Process Flow

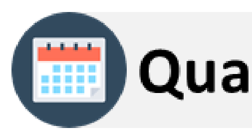
Process Flow

Table of Contents

Scope

ERP

Frequency



References

Forms

Attachments

1. Objective and Scope

1.1. Objective of this Operation

The primary objective is to explain how the price setting team works to establish fair, market-based prices for transactions of tangible goods (materials) between related companies within the Solvay Group.

2. Definitions

Price setting consists of determining the value of transactions between related companies, that is, establishing a price for the transfer of goods, with the objective of determining a fair price, as if the related companies were independent parties, following the so-called arm's length principle.

2.1 Methodology

The arm's length principle is to simulate the market conditions that would exist if transactions were done between independent parties. To achieve this, price setting utilizes internationally recognized methods for determining transfer prices, such as:

- Comparable Uncontrolled Price (CUP) Method: Compares the market price for the transaction between related companies, analyzing similar transactions that occurred between independent parties.
- Resale Less Method: Determines the transfer price based on the price at which a product is resold to an independent buyer, subtracting an appropriate gross margin to cover the selling costs and other expenses of the reseller.
- Cost Plus Method: Calculates the transfer price by adding an appropriate profit margin to the costs of the supplier of the goods or services.
  There are other types of transfer prices; however, the three described are the ones you may see being used by Solvay, we will talk a little more about
  this in topic 2.3.

2.2 Transaction Type

The transaction type corresponds to the type of operation carried out by the company. The price setting team analyzes the material and what the parties will do with it to determine the transaction type of that operation. This will determine the type of methodology that will be used.

TP Transaction Type	Name of Transaction	Description of Transaction	Origin	Final Use in Buyer side	Price Method
DIST/MANUF	Distribution of Own Manufacturing	Sale from a manufacturer to distributor	Origin is the Seller (solvay entity)	Resale	Price Less
DIST/TOLL	Distribution of Tolled Goods	Sale from a manufacturing principle to distributor of goods tolled/contract manufactured either by a 3rd party or by a Solvay toller / contract manufacturer. And goes to a Distributor	Origin is a 3rd party or a Solvay toller	Resale	Price Less
OTH_C+_PL	Other Internal Goods	Sale of goods purchased from a 3rd party / related party with no manufacturing value added. And goes to a Distributor	Origin is a different entity of the Seller	Resale	Price Less
C+MANUF	Manuf. To Manuf.	Sale from a manufacturer for further manufacturin	Origin is the Seller (solvay entity)	Internal use	Cost Plus
CON/MANUF	Contract. Manufacturing	Sale from a contract manufacturer	Origin is the Seller (solvay entity)	Internal use	Cost Plus
TOLLING	TOLL	Sale from a toll manufacturer to the principle	Origin is the Seller (solvay entity)	Internal use	Cost Plus
OTHER_C+	Other Internal Goods	Sale of goods purchased from a 3rd party / related party with no manufacturing value added.	Origin is a different entity of the Seller	Internal use	Cost Plus
FLOW_THRU	FLOW THROUGH	Sale of goods flowed through the seller with no value added at all - APENAS PASSAGEM/ INVOICING	Could be different origins. Could be used for RETURN flows.	Internal Use / Returns	Cost Plus

You can also check this image details here.

2.3 Price Method

These are the Traditional Transaction Methods recognized by the OECD (Organization for Economic Co-operation and Development) guidelines. For price setting, we use the cost plus and price less methods.
Cost Plus: This is the method that uses the production costs of the delivery entity to determine its transfer prices. To these costs, an appropriate profit margin is surcharge to cover the supplier's operating expenses and generate a reasonable profit in an "arm's length" transaction. The result is considered the transfer price.
Price Less: This method uses the sales price at the ordering company. From this resale price, an appropriate gross margin is reduced to cover the selling costs and other expenses of the reseller, in addition to allowing a reasonable profit. The remaining value is considered the "arm's length" price for the original transaction between the related companies (the purchase of the product by the reseller).

3. Process Flow

The price setting team is responsible for defining, monitoring, and adjusting the tangible goods (materials) flows between Solvay group entities.
Define: Based on requests, tangible goods flows are registered in SAP (TSRA).
Monitor Transfer Prices: By compering the segmented Profit & Loss statements (P&Ls) with data in TSRA.
Adjust Transfer Prices: Adjustments are made in SAP, specifically to the percentage surcharge or potentially other parameters.
For new flows: We define the percentage of increase/decrease based on similar materials from previous flows between the two Solvay entities.
For existing flows: We activate and validate the transfer price monthly to ensure that it reflects the most realistic scenario. We monitor and review the flows to ensure that the margins between the entities are being respected.

3.1.1. Step by step

- I upload, download and delete in TSRA transaction.
- I execute new Unit TP calculation.
- I review and I approve the sales prices.
- I review and I approve the transfer prices.
- I manage exclusions related to the TP setting.