individual shareholder) or a debt/equity ratio of 7:1 if the actual beneficiary of interest paid by the Belgian company is not subject to taxation on income, or is subject for its interest income to a tax regime that is considerably more favourable than the Belgian regime. Tax losses can be carried forward without time limitation.

Regarding the VAT, a holding company, which acquires stakes in businesses without intervening directly or indirectly in their management, is not considered as a VAT payer. Such an entity cannot, therefore, deduct VAT.

The limited liability company which has a share capital limited by shares is suitable for use as a private equity investment vehicle. Private equity funds may be privately placed. Public placements require the authorisation of the Commission for Banking and Finance.

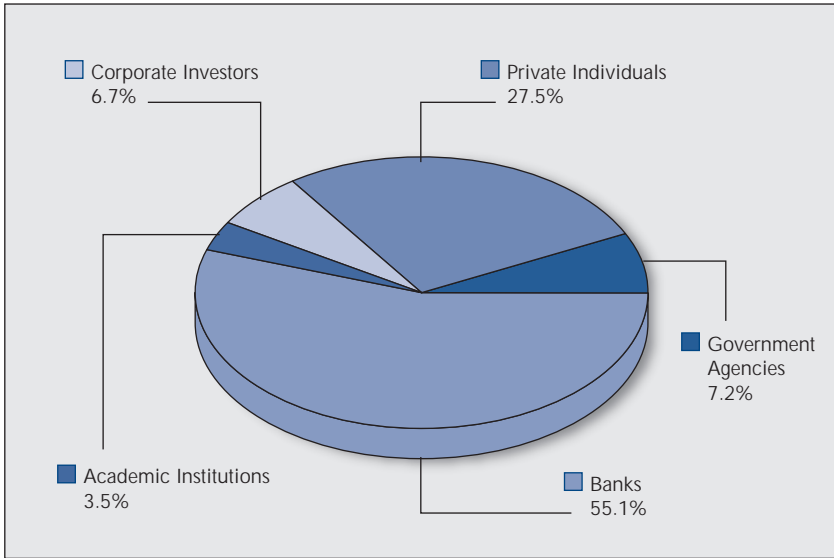
The Belgian legislature has, by the law of 16 April 1997, regulated a special tax regime known as the 'PRIVAK' (Private Equity Investment Fund). PRIVAKs are investment companies that can adopt the form of a company limited by shares. The purpose of the public PRIVAK Fund is for the collective investment of capital solicited by the public. Therefore a public offering to possible investors should be made. PRIVAK Funds are in principle subject to corporate income tax. The taxable basis is however calculated as the total amount of abnormal or gratuitous advantages received and disallowed expenses with the exception of capital losses and reduction in value of shares. This implies that PRIVAK companies benefit de facto from a favourable tax regime. Also, no withholding tax will be due on dividends paid by the PRIVAK Fund to its shareholders, if these shareholders are foreign persons or companies that did not commit their capital in Belgium to a professional activity. This latter example is not applicable when the dividends paid by the PRIVAK Fund find their origin in dividends paid to the PRIVAK Fund by Belgian companies. If the exemption does not apply, the dividends will be subject to a withholding tax at the rate of 15 per cent or 25 per cent. Furthermore, no withholding tax is due to the extent that the dividend is sourced out of capital gains on shares realised by the PRIVAK. Capital gains realised on shares held by the PRIVAK Fund are tax-exempt in the hands of the PRIVAK Fund. The PRIVAK Fund is subject to an annual stamp duty of 0.06 per cent of the investment value. The PRIVAK Fund is exempted from the proportional capital duty upon contribution.

The Belgian legislation has been recently adapted in order to open the PRIVAK Fund regime to private investors in non-quoted companies (i.e. no requirement for a public offering to possible investors). The private PRIVAK Fund benefits from the same favourable tax regime as the public PRIVAK Fund. The Belgian legislation implementing the private PRIVAK Funds is awaiting confirmation by Royal Decree, which is expected to have been enacted by 15 May 2003 at the latest.

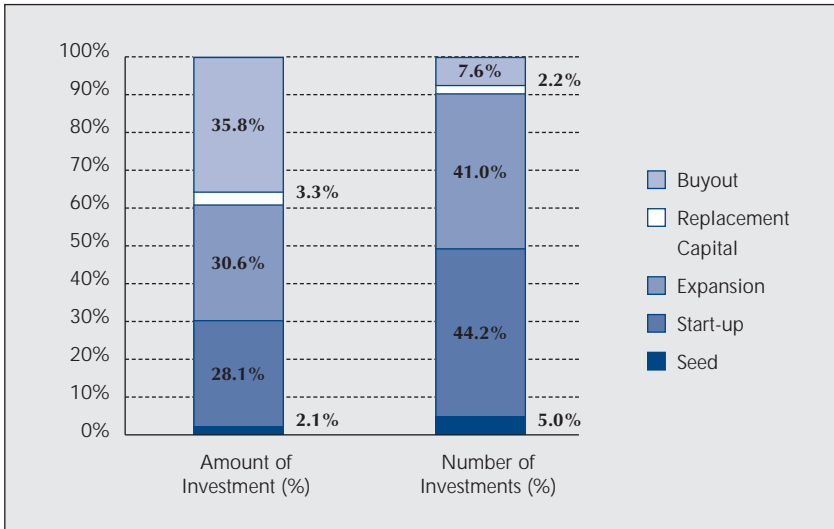
■ Exiting

The number of divestments by write-off increased from 67 in 2001 to 166 in 2002, illustrating the difficult economic climate of 2002. In terms of amount divested at cost, write-offs accounted for 86 per cent of total amount in 2002. Otherwise, the most common method of divestment in Belgium continued to be the trade sale with 52 divestments in 2002, compared to 49 in 2001 but representing only €32 million compared to €110 million in 2001. Unfavourable stock market conditions were also illustrated in the absence of any IPO on the Belgian stock markets in 2002.

PRIVATE EQUITY RAISED BY TYPE OF INVESTOR IN 2002



STAGE DISTRIBUTION OF INVESTMENTS IN 2002



■ Funds Raised

Funds (in € x 1,000)	2001		2002	
PRIVATE EQUITY RAISED BY SOURCE				
	Amount	%	Amount	%
Independent Funds Raised in Year	15,279	2.3	52,568	42.1
Amount Raised by Captives	118,580	18.2	43,720	35.0
Subtotal New Funds Raised	133,859	20.6	96,288	77.0
Realised Capital Gains	516,982	79.4	28,684	23.0
Total Funds Raised	650,841	100.0	124,972	100.0
PRIVATE EQUITY RAISED BY TYPE OF INVESTOR				
Corporate Investors	0	0.0	6,496	6.7
Private Individuals	2,544	1.9	26,504	27.5
Government Agencies	66,333	49.6	6,932	7.2
Banks	64,669	48.3	53,019	55.1
Pension Funds	0	0.0	0	0.0
Insurance Companies	0	0.0	0	0.0
Fund of Funds	0	0.0	0	0.0
Academic Institutions	0	0.0	3,338	3.5
Capital Markets	0	0.0	0	0.0
Not Available (i.e. other)	312	0.2	0	0.0
Subtotal New Funds Raised	133,859	100.0	96,288	100.0
Realised Capital Gains	516,982	-	28,684	-
Total Funds Raised	650,841	-	124,972	-
GEOGRAPHICAL BREAKDOWN OF PRIVATE EQUITY RAISED				
Domestic	579,100	89.0	114,624	91.7
Other European Countries	71,741	11.0	10,349	8.3
Non-European Countries	0	0.0	0	0.0
Total Funds Raised	650,841	100.0	124,972	100.0
EXPECTED ALLOCATION OF FUNDS RAISED				
High-Tech Early-Stage	53,391	8.2	44,034	35.2
Non High-Tech Early-Stage	20,966	3.2	0	0.0
High-Tech Expansion/Development	155,174	23.8	14,137	11.3
Non High-Tech Expansion/Development	314,527	48.3	24,020	19.2
Venture Capital	544,058	83.6	82,191	65.8
Buyout	105,892	16.3	42,781	34.2
Other	891	0.1	0	0.0
Total Funds Raised	650,841	100.0	124,972	100.0

■ Investments

	2001				2002							
	Amount of Investment	%	Number of Investments	%	Number of Companies	%	Amount of Investment	%	Number of Investments	%	Number of Companies	
Initial Investment	208,023	50.8	96	29.3	95	34.4	186,434	51.8	68	19.8	62	23.9
Follow-on Investment	201,531	49.2	233	70.7	180	65.6	173,535	48.2	275	80.2	195	76.1
Total Investment in Year	409,554	100.0	329	100.0	275	100.0	359,970	100.0	343	100.0	257	100.0
DISTRIBUTION OF INVESTMENTS BY INVESTOR TYPE												
Independent	84,246	20.6	89	27.0	71	25.7	146,351	40.7	97	28.3	57	22.2
Captive	111,554	27.2	74	22.5	65	23.7	33,543	9.3	29	8.4	28	11.1
Semi-Captive	13,846	3.4	43	13.0	23	8.3	5,148	1.4	19	5.6	14	5.3
Public Sector	199,908	48.8	124	37.5	116	42.3	174,928	48.6	198	57.6	158	61.3
Total Investment	409,554	100.0	329	100.0	275	100.0	359,970	100.0	343	100.0	257	100.0
STAGE DISTRIBUTION OF INVESTMENTS IN YEAR												
Seed	27,431	6.7	24	7.3	23	8.4	7,523	2.1	17	5.0	17	6.8
Start-up	71,618	17.5	92	28.0	79	28.7	101,331	28.1	151	44.2	115	44.7
Expansion	201,006	49.1	185	56.2	146	53.1	110,323	30.6	141	41.0	97	37.9
Replacement Capital	6,736	1.6	10	3.0	10	3.6	11,966	3.3	8	2.2	8	2.9
Buyout	102,762	25.1	18	5.5	17	6.2	128,827	35.8	26	7.6	20	7.8
Total Investment	409,554	100.0	329	100.0	275	100.0	359,970	100.0	343	100.0	257	100.0
SYNDICATION OF INVESTMENTS IN YEAR												
No Syndication	188,612	46.1	249	75.8	198	72.1	237,326	65.9	262	76.5	186	72.3
National Syndication	193,536	47.3	57	17.4	55	19.8	39,537	11.0	36	10.4	26	10.3
Transnational Syndication	27,406	6.7	22	6.8	22	8.1	83,106	23.1	45	13.0	45	17.4
Total Investment	409,554	100.0	329	100.0	275	100.0	359,970	100.0	343	100.0	257	100.0
GEOGRAPHICAL DISTRIBUTION OF INVESTMENTS IN YEAR												
Domestic	213,781	52.2	213	64.8	178	64.8	219,543	61.0	192	56.0	183	71.4
Other European Countries	111,278	27.2	60	18.1	42	15.2	135,349	37.6	84	24.4	62	24.0
Non-European Countries	84,494	20.6	56	17.1	55	20.0	5,077	1.4	67	19.6	12	4.6
Total Investment	409,554	100.0	329	100.0	275	100.0	359,970	100.0	343	100.0	257	100.0
SECTORAL DISTRIBUTION OF INVESTMENTS IN YEAR												
Communications	43,425	10.6	49	15.0	39	14.2	66,519	18.5	63	18.3	36	14.1
Computer Related	68,499	16.7	84	25.6	70	25.5	25,988	7.2	50	14.7	47	18.3
Other Electronics Related	10,014	2.4	11	3.3	10	3.6	5,505	1.5	12	3.6	12	4.7
Biotechnology	65,278	15.9	31	9.3	31	11.3	54,790	15.2	44	12.9	27	10.7
Medical/Health Related	19,073	4.7	13	4.0	10	3.6	13,221	3.7	17	5.0	14	5.7
Energy	384	0.1	2	0.7	2	0.8	3,343	0.9	4	1.1	4	1.7
Consumer Related	34,868	8.5	25	7.6	19	6.9	25,681	7.1	41	11.8	25	9.7
Industrial Products and Services	89,518	21.9	43	13.0	41	15.0	92,423	25.7	37	10.8	36	13.7
Chemicals and Materials	14,389	3.5	2	0.7	2	0.8	2,931	0.8	4	1.1	4	1.7
Industrial Automation	7,385	1.8	4	1.3	4	1.6	2,421	0.7	11	3.2	4	1.7
Other Manufacturing	6,919	1.7	11	3.3	4	1.6	8,263	2.3	15	4.3	14	5.6
Transportation	3,294	0.8	1	0.3	1	0.4	0	0.0	0	0.0	0	0.0
Financial Services	14,401	3.5	13	4.0	10	3.6	12,966	3.6	18	5.4	11	4.0
Other Services	12,238	3.0	26	8.0	19	6.9	2,832	0.8	9	2.5	7	2.9
Agriculture	9,214	2.2	4	1.3	4	1.6	809	0.2	1	0.4	1	0.6
Construction	9,613	2.3	4	1.3	3	1.2	35,485	9.9	2	0.7	1	0.6
Other	1,043	0.3	4	1.3	3	1.2	6,794	1.9	15	4.3	12	4.5
Total Investment	409,554	100.0	329	100.0	275	100.0	359,970	100.0	343	100.0	257	100.0
Subtotal High-Tech	142,102	34.7	155	47.1	127	46.2	128,514	35.7	200	58.3	118	45.9

■ Divestments

	2001						2002					
	Amount of Divestment	%	Number of Divestments	%	Number of Companies	%	Amount of Divestment	%	Number of Divestments	%	Number of Companies	
Divestment by Trade Sale	109,862	40.8	49	20.4	29	16.0	32,412	8.0	52	17.0	51	20.2
Divestment by Public Offering	29,804	11.1	14	5.6	12	6.4	0	0.0	6	2.0	3	1.2
Divestment by Flotation (IPO)	14,762		7		6		0		0		0	
Sale of Quoted Equity	15,041		7		6		0		6		3	
Divestment by Write-Off	82,095	30.5	67	27.6	56	31.2	346,957	86.0	166	54.2	161	64.3
Repayment of Principal Loans	11,412	4.2	33	13.8	33	18.4	1,000	0.2	2	0.7	2	0.8
Sale to Another												
Venture Capitalist	2,189	0.8	1	0.6	1	0.8	2,286	0.6	2	0.7	2	0.8
Sale to Financial Institution	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Sale to Management (Buy-back)							496	0.1	1	0.3	1	0.4
Divestment by Other Means	34,039	12.6	78	32.0	49	27.2	20,390	5.1	77	25.2	31	12.3
Total Divestment in Year	269,401	100.0	242	100.0	181	100.0	403,541	100.0	306	100.0	251	100.0

■ Portfolio at Cost

	2001			2002		
	Amount	Number of Investments/ Divestments	Number of Companies	Amount	Number of Investments/ Divestments	Number of Companies
Portfolio at Cost 1st Jan	2,160,665			2,300,818		
Total Investment in Year	409,554	329	275	359,970	343	257
Total Divestment in Year	(269,401)	242	181	(403,541)	306	251
Portfolio at Cost 31st Dec	2,300,818			2,257,246		

■ Geographical Flows of Private Equity

Amount (in € x 1,000)	2001	2002
FUNDS	Amount	Amount
Funds raised by local P.E. houses	650,841	124,972
INVESTMENT		
Investment by local P.E. houses	409,554	359,970
(-) Foreign investment by local P.E. houses	(195,772)	(140,426)
Local investment by foreign P.E. houses	40,603	72,850
Total Investment in Country	254,384	292,393

■ Macro Economic Indicators

	2001	2002
Number of Private Equity Executives	131	157
Private Equity Investment as % of GDP	0.161%	0.137%
GDP (€ billions)	254.0	262.0
Private Consumption	124.3	(c) 142.78 *
Public Consumption	48.6	(c) 57.93 *
Consumer Prices (1995=100)	111.3	111.1
Producer Prices (1995=100)	110.5	110.2
Interest Rates (3-year) (a)	4.26%	3.0%
Interest Rates (10-year)	5.06%	4.90%
Share Prices (1995=100)	195.8	174.5
Retail Sales (1995=100)	(b) 119.0	117.2
Unemployment Rate	6.7%	7.3%

Source: OECD. When n/a Economist Intelligence Unit

* Estimates

(a) Annual average 3 yr benchmark Govt bond rate (source: Datastream)

(b) Eurostat Deflated Turnover for Total Retail Trade seasonally adjusted (1995 = 100)

(c) Source: Federal Planning Bureau. Institute of National Accounts. Belgian National Bank