

INTRA-GROUP LOAN

Interest accrued in respect of a loan from a related party

Market Rate Test - 1/2



Principle

Interest accrued in respect of a loan from a related party is deductible within the limit of the interest that would have resulted from the application of a maximum tax rate, or, if higher, from the rate that the borrower could have obtained from independent financial establishments in similar conditions.

Related party



The lender and borrower are related parties

The market rate test is applicable.

Yes

Does one of the entities holds directly or indirectly the majority of the other entity's share capital or holds in effect the decision power in that entity?

No

Yes

Does both companies are placed under the control of a same third-party enterprise?

No

Yes

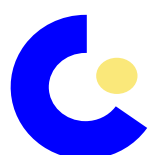
Does the same group of majority shareholders have decision-making power in the two different entities?

No



The lender and borrower are not related parties

If the lender is a direct shareholder of the borrower, the deduction of interest will be capped to the maximum tax rate



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Market Rate Test - 2/2



Maximum tax rate

The maximum tax rate is based on the average effective floating rate on bank loans with a minimum maturity of two years

The maximum tax rate is published on a quarterly basis by the French tax authorities



Market rate test

The borrower must justify the arm's length nature of the intra-group loan

Portion of excessive interest charges under the market rate test are recharacterized as a deemed distribution.



1

Assess the credit rating of the borrower, taking into account the effects of implicit support

2

Assess the credit rating of the specific debt issuance, considering its terms and conditions

3

Pricing of an arm's length interest rate based on comparable market interest rates by reference to unrelated companies carrying out financing transactions, such as bond issuances, term loans, etc.

