



**RÉPUBLIQUE
FRANÇAISE**

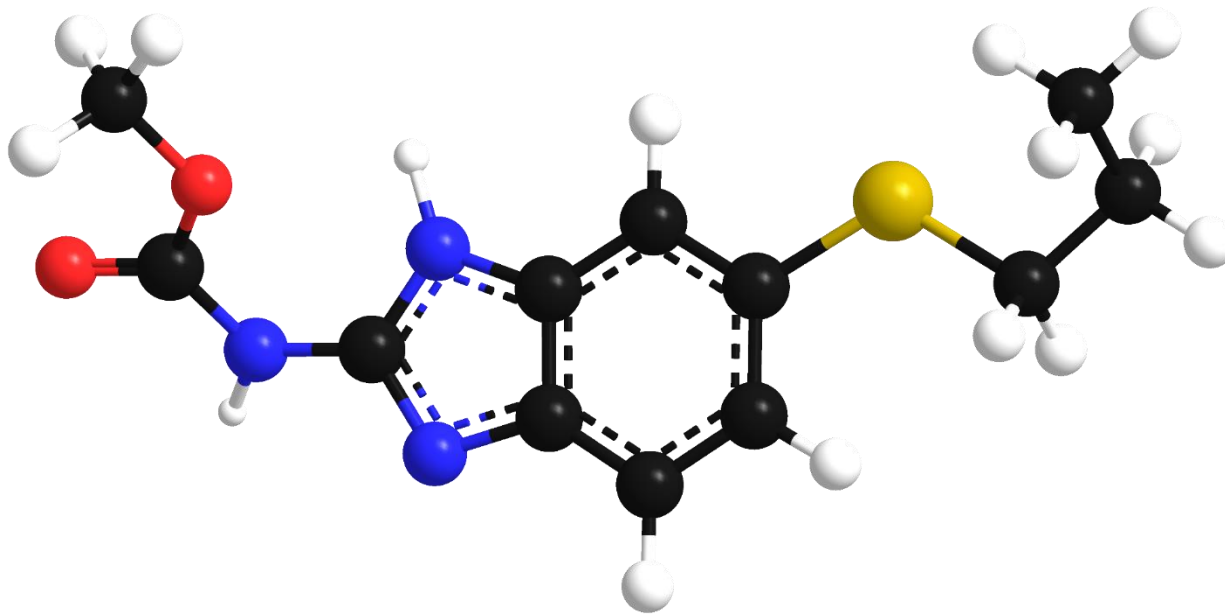
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FRANCE – APA Case

RPSM Methodology

1. Overview of the case

Z* GROUP



This Bilateral case concerns an Asian Group that is manufacturing chemical products (Paint, Glue and Plastics)

The Z Group organizes its operations through 3 main regions (US, FR, CN), in which several entities performs different roles. This BAPA is between the US and France and does not covers the activities performed in Asia.

The Z Group organizes its operations and management reporting according to brand and region with each of its member entities performing one or more roles within a matrix organization.

2. Organizational matrix

Z* Group

	US1	US2	FR1	FR2
BH	Paint	/	Glue	/
RHQ	Americas Zone	/	EMEA Zone	/
LSE	USA	/	France	/
ME	/	Paint	/	Glue

- Brand Holder ("BH"):

An entrepreneurial/non-routine role that develops, maintains and executes global strategies to increase brand value and manages the global performance of the brand (FR1, US1),

- Regional Headquarters ("RHQ"):

An entrepreneurial/non-routine role that develops, maintains and executes regional marketing strategies in accordance with the BH's global strategies and manages the operation of Z entities within its region (FR1, US1),

- Local Sales Entity ("LSE"):

A routine role that performs promotion, distribution and sales activities based on regional market strategies (FR1, other Affiliates, US1),

- Manufacturing Entity ("ME"):

A routine role that manufactures and supplies products to RHQs and LSEs according to BH and RHQ specifications and instructions (FR2, US2).

3. Proposed covered transactions (1/3)

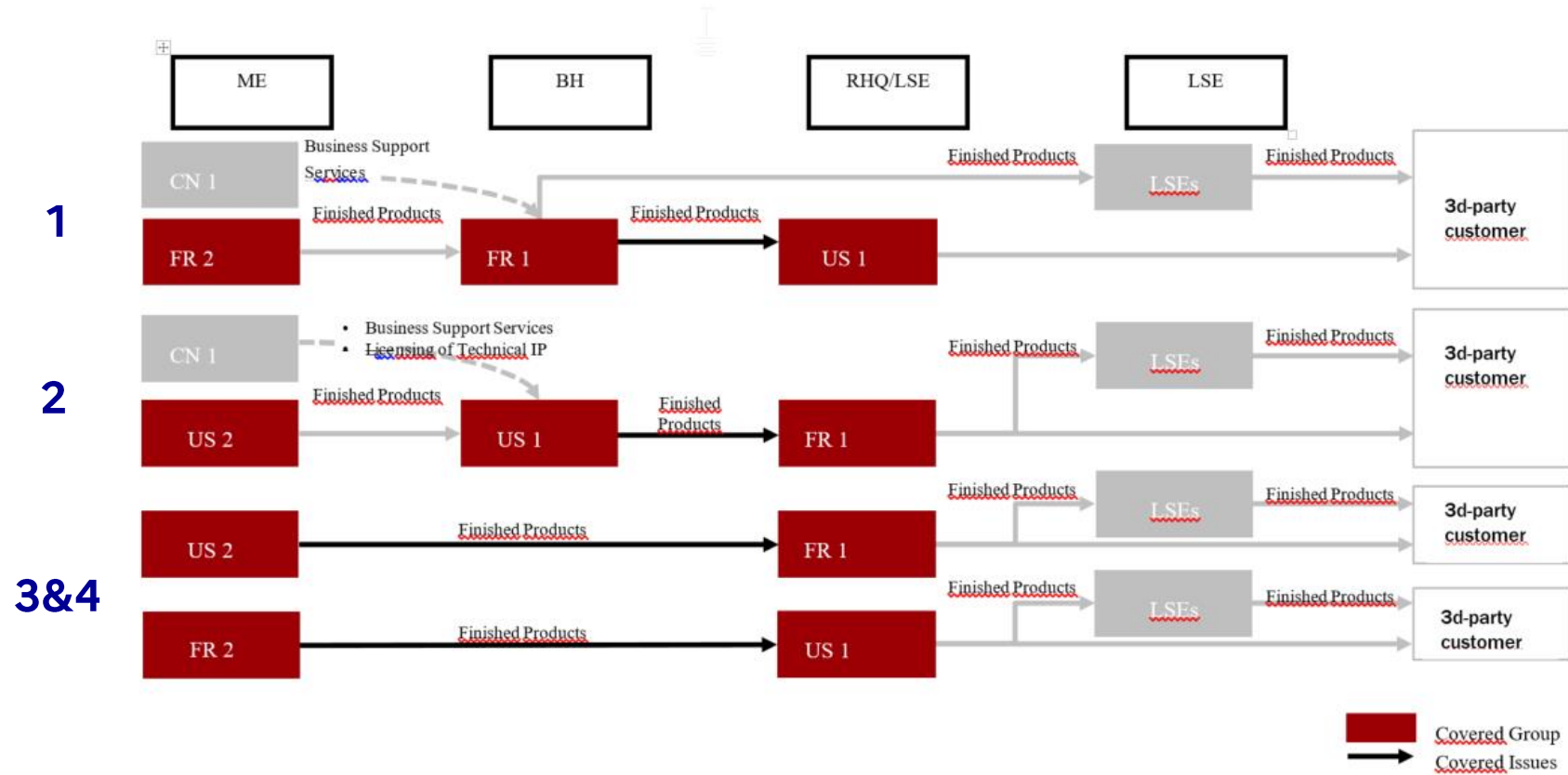
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1. FR1's sale of finished products to US1, for which FR1 undertakes the BH and ME roles and US1 undertake the RHQ and LSE roles for the U.S. market.
2. US1 's sale of finished products to FR1, for which US1 undertakes the BH and ME roles and FR1 is responsible for the RHQ and LSE roles for the EMEA region.
3. US2's sale of finished products to FR1, for which CN1 undertakes the BH role, US2 undertakes the ME role and FR1 is responsible for the RHQ and LSE roles for the EMEA region.
4. FR2's sale of finished products to US1, for which CN1 undertakes the BH role, FR2 undertakes the ME role and US1 undertakes the RHQ and LSE roles for the U.S. market.

#	Covered transaction	Method	Tested party	PLI
1	Finished products sold by FR1 to US1	RPSM	Routine entities	OM
2	Finished products sold by US1 to FR1	RPSM	Routine entities	OM
3	Manufacturing and selling of finished products by US to FR1	TNMM	US2	NCP [7.4-7.9-10.3]
4	Manufacturing and selling by FR of finished products to US1	TNMM	FR2	NCP [3.2-6.2-13)

3. Proposed covered transactions (2/3)

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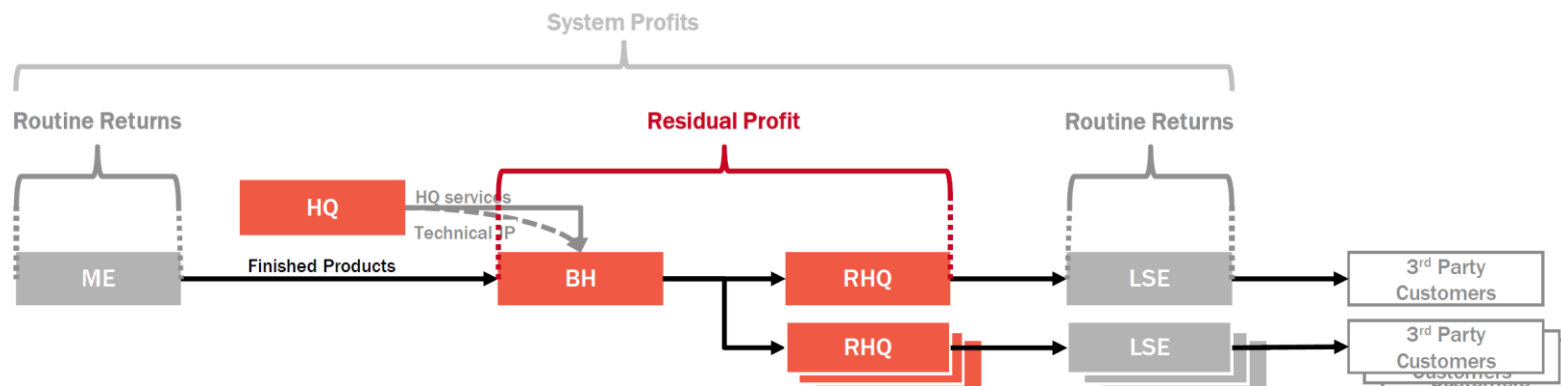


4. Transactions flows

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- For this BAPA, mirrored organization in FR and US
- 2 companies in both countries
 - 1st NatCo with an entrepreneur profile :
 - Holds IP (worldwide) for a specific product category
 - Organizes value creation through brand development and marketing
 - Engages in distributing in its domestic market all of the Group's products, and ensures that the other regional distribution entities earn a routine return
 - 2nd NatCo with routine functions :
 - Performs a manufacturing activity

Simplified chart explaining the transactions flow :



6. Challenges encountered during the evaluation process

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- Determining the correct remuneration of each entity holding IP and/or value creation, while also performing some routine functions. Is the RPSM the correct methodology ? Why not use some weighted split factors ?
- Facing consequences of allocating several routine remunerations before the calculation of the system profit by product category, that can lead to share a loss.
- Existence of others BAPAs covering routine distribution, and potential conflicts :
 - 2 BAPAs between FR and EU LRD's, one above the proposed arm's length proposed in this BAPA
- Ongoing audit in France that could possibly interfere with the proposed TP methodology

Thank you

Q&A et issue resolution upcoming