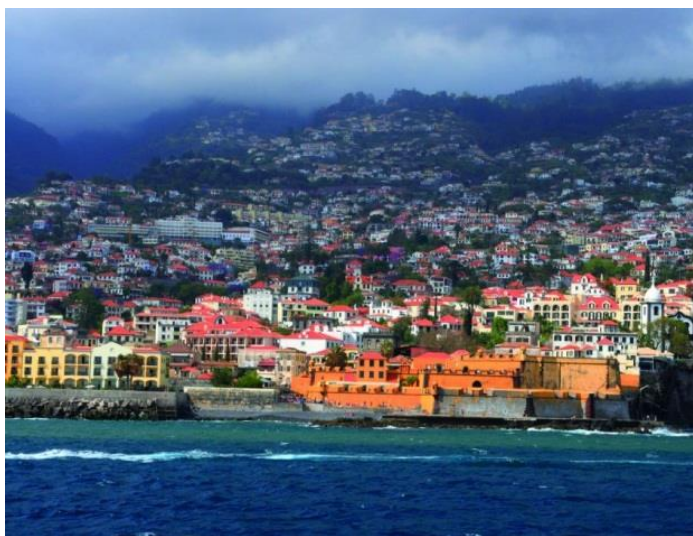


MADEIRA'S INTERNACIONAL BUSINESS
CENTER (2016)

1. INTRODUCTION

Madeira's free trade zone encompasses a special tax regime, which has been authorized by the European Commission as legal regional State Aid.

It offers companies incorporated therein or companies that will be incorporated until December 2020, as well as to their shareholders, plentiful fiscal benefits, which may be enjoyed until December 2027.

Insofar as certain economic substance requirements are met, these corporations may enjoy a 5% corporate income tax rate, among other benefits.

TAX & BUSINESS



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2. MADEIRA'S INTERNATIONAL BUSINESS CENTRE (CINM)

CINM, which corresponds to Madeira's free trade zone, was created in the 80s with the aim of attracting international investment, in order to boost economic growth and social development in that region.

CINM's substance is composed of a variety of incentives, primarily tax benefits. These have the aim of:

- (i) Modernizing, diversifying and internationalizing Madeira's productive (goods and services); and
- (ii) Counter-balancing inefficiencies and disadvantages that corporations established in Madeira would otherwise suffer due to the Region's ultra-peripheral status.

This special regime was originally instituted as a regional development State Aid program and is fully authorized by the European Union.

When compared to similar centers or special regimes, CINM (still) stands out due to the variety of activities that may be carried on within the scope of the special tax regime. Namely, the nature of the activities may be industrial, commercial, and maritime, as well as based on service

provisions. Moreover, the special regime is attractive to international investors by providing multiple other advantages and synergies.

3. TAX BENEFITS

One of the greatest advantages of the CINM regime is the wide list of tax benefits granted to the corporations and its shareholders registered under this scheme. Certainly, corporations can benefit from a 5% Corporate Income Tax rate, which is a significant favorable tax rate, if it is compared with the current normal rate of 21% applicable to corporations who are not registered under this scheme.

The current benefits are applicable to authorized entities within the institutional framework of the CINM, from 1 January 2015 and 31 December 2020 and all effects will be extended until 31 December 2027. In the same manner, the current tax benefits will be applicable to all entities that were already authorized before 2014 and which effects were limited to 2020, provided that they meet the requirements of the new regime.

In brief, all the above mentioned entities will benefit of a lower CIT rate of 5% without restrictions until the end of 2027.

3.1. REQUIREMENTS

In order to be entitled to the tax benefits above stated, companies registered under the CINM regime shall meet one of the following requirements:

- (i) Creation of one to five jobs in the first six months of activity, and an investment of minimum € 75,000 through the acquisition of fixed, tangible or intangible assets, in the first two years of activity; or
- (ii) Creation of six or more jobs in the first six months of activity.

On the other hand, those enterprises will be subject to a cap on the tax benefits granted, according to the parameters shown below, which are determined according to the number of jobs created:

Limit	No. of jobs created
€ 2,730,000	1 to 2
€ 3,550,000	3 to 5
€ 21,870,000	6 to 30
€ 35,540,000	31 to 50
€ 54,680,000	51 to 100
€ 205,500,000	Over 100

In addition, companies will be subject to one of the following annual limits for the tax benefits granted under this scheme:

- (i) 20.1% of gross value added obtained annually;

- (ii) 30.1% of the annual labour costs; or
- (iii) 15.1% of the annual turnover.

3.2. BENEFITS

Companies that carry out industrial activities will be able to claim a deduction of 50% from the IRC (corporate income tax), provided that they meet at least two of the following conditions:

- (i) Contribute to the modernization of the regional economy through technological innovation of products and manufacturing processes or business models;
- (ii) Contribute to the diversification of the regional economy through the performance of new activities with high added value;
- (iii) Promote the hiring of highly qualified human resources;
- (iv) Contribute to the improvement of environmental conditions;
- (v) Create at least 15 jobs, for a minimum period of five years.

Additionally, companies registered under the CINM regime are entitled to 80% exemption from stamp duty on documents, contracts and other public acts in case they are performed with non-resident entities in Portugal or that those entities are not registered under the CINM regime.

In the same manner, companies registered under the CINM scheme will be granted an 80% exemption from IMI (Real State Tax) and IMT (Real Estate Transfer Tax) that is due on the acquisition of Immovable Property needed and destined for the company's establishment therein, as well as from other municipal taxes.

Likewise, it has been introduced an exemption on Personal Income Tax (PIT) or Corporate Income Tax (CIT) until 31 December 2027 for all partners and shareholders of entities authorized to carry out activities within Madeira Free Trade Zone, who are not residents in Portugal (shareholders of entities authorized to carry out their activities within the industrial free trade zone, that carry out maritime or aerial activities, as well as, those shareholders that are residents in low tax jurisdictions are not included under this provision), regarding the following income:

- (i) Earnings distributed by corporations, including the amortization of shares without reduction and capital, proportionally to the amount taken into consideration for the reduced tax rate, also income derived from another country, excluding income derived from transactions with

parties residing in low taxation jurisdictions; or

- (ii) Interest and other types of remuneration, share capital increase or capital injections.

Companies licensed in the Free Trade Zone are subject to a periodic withholding tax, transferred throughout the year with may be set off against the final corporate income tax due at the end of the tax period. The following are excluded from withholding tax:

- (i) Autonomous taxation related to undocumented expenses; and
- (ii) Autonomous taxation of paid or unpaid expenses, either to individuals or legal entities non-residents in Portugal and subject to a more favourable tax regime, unless the taxpayer prove that those expenses are tightly linked with the transactions performed and that they do not have an anomalous nature or an outrageous amount.

A wider range investment related fiscal benefits are also available to entities operating and investing in Madeira (Madeira's Investment Tax Code).

Lastly, Madeira's International Business Center provides a great platform for the

successful application of international double tax conventions agreed by Portugal as well as for the application of European Directives. Moreover, the tax regimes offered in the Madeira's International Business Center has been approved by the European Commission and therefore, it cannot be qualified as State Aid.

In brief, the Madeira's International Business Centre represents a great competitive advantage over other international markets.

4. JOINING CINM

The Madeira's International Business Centre is available for any legal entity that has been incorporated according to law.

Legal entities performing service activities shall apply for the permit jointly with the "Sociedade para o Desenvolvimento da Madeira, S.A.", CINM's managing entity.

The permit can be requested by an existing company either in Portugal or in a third country, as well as by a company that will be incorporated. In the latter case, its incorporation will be subject to the same requirements and applicable procedures to Portuguese legal entities as stated in the law.

In case of approval, the license is deemed to be granted in favor of the company or branch, when the applicant proves the incorporation and registration of the company.

Efficiency distinguishes this procedure, since Private Notaries have been established in the Madeira Free Zone. Those institutions are in charge of this type of diligences which are free of any charge or fee.

The companies located in the CINM are subject to an establishment and operating fee. Accordingly to the SDM, the applicable fees are:

- (i) Legal entities providing international services will be subject to a fee of € 1,000 and to an annual fee of € 1,800, and;
- (ii) Companies SGPS (Pure Holding Companies) will be subject to a € 1,000 installation fee and an annual operating fee of € 1,800 for the first year and € 1,800 for the following years, summing up 0.5% to the profits of the previous year (being exempted the first one million of euros). This calculated annual fee is limited to a maximum of € 30,000.

5. RECENT DEVELOPMENTS

One of the most recent developments in the Portuguese tax arena is the so-called Regime IV of Madeira Free Zone which has entered into force by Law No. 64/2015 on 1 July. The main aspects of this new regime are, as follows:

- (i) It amended the Statute of Tax Benefits regarding the taxation of authorized entities carrying out activities within the Free Zone of Madeira;
- (ii) It included the rules applicable to authorized entities in the Madeira Free Zone from 1 January 2015;
- (iii) It stated that all entities authorized to perform their activities in the Madeira Free Zone will be subject to compliance with the maximum limits applicable to the reduced corporate tax rate, in case that the application of the tax system of Madeira Free Zone would lead to a more favourable tax treatment in comparison with the common Portuguese tax system.

However, the principles underlying the previous tax regimes will remain applicable in order to prevail the stability of Madeira's International Business Center, which plays a key role for the

economic and social development of the Autonomous Region.

It is of utmost importance to point out that the 5% CIT rate offered in Madeira is the lowest one in all Europe.

Moreover, this regime grants to shareholders of the authorized companies carrying out activities within Madeira Free Trade Zone a wide list of tax benefits, excluding income related to companies located in lower taxation jurisdictions as well as profit distributions.

Last but not least, the CINM has been included in the General Block Exemption Regulation (GBER), which means that the European Commission has already approved it and therefore, this tax scheme could not be considered as State Aid.

Hence, it is expected that in the foreseeable future a large number of enterprises opt to be registered under this new scheme leading to the consolidation of the current system.

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