

Press release

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For a second year in a row, Ernst & Young Luxembourg's net revenues grew by over 6%, reaching EUR 125 million for the financial year ending 30 June 2011

Luxembourg, 12 October 2011 - Ernst & Young today announced total net revenues for the Luxembourg practice of EUR 125 million for the financial year ending 30 June 2011, up by 6.1% from the EUR 117.8ⁱ million net revenues from the previous year.

FINANCIALS

After a year of market leading growth of 6.5%, Ernst & Young continued on a similar, solid path by achieving 6.1% growth for the financial year ending 30 June 2011 (1 July 2010 - 30 June 2011).

The strongest growth was achieved in the audit practice with 8.9%, which is a strong achievement considering that overall the audit market has remained flat in not only Luxembourg but also Europe. Tax services grew by 3.2% and advisory services remained stable.

"I am pleased that we have been able to continue the solid growth path with a further increase in revenues of over 6%, demonstrating the good work done by Ernst & Young professionals every day. The fact that we achieved over 16% growth in our audit practice over the past 24 months is remarkable in a market that is overall stable: it shows that we are gaining in market share. We have been able to retain our ranking among the tax market leaders and will focus on further expanding in this field. After having consolidated our advisory activities over the past year, we are again aiming for higher growth rates also in this area", says Alain Kinsch, Country Managing Partner of Ernst & Young Luxembourg.

On a global level, Ernst & Young achieved revenues of USD 22.9 billion, an increase of 7.6% compared to previous years (in local currency, revenues grew by 5.3%).

PEOPLE

With the recruitment of 160 new professionals as of 1 September 2011, Ernst & Young Luxembourg has recruited the highest number of young university graduates ever. "This is a major investment for our office in Luxembourg and is the result of an increase in our activities, even during challenging economic times. What is interesting is not only that these 160 new employees come from 18 different countries but also that many of them hail from the markets that present interesting growth potential for Luxembourg, such as China, India, Russia and Brazil, or Eastern European countries such as Poland, Ukraine and other Baltic states", explains Alain Kinsch. Ernst & Young Luxembourg plans to recruit at least another 125 university graduates and experienced hires for the remainder of the fiscal year ending 30 June 2012 and should pass the mark of 1,000 employees before 31 December 2011. "The hiring of our new HR Director together with the reorganization of our human resources department are major steps towards addressing our people's expectations as well", states Olivier Lemaire, People Partner.

"Moreover, through our integrated EMEIA structure and our structured mobility programs, we are able to offer our people a truly unique international perspective: over 30 of our staff work abroad on international assignments each year and currently over 20 professionals are on long term secondment to other offices. They act as ambassadors for Luxembourg while they are abroad and will return to our national economy with the skills and knowledge they acquired while working in other leading financial or commercial centers", explains Daniela Binda, Director of Human Resources of Ernst & Young, Luxembourg.

EMEIA

"In Europe, we continue to win more than our natural share of new audit mandates, including some of the world's largest global organizations, such as Fiat, PSA Peugeot Citroën, Enel and Assicurazioni Generali. We clearly benefit from the advantage of having the most globally integrated professional services firm. Our clients like to be served by a globally integrated organization and not by a collection of individual national practices because they are not organized as standalone national companies either", explains Alain Kinsch.

POINTS OF VIEW

TELECOM

The Technology, Media and Telecom (TMT) practice is one of our key industry sectors at Ernst & Young Luxembourg with over 80 dedicated professionals across service lines. Throughout the year we continued to deepen links with our Silicon Valley offices. That strong relationship between offices, coupled with our Tax Desk in San José, resulted in several TMT companies headquartered over there to set up their international operations in Luxembourg. “At the same time, our Global Telecommunication Center has decided to host part of its activities out of Luxembourg, giving us more bandwidth to further attract TMT companies in Luxembourg. We are committed to continuing to play a central role in the development of the TMT sector in our country as we have done over the last 10 years”, explains Olivier Lemaire, Technology, Media and Telecommunications (TMT) Sector Leader.

ALTERNATIVE INVESTMENTS

Alternative investments, including private equity, real estate and hedge funds, represent one of the most promising areas of growth and diversification for the Luxembourg financial center. Luxembourg is today already an important hub for the world’s largest real estate funds but private equity houses have also been using Luxembourg for 20 years to structure their European investments. These industries are now undergoing one of the deepest transformations ever, in particular with the profound regulatory changes, such as the Alternative Investment Fund Managers Directive (AIFMD) in Europe and the Dodd Frank Act in the United States of America, and the diversification into new geographic markets in Asia and Latin America. As back-office and middle-office now moves to the center stage and players rethink their current choice of jurisdiction for setting up their funds, Luxembourg has a unique opportunity to attract new alternative fund players to Luxembourg while also broadening the range of solutions and services offered on the global private equity and real estate markets.

“We need to have the vision and ambition to become the preferred European location for private equity and real estate funds and structures. The Luxembourg public and private stakeholders are working together on that ambition through implementing several new and innovative solutions over the next two years and I am convinced that we have an opportunity to make a real step towards change for Luxembourg in these two industries”, says Alain Kinsch, who is also the Ernst & Young Private Equity Fund leader for EMEIA (Europe, Middle East, India and Africa).

“As the leader in alternatives in Luxembourg with a market share of over 40% in private equity and real estate, Ernst & Young is leading a range of initiatives to contribute to this ambition. As an example our *Alternative Investment Fund (AIF) Club* launched last year in Luxembourg now has over 250 members from private equity, real estate and hedge fund managers around Europe who come to Luxembourg to participate in AIF Club events including workshops, roundtables, conferences, trainings and social events”, adds Michael Hornsby, AIF Club Chairman and EMEIA Real Estate Fund Leader of Ernst & Young.

ASSET MANAGEMENT

Traditional investment funds and their service providers have experienced some fundamental changes - both challenges and opportunities - in 2011, with the implementation of UCITS IV into Luxembourg law and regulation. UCITS IV sees the management company passport implemented, enhanced requirements for UCITS management companies, key investor information (KII) documents being phased in to replace the simplified prospectus, the notification procedure simplifying the cross-border distribution of UCITS, and the possibility to create master-feeder UCITS and merge UCITS cross-border.

Looking forward, for UCITS, the key regulatory developments will focus on UCITS depositaries and the remuneration of the managers of UCITS; in non-UCITS, the AIFMD will revamp the regulation of alternative investment funds, their managers and service providers.

While Luxembourg is well placed to turn these developments to the advantage of investors, asset management groups and the industry, the jury is still out on whether regulators are striking the right balance between the cost of implementing regulatory reforms and the real added value brought about by them.

Looking forward from an investment fund industry perspective, the paramount test of current and future reforms will be whether they result in investment funds truly becoming the key savings vehicle of choice for both retail and institutional investors. “For this to happen, we will need real pan-European tax reforms for investment funds, much greater alignment between compensation paid to the key actors in the investment fund value chain and the ultimate outcome for the investor, and the establishment of pan-European private pension schemes”, comments Michael Ferguson, Asset Management Leader at Ernst & Young, Luxembourg.

PRIVATE BANKING

In recent years and months it has become clear that the private banking industry is facing major upheaval. Tax authorities are demanding extensive changes to the way countries exchange information for tax purposes. European supervisory bodies are increasingly focused on cross-border business activities, including offshore banking, which is a key segment for a number of financial services companies. These developments are posing a multitude of challenges to the industry, many of which need to be proactively managed.

Cross-border financial service providers need to be aware of the aspects of supervisory, civil, tax and criminal legislation that, if not complied with, can have a considerable influence on a company's reputation.

In the current environment, customer demand for cross-border, tax efficient or tax transparent products is high, and onshore expansion and a more holistic approach to client advice are driving the transformation of private banking business models. In assessing the future viability of the cross-border business model, constant evaluation of the interests of the provider, their clients and the relevant regulatory authorities is necessary. In addition to this evaluation, the operating framework must be supported by a sound analysis of markets, products and services.

For cross-border private banking to be successful in the future, providers need to adapt to the changing regulatory and tax environment now. A sound analysis of established models and the creation of a cross-border framework, which defines a sustainable range of products and services compliant with regulatory and tax-law requirements, should rank high on the strategic agenda of all providers engaged in cross-border business.

“At Ernst & Young Luxembourg, we have significant experience in assisting large, medium and small wealth management providers in the development of their cross-border frameworks. We have advised clients with booking centers internationally, providing regulatory, risk, transaction and advisory services. Our experience can help clients navigate the challenges this area brings and assist in the development of leading practice frameworks. We can help develop a cross-border framework that includes market and service analysis conducted in the target country. Our analysis is designed to categorize risks and inform strategic decisions about the type of marketing and range of services/products for every targeted market. The analysis assists in the development and implementation of a suitable organizational structure”, explains Bernard Lhoest, Banking and Capital Markets Sector Leader of Ernst & Young, Luxembourg.

TAX

On the tax side, Luxembourg has progressed on its efforts to raise its competitiveness, for instance by launching an attractive tax regime for highly skilled expatriates, or the set up of a free zone for VAT, the country respectively adapting its legislation to align with international standards, e.g., the introduction of a transfer pricing framework for intergroup financing activities, along with substance requirements and a procedure for Advance Pricing Agreements (APAs), in addition to enacting a number of addendums to double taxation treaties introducing conditional exchange of information. These recent evolutions positively influence the investors' choice to use Luxembourg as their investment platform and contribute to put Luxembourg into a good position to attract capital and employment in the high-end services field.

“Nonetheless, with public debt rising in many countries and continued uncertainty around the Euro, there is a tendency for substantial tax increases in Europe and for reinforced scrutiny by international bodies such as the OECD as well as foreign tax authorities of cross-border group transactions, which demands increased attention to transparency from Luxembourg regulators, transfer pricing rules and collaboration to fight tax fraud, and thus requires continued modernization of the countries' fiscal framework, improvement and enlargement of its tax treaty network, and appropriate positioning in international negotiations, such as the recently proposed Financial Transaction Tax (FTT), respectively bilateral agreements on private wealth income taxation, as recently agreed between Switzerland, Germany and UK, next to the proposed Common Consolidated Corporate Tax Base (CCCTB) for EU headquartered companies”, explains Marc Schmitz, Tax Practice Leader.

Last but not least, the recent arrival to Luxembourg of companies in the gaming industry, strengthening the well established Telecom, Communication & Entertainment (TCE) business, proves to be an industry sector of rising interest for Luxembourg. “This merits increased promotion and support, particularly in light of the VAT Directive changing the rules for e-commerce telecommunication and broadcasting place of supply as of 2015, and is likely to lead to a high loss of tax revenues for Luxembourg, unless the country succeeds in replacing this business with appropriate accompanying measures, such as the promotion of Research & Development and Intellectual Property in Luxembourg”, adds John Hames, Tax Partner at Ernst & Young, Luxembourg.

ON A LARGER SCALE

On a global basis, Ernst & Young saw revenue growth of 20% in emerging markets, led by 26% in Brazil. “Luxembourg needs to turn its eyes to Latin America, India, China, the Middle-East and Central and Eastern Europe: we are able to be the gateway for in- and outbound investment with these emerging powerhouses. Luxembourg can offer innovative and efficient investment, banking and fund structuring solutions to these countries and even manage to attract players from these countries to establish significant operations in Luxembourg. The recent decision of both Industrial and Commercial Banking of China (ICBC) and Bank of China, two of the world’s largest banks, to establish their European headquarters in Luxembourg as well as the strategic acquisition by Qatari investors in two Luxembourg banks are good examples that Luxembourg is a serious partner for these new markets. We need to continue to constantly and firmly develop our attractiveness for these economies, be innovative, quick and pragmatic to win more than our fair share of the business with these new markets”, concludes Alain Kinsch.

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com/Luxembourg.

ⁱ Net revenues include fees and expenses billed to clients by Ernst & Young Luxembourg for services rendered by its Luxembourg based professionals.