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Integrated controlling of liquidity and market risk

EPCOS uses the flexibility of modern software architectures

Be it information and communication technology, or automotive, industrial and consumer electronics – almost every electronic device incorporates passive electronic components. As one of the world's largest manufacturers, EPCOS supplies the electronic industry with 40,000 different types of these products. Development, production and distribution locations in Europe, North America, South America and Asia, illustrate the company's global presence and close proximity to its customers. Against this backdrop, controlling group cash flows and hedging them against market risks represent major challenges for the IT systems.

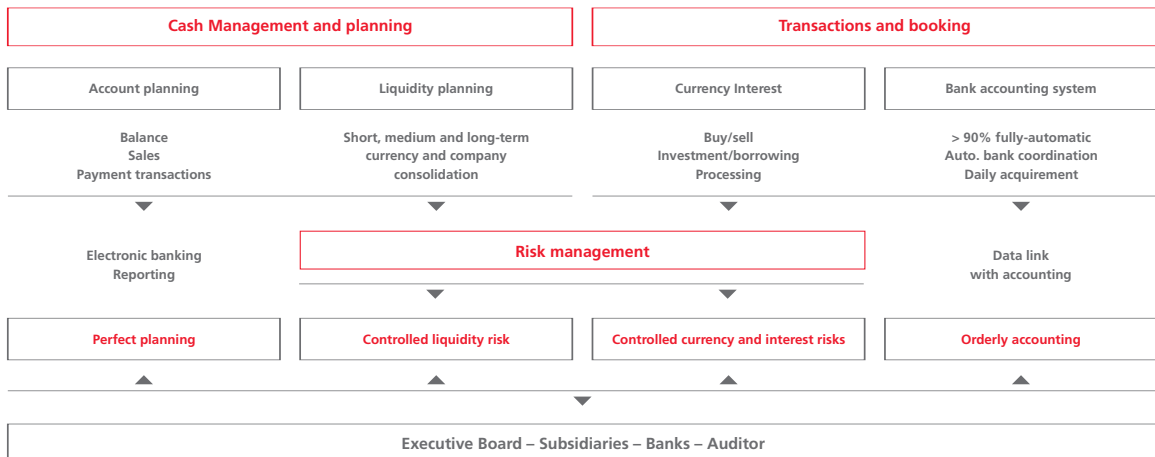
With the aim of creating a high performance total solution for liquidity management and capital market risk management, EPCOS encouraged cooperation between the Swiss treasury specialists Midlake and the ifb Group. This resulted in the conception of a system for industrial and commercial concerns that raised the bar with respect to controlling quality and application convenience. The EPCOS Treasury enables central integration of liquidity planning, scheduling of liquid assets - including foreign currency control – as well as the structuring and hedging of cash flows for all group companies.

We wanted three things for the EPCOS Treasury: an integrated processing operation, optimal up-to-dateness in controlling and the lowest possible acquisition and administration costs. It made sense to couple liquidity and market risk management. The integrated solution from ifb and Midlake provides us with effective processes and will ease evaluation for us significantly.

Peter Bauschke
 Treasury Manager
 EPCOS AG

Centralised liquidity management

Midlake has developed high performance liquidity management software that carries the same name. Using midlake® enables daily-updated, cross-currency information on all cash flows and the liquidity status to be displayed on a group-wide basis. The liquidity planning data of all the group companies, including account data from the SAP system, can be prepared individually and consolidated for the central treasury with the same comprehensiveness. On the basis of this information, midlake® facilitates the



Overview of the treasury application concept



effective management of surpluses on all current accounts and, to a great extent, enables any liquidity requirements of individual companies to be flexibly covered within the group. Peak demands that require the use of the capital market can be quantified and incorporated into planning. Free liquidity can be used across time zones for the cross-currency repayment of liabilities. Correspondingly, investing surpluses in line with liquidity planning is also possible, in turn resulting in significantly reduced interest costs.

Centralised risk management

The market risks associated with liquidity management are also centrally controlled by EPCOS: using RISKCONTROL from the ifb-OKULAR® product family and on the basis of current market data, the prices of almost all financial instruments on the capital market can be calculated. Five product modules enable the functional scope of RISKCONTROL to be aligned to company requirements, with two evaluation modules providing standard and advanced analyses. The market value of each hedge can be calculated and reported immediately, while changes in hedge value are monitored on a daily basis. As a consequence, RISKCONTROL enables straightforward determination of whether hidden reserves are forming or if depreciation requirements exist with respect to hedge transactions. In terms of price comparisons, based on current data, the value of hedges can be determined using simulations and a comparison of bank offers undertaken in order to check conditions.

End-to-end total solution

The integration of ifb-OKULAR® RISKCONTROL into midlake® facilitates exemplary, effective liquidity and market risk management. This is made possible, above all, by a mutual database instance for both systems in which data is entered via a functionally extended input mask in midlake®. The coupling of the systems minimises acquisition and administration costs and, consequently, maximises up-to-dateness and operational security. Simultaneously, the quality of control is improved by convenient evaluation options. If, for example, the treasury system identifies the need to hedge a specific cash flow, RISKCONTROL immediately supports both determination of the market value of the necessary financial instruments and the offer comparison. The integrated software solution also covers the calculation of hedge Value at Risk for group commercial risk reporting. Through its project to integrate the use of midlake® and RISKCONTROL, each of which offers numerous unique position features, the EPCOS Group Treasury delivers a graphic example of the opportunities presented by flexible, future-oriented software architectures. The EPCOS Group Treasury will be piloting the integrated solution in 2006.

Corporates

