

American Depositary Receipts (ADRs): A Primer

Introduction

An American Depositary Receipt (ADR) is a negotiable instrument issued by a depositary bank that evidences ownership of shares in a corporation organized outside the U.S. Each ADR represents a specific number of underlying ordinary shares in the non-U.S. company, on deposit with a custodian in the applicable home market.

ADRs are generally treated as U.S. domestic securities. They are quoted and traded in USD and are subject to the trading and settlement procedures of the market in which they trade. ADR trading venues include the U.S. national stock exchanges (New York Stock Exchange – NYSE; Nasdaq Stock Market – Nasdaq; NYSE American (formerly AMEX)) and the U.S. OTC (over-the-counter) market.

ADR programs, or “facilities,” are typically classified under three levels:

1. When an ADR program is established based on existing ordinary shares and traded in the U.S. OTC market, it is categorized as a “Level I” ADR facility.
2. When such a program is listed on one of the aforementioned U.S. stock exchanges, with no corresponding offering of newly issued shares or ADRs, it is identified as a “Level II” ADR facility.
3. When an ADR program facilitates a capital raising, accommodating newly issued ordinary shares, and is listed on a U.S. national stock exchange, it is identified as a “Level III” ADR facility.

Regardless of its classification, a well-orchestrated ADR program can contribute to strong demand for a company’s shares. A successful ADR program can also reflect positively on the company not only in the minds of investors and analysts, but also

customers, vendors, regulators, employees and the communities in which the company operates.

An ADR program can also function as a corporate governance seal of approval. More specifically, meeting the rigorous and widely accepted listing standards of a U.S. exchange can evidence the sufficiency of a non-U.S. company’s reporting and accounting practices.

ADRs are typically the most readily available and familiar instrument to most U.S. investors for investment in specific overseas companies, while still benefiting from the general protection and transparency facilitated by U.S. securities regulation.

Key Roles and Responsibilities

In order to establish an ADR program, the issuer first appoints a team of advisors that typically includes investment bankers (except for Level I), lawyers and accountants. The issuer also selects a depositary bank to manage the implementation of the program. The depositary bank also performs the critical role of liaison among the various parties to the transaction and will remain integral to the long-term development of the ADR program.

Generally, the functions of the lawyers and accountants will eventually transition to periodic reporting and general legal matters. Investment bankers will typically not be involved with the ongoing management of an ADR program as well; however, the program will become an important consideration for investment bankers if the issuer contemplates going to the capital markets in the future. The depositary bank is the only party to ADR transactions that is engaged on an end-to-end basis.

See the diagram on the reverse side for more detailed information.

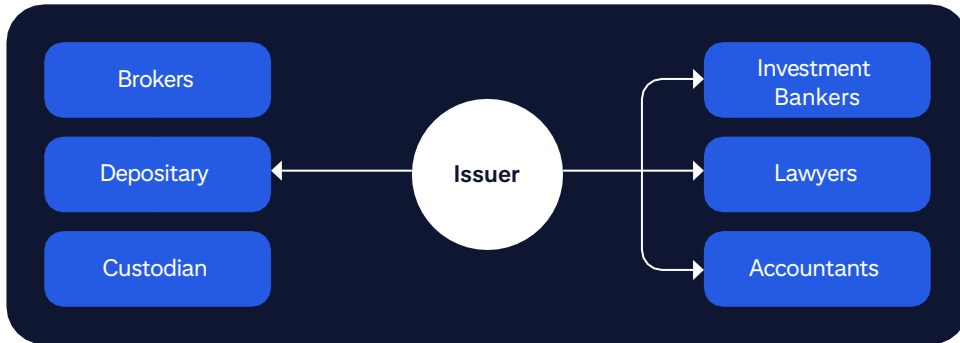
ADR Primary Benefits

Issuers

- Access capital in the U.S.
- Build corporate visibility within the U.S. and globally
- Broaden and diversify shareholder base
- Expand market for shares, potentially enhancing overall liquidity
- Facilitate M&A activity through the use of ADRs as an acquisition currency
- Establish share plans for U.S.-based employees

Investors

- Globalize/diversify investment portfolio
- Trade, clear and settle according to U.S. conventions
- Eliminate cross-border custody/safekeeping charges
- Receive dividend payments in USD
- Obtain corporate action notifications and other important shareholder communications in English



- Advise on capital structure
- Advise on ADR facility structure
- Conduct due diligence
- Draft prospectus
- Obtain securities codes, such as CUSIP number
- Obtain DTC, Euroclear and Clearstream eligibility, as needed
- Coordinate road show
- Organize book-building and line up market makers
- Price and launch ADR offering

Brokers

- Make ADRs available to investors

Depository

- Provide input on ADR facility structure
- Appoint local custodian
- Draft Deposit Agreement and Form
- F-6 registration statement
- Assist with ADR registration requirements
- Coordinate with lawyers and investment bankers to ensure that all implementation steps are completed
- Prepare and issue ADRs at closing
- Announce ADR program establishment to the investor community
- Facilitate ongoing issuance and cancellation of ADRs
- Assist the company on investor relations strategy

Custodian

- Act as local market agent for the depository
- Receive and hold deposits of underlying ordinary shares for ADR issuances

Issuer

- Determine financial objectives
- Appoint depository bank, lawyers, investment bank and accountants
- Determine ADR facility “level”
- Obtain approvals from board of directors, shareholders and regulators, as needed
- Provide financial information to accountants and investment bankers
- Develop investor relations strategy

Investment Bankers

- Lead underwriting process
- Establish syndicate of participating banks

Lawyers

- Advise on ADR facility (legal) structure
- Negotiate Deposit Agreement
- Prepare appropriate registration statements or establish exemptions with SEC, as applicable
- Prepare listing agreements for U.S. exchanges (Level II and Level III ADR facilities)
- Assist in the drafting of offering circular/prospectus

Accountants

Prepare financial statements in accordance with (or reconciled to) U.S. Generally Accepted Accounting Principles (U.S. GAAP) or International Financial Reporting Standards (IFRS) for Securities Act – registered securities (Level II and Level III DR facilities).

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Issuer Services

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