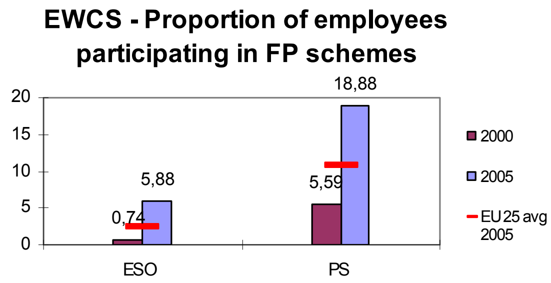
XVII. Luxembourg

Few employee financial participation plans exist, mainly in multinational companies in the financial sector. Presumably the most common form is cash-based profit-sharing; the data, however, is unreliable inasmuch as the widely used bonus plans ('gratification') are generally unrelated to profits or other financial indicators and therefore are not genuine profit-sharing plans. Share ownership and stock option plans are few and very seldom broad-based.

According to a recent cross-country study, the percentage of enterprises offering various forms of financial participation plans in 2005 was as follows: employee share ownership plans, 3.9 per cent, and profit-sharing plans, 13.7 per cent (EWCS). Approximately 25 per cent of companies offered stock option plans in 2003 (EU Report on Stock Option Plans). Please note that these figures include executive plans.



1. General Attitude

Government interest in employee financial participation dates from the beginning of the 1990s. At that time, policy makers were especially advocating voluntary profit-sharing, with the proviso that it should not be made a part of collective agreements. Nevertheless, no concrete policy measures were adopted and in recent years the issue has not been broached. Employers' associations (organised in the Union des Entreprises Luxembourgeois, UEL) were generally opposed to financial participation schemes, preferring other flexible pay models, however, they have not recently taken a position. The two major trade unions, the Onofhängege Gewerkschaftsbond Lëtzebuerg (OGBL) and the Lëtzebuerger Chrëschtleche Gewerkschaftsbond (LCGB), were sceptical about employee financial participation, fearing loss of control over the collective bargaining process. Nevertheless, some collective agreements have included elements of profit-sharing.

2. Legal and Fiscal Framework

No special legislation or tax incentives exist for any form of employee financial participation.

a) Profit-Sharing

Cash-based profit-sharing is supposed to be the most common form. This is difficult to distinguish, however, from the commonly practiced bonus plan (gratification), which is unrelated to financial indicators. Nevertheless, incidental evidence suggests that sometimes collective agreements link this 'gratification' to company profits. Since collective agreements, except for those declared binding for subsidiaries, are not public, it is difficult to quantify this phenomenon. An exception is the collective agreement for the banking sector. We may conclude that genuine cash-based profit-sharing plans, especially broad-based ones, will be very rare.

b) Share Ownership

Broad-based share ownership and stock option plans, if any, exist in very few large multinational companies. There is no special legislation on these types of plans. Stock option plans can be divided into potential options (not tradable at grant) and tradable options (tradable at grant). Tradable options for employees are very rare. The employee is subject to personal income tax at exercise, but exempt from social security contributions. The employing company can deduct the costs of the plan and is exempt from social security contributions.

c) Participation in Decision-Making

There is no direct connection between participation in decision-making and financial participation of employees; in particular, financial participation plans cannot extend existing rights pertaining to participation in decision-making. In companies with compulsory employee representation on the board (pursuant to Art. L. 426-1 of the Labour Code in state companies and companies with more than 1,000 employees), employee representatives may initiate and influence the design of financial participation plans.