CONSOLIDATED FINANCIAL STATEMENTS

Siemens Capital Company LLC
(A Wholly Owned Subsidiary of Siemens Corporation)
Years Ended September 30, 2018 and 2017
With Report of Independent Auditors

Siemens Capital Company LLC
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Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

Contents

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Report of Independent Auditors

To the Member of
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, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in member's equity and 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 consolidated 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.

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, 2018 and 2017, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with International Financial Reporting Standards.

Ernst & Young LLP

November 20, 2018

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

Consolidated Balance Sheets

(Dollars in Thousands)

	Note	September 30 2018	2017
Assets			
Current assets:			
Cash and cash equivalents	7	**$ 157,065**	$ 312,160
Receivables from affiliates	10	**14,875,839**	21,940,103
Accounts receivable, net	11	**-**	373,657
Positive fair value of derivatives	18, 20	**385,055**	446,484
Other current assets	12	**571**	328
Total current assets		**15,418,530**	23,072,732
Non-current assets:			
Long-term receivables from affiliates	10	**15,877,182**	16,856,051
Deferred income tax assets	6	**6,867**	26,671
Total non-current assets		**15,884,049**	16,882,722
Total assets		**$ 31,302,579**	$ 39,955,454
Liabilities and Member's Equity			
Current liabilities:			
Liabilities to affiliates	13	**$ 13,121,111**	$ 18,270,795
Accrued liabilities	9, 16	**5,753**	6,197
Negative fair value of derivatives	18, 20	**492,253**	515,878
Short-term debt	14	**700,001**	719,751
Other current liabilities	15	**70,003**	164,105
Total current liabilities		**14,389,121**	19,676,726
Non-Current Liabilities:			
Long-term liabilities to affiliates	13	**15,937,309**	19,379,277
Other liabilities	17	**1,247**	1,883
Total non-current liabilities		**15,938,556**	19,381,160
Total liabilities		**30,327,677**	39,057,886
Member's equity	22	**974,902**	897,568
Total liabilities and member's equity		**$ 31,302,579**	$ 39,955,454

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 2018	2017
Interest income	10	**$ 970,864**	$ 798,347
Interest expense	13, 14	**(861,876)**	(672,344)
Net interest income		**108,988**	126,003
Gain on financial instruments, net	5	**19,750**	25,307
Other income	4	**4,322**	5,546
General and administrative expenses	9	**(13,599)**	(13,742)
Income before income taxes		**119,461**	143,114
Income tax provision	6	**(41,975)**	(55,276)
Net income		**77,486**	87,838
Other comprehensive income:			
Deferred income tax on pension plan remeasurement due to tax reform		**(197)**	–
Pension plan actuarial gain (loss), net of tax		**77**	(51)
Total comprehensive income, net of tax		**$ 77,366**	$ 87,787

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	
	2018	**2017**
Operating activities		
Net income	**$ 77,486**	$ 87,838
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred tax expense	**19,559**	20,525
Unrealized market value gain on derivative financial instruments	**(24,451)**	(131,098)
Unrealized foreign exchange gain on affiliate loans	**(520)**	(49,162)
(Reversal of) Provision for allowance for doubtful accounts	**(1,147)**	190
Depreciation expense	**–**	5
Decrease (Increase) in operating assets:		
Receivables from affiliates	**8,077,871**	(4,686,605)
Accounts receivables	**374,804**	(19,658)
Net fair value of derivatives	**62,255**	273,058
Other assets	**(242)**	6,146
(Decrease) increase in operating liabilities:		
Accrued liabilities	**(444)**	227
Pension liabilities	**(120)**	(51)
Other liabilities	**(94,524)**	93,809
Net cash provided by (used in) operating activities	**8,490,527**	(4,404,776)
Financing activities		
(Payments of) proceeds from short-term debt	**(19,750)**	19,751
(Payments of) proceeds from liabilities to affiliates, net	**(8,625,872)**	4,358,832
Net cash (used in) provided by financing activities	**(8,645,622)**	4,378,583
Net decrease in cash and cash equivalents	**(155,095)**	(26,193)
Cash and cash equivalents at beginning of year	**312,160**	338,353
Cash and cash equivalents at end of year	**$ 157,065**	$ 312,160
Supplemental cash flow disclosures		
Cash received for interest from time deposits	**$ 3,661**	$ 2,717
Cash paid for interest on commercial paper	**$ 65,786**	$ 23,533

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 Equity

(Dollars in Thousands)

	Member's Capital			Accumulated	
	Common Stock	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Losses**	**Total Member's Equity**
Balance at September 30, 2016	$ 1	$ 245,207	$ 565,532	$ (940)	$ 809,800
Net income	–	–	87,838	–	87,838
Siemens AG share-based compensation expense, net of tax	–	–	(19)	–	(19)
Pension plan actuarial loss, net of tax	–	–	–	(51)	(51)
Balance at September 30, 2017	1	245,207	653,351	(991)	897,568
Net income	**–**	**–**	**77,486**	**–**	**77,486**
Siemens AG share-based compensation expense, net of tax	**–**	**–**	**(32)**	**–**	**(32)**
Pension plan actuarial gain, net of tax	**–**	**–**	**–**	**77**	**77**
Remeasurement of deferred income tax on pension plan due to tax reform	**–**	**–**	**–**	**(197)**	**(197)**
Balance at September 30, 2018	**$ 1**	**$ 245,207**	**$ 730,805**	**$ (1,111)**	**$ 974,902**

See accompanying notes to consolidated financial statements.

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

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

September 30, 2018

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. During fiscal year 2018, SCWI ended the purchase of Accounts Receivables from the Siemens divisions as part of an overall change in strategy. All receivables were transferred to the applicable Divisions in August 2018 at fair market value. The ending of Accounts Receivables purchases had no material impact to the SCC consolidated statements of comprehensive income.

SCWI was 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 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 2018 and 2017. 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.

The presentation of certain prior-year information has been realigned to conform to the current year presentation.

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 20, 2018.

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.

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

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.

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.

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 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.

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.

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

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 equity, 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.

Due to the enactment of the 2017 U. S. Tax Cuts and Jobs Act with an effective date of January 1, 2018, a prorated blended federal and state statutory tax rate for fiscal year 2018 was used, as further discussed in Note 6.

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. Cash and cash equivalents also include bank accounts that are used on a daily basis to settle open futures transactions and to cover required initial margin.

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.

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

Classification 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 derivative Financial Assets and Liabilities are classified as financial assets/liabilities at fair value through profit or loss. Receivables from and Liabilities to affiliates (long and short-term portion) are classified as Loans and Receivables or Other financial liabilities measured at amortized cost.

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.

Measurement of Financial Assets

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)

Measurement of 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.

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. Accrued liabilities mainly include employee related bonuses and fringe benefits. Additions to accrued liabilities and reversals are generally recognized in the Consolidated Statements of Comprehensive Income.

Short Term Debt

For working capital purposes, the Company issues commercial papers which typically has a maturity of less than 90 days and are 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.

Other Liabilities – Pension, Other Postretirement and Other Benefit Plans

The Company participates in the trusteed noncontributory qualified defined benefit (pension) plan, defined contribution plans, 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.

Termination benefits are recognized in the period incurred and when the amount is reasonably estimable. Termination benefits in accordance with IAS19, 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.

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 related to pension management 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 (SCF) Program. The SCF fees are recognized on an accrual basis in accordance with the service agreement with an external service provider as administrator.

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)

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of significant financial instruments at September 30, 2018 and 2017:

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.

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.

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

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

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 effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of a derivative that is 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 the consolidated statement of comprehensive income. SCC only has fair value hedges in accordance with IAS 39 as of September 30, 2018 and 2017. There are no transactions related to cash flow or foreign currency hedges.

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.

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 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

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

annual periods beginning on or after January 1, 2018; early application is permitted. The Company has analyzed the impact of the new rules. No significant changes have been identified in the way the Company recognizes revenues. This determination was made based on a review of the new IFRS 15 implementation impact on the Company's main revenue streams, primarily interest income.

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. The Company will adopt IFRS 9 for the fiscal year beginning as of October 1, 2018 and will not adjust comparative figures for the preceding fiscal year, in accordance with IFRS 9 transitional provisions.

The Company expects the adoption of IFRS 9 to have limited impact on its financial statements. Only receivables from affiliated companies are subject to the new impairment requirements. Thus, credit losses can be expected to be limited due to the consistently high credit quality of these counterparties.

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, 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. The Company will adopt the standard for the fiscal year beginning as of October 1, 2019, by applying the modified retrospective approach, i.e., comparative figures for the preceding year would not be adjusted. The Company is currently assessing the impact of adopting IFRS 16 on the consolidated financial statements.

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

In December 2016, the IASB issued IFRIC 22, *Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

In May 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. In assessing the uncertainty, an entity shall consider whether it is probable that a taxation authority will accept the uncertain tax treatment. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, while earlier application is permitted. The Company is currently assessing the impact of adopting the interpretation on the consolidated financial statements.

4. Other Income

Included in other income is revenue related to Pension and In-house Treasury services provided to Siemens affiliates of $3,535 and $3,766 for fiscal year 2018 and 2017, respectively. Other income also comprises fees from SCWI and SCF Program management activities in the amount of $787 and $1,780 for fiscal year 2018 and 2017, respectively.

(Dollars in Thousands, Unless Otherwise Noted)

5. Gain on Financial Instruments, net

Gain on financial instruments, net 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 on financial instruments, net includes the following for the years ended September 30:

	2018	2017
Foreign exchange transactions results:		
Realized and unrealized derivatives results	**$ (39,691)**	$ (31,510)
Realized and unrealized balance sheet results	**(5,450)**	11,274
Interest rate derivatives results:		
Unrealized fair value hedge accounting adjustment	**62,428**	212,497
Realized and accrued interest–hedge accounting adjustment	**(26,053)**	(41,964)
Realized – Non hedge accounting results	**33,756**	39,174
Unrealized – Non hedge accounting results	**(5,240)**	(164,164)
Total gain on financial instruments, net	**$ 19,750**	$ 25,307

6. Income Taxes

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

	2018	2017
Federal:		
Current	**$ 16,465**	$ 28,102
Deferred	**17,224**	17,550
State:		
Current	**4,353**	5,040
Deferred	**2,335**	2,975
Foreign:		
Current	**1,598**	1,609
Total	**$ 41,975**	$ 55,276

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, 2018 and 2017 is $23,180 and $35,799, 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 on loan related items and accrued expenses.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the Act) was signed into law. The Act includes a number of changes in existing tax law impacting businesses including, among other things, a permanent reduction in the corporate income tax rate from 35% to 21% effective January 1, 2018. Due to the enactment, the prorated blended federal and state statutory tax rate for fiscal year 2018 was 28.76% (23.16% for federal purposes after state tax benefit, and 5.6% for state tax purposes). The statutory tax rate applicable for fiscal year ending 2019 will be 25.424% (19.824% for federal purposes after state tax benefit, and 5.6% for state tax purposes). For purposes of valuing deferred tax assets and liabilities at September 30, 2018, the statutory tax rate utilized was 25.424%.

The Act's impacts reduced the Company's blended federal and state tax rate by almost 10%. During 2018, the Company recorded a deferred tax expense of approximately $9.6 million related to this reduction in the tax rate. The effective income tax rate is approximately 35.14% and 38.62% for the year ended September 2018 and 2017, respectively. The difference between the effective income tax rate and the statutory tax rate primarily pertains to the change in the value of deferred taxes at September 30, 2018 resulting from the reduction in the federal tax rate discussed above, and state and local taxes, net of federal tax benefit.

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

(Dollars in Thousands, Unless Otherwise Noted)

6. Income Taxes (continued)

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 the net deferred income tax assets as of September 30, 2018 and 2017 was $6,867 and $26,671, respectively.

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

	2018	2017
Net assets:		
Unrealized market value of derivative financial instruments	**$ 78,701**	$ 121,458
Unrealized foreign exchange losses on affiliate loans	**(74,484)**	(99,980)
Unamortized interest rate swap termination adjustment	**–**	805
Allowance for doubtful accounts	**–**	443
Accrued interest – foreign affiliates	**1,279**	1,451
Other accruals	**1,371**	2,494
Total deferred income tax assets	**$ 6,867**	$ 26,671

7. Cash and Cash Equivalents

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

	2018	**2017**
Cash in U.S. banks	**$ 70,666**	$ 61,069
Cash in foreign banks	**58,937**	21,572
Time deposits in U. S. and foreign banks with original maturity of less than 90 days	**25,399**	226,844
Cash in margin accounts	**2,063**	2,675
Total cash and cash equivalents	**$ 157,065**	$ 312,160

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 $33,143 and $28,104 of income taxes to Siemens Corporation, through the Siemens intercompany payment system, during the fiscal years ended September 30, 2018 and 2017 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 $1,622 and $662 for the fiscal years ended September 30, 2018 and 2017 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 $0 and $89,887 in fiscal year 2018 and 2017, respectively. The fiscal year 2017 balance is included in Other Current Liabilities.

On September 10, 2018, the Company was assigned a note receivable from an affiliated company with a principal of $1,048,153 and accrued interest of $18,516 in exchange for a reduction of receivables from the affiliate due beyond one year with a principal of $995,740 and accrued interest of $16,353. The early termination resulted in fees of $10,650 that is included in net interest income. The Company subsequently assigned this note receivable from the affiliated company with a principal of $1,048,153 and accrued interest of $18,516 in exchange for a reduction of a liability due within one year with another affiliated company.

(Dollars in Thousands, Unless Otherwise Noted)

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, 2018 and 2017:

	2018	2017
Wages and salaries	**$ 6,530**	$ 6,627
Statutory social welfare contributions and employee benefits	**1,593**	1,230
Expenses relating to pension plans and Other Post Employment Benefits (OPEB)	**94**	103
Total Personnel Costs	**$ 8,217**	$ 7,960

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, bonus, and expenses related to pension and employee benefits is $2,686 and $2,839 in fiscal year 2018 and 2017, respectively. The accrued bonus of $629 and the actual bonus paid of $863 were included in fiscal year 2018 and 2017 compensation, respectively. The annual bonus payment is executed in December.

10. Receivables From Affiliates

The Company provides In-house Treasury services to affiliates and as of September 30, 2018 and 2017, the Company holds receivables from affiliates as follows:

	2018	2017
Receivables from affiliates due within one year (interest rates range from -0.3% to 9.0% in fiscal 2018 and -0.25% to 9.1% in fiscal 2017)	**$ 14,875,839**	$ 21,940,103
Receivables from affiliates due beyond one year (interest rates range from 1.1% to 5.6% in fiscal 2018 and -0.20% to 7.97% in fiscal 2017)	**15,877,182**	16,856,051

(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:	
2019	$ 14,875,839
2020	3,265,064
2021	1,107,416
2022	2,674,148
2023	1,217,110
Thereafter	7,613,444

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

	2018	**2017**
Healthcare Division	**$ –**	$ 5,628,176
Siemens Corporation	**6,018,714**	6,448,080
Siemens Financial Services Division	**4,632,713**	5,194,402
Power and Gas Division	**2,895,534**	2,957,622
Digital Factory Division	**578,443**	1,386,129
Other Siemens Divisions	**750,435**	325,694
Total receivables from affiliates due within one year	**$ 14,875,839**	$ 21,940,103

Receivables from affiliates due within one year significantly decreased in fiscal year 2018 due to the repayment received during February 2018 from the Healthcare Division in connection with their reorganization under Siemens AG.

(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:

	2018	2017
Siemens Financial Services Division	**$ 6,417,854**	$ 6,327,073
Power and Gas Division	**5,254,647**	5,254,647
Digital Factory Division	**3,504,260**	4,500,000
Other Siemens Divisions	**700,421**	774,331
Total receivables from affiliates due beyond one year	**$ 15,877,182**	$ 16,856,051

Interest income related to receivable from affiliates is as follows:

	2018	2017
Siemens Financial Services Division	**$ 271,491**	$ 209,259
Siemens Corporation	**193,271**	132,107
Power and Gas Division	**227,584**	201,246
Digital Factory Division	**200,123**	119,553
Healthcare Division	**47,322**	96,725
Other Siemens Divisions	**27,414**	36,727
Total interest income related to receivables from affiliates	**$ 967,205**	$ 795,617

11. Accounts Receivable, net

The Company had 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 was recognized at each 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. As described in Note 1, SCWI has no outstanding receivables as of September 30, 2018 since accounts receivables are no longer being purchased from the affiliates.

(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 as of September 30:

	2018	2017
Liabilities to affiliates due within one year (interest rates range from -1.15% to 7.80% in fiscal 2018 and -1.14% to 7.85% in fiscal 2017)	**$ 13,121,111**	$ 18,270,795
Liabilities to affiliates due beyond one year (interest rates range from 1.52% to 4.59% in fiscal 2018 and from 1.55% to 4.59% in fiscal 2017)	**15,937,309**	19,379,277

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:	
2019	$ 13,121,111
2020	3,492,521
2021	399,480
2022	1,744,138
2023	–
Thereafter	10,301,170

(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:

	2018	2017
Corporate related affiliates	**$ 6,690,319**	$ 8,540,536
Siemens Financieringsmaatschappij N.V. (SFM)	**2,106,873**	6,696,108
Siemens Finance B.V.	**2,802,157**	4,919
Healthcare Division	**–**	1,159,660
Power and Gas Division	**935,069**	845,402
Other Siemens Divisions	**598,874**	1,024,170
Liabilities to affiliates due within one year	**13,133,292**	$ 18,270,795
Hedge Accounting Adjustment (SFM)	**(12,181)**	–
Total liabilities to affiliates due within one year	**$ 13,121,111**	$ 18,270,795

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

	2018	2017
Siemens Financieringsmaatschappij N.V. (SFM)	**$ 10,904,550**	$ 14,296,270
Siemens Finance B.V.	**4,822,128**	4,822,128
Liabilities to affiliates due beyond one year before hedge accounting	**15,726,678**	19,118,398
Hedge Accounting Adjustment (SFM)	**210,631**	260,879
Total liabilities to affiliates due beyond one year	**$ 15,937,309**	$ 19,379,277

Liabilities to affiliates due within and beyond one year significantly decreased in fiscal year 2018 due to the repayment received during February 2018 from the Healthcare Division in connection with their reorganization under Siemens AG. As a result of repayment, SCC decreased its borrowings from SFM.

(Dollars in Thousands, Unless Otherwise Noted)

13. Liabilities to Affiliates (continued)

Interest expense related to liabilities to affiliates is as follows:

	2018	2017
SFM and SF BV	**$ 637,187**	$ 576,866
Corporate related affiliates	**137,127**	90,058
Siemens AG	**4,443**	3,887
Digital Factory Division	**15,017**	4,702
Power and Gas Division	**17,188**	8,963
Other Siemens Divisions	**11,084**	6,161
Subtotal interest expense before hedge accounting	**822,046**	690,637
Hedge Accounting interest adjustment – Siemens AG	**(26,053)**	(41,964)
Total interest expense related to liabilities to affiliates	**$ 795,993**	$ 648,673

The significant increase in interest expense of Digital Factory Division is related to the related party transaction which is discussed in Note 8.

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 $46,461 and $184,970 in fiscal year 2018 and 2017, respectively are included in the carrying amount of the debt obligations as a result of the gains recorded in fiscal year 2018 and 2017, respectively.

(Dollars in Thousands, Unless Otherwise Noted)

13. Liabilities to Affiliates (continued)

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 $15,967 and $27,527 are included in the carrying amount of the debt obligations as a result of the (losses) and gains recorded in fiscal year 2018 and 2017, respectively.

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

The Company has recorded an unrealized fair market value loss and gain of $(61,268) and $40,804 as of September 30, 2018 and 2017, respectively in connection with the cross-currency interest rate swaps which is included in Gain on financial instruments, net.

SCC has entered into master loan agreements with SFM and SF BV and intends to continue obtaining funding from SFM and SF BV. Borrowings from SFM and SF BV consist of both floating as well as fixed rate loans. 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, 2018. 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:

	2018		**2017**	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Commercial paper (Interest rate is 2.33% in fiscal 2018 and 1.26% in 2017)	**$ 704,194**	**$ 700,001**	$ 722,244	$ 719,751

14. Short-Term Debt (continued)

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 year 2018 and 2017, 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 1.08% to 2.33% in fiscal year 2018 and 0.37% to 1.47% in fiscal 2017. The total interest expense on commercial paper is $65,783 and $23,591 in fiscal year 2018 and 2017, respectively.

Credit Facilities

The Company participates in three credit facilities which are available for general corporate purposes. The credit facilities as of September 30, 2018 and 2017 consisted of $8,151,320 and $8,253,670, 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, 2018 to September 29, 2019.

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 for income taxes payable as well as checks and wire transfer payments that are outstanding due to timing (see Note 8). 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, 2018 and 2017, the accrued bonus expenses are $1,505 and $1,604, respectively. Fringe benefits include items such as employee payroll taxes, insurance, health and welfare related costs. At September 30, 2018 and 2017, the accrued fringe benefits are $3,826 and $3,826, 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, 2018 and 2017, the Company's pension plan and other postemployment liabilities were $1,247 and $1,883, 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.

18. Derivative Financial Instruments and Hedging Activities (continued)

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.

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.

18. Derivative Financial Instruments and Hedging Activities (continued)

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 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 $183 as of September 30, 2018, compared to a VaR of $481 as of September 30, 2017. Changes in USD values of future cash flows denominated in foreign currency due to volatile foreign exchange rates might influence the unhedged net positions.

18. Derivative Financial Instruments and Hedging Activities (continued)

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, 2018 and 2017, a 10% negative shift of the USD against all foreign currencies would have resulted in an insignificant change in future cash flows for fiscal year 2018 and 2017, respectively. Future changes in the foreign exchange rates can impact net income, 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:

	2018						
	EUR	CAD	MXN	GBP	AUD	Other	Total
	(In Millions USD)						
Balance sheet – financial receivables	**$ 351**	**$ 1,014**	**$ 117**	**$ 194**	**$ 100**	**$ 37**	**$ 1,813**
Balance sheet – financial liabilities	**(234)**	**(343)**	**(146)**	**(1,820)**	**(88)**	**(39)**	**(2,670)**
Net balance sheet exposure	**117**	**671**	**(29)**	**(1,626)**	**12**	**(2)**	**(857)**
Foreign exchange transaction exposure – third parties	**228**	**(333)**	**187**	**91**	**(17)**	**191**	**347**
Foreign exchange transaction exposure – affiliates	**(346)**	**(341)**	**(159)**	**1,536**	**5**	**(192)**	**503**
Economically hedged exposure	**$ (118)**	**$ (674)**	**$ 28**	**$ 1,627**	**$ (12)**	**$ (1)**	**$ 850**
Change in future cash flows after hedging activities resulting from a 10% depreciation of the USD	**$ –**	**$ (1)**	**$ –**	**$ –**	**$ –**	**$ –**	**$ (1)**

	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	$ –	$ –	$ –

18. Derivative Financial Instruments and Hedging Activities (continued)

As of September 30, 2018 and 2017, the Company had total forward foreign exchange contracts outstanding with notional USD equivalent amounts of $8,459,535 and $9,027,331 and had unrealized net losses of $335,676 and $302,556 in 2018 and 2017, respectively. The fair value of the above forward foreign exchange contracts is reflected in Positive fair value of derivatives of $133,115 and $175,401 as of September 30, 2018 and 2017, respectively, and in Negative fair value of derivatives of $468,791 and $477,963 as of September 30, 2018 and 2017, respectively.

A portion of foreign exchange contracts outstanding includes a notional USD equivalent of $3,234,611 and $3,169,773 related to the North American Affiliates, which had unrealized net gains (losses) of $10,729 and $(23,000) in fiscal year 2018 and 2017, respectively. The foreign exchange contracts also include a cross currency interest rate swaps related to Siemens AG with a notional amount of $1,955,150 and $1,584,000 in fiscal year 2018 and 2017 which had unrealized net losses of $337,657 and $293,657 in fiscal year 2018 and 2017, 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, U.S. Treasury and EuroDollar 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 $11,853 and $39,442 as of September 30, 2018 and 2017, respectively.

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 on financial instruments, net.

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.

The notional values of the related swap agreements of $2,708,632 and $2,742,883, in fiscal year 2018 and 2017, respectively resulted in an unrealized loss of $60,923 and $217,340 in fiscal year 2018 and 2017, respectively. Hedge accounting adjustments in the carrying amount of the debt obligations resulted in a gain of $62,629 and $219,123 in fiscal year 2018 and 2017, respectively. Accordingly, the net effect recognized in Gain on financial instruments excluding the ineffective portion of the hedging relationship, amounts to $1,706 and $1,783 for fiscal year 2018 and 2017, respectively. The hedging ineffectiveness for fiscal 2018 and 2017 is $201 and $6,626 expense, respectively. Net cash receipts and payments relating to the above mentioned interest rate swap agreements are also recorded in Gain on financial instruments, net.

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 year 2018 and 2017 was $2,395 and $2,345, respectively which is recognized in the consolidated statements of

18. Derivative Financial Instruments and Hedging Activities (continued)

comprehensive income as adjustments to Gain on financial instruments, net. The remaining unamortized positive market value difference regarding the loans as of September 30, 2018 and 2017 is $24,121 and $26,516, respectively which will be amortized over the remaining life of the loans as stated above.

Non-Hedging Interest Rate Derivative Financial Instruments

The Company holds interest rate swap contracts to pay variable rates of interest of an average of 2.56% and 2.48% as of September 30, 2018 and 2017, respectively and receives rates of interest of an average rate of 2.20% and 1.35% as of September 30, 2018 and 2017, respectively relating to the economically hedged receivables from and liabilities to affiliates. As of September 30, 2018 and 2017, the Company had external interest rate swap contracts with notional amounts of $124,228 and $164,054, respectively. The notional amount of indebtedness with economic hedges as of September 30, 2018 and 2017 was $2,881,043 and $1,765,437, respectively and is related to interest rate swaps with Siemens AG. The notional amount of interest rate futures contracts as of September 30, 2018 and 2017 amounts to $995,000 and $1,177,412, 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 under IAS 39 are recorded at net fair value (including accrued interest) with the changes in fair value (including accrued interest) recognized in Gain on financial instruments. The fair value of these derivatives is reflected in Negative fair value of derivatives in the amount of $9,512 and $37,915 as of September 30, 2018 and 2017, respectively, and Positive fair value of derivatives in the amount of $32,267 and $2,288 as of September 30, 2018 and 2017, respectively. The net realized and unrealized gains related to interest rate derivatives were recorded in Gain on financial instruments in the amount of $64,891 and $45,544 for the years ended September 30, 2018 and 2017, respectively.

(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:

	2018	2017
Derivatives designated as hedging instruments under IAS 39		
Interest rate swap contracts	**$ 2,708,632**	$ 2,742,883

	2018	2017
Derivatives not designated as hedging instruments under IAS 39		
Interest rate swap contracts	**$ 3,005,271**	$ 1,929,491
Foreign exchange contracts	**8,459,535**	9,027,331
Futures contracts	**995,000**	1,177,412
Total	**$ 12,459,806**	$ 12,134,234

(Dollars in Thousands, Unless Otherwise Noted)

18. Derivative Financial Instruments and Hedging Activities (continued)

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	
	2018	**2017**	**2018**	**2017**
	Fair Value	**Fair Value**	**Fair Value**	**Fair Value**
Derivatives designated as hedging instruments under IAS 39				
Interest rate contracts	**$ 219,673**	$ 268,789	**$ 13,950**	$ –

	Positive Fair Value of Derivatives		Negative Fair Value of Derivatives	
	2018	**2017**	**2018**	**2017**
	Fair Value	**Fair Value**	**Fair Value**	**Fair Value**
Derivatives not designated as hedging instruments under IAS 39				
Interest rate swaps	**$ 32,267**	$ 2,288	**$ 9,512**	$ 37,915
Foreign exchange contracts	**133,115**	175,401	**468,791**	477,963
Total	**$ 165,382**	$ 177,689	**$ 478,303**	$ 515,878

(Dollars in Thousands, Unless Otherwise Noted)

18. Derivative Financial Instruments and Hedging Activities (continued)

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 2018	2017
Interest rate swaps and futures contracts	Gain on financial instruments, net	**$ 64,891**	$ 45,544
Foreign exchange contracts	Gain on financial instruments, net	**(39,700)**	(32,427)
Total		**$ 25,191**	$ 13,117

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.

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 related to its receivables from affiliates which are viewed as Siemens intercompany positions. The Company does not establish an allowance related to receivables from affiliates for the fiscal year 2018 and 2017.

19. Financial Risk Management (continued)

The maximum credit exposure for all financial assets equals its fair value amounts as disclosed on Note 20. The Company typically does not require collateral from counterparties. The Company also used 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 which have ceased in fiscal year 2018.

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 $13 billion and $7.6 billion of loans due to SFM and SF BV, respectively as of September 30, 2018 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 may be required by the Company on or prior to October 1, 2019.

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.

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

(Dollars in Thousands, Unless Otherwise Noted)

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 as of September 30, 2018 and 2017, 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.

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

	2018		**2017**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial instruments included in the consolidated balance sheets:				
Assets:				
Long-term receivables from affiliates	**$ 15,877,182**	**$ 16,701,548**	$ 16,856,051	$ 18,743,725
Liabilities:				
Short-term debt	**700,001**	**704,194**	719,751	722,244
Long-term liabilities to affiliates	**15,937,309**	**16,786,053**	19,379,277	21,479,244

(Dollars in Thousands, Unless Otherwise Noted)

20. Fair Value of Financial Instruments (continued)

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:

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Long-term receivables from affiliates	**$ –**	**$ 16,701,548**	**$ –**	**$ 16,701,548**
Derivative financial instruments	**–**	**385,055**	**–**	**385,055**
Total	**$ –**	**$ 17,086,603**	**$ –**	**$ 17,086,603**
Financial liabilities measured at fair value:				
Short-term debt	**$ –**	**$ 704,194**	**$ –**	**$ 704,194**
Long-term liabilities to affiliates		**16,996,684**	**–**	**16,996,684**
Derivative financial instruments	**–**	**492,253**	**–**	**492,253**
Total	**$ –**	**$ 18,193,131**	**$ –**	**$ 18,193,131**
	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

The Company did not hold any Level 1 and 3 assets or liabilities in fiscal year 2018 and 2017.

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 rental payments, operating expenses including maintenance costs and service fees are charged.

The net rental payments were $503 and $532 for fiscal year 2018 and 2017, respectively. At September 30, 2018, the future minimum rental payments, excluding renewal options, are $1,958 under these leases maturing on September 30, 2022.

22. Member's Equity

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 equity as of September 30, 2018 and 2017.

23. Subsequent Events

The Company has evaluated subsequent events through November 20, 2018, and has determined that no subsequent events have occurred that would require disclosure in the consolidated financial statements or accompanying notes.