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EU JOINT TRANSFER PRICING FORUM

WORKING DOCUMENT DEVELOPING A METHODOLOGY ON INTRA-GROUP SERVICES

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1. Introduction

This paper is a suggested methodology to deal with the subject of centrally provided intra group services. The document has been prepared in response to the JTPF conclusion at stage 3 of doc. JTPF 025/2008 that the direction of the work on intra group services would benefit from some realignment.

The paper proposes that certain types of centrally provided intra group services may be reviewed in a way that ensures compliance with OECD principles combined with a more efficient use of, usually, limited resource than may currently be the case.

The key elements of the method are:

(i) acceptance of certain important working assumptions in establishing an agreed starting point of any review.
(ii) the provision of concise and dedicated information to provide an understanding of the type of service provided and the structure by which those services are delivered.

The Forum is asked to assess the worth of this methodology by means of open debate in the June plenary.

2. Background [1]

Prior to the last JTPF meeting an agreed six stage process was being followed to address pragmatic problems associated with the provision of centrally provided intra group services.
Stages 1 and 2 were successfully completed by:

(i) confirming support for OECD principles contained in the guidelines (Chapter VII OECD guidelines)

(ii) agreeing the principle all costs are allocable

(iii) commencing work to agree a non exhaustive list of of shareholder costs. The Forum then began to discuss stage three, "low value add intra group services", with the intention of graduating to issues, via stages four and five, associated with a more complex service provision structure culminating with a discussion around MAP/AC matters at stage six.

During the meeting of 24 March it became apparent that a single stage three type of service, provided either to one subsidiary or several subsidiaries was not generally felt to be an issue that presented significant practical problems. The general consensus was that once a routine* service (*referred to as "routine services" in the plenary and the not defined further,) was identified the determination of the cost base and the appropriate arm's length mark up was not deemed difficult to achieve. **Difficulties of understanding and acceptance arose when a variety of centrally provided routine services were supplied to several subsidiaries through a complex structure.**

It was originally thought stage four would build on outcomes and determination of certain issues arising in stage three including meeting the need expressed for a better insight into how an MNE operates an intra group central service provision system.

[1] Subject to adoption of minutes of JTPF meeting 24/03/2009

Given that stage three was not to be progressed as envisaged a realigned approach to the work was considered appropriate. This paper is the result.

3. Scope.

The Secretariat notes that Chapter VII of the OECD guidelines is a good summary of the issues encountered when applying transfer pricing principles to the provision of intra group services. There is probably little to be gained from trying to rewrite what is already there but concerns have been voiced on <u>how to pragmatically deal with some of the issues highlighted in those guidelines.</u> This paper works towards recommending a methodology to apply when reviewing certain intra group services and structures that will result in quicker resolution of issues that commonly arise.

To that end the paper outlines and recommends acceptance of certain important working assumptions. The paper then goes on to comment on areas identified as of concern. Finally, the paper suggests what information could usefully be provided and makes reference to links with MAP and AC procedures.

3.1 Definition

As mentioned earlier the term "routine" services has been used but not defined.

<u>By addressing both the type of service and type of structure an attempt is made to define what a "routine" service is within the context of this paper and the proposed methodology.</u>

3.1.1 Type of services

Drawing on previous discussions certain types of services were felt to be within the remit of this work and others excluded. By comparing and contrasting the two positions it is possible to define some parameters to which the approach would apply.

- It may be common ground that **services included** are those that are low value adding, costs are complementary to the core activities, delivery of the service is by means of skills commonly available or readily acquired and that a fairly low level of skill maintenance is required to deliver the service year on year. **For the purpose of this paper of this paper such services are termed "routine".**

- It may be that **services excluded** can be summarised as those that, within the context of the business relationship between the provider and recipient, are a significant commercial driver. In particular that the service is not significant in creating or modifying intangible property. Equally, it was not the intention to address services of an entrepreneurial nature with the potential to attract a high level of reward associated with exposure to high risk. **For the purpose of this paper of this paper such services are termed "non-routine".**

- A further appreciation of the type of service to which the methodology will apply may be gained from consideration of specific **services identified as outside its scope. To that end it is suggested that an agreed, non exhaustive, list is compiled the type of services excluded.**

3.1.2 Type of Structure

Another aspect of the routine services, as defined at 3.1.1 needs to be taken into account when defining the service to which this methodology applies: the structure by which the service is delivered.

- Delivery of a single routine service by central service company A to subsidiary B is a basic implementation structure, for the purposes of this paper.. Similarly, delivery of single service by A to several subsidiaries would also constitute a basic implementation structure. Again, in the absence of a direct charging method the use of a readily verifiable allocation key would also constitute a basic implementation structure. There is no indication from the JTPF that a routine service with this type of implementation system causes problems. **Consequently, the paper does not focus on routine services delivered through a basic implementation structure.**

- On the other hand a delivery of a range of centrally provided routine services, as defined at 3.1.1, supplied to several subsidiaries, perhaps with differing values, involving a cost pool and deploying a series of allocation keys is a non basic implementation system, for the purposes of this paper. **The paper does focus on this combination of routine service and non basic structure.**

3.1.3 Cost Contribution Arrangements (CCA`s)

CCA`s are not addressed. As the OECD guidelines record " there are many types of CCA`s and in fact the whole subject is scheduled as a separate work agenda item of the JTPF.

3.1.4 Services covered by the methodology

In any decision where there is an element of subjectivity it can be difficult to pin down a precise definition. The exercise of reasonable judgement is essential as supported by the comment at 1.12 of the OECD guidelines which says "*It should be recalled at this point that transfer pricing is not an exact science but does require the exercise of judgement on the part of both the tax administrator and taxpayer*."

Taking the above into account it will be possible to determine in the majority of cases whether or not particular services fall within the scope of the methodology.

To reiterate the methodology is intended to apply to routine services delivered through a non basic structure as defined under 3.1.1 bullet one and 3.1.2 bullet two.

However attention is drawn to the fact that there is some worthwhile commentary to be made on services not within the definition.

- Firstly, although routine services with a basic implementation structure were not felt to cause pragmatic problems it was not articulated in the Forum why that was the case.

  Without opening up that debate and perhaps losing focus on the main aim of the methodology it may be the Forum could give some guidance on that type of scenario. That guidance could draw on material published by Member States who have already defined how they would handle such cases. At its simplest the Forum may just wish to endorse such approaches or certain aspects of those approaches. **For example Annex 3 reproduces UK published guidance.**

- Secondly, although high value services are envisaged to be outside to the scope of this methodology that does not prevent the application of certain aspects of the methodology when reviewing high value services. The most obvious read across is the use of a narrative. The Forum may see value in developing some specific guidance on those high value added services, based on the outcomes of this debate**.**

4. Methodology

The proposed methodology consists of some underlying working assumptions including how a holistic view of the services provided can be obtained and then goes on to consider some specific aspects that commonly arise in this area of transfer pricing.

4.1 Context

The Forum operates under the guiding principles that MNEs operate in good faith and that Tax Administrations only intervene on the basis of reasonable concerns.

In applying those overarching assumptions to a review of centrally provided intra group services the following cumulative important working assumptions are also made:

1) The methodology supplements OECD principles on this subject (Chapter VII)
2) Provision of an appropriate level of background information
3) An MNE will have its own governance system in place together with checks and balances and services provided will be subject to that governance process.
4) Services concerned are low risk and low value adding transfer pricing transactions; services are deemed rendered; the recipient is provided with economic or commercial value.
5) All costs are allocable.
6) Domestic law provisions may disallow certain allocated costs.

4.2 Gaining an understanding the services provided and the implementation structure.

When reviewing service provision certain key elements need to be understood to include:(i) an understanding of what services are delivered by whom to whom (ii) how the services meet the arm's length standard.

What this approach seeks to emphasise is that by accepting certain working assumptions, the provision of targeted information and exercise of judgement, based on practical experience, that in the majority of cases, agreement can probably be reached without significant intervention by Tax Administrations or additional justification by MNEs.

The acceptance of the working assumptions will dispose a reviewer to accept that a service has been provided. Equally, it is a reasonable that whilst the provision of a service itself is not challenged a reviewer still needs an understanding of what services are provided by who to whom and the structure by which those services are implemented.

A reviewer would need an understanding of an MNE`s service provision policy, services provided, method of implementation and reconciliation to the arm's length principle This would best be achieved by, where not already in place for example as part of EUTPD, obtaining a short dedicated narrative.

The narrative will, depending on the facts and circumstances of the case, cover all or some of the following non exhaustive headings:

a) The nature of an MNE`s business and how any industry specific behaviours may impact on the provision of central services. For example one industry may provide technical assistance and have a predominance of call off contracts. Another may engage in extensive worldwide promotional activity where there is a significant element of indirect benefit.
b) An overview of an MNE`s policy relating to centrally provided services explaining the rational for both the provider and the recipients.
c) Links to the application of the MNE`s transfer pricing policy
d) An overview of benefit or expected benefit to the recipients. The benefit derived from certain services will be self evident (e.g. payroll services). Others services may require further explanatory comment on the benefit provided where it is not so immediately apparent (e.g. group representational activity).
e) An account of the type of services provided and to whom (See separate 4.3.1 below).
f) An explanation of the structure through which services are delivered. There may be one central service providing entity or alternatively different subsidiaries provided specific services intra group. Again a mix of two systems may be used and the interaction of those systems will need to be understood.
g) A description of the group standard as it relates to its audit approach and as applied to services. For example defining direct and indirect cost for inclusion in the cost pool; safeguards in place to ensure the consistent application of an allocation key for a particular service; ensuring services are not duplicated.
h) Clarification of how any cost pool is constructed (see separate 4.3.3 below)
i) The arm's length justification of the rate of mark up applied or alternatively why no mark up is applied.
j) A record of how services are accounted for to include the invoicing system, settlement dates, payment methods and any budget v actual adjustments
k) A description of how any mergers or acquisitions are incorporated into the service provision system.
l) An understanding of how new services are integrated into the system and how a service is terminated.
m) How on demand services are handled.
n) How the system is maintained and updated.
o) Available documentation– See 5 below.

It should be noted that in some cases the narrative could largely be covered by the terms and conditions included in a contract, see documentation below.

<u>4.3 Specific aspects of routine services</u>

<u>4.3.1 Provision of Services.</u>

It is worth considering this aspect in a little more detail. It is paramount when answering the key question of when has a service been rendered that the reviewer is satisfied that, from the perspective of the recipient, the activity provides economic or commercial value and the recipient would have paid for the activity or else performed the activity itself.

<u>Given the working assumption that services will be bona fide and the value added by them is low the nature of the provision of a particular type of service should not be a contentious issue.</u>

It can, however, be useful to have some sort of reference point for the types of services that are normally provided intra group by MNEs. Clearly all of the services detailed would not necessarily be provided by any one MNE to its subsidiaries and using the examples as some sort of audit check list is to be discouraged. A list though would give an appreciation of the wide variety of services that may be provided.

The OECD guidelines make specific reference to certain types of services – commonly provided **(Annex 1)**. This document seeks to supplement that list by providing an expanded but non exhaustive list of services that have actual been provided by MNEs to their subsidiaries **(Annex 2).**

It is recommended that a list based on the annexes should be approved to provide guidance on the type intra group services commonly provided that would not in the normal course of events give rise to challenges as to their bona fides.

4.3.2. A non- basic implementation structure

Such a structure typically involves the provision of several services under one contract, a cost pool and use of allocation keys. It is important to note the method of implementation does not change the character of the service provided.

4.3.3 Cost pool:

An area that often gives cause for concern is the quantitative and qualitative content of a cost pool.

Any reviewer will want some level of confidence that all appropriate costs are within the pool and inappropriate costs are excluded before addressing the questions of mark up and allocation. The level of confidence required will vary depending on the particular circumstances of the case and a Tax Administration's overall approach to transfer pricing audits.

The following approaches were identified in achieving what might be considered an appropriate level of confidence:

- A reviewer, after undertaking a fairly high level critical assessment of a particular cost pool audit system on which an MNE relies, will have sufficient confidence in the integrity of the cost pool, any mark ups and allocation keys to enable acceptance of the cost pool. Such an approach will of course require a good understanding of the audit criteria and standard applied.

- The confidence level required will be based on some initial selective/random invoice sampling to enable it to be concluded that a particular cost pool is an acceptable base for subsequent application of an appropriate mark up and allocation. In subsequent years an exception reporting procedure may be agreed wherein the status quo, with appropriate arm's length realignment assumed, unless a tax administration is notified to the contrary

- Alternatively confidence is gained subject to a general description of how the cost pool is operated. The general description should include:

  a) The group audit standards in relation to the pool.
  b) The basis on which costs identified as shareholder costs were specifically excluded from the pool-shareholder costs (it may be that a separate analysis of these costs will be submitted for the sake of completeness.)**– see Annex 4.**
  c) An explanation of why certain of direct and indirect accounting costs are included.
  d) An analysis of cost pool headings.

e) An analysis of cost allocation.
f) A reconciliation of total pool costs to total allocated costs.

Attention is drawn to what may be described as the legitimate expectations of a reviewer and the reviewed in an analysis of any cost pool. Very often costs in a pool will be a mix of external third party costs as well as internal costs. Additionally, an internal cost may result from cumulative activity and charging of several subsidiaries before arriving in the pool.

It is a reasonable prospect that an invoice may be requested and its origin traced. It would be unreasonable to expect a break down of the constituent parts of any invoice. This is not least because it should be remembered that an invoice provided by an independent provider would generally not lead to or would it be possible for them to provide a breakdown of the constituent parts of an invoice. This principle should guide tax auditors when auditing intra-group services invoices.

Finally, whatever level of comfort is sought it would generally be inappropriate, particularly within the context of this methodology (see working assumptions), to perform a re-audit of the cost pool.

4.3.4 Allocation keys

Two particularly relevant comments from OECD guidelines in relation to allocation keys are:

> "Any indirect charge method should be sensitive to the commercial features of the individual case (e.g. the allocation key makes sense under the circumstances), contain safeguards against manipulation and follow sound accounting principles and be capable of producing charges or allocations of costs that are commensurate with the actual or reasonably expected benefits to the recipient of the service"(OECD 7.23)
>
> "To satisfy the arm's length principle the allocation method chosen must lead to a result that is consistent with what comparable independent enterprises would have been prepared to accept."(OECD 7.24)

The application of an appropriate allocation key in relation to a single service provision should not present the reviewer with any undue problems.

The provision of more than one service under a contract may require the deployment of several different allocation keys. It would, however, be inconsistent to apply a different allocation key to different recipients of the same services.

Whilst the application of any particular allocation key will depend on the facts and circumstances of a particular case the following keys are in common usage:

IT: number of PC`s
Business management software (e.g. SAP): Number of licences
Human Resources: headcount
Health and safety: headcount
Management development: headcount
Tax, Accounting, etc: turnover or size of balance sheet.
Marketing services: turnover
Purchase services: purchase volumes
Vehicle fleet management: number of cars

The JTPF could consider providing in annex more examples of commonly accepted allocation keys.

4.3.5 The arm's length charge.

Once the cost base of a particular service is determined it is then appropriate to consider what if, any mark up, on those costs should be applied.

OECD guidelines recognise that it is not always the case that a mark up should be applied (7.33 and 7.36). However, where a mark up is required it is likely that the application of Chapters I-III will often lead to the application of the CUP method or cost plus method. It may the case the absence of a CUP or a seemingly excessive plus is indicative that the service is not routine and outside the scope of this methodology.

It is, however, envisaged that information will be readily available to substantiate the ALP mark-up range in the majority of cases. Again, against the back drop this approach, the experience of a reviewer can be brought to bear when assessing the adequacy of a particular margin compare to that experienced at arm's length. It is sometimes the case that the same mark up is applied to a range of services within a single contract and that may well be an acceptable proposition if it is the case that the values added only vary marginally.

5 Documentation

The OECD guidelines at 5.4, when referring to the process of considering whether transfer pricing is appropriate for tax purposes, refers to prudent management principles that would govern the process of evaluating a business decision of a similar level of complexity and importance. That same prudent management principle may be applied to the required level of supporting transfer pricing documentation.

This theme is echoed at 2.3.1 of the JTPF on EUTPD report wherein it is recorded:

"The prudent business management principle, based on economic principles, implies that the sort of evidence that would be appropriate in relation to a transaction of large value might be very different from the sort of evidence that would be appropriate in relation to a transaction where the overall value is significantly smaller".

It then seems logical taking into account the cumulative nature of this methodology – addressing routine services, the acceptance of certain working assumptions, provision of a narrative- that a large part of the purpose of supporting documentation will already have been met. **There is an opportunity to incorporate an agreed narrative content as part of the current EUTPD monitoring exercise**.

A reference to the use of written agreements may be useful from two perspectives. One to record that they will not always be required within the intra group context and two if they do exist, with a significant amount of detail they may provide, material that would otherwise be forthcoming from a narrative.

By way of example **at annex 5** is a generic agreement. It is important to highlight that this agreement is for illustrative purposes only to demonstrate how information on service provision may be garnered from different sources and is not put forward as a template agreement to be put in place.

6. Disputes

REVIEW

If a particular cost or service provision is the subject of dispute which may lead to the reviewer proposing to disallow the service, an element of the cost pool or the allocation key sufficiently detailed reasoning will be required.

Rejection of part of an allocated cost has a knock on effect to the whole allocation exercise that an MNE will have undertaken and could possibly lead to stranded costs and double tax. Every effort should be made to avoid that situation and it may be the matter can be addressed by an exchange of information, prior to any finalisation of a proposed adjustment, to ensure that in fact all costs are ultimately allocated.

MAP/AC

Where an adjustment relating to intra group service is put forward to a Competent Authority and based on the above guidance the Competent Authority should be predisposed to accept the adjustment as reflecting a reasonable arm's length assessment and provide the appropriate relief. Conversely, when presented either internally or external with an adjustment not in accordance with the above guidelines the adjustment should be rejected as not complying with the arm`s length principle.

ANNEX 1: <u>List of examples of services included in chapter VII of the OECD Guidelines:</u>

1. 7.2 management, coordination and control functions for the whole group
2. 7.2 legal and accounting services
3. 7.2 central auditing, financing advice, training of personnel
4. 7.8 an associated enterprise repairs equipment used in manufacturing by another member of the MNE group
5. 7.9 non shareholder activities could include detailed planning services for particular operations, emergency management or technical advice (trouble shooting), or in some cases assistance in day to day management.
6. 7.10 examples of shareholders activities :

- cost of activities relating to juridical structure of the parent company itself, such as meetings of shareholders of the parent, issuing shares in the parent company and costs of the supervisory board
- costs relating to reporting requirements of the parent company including the consolidation reports
- costs of raising funds for the acquisition of its participations

7. a parent company raising funds on behalf of another group member which uses them to acquire another company, these costs would be considered as services
8. 7.11 duplication of services where it is temporary or to reduce the risk
9. 7.12 no services would be rendered where an associated enterprise by reason of its affiliation alone has a credit-rating higher than it would if it was unaffiliated BUT an intra-group service would usually exist where the higher credit rating were due to a guarantee by another group member or where the enterprise benefited from the group's reputation deriving from global marketing and public relations campaigns.
10. 7.14 centralised services may include administrative services such as planning, coordination, budgetary control, financial advice, accounting, auditing, legal, factoring, computer services; financial services such as supervision of cash flows and solvency, capital increases, loan contracts, management of interest and exchange rate risks, and refinancing; assistance in the fields of production, buying, distribution and marketing; and services in staff matters such as recruitment and training. Group service centres also often carry out research and development or administer and protect intangible property for all or part of the MNE group.
11. 7.16 services rendered on call
12. 7.38 List of examples: 7.39 to 7.42
13. 7.39 One example involves debt-factoring activities, where an MNE group decides to centralize the activities for economic reasons. For example, it may be prudent to centralize the debt-factoring activities to limit currency and debt risks and to minimize administrative burdens. A debt-factoring centre that takes on this responsibility is performing intra-group services for which an arm’s length charge should be made. A CUP method could be appropriate in such a case.
14. 7.40 Contract manufacturing is another example of an activity that may involve intra-group services. In such cases the producer may get extensive instruction about what to produce, in what quantity and of what quality. The production company bears low risks and may be assured that its entire output will be purchased, assuming quality requirements are met. In such a case the production company could be considered as performing a service, and the cost plus method could be appropriate, subject to the principles in Chapter II of the Guidelines.
15. 7.41 Contract research is an example of an intra-group service involving highly skilled personnel that is often crucial to the success of the group. The actual arrangements can take a variety of forms from the undertaking of detailed programmes laid down by the principal party, extending to agreements where the research company has discretion to work

within broadly defined categories. In the latter instance, generally involving frontier research, the additional functions of identifying commercially valuable areas and assessing the risk of unsuccessful research can be a critical factor in the performance of the group as a whole. However, the research company itself is often insulated from financial risk since it is normally arranged that all expenses will be reimbursed whether the research was successful or not. In addition, intangible property deriving from research activities is generally owned by the principal company and so risks relating to the commercial exploitation of that property are not assumed by the research company itself. In such a case a cost plus method may be appropriate, subject to the principles in Chapter II of the Guidelines.

16. 7.42 Another example of intra-group services is the administration of licences. The administration and enforcement of intangible property rights should be distinguished from the exploitation of those rights for this purpose. The control of a licence might be handled by a group service centre responsible for monitoring possible license infringements and for enforcing license rights

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Annex 2 : MNE List of commonly provided services

a. **Information technology services, for example**:

- a.1. building, development and management of the information system;
- a.2. study, development, installation and periodic/extraordinary maintenance of software;
- a.3. study, development, installation and periodic/extraordinary maintenance of hardware system;
- a.4. supply and transmission of data;
- and a.5. backup services.

b. **Human resource services, for example:**

- b.1. legislative, contractual, administrative, social security and fiscal activities connected to the ordinary and extraordinary management of personnel;
- b.2. selection and hiring of personnel;
- b.3. assistance in defining career paths;
- b.4. assistance in defining compensations and benefit schemes (including stock option plans);
- b.5. definition of personnel evaluation process;
- b.6. training of personnel;
- b.7. supply of staff for limited period;
- b.8. coordination of the sharing of personnel on a temporary o permanent basis; and
- b.9. management of redundancies.

c. **Marketing services, for example:**

- c.1. study, development and coordination of the marketing activities:
- c.2. study, development and coordination of the sale promotions;
- c.3. study, development and coordination of the advertising campaigns;
- c.4. market research;
- c.5. development and management of Internet website;
- c.6. publication of magazines handed out to clients of the subsidiary (even if concerning the whole group);

e. **Legal services, for example:**

- e.1. assistance drafting and reviewing of contracts and agreements;
- e.2. ongoing legal consultation;
- e.3. drafting and commissioning legal and tax opinions;
- e.4. assistance in the fulfilment of legislative obligations;
- e.5. assistance in the judicial litigation;
- e.6. centralized management of relationship with insurance companies and brokers;
- e.7. tax advice;
- e.8. transfer pricing studies; and
- e.9. protection of intangible property.

f. **Accounting and administration services, for example:**

f.1. assistance in the drawing up of the accounting procedures;

f.2. assistance in the preparation of the budget and operating plans;

f.3. keeping of the mandatory books and accounts;

f.4. assistance in the preparation of periodical financial statements, annual and extraordinary balance sheets or statements of account (different from the consolidate
financial statement);

f.5. assistance in compliance with fiscal obligations, such as filing tax returns, computing

f.6. and paying taxes, etc.;

f.7. data processing;

f.8. audit of the account of the subsidiary[51]; and
management of the invoicing process.

g. Technical services, for example:

g.1. assistance regarding plants, machineries, equipments, processes, etc.;

g.2. planning and executing ordinary and extraordinary maintenance activities on premises and plants;

g.3. planning and executing ordinary and extraordinary restructuring activities on premises and plants;

g.4. transfer of technical know-how;

g.5. providing guidelines for the products' innovation;

g.6. production planning to minimize excess capacity and meet demand efficiently;

g.7. assistance in planning and implementing capital expenditure;

g.8. efficiency monitoring; and

g.9. engineering services.

h. Quality **control services, for example:**

h.1. providing quality policies and standards of the production and provisions of services;

h.2. assistance in obtaining quality certifications (e.g. ISO 9000); and

h.3. development and implementation of client satisfaction programmes;

Other services:

i.1. strategy and business development services in case there is a connection with an existing or to be established subsidiary;

corporate security;

i.3. research and development;

i.4. real estate and facility management;

i.5. logistic services;

i.6. inventory management;

i.7. advice on transport and distribution strategy;

i.8. warehousing services;

i.*9.* purchasing services and sourcing raw materials;

i.10 cost reduction management;

i.11. packaging services; and

ANNEX 3: UK guidance on centrally provided services

Introduction

Companies operating within a group will often provide services to other members of the group, for instance to gain economies of scale through the concentration of activities. Examples include centralised administrative functions and group payroll services..

The provision of these services is subject to the same transfer pricing rules and principles as apply to any transaction between connected businesses.
This specific guidance on centrally provided services complements the more general guidance. It aims to help businesses identify more readily the circumstances where it is clear that it is appropriate to use a cost plus method to establish the arm's length provision for some such services, in preference to the application of other transfer pricing methods. This guidance is intended to assist in applying transfer pricing rules on a year by year basis.

Cost Plus methods are relatively simple to use, and so this guidance should help businesses to minimise the work involved in applying transfer pricing to intra group provision of services that falls within its scope, which is explained in more detail further below.

There may well be other circumstances outside the scope of this guidance where it may also be appropriate to use a cost plus method. In arriving at such a decision, a particular case should be considered and justified on its merits, in the light of commercial practice and the general principles and wider guidance of transfer pricing, including OECD guidelines
Where a cost plus method is used, businesses will need to consider what mark up to apply to relevant costs. The trouble and effort taken to establish an appropriate mark up should relate to the level of risk If the tax risk is low, then businesses are not expected to devote significant time to this, and it is not anticipated that Inland Revenue will seek to make marginal changes where a reasonable mark up is used.

Scope of this guidance

The basic premise of this guidance is that cost plus methodology is particularly appropriate for routine low risk activity. It follows that only if all the following questions can be answered affirmatively can this guidance be applied in respect of a particular transaction:

1. **Is a service being provided;**
   If so is it a service that at arm`s length would be taken up; and
   Does the price paid reflect arm`s length?
   (For example, these conditions would not be satisfied if a service is routinely provided by a parent company to its subsidiaries, but is of limited benefit to a particular subsidiary, which would not have paid to obtain it in that form from a third party if the parent had not supplied the service.)

2. **The provision of the service by a third party would involve relatively low commercial risk and would be expected, typically, to generate relatively modest margins of up to around 10% determined, by the facts surrounding the business service provided).** (For example routine, administrative business support functions, such as payroll administration, which could be purchased as a "commodity" from an independent provider. High risk activities can not be added in and averaged out.)

3. **The service is typically of a routine and administrative nature, and very much ancillary, to the business of the recipient.** (i.e. the service assists the delivery of the service recipient's business activity)

4. The service provider does not provide the service or similar services to independent third parties. (As in this case it would be important to consider the potential applicability of the Comparable Uncontrolled Price method based on the price charged to third parties).

5. The transaction is not a financial transaction – i.e. does not involve the provision of finance or financial instruments. (This condition is not intended to exclude, for example, administrative work relating to financial management or protection, for instance a group service operation providing accounts administration for group members.)

6. **The transaction is not an intellectual property transaction - ie does not involve the creation, enhancement or transfer of intellectual property.** (But this condition is not intended to exclude, for example, administrative work relating to the management of intellectual property, for instance a group service operation administering payment of trademark registration / renewal fees for group members).

7. The transaction does not involve intra-group service provision made in relation to the long-term insurance fund of an insurance company

Use of the guidance

For transactions within its scope, this guidance can be used to establish an appropriate arm's length result for the purposes of applying transfer pricing rules. However, the guidance is not meant to be prescriptive. Businesses may also use other appropriate approaches to establish an arm's length result, drawing on the more general guidance on applying transfer pricing to the provision of services set out in OECD Transfer Pricing Guidelines.

This guidance is intended to help businesses implement the legal requirement to establish an arm's length result, but does not alter that requirement.

Methods for estimating an arm's length result

The service provider may either buy in the service supplied to the service recipient, or deliver it "in-house". Methods that can be used to establish an arm's length result in each of these circumstances are set out below.

For the purposes of applying the Cost Plus method outlined in this guidance, the cost of supplying a service used should be the full cost including overheads, calculated on an absorption cost basis (not marginal cost). Ie where employees of the service provider deliver the service or part of it, the cost of their work should include an appropriate amount to cover overheads such as accommodation, staff management, personnel services, information technology services, etc.

Contracted-out services

Where one member of a group of companies (the service provider) buys in a service and supplies it to other members of the group (the service recipient), then there are two components of the service cost, the cost of purchasing the service from the independent third party, and the service provider’s own costs (eg to manage the contract with the third party and administer provision of the service to the service recipients).

In calculating an arm’s length result, it should not generally be necessary to add a mark up to the element of overall cost relating to the cost of purchasing the service from the independent party, if the service is provided on a basis that is representative, in commercial terms, of the original purchase. (This is because the original purchase will have been made on an arm’s length basis and the independent third party can be expected to have already included a profit element their prices).

Where significant work is undertaken by the service provider to commission the supply of the service from the independent party and oversee the delivery of the service to the service recipient, then the arm’s length result should also take account of this work. This part of the provision can be calculated on a cost plus basis, taking the cost of undertaking this work as the starting point, and adding an appropriate, modest, mark up to reflect the profit that an independent third party could be expected to earn undertaking this work for the service recipient.

“In-house” service delivery

The provision for “in-house” work to deliver services within the scope of this guidance can be based on a cost plus method, taking the cost of providing the service as the starting point with an appropriate, modest, mark up to reflect the profit that an independent party could be expected to earn for delivering a comparable service to the service recipient.

Allocation between multiple service recipients

Where more than one recipient is receiving a service, the arm’s length result for the supply of the service may need to be arrived at by allocating an overall amount between the recipients (for example where a parent company buys in a service and provides it to a number of subsidiaries). Any service provision that would not, or could not be provided between independent parties should be disregarded for this purpose (e.g. superfluous service provision that the recipient does not need or derive business benefit from)

If possible, a direct charge method should be used, relating to the provision of the service to each recipient.

If this is not practicable, then it may be necessary to use an indirect charge method, i.e. to use an allocation key that provides a reasonable proxy for the sharing out the value of the service. For example, if the level, intensity, type and quality of service delivered to different recipients is similar and the volume of service correlates relatively well with the benefit derived by the service recipients, then each recipient’s share of the volume of service delivery could be used to allocate the total cost and mark up between service recipients.

The aim is for the allocation to relate as closely as is reasonable to the relative benefit derived by each service recipient. The trouble and effort taken to establish an appropriate allocation should relate to the level of risk If the tax risk is low, then businesses are not expected to devote significant time to this, and it is not anticipated that Inland Revenue will seek to make marginal changes where a reasonable allocation is made.

Cost contribution arrangements

These types of arrangements can be extremely varied and as such fall outside the scope of this guidance. The OECD Transfer Pricing Guidelines give detailed guidance on cost contribution agreements and transfer pricing.

Continuity and consistency

Where a cost plus method is used on the basis of this guidance, the same approach, including the same mark up, can be used from year to year, unless there is a significant change in circumstances.

The basis on which an arm's length result is calculated should be consistent across all intra-group supply of a service, and for the supply of services in both directions between two members of a group. For example, where a cost plus method is used, any difference in the mark up applied in relation to the supply of the service to two different members of a group should be justified by differences that would exist if the service provider was an independent third party.

For the supply of services within the scope of this guidance, application of this guidance would generally constitute a "reasonable attempt" to demonstrate an "arm's length" result, providing that where a cost plus method is applied there is a reasonable basis for setting the mark up used and making any allocation between multiple service recipients.

Annex 4: Non exhaustive and non prescriptive list of shareholder costs

Revised table on Shareholder cost

From the discussion held in the JTPF meeting of March 2009 it can be concluded that generally the costs listed in this table can be considered as incurred for the parent company benefit. However the JTPF concluded that the analysis will always request to raise the following questions :is it benefitting the whole group, does it benefit the parent company only, should it be allocated out to the subsidiaries, or should it be considered to benefit to a certain subsidiary?. Therefore only a case by case approach can be taken.

	Description of costs to be considered as shareholder costs.	Comments
1	a. ***Costs of activities relating to the juridical structure of the parent company itself such as:***[2]	
2	a.1. *costs for the meeting of shareholders of the parent company*, including advertising costs	Shareholder costs
3	a.2. *costs for the issuing of shares of the parent company*	Shareholder costs
4	a.4. cost of the board of directors of the parent company that is associated with the statutory duties of a director as a member of the board of directors.	The 1984 OECD Report admits that board members may perform activities that are to the benefit of the subsidiaries so that only part of the cost relating to the board of directors may be regarded as shareholders' costs. This may be the case when one or more director(s) have qualifications and skills that go beyond the mere holding function and include know-how and skills which are pertinent to the business of the subsidiaries. <u>JTPF conclusions:</u> A case by case approach is always appropriate because a director or board member could perform activities (partly or

[2] 1995 Guidelines, para 7.10, lett. a.

		totally) for the specific benefit of a (some) subsidiary (ies) and thus could need to be allocated.
5	a.5. costs for the compliance of the parent with the tax law (tax returns, bookkeeping, etc.)	Shareholder costs
6	b. ***Costs relating to reporting requirements of the parent company including the consolidation of reports*****:**[3]	Shareholder costs
7	b.1. costs for the financial reports of the parent;	Shareholder costs
8	b.2. costs for the consolidated financial statements of the group;	JTPF conclusions: Targeted costs: all costs that are necessary for consolidation at what ever level. It might be for the parent company or the subsidiary and the question is who benefits. There might be a parallel benefit for the subsidiaries but consolidation is the activity of the group as such. Some members explained that in practise local costs for the subsidiaries are not passed on to the parent because it would be too costly to identify and to isolate those costs
9	b.3. costs for the application and compliance with cross-border tax consolidation. Tax legislations of some Member States provide for cross-border tax consolidation that requires the parent company to collect information from the subsidiaries and comply with formal requirements such as making tax adjustments of the accounts of the foreign	Shareholder costs (although under rare circumstances the subsidiary company may receive a benefit from the consolidation, such as the elimination of withholding taxes that would otherwise apply in the country of the parent company on payments made by the parent company)

[3] 1995 Guidelines, para. 7.10, lett. b.

	subsidiaries to compute the consolidated income for company tax purposes. These costs are incurred to the exclusive benefit of the parent company ;	
10	b.4. costs for the audit of the parent.	Shareholder costs
11	c. ***Costs of raising funds for the acquisition of its [the parent company's] participations***[4]	Shareholder costs
12	d. ***Costs of managerial and control (monitoring) activities related to the management and protection of the investments in participations*** **unless an independent party would have been willing to buy for or to perform for itself:**[5]	Generally to be considered as Shareholder costs
13	d.1. Costs of the parent company's audit of the accounts of the subsidiary if it is carried out exclusively in the interest of the parent;	Shareholder costs However, if the audit is also in the interest of the subsidiary the activity is partly an intra-group service: this is the case when the audit is compulsory under the law of the state of incorporation of the subsidiary, when the audit report is published with the financial statement of the subsidiary or published on the website of the subsidiary or, in general, is used by the subsidiary (e.g. provided to a bank when the subsidiary applies for a loan or used by the management of the subsidiary itself).
14	d.2. Costs for the drafting and auditing of the financial statements of the subsidiary in accordance with the accounting	Shareholder costs), unless such activity has a positive effect for the activity of the subsidiary on its own and not simply because it is part of the group. This may be the case where the

[4] 1995 Guidelines, para. 7.10, lett. c. Where the funds are raised by the parent company on behalf of another group member that uses them to acquire a new company, the parent company provides a service to the group member.
[5] 1995 Guidelines, para. 7.10, lett. d.

	principles of the States of the parent (e.g. US GAAP).	financial statement drafted by applying the accounting principles of the parent company is used by the parent company itself to render specific services to the subsidiary, as market analysis, budgeting, etc
15	d.3. Costs of information technology ~~incurred exclusively for the monitoring activity of the parent company over the subsidiary; these costs are shareholders' costs only if such costs are not related to the provision of services from the parent company to the subsidiary; e.g. software that allows the parent company to monitor the sales of the subsidiary is in principle a shareholder cost. If the monitoring is for providing services (as marketing or production planning or stock and inventory management), the cost is an intragroup service~~.	JTPF conclusions: Those costs are rarely supported for the benefit of company. Therefore a case by case approach is necessary.
16	d.4. Cost for the general review of the affiliates' performance if not connected to the provisions of consulting services to the subsidiaries	JTPF conclusion: Those costs can be performed exclusively for the parent and are in that case only shareholder costs however in many cases this can help to improve the subsidiary's management as well and will request an allocation key.
17	e. ***Costs to reorganize the group, to acquire new members or to terminate a division***[6] ~~**unless they produce economic benefit for the subsidiary that is not incidental. For**~~	JTPF conclusion

[6] 1995 Guidelines, para. 7.12. The same paragraph points out that such activities, "could constitute intra group services to the particular group member involved, for example those members who will make the acquisition or terminate one of their divisions".

	~~**example, such activities could constitute intragroup services to the particular group member involved; e.g those members who will make the acquisition or terminate one of their divisions**~~**.**	JTPF conclusions: The OECD is actually discussing Business restructuring and future OECD conclusions could be helpful. A case by case approach was suggested because the restructured entity could also have a direct benefit . OECD comments: The OECD notes that the wording in TPG 7.12 is "costs for analysing the question whether to reorganise the group, to acquire new members, or to terminate a division" and that this is a significantly narrower scope. The OECD view is not to treat restructuring costs such as write off of assets, termination of employment contracts, etc. as shareholder costs or as a service, but rather to examine on a case-by-case basis which entity should bear these costs, depending in particular of the rights and other assets of the parties. There is some discussion in the OECD discussion draft on the transfer pricing aspects of business restructurings about which entity within an MNE group should bear the restructuring costs and the OECD tentatively concludes that depending on the facts and circumstances of the case, it could be the restructured entity, another group entity that benefits from a relocation of activity, the parent company, several group entities, etc
18	f. **Costs for initial listing on a stock exchange of the parent and costs for the activities related to stock market listing of the parent, in the years after the initial listing (e.g. preparation of documents required by the stock market supervisory body).**	Shareholder costs
19	g. **Investor relations' costs of the parent company:**	Shareholder costs

	g.1. costs for press conferences and other communications with (i) shareholders of the parent company, (ii) financial analysts, (iii) funds and (iv) other stakeholders of the parent company;	
20	h. **Study and implementation of the capitalization structure of the subsidiaries. ~~=> The capitalization structure of the subsidiary has a direct impact on its capacity to find the financial resources for carrying on its business activity. It is therefore recommended to consider such activity a value added service, attributable to the subsidiary;~~**	Case by case approach
21	i. **Costs for the increase of the share capital of the subsidiary ~~=> The issuance of new shares aims at collecting new financial resources for the subsidiary itself. For this reason it is recommended to consider such expenses as a service cost attributable to the subsidiary.~~**	Case by case approach
22	**Other activity you identify as shareholder activity:** **Activities relating to the adoption and enforcement with statutory rules and rules of conduct with regard to "corporate governance" by the parent company itself or the group as a whole**	Shareholder costs

ANNEX 5:

AGREEMENT FOR THE PROVISION OF GENERAL ADMINISTRATIVE, COMMERCIAL AND MARKETING SERVICES

Agreement for the Provision of General Administrative, Commercial and Marketing Services made this ___ day of ________ 20?? between:

Generic PLC

Whose registered office is:

____

("the Provider")

and

THE RECIPIENTS

(together also referred to as "the Parties").

WHEREAS

The Provider is engaged, inter alia, in [description of business}. It is the holding company of the Generic Group, of which the Recipients are members.

The Recipients are engaged in similar or complementary businesses to the Provider

Because of its size and position in the global market, the Provider has, within its Corporate Headquarters, a large number of staff who carry out a number of specialised functions.

Through its Headquarters' staff, the Provider carries out a number of activities from which the Recipients, directly or indirectly, benefit.

The Recipients recognise that, because of their significantly smaller size in relation to the Provider, that it is not cost effective for them to carry out certain specialised functions themselves, or will rely on Headquarters' staff to assist their own staff to carry out these functions.

The Provider and the Recipients agree that it is appropriate for a proportion of the costs incurred by the Provider which relate to activities carried out that directly or indirectly benefit the Recipients, either at the explicit behest of the Recipients, or otherwise, to be charged by the Provider to the Recipients.

NOW IT IS HEREBY AGREED AS FOLLOWS:

1. DEFINITIONS

For the purpose of this Agreement :

“AP” means an accounting period of Generic plc.

“CHQ” means the corporate headquarters of Generic plc.

“Recipient” means any of the companies/entities set out in Schedule 1.

“Recipients” means the companies/entities set out in Schedule 1.

“**Fee”** means the amount paid by a Recipient to the Provider in respect of the services provided under this Agreement.

2. CHARGES FOR SERVICES PROVIDED

Each Recipient shall pay the Provider a Fee which will be an appropriate proportion of the costs incurred by the Provider in carrying out activities which have a direct or indirect benefit to the Recipients in accordance with the formula set out in Schedule 2. The Fee will be calculated on an annual (calendar year) basis. The Fee will be increased by amounts calculated in accordance with clause 6 below.

3. SERVICES COVERED

The services covered by this Agreement are set out in Schedule 3. The Provider and the Recipients may agree to modify the Services covered by this Agreement from time to time as appropriate.

4. SPECIFIC SERVICES

The Provider and each Recipient recognise that the Provider may provide specific, discrete services to a Recipient at the Recipient’s behest. Such services are outside the scope of this Agreement and will be the subject of separate agreements between the Provider and a Recipient and the costs of providing those services will be excluded from the calculation in clause 2 above.

5. EXCLUDED SERVICES

The Provider recognises that certain activities carried on within its CHQ function do not provide any benefit, directly or indirectly to the Recipients and these will be excluded from the costs apportioned to the Recipients. The Excluded Services are set out in Schedule 4. The Provider and the Recipients may agree to modify the Excluded Services in this Agreement from time to time as appropriate.

6. MARK-UP

The Fee will include a mark-up appropriate to that of a non risk bearing service provider, which will be agreed between the Parties on an annual basis.

7. BUDGETING

The Provider will submit a budget to each Recipient each year in accordance with the annual Generic plc budget cycle, detailing the proposed charge for the following year and that budget will be subject to agreement between the Provider and the Recipient.

8. ANNUAL CHARGE

As soon as practicable after the year end the Provider will send each Recipient a detailed statement setting out the actual charge for the preceding year and this will be agreed by the Provider and each Recipient.

9. PAYMENTS

The Provider will send an invoice to each Recipient on a monthly (APly) basis, each invoice being for 1/12 (1/13) of the budgeted amount for the year. The invoice will be submitted within 14 days of the month (AP) end and will be paid within 30 days of receipt.

When the actual charge for the preceding year is agreed between the Provider and each Recipient, the Provider will issue a supplementary invoice or a credit note as appropriate to the Recipient to reflect the difference between the total monthly (APly) charges based on budget and the actual charge.

10. TAXES

(a) Each amount to be paid by a Recipient to the Provider shall be made without any deduction or withholding for, or on account of, any present or future taxes, duties, assessments or charges, imposed or levied by or on behalf of the Government in the Recipient's jurisdiction or any authority or agency thereof or therein having power to tax unless such deduction or withholding is required by law (including regulations) or by the interpretation or administration thereof. Should a Recipient be required to make such a deduction or withholding, the Recipient shall pay to the Provider such additional amounts as shall be necessary to ensure that the Provider will receive the face value of the amount to be paid by the Recipient, as if the payment of the amount had not been made subject to such deduction or withholding.

(b) If a Recipient withholds and remits an amount to a government authority, pursuant to in Clause 10 (a), and the Provider in good faith determines that it has received a credit against, or relief or remission for, or repayment of, the amount in respect of or calculated with reference to the amount deducted or withheld, the Provider shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment and without leaving the Provider in any worse position than that in which it would have been had such deduction or withholding not been required to be made, pay to the Recipient such amount as the Provider shall in good faith have determined to be attributable to the relevant deduction or withholding.

(c) If a Recipient withholds and remits an amount to a government authority, pursuant to in Clause 10 (a), the amount of any credit, relief, remission or repayment determined to have been received by the Provider shall, at the request of the Recipient, be reviewed by a third party chosen by the Recipient and the Provider. Should the third party be in the opinion that the credit, relief, remission or repayment determined by the Provider is not accurate, the Recipient and the Provider shall negotiate in good faith the amount to be paid by the Provider to the Recipient under Clause 10 (a). The cost of the third party review shall be borne by the Recipient unless the review results in a material adjustment in the Recipient's favour in which case the Provider shall be liable for the cost of the third party review.

(d) All amounts payable under this Agreement are exclusive of UK Value Added Tax or any similar taxes levied by other countries. If any such tax is chargeable it will be added to the Fees payable.

11. CURRENCY

Invoices and payments will be in [currency], unless otherwise agreed between the Provider and a Recipient.

12. INTEREST

Interest on late payments may be charged at LIBOR plus 2%.

13. TERM

The Agreement between the Provider and each Recipient will run with effect from the date stated in Schedule 1 and continue on an annual calendar year basis thereafter. The Agreement between the Provider and each Recipient may be terminated by one party giving the other party at least six months notice of its intention to terminate the Agreement, or such shorter period as may be agreed between the Parties. On a termination other than at the end of a calendar year, all necessary amounts will be apportioned by the Provider in a just and reasonable manner.

14. ADMISSION TO THE AGREEMENT

Other Generic Group companies may be admitted to this Agreement at any time.

15. CONFIDENTIALITY

At all times during the currency of this Agreement and after the termination hereof, the Recipients shall and shall procure that their respective officers, employees and agents shall, keep secret and confidential and not, without the prior written consent of the Provider, disclose to any third party any of the information, reports or documents supplied by or on behalf of the Provider save that any of the Recipients shall be entitled, subject to giving notice to the Provider as soon as practical and after taking into account any representations made by the Provider, to disclose any such information, reports or documents:

(e) in connection with any proceedings arising out of or in connection with this Agreement;

(f) if required to do so by an order of court of competent jurisdiction;

(g) pursuant to any law or regulation having the force of law;

(h) to its auditors, legal or other professional advisors; or

(i) in any manner contemplated by this Agreement.

provided that a Recipient exercises all reasonable efforts to ensure the confidential treatment of such information, reports or documents and that such information, reports or documents shall only be disclosed to the extent that the Recipient are compelled to disclose them.
In addition, a Recipient shall be entitled to disclose or use any such information, reports or documents if the information contained therein shall have emanated in conditions free from confidentiality bona fide from some

person other than the Provider and the Recipient would, but for the preceding provisions of this Clause have been free to disclose or use the same.

16. LAW

(a) This Agreement shall be governed by, and construed in accordance with the internal laws of England.

(b) The Provider and each Recipient hereby irrevocably:

(i) submit to the non-exclusive jurisdiction of the courts England.

(ii) waive any objections on the ground of venue or forum non conveniens or any similar grounds; and

(iii) consents to service of process by post or any other manner permitted by the relevant law.

(c) The submission to jurisdiction in clause 16 (b) (i) above shall not prevent proceedings being brought in any other competent court.

17. PARTIAL INVALIDITY

In the event that any individual provision of the present Agreement should be invalid, this shall not affect the remainder of the Agreement. In any event of invalidity of a provision of the present Agreement, the Parties undertake to agree on a new provision that effectively meets the economic intent of the invalid provision as fully as possible.

18. EXECUTION IN COUNTERPARTS

This Agreement may be executed in counterparts, each of which shall be deemed to constitute an original, and shall become effective between a Recipient and the Provider when that Recipient and the Provider have both signed a counterpart and have received a facsimile copy of a counterpart signed by the other party.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and the year before written.

Signed this day of 20??
for and on behalf of Generic plc

by________________________________

Signed this day of 20??
for and on behalf of [_____________]

by__________________________________

Signed this day of 20??
for and on behalf of [_________________]

by_________________________________

etc

Schedule 1

Recipients

Company	Address	Effective date from which Agreement runs

Schedule 2

Method of Calculating the Fee

Details of the allocation keys to be used in respect of specific services

Schedule 3

Included Services (after direct charges)

PLC Board Costs

Costs of the Generic plc Board after deduction of a proportion of fees to reflect stewardship of the holding company (based on fees of the external directors).

Group Marketing

The services provided by the Provider’s CHQ marketing department to the Recipients include, inter alia:

- Identifying of sales opportunities for the Recipient.
- Developing and maintaining marketing contacts and relations to support the above.
- Developing tactical and strategic customer marketing plans.
- Assisting in the planning and management of sales campaign’s.
- Providing marketing support and analysis.
- Preparing industry forecasts.

Corporate Communications (excluding Investor Relations)

The services provided by the Provider's CHQ corporate communications department to the Recipients include, inter alia:

- Providing a creditable, informative and continuing source of news material from the Recipient.
- Publicising the Recipient's activities as part of Rolls-Royce Group publicity.
- Minimising the media impact of news stories which adversely affect the Recipient's reputation.
- Organising press briefings and interviews which demonstrate the Group's technology leadership in support of the Recipient's marketing effort.
- Providing guidance and direction in the development of the Recipient's advertising campaigns.
- Fulfilling requests for information on the Recipient.
- Establishing and maintaining an Internet site.

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Exhibitions (indirect costs)

The services provided by the Provider's CHQ corporate communications department to the Recipients include, inter alia:

- Providing guidance, administrative and organisational support for the Group's exhibition programmes, which include the participation of the Recipient.

Information Technology

The services provided by the Provider's CHQ information technology to the Recipients include, inter alia:

- Selecting, and negotiating with, world-wide IT service suppliers for the Group.
- Setting Group-wide standards for IT equipment and software.
- Review hardware and software and make recommendations as to its suitability for the Recipient.

Treasury

The services provided by the Provider's CHQ treasury department to the Recipients include, inter alia:

- Maintaining and reviewing banking relationships.
- Setting and reviewing borrowing policies.
- Setting and reviewing foreign exchange policies.
- Setting and reviewing cash management policies.
- Maintaining relationships with the credit rating agencies
- Providing advice on cash management, borrowing, foreign exchange and related issues.
- Advising on the provision of finance for the Recipient.

Taxation

The services provided by the Provider's CHQ taxation department to the Recipients include, inter alia:

- Providing an advisory facility to local tax specialists and/or local management.
- Assisting in the implementation of cross-border projects.
- Maintaining primary relationships with the Group's tax advisers.
- Providing advice when the Recipient is doing business in overseas jurisdictions.
- Building relationships between the Group's internal tax advisors world-wide.

Internal Audit (non specific)

The services provided by the Provider's CHQ Internal Audit department to the Recipients include, inter alia:

- Setting internal audit policy and provide recommendations to the Recipient for internal controls.
- Assisting the Recipient in the performance of business reviews.
- Liaising with and reviewing the recommendations of external auditors and management consultants.

Insurance (non-specific) and Risk Management

The services provided by the Provider's CHQ insurance and risk management department to the Recipients include, inter alia:

- Setting insurance and risk policies.
- Selecting, and negotiating with, the Group's world-wide Insurance Brokers.
- Monitoring and assisting with the Recipient's insurance claims.
- Providing advice to the Recipient on insurance and risk management matters generally.

Sales Financing (non-specific)

The services provided by the Provider's CHQ Sales Finance department to the Recipients include, inter alia:

- Maintaining sales finance relationships with banks, customers and others.
- Developing new sales financing techniques.

Corporate Human Resources

The services provided by the Provider's CHQ Human Resources department to the Recipients include, inter alia:

- Developing and implementing personnel policies, including:
    - Labour Relations
    - Remuneration policy.
    - Executive compensation and incentives, including share schemes.
    - Recruitment policy.
    - Communication with employees.

Health and Safety

The services provided by the Provider's CHQ Health and Safety department to the Recipients include, inter alia:

- Developing and implementing health and safety policies and procedures.
- Developing and implementing environmental policies and procedures.

- Advising the Recipient on the implementation of those policies and procedures and their adaptation to local requirements.

Management Development

The services provided by the Provider’s CHQ Management Development department to the Recipients include, inter alia:

- Developing and implementing management development policies, programmes and courses.

International Human Resources

The services provided by the Provider’s CHQ International Human Resources department to the Recipients include, inter alia:

- Developing and implementing policies and packages for expatriate employees who are re-located on a temporary or permanent basis.

Training and Business Improvement

The services provided by the Provider’s CHQ Training and Business Improvement department to the Recipients include, inter alia:

- Developing training policies and programmes.
- Developing and implementing strategies for business improvement .
- Developing methodologies for measuring business improvement.

Security (Advice)

The services provided by the Provider’s CHQ Security department to the Recipients include, inter alia:

- Developing and implementing a security policy.
- Reviewing and monitoring threats to the Recipient and instigating measures necessary to combat those threats.
- Providing advice on issues specific to the Recipient, particularly if its employees are likely to operate in a hostile environment.

Government Relations

The services provided by the Provider’s CHQ Government Relations department to the Recipients include, inter alia:

- Liaising with the UK Government, particularly those departments are involved in the procurement of products produced by the Recipient.

Group General Counsel (Non-UK specific)

The services provided by the Provider's CHQ General Counsel's department to the Recipients include, inter alia:

- Selecting and recommending the Group's outside legal advisors and maintaining and developing the relationships with those advisors.

- Advising the Recipient on issues of UK and EU law.

- Building relationships between the Group's internal legal advisors world-wide.

Strategy and Planning

The services provided by the Provider's CHQ Strategic Planning department to the Recipients include, inter alia:

- Assisting the Recipient in developing and implementing the strategic plan, including the identification of suitable acquisition targets.

- Maintaining data on products, markets, competitors, forecasts etc. necessary for the planning process or divestments.

- Assisting in the preparation of, or reviewing justifications for, acquisitions, disposals, business expansion, capital expenditure etc.

Mergers and Acquisitions

The services provided by the Provider's CHQ Mergers and Acquisitions department to the Recipients include, inter alia::

- Assisting the Recipient in reviewing potential acquisition targets.

- Assisting the Recipient in negotiating with Vendors of target companies or with Purchasers for the sale of existing businesses and with potential joint venture partners.

- Liaising with outside advisors for the above.

Generic International

The services provided by Generic International to the Recipients include, inter alia;

- Providing representational and marketing services in overseas countries where the Recipient does not have a discrete presence of its own.

Schedule 4

Excluded Services

Investor Relations
SAP Implementation Costs (Group)
Finance HQ (Group Consolidation etc)
Finance Service Centre
Business Integration
Pension Administration
Corporate Secretariat
Employee Patent Awards
Surplus Property Administration