

PRESS RELEASE

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EXA Operational Transfer Pricing and Intercompany Agreements: New Component "ICA Management" now available, Cooperation with LCN Legal

Heidelberg/London. EXA, a leading provider of SAP add-on software for operational transfer pricing, is announcing an additional Operational Transfer Pricing ("OTP") software component "ICA Management" for the central management of intercompany contracts. The new component complements the existing EXA OTP solution and shares master data from the existing OTP configuration.

In order to support customers with group-wide standardization and harmonization of contractual provisions, a special "template" library with pre-formulated contract texts is supplied with the new component. This follows a cooperation agreement which EXA AG has entered into with LCN Legal Ltd., the leading experts in intercompany agreements and the legal implementation of transfer pricing.

Central administration of all intercompany contracts

The core of "ICA Management" consists of a central contract database through which all intercompany contracts of a group can be managed globally and monitored with regard to terms and notice periods and administered consistently. Various attributes that are particularly relevant from a transfer pricing point of view can be assigned to the contracts, such as the type of contractually regulated transaction relationship and the type of economic obligation of the group companies involved, as well as the signing legal representatives. The workflow functionality offers extensive options, for example to request an existing intercompany ("IC") agreement that is to be uploaded to the database, or to centrally approve agreement drafts before they are signed. All process steps as well as status changes are automatically and continuously logged in an audit-ready manner. In addition to a wide range of search and analyze options, dashboard functions show any need for action in good time and automatically recognize upcoming notice period deadlines and expiry dates.

"ICA Management" also offers an integrated template library, via which e.g. IC contract

templates approved by the parent company and consistent from a transfer pricing point of view can be provided so that users in subsidiaries can access them.

Technical expertise from LCN Legal

Transfer pricing guidelines and systems are unlikely to withstand tax audits unless they are supported by consistent and effective group-internal agreements. The point in time at which the contract is concluded is of particular importance, as retroactive transfer pricing agreements are extremely problematic in transfer pricing.

Transfer pricing experts are not necessarily familiar with drafting IC contracts and the possible effects of individual clauses. For lawyers, the principles and methods of transfer pricing are often uncharted territory. Nevertheless, knowledge of the specific transfer pricing system is of great importance when drafting IC contracts so that there are no unintentional and unrecognized contradictions, for example regarding the functions and risk profiles to be assumed by group companies.

EXA AG and LCN Legal Ltd., a law firm which assists corporates globally with the legal implementation of transfer pricing policies, entered into a cooperation in order to be able to offer customers content-related and practical support in addition to the administrative management of contracts. With the delivery of "ICA Management", the contract template library contains a number of IC transaction type-related contract templates that already contain the most important and most common clauses from a transfer pricing perspective. With the purchase of the new OTP component, customers receive a right of use and can flexibly adapt these templates as required.

Upon request, LCN Legal also provides direct support for clients on adapting IC contracts and maintaining a comprehensive system of tax audit-ready agreements which is kept updated as groups evolve. LCN Legal can also provide comprehensive legal advice on the individual creation of complex contracts and on transitioning to new transfer pricing policies.

Integration „ICA-Management“ in EXA OTP

"ICA Management" uses modern SAP technologies and offers SAP FIORI user interface uniformly. It is available as an additional licensable component to OTP, EXA's core product for the management of transfer prices. It benefits from group and IC transaction type master data that are uniform within OTP, so that cross-component, subject-logical links and references to the relevant transaction relationships are possible.

With other, already established components of OTP, transfer price managers can, in accordance with the IC agreement, in daily business run a global monitoring of pricing processes for intra-group deliveries of goods and proactively intervening in the event of deviations from the arm's length benchmark ranges. Projections and inbuilt forecasting feature support the assessment of the local profits to be expected in order to avoid retrospective adjustments to the end of a year. Suggested values for new product prices can

be coordinated across borders using integrated workflows with standard SAP technologies. As soon as new transfer prices have been approved at product level, the solution allows the updated transfer prices to be automatically transferred to e.g. SAP ERP / SAP S / 4HANA systems of both the sending and the receiving group company. OTP offers extensive customizing options.

Intercompany agreements: harmonization, standardization and centralization

Intercompany Agreements (often referred to as "ICA" s) are legal agreements between affiliated companies. They define the legal and economic conditions under which services, products and intangible assets are exchanged or made available within a multinational group. The same applies to intercompany financing transactions. Typical transaction types that are regulated internally via ICAs include, for example:

- Sale of goods or distribution
- Commissionaires and commercial agents
- Head office services (e.g. accounting, tax, legal and HR services)
- Marketing services
- R&D services
- IT projects and IT support services
- Use of intellectual property or trademark rights (licenses)
- Cost-sharing arrangements
- License / Contract / Toll manufacturing
- Intragroup loans / cash pooling
- Intragroup securities and guarantees
- Cross-border secondments and much more

Important appendix to the transfer pricing documentation

Cross-border IC transactions must be documented with regard to the underlying facts, but also with regard to the pricing. Written agreements are essential to ensure that transfer pricing policies are not merely an intention, but are actually implemented in legal reality. But it is a prerequisite that the transfer pricing documentation corresponds to the actual circumstances and that the IC agreements presented are also adhered to.

Therefore, in many countries and in accordance with the OECD's Transfer Pricing Guidelines, the "local files" required for transfer pricing compliance must attach copies of all material IC agreements. In practice, the question of access to the contract or its basic availability arises. If there is no contract, this is problematic. If a contract has been concluded, it is often difficult to find it in absence of a central repository, ideally with digital access. Inefficiencies and delays in the creation of the transfer pricing documentation are the result, and can give rise to extended tax audits and a higher risk of adverse TP adjustments.

Pressure to act to standardize IC agreements

If tax audits scrutinize intra-group transfer prices, a significant additional tax cash out is often inevitable for a variety of reasons. Last but not least, weaknesses can be observed in preparing and managing IC agreements. If effective agreements contain provisions for the allocation of functions and risks between the contracting parties, which are not consistent with the transfer pricing documentation, there is a risk of double taxation, interest payments and penalties.

Continuous group-wide agreement maintenance is therefore very important. If it is not permanently ensured that IC agreements are concluded on time, that they are effective and that their content is up to date, additional tax risks arise. The need for group-wide standardization and harmonization of the IC agreement content is, in addition to process efficiency, a further driver for the digitalization of IC agreement management.

About EXA AG

EXA is a leading provider of Digital Transformation solutions and services with headquarters in Heidelberg, Germany and affiliates in India and the U.S.. EXA engages in delivering customized and niche solutions while leveraging SAP and non-SAP systems and technologies across Financial Management Transformation, Process Data Engineering, Big Data and Advanced Analytics. With Operational Transfer Pricing (OTP) and Global Value Chain (GVC), EXA provides its own IT solutions in the SAP ERP environment. The company's main focus is on the automation of global intercompany processes in medium-sized and large multinational corporations.

About LCN Legal

LCN Legal Ltd. is a law firm specializing in intercompany contracts and the legal implementation of transfer pricing compliance. LCN advises the world's leading tax and TP experts to multinational corporations and financial institutions on the preparation of intercompany contracts. These complement transfer pricing policies and reduce tax risks in the area of transfer pricing. LCN supports globally operating companies in handling the entire process, starting with setting up and structuring the agreements through to review, update, implementation and ongoing maintenance.

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