CASE STUDY- PROPOSED SOLUTION

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Questions

- **Q1) Would you categorize the functions carried out by Company A related to the Online Sales in Country A, as a provision of services?**

- **Q2) Given that the functional characterization made by the Group is correct, do you think the remuneration for the company A is accurate?**

- **Q3) Do you think that the related-party transactions proposed by the company are well defined?**

Proposed Solution

Q1)

- We had a prefilling with the company and we made a proposal to give them a different treatment for this transaction.

- Our understanding is that, in this sector, both retail and online sale channels are the same. We asked the company to separate the online sales made in Country A from the remaining online sales, and they were willing to do so.

- Therefore, we proposed to include the online sales with the retail sales, eliminating the distinction between them whatever the sale channel was, retail or online.

- So, given the specific profile of the sector, we considered that the company A had the same functional profile in online sales.

Proposed Solution

Q1)

- Finally, they accepted the change, thus threating the same way the retail and online channels. With this approach, the company A is acting as a limited risk distributor both for retail and online sale channels, and the business platform fee they proposed to apply, would be calculated including both retail and online sales.

- Once we have the same treatment for all the sales, we began to discuss about the proper way to remunerate the transactions, as we were not comfortable with the Business Platform Fee.

Proposed Solution

Q2 and Q3

- We thought the functional characterization was correct. The company A meets the features of a limited risk distributor, so a remuneration based on the TNMM could be accurate.

- For us, the problem was the related-party transaction designing.

- The main operation between company A and the HQ is the sale of the tangible products (clothing) without adding a margin to the cost incurred by the second.

Proposed Solution

Q2 and Q3

- The Group was willing to maintain the open-market price to remunerate the covered transaction, as the addition of a margin could cause problems to them with the Customs Office goods valuation.

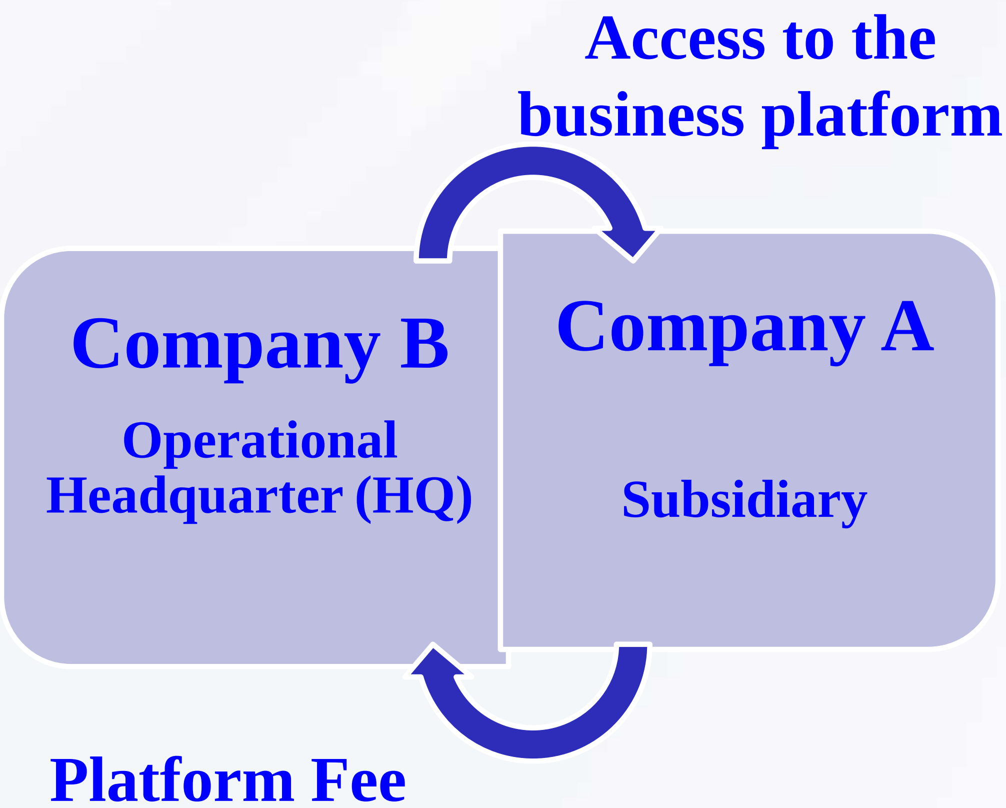
- On the other hand, the HQ was using a platform to give support to all the subsidiaries with the business of selling the relevant products.

- We could consider it a Service Provision, but the Group argued that the Platform differed from any usual service that you could quantify with a cost plus.

- Both, sales of tangible fashion products and the platform are much related.

Proposed solution

- **Q2 and Q3**



They were taking the residual profit to the HQ by drawing a new transaction.

We agree with the proposed remuneration for Company A, as it is well characterized as LRD, but we think that the correct way to remunerate Company A in this case, it´s not by creating a new transaction with the mentioned fee, but by making the adjustment trough the existing transaction: the intercompany sale of fashion tangible products.

Proposed Solution

Q2 and Q3

- As for the alleged potential problem that could arise with the customs offices, this might be a possibility between countries which are not part of the European Union, but in our case both countries were in the EU.

- So we proposed to the company to apply the TNMM to the sales of tangibles products, including both online and retail, using the same benchmarking they proposed. In conclusion, our Company A, will receive a remuneration based on sales by the application of a TNMM within the range of 1,67%-4,87%.

Measure	Operating Profit Margin – (2016-2020)
Lower Quartile	1,67%
Median	2,89%
Upper Quartile	4,87%
Observations	14

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