

Stress-testing foreign exchange risk management policy Benchmarking against other multinational enterprises

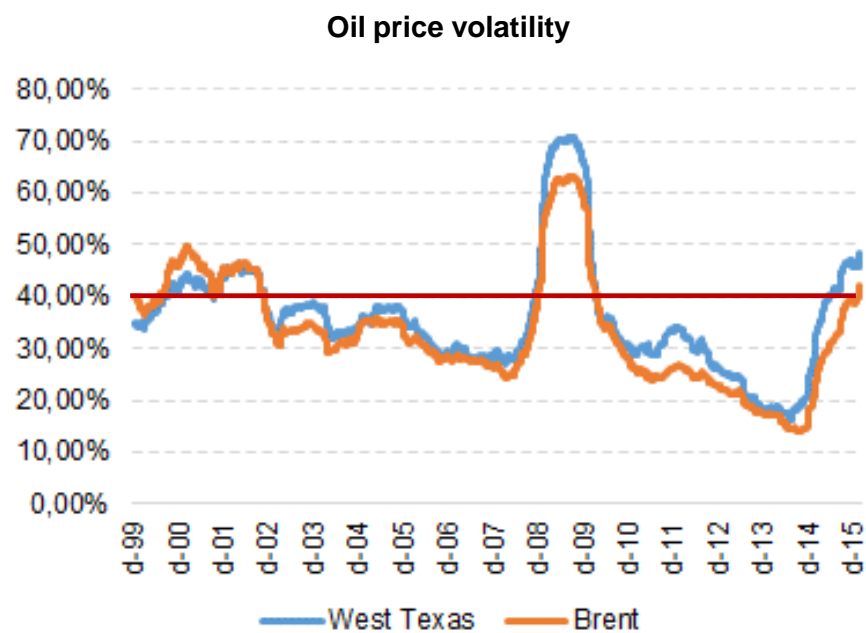
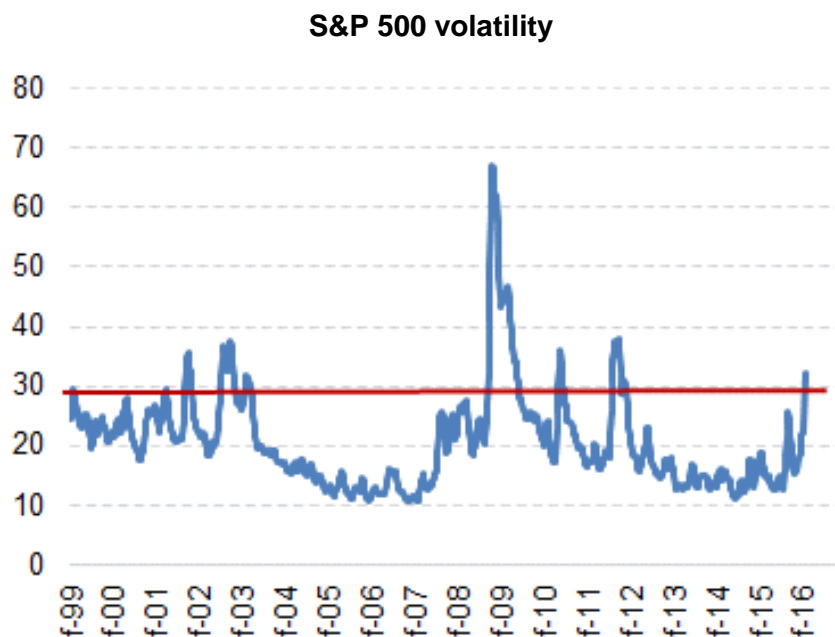
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1 | **The need to stress test in the current financial market environment**

1. The need to stress test in the current financial market environment

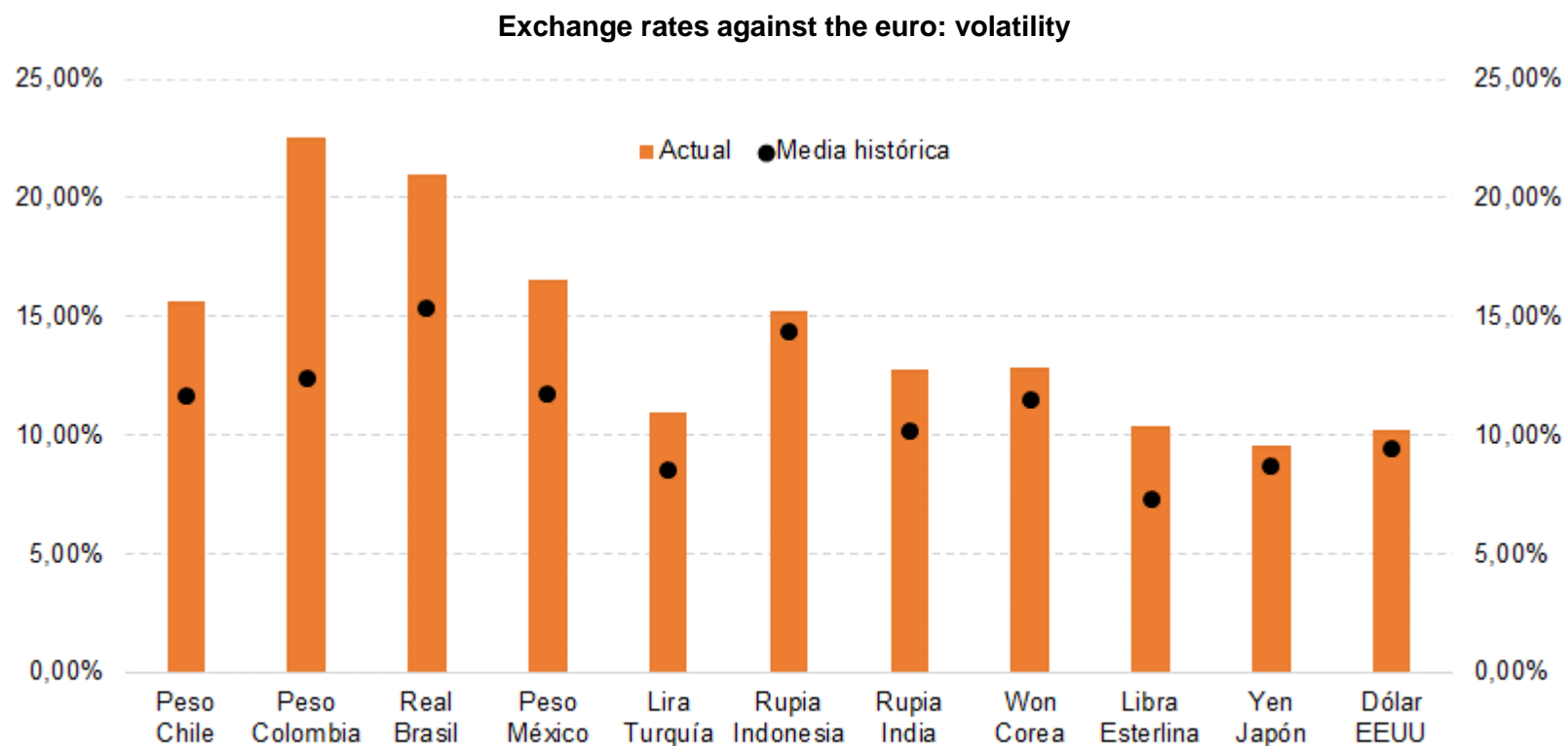
Financial market volatility is rising on the back of heightened uncertainty in China and the slowdown in the US...



Source: Afi, Bloomberg

1. The need to stress test in the current financial market environment

... wreaking particular havoc on the currency markets in developed and emerging economies alike...

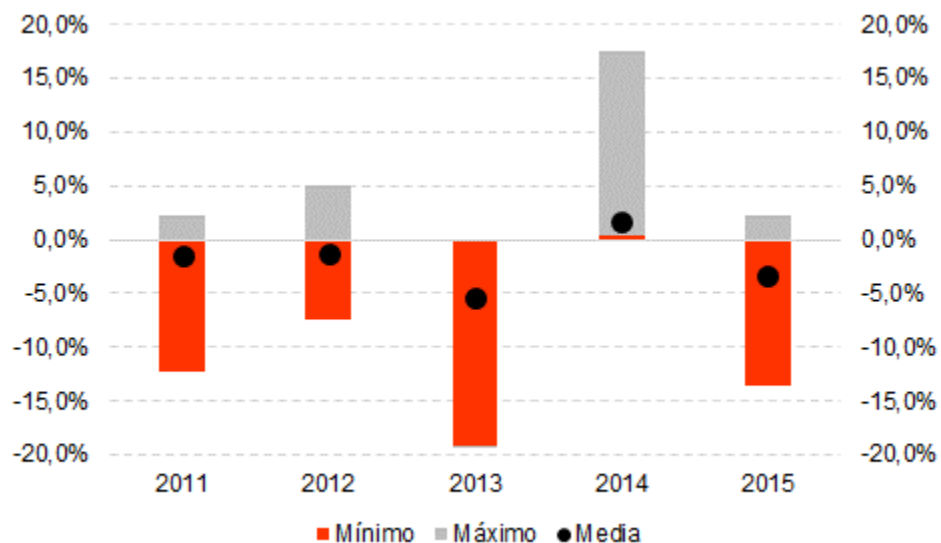


Source: Afi, Bloomberg, ECB

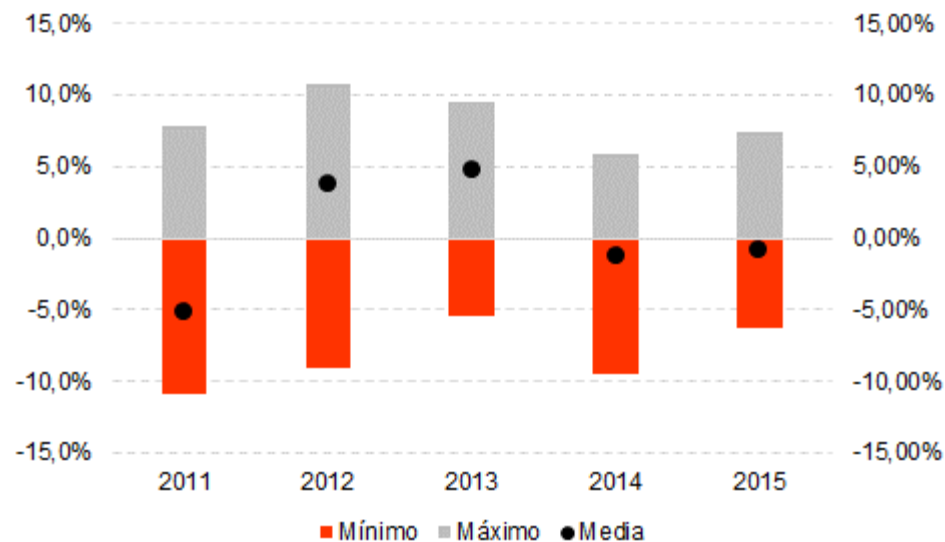
1. The need to stress test in the current financial market environment

... which is destined to spark instability in the financial statements of multinational enterprises

Translation differences as a percentage of net profit.
Non-financial corporates. IBEX-35



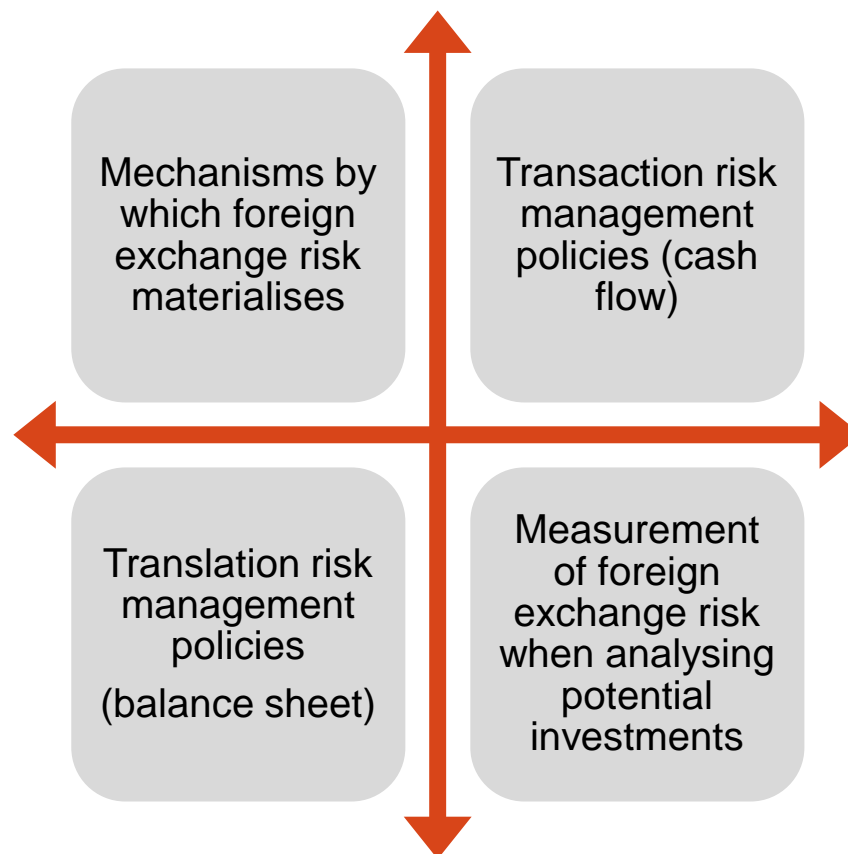
Exchange differences as a percentage of net profit.
Non-financial corporates. IBEX-35



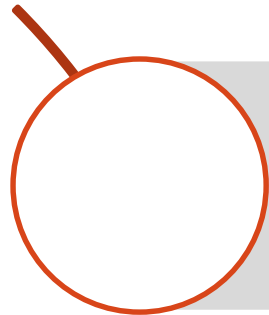
Source: Afi, annual financial statements of the non-financial corporates comprising the IBEX-35

Validation of foreign exchange risk management policies

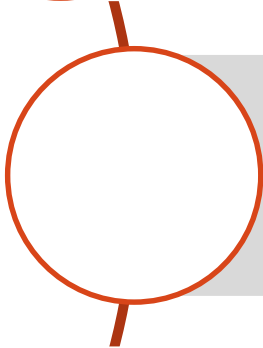
- Against this backdrop, it is crucial to test the policies put in place to mitigate the impact of exchange rate instability along four dimensions:



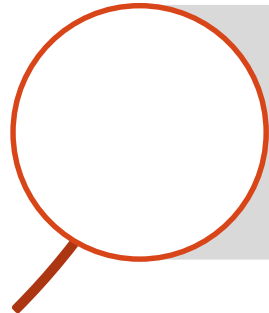
Afi's experience designing risk maps and risk management policies



Afi has helped **design foreign exchange risk maps for multiple multinational enterprises**, supporting the finance and treasury departments in assessing the management policies implemented and, as warranted, designing new management mechanisms in order to minimise the impact of exchange rate volatility on the company's cash flows.



Afi **defines hedging policies for corporates and financial institutions** on a recurring basis. These policies ensure compliance with hedge accounting rules, thereby minimising the financial statement impact of potential hedge inefficiencies associated with derivatives arranged to protect precisely against financial risks.



Afi has helped to structure **foreign exchange management strategies for M&A transactions in different areas** and has been at the side of its corporate clients when negotiating the price and other terms of the various hedging instruments which can be arranged to mitigate exposure.

1. The need to stress test in the current financial market environment

Value added for corporate clients

Board of Directors

- Provision of a clear vision of the potential impact of exposure to exchange rates on the balance sheet and income statement and the potential consequences for the share price
- Provision of a clear vision of the impact of exchange rates on returns when analysing potential new investments

Internal audit function

- Independent assessment of the suitability of the policies established, potentially helping to justify these policies vis-a-vis the entity's governing bodies
- Establishment of the need to analyse, as a matter of discipline, the impact of exchange rates when studying new investment projects and performing subsequent impairment tests

Investor relations

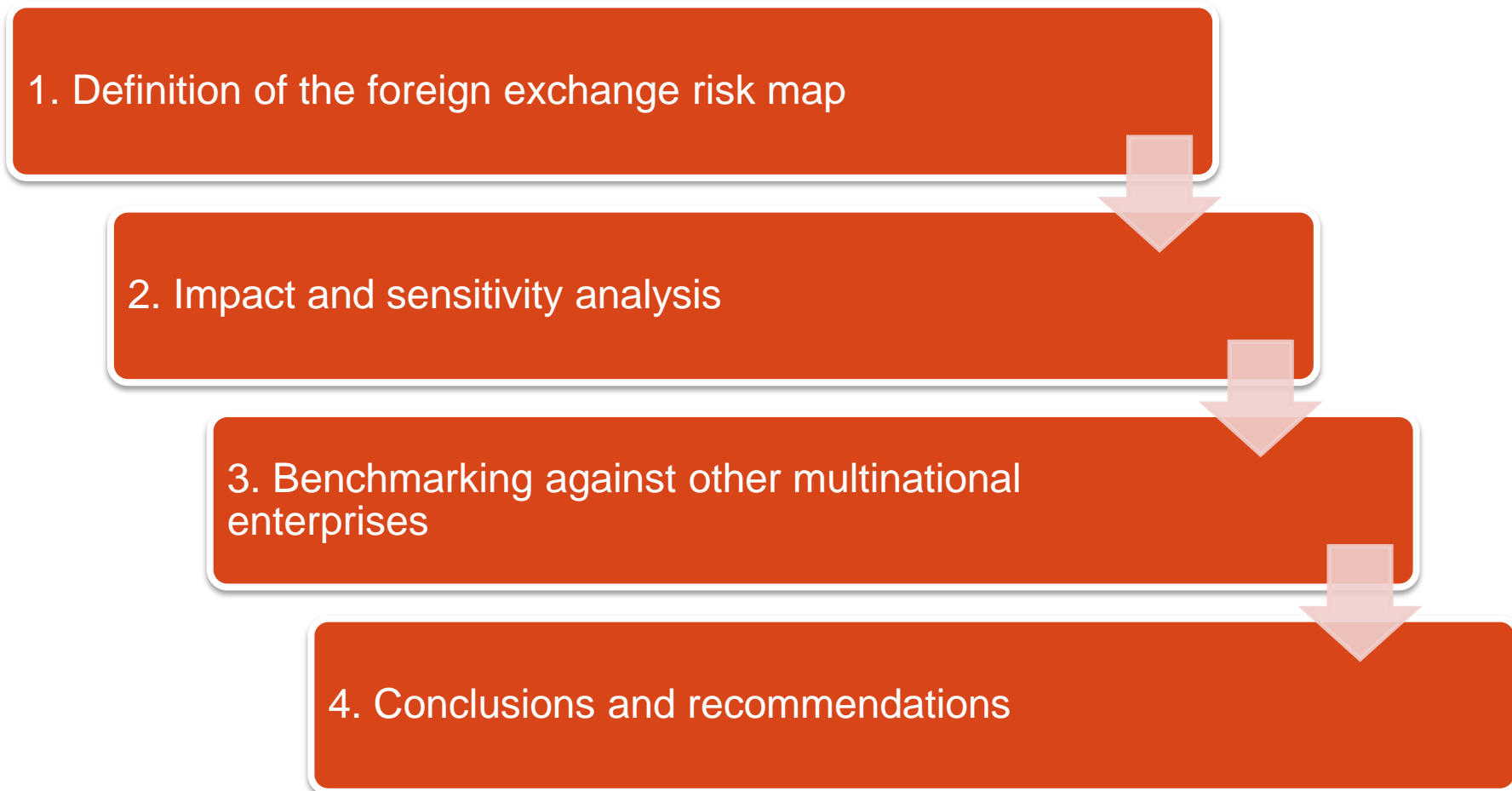
- The ability to clearly explain to the capital markets the consequences of foreign exchange rate on the company's earnings and the measures taken to mitigate them

Rating agencies

- The ability to provide a clear vision of the company's risk control policy to ensure it is correctly interpreted by the rating agencies

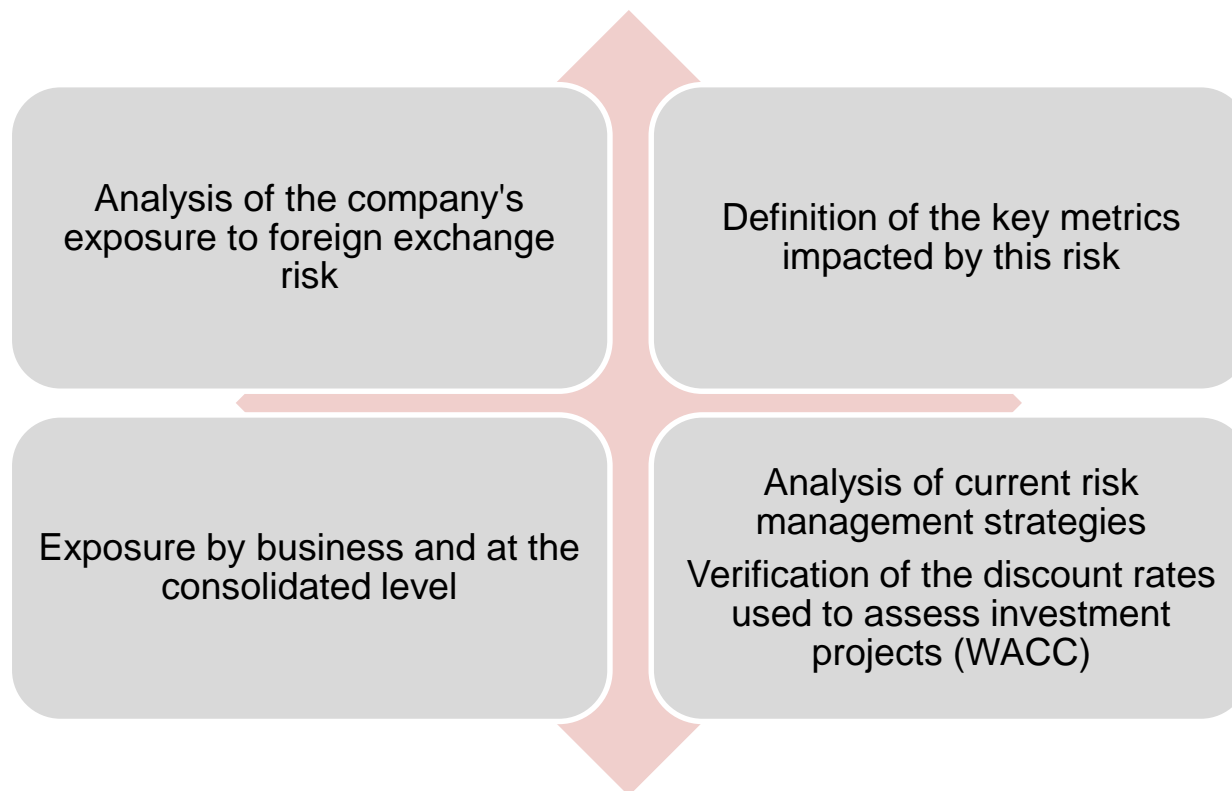
2 | Service contents and methodology

The Afi methodology: milestones



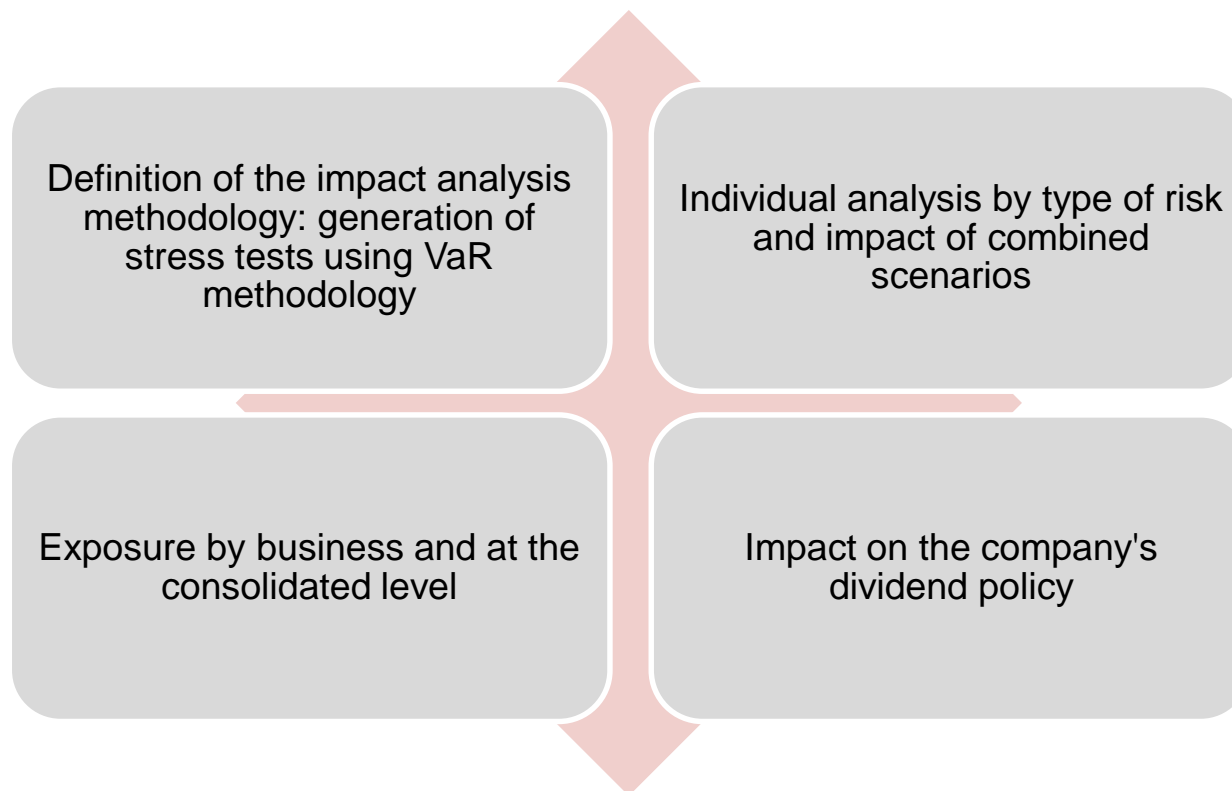
The Afi methodology: milestones

1. Definition of the foreign exchange risk map



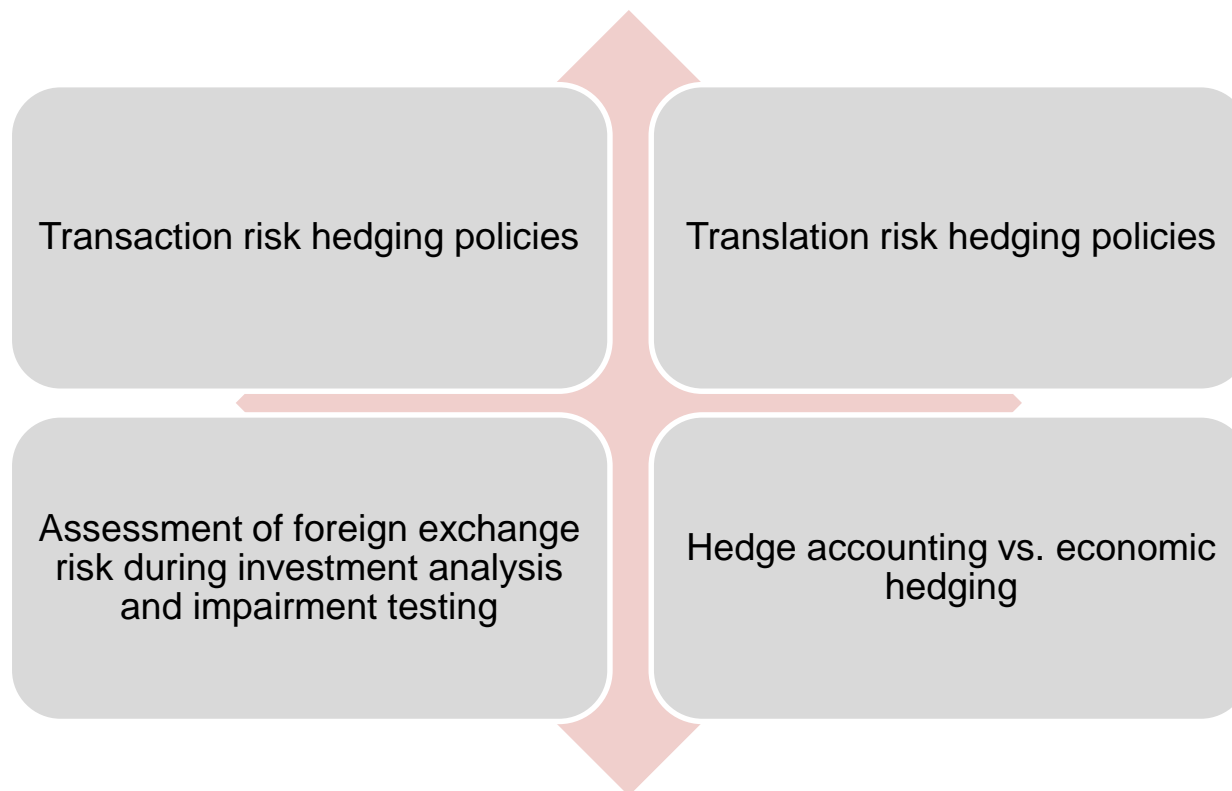
The Afi methodology: milestones

2. Impact and sensitivity analysis



The Afi methodology: milestones

3. Benchmarking



The Afi methodology: milestones

4. Conclusions and recommendations

A. Analysis of the implications of the scenarios modelled

B. Assessment of the company's ability to withstand episodes of stress

C. Methodology for estimating discount rates for investment projects and cross-checking against those used by the company

D. Recommendations regarding how to fine-tune hedging policy

3 | Contact details

Afi partners in charge of this project

Pablo Mañueco. Afi partner. Corporate Finance

pmanueco@afi.es

91 520 0102

Pablo Guijarro. Afi partner. Corporate Finance

pguijarro@afi.es

91 520 0102



Afi

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