

Audio and Web Portion

Web Portion

2.30pm HK Time

<https://www.livemeeting.com/cc/asiapac/join?id=3SH72S&role=present&pw=Tp%3B7W6z>

Conference ID: 84688551

11.00pm HK Time

https://www.livemeeting.com/cc/asiapac/join?id=D4Z2ST&role=present&pw=3*Pq%40%2BJ

Conference ID: 84919946

Note: if the pop box appears asking you to connect to the proxy, please close the box

Audio Portion

Confirmation Code: 2.30pm - 84688551 or 11pm - 84919946

International Dial-in: +65 6733 3576 or +61 292 740 882

Toll Free Dial-in Number(s):

- Australia 1800 429 310, +612 9274 0882
- China 1080 0265 0430 China 1080 0650 0417
- Japan 0053 1650326
- Taiwan 0080 165 1805
- Hong Kong 800 930 615
- India 0008 00650 1358
- Indonesia 0018 0365 7799
- Korea (South) 007 986 517 283
- Malaysia 1800 806 227
- New Zealand 0800 880 136
- Thailand 0018 0065 6769
- Singapore 1800 688 6688
- UK 0808 234 6378
- US 1866 270 2981

Treasury/Tax-efficient Centralized Supply Chain Structures

Steve Towers, Partner, Deloitte
Gourang Shah, Sr. Treasury Consultant, Citi

Table of Contents

1. Centralization	4
2. Tax-aligned Supply Chain Business Models	5
3. Tax-aligned Supply Chain Structures	8
4. Principal Acting as a Global Treasury Center	22
5. Case Study	27

Speakers

Gourang Shah



- Gourang Shah is a Senior Treasury Consultant with Citi providing consulting service to clients on best in class Treasury solutions. Prior to joining Citi, he was based in the US as Vice President and Assistant Treasurer of Tyco Electronics managing their global treasury operations. He has worked for more than 15 years in Corporate Treasury, Mergers and Acquisition, Financial Planning and Analysis, and Product Development roles with US multinational companies. He has an MBA from University of Michigan, Ann Arbor
- gourang.shah@citi.com

Steve Towers



- Steve Towers is the leader of Deloitte's International Tax practice in Asia Pacific, with 30 years' experience in international tax planning for multinational corporations (MNCs). He has worked in Deloitte offices in Europe, US and Asia-Pacific and is currently based in Singapore. Steve has substantial experience in advising MNCs on corporate structuring and restructuring, mergers and acquisitions, hybrid instruments, transfer pricing, use of double tax treaties, permanent establishment issues, and supply chain transformations
- Steve has Bachelor of Economics and Bachelor of Laws degrees from the Australian National University and a Master of Laws (first class honors) degree from the University of Sydney, and is a Member of the Institute of Chartered Accountants in Australia. He has been listed in "The World's Leading Tax Advisors" (Euromoney) since 1997
- stowers@deloitte.com

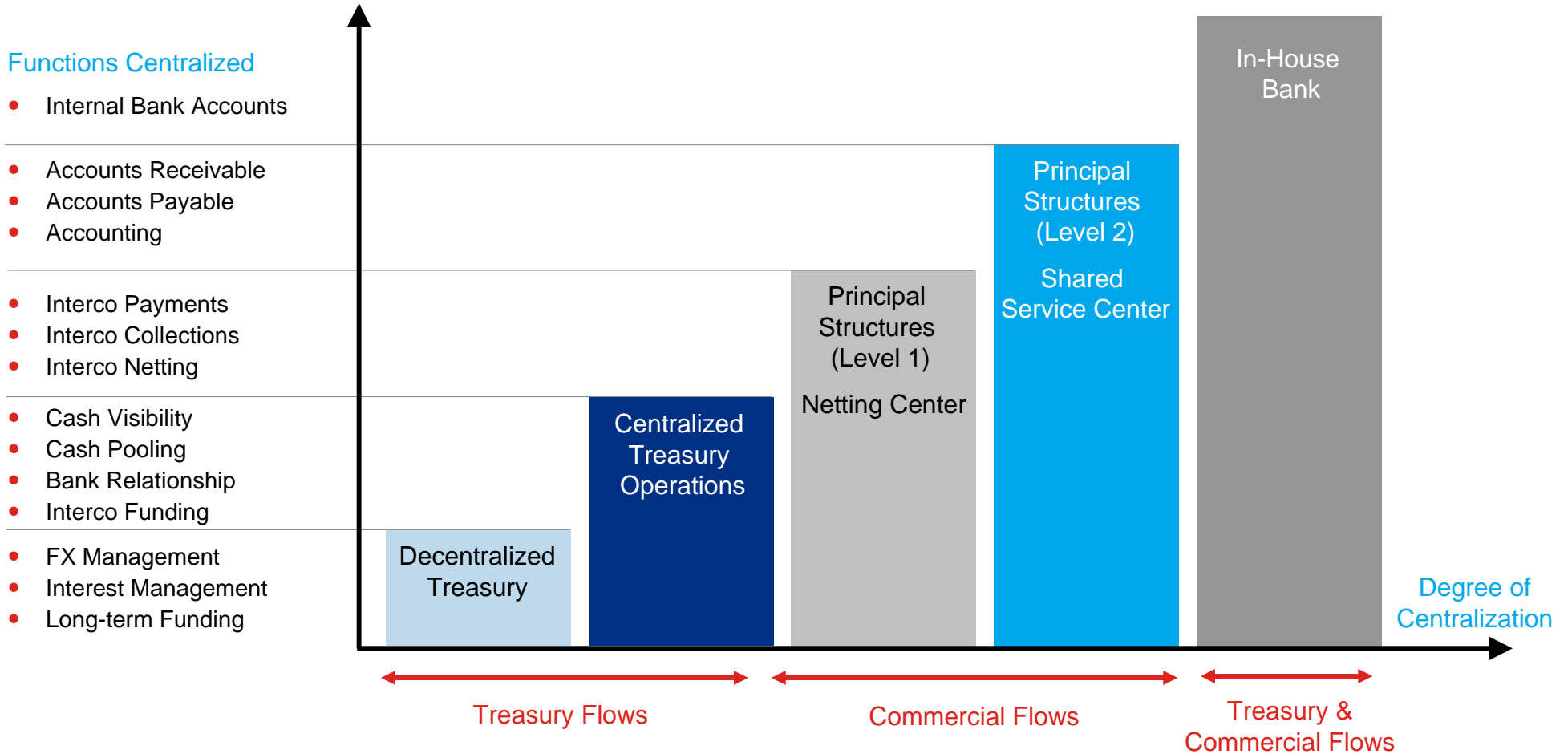
Table of Contents

1. Centralization
2. Tax-aligned Supply Chain Business Models
 - Manufacturing Models
 - Sales Models
3. Tax-aligned Supply Chain Structures: Selected Tax Issues
 - Tax Issues
 - Why is Asia Pacific Different from Europe?
 - Where should Principal be located? How much Substance should be in it?
4. Principal Acting as a Global Treasury Center
 - Global Treasury Center—Cash Concentration Hub
 - Principal acting as Global Treasury Center
 - Potential Bank Account Structure
 - Benefits and Issues of Combined Centers
5. Case Study

1. Centralization

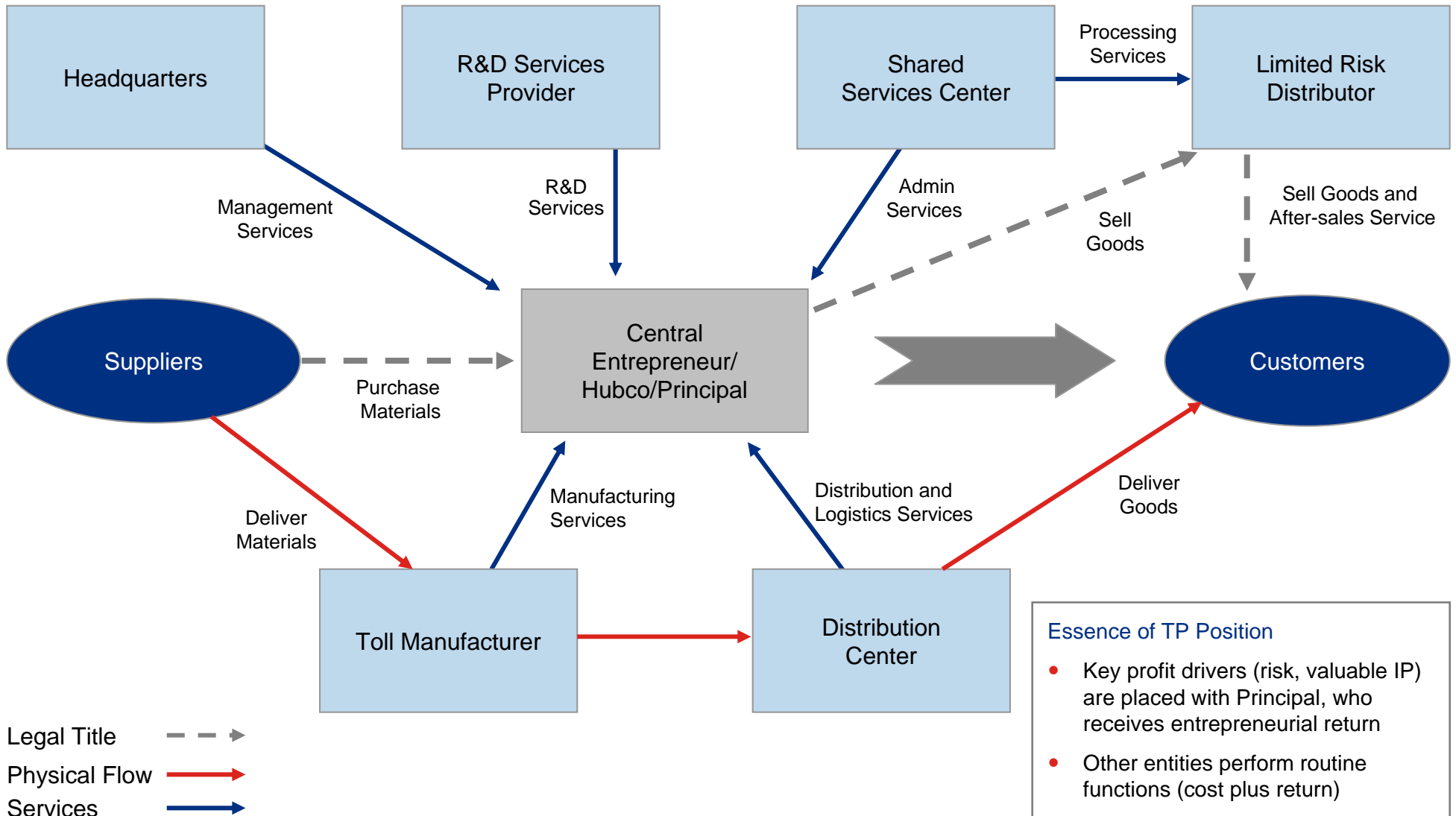
Evolution of Centralization

Multinational companies adopt varying degrees of centralization to bring efficiencies to their organization.



2. Tax-aligned Supply Chain Business Models

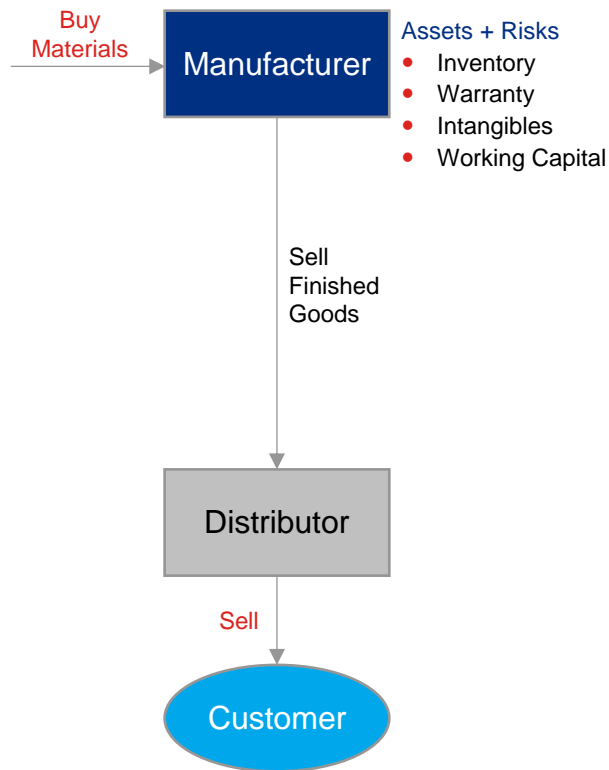
Supply Chain Business Model with Principal at the Center



Manufacturing Models

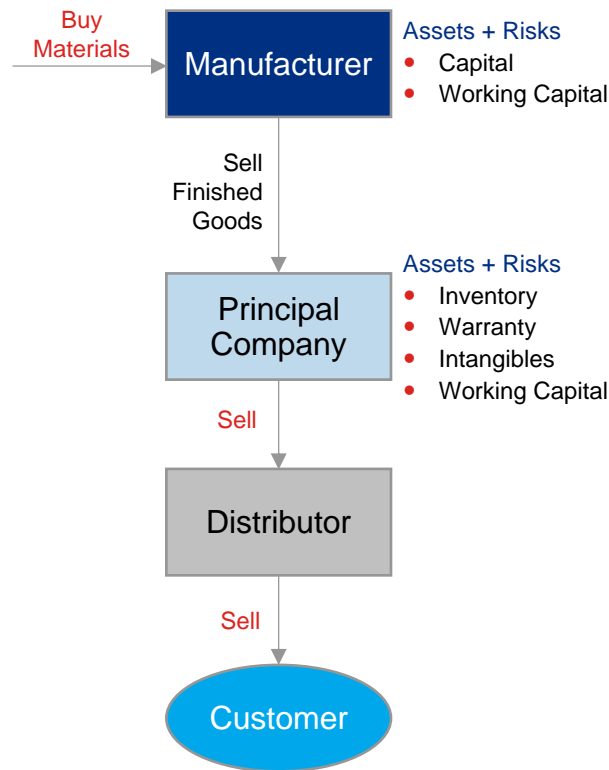
Traditional/“Fully fledged” Manufacturing

The manufacturer owns intangibles and manufactures goods for its own risk and reward.



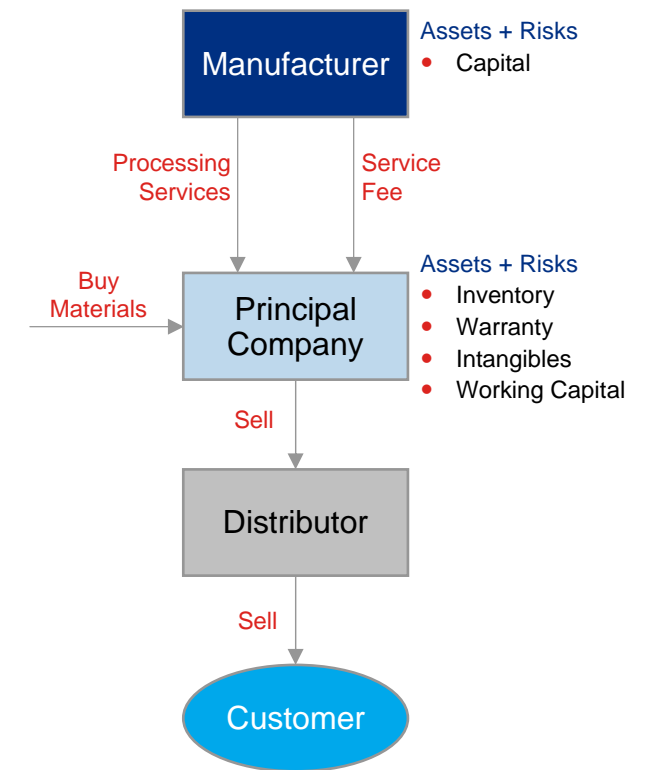
Contract Manufacturing

A contract manufacturer produces goods to order for and for the risk of the principal company. A contract manufacturer buys materials and sell finished goods to the principal. However, it has less risk and earns a lower profit than a traditional manufacturer.



Toll/Consignment Manufacturing

A toll/consignment manufacturer processes goods belonging to the principal company and never takes ownership. It assumes less risk and earns a lower return than a traditional manufacturer.



Sales Models

Fully Fledged Distributor

A full distributor bears market risk, holds inventory for its own risk and sells to the customer as principal. The full distributor owns valuable marketing intangibles. The distributor's profit margin reflects its risks and assets.

Limited Risk Distributor

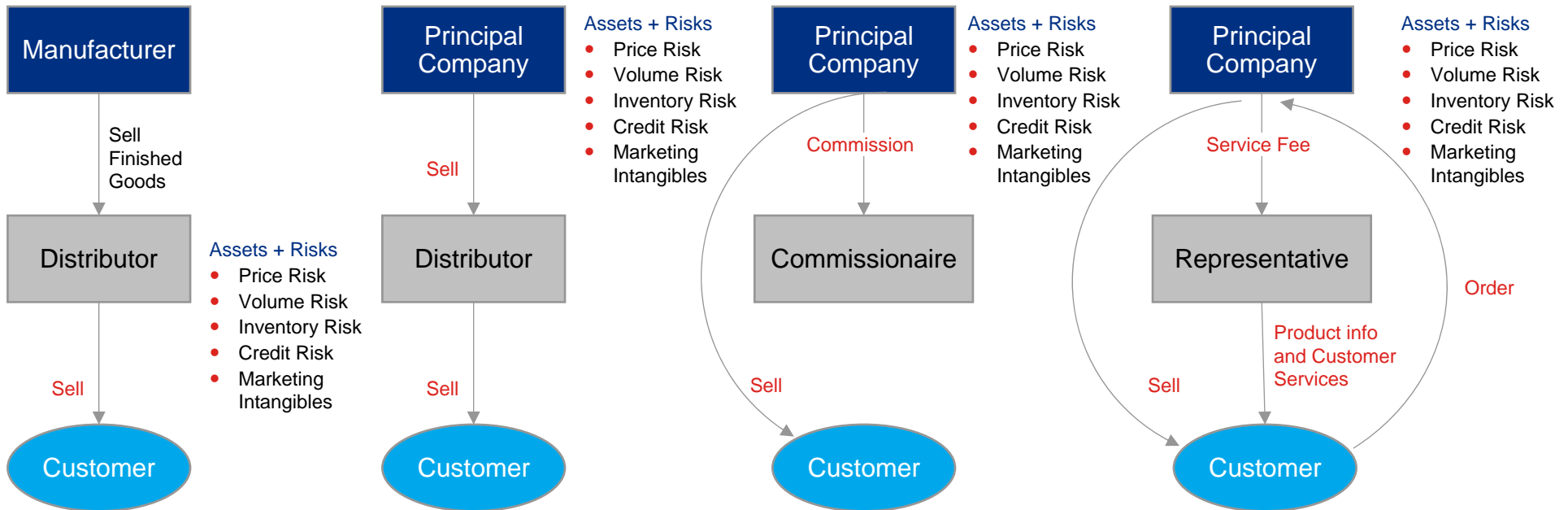
A principal bears market risk and inventory risk. The local limited risk distributors buy product from the principal and resell the product to the customer. The limited risk distributors earn a lower profit than a full distributor, consistent with their reduced assets and risks.

Commissionaire

A civil law concept whereby the commissionaire sells product in its own name but for the account of the principal. The risks and benefits of the sale (and the profit) rest with the principal. The commissionaire receives a commission which provides it with a lower profit than a full distributor, consistent with its reduced assets and risks.

Representative

The local sales company acts as a representative that is not directly involved in making sales. It merely provides product information and performs customer service. The principal receives sales orders directly from customers—either in a call center or electronically. The local representative earns a lower profit than a full distributor, consistent with its reduced assets and risks.



3. Tax-aligned Supply Chain Structures

Tax-aligned Supply Chain: Selected Tax Issues

- Transfer Pricing
- Deferral and Financial Accounting
- Parent Country CFC Rules
- Permanent Establishment
- VAT
- “Same Country” Issue
- Customs Duty
- Minority Shareholders

Transfer pricing—Two Key Aspects

“Conversion” Tax Cost

- On conversion from “old” to “new” structure, is there a deemed disposal of valuable IP or goodwill or other assets from the fully fledged manufacturer or distributor to the principal? Is such a disposal taxable?

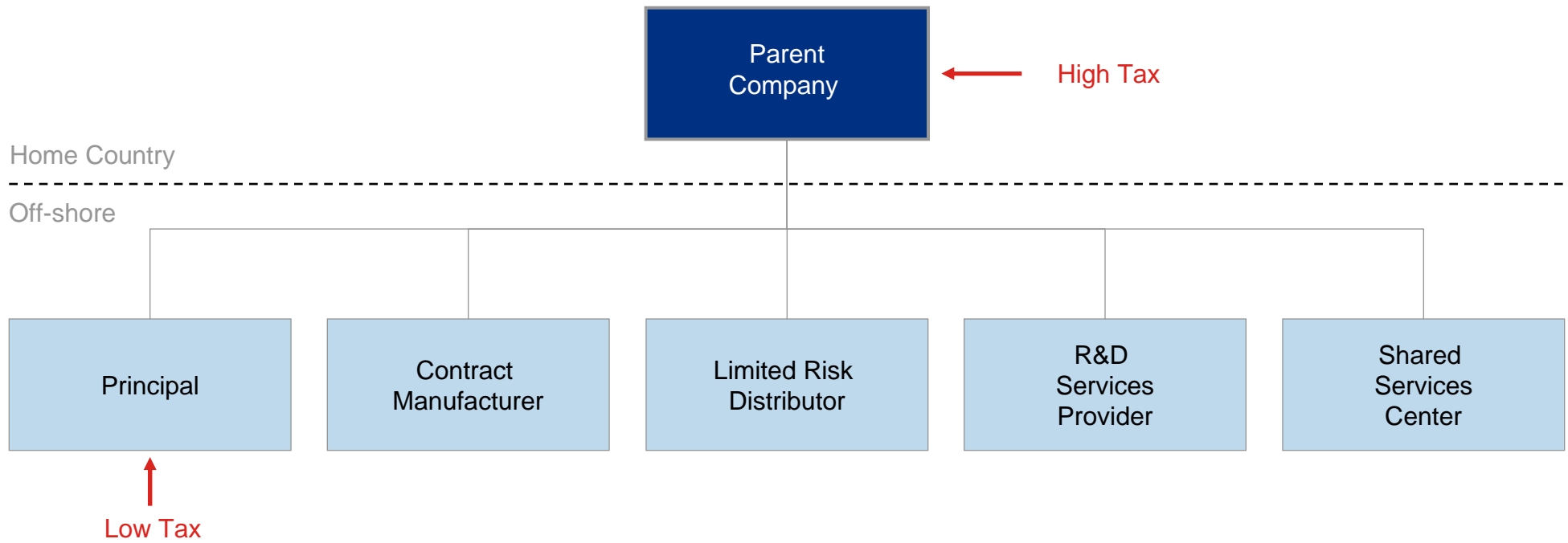
Consider

- Disposal of a “profit opportunity”?
- Relocating IP without a “disposal”
 - “New” IP: Contract R&D, Cost Sharing
- Alternatively, on conversion, should taxable compensation be paid for the termination or amendment of pre-existing contractual rights? Consider contractual notice periods
- OECD Discussion Draft on “Business Restructurings”

On-going Transfer Pricing Model

- Are the “low but stable” returns derived by “contract manufacturer” or “limited risk distributor” consistent with their “functions, assets & risks” profile?
- Are “key profit-drivers” (risk and valuable IP) correctly located with the principal company?
- Who manages those risks and that valuable IP? Are they employees of the principal company? Where are they based?
- Is there “substance” in the principal? Who and where are the key executives who “call the shots”?

Deferral and Financial Accounting



- Deferral
 - Residence
 - Repatriation Policy
 - CFC Rules
- Financial accounting

Parent Country CFC Rules

- Avoiding current home country taxation under the controlled foreign company rules
- US Sub Part F Rules—Foreign Base Company Sales Income Exceptions
 - Same Country Manufacturing Exception
 - Property sold by the CFC is manufactured in the CFC’s country
 - Same Country Sale Exception
 - Property is sold for use in CFC’s country
 - Manufacturing Exception
 - CFC manufactures the property it sells
 - Unrelated/Unrelated “Exception”

Permanent Establishment (PE) Definition—OECD Model Treaty

Provisions Relevant to Supply Chain Planning

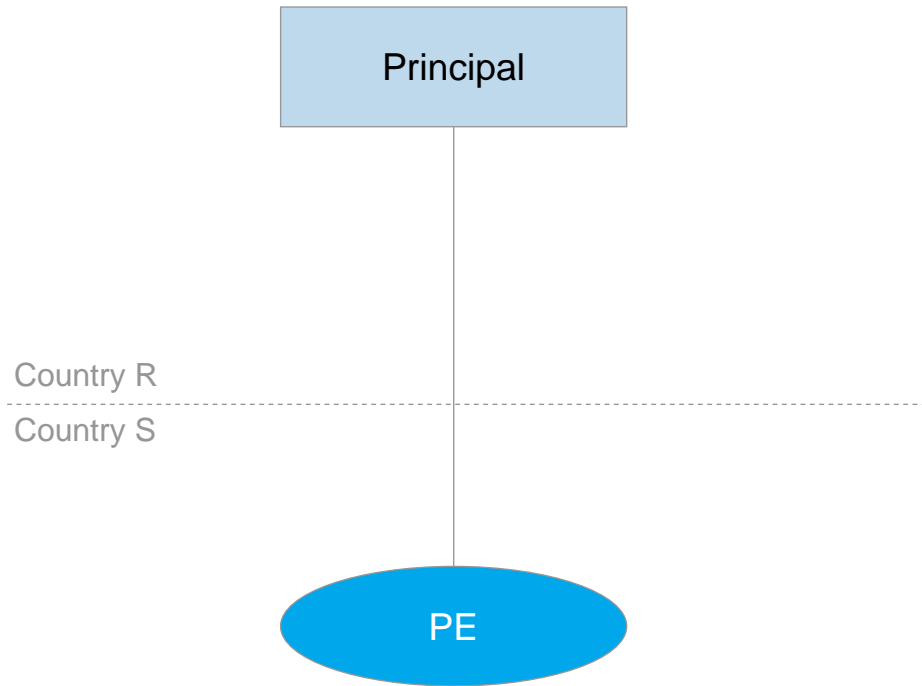
- Art. 5 (1): “Fixed place of business” PE
- Art. 5 (4) (c) & (d): Exceptions neutralize “Fixed Place of Business” PE
- Art. 5 (5): “Agency PE”
- Art. 5 (6): “Independent Agent” exception neutralizes “Agency PE”

Types of “Agency PEs” Found in Asia Pacific Treaties

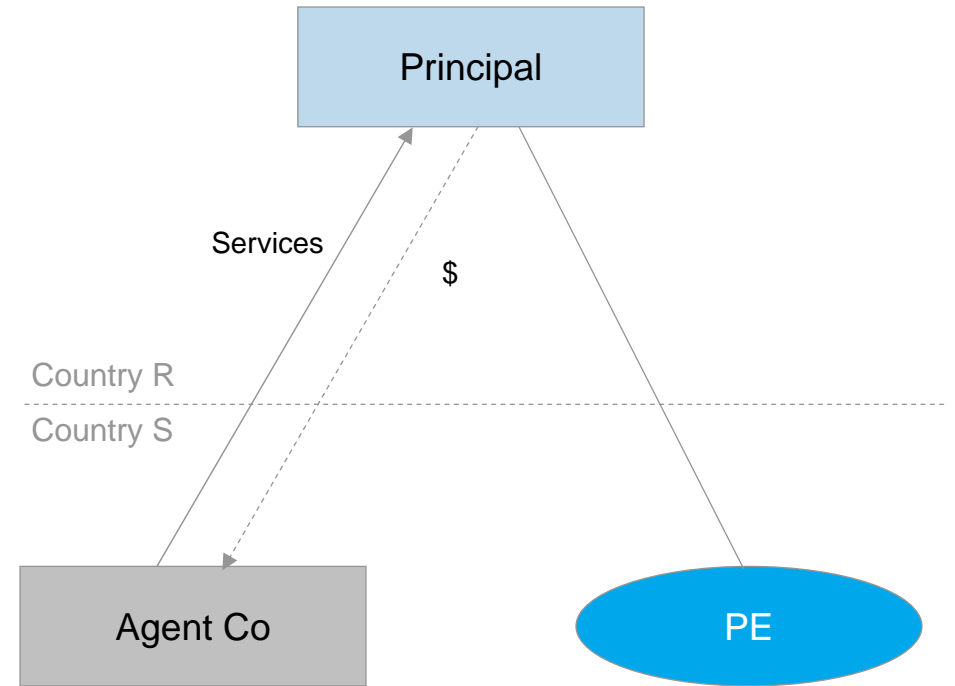
Contract-Concluding Agent	Delivering Agent	Order-Filling Agent	Order-Securing Agent
<p>Based on Art. 5(5), OECD model</p> <p>Subject to “independent agent” exception</p> <p>Found in all AP treaties</p>	<p>Based on Art. 5(5), UN model</p> <p>Two Requirements</p> <ol style="list-style-type: none"> 1. Maintenance of goods 2. Regularly delivers goods <p>Subject to “independent agent” exception</p> <p>Found in most AP treaties</p>	<p>Not based on a model</p> <p>Two Requirements</p> <ol style="list-style-type: none"> 1. Maintenance of goods 2. Regularly filling of orders <p>Subject to “independent agent” exception</p> <p>Found in many AP treaties</p>	<p>Not based on a model</p> <p>One Requirement</p> <p>Habitually secures orders for the Principal</p> <p>Subject to “independent agent” exception</p> <p>Found in many AP treaties</p>

Profit Attributable to a PE

“Fixed Place of Business” PE



“Agency PE”



— OECD 2008 Report

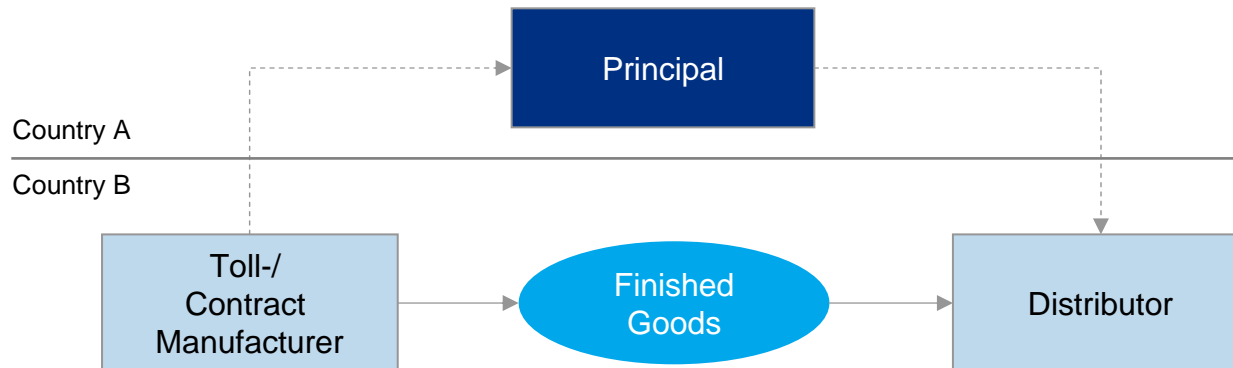
VAT

- In principle, VAT should not be a cost to business (apart from the administration cost). In other words, in principle, the cost of VAT should be fully passed on by businesses to consumers
- However, there are many situations in Asia Pacific where VAT becomes a net cost to a business. Such situations (which involve unrecoverable VAT) cause a P&L expense
- Example: China (restricted “input tax credits” for exports)

“Same Country” Issue

Where most of the manufacturing is for domestic sale, inserting a Principal into the supply chain will potentially give rise to significant challenges.

Challenge



—> Physical Flow

- - -> Title Flow

- **Credibility:** Key profit drivers (i.e. Risk, IP) are located with Principal in Country A. However, both manufacturing and distributing functions are located in Country B
- **VAT / PE:** VAT registration of Principal in Country B is generally required (due to ownership of goods in Country B). However, some countries assert that VAT registration is an admission of the existence of a PE in Country B

Potential Responses

- **Credibility:** At very least, the risk requires that the economic support for the allocation of profits should be very strong
- **VAT / PE**
 - Robust defense of technically correct position
 - Some possible “work around” models exist

Customs Duty: Relevance

- **New business model could result in an increase in customs duty because**
 - The volume of cross-border trade would increase (reflecting, for example, centralization of manufacturing functions)
 - Import prices would often increase in new business model (reflecting in-country distributor's reduced profit margin)
- **Increase in customs duty could potentially destroy income tax benefit** associated with the new business model
- **Particularly relevant in Asia Pacific, because**
 - No broad customs union
 - Relatively high duty rates
- **Some possible “work around” models exist**

Minority Shareholders

The new business model is likely to result in lower profits in the manufacturing and distribution companies.

Challenge

- How should the new business model accommodate minority shareholders in the manufacturing and distribution companies?
- How should the directors of JV companies be encouraged to embrace the new business model?

Potential Responses

- Option A
 - Exclude JV companies from scope of the new business model
 - Would such exclusion compromise the objectives of the new business model?
- Option
 - Include JV companies in the scope of the new business model, but compensate the minority shareholders for the transfer of the key profit drivers from the JV companies
- Such compensation could take the form of
 - Giving the minority shareholders access to the future cash flow of the Principal (directly or indirectly)
 - Compensating the minority shareholders (directly or indirectly) by cash payment

Why is Asia-Pacific Different from Europe?

Simple answer: The European Union.

	European Union	Asia Pacific
VAT	<ul style="list-style-type: none">• VAT laws have high level of uniformity amongst EU member countries• Cross-border supplies generally do not cause unrecoverable VAT	<ul style="list-style-type: none">• No overarching uniformity• Cross-border supplies commonly cause unrecoverable VAT
Customs Duty	<ul style="list-style-type: none">• Customs union exists. Thus, cross-border goods transactions between EU member countries are not subject to customs duty	<ul style="list-style-type: none">• No broad-based customs union. Thus, cross-border goods transactions are generally subject to customs duty

Why is Asia-Pacific Different from Europe? (Cont'd)

... There are also differences regarding PE definitions in double tax treaties.

- Europe
 - Generally, contract-concluding agent only
 - Commissionaires generally accepted as not causing contract-concluding agent PE
- Asia Pacific
 - Commissionaires generally treated as causing contract-concluding agent PE
 - Delivering agent, order filling agent, order securing agent

Where Should Principal be Located? How much Substance Should be in it?

Location

- Singapore
 - 17% tax rate
 - Tax incentives
 - Wide treaty network
 - Accepted AP headquarters location
- Hong Kong
 - 16.5% tax rate
 - No tax incentives
 - Small but growing treaty network
 - Accepted AP headquarters location
- SG / HK branch of Swiss company
 - Same as SG / HK, except Swiss treaty network
- China Business Trust
- Others (Malaysia, Mauritius)

Substance

- As much as possible!
- Substantive profit drivers (intangibles, risks, key people) should be placed in the Principal
- Two reasons
 - Demonstrate real change—thus, support the changed transfer pricing model
 - Anti-avoidance rules

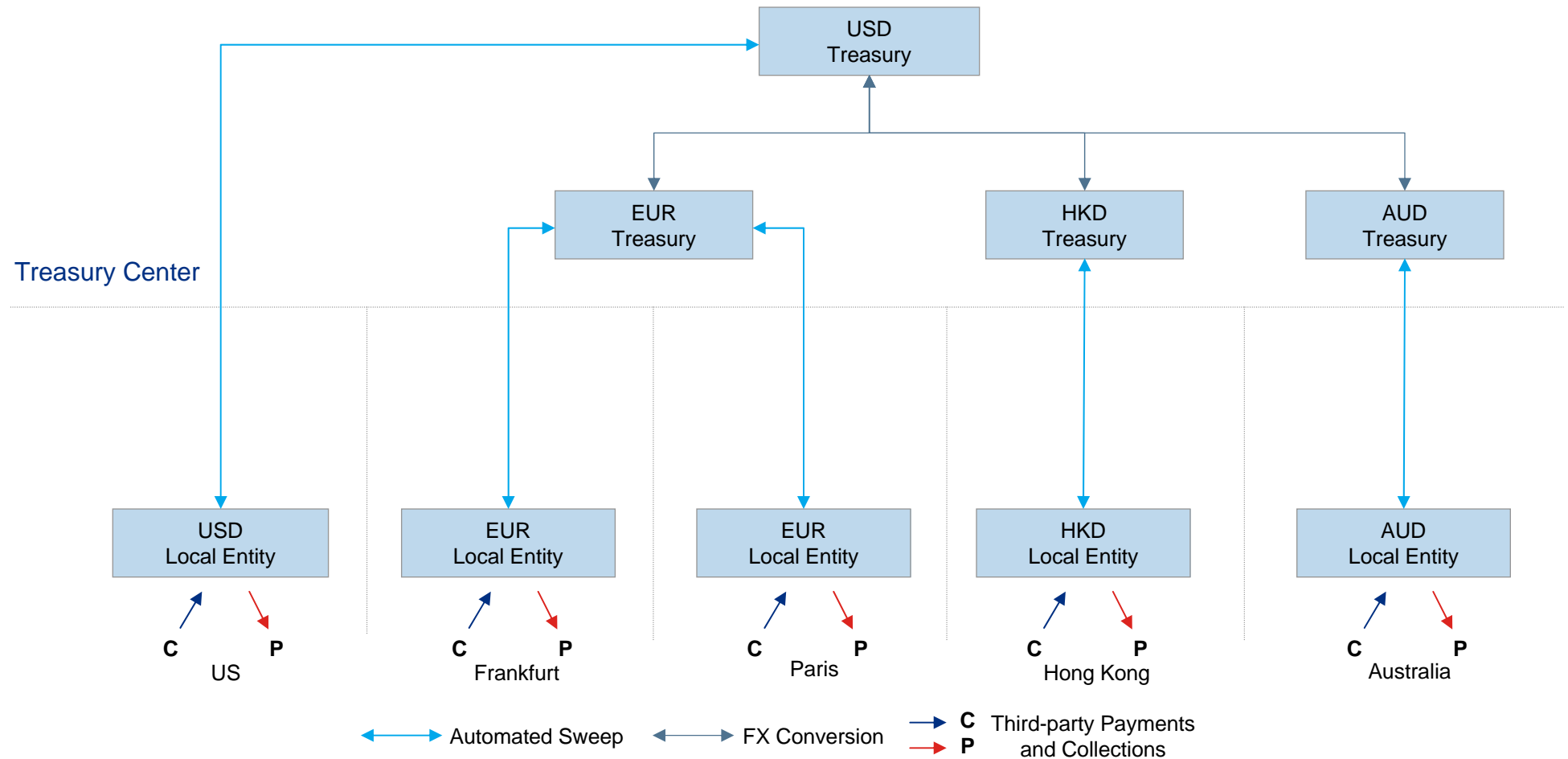
4. Principal Acting as a Global Treasury Center

Centers Explained

- Principal Structures
 - Company-owned subsidiary established in low tax jurisdiction
 - Purchases exported goods from company affiliates and resells them to other affiliates or 3rd party customers
 - Goods are sent directly, invoices go through the central hub
 - Tax efficient
 - Focuses on commercial cash flows
- Global Treasury Center (Global Cash Concentration Hub)
 - Company-owned subsidiary, typically established in low tax jurisdiction with waiver on withholding tax for interest
 - Functions as in-house bank by taking surplus cash as deposits and lending to subsidiaries that need funding
 - Focuses on financial cash flows

Global Treasury Center—Cash Concentration Hub

Cash swept or pooled to a Treasury entity established in jurisdictions such as Ireland, Netherlands, Switzerland, Hong Kong, and Singapore in the form of intercompany deposit or loan.




Principal Acting as Global Treasury Center

By adding cash concentration into the principal entity, multinational companies can increase tax and treasury efficiency.

Cash Flow	Efficiency Solution
Commercial Flows	Principal Structures
Financial Flows	Global Treasury Center

Merge



Benefits and Issues of Combined Center

Combined center can generate significant benefits for the company; however, they also have tax implications which need to be reviewed and opined by international tax expert.

Benefits

- Lower Taxes
 - Such centers are typically located in lower tax jurisdiction
 - Tax experts need to review transfer pricing rules in each jurisdiction
- Improve FX Hedging
 - Company affiliates are billed in their functional currency, thus retaining FX exposure in the center
 - FX exposure forecast is extremely reliable due to centralization of transaction
 - Significant administrative burden is reduced in collecting exposure data
- Reduce Trapped Cash
 - Trapped cash in regulated jurisdictions can be reduced by sweeping cash as inter-company trade receivable as soon as customer pays
- Netting Transactions
 - Such centers can bring cash management efficiencies by netting inter-company transactions

Issues

- Transfer Pricing
 - Profit margins and sales commissions must comply with local transfer pricing rules
 - Benchmark companies to decide margin distribution between trading company, re-invoicing center, and manufacturing entity
- Permanent Establishment
 - Such center should not be assessed as a permanent establishment in the country of final sale

5. Case Study

Global Treasury Center Combined with Re-invoicing Hub (Principal) in Singapore

Chinese technology company.

The Need

- Chinese technology company sells its products worldwide in local currency and operates a global treasury center in Singapore
- No increase in logistics cost—goods shipped directly from manufacturing locations to markets worldwide
- Wants all liquidity to be brought back to Asia without loss of value date
- While waiting to deploy surplus liquidity for strategic plans, any liquidity concentrated in Singapore is converted to USD and invested in wide range of products to optimize short-term yield

The Solution

- Obtained Singapore FTC incentive that includes re-exporting activity
- End-of-day cross border sweep executed daily from various countries in EMEA and North America to Singapore
- Cross-border currency movements are performed as book-to-book transfers on Citi's nostros. They are not subject to SWIFT cutoff times hence given good value always
- In markets with capital controls, customer receipts are then used to pay Singapore Center the inter-company trade payable as soon as possible

The Benefits

- Automated concentration of balances from other regions to Asia without loss of value date
- Efficient solution to concentrate funds even if the bank account is not with Citi
- Convenient one-stop-shop for transacting in a range of short-term investments in Asia
- All funds sweeping transactions are booked as intercompany trade receivable instead of inter-company loans
- Reduces trapped cash in countries with capital controls
- Most of the global cash is available in Singapore with minimal cash in subsidiaries

IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

[TRADEMARK SIGNOFF: add the appropriate signoff for the relevant legal vehicle]

© 2010 Citigroup Global Markets Inc. Member SIPC. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

© 2010 Citigroup Global Markets Limited. Authorized and regulated by the Financial Services Authority. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

© 2010 Citibank, N.A. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

© 2010 Citigroup Inc. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

© 2010 [Name of Legal Vehicle] [Name of regulatory body.] All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy & mitigation

