Exchange Regulation

Media Release

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Reprimand issued against Valartis Group AG

SIX Exchange Regulation reprimands Valartis Group AG for several errors in its annual IFRS financial statements 2011. Valartis Group AG was sanctioned for the erroneous presentation of earnings per share, incomplete disclosures regarding goodwill impairment testing as well as the incorrect disclosure of the classification of derivatives.

The following violations of IFRS were identified in Valartis Group AG's annual IFRS financial statements 2011:

Due to a calculation error the loss per share from continuing operations was overstated by CHF 0.50 or 7%. Additionally, earnings per share from the discontinued operation were neither presented nor disclosed.

Regarding the impairment test to ensure recoverability of goodwill among other disclosures the assumptions related to the expected net margin and the determination of multiplication factors were not disclosed. These are considered particularly important disclosures due to the significant discount on book value compared to the market capitalisation of Valartis Group AG. The error affects goodwill in the amount of CHF 27 million or 73% of the entire goodwill amount.

The classification of derivative fair values was incorrectly disclosed as quoted prices even though the valuation was merely based on observable inputs. The error in the notes to the annual financial statements pertains to derivative assets in the amount of CHF 9.3 million (89%) and the entire portfolio of derivative liabilities in the amount of CHF 5.9 million.

After considering the severity of the errors, the degree of fault as well as the fact that the company has not been sanctioned during the last three years, SIX Exchange Regulation issued a sanction notice reprimanding Valartis Group AG. The company has accepted the sanction notice and will correct the errors in accordance with the requirements of IFRS in its annual financial statements 2012.

Previous sanctions in the area of financial reporting can be found at: www.six-exchange-regulation.com/enforcement/media_releases/sanctions/financial_reporting_en.html

Appendix regarding the accounting standards
Periodic financial reporting is part of the information required to ensure a functioning market.

Information regarding financial reporting can be found at:
www.six-exchange-regulation.com/obligations/financial_reporting_en.html

The following accounting standards were relevant for the assessment of the case in question:
According to IAS 33p66 an entity has to present in its income statement the result per share from continuing operations that is attributable to the entity's shareholders as well as as the shareholder's overall result per share. Additionally, an entity that reports a discontinued operation in accordance with IFRS 5 has to either present the diluted and undiluted result per share for the discontinued operation in the income statement or disclose it in the notes (IAS 33p68).

When testing goodwill for impairment IAS 36 generally permits two reference values: value in use and fair value less cost to sell. The disclosure requirements depend on which of the two reference values is being used. If the reference value used for goodwill impairment testing is fair value less cost to sell the disclosures have to be in compliance with IAS 36p134(e). The required disclosures mainly relate to a description of the inputs used for determining the fair values. It is also required to provide a description of those assumptions to which the fair value is most sensitive as well as the approach to determining the value assigned to each of these assumptions.

For financial instruments measured at fair value IFRS 7p27B requires the disclosure of the valuation level. The classification into one of three possible valuation levels provides investors with information about the quality of the fair value measurements used, such as if they are based on quoted prices or on observable inputs. The valuation levels are defined in IFRS 7p27A. Level 1 is defined as unadjusted quoted prices in active markets for identical financial instruments. Level 2 fair values, however, are determined based on input factors that are either directly (i.e. as prices) or indirectly (i.e. derived from prices) observable in the market.

Should you have any questions, please feel free to contact Stephan Meier, Media Relations.

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SIX Exchange Regulation
SIX Exchange Regulation performs the functions assigned under Swiss federal law and enforces and monitors compliance with the rules laid down by the Regulatory Board. SIX Exchange Regulation imposes sanctions in so far as it is authorised to do so by the regulations, or submits sanction requests to SIX Swiss Exchange’s Sanction Commission.

SIX Exchange Regulation's independence from SIX Swiss Exchange's operating business is guaranteed by its direct subordination to the Chairman of the Board of Directors of SIX Group. SIX Exchange Regulation consists of the divisions Listing & Enforcement, responsible for regulating issuers, and Surveillance & Enforcement monitoring trading.
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Sanction Commission
The Sanction Commission can impose sanctions in the case of violations of the Rule Books of SIX Swiss Exchange and Scoach Switzerland, the Listing Rules and the Additional Rules. It is composed of between five and eleven members. The Chairman of the Sanction Commission and half of its members are elected by the Regulatory Board, with the remaining members appointed by the Board of Directors of SIX.

SIX operates Switzerland's financial market infrastructure and offers on a global scale comprehensive services in the areas of securities trading, clearing and settlement, as well as financial information and payment transactions. The company is owned by its users (approximately 150 banks of various size and orientation) and, with its workforce of more than 3,900 employees and presence in 25 countries, generated an operating income of 1.26 billion Swiss francs and a Group net income of CHF 218.6 million in 2011.
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