Consolidated Financial Statements

Siemens Capital Company LLC
(A Wholly Owned Subsidiary of Siemens Corporation)
Years Ended September 30, 2017 and 2016
With Report of Independent Auditors

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(A Wholly Owned Subsidiary of Siemens Corporation)

Consolidated Financial Statements

Years Ended September 30, 2017 and 2016

Contents

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Report of Independent Auditors

To the Member
Siemens Capital Company LLC

We have audited the accompanying consolidated financial statements of Siemens Capital Company LLC, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of comprehensive income, consolidated changes in member's equity and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Siemens Capital Company LLC at September 30, 2017 and 2016, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with International Financial Reporting Standards.

Ernst & Young LLP

November 22, 2017

Siemens Capital Company LLC
(A Wholly Owned Subsidiary of Siemens Corporation)

Consolidated Balance Sheets
(Dollars in Thousands)

	Note	September 30 2017	September 30 2016
Assets			
Current assets:			
Cash and cash equivalents	7	**$ 312,160**	$ 338,353
Receivables from affiliates	10	**21,940,103**	19,093,978
Accounts receivable, net	11	**373,657**	354,189
Positive fair value of derivatives	20	**446,484**	652,502
Other current assets	12	**328**	6,480
Total current assets		**23,072,732**	20,445,502
Long-term receivables from affiliates	10	**16,856,051**	15,008,977
Deferred income tax assets	6	**26,671**	47,164
Total assets		**$ 39,955,454**	$ 35,501,643
Liabilities and Member's capital			
Current liabilities:			
Liabilities to affiliates	13	**$ 18,270,795**	$ 14,908,458
Accrued liabilities	16	**6,197**	5,970
Negative fair value of derivatives	20	**515,878**	579,935
Short-term debt	14	**719,751**	700,000
Other current liabilities	15	**164,105**	70,292
Total current liabilities		**19,676,726**	16,264,655
Long-term liabilities to affiliates	13	**19,379,277**	18,425,351
Other liabilities	17	**1,883**	1,837
Total liabilities		**39,057,886**	34,691,843
Member's capital	22	**897,568**	809,800
Total liabilities and member's capital		**$ 39,955,454**	$ 35,501,643

See accompanying notes to consolidated financial statements.

Siemens Capital Company LLC
(A Wholly Owned Subsidiary of Siemens Corporation)

Consolidated Statements of Comprehensive Income
(Dollars in Thousands)

	Note	Year Ended September 30 2017	2016
Interest income	10	**$ 798,347**	$ 648,340
Interest expense	13&14	**(672,344)**	(517,479)
Net interest income		**126,003**	130,861
Other income	4	**5,546**	5,546
General and administrative expenses		**(13,742)**	(13,697)
Gain (loss) on financial instruments	5	**25,307**	(85,851)
Income before income taxes		**143,114**	36,859
Income tax provision	6	**(55,276)**	(14,925)
Net income		**87,838**	21,934
Other comprehensive income (OCI):			
Pension plan actuarial loss, net of tax		**(51)**	(233)
Total comprehensive income, net of tax		**$ 87,787**	$ 21,701

See accompanying notes to consolidated financial statements.

Siemens Capital Company LLC
(A Wholly Owned Subsidiary of Siemens Corporation)

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30 2017	Year Ended September 30 2016
Operating activities		
Net income	**$ 87,838**	$ 21,934
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	**5**	7
Increase (decrease) in Allowance for doubtful accounts	**190**	(9)
Decrease (increase) in Deferred income tax assets	**20,493**	(14,485)
Changes in operating assets and liabilities:		
(Increase) decrease in receivables from affiliates	**(4,693,198)**	3,842,570
Decrease in fair values of derivatives, net	**141,960**	25,399
(Increase) decrease in accounts receivables	**(19,658)**	140,018
Increase in accrued liabilities	**227**	288
Decrease in pension liabilities adjustment, net of deferred income taxes	**(51)**	(233)
Increase in other assets and liabilities, net	**99,987**	21,152
Net cash (used in) provided by operating activities	**(4,362,207)**	4,036,641
Financing activities		
Proceeds from (payment of) short-term debt and current maturities of long-term debt	**19,751**	(1,027,687)
Proceeds from (payment of) liabilities to affiliates, net	**4,316,263**	(3,110,058)
Net cash provided by (used in) financing activities	**4,336,014**	(4,137,745)
Net decrease in cash and cash equivalents	**(26,193)**	(101,104)
Cash and cash equivalents at beginning of year	**338,353**	439,457
Cash and cash equivalents at end of year	**$ 312,160**	$ 338,353
Supplemental cash flow disclosures		
Cash received for interest from time deposits	**$ 2,717**	$ 1,037
Cash paid for interest on commercial paper	**$ 23,533**	$ 22,135

See accompanying notes to consolidated financial statements.

Siemens Capital Company LLC
(A Wholly Owned Subsidiary of Siemens Corporation)

Consolidated Statements of Changes in Member's Capital
(Dollars in Thousands)

	Member's Capital
Balance at September 30, 2015	$ 788,089
Net income	21,934
Siemens AG share-based compensation	10
OCI: Pension Liability Adjustment push down from Siemens Corporation, net of deferred taxes	(233)
Balance at September 30, 2016	809,800
Net income	**87,838**
Siemens AG share-based compensation	**(19)**
OCI: Pension Liability Adjustment push down from Siemens Corporation, net of deferred taxes	**(51)**
Balance at September 30, 2017	**$ 897,568**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
(Dollars in Thousands, Unless Otherwise Noted)

September 30, 2017

1. Business

Siemens Capital Company LLC

Siemens Capital Company LLC ("SCC" or the "Company") is registered to do business as a limited liability company in the State of Delaware, United States. The Company is located at 170 Wood Avenue South, Iselin, NJ 08830 and is a wholly-owned subsidiary of Siemens Corporation ("SC"), which is held by Siemens USA Holdings, Inc. ("SUSA"). SUSA is a wholly-owned subsidiary of Siemens Aktiengesellschaft ("Siemens AG"). Ultimately, the Company is owned by Siemens AG. The debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no member, manager, or officer of the Company shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a member, manager, and/or officer.

The Company operates within the Treasury Group under the Siemens Financial Services ("SFS") Division of Siemens AG ("SFS Treasury"). The Company is also referred to as the "Regional Treasury Center Americas". The primary purpose of the Company is to provide financing, interest rate, foreign exchange and credit risk management, as well as working capital solutions for the Siemens AG North American affiliates. Additionally, the Company supports the affiliates in South and Central America with their financing and treasury risk management needs. Furthermore, the Company provides services in investment management for the retirement plans of the Siemens AG North American affiliates and operates under the SFS Pension organization.

Siemens Credit Warehouse, Inc.

Siemens Credit Warehouse, Inc. ("SCWI") is a wholly-owned subsidiary of SCC. SCWI is responsible for the concentration of short-term trade receivables and improving the credit risk management of the Siemens U.S. affiliates. SCWI is also a potential source of liquidity through receivables-based financing. Any liquidity that would be realized through the internal sale of receivables would flow to the selling affiliates. Additionally, as the receivables are the property of SCWI, the liquidity from collections by the affiliates would flow to SCWI.

2. Basis of Presentation and Statement of Compliance

The accompanying consolidated financial statements present the operations of SCC and SCWI and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and as adopted by the European Union (EU).

The Company has applied all applicable standards and interpretations issued by the IASB, as approved by EU, that were effective as of the beginning of the Fiscal Year 2017 and 2016. The consolidated financial statements are generally prepared using amounts that approximate fair market value, except for long-term receivables from affiliates and liabilities to affiliates which are on the historical cost basis as stated in Note 3, Summary of Significant Accounting Policies and Critical Accounting Estimates.

SCC prepares and reports its consolidated financial statements in US dollars ($).

The Company presents its Balance Sheet in order of liquidity. Assets and liabilities that settle within one year after the reporting date and greater than one year after the reporting date have been classified as current and non-current, respectively.

The consolidated financial statements were authorized for issuance by Company's Management on November 22, 2017.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates

The accounting policies and estimates set forth below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, SCWI, over which the Company has control. The Company is exposed to, or has rights to, variable returns from the involvement with SCWI and it has the ability to use its power over SCWI to affect the amount of the Company's return. For the consolidated financial statements, all assets, liabilities, income, expenses and cash flows of SCC with those of SCWI are combined. Intra-group transactions and accounts are eliminated in consolidation.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

Use of Estimates

The preparation of financial statements in conformity with IAS 1, *Presentation of Financial Statements*, requires management to estimate the effects of uncertain future events on assets and liabilities at the balance sheet date in order to determine the carrying amounts of those assets and liabilities an entity shall disclose in the notes to consolidated financial statements.

Financial Assets and Financial Liabilities

Date of Recognition

Financial assets and liabilities are initially recognized on the trade date, i.e., when the Company becomes a party to the contractual provisions of the instrument or item. This includes regular way trades: purchases or sale of financial assets or liabilities that require delivery of assets and liabilities within the time frame generally established by regulation or convention in the market.

Initial Measurement of Financial Assets and Financial Liabilities

The classification of financial assets and liabilities at initial recognition depends on their purpose, characteristics and management's intention when transacting them. All financial assets and liabilities are recorded at fair value through profit or loss, except for long-term receivables from affiliates and liabilities to affiliates which are recorded at historical cost value.

Derecognition of Financial Assets and Financial Liabilities

Financial assets are derecognized when the rights to receive cash flows from the asset have expired, been modified, cancelled or if the assets have been transferred (i.e., all the risks and rewards or control of the asset) and qualifies for derecognition.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled, been modified or expired.

The difference between the carrying value of the original financial assets and liabilities and the consideration received or paid is recognized in profit or loss.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

Foreign Currency Transactions

Transactions that are denominated in a currency other than the functional currency of the Company and SCWI are recorded at that functional currency applying the spot exchange rate as of the date when the underlying transactions are initially recognized. At the end of the reporting period, foreign currency-denominated monetary assets and liabilities are re-valued to functional currency applying the spot exchange rate as of that date. Gains and losses arising from these foreign currency revaluations are recognized in Gain (loss) on financial instruments and are included in net income. Those foreign currency-denominated transactions which are classified as non-monetary are re-measured using the historical spot exchange rate.

Interest Income and Expense

Interest income and expense is recognized using the effective interest method. Interest income is accrued as earned and interest expense is accrued as incurred.

Other Income

Other income is for pension services provided to Siemens affiliates and is recognized when the services are performed. Other income also includes fees related to SCWI business activities and the Supply Chain Finance Programs which are recognized on an accrual basis in accordance with the Master Receivables Purchase agreement and service agreement with an external service provider as administrator, respectively.

General and Administrative Expenses

Operating expenses are recorded as incurred in conjunction with applicable accounting policy. Furthermore, operating expenses are assigned to the General and administrative expenses of the corresponding profit and cost centers.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

Income Taxes

The Company applies IAS 12, *Income Taxes* (IAS 12). The Company's results are included in the consolidated federal income tax return of Siemens Corporation. Income taxes are determined on a separate company basis, pursuant to a tax allocation agreement with Siemens Corporation.

The Company's provision for income taxes is calculated as if the Company filed a separate federal income tax return and based on a blended state income tax rate prescribed by Siemens Corporation which is different than the applicable statutory income tax rate. As further discussed in Note 6, income taxes have been determined under the asset and liability method of IAS 12, which requires that deferred income tax assets and liabilities be determined based upon the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect of deferred income tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of comprehensive income, unless related to items directly recognized in member's capital, in the period the new laws are substantively enacted. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against deductible temporary differences and unused tax losses; then enabling income tax credits to be utilized.

Cash and Cash Equivalents

All highly liquid investments within three months of maturity are considered as cash and cash equivalents and are measured at cost. Also included in cash and cash equivalents are accounts that are used on a daily basis to settle open futures transactions and to cover required initial margin.

Loans and Receivables

Financial assets which are primarily receivables from affiliates are classified as loans and receivables which are measured at amortized cost using the effective-interest method, less any impairment losses. Impairment losses on trade receivables are recognized using separate allowance accounts. Additional information regarding allowance accounts is discussed in Note 11.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

Financial Liabilities

The Company measures financial liabilities, except derivative financial instruments, at amortized cost using the effective-interest method. The financial liabilities primarily include liabilities to affiliates.

For working capital purposes, the Company issues commercial paper which typically has a maturity of less than 90 days and is recorded at a discount. The carrying amount of commercial paper on the balance sheet is equal to the face value less the amount of the discount.

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39), which requires that all derivative financial instruments, such as interest rate swap contracts and foreign currency exchange contracts, be recognized in the consolidated financial statements and be measured at fair value regardless of the purpose or intent for holding them. Changes in the fair value of derivative financial instruments are recognized in the consolidated statements of comprehensive income.

All derivatives are recognized in the consolidated balance sheets at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), and a foreign-currency fair-value or cash-flow hedge (foreign currency hedge). These derivative contracts expose the Company to the fair-value gain or loss of the hedging instrument if the counterparty fails to perform. The Company mitigates this risk by entering into transactions with affiliates and investment grade financial institutions.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

For those derivative instruments in which the Company wants to obtain hedge accounting under IAS 39, SCC, in coordination with SFS, formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions on behalf of the Company. This documentation is maintained by SCC and SFS. The process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings.

Additional information regarding the Company's objectives and strategies in respect to the management of foreign currency and interest rate risk, including the use of derivative instruments, is discussed in Note 18.

Other Liabilities – Pension, Other Postretirement and Other Benefit Plans

The Company participates in the trusteed contributory and noncontributory, qualified and nonqualified defined benefit (pension) plans, a defined contribution plan, and non-pension postretirement benefit plans that are sponsored by Siemens Corporation. The employee benefit plans' expenses are paid by Siemens Corporation and reimbursed by SCC. Pension expenses and related liabilities are recorded based on allocated amounts received from the North America Benefits Accounting organization on behalf of Siemens Corporation.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

The Company also participates in Siemens AG's share-based payment plans which include stock awards and a share matching plan. These share-based payment plans at Siemens AG are designed as equity-settled plans. Fair value is measured at grant date and is expensed over the vesting period. SCC incurs periodic cost, based on the set criteria, of these share-based payment plans for senior management and participating employees.

Accrued Liabilities

Accrued liabilities are recognized in the Consolidated Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Additions to accrued liabilities and reversals are generally recognized in the Consolidated Statements of Comprehensive Income.

Termination Benefits

Termination benefits are recognized in the period incurred and when the amount is reasonably estimable. Termination benefits in accordance with IAS19R, Employee Benefits, are recognized as a liability and an expense when the entity has demonstrated that it has committed itself, through a formal termination plan or otherwise created a valid expectation, to terminate employment before the normal retirement date.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of significant financial instruments at September 30, 2017 and 2016:

Long-Term Receivables from Affiliates and Liabilities to Affiliates: Long-term fixed-rate and variable-rate receivables from affiliates and liabilities to affiliates are evaluated by the Company based on parameters such as interest rates and specific country risk factors.

Short-Term Debt: The fair value of quoted notes and bonds is based on price quotations at the balance sheet date.

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

The Company limits default risks resulting from derivative financial instruments by a careful counterparty selection. Derivative financial instruments are generally transacted with financial institutions with investment grade credit ratings. The fair valuation of derivative financial instruments at Siemens incorporates all factors that market participants would consider, including the counterparties' credit risks. The calculation of fair values for derivative financial instruments depends on the type of instruments:

Derivative Interest Rate Contracts: The fair values of derivative interest rate contracts (e.g., interest rate swap agreements) are estimated by discounting expected future cash flows using current market interest rates and yield curves over the remaining term of the instrument. Interest rate futures and interest rate options are valued on the basis of quoted market prices when available. If quoted market prices are not available, interest rate options are valued based on option pricing models.

Derivative Currency Contracts: The fair value of forward foreign exchange contracts is based on forward exchange rates. Currency options are valued on the basis of quoted market prices or on estimates based on option pricing models.

In determining the fair values of the derivative financial instruments, certain compensating effects from underlying transactions (e.g., firm commitments and anticipated transactions) are not taken into consideration.

The levels of the fair value hierarchy and its application to our financial assets and liabilities are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

Recent Accounting Pronouncements Not Yet Adopted

The following pronouncements, issued by the IASB, are not yet effective and have not been adopted by the company:

In July 2014, the IASB completed its project to replace IAS 39, *Financial Instruments; Recognition and Measurement* by publishing the final version of IFRS 9: *Financial Instruments*. IFRS 9 introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks. The new standard is effective for annual reporting periods beginning on or after January 1, 2018, while early application is permitted. The European Financial Reporting Advisory Group postponed its endorsement advice on IFRS 9. The Company is scheduled to implement IFRS 9 on October 1, 2018. The Company does not anticipate that adopting the pronouncement would have a material impact on its financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers.* According to the new standard, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. IFRS 15 supersedes IAS 11, Construction Contracts and IAS 18, Revenue as well as related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted. The Company has assessed the pronouncement and determined that it is immaterial to SCC as most of our revenue is intercompany and eliminated at the consolidated level with our parent company.

In January 2016, the IASB issued the new standard for accounting for leases, IFRS 16, *Leases*. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right of-use assets. Lessees must apply a single model for all recognized leases,

3. Summary of Significant Accounting Policies and Critical Accounting Estimates (continued)

but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

In January 2016, through issuing amendments to IAS 12, *Income Taxes,* the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of the amendments.

4. Other Income

Included in other income is revenue related to Pension and In-house Treasury services from Siemens affiliates of $3,766 and $3,894 for fiscal 2017 and 2016, respectively. Also included in other income are fees from SCWI and Supply Chain Finance Program management activities in the amount of $1,780 and $1,652 for fiscal 2017 and 2016, respectively.

(Dollars in Thousands, Unless Otherwise Noted)

5. Gain (Loss) on Financial Instruments

Gain (loss) on financial instruments includes realized and unrealized foreign exchange transactions and interest rate derivatives gains and losses. Also see Note 18 for a description of the Company's risk management strategies.

Gain (loss) on financial instruments includes the following for the years ended September 30:

	2017	2016
Foreign exchange transactions results:		
Realized and unrealized derivatives results	**$ (32,427)**	$ (280,816)
Realized and unrealized balance sheet results	**11,291**	253,096
Realized foreign exchange options	**917**	–
Interest rate derivatives results:		
Unrealized fair value hedge accounting adjustment	**212,497**	(253,527)
Realized and accrued results – interest hedge accounting adjustment	**(41,964)**	(44,190)
Realized – Non hedge accounting results	**39,174**	6,743
Unrealized – Non hedge accounting results	**(164,181)**	232,843
Total gain (loss) on financial instruments	**$ 25,307**	$ (85,851)

6. Income Taxes

The Income tax provision consists of the following for the years ended September 30:

	2017	2016
Federal:		
Current	**$ 28,102**	$ 23,930
Deferred	**17,550**	(12,565)
State:		
Current	**5,040**	4,174
Deferred	**2,975**	(1,778)
Foreign:		
Current	**1,609**	1,164
Total	**$ 55,276**	$ 14,925

6. Income Taxes (continued)

Included in other current liabilities are federal, state, and foreign income taxes payable. The amount of income taxes payable as of September 30, 2017 and 2016 is $35,799 and $30,090, respectively.

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates expected to be in effect for the years in which the differences are expected to reverse. The federal and state deferred income tax assets and liabilities result principally from temporary differences between the book and tax bases of derivatives and unrealized foreign exchange (losses) gains on loan related items and accrued expenses.

The statutory income tax rate of 38.64% consists of a 35% Federal rate (33.04% with the State income tax deduction effect) and a 5.6% state income tax rate. The statutory State tax rate of 5.6% is prescribed by Siemens Corporation.

The Company's effective income tax rate differs from the expected statutory rate primarily as a result of the foreign and state income taxes provision and the recognition of foreign income tax credits. The effective income tax rate is approximately 38.6% and 40.5% for September 2017 and 2016, respectively.

In assessing the realization of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers the scheduled reversal of deferred income tax assets, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is probable that the Company will generate sufficient taxable income in future years to realize the benefit of the deferred income tax assets. The amount of deferred income tax assets as of September 30, 2017 and 2016 was $26,671 and $47,164.

(Dollars in Thousands, Unless Otherwise Noted)

6. Income Taxes (continued)

The following are the tax effects of temporary differences that comprise the deferred income tax assets at September 30:

		2017		2016
Net assets:				
Unrealized market value of derivative financial instruments	**$**	**121,458**	$	158,452
Unrealized foreign exchange losses on affiliate loans		**(99,980)**		(116,428)
Unamortized interest rate swap termination adjustment		**805**		1,652
Allowance for doubtful accounts		**443**		517
Accrued interest – foreign affiliates		**1,451**		590
Other accruals		**2,494**		2,381
Total deferred income tax assets	**$**	**26,671**	$	47,164

7. Cash and Cash Equivalents

The Company provides cash management services to affiliates and had cash and cash equivalents as of September 30, as follows:

		2017		2016
Cash in U.S. banks	**$**	**61,069**	$	67,331
Cash in foreign banks		**21,572**		26,078
Time deposits in U. S. and foreign banks with original maturity of less than 90 days		**226,844**		241,501
Cash in margin accounts		**2,675**		3,443
Total cash and cash equivalents	**$**	**312,160**	$	338,353

(Dollars in Thousands, Unless Otherwise Noted)

8. Related-Party Transactions

The Company is a member of a group of affiliated and associated companies and enters into extensive transactions with affiliated companies of Siemens Corporation and Siemens AG.

If there are no conflicting country-specific regulations within affiliates regions that are serviced by the Company, the respective affiliates generally obtain any required financing through the Company in the form of loans or intercompany clearing accounts. The same concept is adopted for deposits of cash generated by the affiliates.

The Company paid $28,104 and $9,355 of income taxes to Siemens Corporation, through the Siemens intercompany payment system, during the fiscal years ended September 30, 2017 and 2016 respectively. Siemens Corporation then submits the payment to the U.S. and State tax authorities on the Company's behalf. Furthermore, Siemens Corporation submits payments on behalf of the Company in the amount of $662 and $498 for the fiscal years ended September 30, 2017 and 2016 respectively, to the U.S. tax authority for applicable U.S. withholding income taxes.

The Company has a liability balance due to a non-consolidated affiliate in the amount of $89,887 in fiscal 2017. The balance is included in FY2017 Other Current Liabilities. The Company also has a receivable balance from a non-consolidated affiliate in the amount of $5,093 in fiscal 2016. The balance is included in FY2016 Other Current Assets.

9. Personnel Costs

The amounts disclosed in the following table are the amounts recognized as an expense related to personnel during the years ended September 30, 2017 and 2016:

	2017	2016
Wages and salaries	**$ 6,627**	$ 7,104
Statutory social welfare contributions and employee benefits	**1,230**	1,367
Expenses relating to pension plans and Other Post Employment Benefits (OPEB)	**103**	93
Total Personnel Costs	**$ 7,960**	$ 8,564

(Dollars in Thousands, Unless Otherwise Noted)

9. Personnel Costs (continued)

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of SCC and its employees. The Company considers senior management and the business area heads to be key management personnel. The aggregate compensation of key management personnel which includes salaries, expenses related to pension and employee benefits is $2,584 and $2,624 in fiscal 2017 and 2016, respectively. The accrued bonus of $608 and the actual bonus paid of $741 were included in fiscal 2017 and 2016 compensation, respectively. The annual bonus payment date is in December.

10. Receivables From Affiliates

The Company provides treasury group services to affiliates and as of September 30, 2017 and 2016, the Company had receivables from affiliates as follows:

	2017	**2016**
Receivables from affiliates due within one year (interest rates range from -0.25% to 9.1% in fiscal 2017 and -0.25% to 11.2% in fiscal 2016)	**$ 21,940,103**	$ 19,093,978
Receivables from affiliates due beyond one year (interest rates range from -0.20% to 7.97% in fiscal 2017 and -0.06% to 5.84% in fiscal 2016)	**16,856,051**	15,008,977

(Dollars in Thousands, Unless Otherwise Noted)

10. Receivables From Affiliates (continued)

Maturities of amounts due from affiliates for each of the following five fiscal years and thereafter are as follows:

	Amount
Fiscal year ending September 30:	
2018	$ 21,940,103
2019	1,901,070
2020	2,618,426
2021	977,206
2022	2,581,153
Thereafter	8,778,196

The balance composition of the receivables from affiliates due within one year is as follows:

	2017	2016
Healthcare Division	**$ 5,628,176**	$ 5,551,132
Siemens Corporation	**6,448,080**	6,167,653
Siemens Financial Services Division	**5,194,402**	4,348,850
Power and Gas Division	**2,957,622**	1,062,313
Digital Factory Division	**1,386,129**	1,419,480
Other Siemens Divisions	**325,694**	544,550
Total receivables from affiliates due within one year	**$ 21,940,103**	$ 19,093,978

(Dollars in Thousands, Unless Otherwise Noted)

10. Receivables From Affiliates (continued)

The balance composition of the receivables from affiliates due beyond one year is as follows:

	2017	2016
Siemens Financial Services Division	**$ 6,327,073**	$ 7,304,400
Power and Gas Division	**5,254,647**	7,001,073
Digital Factory Division	**4,500,000**	–
Other Siemens Divisions	**774,331**	703,504
Total receivables from affiliates due beyond one year	**$ 16,856,051**	$ 15,008,977

Interest income related to receivable from affiliates is as follows:

	2017	2016
Siemens Financial Services Division	**$ 209,259**	$ 163,124
Siemens Corporation	**132,107**	96,134
Power and Gas Division	**201,246**	183,910
Digital Factory Division	**119,553**	19,528
Healthcare Division	**96,725**	154,112
Other Siemens affiliates	**36,727**	30,521
Total interest income related to receivables from affiliates	**$ 795,617**	$ 647,329

11. Accounts Receivable, net

The Company has accounts receivable as a result of SCWI activities which involve purchasing third-party accounts receivable from U.S. affiliated companies of Siemens Corporation. A general allowance in the amount of the expected loss is recognized at month end. The basis for the calculation is the obligor’s risk rating (reflecting probability of default) and incorporates a loss percentage in event of default based on the rating class. Country risk and specific customer/transactional risks are also considered. Additionally, the Siemens Corporation affiliated companies act as collection agents on behalf of SCWI.

(Dollars in Thousands, Unless Otherwise Noted)

12. Other Current Assets

Other current assets are mainly receivables from a non-consolidated affiliate and program fees receivable from the Supply Chain Finance Program's external service provider. The need for a general allowance has been assessed and is currently not necessary.

13. Liabilities to Affiliates

Liabilities to affiliates include the following at September 30:

	2017	2016
Liabilities to affiliates due within one year (interest rates range from -1.14% to 7.85% in fiscal 2017 and -1.25% to 9.75% in fiscal 2016)	**$ 18,270,795**	$ 14,908,458
Liabilities to affiliates due beyond one year (interest rates range from 1.55% to 4.59% in fiscal 2017 and from 1.09% to 4.59 % in fiscal 2016)	**19,379,277**	18,425,351

Maturities of amounts due to affiliates for each of the following five fiscal years and thereafter are as follows:

	Amount
Fiscal year ending September 30:	
2018	$ 18,270,795
2019	3,107,757
2020	3,746,020
2021	399,480
2022	1,744,138
Thereafter	10,381,882

(Dollars in Thousands, Unless Otherwise Noted)

13. Liabilities to Affiliates (continued)

The balance composition of the liabilities to affiliates due within one year is as follows:

	2017	2016
Corporate related affiliates	**$ 8,540,536**	$ 8,531,409
Siemens Financieringsmaatschappij N.V.	**6,696,108**	3,779,904
Healthcare Division	**1,159,660**	1,179,747
Power and Gas Division	**845,402**	757,401
Other Siemens affiliates	**1,029,089**	659,997
Total liabilities to affiliates due within one year	**$ 18,270,795**	$ 14,908,458

The balance composition of the liabilities to affiliates due beyond one year is as follows:

	2017	2016
Siemens Financieringsmaatschappij N.V.	**$ 14,296,270**	$ 17,947,997
Siemens Finance B.V., Den Haag	**4,822,128**	3,978
Liabilities to affiliates due beyond one year before hedge accounting	**19,118,398**	17,951,975
Hedge Accounting Adjustment	**260,879**	473,376
Total liabilities to affiliates due beyond one year	**$ 19,379,277**	$ 18,425,351

Interest expense related to liabilities to affiliates is as follows:

	2017	2016
SFM and SF BV	**$ 576,866**	$ 467,495
Corporate related affiliates	**90,058**	50,195
Siemens AG	**3,887**	10,068
Other Siemens affiliates	**19,826**	11,679
Subtotal interest expense before hedge accounting	**690,637**	539,437
Hedge Accounting interest adjustment – Siemens AG	**(41,964)**	(44,190)
Total interest expense related to liabilities to affiliates	**$ 648,673**	$ 495,247

13. Liabilities to Affiliates (continued)

As of September 30, 2017 and 2016, the Company has $20,989,565 and $21,621,496 loans payable within and beyond one year to Siemens Financieringsmaatschappij N.V. (SFM). Borrowings from SFM consist of both floating as well as fixed rate loans. Additionally, as a result of Mentor Graphics acquisition in March 2017, the Company has $4,822,128 long term loans payable to Siemens Finance B.V. (SF BV) as of September 30, 2017.

On February 16, 2012, the Company entered into a $1,404,000 term loan with SFM maturing on August 16, 2019. Additionally, on February 16, 2012, the Company entered into an interest rate swap for $1,404,000 with Siemens AG to hedge the interest rate risk associated with the aforementioned term loan.

On September 10, 2012, the Company entered into a £350,000 term loan with SFM maturing on September 10, 2025, and a £650,000 term loan with SFM maturing on September 10, 2042. Additionally, on September 10, 2012, SCC entered into a £350,000 and £650,000, USD and Pound Sterling (GBP) cross-currency interest rate swaps and GBP interest rate swaps with Siemens AG that both mature on September 10, 2025 and September 10, 2042, respectively to hedge the foreign exchange and interest rate risk associated with the above GBP loans.

Effective October 1, 2012, the Company implemented hedge accounting for the above fixed-rate £1,000,000 borrowing and related interest rate swap hedges. Hedge accounting adjustments of $184,970 and $(257,368) in fiscal 2017 and 2016, respectively are included in the carrying amount of the debt obligations as a result of the gains recorded in fiscal 2017 and 2016, respectively.

Effective October 1, 2013, the Company implemented hedge accounting for the above fixed-rate $1,404,000 borrowing and related interest rate swap hedge. Hedge accounting adjustments including ineffectiveness of $27,527 and $3,842 are included in the carrying amount of the debt obligations as a result of the (losses) and gains recorded in fiscal 2017 and fiscal 2016, respectively.

For more information, please see Note 18, Derivative Financial Instruments and Hedging Activities.

(Dollars in Thousands, Unless Otherwise Noted)

13. Liabilities to Affiliates (continued)

The Company has recorded an unrealized fair market value gain and (loss) of $40,804 and $(238,136) as of September 30, 2017 and 2016, in connection with the cross-currency interest rate swaps which is included in Gain (loss) on financial instruments.

SCC has entered into master loan agreements with SFM and SF BV and intends to continue obtaining funding from SFM and SF BV. SFM and SF BV have agreed that any subsequent lending to SCC by SFM and SF BV will be continued for periods exceeding twelve months from September 30, 2017. The loans payable to SFM and SF BV are guaranteed by Siemens Corporation in agreements dated August 18, 2015 and September 19, 2017, respectively. Siemens Corporation guarantees SFM and SF BV loans for up to a maximum value of $25,000,000 through September 30, 2020 and $20,000,000 through September 30, 2022, respectively.

14. Short-Term Debt

The outstanding balance of short-term debt consists of the following at September 30:

	2017		**2016**	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Commercial paper (Interest rate is 1.26% in fiscal 2017 and 0.74% in 2016)	**$ 722,244**	**$ 719,751**	$ 701,341	$ 700,000

Commercial Paper Program

For working capital purposes, the Company has agreements with financial institutions under which it may issue up to $9,000,000 of commercial paper under a global multi-currency commercial paper program including the ability to issue USD extendable notes, guaranteed by Siemens AG. In fiscal 2017 and 2016, the Company issued commercial paper in varying amounts to fund the ongoing short-term capital requirements of the Siemens North American affiliates. Typically, these commercial paper issuances have a maturity of less than 90 days. Interest rates ranged from 0.37% to 1.47% in fiscal 2017 and 0.13% to 0.74% in fiscal 2016. The total interest expense on commercial paper is $23,591 and $22,135 in fiscal 2017 and 2016, respectively.

14. Short-Term Debt (continued)

Credit Facilities

The Company participates in three credit facilities which are available for general corporate purposes. The credit facilities as of September 30, 2017 and 2016 consisted of $8,253,670 and $7,966,645, respectively in committed unused lines of credit.

There is a €4,000,000 syndicated multi-currency revolving credit facility provided by a syndicate of international banks that was extended, in 2016, by one year until June 25, 2021.

These facilities also included a $3,000,000 syndicated multi-currency revolving credit facility provided by a syndicate of international banks that matures on September 27, 2020.

Lastly, the Company participates in a €450,000 revolving bilateral credit facility provided by a German-based bank that is unused and was extended from September 30, 2017 to September 29, 2018.

Debt Issuance Program

The Company also participates in a Debt Issuance Program with Siemens AG as lead sponsor, whereby the Company may issue up to €15,000,000 of debt instruments. Currently, the Company does not have any debt instruments issued or outstanding under the program. All debt instruments are unconditionally and irrevocably guaranteed by Siemens AG.

15. Other Current Liabilities

Included in Other current liabilities are liabilities to a non-consolidated affiliate , income taxes payable as well as checks and wire transfer payments that are outstanding due to timing. The Company processes payments on behalf of the Siemens North American affiliates through Siemens AG's in-house banking systems.

16. Accrued Liabilities

Accrued liabilities are mainly related to employee bonuses and fringe benefits. At September 30, 2017 and 2016, the accrued bonus expenses are $1,604 and $1,609, respectively. Fringe benefits include items such as employee payroll taxes, insurance, health and welfare related costs. At September 30, 2017 and 2016, the accrued fringe benefits is $3,826 and $3,732, respectively. Other accrued liabilities include liabilities related to vacation, salary and bank fees.

17. Other Liabilities

Other liabilities primarily consist of liabilities related to pension and other post retirement benefit plans. At September 30, 2017 and 2016, the Company's pension plan and other postemployment liabilities was $1,883 and $1,837, respectively.

18. Derivative Financial Instruments and Hedging Activities

As part of the Company's risk management program, a variety of derivative financial instruments are used to reduce risks related to foreign currency exchange rates and interest rates, as well as to reduce credit risk. The following is a summary of the Company's risk management strategies and the effect of these strategies on the consolidated financial statements:

Increasing market fluctuations may result in significant cash flow and earnings volatility risk for the Company. The Company's operating business as well as its investment and financing activities are affected by changes in foreign exchange rates and interest rates. The Company seeks to manage and control these risks primarily through its regular operating and financing activities, and uses derivative financial instruments when deemed appropriate.

In order to quantify market risks Siemens has implemented a system based on parametric variance-covariance Value at Risk (VaR). The concept of VaR is used for internal management of the treasury activities. The VaR figures are calculated based on historical volatilities and correlations of various risk factors, a ten day holding period, and a 99.5% confidence level.

Actual results that are included in the consolidated statements of comprehensive income may differ substantially from VaR figures due to fundamental conceptual differences. While the Consolidated Statements of Comprehensive Income are prepared in accordance with IFRS, the VaR figures are the output of a model with a purely financial perspective and represent the potential financial loss which will not be exceeded within ten days with a probability of 99.5%. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations such as a ten day holding period which assumes that it is possible to dispose of the underlying positions within this period. This may not be valid during continuing periods of illiquidity in the market. A 99.5% confidence level means that there is a 0.5% statistical probability that losses could exceed the calculated VaR. The use of historical data as a basis for estimating the statistical behavior of the relevant markets and finally determining the possible range of the future outcomes on the basis of this statistical behavior may not always cover all possible scenarios, especially those of an exceptional nature.

18. Derivative Financial Instruments and Hedging Activities (continued)

Foreign Currency Exchange Risk Management

Siemens has a company-wide portfolio approach which generates a benefit from any potential off-set of divergent cash flows in the same currency, as well as optimized transaction costs.

Acting in a centralized treasury capacity primarily on behalf of the Siemens AG North American affiliates, SCC assumes the risk of fluctuations of foreign currencies that arise from the international activities of these companies by entering into foreign exchange rate derivative contracts with the respective entities. Additional foreign exchange rate risk exists on the Company's foreign currency denominated liabilities to affiliates. The Company mitigates its foreign currency exchange rate exposure associated with fluctuations in foreign currency denominated intercompany borrowings and foreign currency exchange contracts with affiliates by entering into foreign exchange and cross-currency interest rate derivatives with unrelated third-party financial institutions and Siemens AG. The affiliate and third-party derivative financial instruments are recorded at fair value in the consolidated balance sheets, and the changes in fair value are included in the consolidated statements of comprehensive income in accordance with IAS 39.

Transaction Risk and Currency Management

Siemens AG's international operations expose the Company to foreign currency exchange risks in the ordinary course of business. The Company employs various strategies discussed below involving the use of derivative financial instruments to mitigate or eliminate certain of those exposures.

Foreign exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. Each Siemens affiliate conducting business with international counterparties that leads to future cash flows denominated in a currency other than its functional currency is exposed to the risk from changes in foreign exchange rates.

Each Siemens affiliate is responsible for recording, assessing, monitoring, reporting, and hedging its foreign currency transaction exposure. The Siemens AG guidelines, for its subsidiaries, provide the concepts for the identification and determination of the single net currency position

18. Derivative Financial Instruments and Hedging Activities (continued)

and mandates companies hedge: at least 75% but no more than 100% of their net foreign currency exposure. In addition, the Corporate Finance department of Siemens AG provides a framework of the organizational structure necessary for foreign currency exchange management, proposes hedging strategies, and defines the hedging instruments available to the entities: spot contracts, forward contracts, currency swaps, currency put and call options and stop-loss orders. The execution of the hedging transactions in the global financial markets is done by the Company as a service provider primarily for the Siemens AG North American affiliates on behalf of the worldwide Corporate Treasury function.

The VaR relating to foreign currency exchange rates is calculated by using the net currency positions, in each currency, after hedging. The VaR based on a ten day holding period and a confidence level of 99.5% resulted in a VaR of $481 as of September 30, 2017, compared to a VaR of $310 as of September 30, 2016. Changes in USD values of future cash flows denominated in foreign currency due to volatile foreign exchange rates might influence the unhedged net positions.

Within the various methodologies to analyze and manage risk, Siemens AG implemented a system based on “sensitivity analysis”. This tool enables the Company to identify its risk position and evaluate the exposure in the event that certain specified parameters were to be met. The risk estimate provided here assumes foreign exchange rates for all currencies depreciating by 10% against the USD.

The Company aggregates the net foreign exchange rate exposure of its operations. As of September 30, 2017 and 2016, a 10% negative shift of the USD against all foreign currencies would have resulted in an insignificant change in future cash flows for fiscal years 2017 and 2016, respectively. Future changes in the foreign exchange rates can impact net income (loss), the extent of which is determined by the matching of foreign currency gains and losses.

Siemens defines foreign currency exposure generally as balance sheet items in addition to foreign currency denominated cash inflows and cash outflows from future transactions. This foreign currency exposure is determined based on the respective functional currencies used by the Company.

18. Derivative Financial Instruments and Hedging Activities (continued)

The table below shows the net foreign exchange transaction exposure by major currencies as of September 30:

	2017						
	EUR	CAD	MXN	GBP	AUD	Other	Total
				(In Millions USD)			
Balance sheet – financial receivables	**$ 309**	**$ 1,245**	**$ 174**	**$ 279**	**$ 247**	**$ 48**	**$ 2,302**
Balance sheet – financial liabilities	**(233)**	**(511)**	**(90)**	**(2,000)**	**(167)**	**(51)**	**(3,052)**
Net balance sheet exposure	**76**	**734**	**84**	**(1,721)**	**80**	**(3)**	**(750)**
Foreign exchange transaction exposure – third parties	**338**	**(950)**	**–**	**159**	**(83)**	**98**	**(438)**
Foreign exchange transaction exposure – affiliates	**(415)**	**208**	**(84)**	**1,567**	**4**	**(96)**	**1,184**
Economically hedged exposure	**$ (77)**	**$ (742)**	**$ (84)**	**$ 1,726**	**$ (79)**	**$ 2**	**$ 746**
Change in future cash flows after hedging activities resulting from a 10% depreciation of the USD	**$ –**	**$ (1)**	**$ –**	**$ 1**	**$ –**	**$ –**	**$ –**

	2016						
	EUR	CAD	MXN	GBP	AUD	Other	Total
				(In Millions USD)			
Balance sheet – financial receivables	$ 305	$ 1,381	$ 146	$ 283	$ 415	$ 141	$ 2,671
Balance sheet – financial liabilities	(291)	(324)	(85)	(2,212)	(262)	(166)	(3,340)
Net balance sheet exposure	14	1,057	61	(1,929)	153	(25)	(669)
Foreign exchange transaction exposure – third parties	379	(1,077)	203	121	(158)	173	(359)
Foreign exchange transaction exposure – affiliates	(395)	13	(263)	1,821	5	(148)	1,033
Economically hedged exposure	$ (16)	$ (1,064)	$ (60)	$ 1,942	$ (153)	$ 25	$ 674
Change in future cash flows after hedging activities resulting from a 10% depreciation of the USD	$ –	$ (1)	$ –	$ 1	$ –	$ –	$ –

18. Derivative Financial Instruments and Hedging Activities (continued)

As of September 30, 2017 and 2016, the Company had forward foreign exchange contracts outstanding with total notional USD equivalent amounts of $9,027,331 and $10,005,494 and had unrealized net losses of $302,556 and $327,219 in 2017 and 2016, respectively. The foreign exchange contracts outstanding include a total notional USD equivalent of $3,169,773 and $3,607,041 which had unrealized net (losses) gains of $(23,000) and $36,110 in 2017 and 2016, respectively, related to the Siemens AG North American Affiliates. The foreign exchange contracts also include a cross currency interest rate swap of $1,584,000 in both 2017 and 2016 which had unrealized net losses of $293,657 and $334,461 in 2017 and 2016, respectively, related to Siemens AG. The fair value of the above forward foreign exchange contracts is reflected in Positive fair value of derivatives of $175,401 and $165,404 as of September 30, 2017 and 2016, respectively, and in Negative fair value of derivatives of $477,963 and $492,624 as of September 30, 2017 and 2016, respectively.

Interest Rate Risk Management

Interest rate risk arises from the sensitivity of financial assets and liabilities to changes in interest rates. To optimize the Company's position with regard to interest income and interest expense and to minimize the overall financial interest rate risk, SFS Treasury and the Company manages interest rate risk. Part of the interest rate risk management concept is to match interest maturities of hedges with the intended maturities of assets and liabilities.

Market fluctuations in interest rates are not expected to change net interest income significantly since both financial assets and liabilities are affected. The Company mitigates interest rate risk by entering into interest rate derivative financial instruments, mainly interest rate swaps and U.S. Treasury futures, and to a lesser extent, cross currency swaps, forward rate agreements and interest rate caps. Interest rate swap agreements are used to economically hedge a portion of the Company's receivables and debt that is subject to variable or fixed interest rates.

Assuming historical volatilities and correlations, a ten day holding period and a confidence level of 99.5% the VaR on the interest rate portfolio was $39,442 as of September 30, 2017, decreasing from the comparable VaR of $46,256 as of September 30, 2016.

This interest rate risk is also related to the USD and GBP denominated long-term fixed rate liabilities to SFM.

18. Derivative Financial Instruments and Hedging Activities (continued)

Fair-Value Hedging of Fixed-Rate Debt Obligations

Interest rate swap contracts are reflected at fair value in the Company's consolidated balance sheets. For those hedging relationships that qualify for fair-value hedging under IAS 39, the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its book value and an amount representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts, and the offsetting changes in the adjusted carrying value of the related portion of the fixed-rate debt being hedged, are recognized in the consolidated statements of comprehensive income as adjustments to Gain (loss) on financial instruments.

Effective October 1, 2012, the Company implemented hedge accounting for its fixed-rate £1,000,000 borrowing which are mentioned in Note 13.

Effective October 1, 2013, the Company implemented hedge accounting for its fixed-rate $1,404,000 borrowing which is also mentioned in Note 13.

Adjustments in the carrying amount of the debt obligations resulted in a gain (loss) of $219,123 and $(255,575) in fiscal 2017 and 2016, respectively. The related swap agreements with notional values of $2,742,883 and $2,700,238 resulted in a (loss) gain of $(217,340) and $256,664 in fiscal 2017 and 2016, respectively. Accordingly, the net effect recognized in Gain (loss) on financial instruments excluding the ineffective portion of the hedging relationship, amounts to $1,783 and $1,089 for fiscal 2017 and 2016, respectively. The hedging ineffectiveness for fiscal 2017 and 2016 is $6,626 and $(2,049), respectively. Net cash receipts and payments relating to such interest rate swap agreements are also recorded in Gain (loss) on financial instruments.

Additionally, the positive market value difference at inception, October 1, 2012, amounted to $28,238 which is amortized using the effective yield method over the original 13 and 30 years life of the £1,000,000 loans. The positive market value difference at inception, October 1, 2013, amounted to $9,197 which is amortized using the effective yield method over the original six years life of the $1,404,000 loan. The amortization amount included in the above noted adjustments in the carrying amount of the debt obligations for fiscal 2017 and 2016 was $2,345 and $2,437, respectively which is recognized in the consolidated statements of comprehensive

18. Derivative Financial Instruments and Hedging Activities (continued)

income as adjustments to Gain (loss) on financial instruments. The remaining unamortized positive market value difference regarding the loans as of September 30, 2017 and 2016 is $26,516 and $28,861, respectively which will be amortized over the remaining life of the loans as stated above.

Non-Hedging Interest Rate Derivative Financial Instruments

The Company had interest rate swap contracts to pay variable rates of interest of an average of 2.48% and 2.42% as of September 30, 2017 and 2016, respectively and receive rates of interest of an average rate of 1.35% and 0.75% as of September 30, 2017 and 2016, respectively regarding the hedging of both receivables to and liabilities from affiliates. As of September 30, 2017 and 2016, the Company had external interest rate swap contracts outstanding with notional amounts of $164,054 and $356,627, respectively, hedging receivables from affiliates. The notional amount of indebtedness with economic hedges as of September 30, 2017 and 2016, was $1,765,437 and $1,137,928, respectively and is related to interest rate swaps with Siemens AG. The notional amount of interest rate futures contracts as of September 30, 2017 and 2016 was $1,177,412 and $1,546,279, respectively.

The notional amounts of these contracts mature at varying dates based on the maturity of the underlying hedged items. All interest rate derivative instruments that do not qualify for hedge accounting are recorded at net fair value (including accrued interest) with the changes in fair value (including accrued interest) recognized in Gain (loss) on financial instruments. The fair value of these derivatives is reflected in Negative fair value of derivatives in the amount of $37,915 and $87,311 at September 30, 2017 and 2016, respectively, and Positive fair value of derivatives in the amount of $2,288 and $300 at September 30, 2017 and 2016, respectively. For the years ended September 30, 2017 and 2016, there were $45,544 and $(58,155), respectively, of net realized and unrealized gains (losses) related to interest rate derivatives included in Gain (loss) on financial instruments.

(Dollars in Thousands, Unless Otherwise Noted)

18. Derivative Financial Instruments and Hedging Activities (continued)

The Company's derivative financial instruments have various maturities with an ultimate maturity of greater than ten years. The following is a table of derivative instruments outstanding notional volumes as of September 30:

	2017	2016
Derivatives designated as hedging instruments under IAS 39		
Interest rate swap contracts	**$ 2,742,883**	$ 2,700,238

	2017	2016
Derivatives not designated as hedging instruments under IAS 39		
Interest rate swap contracts	**$ 1,929,491**	$ 1,494,555
Foreign exchange contracts	**9,027,331**	10,005,494
Futures contracts	**1,177,412**	1,546,279
Total	**$ 12,134,234**	$ 13,046,328

The following are fair values of each type of derivative financial instrument as of September 30:

	Positive Fair Value of Derivatives		Negative Fair Value of Derivatives	
	2017	2016	2017	2016
	Fair Value	Fair Value	Fair Value	Fair Value
Derivatives designated as hedging instruments under IAS 39				
Interest rate contracts	**$ 268,789**	$ 486,816	**$ –**	$ –

(Dollars in Thousands, Unless Otherwise Noted)

18. Derivative Financial Instruments and Hedging Activities (continued)

	Positive Fair Value of Derivatives		Negative Fair Value of Derivatives	
	2017	**2016**	**2017**	**2016**
	Fair Value	**Fair Value**	**Fair Value**	**Fair Value**
Derivatives not designated as hedging instruments under IAS 39				
Interest rate swaps	**$ 2,288**	$ 300	**$ 37,915**	$ 87,311
Foreign exchange contracts	**175,401**	165,404	**477,963**	492,624
Total	**$ 177,689**	$ 165,704	**$ 515,878**	$ 579,935

The following are the effect of the derivative instruments in the consolidated statements of income for the years ended September 30:

Derivatives Not Designated as Hedging Instruments Under IAS 39	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income 2017	2016
Interest rate swaps and futures contracts	Gain (loss) on financial instruments	**$ 45,544**	$ (58,155)
Foreign exchange contracts	Gain (loss) on financial instruments	**(32,427)**	(280,816)
Total		**$ 13,117**	$ (338,971)

19. Financial Risk Management

Credit Risk Management

The effective monitoring and controlling of credit risk is a core competency of Siemens AG's risk management system. Siemens AG has implemented a worldwide binding credit policy.

Credit evaluations and/or ratings are performed on all counterparties with an exposure or requiring credit beyond a defined limit.

19. Financial Risk Management (continued)

Counterparty ratings are analyzed and defined by a designated Siemens AG department. Individual counterparty limits are based on generally accepted rating methodologies, the input from external rating agencies and Siemens AG's default experiences. Such ratings are processed by internal risk assessment specialists. Ratings and credit limits are carefully considered in determining the conditions to enter into derivative contracts with counterparties. The Company does not net outstanding derivatives positions with the same counterparties.

The Company has a concentration of credit risk with its Receivables from affiliates and Long-term receivables from affiliates which are viewed as Siemens intercompany positions. The Company does not establish an allowance related to Receivables from affiliates.

The maximum credit exposure for all financial assets is the fair value amount that is equivalent to historical cost on the balance sheet, except for Long-term receivables from affiliates which is at the carrying value. The Company typically does not require collateral from counterparties. The Company also uses its centralized financing and investment management system and activities to manage the risk associated with SCWI third-party accounts receivable purchasing activities from the Siemens Corporation affiliates.

Liquidity Risk Management

Liquidity risk results from the Company's potential inability to meet its financial liabilities including settlement of its financial debt, or for ongoing cash requirements from operating activities. Because the Company's funding is primarily through its affiliates, the liquidity risk is that funding may not be available to the Company to enable it to meet its obligations if the affiliates are unable or unwilling to provide the necessary funding. The Company has $21 billion and $4.8 billion of loans due to SFM and SF BV, respectively as of September 30, 2017 primarily assumed to fund continuing operations. The Company has agreed with SFM and SF BV that SFM and SF BV will not demand repayment of any portion of the balance outstanding or repayment of any such additional funds as maybe required by the Company on or prior to October 1, 2018.

In addition to effective net working capital and cash management, the Company mitigates liquidity risk through parent company financing and arranged borrowing facilities with highly rated financial institutions, via a debt issuance program and via a global multicurrency commercial paper program. The Company's third-party financing is guaranteed by Siemens AG.

19. Financial Risk Management (continued)

The Company's capital resources consist of a variety of short-term and long-term financial instruments including, but not limited to, loans from financial institutions, commercial paper, as well as credit facilities. In addition to cash and cash equivalents, liquid resources consist of future cash flows from operating activities.

20. Fair Value of Financial Instruments

IFRS 7, *Financial Instrument Disclosure*, requires an entity to disclose the fair value of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the consolidated balance sheets. The estimation of fair values of financial instruments is based on comparable transactions, discounted future cash flows, quoted market prices, and/or estimates of the costs to terminate or otherwise settle comparable contracts. Assets and liabilities that are reflected in the consolidated financial statements at fair value, or at a carrying amount that approximates fair value, are not included in the table contained herein. Such assets and liabilities include cash and cash equivalents, Receivables from affiliates – current, Accounts receivable-net, Positive fair value of derivatives, Other current assets, Deferred income tax assets, Liabilities to affiliates – current, Accrued liabilities, Negative fair value of derivatives, Other current liabilities, and Other liabilities.

The fair value estimates made at September 30, 2017 and 2016, were based upon pertinent market data and relevant information on the financial instrument at that time. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire portion of the financial instrument. Since no market exists for a portion of the financial instruments, fair value estimates may be based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

(Dollars in Thousands, Unless Otherwise Noted)

20. Fair Value of Financial Instruments (continued)

The following table presents the carrying values and fair values of the Company's financial instruments at September 30:

	2017		2016	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial instruments included in the consolidated balance sheets:				
Assets:				
Long-term receivables from affiliates	**$ 16,856,051**	**$ 18,743,725**	$ 15,008,977	$ 16,788,400
Liabilities:				
Short-term debt	**719,751**	**722,244**	700,000	701,341
Long-term liabilities to affiliates	**19,379,277**	**21,479,244**	18,425,351	20,556,594

The following table allocates the Company's financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy as of September 30:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Long-term receivables from affiliates	**$ –**	**$ 18,743,725**	**$ –**	**$ 18,743,725**
Derivative financial instruments	**–**	**446,484**	**–**	**446,484**
Total	**$ –**	**$ 19,190,209**	**$ –**	**$ 19,190,209**
Financial liabilities measured at fair value:				
Short-term debt	**$ –**	**$ 722,244**	**$ –**	**$ 722,244**
Long-term liabilities to affiliates	**–**	**21,740,123**	**–**	**21,740,123**
Derivative financial instruments	**–**	**515,878**	**–**	**515,878**
Total	**$ –**	**$ 22,978,245**	**$ –**	**$ 22,978,245**

(Dollars in Thousands, Unless Otherwise Noted)

20. Fair Value of Financial Instruments (continued)

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Long-term receivables from affiliates	$ –	$ 16,788,400	$ –	$ 16,788,400
Derivative financial instruments	–	652,502	–	652,502
Total	$ –	$ 17,440,902	$ –	$ 17,440,902
Financial liabilities measured at fair value:				
Short-term debt	$ –	$ 701,341	$ –	$ 701,341
Long-term liabilities to affiliates	–	21,029,970	–	21,029,970
Derivative financial instruments	–	579,935	–	579,935
Total	$ –	$ 22,311,246	$ –	$ 22,311,246

The Company did not hold any Level 1 and 3 assets or liabilities in fiscal 2017 and 2016.

21. Commitments and Contingencies

SCC incurs rental costs associated with its primary location in Iselin, New Jersey, from Siemens Real Estate, a division of Siemens Corporation. In addition to the rental payments, the payment of property taxes, assessments, and maintenance costs are required.

The net rental payments were $532 and $665 for fiscal 2017 and 2016, respectively. At September 30, 2017, the future minimum rental payments, excluding renewal options, are $622 under these leases maturing on September 30, 2018.

22. Member's Capital

The Company is a limited liability company directly and wholly owned by Siemens Corporation who is its sole member. The Company has no shares and no authorized share capital as of September 30, 2017 and 2016.

23. Subsequent Events

The Company has evaluated subsequent events through November 22, 2017, and has determined that no subsequent events have occurred that would require disclosure in the consolidated financial statements or accompanying notes.