

# ***Why Luxembourg?***

## ***A prime location for doing business***



# Summary

1. Introduction: Luxembourg's **profile**
2. 9 key opportunities for **business**
3. 10 key **differentiating advantages** of Luxembourg
4. Economy and finance: a **healthy** country
5. Key players: an attractive location for **companies**
6. Corporate **taxation**: advantages offered by Luxembourg
7. Employment and labour costs: an optimal balance between **low business costs** and **high purchasing power**
8. Luxembourg: one of the best **quality-of-life** locations in the world
9. Main **challenges** for Luxembourg's future
10. A great **competitive location** for business
11. Conclusion: 10 key advantages for **doing business** in Luxembourg

**1<sup>st</sup> for growth  
environment**

Goldman Sachs, Economic  
Research 2006

**4<sup>th</sup> for HDI**

World report on Human Development Index

***Least risky place to do business***

World Markets Research Centre

**5<sup>th</sup> for globalisation**

Dreher & Axel, 2006

**4<sup>th</sup> for**

**economic  
freedom**

The Heritage Foundation &  
The Wall Street Journal 2006

**1<sup>st</sup> for  
safety**

Mercer Consulting 2005

**9<sup>th</sup> for global  
competitiveness**

IMD World Competitiveness 2006



## Introduction

## Luxembourg's profile



## Introduction

# The Grand Duchy and its neighbours



- One of the smallest of the 25 European Union countries
- Total area of 2,586 km<sup>2</sup> (nearly 1,000 square miles)
- 459,500 inhabitants (Statec, 01.01.06)  
2050 forecast: 643,000 inhabitants
- Borders with **Belgium** on the West and the North, with **Germany** on the East and with **France** on the South
- Center of the **Grande Région**

## Introduction

### Once upon a time...

- Written history of « Lucilinburhuc » starts around 960
- Part of Spain, UK, France, Prussia, Austria over the centuries
- One of the most heavily fortified European cities: « Gibraltar of the North »
- Elevated to the status of Grand Duchy in 1815 and given to the King of Holland as « personal property »
- Full independence in 1867 (Treaty of London)
- UNESCO World Heritage site for its fortifications
- Occupied by Germany in both World Wars
- Founder member of the European Union



## Introduction

### Grand Duke Henri, since October 2000



Grand Duke Henri



Jean-Claude Juncker

- Luxembourg is a **constitutional monarchy**
- The **Monarch** (Grand Duke Henri) is head of state since the abdication of his father, Jean, in 2000
- The **Prime Minister** (Jean-Claude Juncker) is head of government and is **chairman of the Euro-Group**, 2004-2007 (Finance Ministers of Euro currency zone)
- The Chamber of Deputies is a **unicameral body** with 60 seats and is elected by a system of **proportional representation** for a five-year term
- Following the 2004 elections, the coalition is formed by the Christian Social party (CSV) and the Socialists (LSAP)



## Introduction

### Lëtzebuerg as e schéint Land ...



- **French** and **German** are the official languages for legislative and governmental purposes
- The national, since 1984, and the everyday spoken language is **Luxembourgish** (Letzeburgesh), a Moselle-Frankish dialect
- **Reputation for multilingualism:** many people converse fluently in French, German and English



## Introduction

« *We want to remain what we are* »

« *Mir welle bleiwe wat mir sin* »

This motto shows that Luxembourg aims to reconcile **international integration** with its citizens' **independent character**



## Introduction

### Europe: the way to the future ...

- Entered into the Benelux Customs Union in 1944
- Joined NATO in 1945
- 1952 : Luxembourg was the host to the first European institution, the European Coal and Steel Community, whose initiator, Robert Schuman was born in Luxembourg
- One of the six founding countries of the European Economic Community in 1957

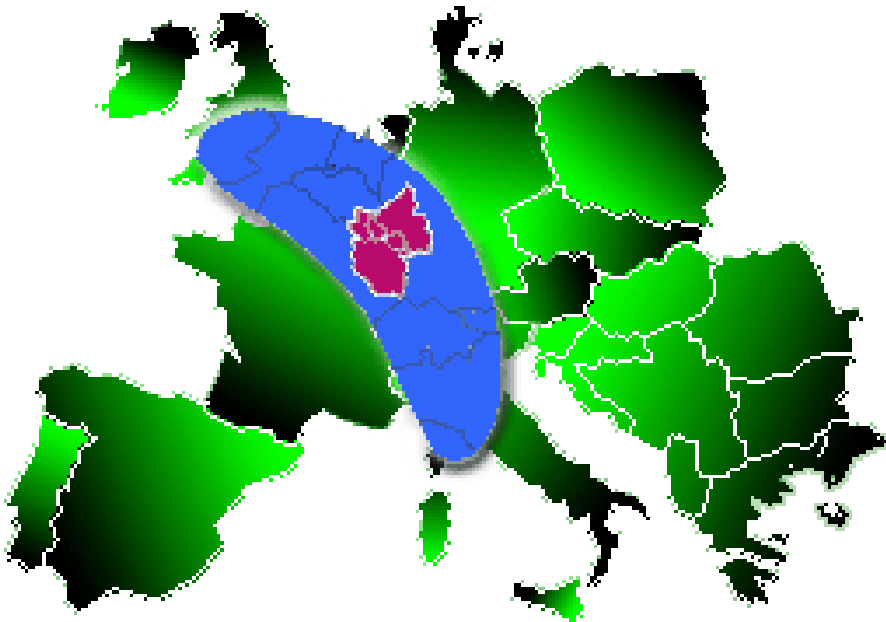


# Europe: the way to the future

- Met all EMU convergence criteria (the only one) and joined the euro currency area on January 1, 1999
- Presidency of the EU from January 2005 – June 2005
- The **Legal and Financial operations of the European Union** are headquartered in Luxembourg with more than 10,000 employees:
  - EU Commission (Publications Office, Eurostat, etc) 3,500 officials
  - Secretariat of the European Parliament 2,500 officials
  - European Courts of Justice 1,700 officials
  - European Investment Bank 1,300 officials
  - European Court of Auditors 760 officials
  - European Translation Agency 175 officials

## Introduction

### Grande Region: major assets



- Lorraine, Luxembourg, Saarland, Wallonia and Rheinland Pfalz are part of the Grande Region
- Perfectly sited in the middle of the area of most important economic development in Europe (Blue Banana)
- Half of old Europe's GDP is produced in the area lying within the Blue Banana
- With their shared historical heritage and common culture, Grande Region inhabitants have a genuine international spirit and are mostly multilingual and highly mobile



## Introduction

# Luxembourg and Greater Region: European capital of culture 2007



**LUXEMBOURG AND GREATER REGION**  
**EUROPEAN CAPITAL OF CULTURE 2007**

[www.luxembourg2007.org](http://www.luxembourg2007.org)

## Luxembourg and Greater Region: beyond borders

### Luxembourg:

*The heart of a very wealthy 11,2 million people consumer market*

- Land Area: 65 400 km<sup>2</sup>
- Population: 11,2 million people
- GDP per capita: €21,392
- 160,000 cross-border workers of which 116,000 towards Luxembourg



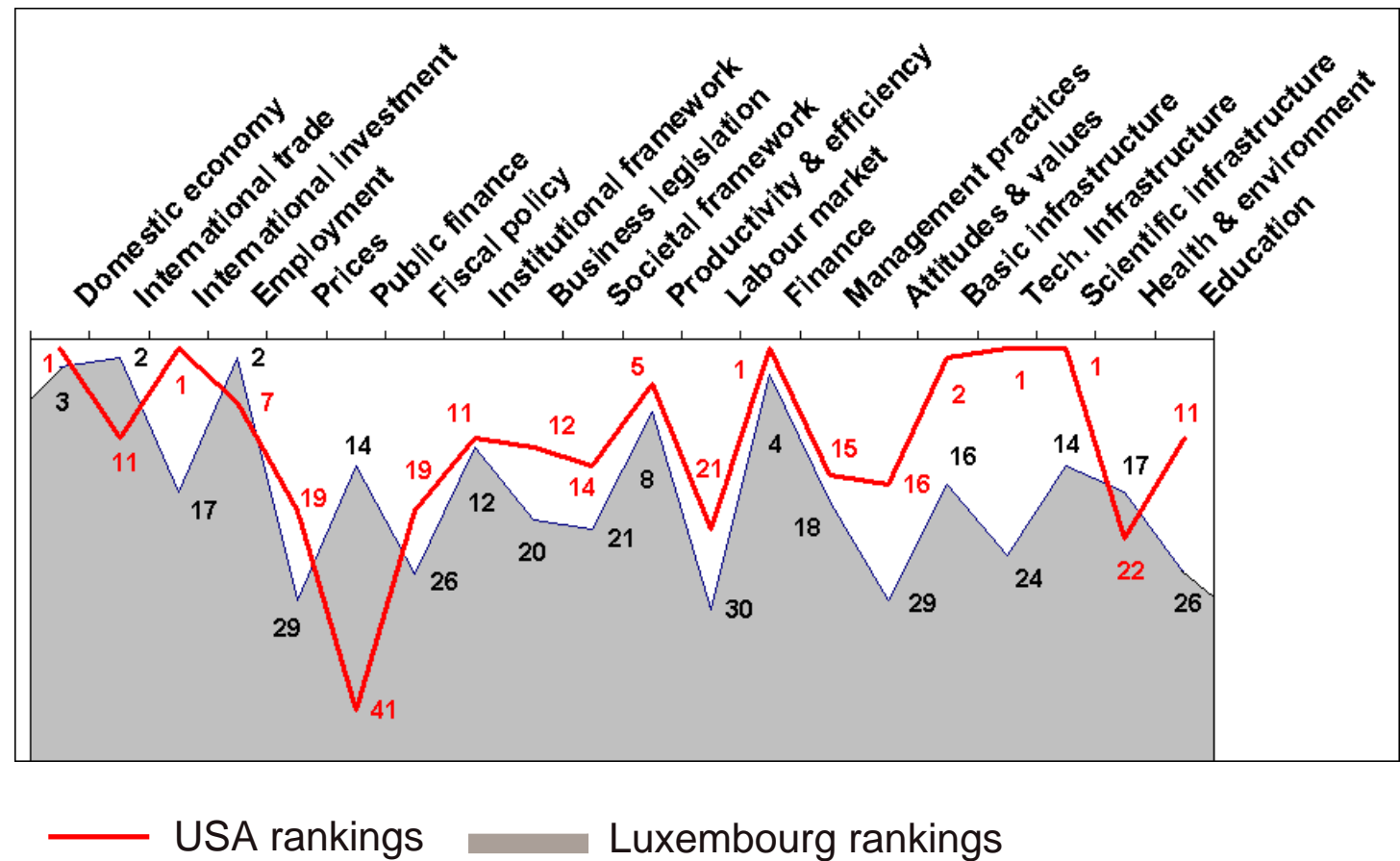
## Introduction

# Competitive performance structure

Ranking Country

- 1 USA
- 2 Hong Kong
- 3 Singapore
- 4 Iceland
- 5 Denmark
- 6 Australia
- 7 Canada
- 8 Switzerland
- 9 Luxembourg**
- 10 Finland
- 11 Ireland
- 12 Norway
- 13 Austria
- 14 Sweden
- 15 Netherlands

The Competitive landscape – Luxembourg vs US rankings



## 2. 9 opportunities for business

### Find out more about Luxembourg's business opportunities

*"Delphi Luxembourg can service customers in many European countries because of its central geographical location in Europe, neutral position regarding our customer base and multilingual, multinational and multicultural environment. Luxembourg is known for its social peace, attractive fiscal and social environment for both employees and employers."*

**DELPHI AUTOMOTIVE Systems**

*"In Luxembourg we can count on quick and non-bureaucratic Government support for any business-related needs and on well-educated and motivated employees displaying great language and technical skills."*

**FANUC Robotics Europe S.A.**

*"The Grand Duchy of Luxembourg is an attractive location for international business, because it can offer an experienced and dedicated workforce with broad language skills. In addition, the social environment is remarkably stable, and administrations and the Government are supportive to the business."*

**Goodyear Luxembourg**



9 opportunities for business

## A prime location for automotive industry

*At the **crossroads** between Germany, France and Belgium, Luxembourg offers excellent **location** to reach main **suppliers** and **customers** in Europe*



- Nearly 8,000 employees on 30 sites
- These players deliver their products to over 70 plants within a range of 600 kilometers
- Car manufacturers and assembly lines in Germany, France, Belgium, the Netherlands and the UK can be supplied from Luxembourg in the same day delivery basis
- A variety of services have been developed around this sector: certification and approval of vehicles, R&D and innovation...

9 opportunities for business

A prime location for e-business, ITC and broadcasting players

- Various e-business global players decided to set up their activities, or even their headquarters in the Grand-Duchy:



CISCO SYSTEMS



iTunes amazon.com®

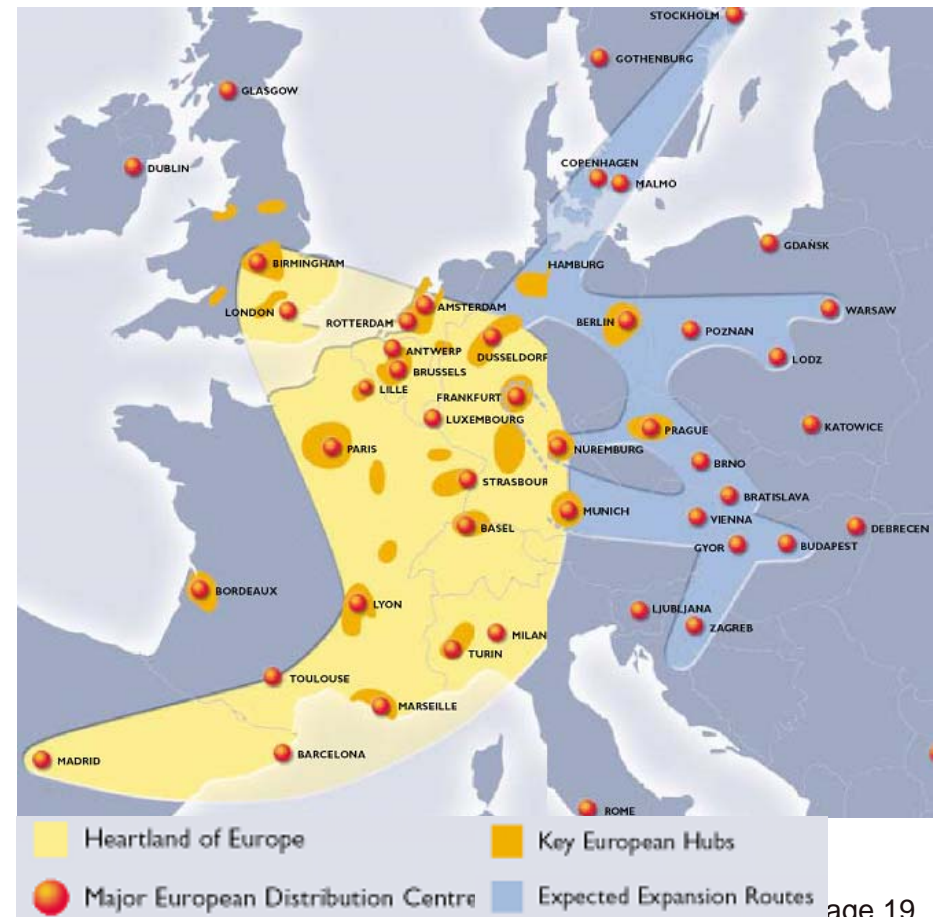
- They enjoy significant advantages:
  - Central situation in Europe
  - Supportive business climate
  - Multilingual resources
  - Efficient and fast administrative channels
  - Interesting fiscal opportunities

9 opportunities for business

## A prime location for logistics players and retail companies

*Logistics players and consumer goods producers in Luxembourg enjoy a lot of advantages:*

- Central situation in Europe
- Direct access to major consumer markets, with over 90 destinations: China, USA, Israel, South America...
- A wealthy population within an accessible perimeter
- At the heart of an excellent communication network
- Multilingual workforce
- Attractive fiscal context (e.g. the possibility to import non-EU goods without the requirement to prefinance import VAT)



9 opportunities for business

## A prime location for medical biotechnologies and health industry

**Strong research network within a 200km radius and across 4 countries**

- Biotechnology development is one of governments key priorities
- 11 Universities and 14,000 medical students, high profile biomedical research institutes and international research consortia
- Big pharma players such as Boehringer, Abbot or Biogen and over 300 SMEs in distribution, medical devices and pharma
- Infrastructure support in IP management, seed funding, logistics and industry collaborations
- International clinical trial network





9 opportunities for business

## A prime location for banking

- **156** banks of which 90% are foreigners, with more than **15 nationalities**
- **23,227** employees in the banking sector in 2005
- Total balance sheet of banks: **€792,422 million**
- Centre of excellence for **Private Banking** and **Investment Management**
- **Innovative** financial centre within the European landscape with **new** international **solutions**: securitisation, SICARs, real estate vehicles, pension funds
- Favourable **regulatory environment**

9 opportunities for business

## A prime location for investment funds

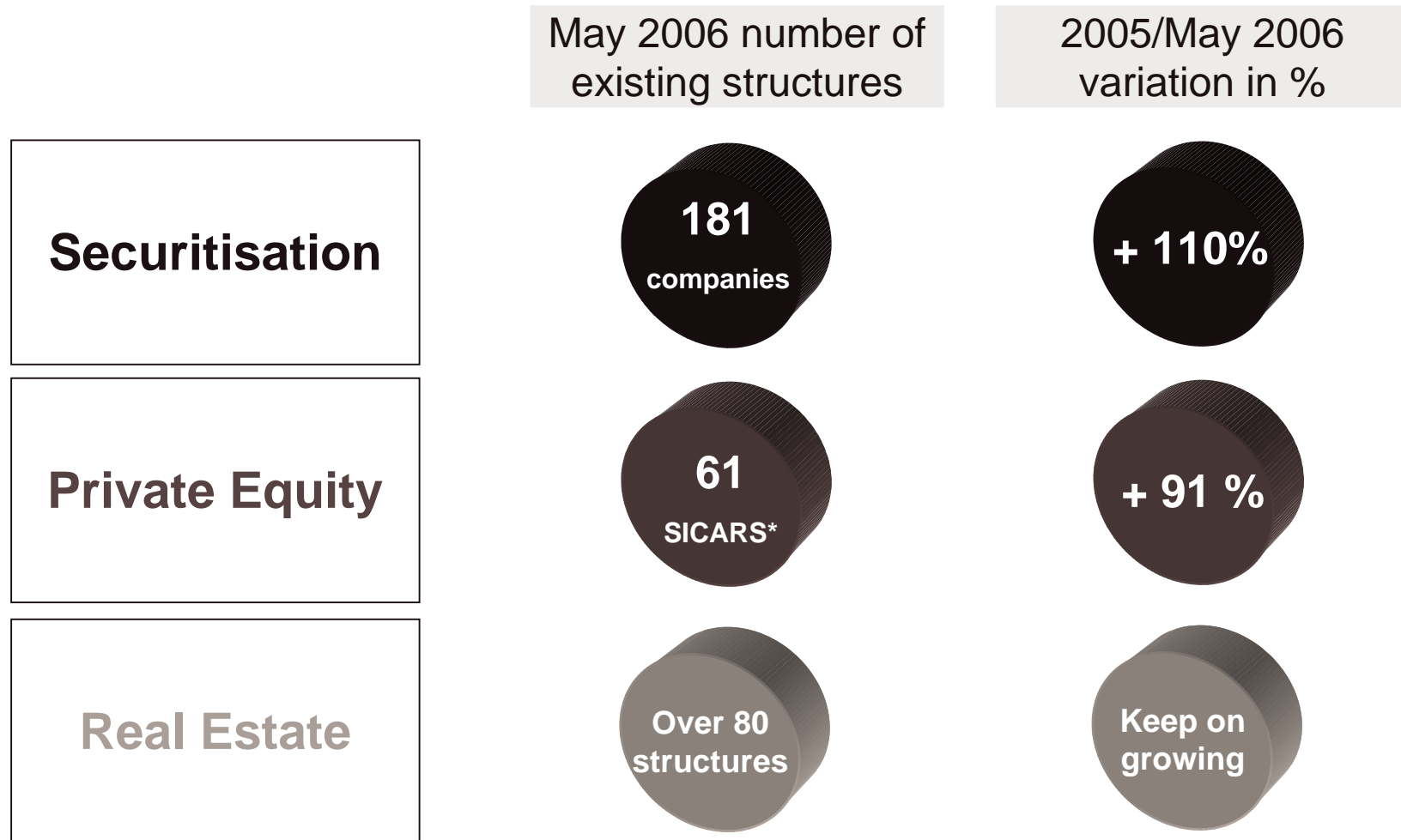
- 2<sup>nd</sup> largest global leader for domiciled funds behind the United States
- Almost 8,500 compartments of UCIs in 2005
- Above € 1,500 billion assets under management (AuM), i.e. 23.2% of the European investment funds industry
- +38% growth in AuM between 2004 and 2005
- Luxembourg accounts for 65% of European net sales

## Luxembourg as a hedge fund centre

- Luxembourg accounts for more than 10% of global assets
- 264 hedge funds under administration in Luxembourg in 2005 (225 in 2004)
- AuM in hedge funds have grown by more than 150% between 2004 and 2005 to reach almost € 30 billion

9 opportunities for business

## A prime location for launching pan-European structured products



\* The Risk Capital Investment Company

Source: CSSF, Mémorial, Fitzrovia  
PricewaterhouseCoopers

9 opportunities for business

## A prime location for listings



*Over the years, the Luxembourg Stock Exchange has consolidated its predominant role in the **international bond** and **investment fund** markets*

- 4,100 issuers coming from about 100 countries
- More than 36,000 quotation lines and 9,092 new listings in 2005
- 26,782 debt securities listed
- 59% of international bonds listed in Europe are listed in Luxembourg
- 540 issuers from 15 different countries list 6,172 lines of UCIs

Source: PwC publication Luxembourg Stock Exchange: a prime location for listing – 2006

Available on [PwC Luxembourg website](#)  
PricewaterhouseCoopers



9 opportunities for business

A prime location for insurance and reinsurance industry

- **2,178** employees in the **insurance** sector
- In 2005, life and non-life premiums grew by **28%** and reached **€6.66 billion**
- **265 reinsurance** companies at the end of 2005
- More than **€3 billion** of total **premiums**

### 3. 10 KEY DIFFERENTIATING FACTORS

*"Luxembourg is an extraordinary place for doing business. The government understands exactly the importance of a close cooperation between private and public sectors as well as the advantages of an open market economy"*

**GUARDIAN INDUSTRIES CORP** 25 September 2004

*"There is a business friendly environment here with sympathetic regulators and the ability to have a good dialogue with politicians. And our financial backers are here"*

**SKYPE**, March 2005

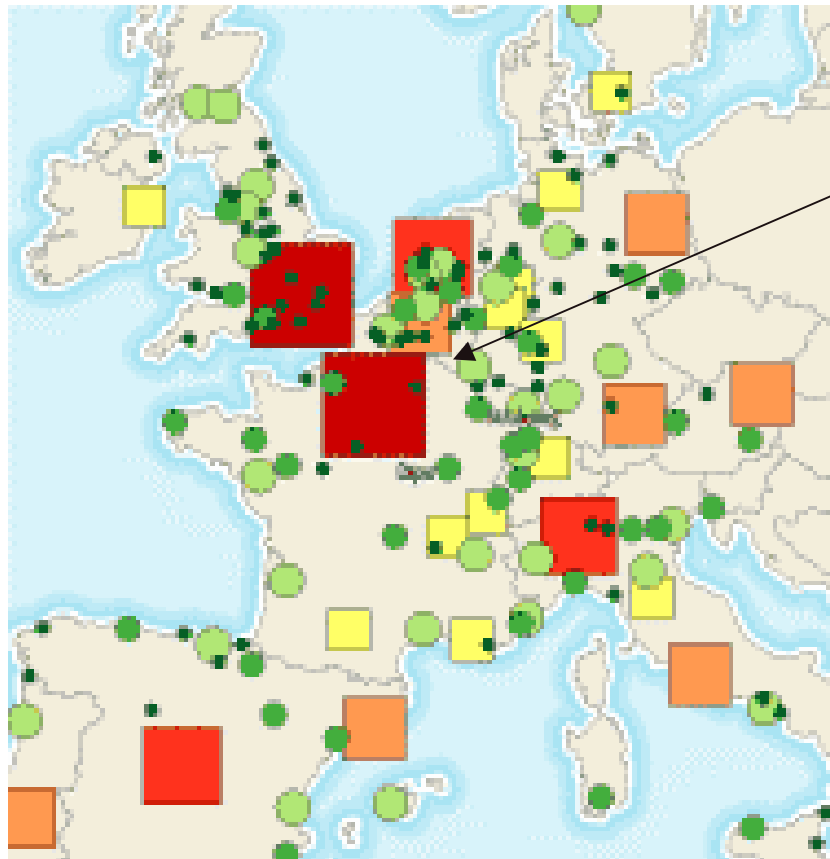
*"In addition, given the scale of the development potential that Luxembourg offers the high-tech industry in Europe, Microsoft will base its e-commerce operations in Luxembourg. Luxembourg's selling points are: the grand-ducal platform, with its state-of-the-art infrastructure, the presence of major players of the media, telecommunications and information technology sectors, its breeding ground for cutting edge skills that extends to neighbouring areas, a suitable legislative and regulatory framework combined with competent authorities which are prompt to act and respond. All these elements led Microsoft to make this choice of strategic implementation, which will continue to be developed in the future"*

**MICROSOFT**, 2 December 2003

## Ten key differentiating factors

### 1. A highly strategic position

Right in the middle of a 470 million people consumer market



Luxembourg

Luxembourg's location allows a direct access to the EU and to the most important European cities: Paris, London, Amsterdam, Brussels, Berlin, Zurich, Milan, Geneva...

Ten key differentiating factors

## 2. A neutral place

### Multinationals that have chosen Luxembourg

*Top international providers – based on number of employees (STATEC)*

- Industry



- Telecommunications



- Transports&Logistics



- Financial Services



Ten key differentiating factors

### 3. A very welcoming and safe country

- Luxembourg scores highest for **Personal Safety** in 2005
- Luxembourg ranks as the **world's top city for security** in 2005. The city scores 122,5 followed by Helsinki, Bern, Geneva and Zurich
- Luxembourg belongs to the **top cities** in terms of **quality of living** and ranks 18 in 2005 and 2006





Ten key differentiating factors

#### 4. A financially healthy country

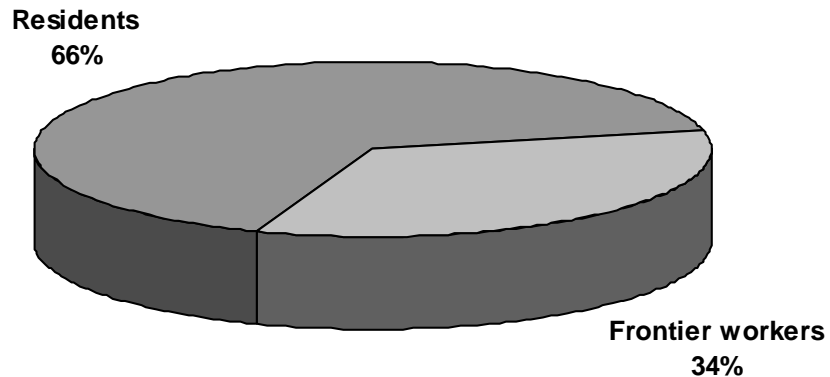
- **Growth of GDP:** +4.5% in 2005  
+5% expected in 2006
- **Stable inflation rate:** +2.5 % on the 2006-2008 period
- **Low unemployment rate:** 4.2% in 2005  
4.6% by 2008
- **High standard of living:** Average income = € 3,726/month  
Minimum salary per month (adult): € 1,466

Ten key differentiating factors

## 5. A skilled multicultural workforce

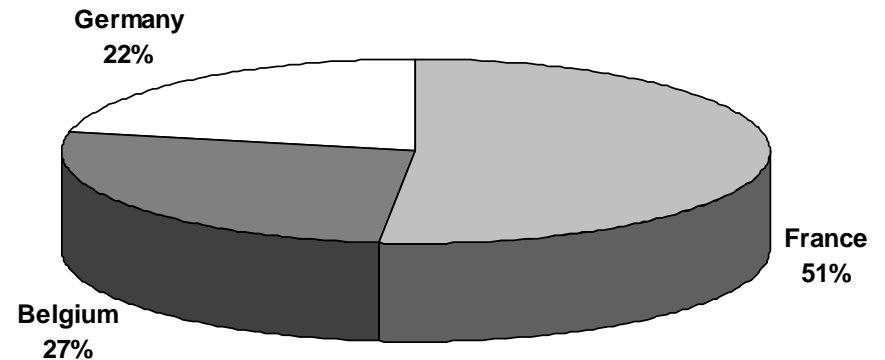
### Who Works in Luxembourg?

Total : 301,600 employees



### Who Commutes Everyday?

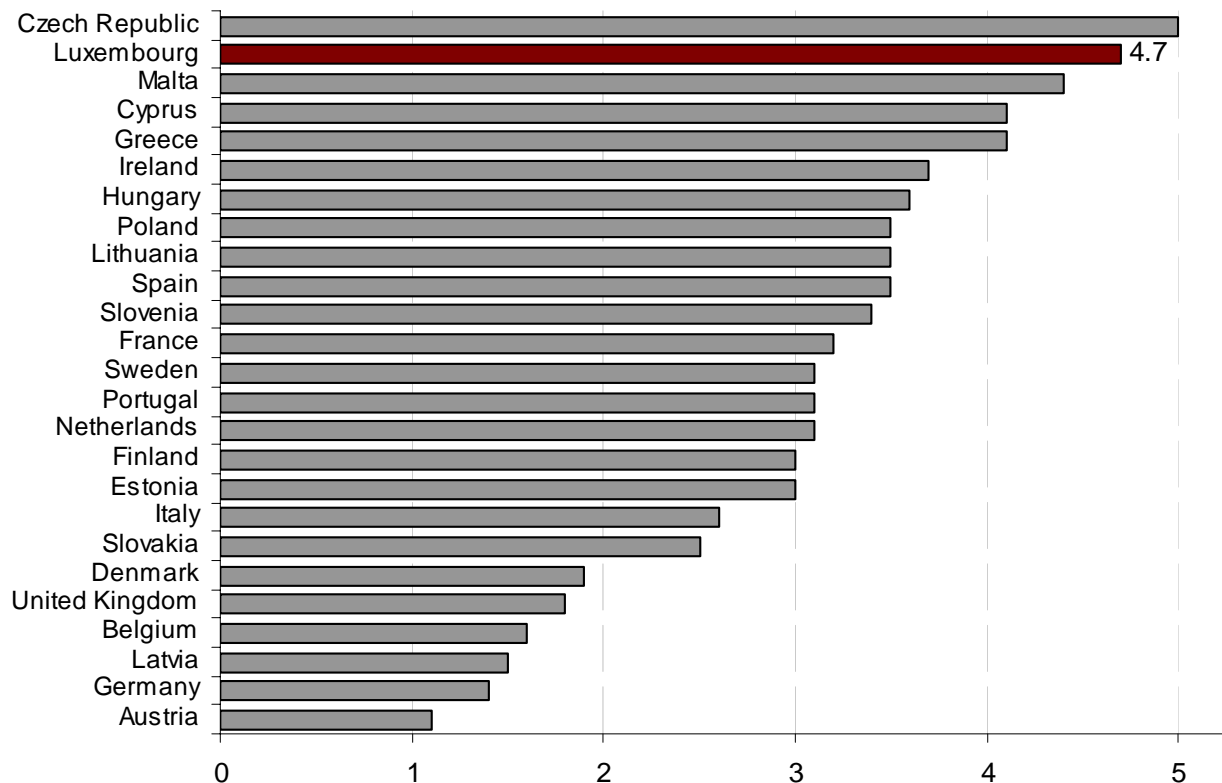
Total : 116,070 people



## Ten key differentiating factors

### 6. Excellent basic infrastructure

#### High public investment (2004, in % of GDP)



- Public Investments allow Luxembourg to create infrastructures which are necessary for economic growth
- They help companies to stay competitive

Ten key differentiating factors

## 6. Excellent basic infrastructure

*In Luxembourg and its neighbourhood you will find:*

- 11 Universities, 40 elite University Colleges, European and International Schools (12 language sections)
- 10 world-renowned Research Centres
- Around 30 golf courses
- More than 20 cinemas and theatres
- More than 20 hospitals



Ten key differentiating factors

## 7. Top level financial and multinational IT clusters

- Excellent financial network: 156 **banks**
- Luxembourg is the leader of the European Fund Business with 24 % of **European funds** domiciled in Luxembourg
- Innovative **investment products**: securitisation, real estate...



- Strong **IT and communication providers**:
  - AMAZON
  - AOL
  - SES Global
  - SKYPE
  - iTunes



Ten key differentiating factors

## 8. A good logistical network



About 1 hour away by plane

- Paris
- Zurich
- Munich
- Frankfurt
- Amsterdam
- Lyon
- London
- Milan

By TGV in 2007...

- Paris: 2h15
- Strasbourg: 1h30
- Lille: 2h30

- **Luxembourg Airport:** More than 1,184,600 passengers in 2005, i.e. +1.1% compared to 2004
- **Road-rail transport** to Barcelona and Milan by 2007
- **Cargo handling:** 796.675 tonnes handled
- **Direct airfreight lines** to 90 destinations: China, Israel, USA, South America...
- **Cargolux:** 5<sup>th</sup> European Cargo Carrier & 1st European Air Cargo Hub  
« *Cargo Airline of the year 2005* », Air Transport World Magazine



Ten key differentiating factors

## 9. Flexible and welcoming Authorities

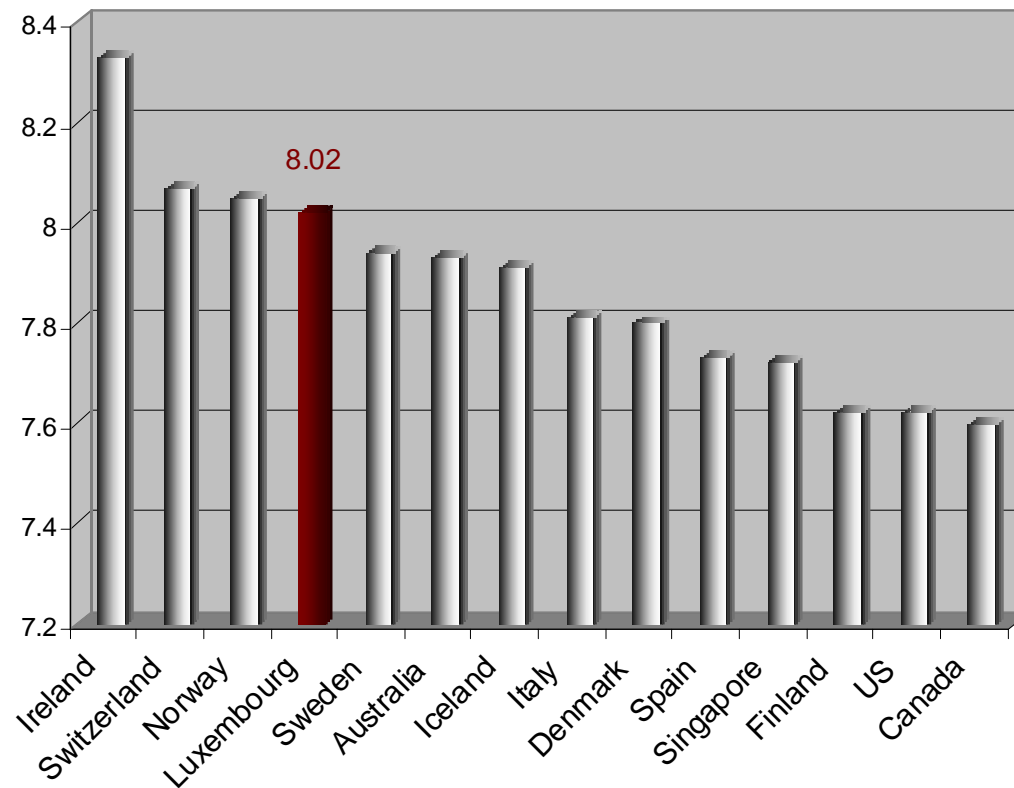
- A **small** country
- Officials easily **contactable**
- **Open** approach adopted by the Authorities
- Readiness for **dialogue** and quick **decision making** process

**Result:** potential problems can be discussed with ease and decisions taken within a short time-frame

Ten key differentiating factors

## 10. An attractive life style

### 2005 worldwide quality-of-life index



## 4. ECONOMY AND FINANCE

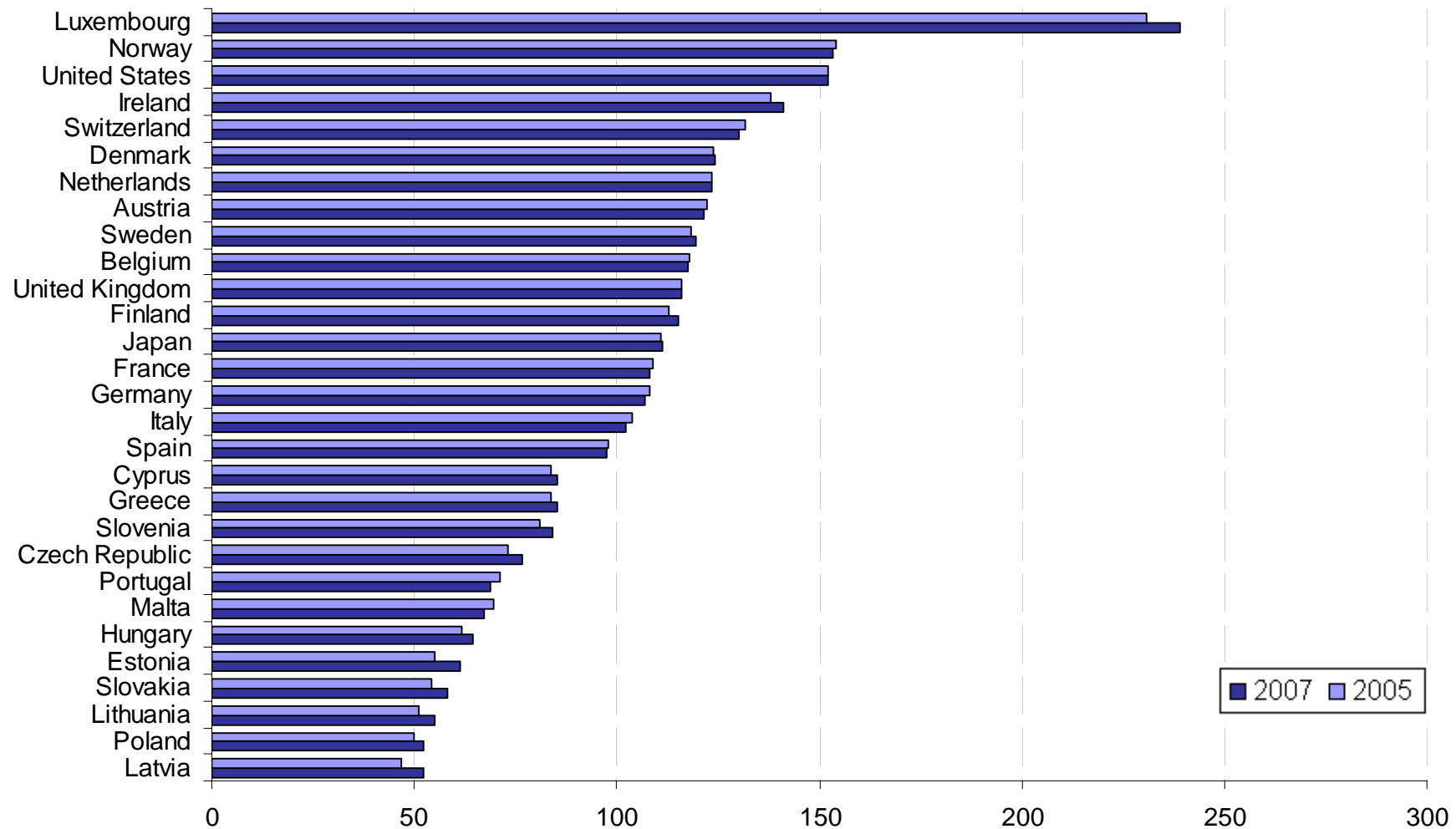
Luxembourg: a healthy country



## Economy and finance

### Current and expected standard of living

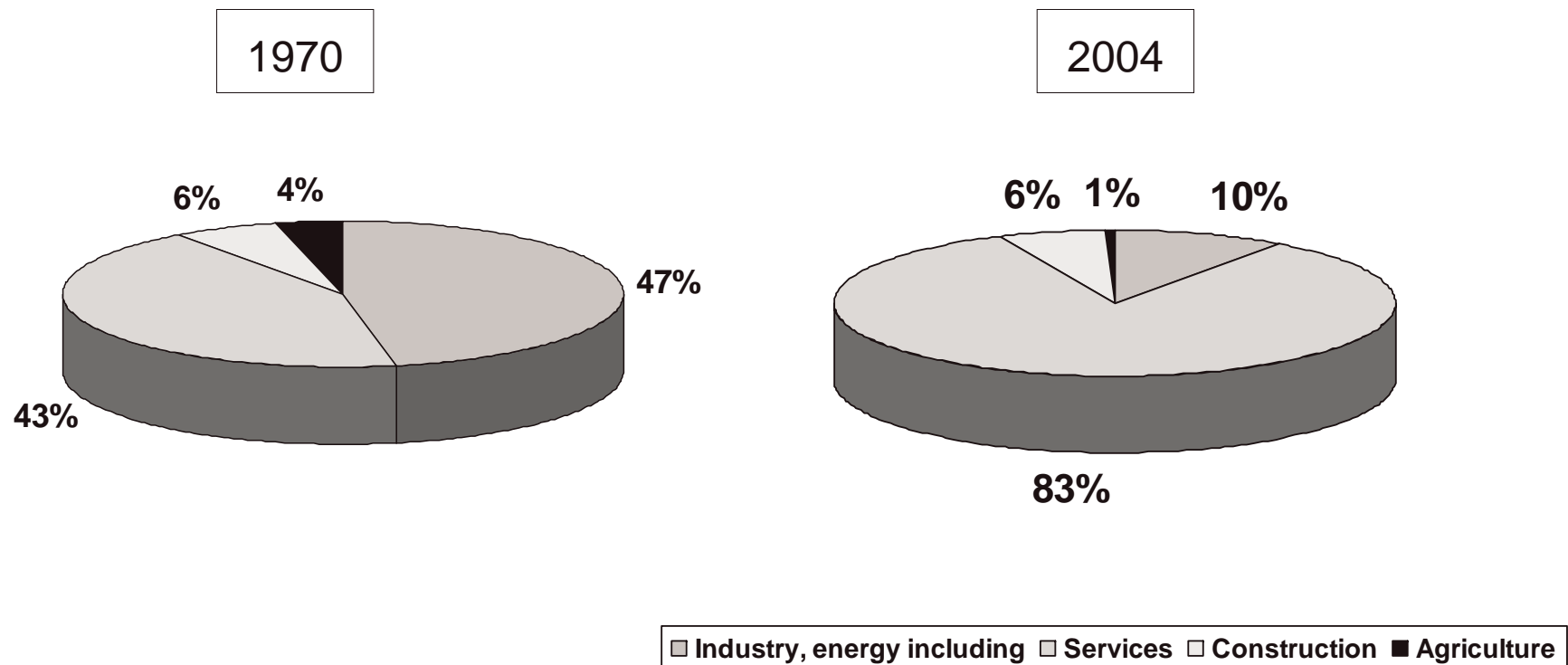
GDP at market prices per inhabitant in Purchasing Power Standards



## Economy and finance

### Structure of the economy

**Move from an Industry based to a Service based economy (in % of GDP)**





## Industrial development in Luxembourg

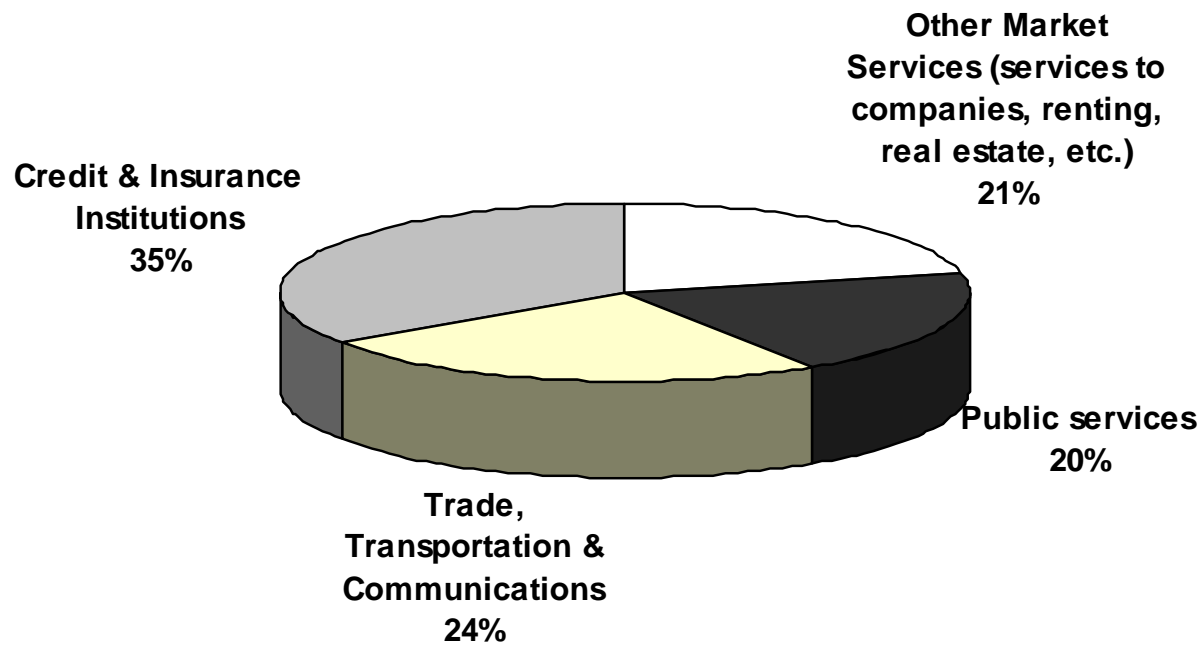
### **Luxembourg's industrial production grew by 6 % in 2005**

- Until recently dominated by steel which fell from 60% of GDP contribution in 70s to 20% in 2000
- Efforts to diversify the industrial structure started in the early 1950s
- Chemicals, rubber, plastics and High Tech industries have developed into a second major industrial focus alongside steel
- Media, global satellite and films are important and thriving new industries

Economy and finance

Focus on services

Structure of the services sector in 2004 (% of Added Value)



## The competitive position of Luxembourg as a global financial centre

### External positions of banks in USD billions

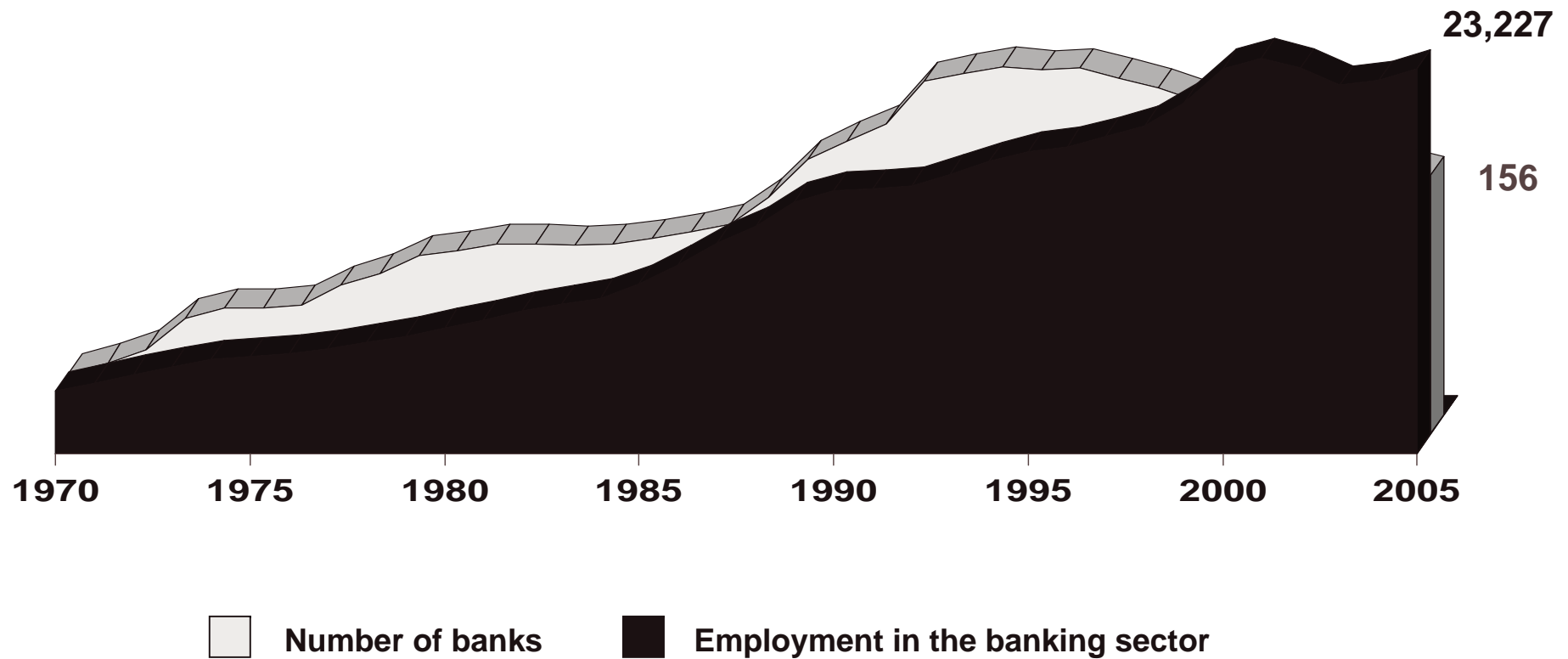
1	United Kingdom	4,121.5
2	Germany	2,184.3
3	USA	1,964.5
4	Japan	1,686.6
5	France	1,646.1
6	Cayman Islands	1,209.7
7	Switzerland	997.0
8	Netherlands	774.4
<b>9</b>	<b>Luxembourg</b>	<b>742.5</b>
10	Belgium	734.5
11	Ireland	577.9

## Banking in Luxembourg: keys to success

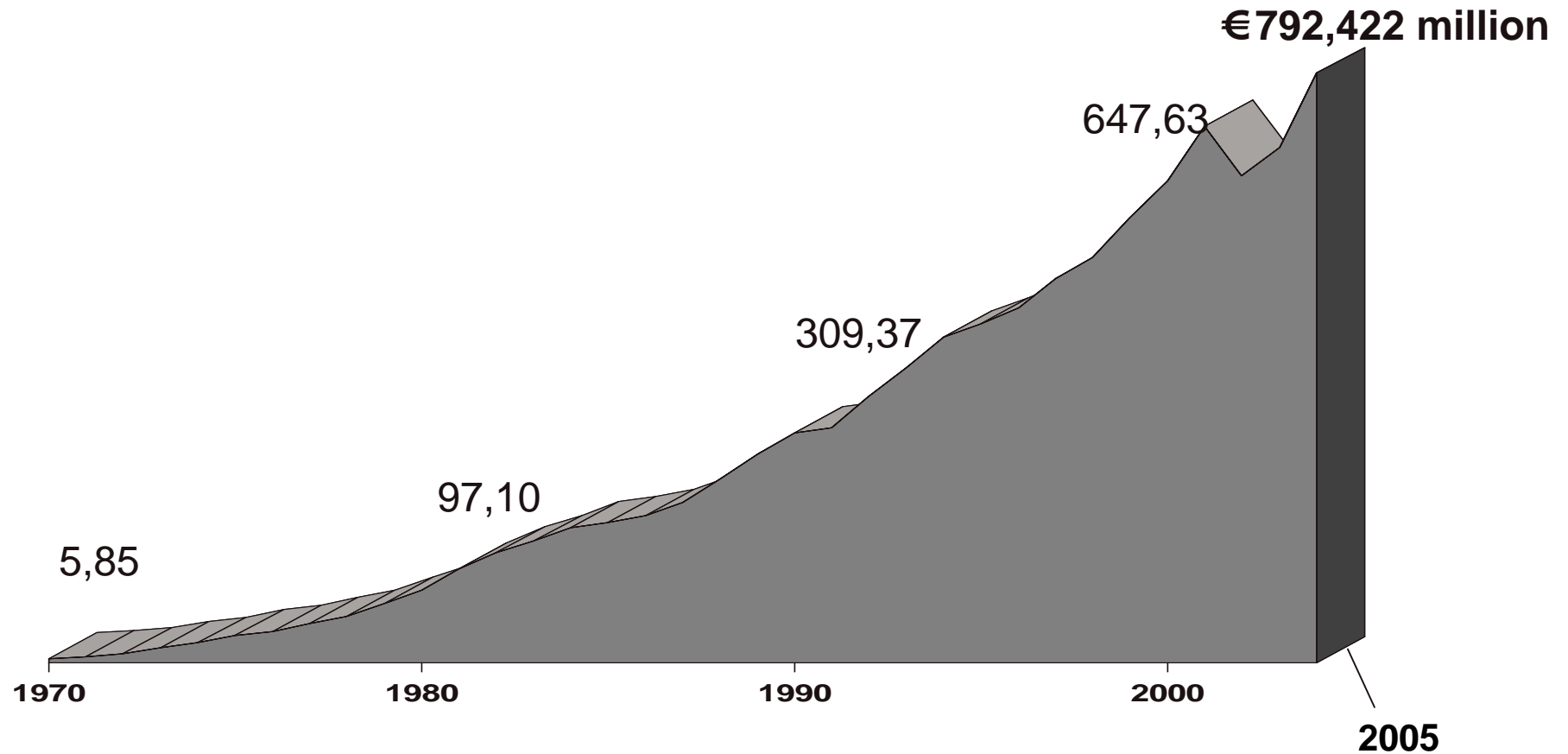
- Liberal legislative environment
- Political and economic stability
- Statutory banking secrecy
- Competitive fiscal framework
- Professional expertise
- Multilingual staff

## Economy and finance

### Banks: history of growth



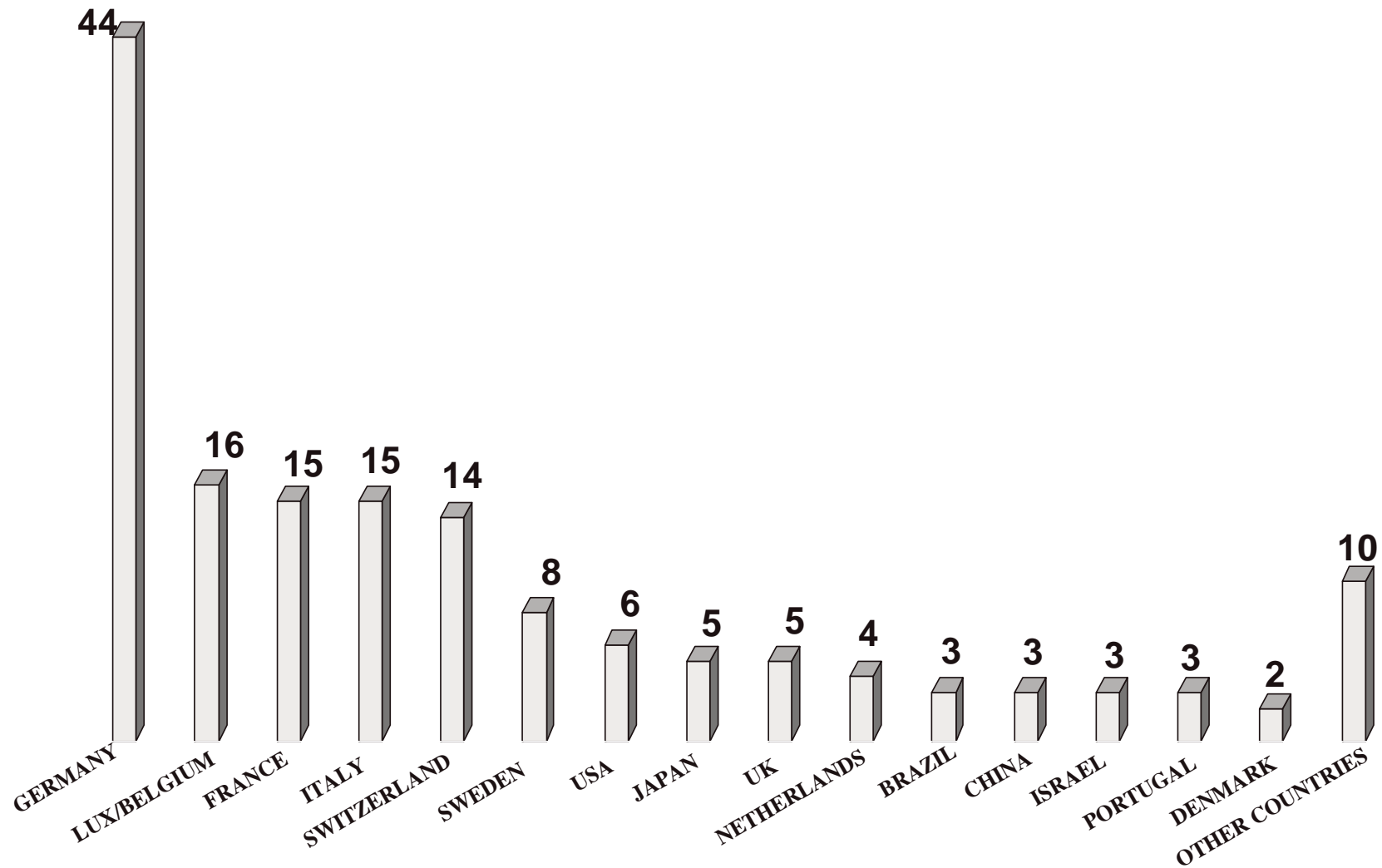
## Balance sheet of Luxembourg banks





## Economy and finance

### Origin of banks implanted in Luxembourg



## A first class reputation in the fund industry

- First country to transpose the European directive 611/85/EEC in March 1988
- Second fund domicile in the world behind the United States
- Major trends are :
  - Globalisation of the world's economies and capital markets
  - Convergence and concentration in the financial services industry
  - Changing regulatory climate and customer needs
  - Technological advances

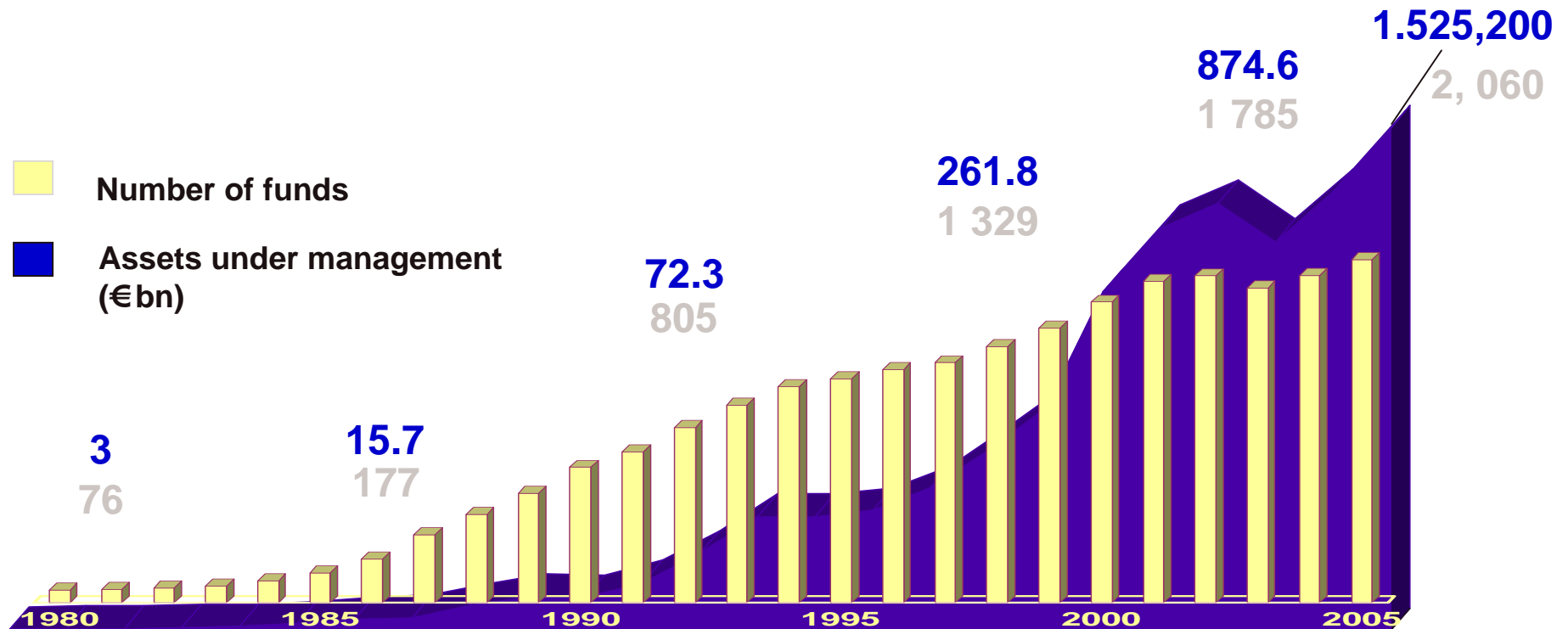
## A prime location within the European investment funds market

### Ucits and Non-Ucits net assets by country of domiciliation

<b>Luxembourg</b>	<b>1,525,208</b>	<b>23.20%</b>	Sweden	105,587	1.60%
France	1,270,600	19.40%	Netherlands	95,768	1.50%
Germany	965,543	14.70%	Finland	44,668	0.70%
UK	634,649	9.70%	Portugal	36,451	0.60%
Ireland	583,275	8.90%	Norway	34,010	0.50%
Italy	410,078	6.20%	Greece	28,299	0.40%
Spain	275,073	4.20%	Turkey	20,200	0.30%
Austria	156,697	2.40%	Poland	15,877	0.20%
Austria	156,697	2.40%	Liechtenstein	13,215	0.20%
Switzerland	116,705	1.80%	Hungary	7,082	0.10%
Belgium	112,942	1.70%	Czech Republic	4,728	0.10%
Denmark	106,434	1.60%	Slovakia	2,740	0.04%

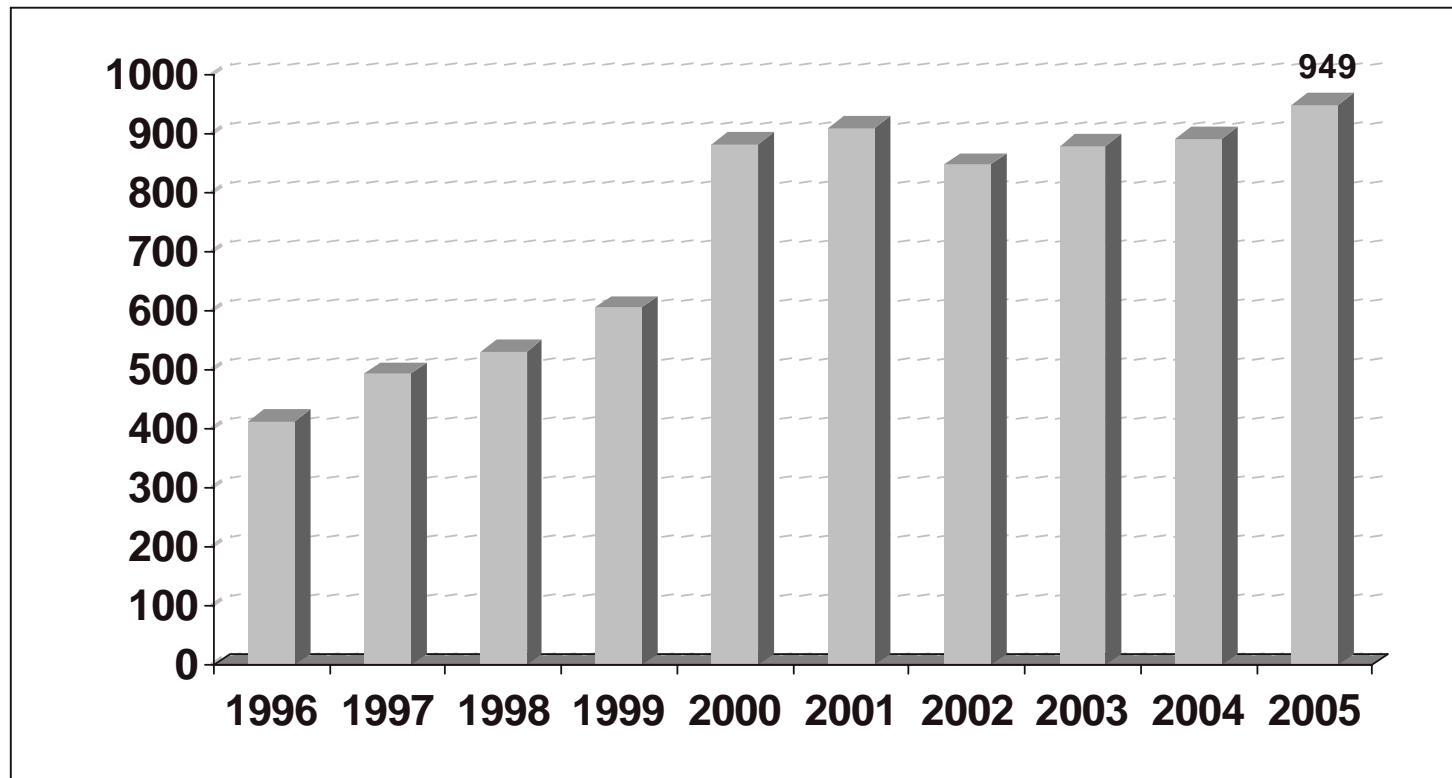
## Economy and finance

### Growth in the number and volume of funds



## Presence of US fund promoters in Luxembourg

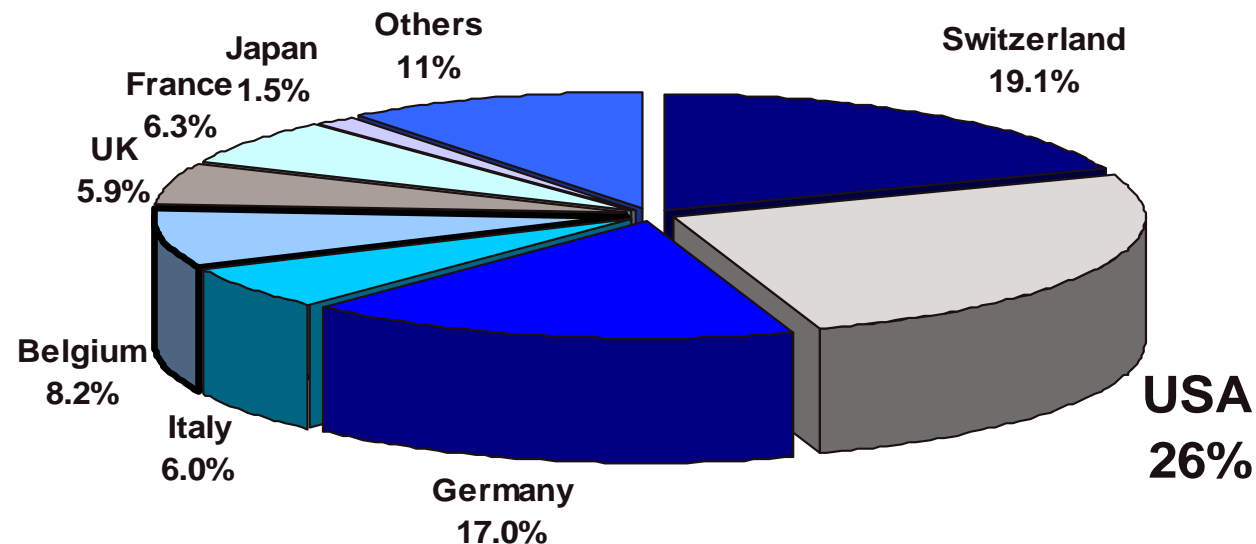
Number of Luxembourg-based mutual funds sponsored by US promoters



## US fund promoters, now the most important in Luxembourg

### Assets under management of Luxembourg domiciled funds by origin of promoter

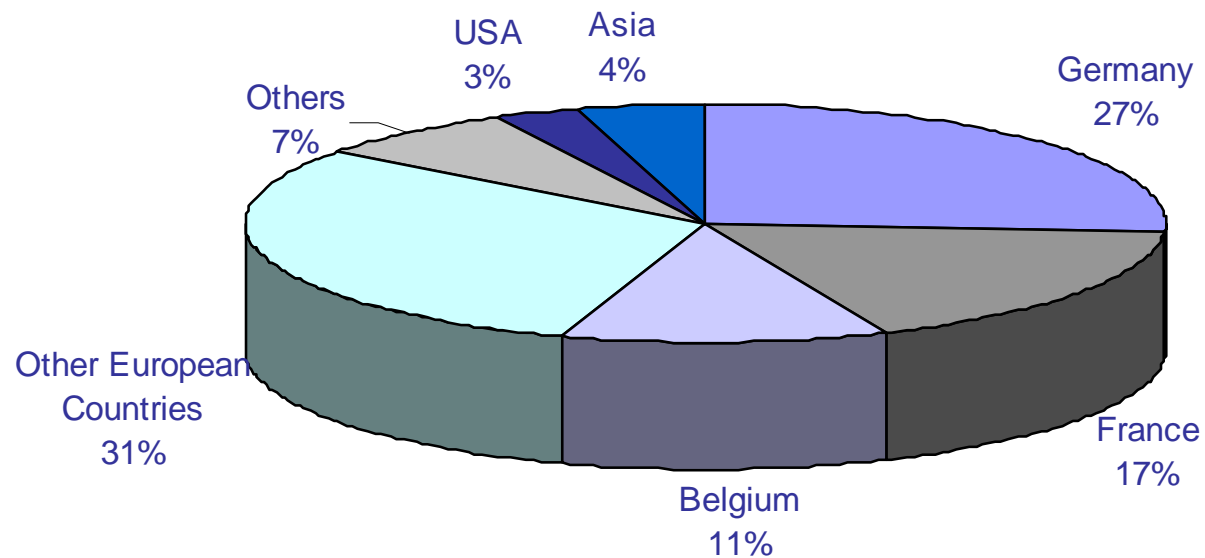
(by net assets, in % as at 12/31/05)





## Export trade partners (2005)

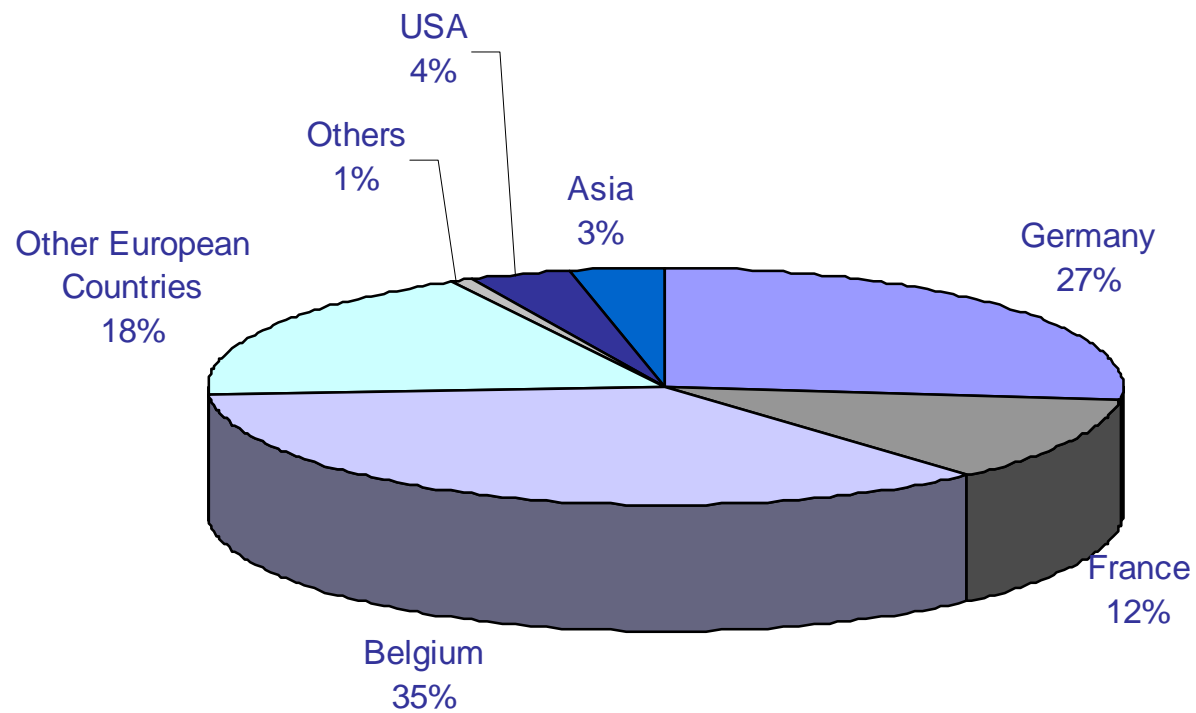
The total amount of exports reached **10 billion Euros** in 2005,  
i.e. **+ 3.6%** compared to 2004



More than 85% → EU 25  
55% → Direct neighbour countries

## Economy and finance

### Import trade partners (2005)

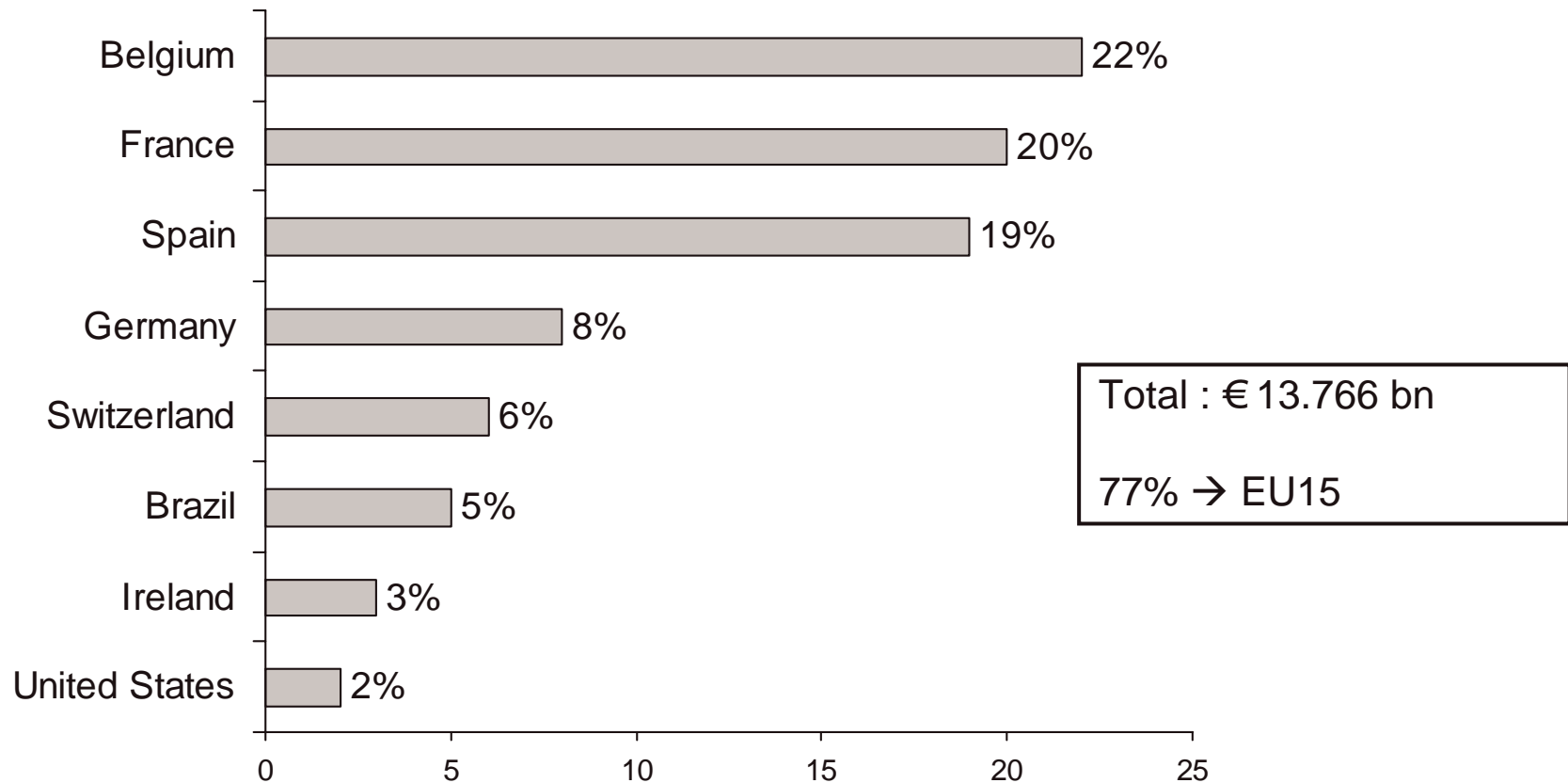


90% ← EU 25

Nearly 74% ← Direct neighbour countries

## Foreign direct investment from Luxembourg

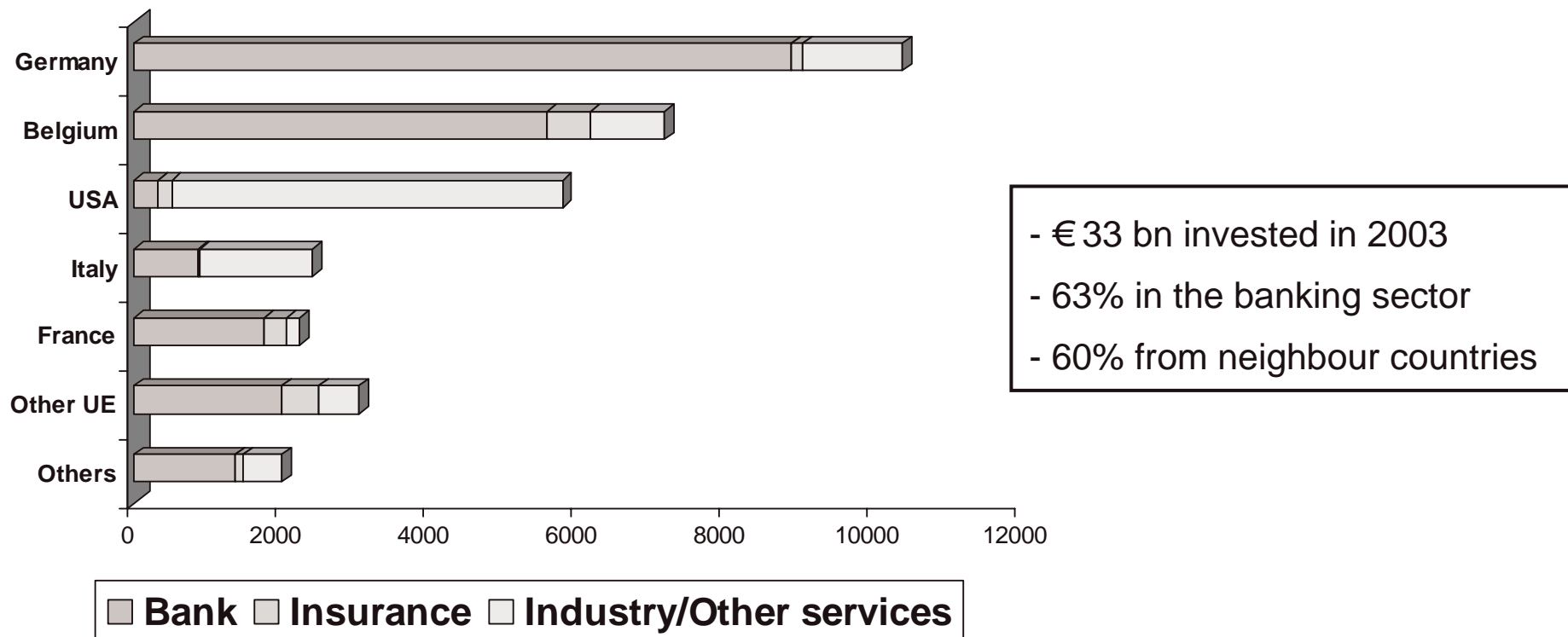
Total amount of direct investments **from Luxembourg** in other countries (2003, %)



## Economy and finance

### High level of foreign direct investment

Total amount of direct investments **in Luxembourg** (in € mio)



## Luxembourg, a wealthy country

- **Insignificant government debt** (6,6% of the country's GDP)
- **Annual Budget 2006** : €6,947 billion
- **Growth of GDP** : + 4.5 % in 2005

Expected evolution : + 4.4 % in 2006

- **High standard of living**

average income per household = €3,726 /month (CEPS/Instead study)

## 2006 Government budget

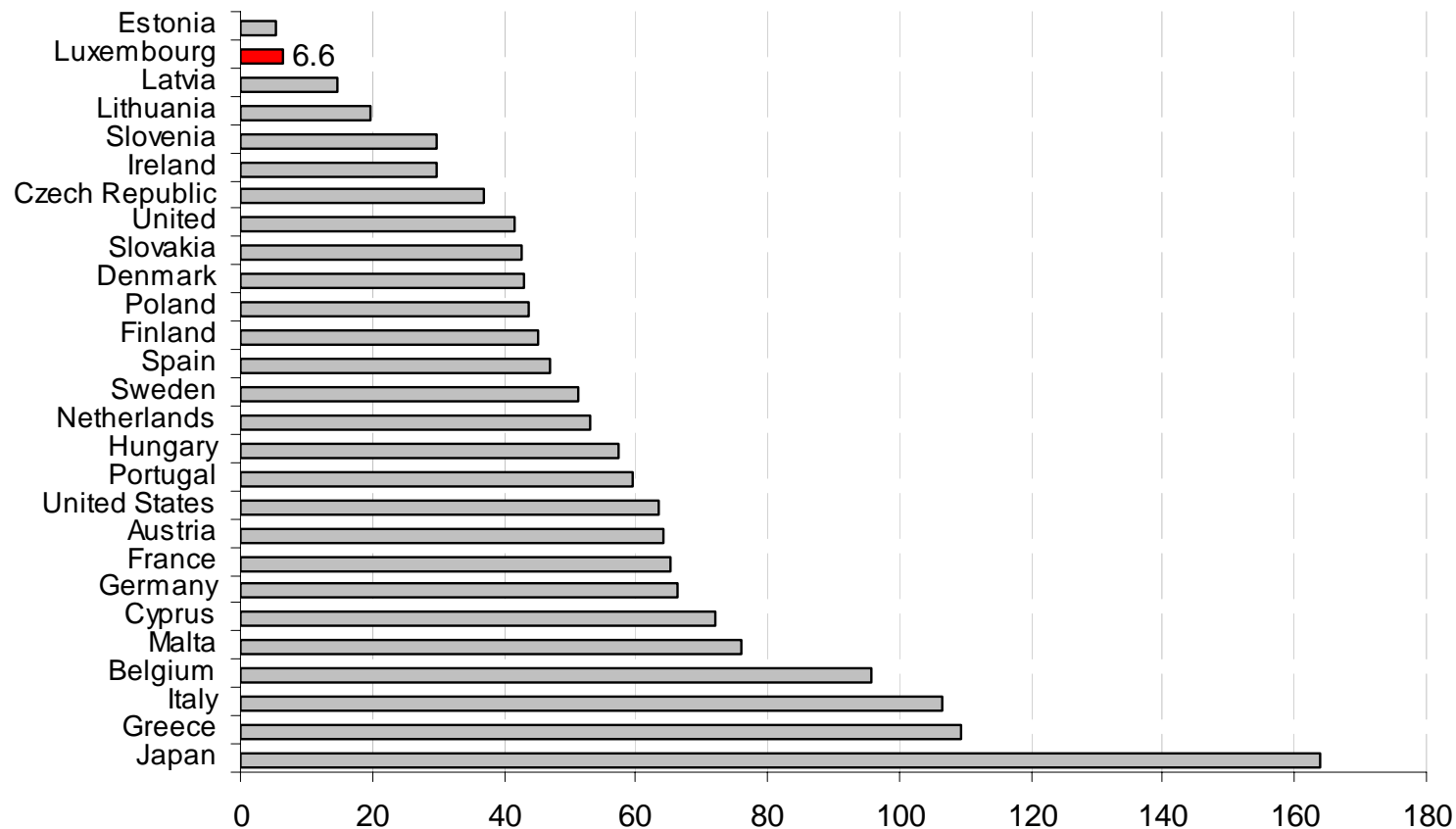
A balanced budget dedicated to economic health and innovation

X 1000 €	2005 – Voted		2006 – Draft	
Corporate Tax	1,171,900	<b>17.5%</b>	1,302,000	<b>19%</b>
Personal Tax	1,796,370	<b>27%</b>	2,006,630	<b>29%</b>
Wealth Tax	100,000	<b>1.5%</b>	100,000	<b>1.5%</b>
VAT	1,588,870	<b>24%</b>	1,352,290	<b>19.5%</b>
Other	1,972,033	<b>30%</b>	2,185,976	<b>31%</b>
<b>Total</b>	<b>6,629,173</b>	<b>100%</b>	<b>6,946,896</b>	<b>100%</b>

## Economy and finance

# An insignificant Government debt which guarantees stability

General government debt, 2004 in % of GDP



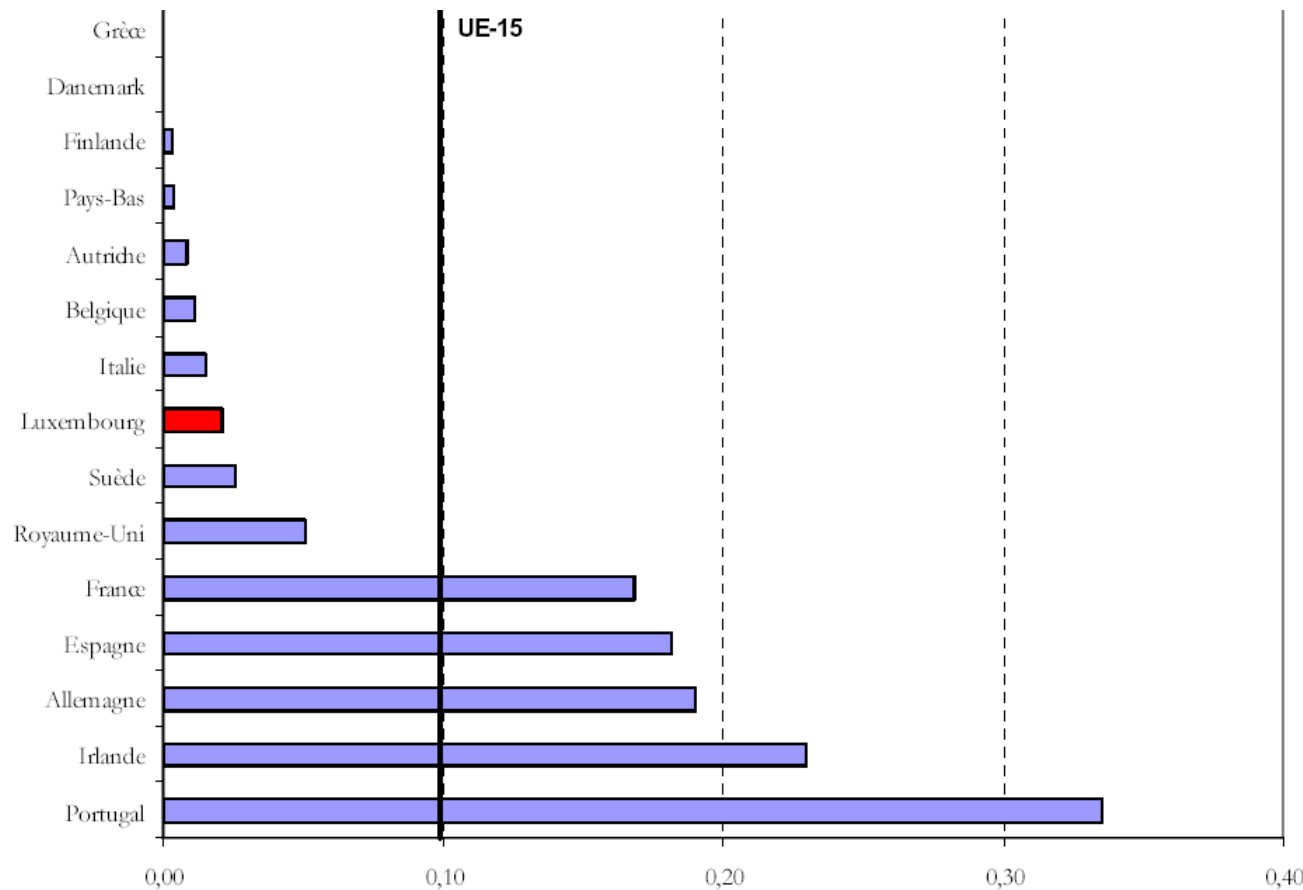
Source : EUROSTAT - 2006

PricewaterhouseCoopers



## Economy and finance

### State subsidy: one of the lowest levels in EU (% of GDP)



- A very low state subsidy shows that the economy of the country is healthy

- This is a good criterion for competitiveness

## 5. KEY FOREIGN PLAYERS

**An attractive country for companies**



Key players

SES Global Leadership



**The world's leader in global satellite communication**

**Main markets**

- Audio-visual broadcasting
- Internet trunking
- Corporate networks
- Telecommunications services

**2005 key figures**

Total revenues: € 1,258 million

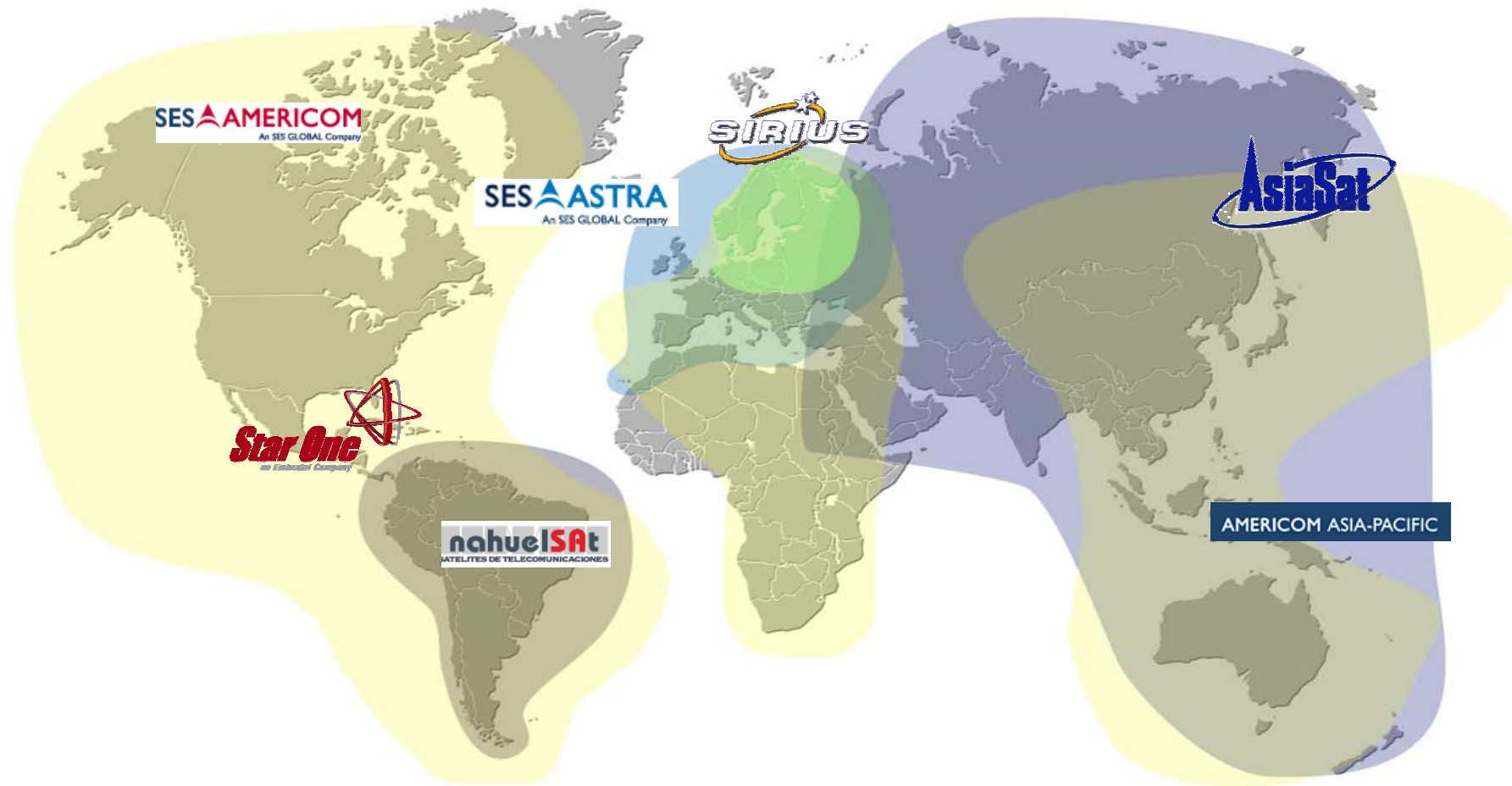
Profit of the group: € 381.9 million

Largest satellite fleet: 38

World's population covered: 95%

Key players

SES Global world headquarters  
Coupled with regional market focus



Key players

RTL Group world headquarters



**Leading communication key player for TV and Radio**

**Main features**

- European leader in TV and radio broadcasting
- Global leader in content (Production & Rights)
- Largest independent distribution company outside US

**2005 key figures**

34 TV channels, 34 radio stations in 11 countries

300 programmes in 40 countries  
Audience: 250 million viewers per month

8,388 employees worldwide

Key players

CARGOLUX at a glance...



**Cargolux, the 8th biggest cargo airline in the world,  
has been elected Cargo Airline of the Year 2005 by *ATW Magazine***

**Key markets**

- Freight Services & Equipment
- Charters
- Special Handling
- Luxair Cargo Center

**2005 key figures**

Turnover: \$ 1,2 billion

Number of employees: 1 356

Fleet : 13 Boeing 747

1st Air Cargo Carrier in Europe  
5th European Air Cargo Hub

Key players

CARGOLUX

Worldwide presence





Key players

ARCELOR world headquarters



**ARCELOR is a leading force in the transformation of the global steel industry**

**Main markets**

- Automotive
- Construction
- Packaging
- General Industry

**2005 key figures**

96 000 persons over 60 countries

6 300 persons in Luxembourg

Turnover: € 32.6 billion

Shipment: 32.9 million tonnes of steel

Key players

eBay-SKYPE world headquarters



**This Luxembourg-based company has revolutionised telephony**

- 90 employees
- 140,000 people are said to be signing up each day
- “There is no question in my mind that Skype will become a \$1 billion company”,  
Niklas Zennstrom, CEO – March 2005
- Why Luxembourg?
  - Corporation tax and VAT
  - Business friendly environment
  - Ability to have a good dialogue with authorities

## Key players

### Amazon Services Europe: European decision-making centre in Luxembourg



**The world's largest online retailer**

- About 20 employees
- Sales and services activities based in Luxembourg
- Operational units centre for its European websites
- Why Luxembourg?
  - Favourable business climate
  - Efficient and fast administrative channels
  - Multilingual, highly-qualified staff
  - VAT advantages

## Key players

iTunes: leading the way for the world's digital download market

# iTunes

**The number 1 download music store for PC and Mac**

- The iTunes Music Store commands 70% of the legal music download
- Over 100 million songs sold on iTunes in Europe and more than 1 billion worldwide
- Why Luxembourg?
  - Geographical proximity of iTunes markets and Apple entities: Germany, France, Belgium, Switzerland and the UK (existing direct flights)
  - Business friendly environment

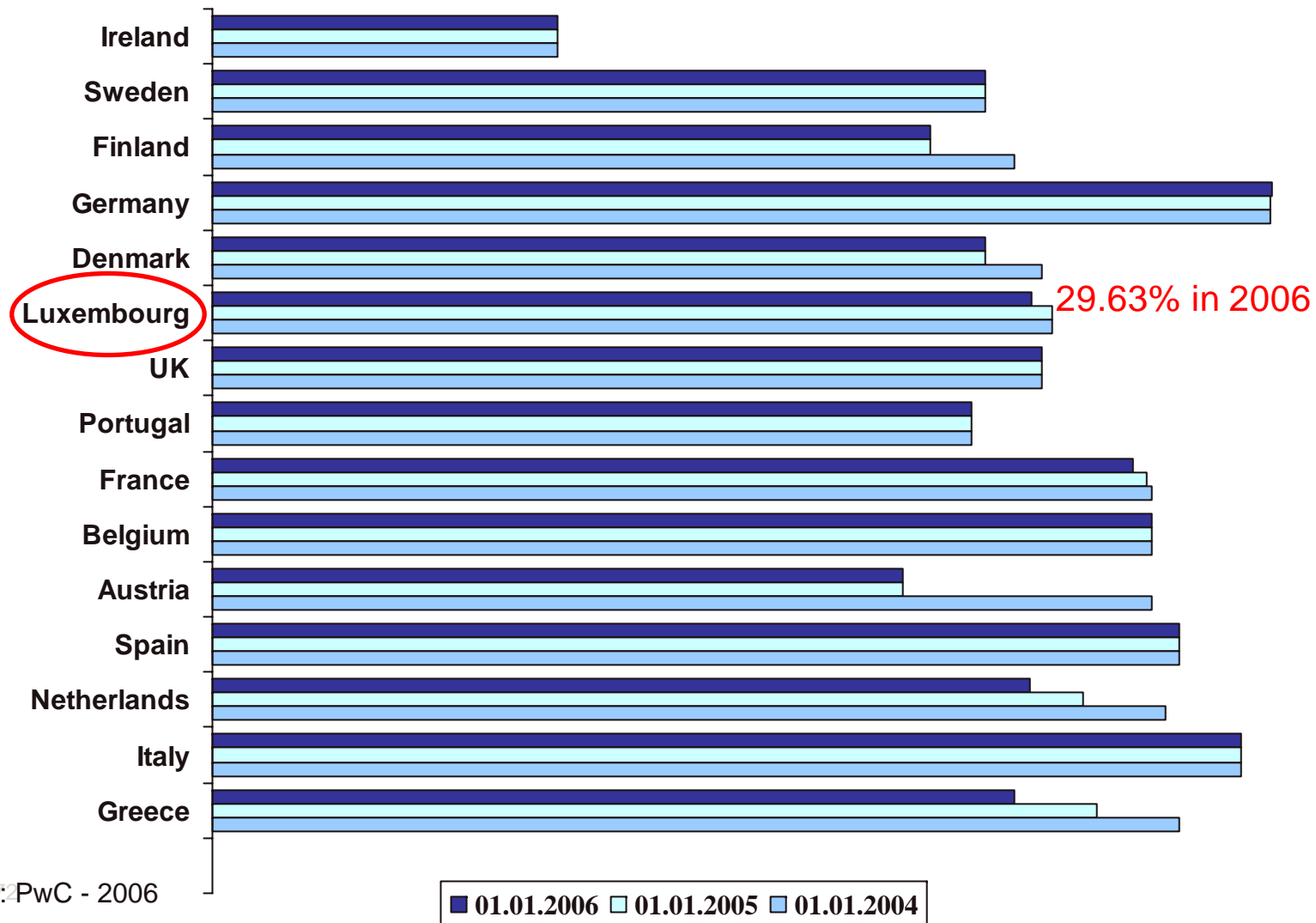
## 6. CORPORATE TAXATION

### Advantages offered by Luxembourg



## Corporate taxation

### Corporate income tax rates

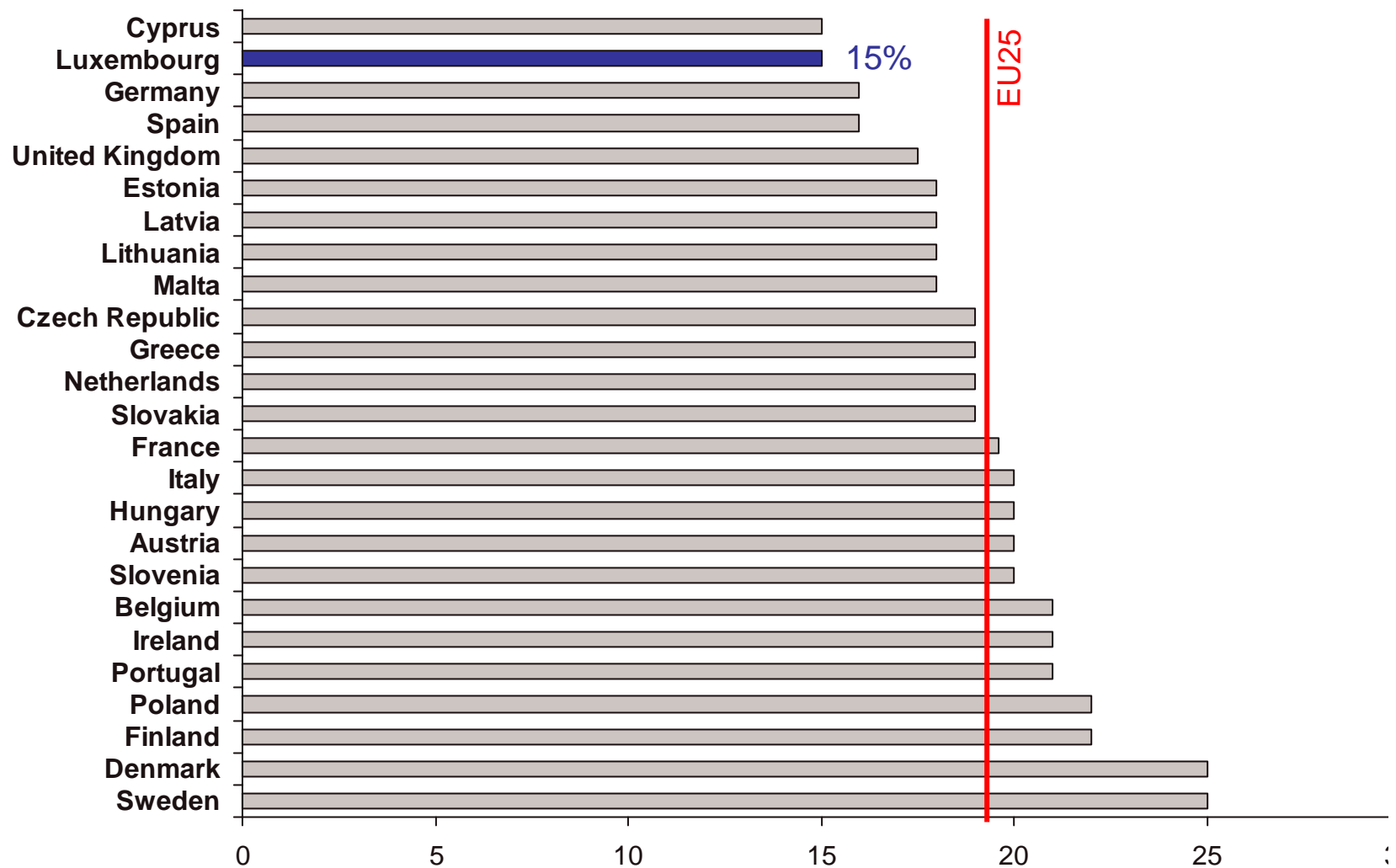


Source: PwC - 2006  
PricewaterhouseCoopers

## Corporate taxation

### VAT Rates in the EU

Standard VAT rate, 2006, in %



Source: European Commission 2006  
PricewaterhouseCoopers



## VAT advantages in Luxembourg

- **Low VAT rates (the lowest combined rates in the EU)**
  - 3%, 6%, 12%, 15%
- **Pre-financing optimization (B2B transactions)**
  - Importation, supply of goods and services
- **Financial sector**
  - The widest scope of application of the VAT exemption in the EU
  - A flexible application of the exemption to sub-contracted services
- **Full VAT deduction**
  - Car leasing, fuel, entertainment expenses,...
- **VAT compliance**
  - Easy and flexible
  - Extended deadlines

## International structures: why Luxembourg?

- Low effective tax rate
- Fiscal unity allowing the consolidation of tax results
- Reliability of tax laws
- Flexible tax efficient structuring possible
- Application of EU Directives on taxation reduces the reliance on double tax treaties
- Expanding tax treaty network for non EU investments
- Flexible transfer pricing rules
- Tax certainty through Advance Tax Agreements

Corporate taxation

Luxembourg tax products

Bolt on products

- **Standard holding company structures**
  - benefits from double tax treaty protection
  - benefits from 0 % WT on parent/subsidiary dividends
  
- **Finance holding companies**
  - benefits from enlargement of EU countries
  - no thin capitalisation rules

Corporate taxation

Luxembourg tax products

Bolt on products

- **Intellectual Property Planning companies**
  - EU Directives on Interest and Royalties
  - No amortisation recapture
  - No exit costs
  
- **US inward Bound Finance Structures**
  - Benefit from US treaty

## 7. EMPLOYMENT AND LABOUR COSTS

An optimal balance between low business costs and high purchasing power



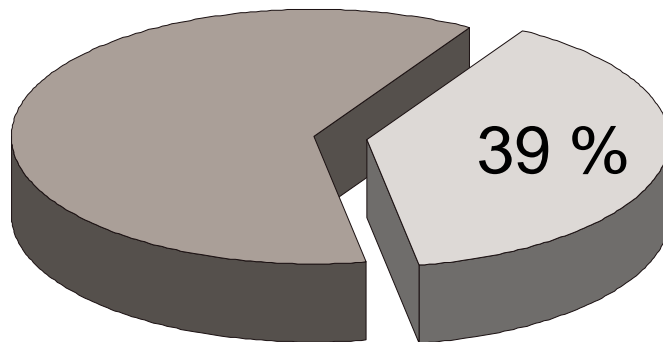
## Employment and labour costs

### Who lives in Luxembourg?

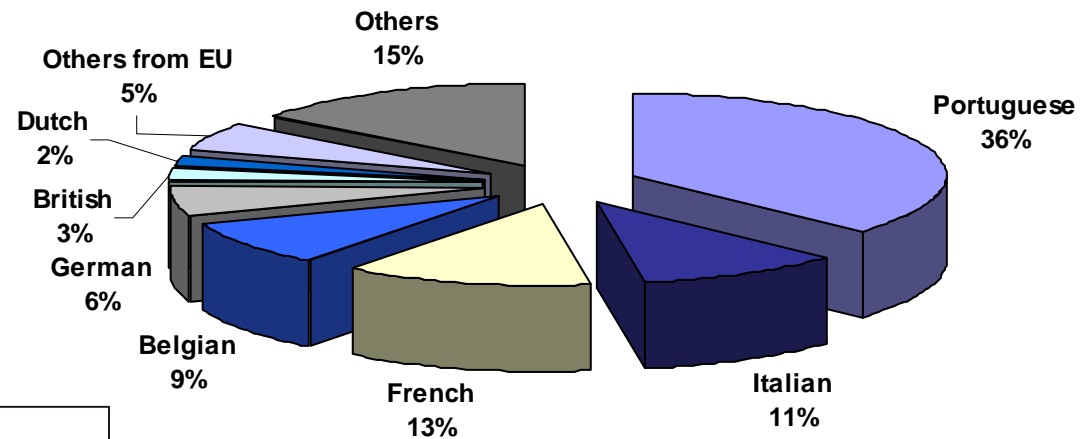
**Total Population 455,000**

**Of which 177,000 foreigners**

Luxembourgers

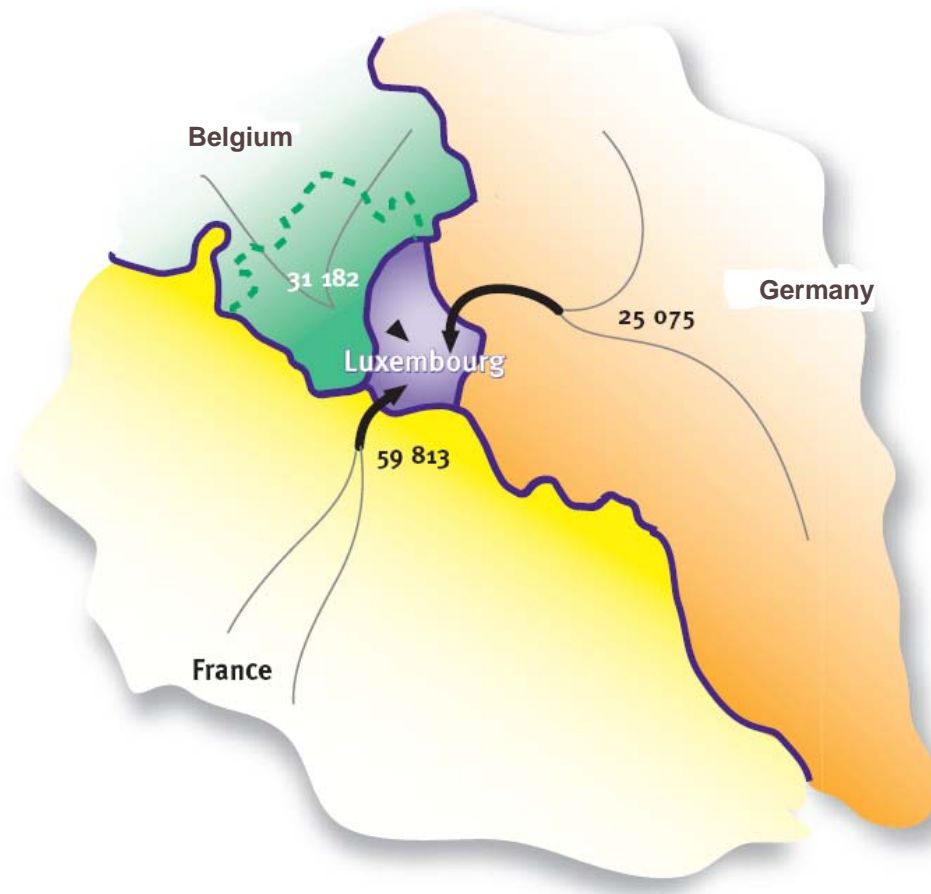


Foreigners



## Employment and labour costs

### Who works in Luxembourg?

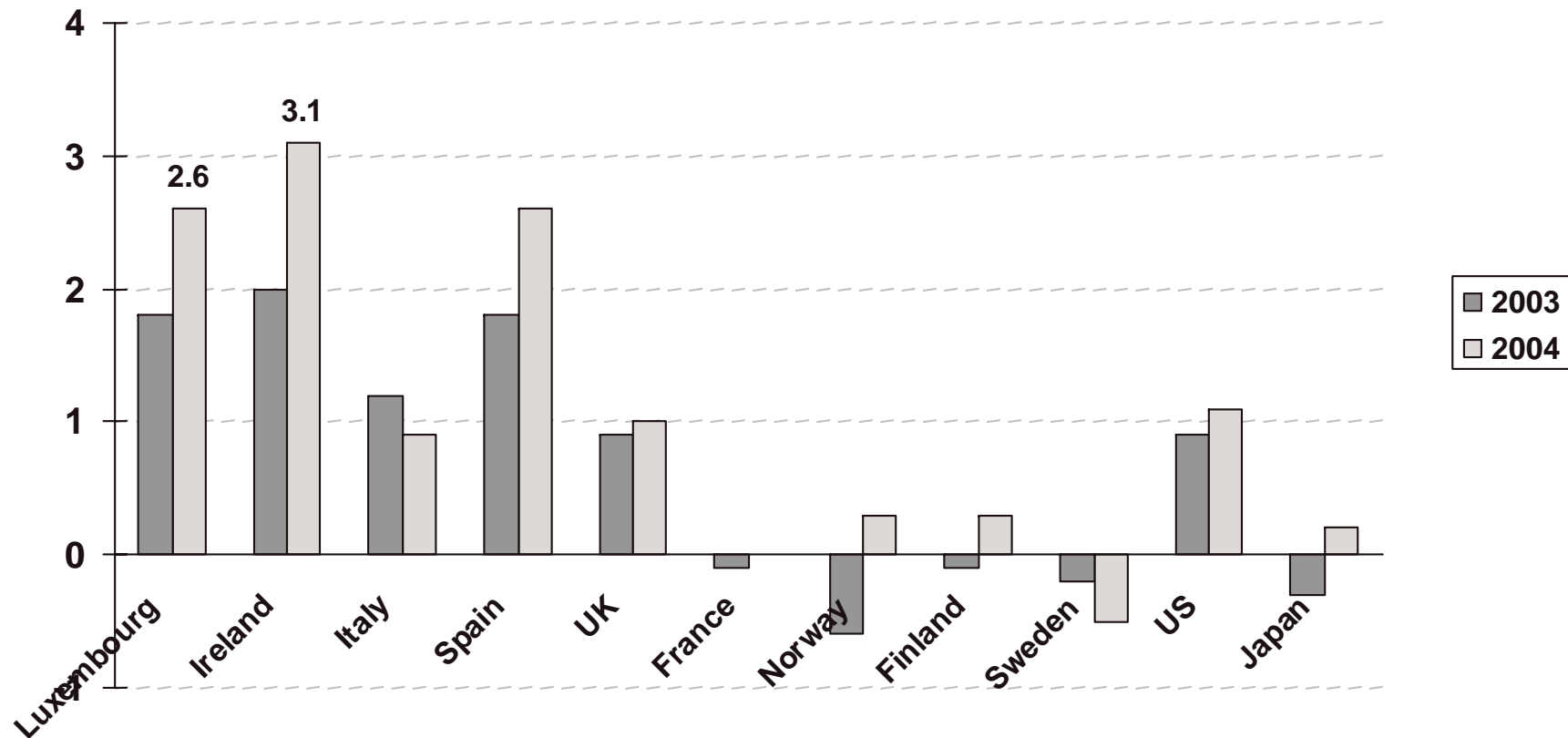


- **International and multicultural** workforce

- **Frontier workers** (about 116,070 people) and **foreign residents** represent **66%** of the working population of about 438 000

## Employment and labour costs

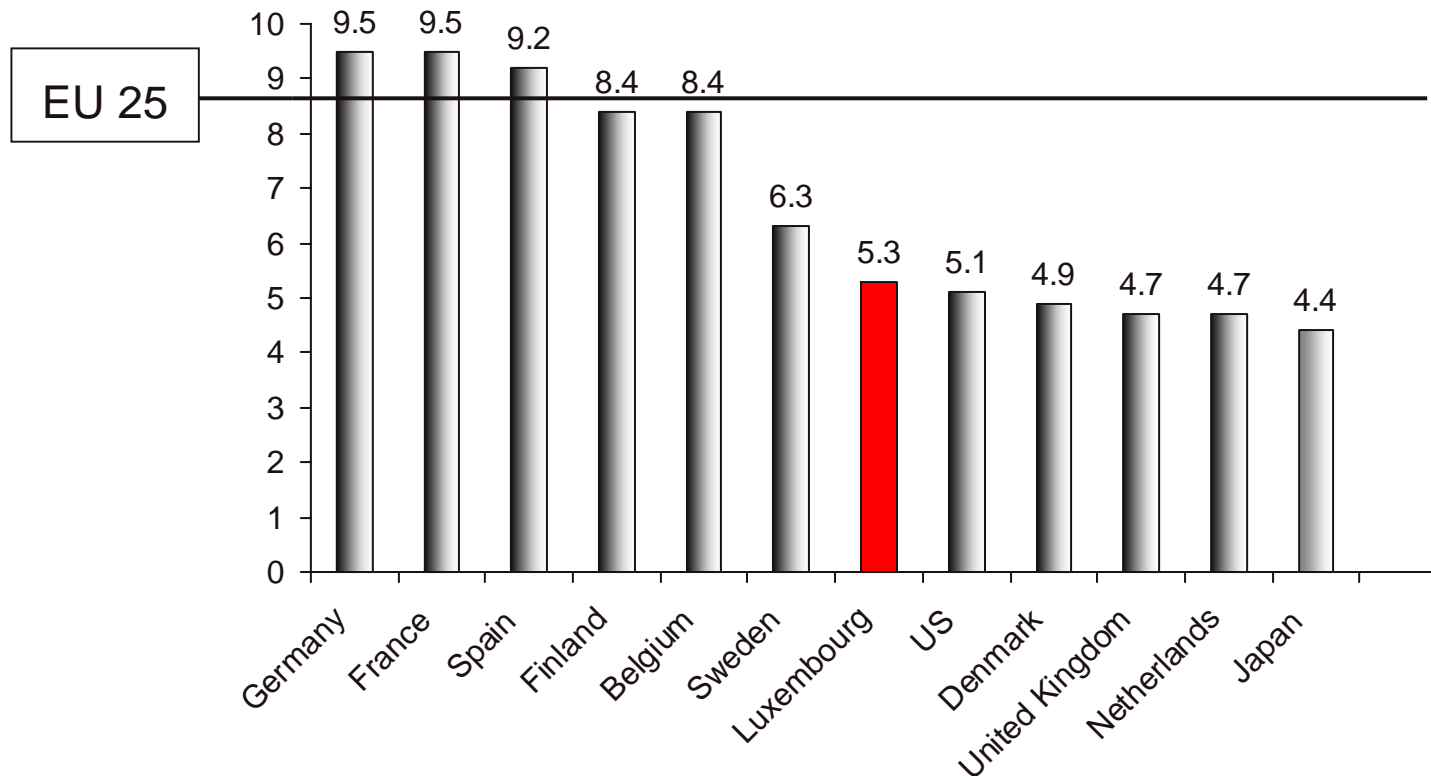
### Total employment growth (in %)





## Employment and labour costs

### Total unemployment rate (2005, in %)



Employment and labour costs

Lower taxation and social charges

**Comparing employer social charges in Luxembourg  
to other European countries**

2006 annual gross salary of €100,000

Married / 2 children

	<b>Neth</b>	<b>Lux</b>	<b>UK</b>	<b>Ger</b>	<b>Ireland</b>	<b>Belg</b>	<b>Fr*</b>
<b>Total cost for employers</b>	107	110	112	112	111	134	149
<b>Minus tax/soc sec employers</b>	7	10	12	12	11	34	49
<b>Gross salary (t=100)</b>	100	100	100	100	100	100	100
<b>Minus tax/soc sec</b>	44	28	33	36	32	48	30
<b>Net</b>	56	72	67	64	68	52	70

\* 2005 calculation

Source: PwC – April 2006  
PricewaterhouseCoopers

## Employment and labour costs

### Lower taxation and social charges

#### Comparing employer social charges in Luxembourg to other European countries

2006 annual gross salary of €100,000

Single

	Neth	Lux	UK	Ger	Ireland	Belg	Fr*
<b>Total cost for employers</b>	107	110	112	112	111	134	149
<b>Minus tax/soc sec employers</b>	7	10	12	12	11	34	49
<b>Gross salary (t=100)</b>	100	100	100	100	100	100	100
<b>Minus tax/soc sec</b>	44	37	33	46	36	53	40
<b>Net</b>	56	63	67	54	64	47	60

\* 2005 calculation

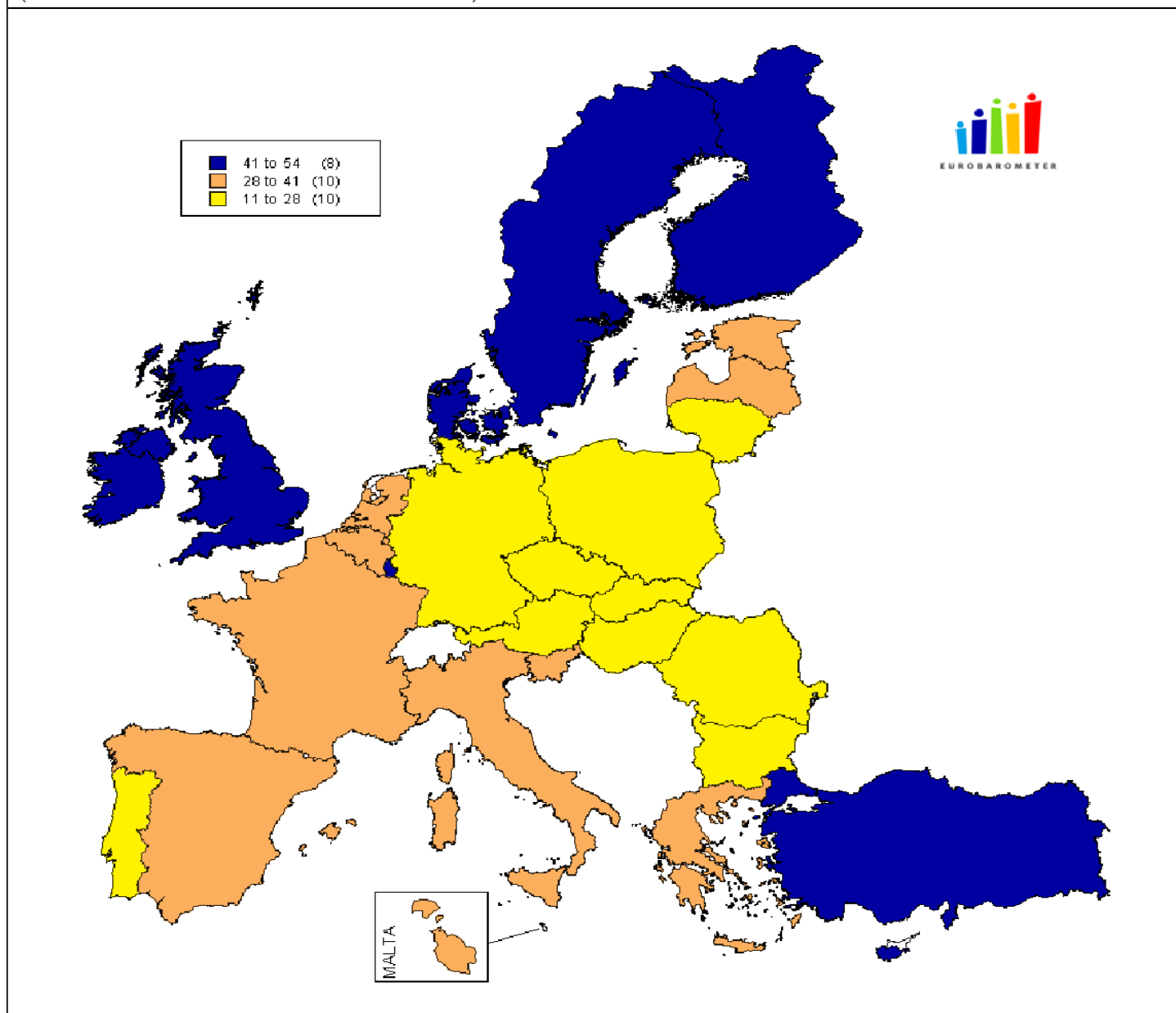
Source: PwC – April 2006  
PricewaterhouseCoopers

## 8. Luxembourg

**One of the best quality-of-life locations in the world**



**MAP 6. LIFE SATISFACTION COMPARED WITH FIVE YEARS AGO**  
(CATEGORIES BASED ON % 'IMPROVED')



## Quality of life

### Excellent ranking for satisfaction of urban residents

*According to the Urban Audit Perception Survey (2005),  
72 % of residents are very satisfied to live in Luxembourg*

City	Residents very satisfied to live in their city
Stockholm	81 %
Luxembourg	72 %
Helsinki	69 %
Paris	44 %
London	43 %

## Quality of life

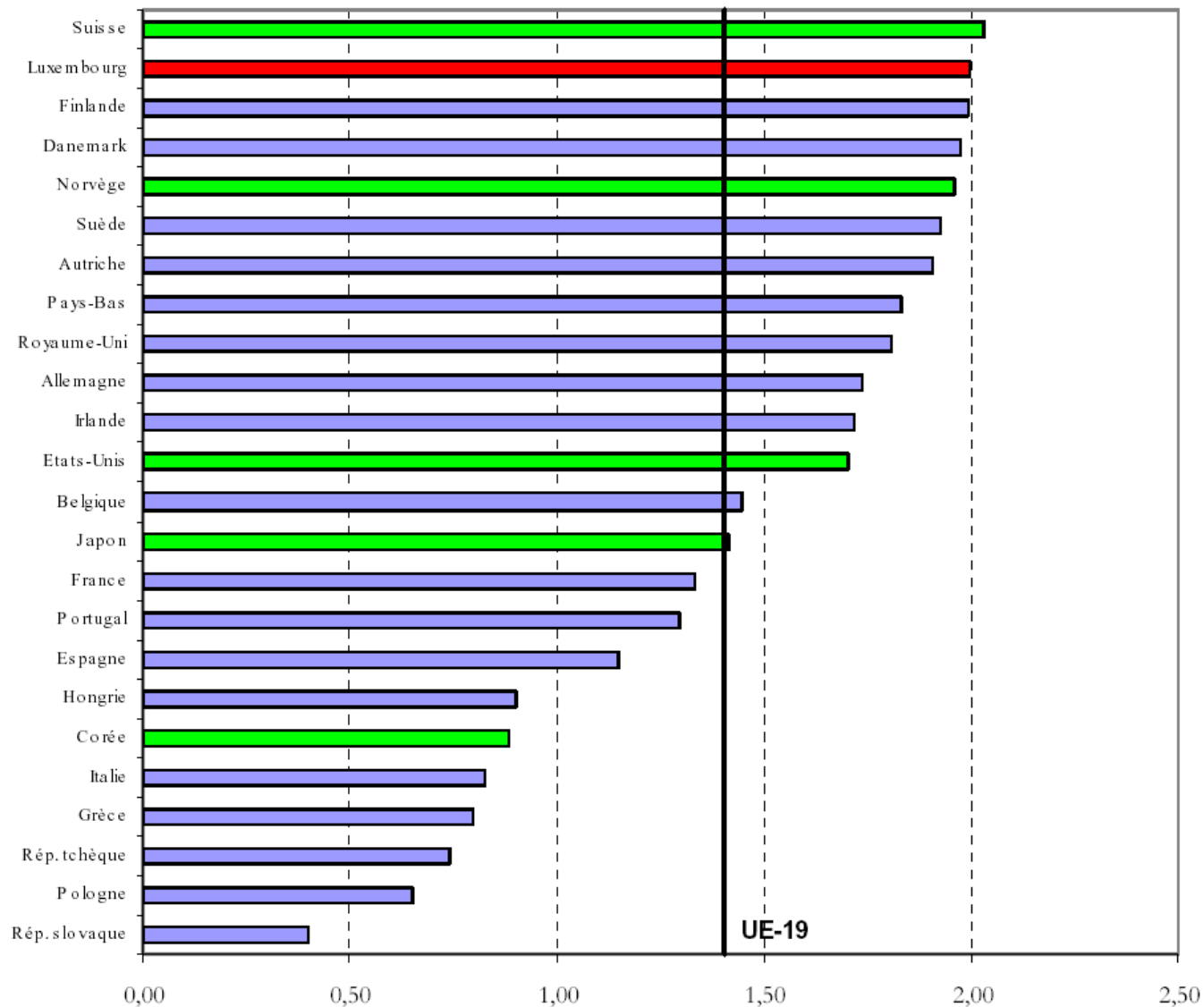
### A welcoming country

*Foreigners who live in Luxembourg are well integrated*

City	Foreigners who believe that they are well integrated
Herakleio	66 %
Luxembourg	64 %
London	54 %
Paris	43 %
Amsterdam	33 %
Stockholm	8 %

## Quality of life

### Respect of the Law: an important criterion for economic growth



Source: Banque Mondiale, 2002



Quality of life

An affordable cost of living

**Cost index of basket of goods in major cities, including housing** (Zurich = 100)

London	122,4
Oslo	109,4
New York	105
Tokyo	104,6
Copenhagen	104,1
Hong Kong	100,6

Paris	99,3
Geneva	98,2
Stockholm	95,2
Amsterdam	86,4
...	
<b>Luxembourg</b>	<b>81</b>

Quality of life

Luxembourg reconciles business with culture and leisure activities



Contact: Luxembourg City Tourist Office

Quality of life

## Golf courses in Luxembourg and surroundings

**Around 30 golf courses in the Grande Region,  
for which 6 are located in Luxembourg**

- Kikuoka Country Club
- Golf Club Grand Ducal
- Golf de la Gaichel
- Golf de Clervaux
- Golf de Luxembourg
- Golf de Christnach



Quality of life

## Culture in Luxembourg

### Museums

- National Museum of Art and History
- Modern Art Museum
- Naturmusée
- Museum of Luxembourg City
- Victor Hugo's House

### Theatres and National Orchestra

- Great Theatre of Luxembourg City
- Theatre des Capucins
- Luxembourg National Theatre
- Centaure Theatre
- Esch Theatre
- Luxembourg Philharmonic Orchestra

Quality of life

## Hospitals in Luxembourg and vicinity

**In Luxembourg, or less than one hour away,  
you will find about 20 hospitals and clinics**

### Major Hospitals

### # of Employees

Luxembourg Hospital

1, 770

Emile Mayrisch Hospital

1,200

Kirchberg Hospital

830

Ste Thérèse Clinic

640

St Louis Hospital

680

Metz (France)

7 hospitals

Nancy (France)

6 hospitals, 9 renowned clinics

Quality of life

## At the leading edge of International Knowledge

**With various renowned international schools, Luxembourg allows an excellent access to education for foreign kids**

### **In Luxembourg**

- International School of Luxembourg
- European School
- Luxembourg University
- Sacred Heart University
- Miami University Luxembourg
- Embry-Riddle Aeronautical University
- Lycée Français Vauban
- St. George's International School

### **About 2 hours away**

Liège University, Liège - BELGIUM

Leuven University, Leuven - BELGIUM

Université Libre, Brussels - BELGIUM

Louvain University, Louvain La Neuve - BELGIUM

Metz University, Metz - FRANCE

Henri Poincaré University, Nancy – FRANCE

Robert Schuman University, Strasbourg - FRANCE

Trier University, Trier – GERMANY

Universität des Saarlandes, Saarbrücken - GERMANY

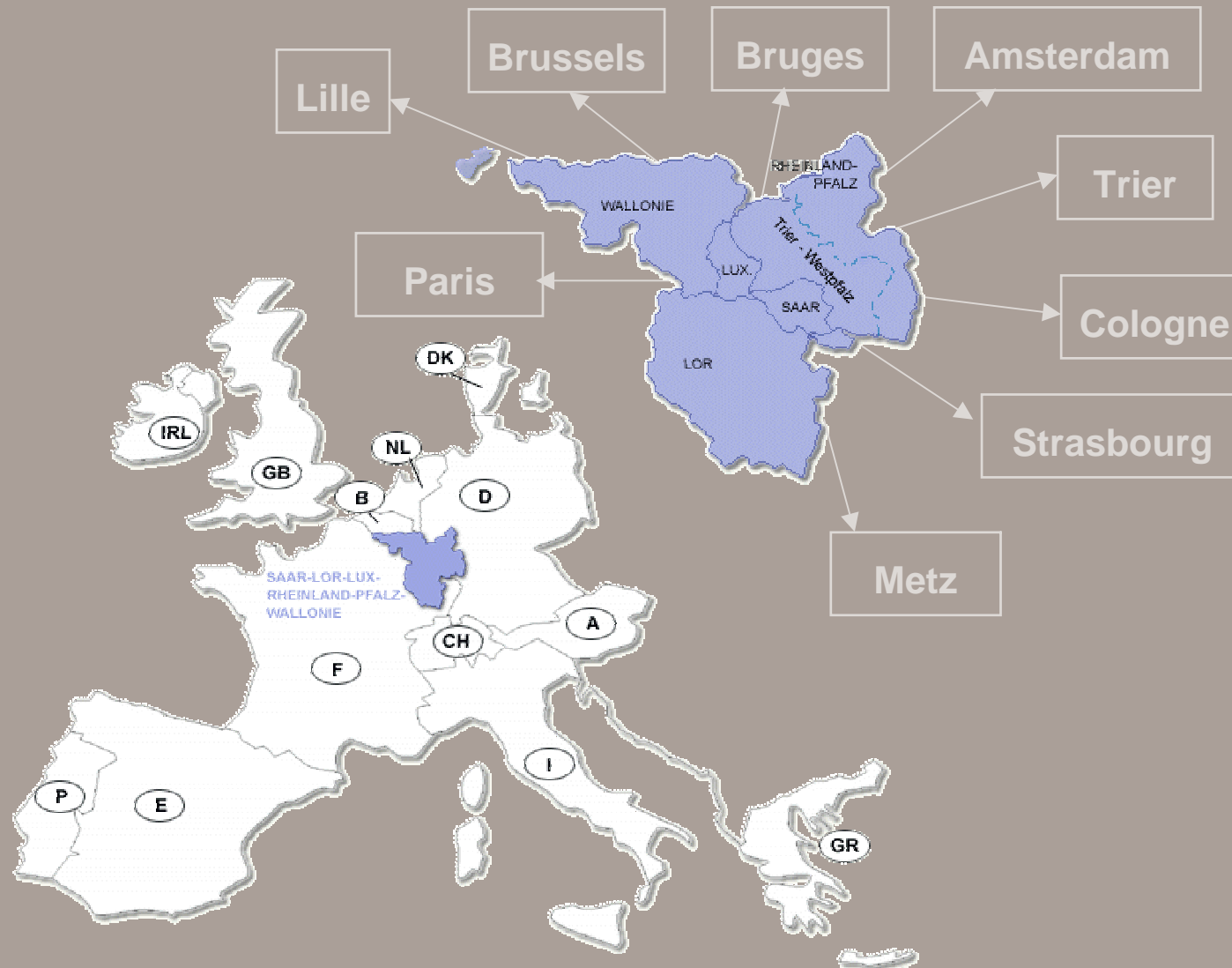
Quality of life

## The University of Luxembourg

- A recently established university with 3,200 students in 2005
- Located in the middle of Europe
- A multilingual working environment that encourages geographical mobility
- 3 different campus in the Grand Duchy
- A wide range of student domains, such as:
  - Mathematics, engineering, law, financial economics, banking and finance, psychology, philosophy, European sustainable spatial development and analysis...
  - ...and much more on [www.uni.lu](http://www.uni.lu)

Quality of life

A great multicultural place in the middle of Europe





## 9. MAIN CHALLENGES FOR LUXEMBOURG'S FUTURE



## **2007: a turning point**

- **Diversification of the Economy**
  - Heavily Dependent on the Financial Sector
- **European Integration**
  - Competition from new EU Member States
- **Maintaining and developing a multicultural and qualified workforce**
- **Developing communication and technological infrastructures**
- **Promoting Luxembourg abroad**

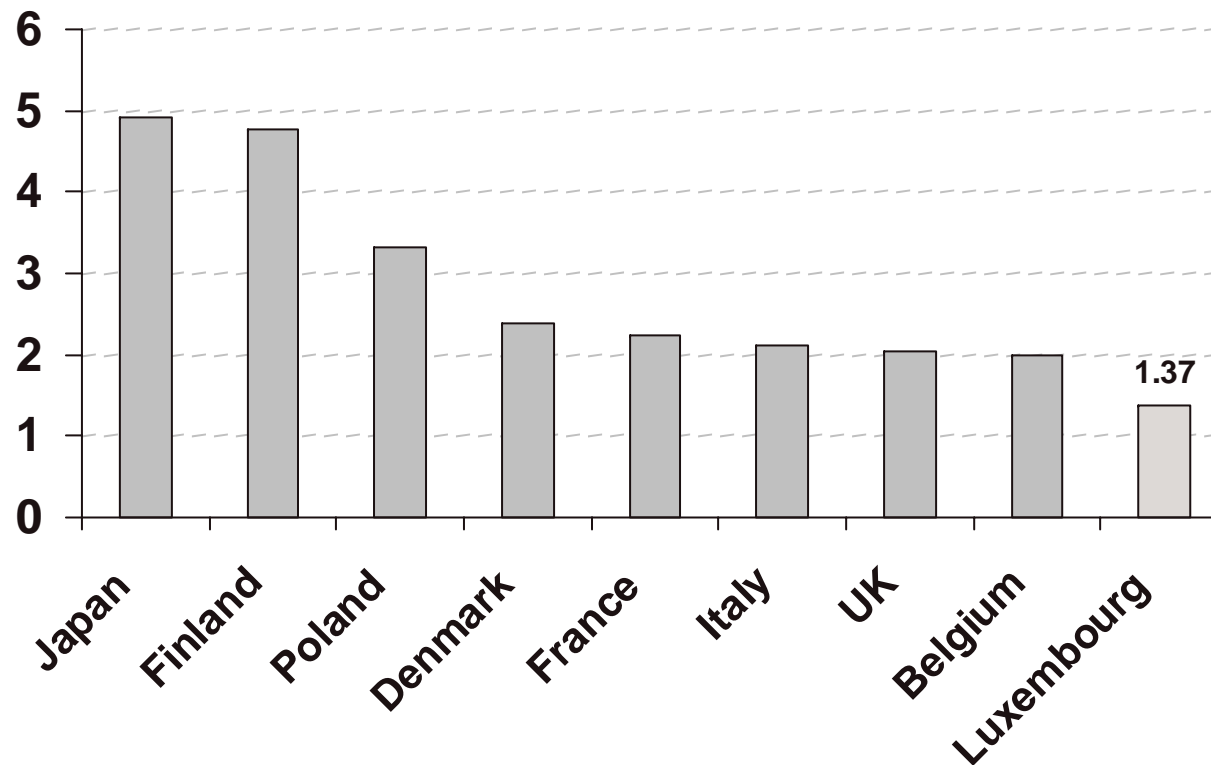
## 10. A GREAT COMPETITIVE LOCATION FOR BUSINESS



A great competitive location for business

## Telecommunication costs to the USA

**Price in Euro per 10 minutes call, in 2004**



Source : EUROSTAT - 2006

PricewaterhouseCoopers

A great competitive location for business

One of the freest economy in the world

## 2006 Index of Economic Freedom

### TOP 10

1. Hong Kong
2. Singapore
3. Ireland
4. **Luxembourg**
5. United Kingdom
6. Iceland
7. Estonia
8. Denmark
9. United States
10. Australia

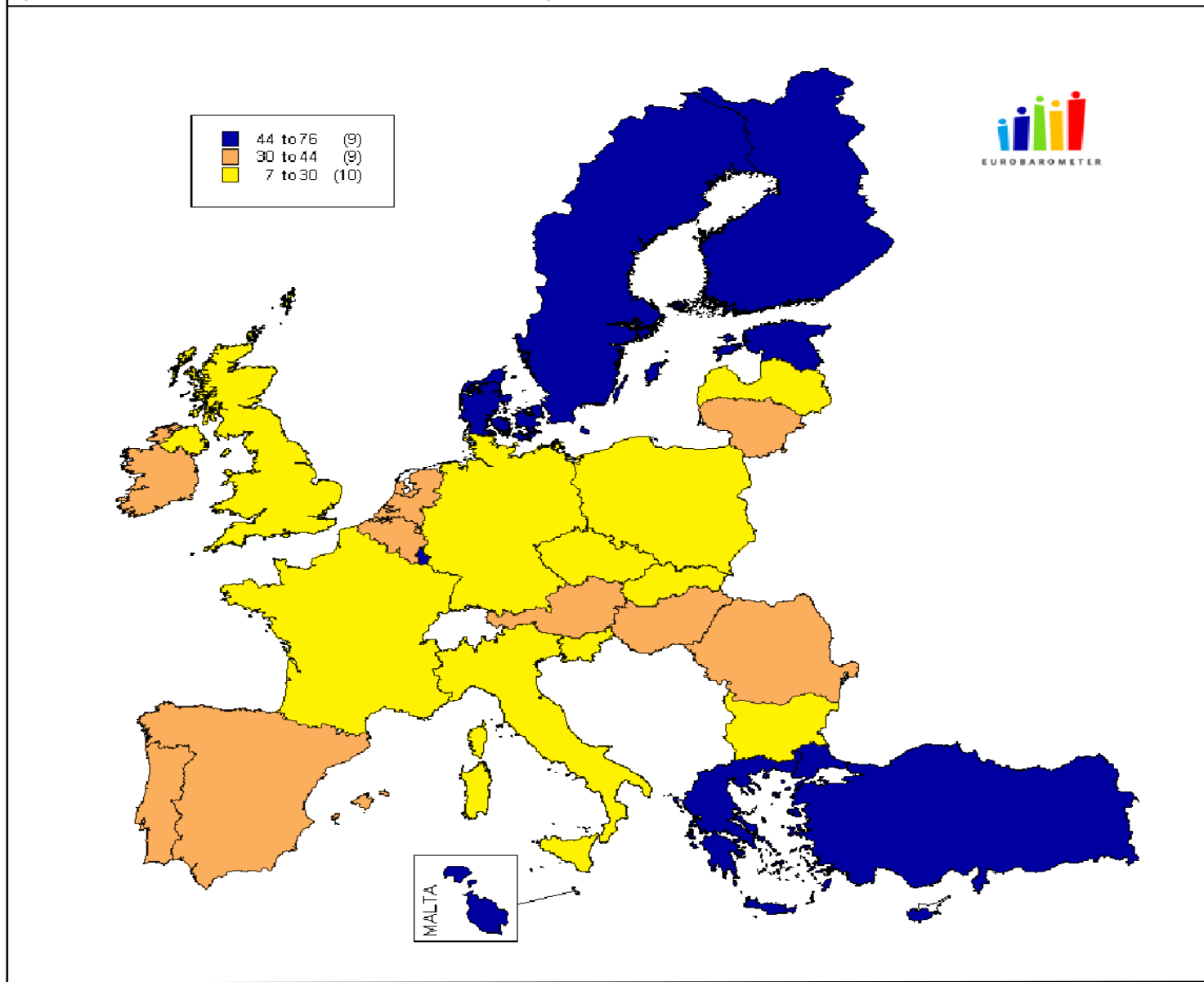
### And the others...

15. Switzerland
17. Netherlands
20. Germany
22. Belgium

*It measures 161 countries against a list of 10 broad factors of economic freedom :*

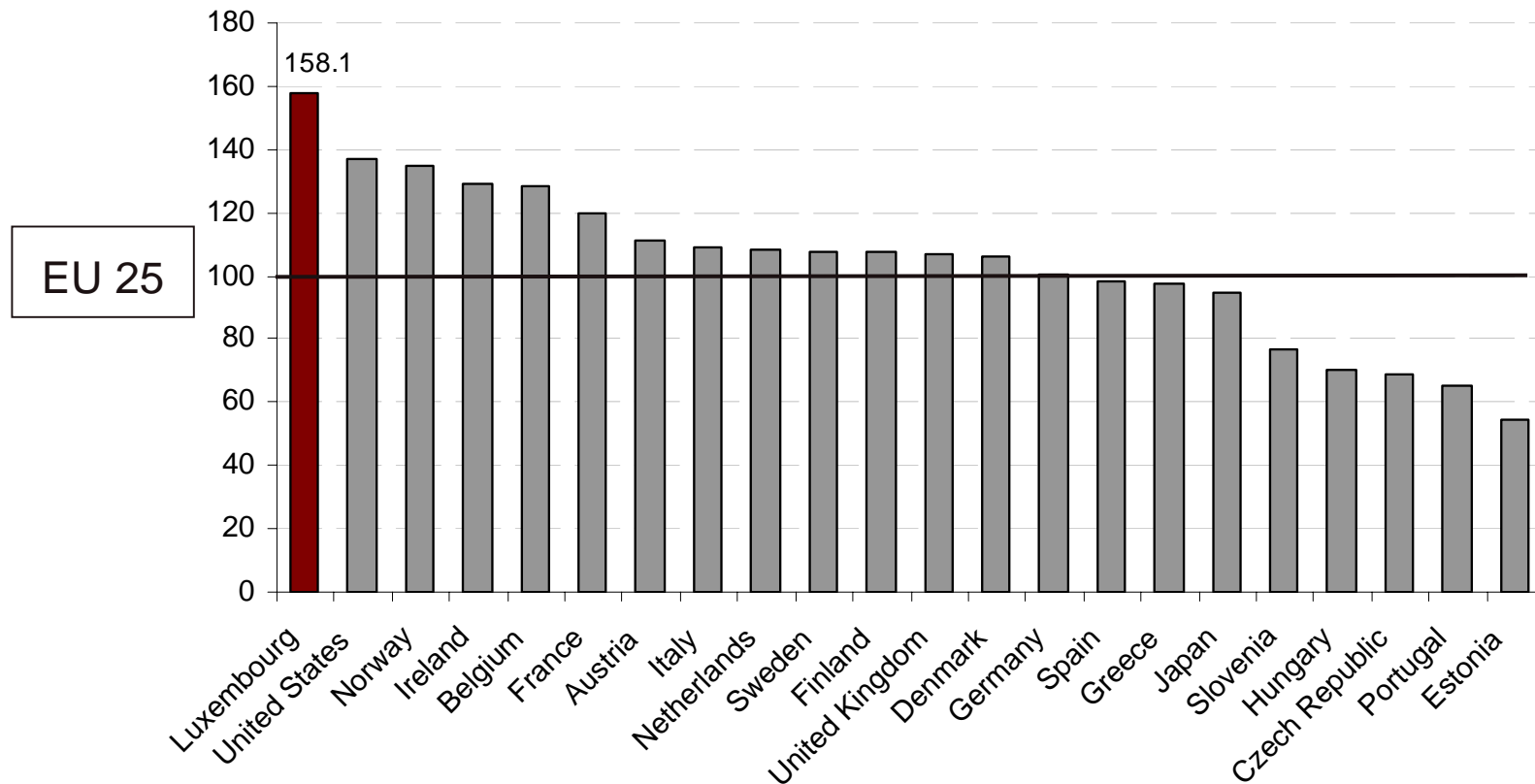
- Trade policy
- Fiscal burden of government
- Government intervention in the economy
- Monetary policy
- Capital flows and foreign investment
- Banking and finance
- Wages and prices
- Property rights
- Regulation
- Informal market activity

**MAP 17. TRUST IN THE [COUNTRY] GOVERNMENT**  
(CATEGORIES BASED ON % 'TEND TO TRUST')



A great competitive location for business

## Labour productivity (GDP per person employed)



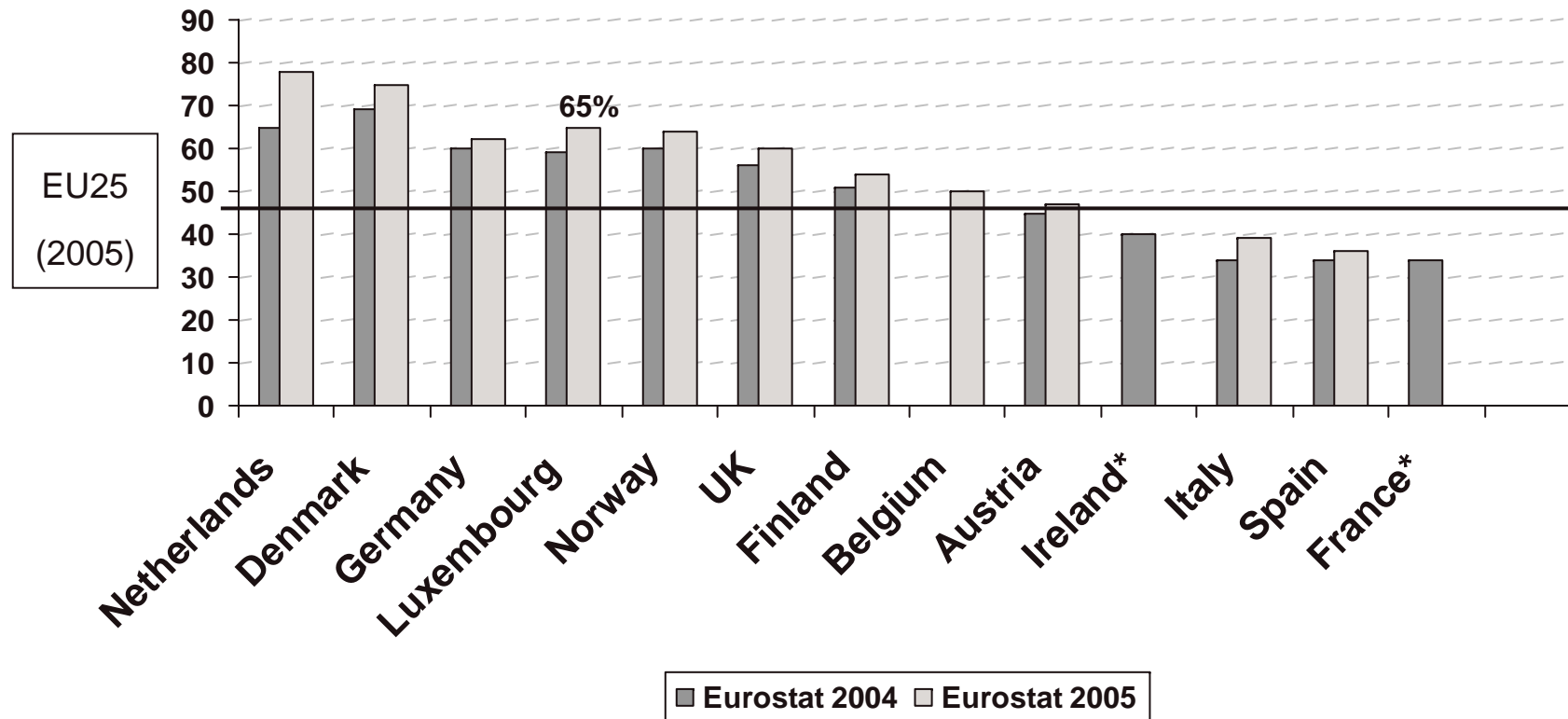
Source : EUROSTAT - 2006

PricewaterhouseCoopers



A great competitive location for business

## Access to the Internet % of households, in 2005



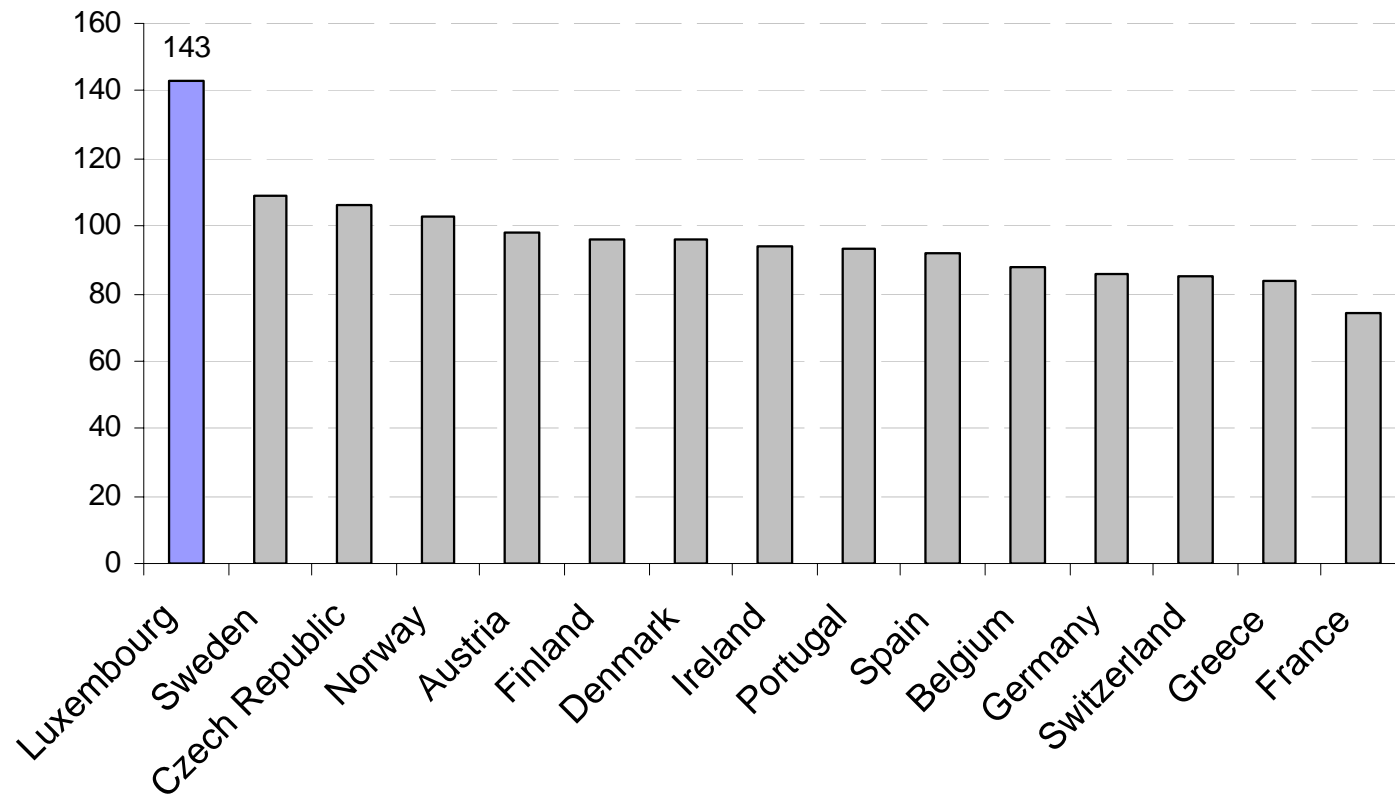
\* 2004 data only



A great competitive location for business

## Phones and cellualars

Level of access for 100 inhabitants, in 2004

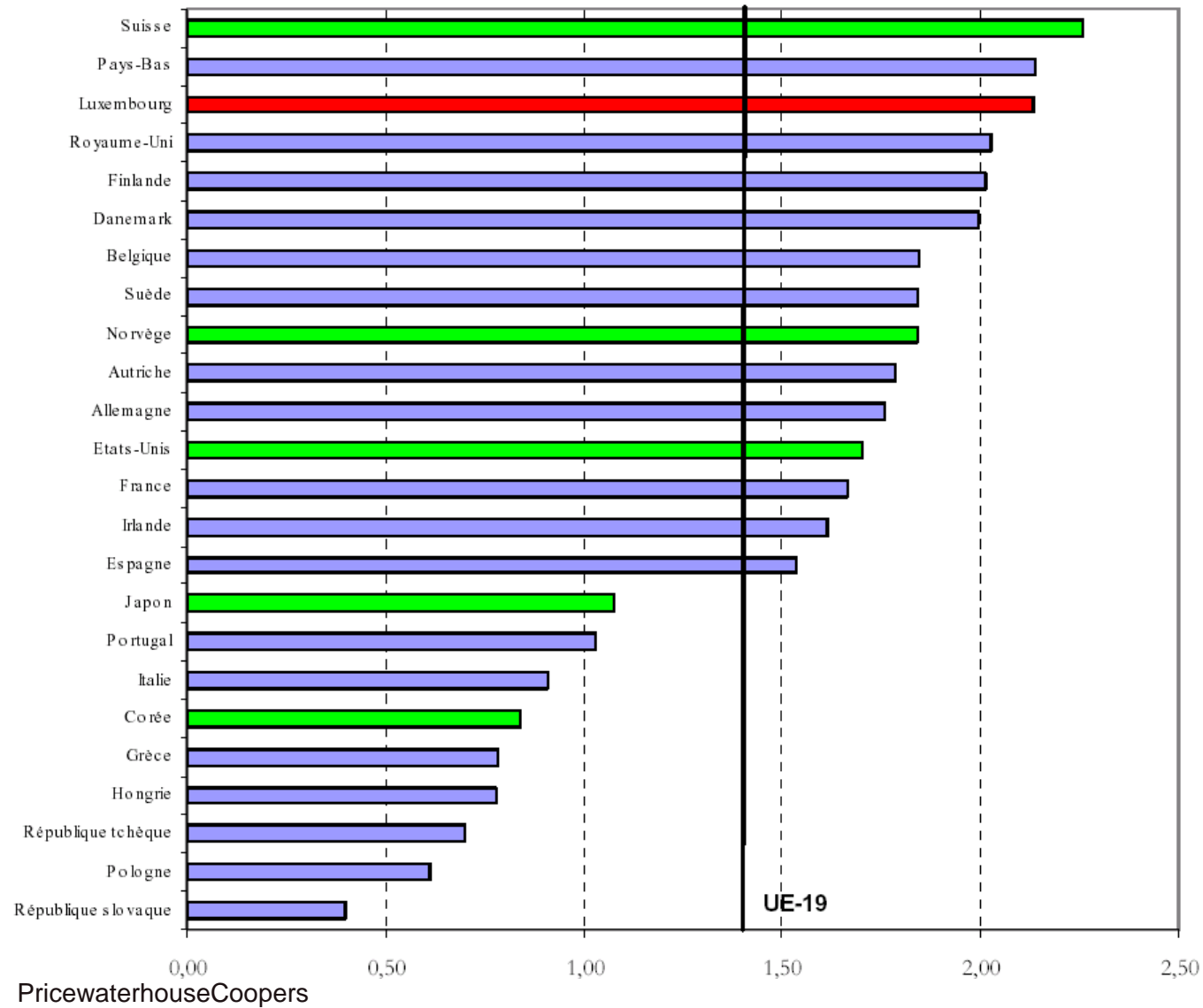


Source: EUROSTAT - 2006

PricewaterhouseCoopers

A great competitive location for business

## Efficiency of Public Services: the key to success for competitiveness



Source: Banque Mondiale - 2002

A great competitive location for business

## Country competitiveness structure

### **Strengths**

- Best in class in Europe
- Business and Government efficiency
- Reduced time to market

### **Weaknesses**

- Infrastructural weaknesses
- Market size
- Entrepreneurship

A great competitive location for business

## Country competitiveness structure

### **Risks**

- European integration
- Globalisation

### **Opportunities**

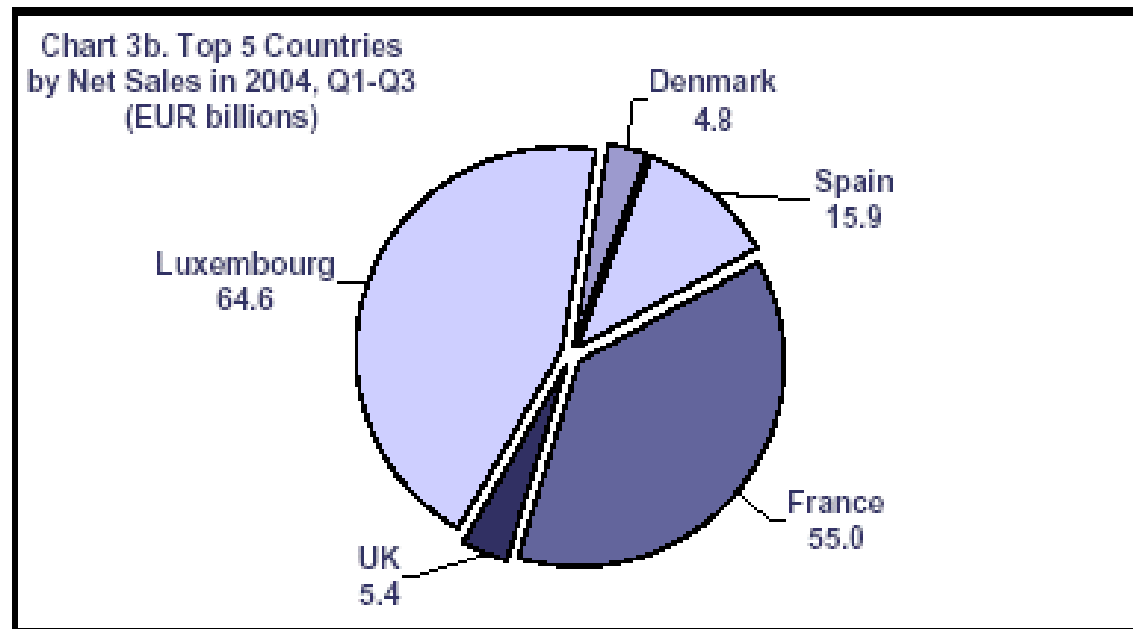
- Hub for research, products and services in international markets
- E-commerce
- Intellectual property
- International group structuring

A great competitive location for business

A highly competitive hub for the European markets

## Financial Services Hub

*Luxembourg accounts for 65 % of sales of investment funds in Europe at the end of 2005*



A great competitive location for business

## A highly competitive hub for the European markets

- As from 1<sup>st</sup> July 2003, non-EU suppliers of ESS are required to register for VAT purposes in one Member State and charge VAT on their services at the rate applicable in the customer's country when supplying private individuals in the EU
- Instead of VAT-registering, by setting up an establishment in Luxembourg, non-EU suppliers will charge their EU customers only with Luxembourg VAT at 15% which is the lowest VAT rate in the EU



**Competitive advantage / easier pricing**

*To be noticed:* - European services platform set up by Amazon, AOL and iTunes in Luxembourg  
- Worldwide platform set up by Skype in Luxembourg

**amazon.com.**

**AOL**

**iTunes**

**skype™**

A great competitive location for business

A highly competitive hub for the European markets

### **A Great Distribution Center**

Neighbour countries account for 55% of Luxembourg exports

- Located in the middle of Europe, a 470 million-consumer market
- Major Trading Partner
  - Germany    2005 Exports: 27%
  - France     2005 Exports: 17%
  - Belgium    2005 Exports: 11%

## 11. CONCLUSION

10 key advantages for doing business in Luxembourg

1. A highly strategic position
2. A neutral place
3. A very welcoming and safe country
4. A financially healthy country
5. A skilled multilingual workforce
6. Excellent infrastructure
7. Top level financial and multinational IT Clusters
8. A good logistics network
9. Flexible and welcoming authorities
10. An attractive life style



# **The Americam Chamber of Commerce of Luxembourg (AMCHAM)**

**[www.amcham.lu](http://www.amcham.lu)**

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