



Case 2: Sophia's Dream Group

Task 2: Profit Attribution and Transfer Pricing Exercise

Profit attribution to permanent establishments must be systematically and fairly determined. Further, transactions between associated entities must be continuously reviewed.

The second task is to consider the information provided within the functional analysis regarding the vertically-integrated supply chain of Sophia's Dream Group. Identify the various and numerous intra-group transactions that must be considered for potential profit attribution and transfer pricing issues.

Having established a sound understanding of the activities within SDG and specific countries' by completing Task 1, now conceptualize SDG's vertically-integrated supply chain. To do this, students should revisit the case study and the functional analysis with specific attention to the activities in Hungary, Portugal, Greece, Netherlands, and the 6 countries in which there are retail centres.

Using the working model and different coloured yarn, depict intra-group activities. Working groups might reflect on:

- the relationship of SD Blend Kft with the workshops in Portugal, Netherlands and Greece with **green yarn**.
- the relationship between SD Blend Kft and the retail centres in Britain, Germany, France, Italy, Spain, and Hungary (VS) with **blue yarn**.
- reflect the online and retail transactions between the customers and SDG (online orders are reflected by **orange yarn** and in-store retail by **red yarn**).
- reflect the relationship between Virtually Sophia Kft and the retail centres in the 5 other countries (i.e. processing/completing online orders) with **orange yarn**.

Time is very limited for this task, so work quickly!