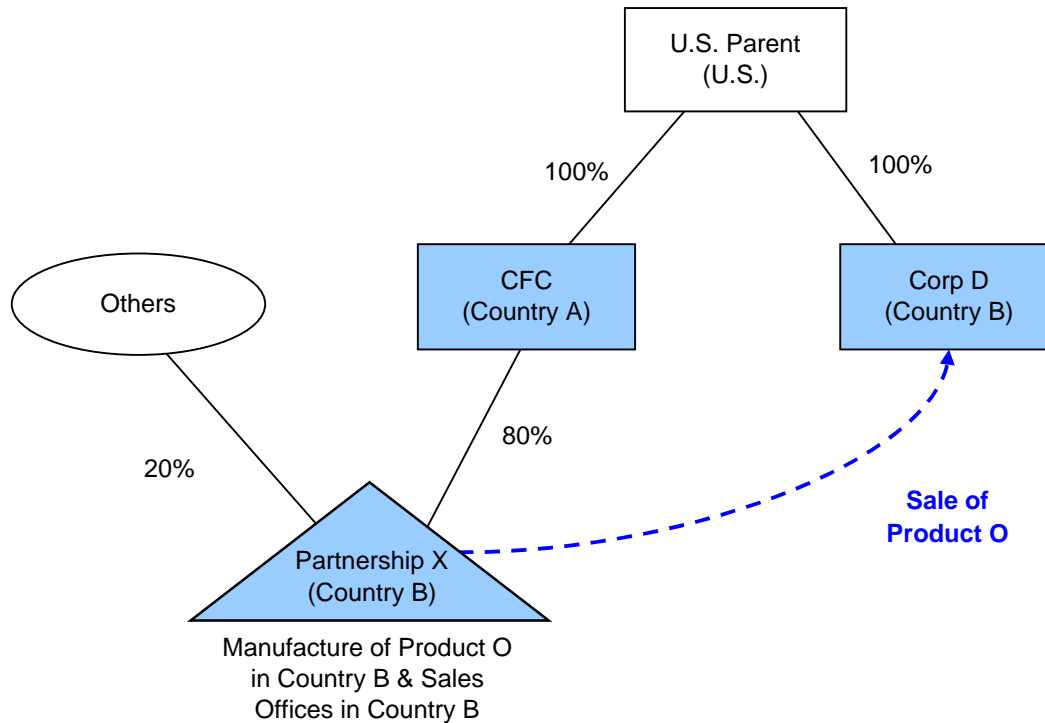


Reg. 1.954-3(a)(6)(ii), Example

Manufacturing by Partnership Attributed to Partner

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CFC, a controlled foreign corporation organized under the laws of Country A, is an 80 percent partner in Partnership X, a partnership organized under the laws of Country B. Partnership X performs activities in Country B that would constitute the manufacture of Product O, if performed directly by CFC. Partnership X, through its sales offices in Country B, then sells Product O to Corp D, a corporation that is a related person with respect to CFC for use within Country B. CFC's distributive share of Partnership X's sales income is not foreign base company sales income because the manufacturing exception would have applied to exclude the income from foreign base company sales income if CFC had earned the income directly.