INTERNAL REVENUE SERVICE
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May 06, 1999

Legend:

Plan =

Company =

Sub =

Sub A =

Sub B =

Country A =

State B =

State C =

State D =

Currency A =

X Board =

Y Board =

Z Stock Exchange =

(XX) =

Agreement =

Dear

This is in reply to your letter dated December 29, 1998, in which a supplemental ruling is requested, on behalf of Company and its subsidiaries, regarding the treatment, under section 83 of the Internal Revenue Code, of Awards to be granted to employees of Sub A and Sub B under the Plan as a result of certain amendments made to the Plan.

The information submitted states that Company is a Country A stock corporation that owns 100% of the common shares (84% of the voting shares) of Sub. Sub, which is a State B corporation, is the parent corporation of Sub A, which is a State C corporation. Company is also the parent corporation of Sub B, which is a State D corporation.

In 1996, Company adopted a nonstatutory stock option plan for certain management and executive employees of Company and its subsidiaries. However, under Country A Stock Corporation Law, Company could not reserve its shares for future issuance upon the exercise of employee stock options.

In order to implement the equivalent of an employee stock option plan under Country A corporate law, Company established the Plan. Prior to the amendments, Awards to employees under the Plan took the form of a Currency A-denominated Convertible Bond and a corresponding Employee Loan. Upon payment of the Conversion Price, the Convertible Bonds were converted into either Nonvoting Preference Shares of Company ("Preference Shares") or American Depository Shares ("ADSs"), with each ADS representing one-third of a Preference Share.

Convertible Bonds were Currency A-denominated, had a face amount equal to the nominal (par) value of a Preference Share (XX) multiplied by the number of Preference Shares into which the Convertible Bonds could converted and bore interest at a rate determined by the Y Board. The Y Board also determined the period over

which the Convertible Bonds vested. Convertible Bonds were not transferable or assignable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

Employee Loans were Currency A-denominated; were evidenced by a non-recourse note secured solely by the related Convertible Bond; were for an amount equal to the face amount of the related Convertible Bond; bore interest at the same rate and were payable at the same time as the interest on the related Convertible Bond; matured on the date that the Award expired; and were prepayable upon the earlier of conversion of the related Convertible Bond or its redemption upon termination of employment.

Upon vesting, Convertible Bonds were convertible into ADSs at a Conversion Price per ADS equal to one-third of the U.S. dollar equivalent of the "standard price"[1] of a Preference Share on the Z Stock Exchange on the first business day following the date of the grant of the corresponding Award. The Conversion Price of the portion of the Convertible Bonds to be converted was payable in full at the time of conversion. Upon conversion, a Participant was required to pay an amount equal to the Conversion Price less the face amount of the Convertible Bond being converted plus the amount of the corresponding Employee Loan.

Upon termination of employment, the Participant (or his or her Beneficiary or Personal Representative) generally had 90 days to convert the Convertible Bonds or had one year if the termination was due to death or Disability. If, however, the termination was for cause, the conversion right ceased upon termination. The Y Board had the discretion to lengthen the conversion period upon termination of employment. Upon expiration or termination of the conversion right, the Convertible Bond was redeemed, the corresponding Employee Loan was due and payable, and those obligations offset each other in all respects.

As amended, the Plan continues to operate as described above, except for the following Amendments:

(1) A Global Convertible Bond, with respect to which each Award recipient has an interest evidencing the recipient’s award, has been substituted for the individual Convertible Bonds. As was the case with the Convertible

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[1] The "standard price" is the Country A stock quote that represents the actual trading price of a given class of stock on the Z Stock Exchange, determined once each day at 12:30 p.m. local time.

Bonds, the Global Convertible Bond is an unfunded and unsecured obligation of Company;

(2) The Employee Loan bears interest at such rate and is payable at such time or times as the rate of interest under the corresponding beneficial interest in the Global Convertible Bond less Country A withholding taxes; and

(3) To satisfy Country A corporate law requirements, each participant must enter into the Agreement with Sub, under which Sub agrees to pay any shortfall to Company as a result of a currency exchange differential occurring at the time of payment of the Conversion Price. If, on the other hand, there is an excess payment of the Conversion Price as a result of a currency exchange differential, Sub keeps the excess.

Regarding Amendment (2) above, the Employee Loan Agreement provides that interest on the Convertible Bond less the amount of Country A income tax withheld (if any) will be used to pay the interest on the Employee Loan, and that the Participant, who would be entitled to a refund of that tax upon the filing of a claim therefor, agrees to assign the Participant's right to the refund to Company. It is represented that the Amendments did not change any of the economic consequences to the Plan Participants as such consequences existed prior to the Amendments.

Based on the above facts and representations, we rule as follows:

(1) As a result of the Amendments, the interest payable on a Participant's beneficial interest in the Global Convertible Bond and the Participant's corresponding Employee Loan will continue to be disregarded for all purposes of the Internal Revenue Code;

(2) A Participant will not be in receipt of income on account of any payment made by Sub to Company pursuant to the Agreement, nor will a Participant be entitled to any deduction on account of any portion of the Conversion Price received or retained by Sub under the Agreement; and

(3) The prior rulings contained in our letter to you dated May 1, 1997, concerning the Plan are reaffirmed notwithstanding the Amendments.

Except as ruled above, no opinion is expressed as to the federal tax consequences of the transaction described above under any provision of the Internal Revenue Code. In particular, no opinion is expressed regarding the effect of adjustments to Conversion Prices or amendments to Awards or regarding the method of valuing the ADSs. Additionally, if the Plan is amended, the above rulings may not remain in effect.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter should be attached to the companies' federal income tax return(s) for the year in which the Amendments are implemented. A copy is enclosed for that purpose.

Sincerely yours,

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ROBERT B. MISNER
Assistant Chief, Branch 4
Office of the Associate
Chief Counsel
(Employee Benefits and
Exempt Organizations)

Enclosures: 2
Copy of this letter
Copy for section 6110 purposes