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Material Transfers and cost charging between manufacturing sites of the BenQ Mobile Group

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1. General

This Guideline defines the TERMS and CONDITIONS for the transfer of COMPONENTS and MATERIALS not manufactured (herein also called GOODS) between manufacturing sites of the BenQ Group, manufacturing mobile-phones. The preconditions are defined below as indispensable necessities to utilize this settlement which is already agreed with the responsible colleagues in Asia and Brazil.

This Guideline

- shall improve the overall economic situation of the Corporate Mobile-business,
- becomes effective immediately.

2. Preconditions

As mentioned above those indispensable necessities are defined as follows:

- a) Bottleneck situations in production at a factory due to GOODS allocation problems with BENQ MOBILE SUPPLIERS,
- b) Short term notice changes within production plans, product order volumes and/or product variants at the affected factory, which will cause changed GOODS demands with which BENQ MOBILE SUPPLIERS can not comply with,
- c) End of Life situations in which the transfer of GOODS to other factories is needed for their manufacture or services,
- d) In case of overstock situations with or without risk for obsolescence an inter company transfer has to be preferred in comparison to any other source, unless the transaction causes impediments by national laws being not acceptable.

3. PRICES and INCOTERMS

1. According to national and international regulations also these transactions between affiliates have to comply with the regulations of transfer-prices and the arms-length-principal too, this means that the transfer prices must be built on a cost-basis plus an agreed profit.
2. Being aware of these requirements the decision commonly agreed shall grant that the transfer of such GOODS doesn't create economic impediments for the receiving factory and doesn't generate profit for mismanaged inventories. Therefore the transfer of the GOODS according to this Guideline will be charged on a costs basis only without any mark-ups for profit (this is also applicable for BenQ Manaus in respect to the 9,25% PIS/COFINS).
3. In principle the Transfer-price between the factories shall be based on the original CURRENT PURCHASE PRICES, CURRENCIES and INCOTERMS from BENQ MOBILE SUPPLIERS. If several BENQ MOBILE SUPPLIERS and PURCHASE PRICES are available the best/lowest PURCHASE PRICE shall be used. In case of scale prices the transfer price shall reflect the scale price according to the transfer order quantity.

4. The selling and buying factory has to agree on each single transfer price prior the physical material transfer. Therefore the buying factory has to present the current purchase conditions with BENQ MOBILE SUPPLIERS to the selling factory which generate the basis for the single transfer price agreement.

4. Purchase Orders and Order Confirmation

The transfer of the GOODS requires specific purchase orders and order confirmations. Those purchase orders shall be issued as soon as the decision for a material transfer has been taken and shall consider the minimum lead-time for order handling and transportation.

5. Transportation costs

As a principle the costs for transportation from the selling factory to the buying factory will be handled according to the original INCOTERMS from BENQ MOBILE SUPPLIERS. In case of special transports, express shipments, premium services which exceed the cost of standard ground, sea or air transport those costs will be covered by the causer of this transaction.

6. Execution of transfers

Execution of all internal company transactions is between the buyer and the seller directly.

7. Escalation

Level of escalation in case of major deviations between the inter-company transfer pricing and original supplier price is SCM BA management.

8. Global Material Risk Minimization at product end of life (EOL)

During product End of Life the Lead MM Department at the factory, which is selected to coordinate the EOL globally, is required to coordinate the material consumption across all production sites with the scope of minimizing the left over stocks and liabilities related to the product concerned. For that reason the Lead MM Department is required to:

- Consolidation of all information concerning GOODS on own and SUPPLIERS stock as well as ordered at the SUPPLIERS from all affected production sites supplemented by firsthand SUPPLIER information. Reporting of that data and pointing out of coherent risks must be provided,
- In accordance with BENQ MOBILE, the Lead MM Department will advise local MM Departments to initiate necessary shifts of production orders to another factory where cost optimizations concerning utilization of existing stocks and material purchase can be realized the most,
- Furthermore in accordance with BENQ MOBILE, the Lead MM Department will arrange necessary shifts of material stocks and/or PURCHASE ORDERS among production sites of BENQ MOBILE GROUP.

Shifts in demand as well as GOODS stocks and purchase orders have to be arranged under all business prerequisites (technical, legal, on time) and with

minimum of additional cost such as freight, custom duties, penalties etc.
Nevertheless in accordance with BENQ MOBILE and BENQ MOBILE GROUP, the Lead MM Department shall target for a global cost and stock optimization.

Not assigned locations shall support the appointed Lead MM Department. Therefore not assigned locations must secure that demands of EOL GOODS will be supplied by stocks of other locations within BENQ MOBILE GROUP. In accordance with BENQ MOBILE and lead Material Management information of and negotiations with SUPPLIERS must be executed. Redundant purchase orders at SUPPLIERS shall be cancelled.

This regulation is still applicable if TLM LCM takes over the central coordination function of EOL projects.

Sgd. Dietrich Thomas

Sgd. Ingrid Jägering