The Depository Trust Company

IMPORTANT

B#: 2971

DATE: January 28, 2002

TO: All participants

CATEGORY: Dividends

FROM: Lucy DiPaolo, Supervisor, Dividend Department

ATTENTION: Operations,Reorg & Dividend Managers, Partners & Cashiers

SUBJECT: Reduction of Avoir Fiscal (AF) Credit on Dividends Paid on or after Janaury 1, 2001

The following assumes that the beneficial owner is a U.S. resident and is entitled to treaty benefits under the provisions of the U.S.-France double tax treaty.

Overview

Following publication of the French Finance Law 2001, in the December 30, 2000 Official Journal, the proposed changes providing for the reductions in the *avoir fiscal* (*AF*) tax credit became law. Tax credits for French gross dividends paid on or after January 1, 2000 for non-individual investors were reduced from 40% to 25% and from 25% to 15% for dividends paid on or after January 1, 2001.

Although these changes are effective from January 1, 2001 and January 1, 2002 respectively, they have retrospective impact on reclaims of *avoir fiscal* made in respect of dividends paid on or after January 1, 2000 and January 1, 2001. Consequently, the avoir fiscal refunds paid in 2001 and 2002, and attributed to dividends paid in 2000 and 2001, will be impacted as follows:

Dividend Payment Date	*AF* rate for Individuals	*AF* Rate for Corporations/RICS	*AF* Rate for Pension Funds
2000	42.5% (no change)	21.25%	7.5%
2001	42.5% (no change)	12.75%	4.5%

The following illustrates the *avoir fiscal* benefit by beneficial owner type. The illustration assumes that the beneficial owner is a U.S. resident and entitled to treaty benefits under the provisions of the U.S.-France double taxation treaty. The gross and net dividend amounts are used for illustrative purposes. The net dividend amount assumes receipt of the dividend at the favorable rate of 15% withholding.

Avoir Fiscal Tax Benefit Table

Beneficial Owner Type	Dividend Payment Date	Gross Dividend	Net Dividend	*AF* Rate	*AF* Refund Amount	Total Dividend Payment
Individuals	2001	100EU	85EU	42.5%	42.50EU	127.5EU
	2002	100	85	42.5%	42.50	127.5
Corporations /RICS	2001	100	85	21.25%	21.25	106.25
	2002	100	85	12.75%	12.75	97.75
Pensions	2001	100	85	7.5%	7.50	92.50
	2002	100	85	4.5%	4.50	89.50

Additional Information

Prior to January 1, 2001, in order for a corporate shareholder to benefit from the participation exemption regime applicable to dividends, a corporate shareholder was required to hold at least 10% of the share capital of the subsidiary at the time of the dividend distribution or alternatively, the value of the holding had to amount to at least 150 million FF. Post January 1, 2001, pursuant to the Finance Law 2001, the minimum shareholding to qualify as a parent corporate shareholder under the participation exemption regime has been reduced from 10% to 5% and the 150 million FF holding qualification has been abolished. Therefore, a company with a shareholding in excess of 150 million FF but holding less than a 5% shareholding will no longer be entitled to benefit from the full rate of *avoir fiscal.* Should we be referencing FF when EU is not the standard currency.

The change affects treaty partners (including U.S. investors) whose treaties with France provide for a refund of the *avoir fiscal* for non-individual investors. However, for individuals (i.e. non-French individuals) resident in countries whose treaties with France provide for a refund of the *avoir fiscal* and for corporate shareholders resident in countries whose treaties also provide for a refund of the *avoir fiscal* and whose shareholdings amount to at least 5% of the paying company share capital, but not more than 10% of the paying company share capital, the amount of the tax credit will continue to be 50% of the gross dividend. In order to benefit from the participation exemption regime, a two year holding period is required.

It should be noted that different blocks of shares of the same company purchased over time can be added together to determine whether the 5% shareholding threshold has been met, provided that the shares are beneficially owned by the same claimant. The France – United States tax treaty specifically includes in Article 10(5)(b) as "dividends" – "depository receipts evidencing ownership of the shares in respect of which the dividends are paid, in lieu of the shares themselves." Additionally, Article 145-6 of the French Tax Code states that in order to benefit from the participation exemption regime both the voting rights and dividend rights must attach to the shareholding. Therefore, if a U.S. treaty entitled corporate shareholder owns both ordinary shares and American Depository Receipts evidencing shares of the same French distributing company and receives dividend and voting rights, such shareholder can combine the shareholdings to determine if the 5% threshold has been met.

DTC's TaxInfo℠ (TaxInfo), DTC's Foreign Tax Withholding Information System, has been updated to reflect the rate changes applicable to the reduction in the tax credit ("*avoir fiscal*") from 25% to 15% of the gross dividend for dividends paid on or after January 1, 2001. Please consult TaxInfo for additional information regarding French dividends.

Any questions related to the aforementioned may be directed to Lucy DiPaolo or Fred Ceraso of DTC's Dividend Department at (212) 855-4531/4784.