Answer-to-Question-_1_

Part 1:

Accurate the transaction between the Group (inter company transactions, IC) is the starting point of the transfer pricing analysis:

1. Provision of contract manufacturing (CM) services from HeraCo to ZeusCo.

2. Sales of products from ZeusCo to AresCo.

3. Sales of products from HeraCo to ZeusCo.

4. Provision of support services "management fee" from ZeusCo to its subsidiaries (such as logistic, Treasury, administration.

5. Provision of services ZeusCo to its subsidiaries that may have a high value added such as Research and Development (R&D) or strategic management.

6. Royalties for the use of its Intangible Property from ZeusCo to AresCo (Brand and other market IP) and to HeraCo (technical IP such as patents, know-how, among others).

Part 2:

The Chapter II of the OECD TPG determine 5 methods to determine the compliance of th IC with the arm´s length principle (ALP).

Although the list is not exhaustive, and the OECD TPG allow the use of other methods, if are considered more appropriate to a determined transaction, this 5 methods are the most favourite methods.

The selection of the most appropriate method shall be based on the weakness and strength of each method determined on the circumstances of the transaction and the availability of information.

Of the 5 methods, the OECD TPG divides them into 3 traditional methods and 2 transactional methods:

The traditional Methods

(A) **Comparable Uncontrolled Price** (CUP: It compares the price set between related parties with the price set for a similar transaction between a related party and third parties (internal comparables) or between a third parties (external comparables).

It is the most favourite method as allows a direct compassion between two prices.

Strengths: (i) it is a two sided method, (ii) No need to choose a tested party, (iii) a direct cooperation between two prices is allowed.

Weakness: (i) Difficult to find uncontrolled comparables transactions (ii) Difficulties to perform comparables adjustments.

The CUP method could be applied with external comparables, since it is not mentioned that ZeusCo perform similar transaction with third parties:

To the transaction 6 (royalties), 1(CM services) and 4 (provision of services) although it may be difficult to find comparable third parties.

Additionally, it might be applied to the transaction 2 with internal comparables since ZeusCo sales to third parties ONLY if its possible to apply reasonable adjustment since: market is different, and the level on the value chain (AresCo is a Wholesaler, while the clients of ZeusCo are retailers)is different.

(B) Resale Price Method (RPM): This method looks ate the gross margin obtained from one enterprise when purchasing products from a related party and selling them to third parties.

<u>Strengths:</u> (i) the resale price is at ALP since it involve a third party.

<u>Weakness:</u> (i) Difficult in finding reliable data on gross profit margin and therefore difficult to apply when there is not internal comparables (ii) on sided method)

The RPM method could be apply to the transactions sales transaction between ZeusCo and AresCo, using the clients of ZesCo in Zeus, Poseidon and Hestia. It might be necessary to apply adjustments in line with the above mentioned.

(C) The Cost Plus Method (CPM): it start with the identification of costs incurred by a manufacturer or services provider and determined the mark up on the cost applied at sales of the manufactured goods or services provided.

Strengths: (i) Information on internal cost is available

Weakness: (i) Its link with the market is weak, (ii) it is based on gross margin data so as mentioned for the RPM Difficult in finding reliable data on gross profit margin and therefore difficult to apply when there is not internal comparables (iii) on sided method.

The CPM could be applied to the provision of services IC from ZeusCo to AresCo and HeraCo and for the IC of provision of CM services from HeraCo to Zeus Co.

2 Transactional methods:

(D) Transactional Net Margin Method (TNMM): It compares the net profit indicator in controlled transactions, calculated as a ratio of net profits over assets, sales or costs, whit the same indicator obtained by third parties.

Strengths: (i) Less affected by differences in price and functions than methods based on price or gross margin (ii) more reliable available information both third party data (iii) less complex functional analyses (iv) works for distributors, manufacturers and services providers.

Weakness: (i) Profit indicator may be influenced by factors not influencing the gross profit (ii) It is a one sided method.

The TNMM could be applied to all the transactions of the National Group (aggregated approach), comparing the Net profitability of HeraCo and AresCo (as entities with a more simple functional profile as ZeusCo).

(E) Transactional profit Split Method (TPSM): This method allocates the profits between associated parties based on appropriated allocation key taking into account the main contribution to the profit of each associated party.

Strengths: (i) Solution where both parties make unique and valuable contributions (ii) Solution for highly integrated transactions (iii) Solution for transactions involving unique and valuable intangibles

Weakness: (i) Difficult to apply (ii) really weak link with the market (iii) Difficulties determining the appropriated allocation key,

The TPSM would not be applicable to the transactions of the National Group since it they are not highly integrated, nor use unique or valuable intangibles, nor all the parts make unique and valuable contributions.

Part 3:

Based on the data from the CbC Report:

1. ZeusCo have a very low sales amount (i) it may imply that its sales to Ares are under the ALP

2. Ares have a high net profit margin for a distributor, despite performing marketing activities, it can not be considered as a full fledge distributor (it has only one supplier). Additionally, its sales are extreme high in compassion from the sales of ZeusCo. That means the price charged by Ares its assuming most of the gross margin of Group.

This may indicate the low price in the transactions between Zeus and AresCo.

3. The net margin of Hera might be low. The saving costs (electricity) might net to be shared within the Group.

Answer-to-Question-__2_

Part 1:

Company	**Functions**	**Risks**	**Assets**	**Characterisation**
IP CO	Financing Owner of IP Lincensor	IP risk (breach, brand damage)	IP	IP and financing company
ManCO	Procurement Manufacturing Logistic	Product risk, Manufacturing risk Foreign Exchange Risk Probably legal compliance risks	Land buidlings manufacturing equipment	Manufacturers
Procure Co	Procurement Purchase Logistic	Inventory risk Logistc risks Legal copmliance risks Credit risks	Offices and equipment (rented)	Hub of purchases (purchase center), Low risk distributor
DistributionCO	Inventory		Offices Warehous. Veichle	Full fledge distributor

Part 2:

In line Chapter i and Chapter III of the OECD TPG comparably analysis is crucial in TP to ensure the ALP.

It is important to analyse the contract terms, business strategies, functional profiles and risks.

In this case, although it may be possible to find comparables to

Man Co and DistributionCo and ProcureCo, the functions of IP Co may be difficult to find comparables as it use unique and valuable intangibles.

Part 3:

Although the TP strategy of the Rascal is reasonable I would recommend a deeper analysis of the functions of IPCo, it is says that owns the legal rights to the IP rights. It is not clear if the IPCo perform any other function related to the IP Co.

The allocation of all the profit of the IP through royalties to IPCo might be wrong in line with Chapter IV of the OECD TPG if

1. IP Co does not perform, nor control the Development, Enhancement, Maintenance, Protection and Exploitation of the IP (DEMPE functions)

2. Does not bare the risks related to this functions or

3. Do not have the capacity to bear such risks.

Answer-to-Question-__3_

In this sense it is important to take into account the directive established in the Chapter IX of the OECD TPG.

Comparability analysis pre_Restructuring

1) Description of the products and services: Marine Products.
2) Market: Marine market.
3) Contract terms: MP1 buys from MP and pay a price for such products (i) MP1 pays a Royalty to MP for the IP
4) Business Strategy: MP Group distributes it products in both countries, and has its own retail chain in country of MP1
5) Functional analysis

Company	**Funtions**	**Risks**	**Assets**	**Characterisation**
MP	R&D Manufacturing Distribution Procurement	Market risk R&D Risk Manufacturing risks Credit Risk	IP Marine Equipment (probablly) manufacturing plant	Full fledge manufacturer
MP 1	Distribution Marketing	Market risk Credit risk	(probably) Stores, and warehous, there is not much information	Wholesale distributor and retail sale distributor

As MP also distributes to Wholesalers in the jurisdiction of MP1, analysis of the IC sales though internal comparables (RPM o CUP) could be used.

<u>After the Restructuring</u>

1) Description of the products and services: Marine Products.
2) Market: Marine market.

3) Contract terms:
(i)MP1 buys from MP and pay a price for such products
(ii) MP1 pays a Royalty to MP2 for the IP
(iii) MP 2 provides services to MP
(iV) MP 2 receive R&D Services from MP within the CCA.
(v) MP 3 provides CM services
4) Business Strategy: MP Group distributes it products in both countries, and has its own retail chain in country of MP1
5) Functional analysis

Company	**Funtions**	**Risks**	**Assets**	**Characterisation**
MP	Distribution and limited R&D Funtions	Market ris R&DS	May not have the IP nor the manufacturing plant	Distributor and limited R&D services provider
MP1	Distribution Marketing	Market risk Credit risk	(probably) Stores, and warehous, there is not much information	Wholesale distributor and retail sale distributor
MP2	IP development functinos Admunsitrative funtions	IP risks (not enough information)	N.A	IP developer, Service provider
MP3	Contract manufacturing	limited market risks Manufacturing risk	Plant an equipment	CM

In this new scenario, there are more IC as the functinos performed by MP has been decentralized between new companies, affecting the functional profile of MP and the other comparability analysis.

Part 2

In this case, it can be seen MP has transfer two of its function:

(1)The manufacturing function has been transmitted to MP3, this may generate tp risk from the MP perspective if MP is not remunerated accordingly for the transmission of this business line, it may be comparable to the transmission of business.

Additionally, MP have to be remunerated or for the technical IP developed prior to the transmission of the manufacturing activity (purchase from MP 3, or royalties from MP 3) during the following years.

(2) The R&D activities still performed by MP, however, MP 2 also perform R&D Activities and the royalties paid by MP 1 to MP before it is now payed to MP2.

Additionally, in the CCA, MP is remunerated based in cost + 5%, remaining the residual profit in MP2. This facts may be enough to the tax authorities of the Country MP to ensure that it has been a transmission of IP from MP to MP2 and therefore MP shall be accordingly remunerated.

It can also be assumed, that MP has modify its profile from R&D to contract R%D. In this case MP 2 also, shall remunerate MP for this transaction.

Answer-to-Question-__6_

Part 1:

When reviewing the TP polices it is important to take into consideration the directive of the Chapter VII of the OECD TPG.

key aspects may be:

1. Identify the value added of the different services. And classify them into Low Value Added Services (LVAS) or High Value Added services. See if the simplified approach of the OECD TPG for LVAS its applicable.

2. Ensure that there is enough documentation to prove that the services have been rendered and how the remuneration for such services has been calculated (based on costs, personal cost)

3. Benefit test, it is necessary to prove that the services rendered have provided a benefit to the recipient.

4. It might be studied the possibilities to enter into Cost Contribution Agreements as explained in Chapter VIII of the OECD TPG.

5. When the remuneration of the services is based on cost assumed by the provider, it may be key to analyse the correct allocation of cost.

6. Compliance with local rules in line with the provision of services, it may be important to look at the definition of services in the applicable DBA.

Part 2:

In tP there are different models to exploit intangibles, a look to chapter VI of the OECD TPG is necessary.

1. Cost Sharing agreements (Chapter VIII)OECD TPG. More than one related party share the cost for developing and IP and both receive a share of the profits based on its contributions. Such contributions shall be valuated at ALP.

2. Transmission of IP. Sales, the IP shall be shall be valuated

at ALP.

3. Contract R&D services: one company provide R&D related services under the control, supervision and guidance of other related party. The provider of services receives a remuneration for its services, but it is not linked to the profit generated from the IP.

4. Licensing IP: some entities use the IP in pay fee (normally a royalty fee) to the enterprise owing the IP. This remuneration shall be valuated at ALP.

Answer-to-Question-__8_

For this purpose I will take into account the OECD Model Tax Convention (OECD MTC):

1) Article 5: This article defines what it is a Permanent Establishment (PE).

2) Article 7: Business profits generated in one Country shall be taxed in the country where the company is performing its activities. PE must be treated as independent parties.

3)Article 9: establish the ALP. and allows adjustments from one tax administrations when enterprises do not comply with the ALP. It also allows additional adjustments to avoid a double taxation,

4. Article 24, non discrimination between entities operating in the same country based on the nationality.

5. Article 25: Establish the Mutual Agreement Procedure to avoid double taxation issues for international companies.

6. Article 26: Establish the exchange of information between countries. It may have an effect in the control that the tax administrations of both countries have on international entities.

7. Finally, Article 11 (explains how to deal with dividents)and Article 12 (explains how to deal with royalties may be usefull to TP practicioners to understand and delineate the IC transactions.

Part 2:

The use of IP presents different challenges to the the tax administrations since, sometimes they are unique, or rare.

Also, despite the list of intangibles included in chapter VI of the OECD TPG, there is not a close list of IP's types.

In this sense some key problems may be:
1. The valuation of the IP. There is not always a comparable IP transactions within third parties, as some IP are unique.

2. Its location, a deep and difficult DEMPE analysis has to be taking into account, to established the location of an IP.

3. In line with the above the economical owner of the IP may not be easily identify.

4. It is difficult to estimate the future value of an IP.