Corporate Actions guide

STRATEO
BANK FOR GLOBAL INVESTORS

Strateo established this document in order to guide its customers through various questions regarding Corporate Actions.
Companies take strategic decisions in regard to their capital structure (capital increase, a capital reduction, a split, a spin off, mergers and acquisitions, an IPO, etc.). This document will help you understand these transactions.

1.Procedure at Strateo

As soon as a stock offered by Strateo is concerned by transactions regarding Corporate Actions, our customers will receive an E-mail with all the information, i.e. details about the transaction, subscription price, time spans, costs, etc.
Below you can find an example of an E-mail sent to the concerned customers:

> CHAPARRAL GOLD: Purchase Offer (EXTENDED)
> Price: 0,50 CAD per share
> Instruction deadline: 8th April 2014
>
> Dear client,
>
> WATERTON offers to purchase all shares of CHAPARRAL GOLD.
>
> Please note that this communication is only intended to inform you on the purchase offer and does not aim to provide any investment recommendation and/ or investment advice.
>
> Isin code/ Symbol: CA15941W1095/ CHL
>
> *Offer price*
> 0,50 CAD per tendered share.
> You can find more information on the site of CHAPARRAL GOLD : www.chaparralgold.com
>
> *Payment date*
> The payment date is not known yet.
> *How to participate for your trading account?*
> Please send an email to operations@strateo.ch the 8th April 2014 at the latest.
> To register your participation we need the following information from you:
> *Your trading account number.
> *The number of shares you wish to tender to the offer.
> Once you have sent your e-mail you will immediately receive an automatic receipt in three languages and subsequently you will receive a confirmation of your participation. If you didn't receive the confirmation of your participation within two business days, we invite you to resend your e-mail.
>
> *Remarks:*
> *For legal entities and investment clubs only instructions from mandatories/representatives will be accepted.
> *Note that only instructions sent to operations@strateo.ch will be taken into account.
> *All outstanding sell orders regarding this security have to be cancelled by yourself before you tender your shares to the offer.
> *Without your reply we will take no action for your account.
>
> *Charges for corporate actions*
> 5 EUR + possible correspondent's fee.

The customers who like to participate, do have to answer this E-mail by communicating their account number and the number of shares they wish to tender before the end date.
The subscription price is detailed in the E-mail. Fees are of 5€. It is possible that the correspondent invoices some fees as well.
As soon as Strateo gets informed by its customer, the demand is transferred to our Backoffice which finalizes and books it.

2. Capital increase

1. Definition and meanings of a capital increase?

A capital increase is an increase of a company's equity capital through the issue of additional shares. It is therefore an external (or participatory) means of financing.
A capital increase is a method used by corporations to raise share capital by giving existing shareholders the right to subscribe to new shares for cash. New investors have the opportunity to become shareholders.

2. How to proceed to a capital increase?

A capital increase results in an increase in the number of shares. Therefore the company's share capital will be higher. The issuer can sell these new shares either to its existing shareholders or to new external shareholders.

a. Capital increases with rights issue:

As to avoid capital dilution, existing shareholders are given a pre-emptive right to subscribe the shares that will be newly issued (issuing subscription rights). A subscription right provides the current shareholder's the right to acquire new shares at a specific ratio to its holding in "old" shares. However, a company's Shareholders' General Meeting may decide to waive subscription rights on issuing new shares.
Subscription rights are calculated as follows:

$$\text{Subscription right } R = \frac{\text{(Market Price (old share)-Price (new share))}}{\text{(Subscription ratio+1)}}$$

This formula shows that the subscription right's value is fluctuating with the market, depending on the former share's market price.
Subscription rights are, in general, officially listed and traded on the exchange, thus enabling shareholders to decide whether they wish to acquire new shares or sell their rights.
If a company is subject to US tax law, there is a tax advantage in not listing subscription rights. If, in that case, a shareholder waives its right to purchase the newly issued shares, its subscription right loses all its value.

b. Capital increase without subscription rights

In Switzerland, such forms of capital increase require shareholder approval. New shares are subscribed directly, as for example for IPO's to widen its shareholder base.
According to the Swiss Code of Obligations, art. 652b par. 2, only the Shareholders' General Meeting may decide to waive subscription rights for important reasons (i.e. decision of an acquisition of another company, a part of or a holding, or employee participation in the company's capital).

c. Capital increase through distribution of free shares:

A company may decide to let shareholders participate in its turnover through the distribution of free or bonus shares. This transaction will not impact the company's cash balance as the equity capital remains unchanged, but the profit or reserve items in the balance sheet will be reduced and the share capital increased. A shareholder will have to pay income and withholding taxes.

3. For what reasons do companies seek to increase their capital?

- No interest payment on the capital: the company's cash needs not be used to service a corresponding debt.
- Share capital has not to be repaid and remains at the company's disposal for an unlimited time.
- Capital Increases are planned to respond to long-term capital requirements.

Example of a capital increase followed by a listing of subscription rights

Official Notice of the SIX Swiss Exchange

The shareholders's Ordinary General Meeting of Industrieholding Cham AG decided, on advice of the Board of Directors, to increase the company's share capital by CHF 40'320'000 to CHF 80'640'000 by issuing 403'200 registered shares with a par value of CHF 100. The company's bank syndicate has tendered the new shares and, pursuant to a subscription right, will offer them for subscription to current shareholders on the following conditions:

<table>
<tr><th>Subscription period</th><th>Subscription ratio</th><th>Subscription price</th></tr>
<tr><td>14 June until 21 June, noon</td><td>1 current registered share with a par value of CHF 100 entitles the holder to 1 new registered share with a par value of CHF 100</td><td>CHF 150.- for each new share with a par value of CHF 100. The federal stamp duty of 1% on new issues is paid by the company</td></tr>
<tr><th>Listing of subscription rights</th><th>Exercise of the subscription right</th><th>Sales restrictions</th></tr>
<tr><td>14 June until 20 June on the SIX Swiss Exchange
(Official security code 1'082'325 / ISIN CH 001 082 325 7)</td><td>The rights may be exercised on presentation of the subscription right certificates linked to current registered shares, (use of the form "Subscription Certificate and Registration Request"). Physical holders of registered shares receive the subscription right certificates directly from the company's registrar, whereas all other subscription right certificates will be sent to the appropriate depository banks. Holders of registered shares stored at their homes or in a bank safe are kindly requested to present the subscription right certificates attached to current registered shares for use with the form "Subscription Certificate and Registration Request" for subscription at an official subscription office or via their banks.</td><td>General sales restrictions; USA/US persons, United Kingdom</td></tr>
</table>

3. Split

1. Definition and achieving?

The result of a share split is an increase in the number of shares, linked to a proportional reduction in the shares' par value. The whole share capital thus remains unchanged.
Example: 100 registered shares with a par value of CHF 1'000 per share become, after a 1:10 split of the stock 1'000 shares with a par value of CHF 100.

2. Why do companies aim share splits?

The market value of a share may increase substantially over time. A share with a value of CHF 100 may reach a market price of CHF 10'000. Such "heavy" called shares hinder investment, because "lighter" shares may be bought more easily. Hence, heavy shares become less liquid and remain limited to a small number of investors.

4. Reverse Split

1. Definition of a Reverse Split and for what reasons do companies do reverse splits?

Doing a reverse split increases the share's par value and reduces the number of shares outstanding in proportion.
Securities can be too heavy, but also too "light". A low market value is not necessarily favorable to a share's negotiability.

5. Spin off

1. Definition of a spin-off?

A spin-off is a holding's divestment of a subsidiary or a company's divestment of a division or business segment.
The divested entity can then be independently listed on the exchange

2. How does a company spin off a subsidiary?

The value of a divested subsidiary is assessed by the holding in collaboration with financial analysts. This amount should be equivalent to the market value of the newly listed entity and be deduced from the former firm's value after the spin-off.
When a company with a market value of CHF 1bn spins off a subsidiary estimated at CHF 100m, the holding would be valued at CHF 900m by the market and the subsidiary at CHF 100m. But, this will only occur, if investors fully share the view of the analysts who calculated the subsidiary's theoretical value.
The newly established and independent entity needs to be restructured after a spin-off.

3. Why preceeding to a spin off?

- Making completely, economically and legally independent a subsidiary from its holding, for example, when different strategic aims resurge or if there is no longer a sufficient economic interest to keep the subsidiary.
- To proceed to a capital increase for a specific division/subsidiary. This process may run in parallel with an IPO. Thus, a capital increase is part of the regulatory requirements of an IPO on the SIX Swiss Exchange New Market.
- To allow a dominant company to divest itself partially of a subsidiary and merge it with another company. This could be a tense approach if two subsidiaries of two different companies operate in the same business sector. To create synergies, the two companies merge their activities.
- A division/subsidiary is to remain as part of the controlling holding, yet listed independently on the exchange, the aim being to create shareholder value and to allow investors to value different business segments at different levels.. A spin-off can be seen as an extreme profit or cost center.

Exemple of spin-off

The Shareholders' General Meeting of F. Hoffmann - La Roche approved the spin-off of Givaudan Roure, the world's leading manufacturer of flavours and fragrances.
The shares of the newly created Givaudan SA were traded for the first time on the SIX Swiss Exchange. The share price (CHF 10 par value) was valued at CHF 545. In total, Givaudan's capital structure is made up of 8'625'627 shares. Thus, the market value of Givaudan was estimated at approximately CHF 4.7bn. Accordingly, the value of a Roche bonus certificate or bearer share was reduced by CHF 545.
On its first day of listing, Givaudan's stock closed at CHF 510, i.e. below the theoretical reference price of CHF 545.

6. Mergers & Acquisitions (M&A)

1. Definition of mergers & acquisitions?

Il s'agit de la réunion de plusieurs entreprises en une seule entité. Mergers and acquisitions (M&A) are a very close form of corporate alliance. It is not always easy to make the difference between a merger and an acquisition. The technical difference is the following:

- Acquisition: one of the merging companies (A) has a dominant role and acquires the other (B). Therefore, a bigger company A is created. The take-over may be done with or without the consent of B's management. The latter transaction is called a hostile take-over. The acquisition may be paid for in cash or by means of acquiring the entity's shares.
- Merger: two (or more) companies (in this case, A and B) decide to merge into a new company (C), whereby the new entity is fully made up of the two existing companies. There are two ways of achieving this:
- The new company is a holding, which retains the existing companies (and their names) as subsidiaries, thus ensuring them a certain degree of independence.
- The new company represents a complete merger of the previous entities, with change of names (e.g. UBS and SBC).

  Sometimes, under closer scrutiny, mergers turn out to be acquisitions, when one of the merging partners is dominant and accordingly has a more powerful position in the newly founded company.

A merger results in the complete integration of the companies' balance sheets. Therefore, the evaluation of each company prior to the merger is of the highest importance, as it will determine the distribution ratio of the new entity's stock.

2. How are mergers and acquisitions achieved?

Acquisitions are easier to achieve than mergers. Suppose a company (A) decides to take over another company (B). To do so, A must be able to pay a price analogous to B's market value. Whether the payment is made in cash or shares is of minor importance. A's shareholders retain their shareholder status and may decide whether the acquisition of B is appropriate or not. If a shareholder disapproves of the take-over, he has the option of selling his holdings in A. In general, the share prices of acquired companies tend to rise, whereas those of the acquirers tend

to fall on the news of a take-over.
Mergers are highly complex transactions involving not only the “mere” integration of two companies, but also the decision of two “equal-sized” partners. Often they have radically different branches, but they will operate as a single entity.
Therefore, both companies must agree on their respective theoretical values. On that basis, shares in the new company will be distributed among both companies’ shareholders in proportion to their respective valuations.
According to recent surveys, 50% of mergers are not successful. The positions of more than half of all merged companies are therefore at least no more enviable than before their mergers. The number of announced mergers that eventually fail is also rising, due partly to the fact that the corporate cultures of two merger partners are more different than management teams had initially expected. A successful example is the merger between Daimler and Chrysler.

3. Why are mergers and acquisitions performed?

The development and research for synergy is a popular reason for M&A activity. Synergy may be defined in different ways:

Horizontal mergers:
The companies act in the same business segment and aim to reduce their fixed and marginal costs by merging their activities; the achievement of economies of scale needs a certain critical mass.

Vertical mergers:
The companies have neighboring links in the value-added chain. Such alliances can reduce general overheads. Often, vertical mergers also enable the participants to ensure that corporate secrets are not leaked to third parties. Finally, providers of finished product components increasingly tend to be integrated in the manufacturing process.

Conglomerate mergers (diversified companies):
The companies act in different sectors: a holding company aiming to diversify its risk exposure through diversified activities. The merged or acquired companies remain largely independent, with only certain specific functions, such as IT or HR, being managed centrally. The holding mainly manages strategy and hardly gets involved in the different companies’ operating activities.

7.IPO (Initial Public Offering)

1. Definition of an IPO?

Through an IPO, a privately owned stock company becomes a publicly listed company. Its shares (or at least part of them) become accessible to the public and to institutional investors and will be listed on a securities exchange. Shares are therefore issued. They may be subscribed and subsequently traded on the exchange.

2. Procedure of an IPO ?

An IPO is a long process. Stock exchanges have strict listing requirements, which must be met by a company before its shares are listed.
In an IPO, the share placement either applies to the existing shares held by current shareholders or to new shares created by means of a capital increase. The placement is achieved by a bank syndicate, which acquires the shares before offering them for subscription.
The syndicate and the company negotiate a price range within which the shares may be placed. Normally, the subscription (or bookbuilding) period lasts one to two weeks, and normally ends shortly before the shares are listed on the exchange until the final subscription price is fixed at the end of the bookbuilding period. Therefore, an investor subscribing newly issued shares will only be informed subsequently of the price to pay. Shares attributed to investors can then be freely traded on the exchange. The bank syndicate has a so-called greenshoe option. This provides the possibility to increase the number of distributed shares if the demand for the now listed shares is particularly strong.
In general, company employees are offered the opportunity to subscribe shares on advantageous terms, but are restricted from selling stock during a specified length of time, called the lock-up period.

3. Why do companies launch IPOs?

Companies may launch an IPO for different reasons:

- Payment to shareholders: :In a family-owned joint stock company, there may be family members who desire to have their share capital paid out (in particular in large, well established companies)..
  The listing of Tamedia is a good example. 23% of the shares held by the Coninx family were publicly placed during the IPO, which yielded no capital to the company itself.

- Privatisation of state-owned companies: When a state-owned organisation plans to go public, it first needs to be converted into a stock company in which the state becomes the sole shareholder. Then, by means of an IPO, part of the shares may be placed among the public. The state thus benefits from a fresh cash inflow without immediately being forced to hand over its majority stake in the company, and therefore retains overall control of it.
  The flotation of the Swiss telecommunications company, Swisscom, is an example of privatization. Swisscom was first listed on SIX Swiss Exchange. 30% of the company’s stock was placed, and the remaining 70% remained in the hands of the Swiss Confederation. Meanwhile, the latter has exercised an option to sell an additional stake of 4.5%.

- Expansion of smaller companies: In the summer of 1999, the SIX Swiss Exchange introduced a new segment called SIX Swiss Exchange New Market. According to the “Additional Regulations covering the listing of securities on the SIX Swiss Exchange New Market”, this segment has the following function:
  The SIX Swiss Exchange’s SIX Swiss Exchange New Market segment is intended for the listing of companies that distinguish themselves by exploiting new distribution markets, by the use of innovative processes or by the development of new products or services. In particular, it is intended to facilitate the access of young companies to the exchange”.
  IPOs on the New Market must be performed in connection with a capital increase.
  An additional advantage of publicly listed companies is that they can create employee incentive plans in which staff receive stock-options. On the other hand, a company’s listing requirements include rigorous accounting rules and the duty to report any price-sensitive information to the market. In addition, a publicly listed company may become the target of a hostile take-over bid.

8. Capital Reduction

1. Definition of capital reduction?

The capital reduction process means that a company reduces its share and equity capital. In practice, this is called a de-financing operation.
There are two basic ways of reducing capital:

- Reducing the par value of the company’s shares
- Destroying shares. This process is generally preceded by a stock buy-back in which shareholders are invited to tender stock.

Shareholders must approve any capital reduction in which the reduced capital is not wholly replaced by new, fully payable capital (Swiss Code of Obligations, art. 732.1).

2. For what reasons do companies reduce their capital?

A company may decide to reduce its capital when it has excess liquidity and an insufficient return on equity. By repurchasing its own shares, reduces the company's cash balance. This subsequent destruction of shares then reduces its equity capital, so that the return on equity increases even though earnings remain unchanged. This results in higher per-share earnings. Nevertheless, market reactions to capital reductions are not always positive. If a company pays cash back to its shareholders because of excess liquid assets, it also means that its management believes that further investment expenditure is no longer favoured in that market.

Example of capital reduction

As Royal Philips Electronics announced a capital reduction the group's share capital was reduced by 3%, and EUR 1.7bn was paid out to shareholders in the process. Philips paid EUR 1.26 per share and each block of 100 shares was replaced by 97 shares.

9. Dividend

1. Definition of dividends?

According to art. 660 par. 2 (Swiss Code of Obligations), every shareholder is entitled to a proportionate share in book profits if the latter are, by law or pursuant to company's articles of association, meant for distribution among shareholders.
This per-share participation in profits is called a dividend. According to art. 698 of the Swiss Code of Obligations, the Shareholders' General Meeting decides on earnings attributions and in particular on the dividend amount.
The dividend amount may only be fixed after earnings attributions to legal and statutory reserves have been deducted (Swiss Code of Obligations, art. 674).
Dividends may only be paid out of the company's book profit and from reserves specially created for that purpose (Swiss Code of Obligations, art. 675).

2. Dividend payment policies?

Many ways of establishing its dividend policy do exist for a listed company. The most common dividend form in Switzerland is a fixed cash dividend. However, the US practice of earnings-adjusted dividends is slowly gaining ground.
Dividends may also be paid in form of bonus shares or in kind, although such is rarely the case. When investors can choose between several dividend types, this is called an optional dividend.
Dividends are not only paid because the law requires it. Shareholders are entitled to share in the company's profits. However, the importance of dividends has diminished, as they now tend to be dwarfed by stock performance expectations.

Examples of dividend payments

Annual Report, SAirGroup:
"For the 1999 financial year, the Board of Directors will ask the Shareholders' Meeting of 27 April 2000 to approve the following:
Dividend on dividend-entitled share capital of CHF 877'420'905 (12'280'620 shares at CHF 4.00) = CHF 49'122'480
If the Shareholders' Meeting approves the Board's proposal, the dividend will be credited to registered shareholders or their depository banks as of 3 May 2000".
In this example, the role of the Shareholders' Meeting is to approve rather than determine the dividend amount.
By paying a dividend of CHF 4.00 per registered share, SAirGroup transferred the near-totality of its annual profit (CHF 51'230'044) to shareholders.

10. Delisting

1. Definition of a delisting?

A security is delisted when exchange trading has been suspended and there are no plans to subsequently resume trading in it. The security is deleted from the exchange's instruments database.
In principle, it is the issuer who decides to delist a security. This decision must be justified in an official delisting request. The final date of trading is then set by the exchange's admissions board, which, in so doing, takes into account the imperatives of investor protection, orderly trading and the interests of the issuer requesting the delisting. The actual delisting announcement must be made at least three months prior to the security's last trading day, in form of a written media announcement. If more than 5% of outstanding securities are still in public hands at the time of delisting, off-exchange trading must be guaranteed up to six months.
If the delisting is the result of a merger or a liquidation, the time span between the delisting announcement and the last trading day may be shortened to five business days. Delisting can also be decided by the admissions board, for reasons detailed in the next paragraph.

2. Why do companies delist?

Delisting often results from a mergers or acquisition, as, after the merger only one share listing is obligatory.
A delisting caused by the liquidation of a company is far more unpleasant for its shareholders. If there is no longer sufficient liquidity to ensure appropriate trading in a security, the admissions board can cancel the security's listing. The same decision can be reached if a security no longer meets the listing requirements. For example, if an issuer's fails to meet information requirements that might lead to delisting of the security concerned.

Example of delisting

Chase Manhattan Corporation and J.P. Morgan & Co. Incorporated announced their intention to merge. In the process, the shares of J.P. Morgan & Co. Incorporated were to be exchanged for The Chase Manhattan Corporation shares at a ratio of 1:3.7. The Chase Manhattan Corporation shares resulting from the exchange are traded on the New York Stock Exchange (NYSE).
J.P. Morgan & Co. Incorporated therefore decided to have its ordinary shares delisted from the SIX Swiss Exchange. The suspension of trading in Switzerland was requested and granted for 5 days (last trading day: 29 December) (SIX Swiss Exchange Official Notice).
As this delisting was the result of a merger, the company did not have to comply with the three-month period between the official delisting announcement and the last trading day for the shares. In this example, the period was reduced to nine days.

11. Change of security class

1. What is a change of security class?

A change of security type is a change in the structure and category of a company's equity securities.
A company may decide to merge its bearer and registered shares into a capital structure of registered shares. In that case, the company's bearer shares must be converted into registered stock at a ratio given by the difference in par values. After the conversion, the bearer shares are delisted. In principle, the depository bank handles the exchange's administrative process, and no intervention is required from shareholders.

Companies increasingly tend to switch to a single-share structure and mostly list registered shares only. The advantage of the latter is that companies are informed of the identity of their shareholders, which facilitates corporate communications.

Example of a change in security class

At its extraordinary general meeting, Ascom Holding AG decided to simplify its capital structure to include registered shares only. To this effect, Ascom bearer shares were first split to match the par value of registered shares, then exchanged, at a ratio of 1:1, for registered shares.