# Siemens in FX Markets

## ECB FX Contact Group, July 2017

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# Agenda

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# Divisions of Siemens

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## Siemens AG

- Power and Gas
- Siemens Gamesa Renewable Energy
- Power Generation Services
- Energy Management
- Building Technologies
- Mobility
- Digital Factory
- Process Industries and Drives
- Healthcare (separately managed business)
- **Financial Services**

Power generation

Power transmission, power distribution and smart grid

Energy application

Imaging and in-vitro diagnostics

**We create value for Siemens by enabling new technology models through our financial expertize**

# Treasury

On behalf of Siemens, we act as a center of expertise for all aspects of financial risk management, Company financing and payment transactions.

We concentrate Company-wide liquidity on a daily basis, effect global internal and external payment transactions, optimize financial risks and manage the treasury-related processes and activities of Siemens.

- Global management of Group liquidity and financing for Siemens
- Bank-relationship management to limit the increasing counterpart risk from bank exposure
- Bank-account management
- Centralized management of interest rate, currency, liquidity and credit risk
- Accounting for all financial processes, including fully automated posting of all transactions
- Management of short-term liquidity to ensure the ability to pay all liabilities

# Treasury Organization

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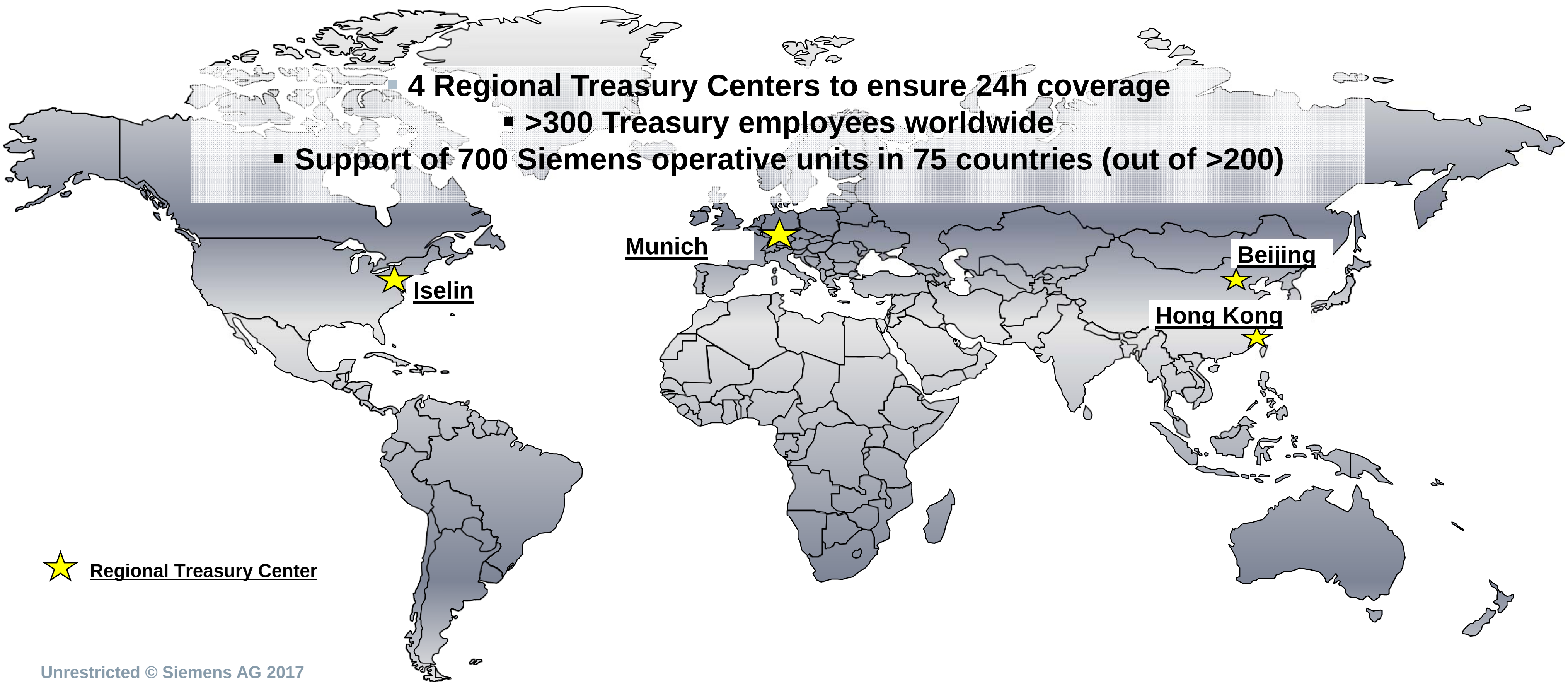
- 4 Regional Treasury Centers to ensure 24h coverage
- >300 Treasury employees worldwide
- Support of 700 Siemens operative units in 75 countries (out of >200)



# FX Management @ Siemens

- Siemens 2016: ca. 350,000 employees; turnover €79.6bln; on balance sheet per 09/2016: FX forwards/options €44.6bln; all derivatives: €99.9bln
- Goal: managing currency risks within the Siemens Group (active in >200 countries) in a cost-effective and centralized way; optimize liquidity management
- Currency Guidelines demand a hedge ratio of 75% - 100% for operative entities depending on business field and type (e.g. standard contracts, projects, forecasted transactions). Only transaction risk is hedged
- Hedges are not collateralized, Treasury manages individual bank limits based on allocated EL
- Hedge Approaches
  - Macro: on a portfolio basis (discretion: Treasury) within VAR limits and defined products/maturities => central book for all currencies (others: IR, commodities), major FX risk: USD
  - Micro: asset or liability transaction based (hedge accounting, projects) => decision (micro/macro) made by operative entity, orders partially automated (internal 360T routing)
- Instruments: FX Spot, Forward, Option, Swap, NDF/Option.

# FX Usage Examples

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- Liquidity Swaps: Treasury is managing liquidity in ca. 30 currencies (out of Munich: 21) on a daily basis. Ca. 75% of the volume is done through short-term FX swaps
- Fixings: not used as a hedging standard (normally: spot), but in specific cases:
  - Common reference required for commercial contracts with cash-flow transformation and the hedging instruments applied => infrastructure projects. Background: EU-wide tenders are usually based in EUR, but often settled in a different (local) currency. Example: Thameslink, 115 full trains (ca. 800 wagons) to be delivered until 2018
  - Payment of dividends from subsidiaries to Siemens AG out of countries with currency restrictions, e.g. India, China. These countries usually have local treasury entities for daily operations
- Options: mostly at request of internal customers to buffer short-term volatility risk for existing or planned FX positions, or for project business (p.t.o.) Instruments: ATM, OTM, Collars, Risk Reversals

# Project Business: Phases

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## Preparation/ Bidding phase

- Siemens is in competition with other bidding firms for a project acceptance
- Time lines / cash flows of notional amounts are still highly uncertain

## Signing phase

- Signing phase with shortest time frame
- Customer and Project Manager agree upon a project contract, so time lines and cash flows are more predictable

## Binding phase

- Siemens has given its commitment to the project, while the customer still has the right to accept or decline
- Time lines and cash flow of notional are still highly uncertain as project negotiations commence

## Execution phase

- Project implementation and deployment phase (can last several years)
- Time lines and cash flow notional can vary in accordance with endogenous and exogenous factors during the project

## Variation order phase

- Customer can choose to make additional orders connected to varying preconditions
- Initiation of new cash flows and concrete time lines if customer decides to exercise its order option

# Project Business: Currency Risk at Each Phase

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| Project Business | Preparation phase | Binding phase | Signing phase | Execution phase | Variation order phase |
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| | Develop Currency Clauses | Monitor the currency risk evolution if trading/ hedging not possible | Time management to secure preferable spot and forward rates for the contract currency | Monitor the currency risk evolution if trading/ hedging not possible | Transfer the risk by executing hedging strategies |
| | Forecast the potential cash flows generated from the project and achieve netting agreements | Secure the spot rate by buying an OTC- option | Secure risk by selecting the appropriate hedging strategy | Execute best hedging strategy timely in order to secure preferable spot and forward rates | Recalculate sustainable costs of sales and margin targets |
| | Include risk buffers in the projected contract exchange rate | | | | Amend the initial offer rate incurring the current market conditions |

# Contact Details

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