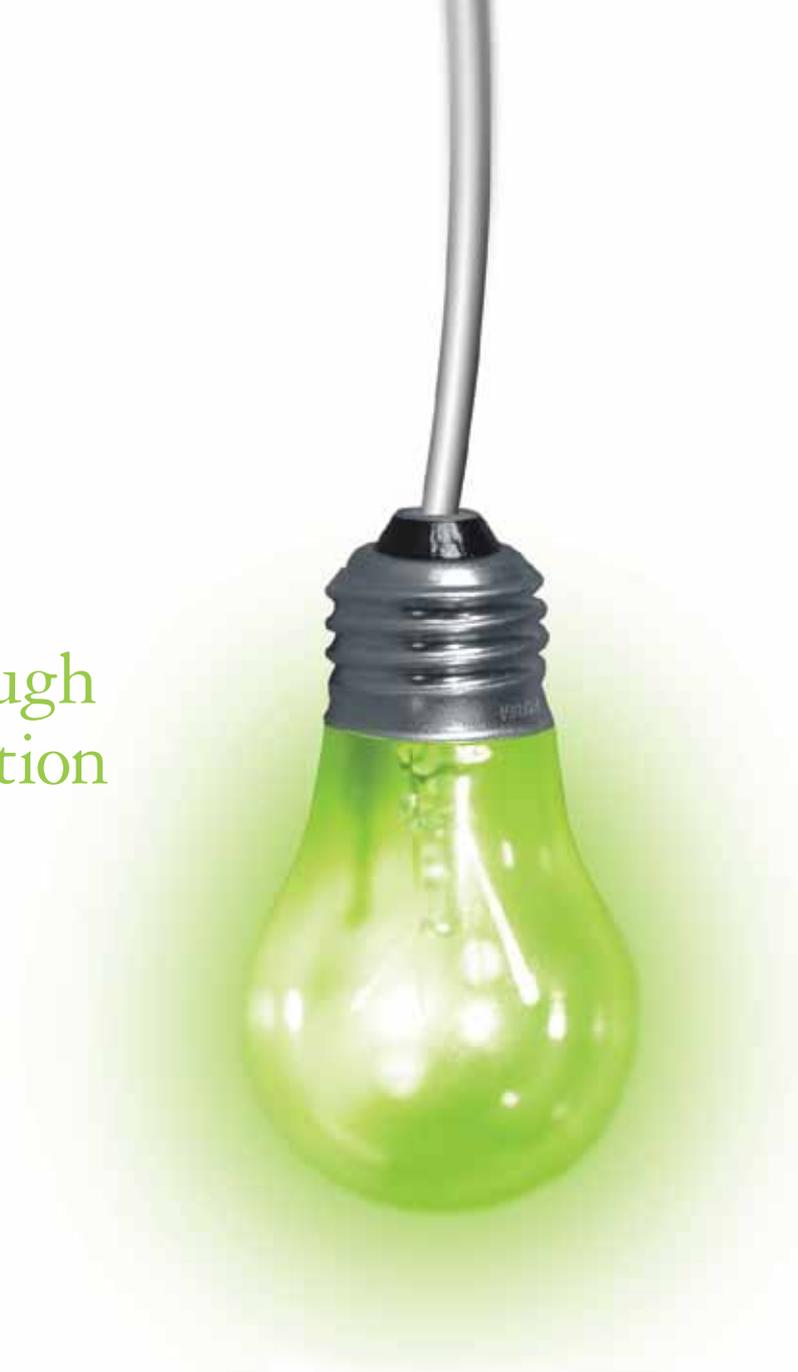


Deloitte.

Business Model
Optimisation
Creating value through
business transformation



TaxInsight

The Deloitte difference

Your opportunity

In this evolving economic environment, it is always a good time to review your global business model and ask the question, "How can we create value by pursuing new change to increasing developing new markets, and gaining greater economies of scale?" Some of the ways to create value in an organisation include:

- Undertaking operational initiatives to pursue revenue and margin growth
- Evaluating rationalisation of the supply chain
- Integrating acquisitions with existing structures
- Centralising management and intellectual property (IP)
- Centralising management, regionally or globally

As you evaluate these and other types of ideas to transform your business, it is important to assess if you are considering all the relevant factors that may help to build value within your organisation, such as the opportunities and effect of tax on important business initiatives. Deloitte can help by bringing you a fresh perspective.

Your challenge

Asia-based operating models present some particular challenges. Unlike in the European Union, there is a lack of consistency and uniformity across Asia which makes effecting operational model changes and doing business a challenge. Some of the more significant considerations typically include:

- Markets in Asia often require very different brands and products which makes centralising functions difficult
- Operational considerations may dictate that separate models be used for Southeast Asia and other major countries (e.g. China, India, Indonesia and Japan)
- Indirect tax and customs costs can be significant
- Since many of the treaties in the region are not based on OECD principles, permanent establishment risks will be heightened and thus, need to be carefully managed
- Tax concepts and practices are generally less developed so some level of increased uncertainty will exist

Our capabilities

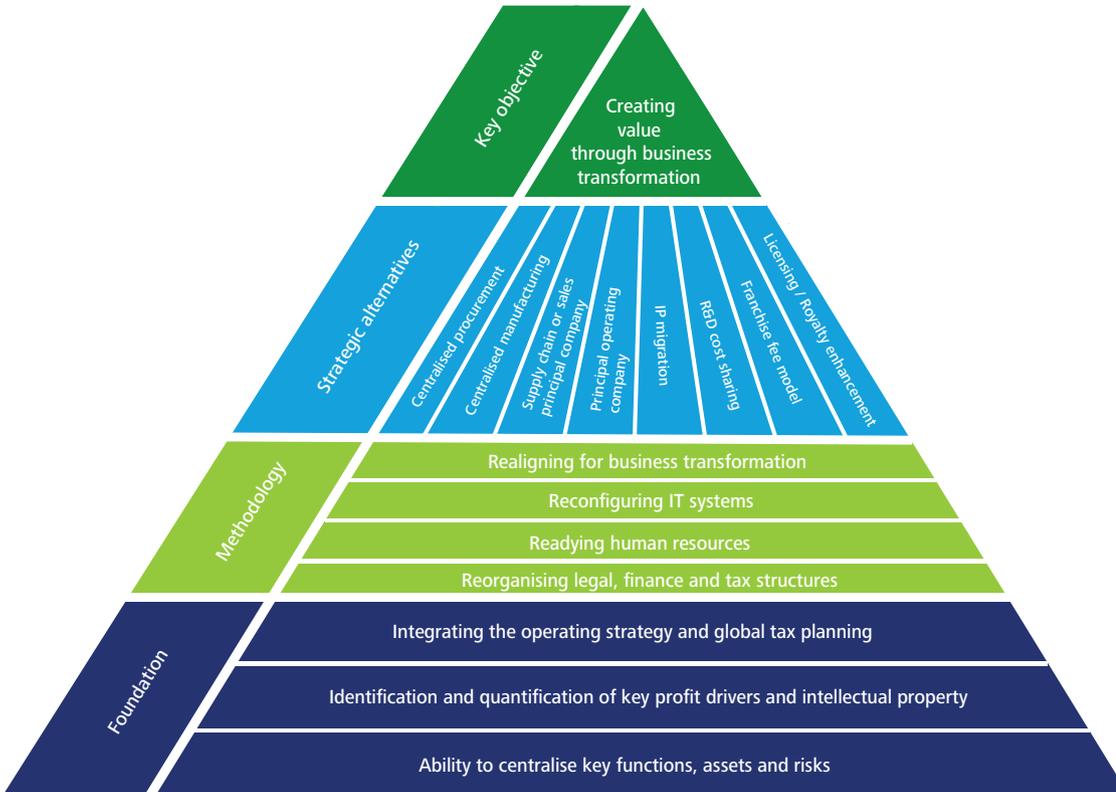
Deloitte has more than 400 dedicated Business Model Optimisation (BMO) specialists globally and over 50 in the Asia Pacific region who are experienced with the complexities of implementing new business models and aligning the tax and operating strategy for multinational companies. Our integrated multidisciplinary team includes specialists in business transformation, information technology (IT), human resources, transfer pricing, direct and indirect tax, and project management.

This dedicated cross-competency, cross-regional team has extensive "been there, done that" experience in terms of aligning business models, intellectual property practices, and global tax planning. Our team provides high quality, customised tax and business model transformation services in an efficient manner through the use of common tools and techniques.

Our approach

BMO consists of proven methodologies that take a holistic look at your value chain and integrate tax planning into your business strategy. BMO is all about creating value through business transformation.

Our BMO service offering focuses on helping multinational companies integrate their operational and tax planning in a scalable and sustainable way to help business leaders make more effective decisions on an after-tax basis.



Our transformation framework

Using Deloitte's proven BMO methodologies and tools, our team focuses on delivering the following elements, or workstreams, of opportunity:

Our 4R methodology

Realigning for business transformation—we help companies explore if they require a total makeover or small refinements in their existing operating model, from sourcing of raw materials to sales of finished goods (and everything in between), and related changes to support the new operating model in a tax compliant manner.

Reconfiguring IT systems—we help you explore, design, and implement infrastructure and IT system changes to support the new business model.

Readying human resources—a key to the sustainability of any business transformation is having the right people in the right places. The focus here is on helping you design and carry out personnel changes intended to support the new business model and develop a smooth transition to the new model. This workstream may also include developing new key performance indicators and reporting lines to support the new business model, as well as helping to navigate the change process through employee representatives.

Reorganising legal, finance, and tax structures—with BMO initiatives, there are often extensive legal entity and tax structural changes. Deloitte helps management teams focus on the pros and cons of various options and provide support in implementing the new structure. We provide consultation on the wide range of considerations involved in determining the optimal business model including Asia Operating Company (AOC) location analysis, rulings and incentives, income taxes, transfer pricing including

Advanced Pricing Agreements, as well as analysing the effect, if any, of indirect taxes and duties under the new model.

We also recognise that wholesale change is often disruptive to an organisation, its suppliers, its customers, and other stakeholders. Accordingly, where appropriate, we subscribe to the philosophy of a more focused approach aimed at specific areas of improvement that a company has already identified or that our analysis may bring to light, including:

- Globalisation or regionalisation of management functions
- Operational changes that enhance revenues and operating margins
- Centralisation of the management of value chain functions and risks
- Mergers and acquisitions
- Supply chain rationalisation
- Implementation of global or regional enterprise resource planning (ERP) systems

Through this measured approach, we provide BMO services efficiently on a regional or global basis.

Phases

Our BMO process is guided by our four-phased approach, explained in detail below, which allows a critical business transformation to be carried out in a diligent and cost-effective manner:

Feasibility: This phase allows a company to first pursue savings through an opportunity analysis. To the extent the potential savings are substantial, feasibility for a new business model can be determined through a business model analysis by:

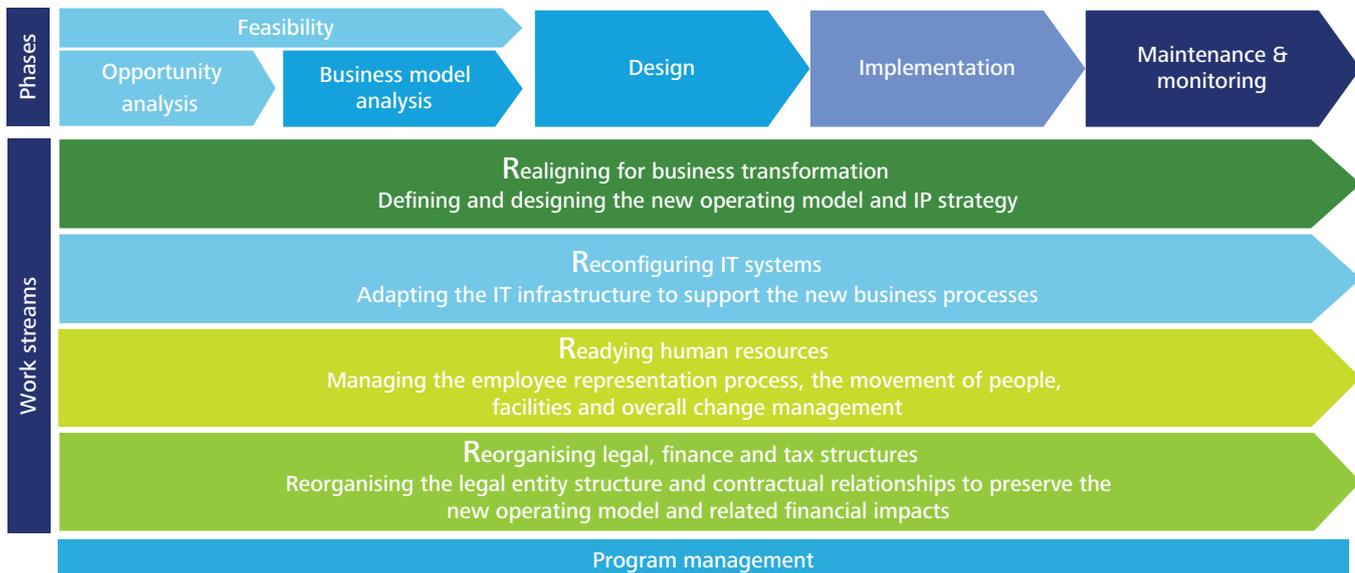
- Reviewing alternative operating models and understanding the potential for impediments from a business perspective through interviews with key stakeholders
- Identifying business process opportunities, analysing location savings opportunities involving the centralisation of management or valuable intangible property, and the location of the principal company or the IP company
- Considering significant tax risks and opportunities
- Developing a business case that takes account of the potential for IT changes, relocation of people, and the costs to design and implement the business model along the work streams discussed above

The outcome of this phase should be to position management to make an educated go/no go decision as to whether to move on to the detailed design and implementation phases.

Design: This phase involves creating a blueprint of the new operating model, considering the operational, tax, and financial implications of the new business model, and resolving any critical business and tax issues identified during the feasibility phase to provide for an efficient and timely implementation.

Implementation: This phase involves converting the design blueprint into operating reality. We work side-by-side with the company to implement the new operating model and legal structure on time, successfully.

Maintenance and monitoring: This phase involves monitoring the performance of the new business model and identifying on-going enhancements that can be made to the business structure.



Stories to tell

Pharmaceuticals company—Following the acquisition of a company with significant Asian operations, we designed and implemented a plan to migrate strategy development, supply chain, and testing functions of the acquired company and integrated those functions into a Singapore AOC model. The project involved a Deloitte cross-functional team of BMO, income tax, transfer pricing, global expatriate services, indirect tax, customs, and consulting professional working together to design and implement an operationally effective Asian integrated operating model that would deliver sustainable tax benefits for the company.

Consumer products company—Our BMO team performed an opportunity assessment and design of a global supply chain structure involving contract/toll manufacturing and LRD models, with a Singapore principal. Deloitte provided integrated tax and operating model solutions, with systems design, tax and treasury workstreams.

Energy & Resources company—Recognising that a permanent shift in customers and revenues from North America to Asia was underway and that substantial costs savings could be obtained by locating manufacturing in Asia through reduced manufacturing and logistics costs, the client asked for our assistance in performing feasibility,

design, and implementation of a global supply chain principal located in Asia. Working closely with the client's operation and tax teams, Deloitte's Asia BMO team helped design and implement a model that supported the unique operational demands of the business and of running a global operating model out of Asia while at the same time producing sustainable tax benefits. This project was led by Deloitte's Asia BMO team and included Deloitte teams from over 20 countries with expertise in BMO, international tax, transfer pricing, indirect tax, customs, global expatriate services, information technology, and supply chain rationalisation.

Manufacturing company—Deloitte was engaged to assist in an opportunity assessment (including NPV calculation), detailed design and implementation of a supply chain transformation for an electronics manufacturing group with manufacturing operations in Singapore, China, Malaysia and Thailand. The comprehensive supply chain transformation involved the design of an optimal structure with a Labuan principal, conversion of full manufacturing operations in China to toll manufacturing, and full manufacturing operations in Singapore and Malaysia to contract manufacturing. Our cross-functional BMO team also assisted with the analysis of the transfer of IP, customer contracts and other intangibles from Singapore to Labuan, exit costs, impact on ETR, development of transfer pricing model, customs duty and VAT issues, development of standard operating procedures for minimising source of income and PE exposures and change management, optimisation of financing aspects (including cash utilisation), and systems issues.



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