



Integrated Currency Management

**Avoiding surprises: identifying
and effectively controlling currency risk**



Integrated Currency Management

Currency effects can have a significant influence on a company's results. Identifying potential risks for your company, making them transparent and understandable, and introducing adequate control mechanisms — this is where we can help.

The challenge

Do you know and understand your currency risks?

The capital markets are increasingly demanding the transparent presentation of currency gains and losses and the measures implemented by companies to manage their currency risk. This is a consequence of the continued process of internationalisation and the volatility of exchange rates, which have a direct influence on a company's business results. Transparency enables planning — both of which build confidence.

Although almost every treasury department presents its currency exposure, the actual currency risk for the company is often not fully known. Identifying direct or indirect dependencies between all internal and external cash flows and exchange rate developments is undoubtedly a complex task.

Inaccurate assumptions concerning currency effects, inappropriate aggregation methods and limited technical possibilities for analysis and controlling can result in a failure to achieve the predefined currency management targets. This frequently leads to uncertainty, eroding a company's confidence in its own data and the strategies it applies.

As a consequence, important questions that are especially relevant for management remain unresolved:

- What influence did exchange rate effects have on last year's business results?
- To what extent could the forecast results be affected by exchange rate fluctuations?

This makes it almost impossible to communicate the currency effects that have already occurred or that are expected to occur in future — which are important for shareholders and analysts in particular — in a suitably clear and comprehensible manner.

Making currency effects transparent

Exchange rate risk occurs along the entire value chain of a company. Accordingly, currency risk controlling must take into account the wide range of influencing factors and interdependencies as part of an integrated approach. Spanning the conflict between the resources available within the company and the optimal risk management objectives, the controlling approach must clearly address the key drivers.

The core components of integrated currency management encompass:

- Knowledge of the drivers of currency risk as the cornerstone for the precise and reliable identification and analysis of currency risk exposure, taking into account all relevant group exposures; risk appetite and risk-bearing capacity must also be defined
- Establishment of hedging strategies that take into account the circumstances of the individual companies throughout the entire value chain and hence enable a high degree of effectiveness accompanied by risk calibration
- Clear rules and conditions as a uniform basis for making decisions on hedging currency risk exposure comprehensible
- Continuous controlling and reporting for analysing the effectiveness of the methods employed, creating transparency and establishing a basis for decision-making by management

Required steps:

- ✓ Understand the drivers and the structure of the group's currency risk in full
- ✓ Install fully integrated group-wide analysis and controlling
- ✓ Establish target group-oriented management reporting with clear messages

Focusing solely on cash flow — an approach that is typically adopted by treasury departments — is not enough when it comes to controlling exchange rate risk. Transparency can only be achieved by also taking into account all of the effects that are visible in the annual financial statements and in controlling.

A sustainably efficient strategy based on these core competencies facilitates the transparency and planning of currency management — and hence communication that is precisely tailored to the concerns of the capital markets and stakeholders.

Our service

Efficient and practical: our approach

We support our clients with the design and implementation of integrated currency management that is geared towards the complexity of currency risk, the controlling approach and the specific processes within a company. This approach emphasises the principles of practical relevance and feasibility.

Our expertise for your success

Good currency management enables secure planning and thereby facilitates company management. Our integrated approach to currency management helps reduce complexity and makes the existing risks within the group visible and controllable.

Your benefits:

- ✓ Transparent, efficient and secure currency risk controlling
- ✓ Positive controlling effects for cash flow, costs and the balance sheet/income statement
- ✓ Substantive communication with the capital markets and other stakeholders

We advise you on the development of strategies, methods and processes and apply our expertise in mathematical finance modelling. As a result, your currency management is based on the relevant key risk factors and control parameters and also includes the necessary scenario calculations and performance measurements.

Furthermore, we take trends and benchmarks as well as taxation aspects and compliance issues into consideration. With our support, you can present results prepared in line with the audit of annual financial statements.

KPMG advises you in four steps to integrated currency management

1

General conditions

- Exposure companies and risk controlling organisation
- Risk appetite, risk sources and value drivers
- Risk horizon and risk transfer
- Taxes and transfer pricing
- Capital controls
- Derivative regulations (EMIR, Dodd-Frank Act, etc.)
- Hedge accounting vs non-hedge accounting

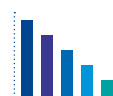
Consideration of individual conditions for currency risk

2

Qualitative analysis



Quantitative determination



Quantitative analysis



- Multilevel, more accurate analysis of currency risk
- Identified risk drivers allow precise definition of currency strategy

Identification and analysis of currency risk within the group

3

KPMG module 3 "Expert"

- KPMG offers a tailored approach for every requirements profile.

KPMG module 2 "Advanced"

- Available resources and technical conditions are taken into account individually on the basis of a three-level modular structure.

KPMG module 1 "Basic"

Development of efficient controlling and implementation strategies

4

Exposure

Hedging strategy

Hedging

Controlling and reporting

Our result

- | | | | |
|---|---------------------|-------------------------------|--|
| – Exposure model taking into account qualitative and quantitative aspects | – Tailored strategy | – Optimised transaction costs | – FX cockpit and optimised reports for currency risk controlling |
|---|---------------------|-------------------------------|--|

Your benefit

- | | | | |
|--------------------|-------------------------|--|-----------------------------|
| – Risk measurement | – Guidelines for action | – Cost reduction | – Efficient monitoring |
| – Transparency | – Strategic compliance | – Diversification | – Basis for decision-making |
| – Risk simulation | | – Reduced utilisation of trading lines | – Precise communication |

Realisation of tried-and-tested processes and methods

Perfectly positioned for you

With more than 60 employees in Germany and 300 specialists within the global KPMG network, Finance and Treasury Management offers expert consulting and practical solutions for all specialist and IT issues.

Our experts have advised companies from every industry on currency management for more than 15 years. Their expertise is backed up by an extensive and proven track record of reducing currency risk.

Our interdisciplinary teams of experts mean that we can efficiently implement a wide range of successful projects. Our specialists have comprehensive implementation expertise and can support you in every aspect of financial and treasury risk management, treasury accounting, treasury tax, capital markets and working capital management, as well as the accompanying treasury IT systems. Our efficient consulting approach is complemented by a high degree of implementation expertise.

For more information please visit:

<http://www.kpmg-corporate-treasury.com>

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