ACT
PAST PAPER

Diploma in Treasury Management (AMCT)

Unit 1: Corporate finance for treasury

July 2025

This is a past paper for Unit 1 of the Diploma in Treasury Management (AMCT)

Based on the syllabus assessed from 1 August 2022.

INTRODUCTION

This past paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the Diploma in Treasury Management assessments. It is important to highlight that the answers provided in this paper are not exhaustive and that any other reasonable answers would be awarded marks where necessary in a marked assessment. It contains a past exam for the specified unit as well as past answers. Ideally, students should have completed the majority of their Diploma in Treasury Management studies for Unit 1 before attempting this past paper.

Students should allow themselves 180 minutes to complete the exam plus an additional 25 minutes reading time. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. Although the past exam in this guide is typical of a Diploma in Treasury Management assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam.

To prepare properly for the examination, candidates students make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

ASSESSMENT TECHNIQUE

This paper is a professional paper that as well as testing theory expects application to practice at a managerial level.

The best way to approach written assessments is to work methodically through the questions. You should not spend too much time on any one question if you are struggling to think of an adequate answer. Remember you can flag any question to come back to later should you want to continue your way through the exam.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one response could make the difference between passing and failing.

Please ensure you show your workings within your answer when prompted as this means there are marks available for the workings out. You will be able to make rough workings on a piece of paper during the exam and on screen should you wish to, however these will not count towards your final mark.

ASSESSMENT INFORMATION AND TEST SPECIFICATION

The diploma in treasury management assessments for units 1 and 2 each have 4 written questions, of which you must answer 3, and will involve a pre-seen case study workbook that is released no later than two weeks prior to the assessment date. The papers will be split into sections a and b and can be made up of either one case study or two case studies; each unit exam is worth a total of 100 marks. For the purpose of this past paper the questions follow each case study.

Diploma in treasury management assessment test specification:

Section	Amount of questions	Marks available
Section A	1 case study based question	50
Section B	3 shorter case study based questions, of which candidates chose to only answer two	50
Total	**3**	**100**

Under exam conditions, **3 hours** (180 minutes) is allowed for the Diploma in Treasury Management assessments plus an additional 25 minutes reading time.

When you take your actual exam, you will be sitting online using your own PC/Laptop. You have access to an online scientific calculator, but for the purpose of this past paper, you may use a non-programmable scientific calculator.

In order for you to determine how well you have performed, sample mark schemes are provided after each question. Please note that these are mark schemes only and not model answers. They provide lists of points that are expected to be covered within answers, although the content of your answers must be much more detailed (satisfying the command word used in the question, for example 'analyse'). As with all mark schemes, the content is indicative only, i.e. the lists of points featured are not exhaustive. It is highly likely that there are other perspectives and, provided these are valid and supported fully, marks would be awarded for these in a live exam. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

SECTION A

1 long form question worth 50 marks based on a pre-seen case study. This question should test knowledge, analysis, application insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level.

Total available for Section A: 50 marks

QUESTION 1: CASE STUDY

Finotrek Global Holdings Plc (FGH) is a diversified financial services company listed on the London Stock Exchange (LSE). It offers specialist banking and insurance products, among other niche solutions. Over the past decade, FGH has built a strong reputation for delivering shareholder value through robust performance, effective risk management and a commitment to sustainable business practices. FGH's revenue for the year was GBP1.2bn.

FGH financial summary

Balance sheet		
	2025	2024
	GBPm	GBPm
Assets		
Cash and balances at central banks	**1,844.64**	1993.92
Loans and advances to banks	**135.49**	67.03
Loans and advances to customers	**7,322.67**	7350.74
Fair value adjustments for hedged risk	**(150.75)**	(31.68)
Investment securities	**329.95**	420.49
Derivative financial instruments	**182.04**	86.98
Equity shares	**3.89**	7.98
Other assets	**4.94**	4.45
Prepayments	**7.49**	7.11
Property, plant and equipment	**7.98**	8.51
Intangible assets	**31.50**	23.98
Right-of-use assets	**11.55**	16.42
Current tax assets	**0.63**	0.00
Deferred tax assets	**58.59**	12.88
Net retirement benefit asset	**55.90**	294.39
Total assets	**9,846.48**	10263.16
Liabilities		
Deposits by banks	**1,989.19**	1,934.66
Customer accounts	**7,037.56**	7,397.57
Debt securities in issue	**63.67**	71.16
Fair value adjustments for hedged risk	**(12.11)**	(2.63)

Derivative financial instruments	**36.23**	51.87
Other liabilities	**14.98**	13.55
Accruals and deferred income	**11.38**	12.95
Provisions	**11.62**	11.87
Other borrowed funds	**226.42**	140.74
Lease liabilities	**10.85**	15.44
Net retirement benefit liability	**2.07**	2.84
Total liabilities	**9,391.83**	9,649.99
Capital and reserves attributable to the group's equity holders		
Ordinary share capital	**0.32**	0.32
Share premium account	**109.83**	109.83
Retained earnings	**688.84**	681.10
Other reserves	**(344.33)**	(178.08)
Total equity	**454.65**	613.17
Total liabilities and equity	**9,846.48**	10,263.16

Earnings Per Share	**GBPm**	**GBPm**
Profit attributable to ordinary equity holders	**203.64**	164.00
	millions	**millions**
Number of shares in issue	**148**	148

As part of its growth strategy, FGH intends to acquire PTI a privately owned payment technology company specialising in advanced digital payment solutions and personal finance management. PayTech Innovations is the developer of "Treasury for You," a cutting-edge platform that manages personal cash flows for individuals and can be scaled to serve small and medium-sized enterprises (SMEs).

The strategic rationale behind this acquisition is multifaceted. FGH aims to:

1. **expand the product portfolio**: by integrating PayTech Innovations' technology, FGH will enhance its digital banking and payment technology offerings. This position will enable FGH to better serve its diverse client base, including individual customers and SMEs.
2. **enhance market competitiveness**: by integrating "Treasury for You", FGH can capture a growing share of the digital payment market, which is increasingly important in the evolving financial services landscape.
3. **support net zero commitments**: PayTech Innovations is known for its sustainable technology initiatives. Its platform, designed to streamline transactions and reduce reliance on paper-based systems, aligns with FGH's environmental goals and commitment to achieving net-zero emissions. FGH's ambition is to be a net-zero business by 2050, aligning its financing with the goals and timelines of the Paris Agreement by achieving net-zero operations, reducing its financed emissions and funding the transition.
4. **maximise shareholder value**: The acquisition is expected to drive long-term growth by generating incremental revenue, improving cash flow and delivering cost synergies.
5. **target industry and strategic fit:** The target business, PayTech Innovations, operates within the payment technology niche—a rapidly growing segment driven by increasing digital adoption and

regulatory support for sustainable finance. Its "Treasury for You" platform is designed to manage personal cash flows. It is adaptable to SMEs, making it a valuable asset for FGH as it seeks to diversify its revenue streams.

6. **financial services sector dynamics:** FGH operates in an environment characterised by rapid technological change, intense competition and strict regulatory oversight. Its commitment to the UK Code on Corporate Governance underscores its focus on transparency, accountability and long-term value creation. The acquisition is viewed as a strategic move to stay ahead of competitors and set new benchmarks in innovation and sustainability within the financial services industry.

Financing the acquisition

FGH is evaluating several financing options to fund the acquisition. Each option is being assessed based on its impact on the balance sheet, dilution effects, cost of capital and alignment with long-term shareholder value maximisation.

Option 1: debt financing

Debt financing, through corporate bonds or a term loan. FGH's strong credit rating and stable cash flows make this option attractive. FGH currently has about GBP290.1m in debt (borrowed funds and securities in issue), with a weighted cost of 8% per annum. The tax rate is the standard 25%.

Option 2: rights offer

A rights issue would allow FGH to raise the funds it needs for the acquisition from current shareholders. The current share price is GBP6.95. Shareholders have been promised a dividend of GBP0.80, and this is expected to grow by 5.5% next year.

Option 3: Share Swap Arrangement

A share swap would involve exchanging shares in PayTech Innovations for shares in FGH. This arrangement aligns the interests of the target's owners with those of FGH's shareholders.

Governance, compliance, and regulatory framework

In line with the UK Corporate Governance Code, FGH is committed to maintaining transparency, accountability, and long-term shareholder value throughout the acquisition process.

FGH's investment policy

An extract of FGH's investment policy is shown below.

Investment policy and guidelines

Investment objective

FGH's investment objective is to generate capital growth over the long term through investment in a focused portfolio of fast-growing and/or high-potential private financial services technology ("fintech") businesses based predominantly in the UK and wider Europe.

Investment policy

FGH may invest in early or later-stage investments in unquoted fintech businesses to achieve its investment objective. FGH seeks exposure to high-growth early-stage businesses with scalable opportunities and disruptive technologies in the banking, insurance, wealth, and asset management sectors. It also looks for companies that provide services to support the financial sector and other cross-industry propositions. Most importantly, these businesses should complement FGH's offerings.

Investments are expected to primarily take the form of equity and equity-related instruments issued by portfolio companies, although they may also involve convertible debt instruments. FGH intends to invest in unquoted companies and will ensure it possesses appropriate investor protection rights when necessary. Additionally, FGH may invest in partnerships, limited liability partnerships and other

types of legal entities. FGH may acquire investments directly or through holdings in special-purpose vehicles or intermediate holding entities.

The management team has historically taken a board or observer position on investee companies and, wherein the company's best interests, will do so about future investee companies.

FGH's portfolio is expected to be diversified across several geographical areas, predominantly within the UK and wider Europe. It will always invest and manage the portfolio consistent with spreading investment risk.

The management team will actively manage the portfolio to maximise returns, including helping to scale the team, refining and driving key performance indicators, stimulating growth and positively influencing future financing and exits.

Investment restrictions

A benchmark hurdle rate sets FGH's investment threshold at 300 basis points above its weighted average cost of capital (WACC). This policy ensures that all potential investments must generate returns that exceed the cost of capital by an additional 3% to account for investment-specific risks and to drive value creation. The hurdle rate will be recalculated quarterly to reflect any fluctuations in FGH's WACC, ensuring that investment evaluations remain aligned with current market conditions and risk profiles. All proposed investments must demonstrate an expected Internal Rate of Return (IRR) that meets or exceeds this hurdle rate before they are considered for approval.

Borrowing policy

FGH may borrow occasionally to manage its working capital requirements and for investment purposes. Borrowings will not exceed any limits that the financial services regulator may set from time to time to avoid breaching any limits and putting the business at risk from a capital perspective.

QUESTION 1

a.	Assess how FGH might apply its capital investment process to the potential acquisition of PTI. Your assessment must include how FGH will guide the evaluation and eventual decision-making on this investment opportunity. (Consider the investment appraisal process)	14 marks
b.	Discuss how FGH can structure its governance framework to balance long-term value creation with the need for ethical conduct and environmental responsibility.	6 marks
c.	Calculate FGH's current hurdle rate. You are required to show your workings. (Spreadsheet)	8 marks
d.	Evaluate FGH's performance by calculating FIVE shareholder and market ratios, including a DuPont analysis. (Spreadsheet)	12 marks
e.	Evaluate FIVE key elements of FGH's investment policy, including how each contributes to sustainable long-term value creation and effective risk management.	10 marks
		Total: 50 marks

Mark scheme

Q1a

Investment Process Stage	Application for the PayTech Acquisition	
Idea Generation	Gather market intelligence and identify technology trends that align with FGH's strategic growth objectives, highlighting how PayTech Innovations could complement existing capabilities and drive future innovation.	2 marks
Develop Proposals and Classify	Prepare detailed acquisition proposals and categorise the opportunity based on strategic fit, risk profile, and expected financial returns, ensuring it meets FGH's long-term objectives.	2 marks
Screening	Conduct an initial screening using key financial and strategic criteria to filter opportunities, focusing on those with the highest potential to deliver synergistic benefits and significant value enhancement.	2 marks
Appraisal	Undertake rigorous valuation and financial analysis (e.g. DCF, IRR) to assess the standalone and synergistic value of the acquisition, ensuring the opportunity meets FGH's target return thresholds and risk parameters.	2 marks

Authorisation	Present the thoroughly evaluated proposal to the investment committee or board for due diligence and risk assessment, setting the stage for a formal decision on proceeding with the acquisition.	2 marks
Implementation and Capital Expenditure Controls	Execute the acquisition with strict controls over capital expenditures, ensuring that integration efforts are closely monitored, costs are managed, and capital deployment is aligned with strategic objectives. Consideration is also made to the optimum funding source to support the acquisition.	2 marks
Post-Completion Audit	Conduct a comprehensive audit post-acquisition to compare actual performance against forecasts, identify areas for improvement, and refine the investment process for future opportunities.	2 marks

Total marks: 14

Q1b

FGH can structure its governance framework to balance long-term value creation with ethical conduct and environmental responsibility by adopting the following mechanisms:

Robust Board Composition: FGH should maintain a board with a significant proportion of independent non-executive directors who bring diverse expertise and provide unbiased oversight. This structure helps ensure that strategic decisions are made with a balanced perspective and that short-term pressures are moderated for sustainable, long-term outcomes. — 1 mark

Specialised Governance Committees: Establishing dedicated committees—such as audit, risk, and sustainability committees—ensures focused oversight of ethical standards, regulatory compliance, and environmental initiatives. These committees are crucial for monitoring performance, managing risks, and driving progress toward net-zero targets, thereby reinforcing FGH's commitment to ethical and responsible business practices. — 1 mark

Transparent Disclosure Practices: FGH can promote accountability by implementing comprehensive reporting and disclosure protocols that cover financial performance, governance practices, and environmental, social, and governance (ESG) metrics. Regular, transparent updates to shareholders and other stakeholders build trust and facilitate informed decision-making. — 1 mark

Stakeholder Engagement: Actively engaging with a broad range of stakeholders—including investors, regulators, employees, and community groups—helps ensure that diverse perspectives are considered in the decision-making process. FGH can — 1 mark

use formal channels, such as annual general meetings, investor roadshows, and less formal feedback mechanisms to incorporate stakeholder insights into its strategic direction.

Performance-Linked Remuneration: Aligning executive compensation with long-term performance metrics, including specific targets for sustainability and ethical behaviour, reinforces a culture that prioritises value creation over short-term gains. This approach not only incentivises responsible management but also ensures that the interests of the leadership are aligned with those of shareholders and society at large.

1 mark

Integrated Risk Management: FGH can systematically assess and mitigate potential ethical and environmental risks by embedding risk management into its overall governance structure. This includes regular internal audits, scenario planning, and stress testing to ensure that all strategic initiatives—such as the acquisition of PayTech Innovations—adhere to the highest standards of integrity and contribute to the firm's long-term, sustainable growth.
(Holistic marking to be applied on question 1b)

1 mark

Total marks: 6

Q1c

Cost of Equity:
= (0.80 × 1.055 / 6.95) + 5.5%
= (0.844 / 6.95) + 5.5%
= 0.1214 + 5.5%
= 17.64%

2 marks

1 mark

Cost of Debt (after tax):
= 8% × (1 – 0.25) = 8% × 0.75 = 6%

Capital Structure:
Market Capitalization (Equity) = 148m × £6.95 ≈ £1,028.6m
Debt = £290.1m
Total Capital = £1,028.6m + £290.1m = £1,318.7m
Weight of Equity = 1,028.6 / 1,318.7 = 78%
Weight of Debt = 290.1 / 1,318.7 = 22%

2 marks

WACC Calculation:
WACC = (0.78 × 17.64%) + (0.22 × 6%)
= 13.75% + 1.32%
= 15.07%

2 marks

WACC is approximately **15.1%**.

1 mark

If the hurdle rate is set at 300 basis points (3%) above the WACC, then:
Hurdle Rate = 15.1% + 3% = **18.1% per annum**.

Total marks: 8

Q1d

Metric	Calculation	Result	
1. Earnings Per Share (EPS)	EPS = Profit attributable to ordinary equity holders / Weighted average number of shares in issue = 203.64m / 148m	= £1.38 per share	1 mark
2. Dividend Yield	Dividend Yield = (Dividend per share / Share Price) × 100 = (0.80 / 6.95) × 100	= 11.5%	1 mark
3. Dividend Cover	Dividend Cover = EPS / Dividend per share = 1.38 / 0.80	= 1.73 /1.72 (Conventional) times	1 mark
4. Price to Earnings (P/E) Ratio	P/E Ratio = Share Price / EPS = 6.95 / 1.38	= 5.036	1 mark
5. Market to Book Ratio	Market Cap = Shares outstanding × Share Price = 148m × 6.95 ≈ £1,028.6m Book Value of Equity = £454.65m Market-to-Book = 1,028.6 / 454.65	= 2.26	1 mark
6. DuPont Analysis (ROE)	- **Net Profit Margin:** = Net Income / Revenue = 203.64m / 1,200m ≈ 16.97% - **Asset Turnover:** = Revenue / Total Assets = 1,200m / 9,846.5m ≈ 0.122 - **Equity Multiplier:** = Total Assets / Equity = 9,846.5 / 454.7 ≈ 21.65 ROE = Net Profit Margin × Asset Turnover × Equity Multiplier = 16.97% × 0.122 × 21.65	= 44.2% (approx.)	7 marks

Total marks: 12

Q1e

Strategic Alignment and Synergy:
FGH's investment policy prioritises investments that complement and enhance its existing fintech capabilities. Each potential investment is evaluated on its standalone merits and its synergistic potential with FGH's core operations. This ensures that the portfolio drives both individual values and contributes to an integrated, strategic growth platform.

2 marks

Diversification and Risk Management:
The policy mandates a diversified investment approach across sectors and geographies, which helps to spread risk and capture opportunities from various growth areas. The policy emphasises that FGH's portfolio should balance investments in early-stage and established businesses, thereby mitigating risk while pursuing robust long-term capital growth.

2 marks

Active Management and Governance:
FGH ensures that it maintains active oversight of its investments by securing board or observer positions in portfolio companies. This policy element enables FGH to directly influence strategic decision-making, closely monitor performance, and implement corrective actions as necessary, thereby reinforcing strong governance practices.

2 marks

Hurdle Rate and Financial Discipline:
A key component of the investment policy is the requirement that each investment must achieve returns exceeding a hurdle rate set at 300 basis points above FGH's weighted average cost of capital (WACC). This rigorous financial discipline ensures that all investments contribute positively to FGH's intrinsic net asset value and are approved only if they meet stringent risk-adjusted return thresholds.

2 marks

Flexible Capital Structures and Instrumentation:
FGH's policy supports investing through various instruments, including equity, convertible debt, and other equity-related vehicles. This flexibility allows FGH to tailor each investment to its risk-return profile while ensuring appropriate investor protection rights and optimising the capital structure for sustainable value creation.

	(Holistic marking to be applied for question 1e Shareholder wealth maximisation *Maximisation of market share* *Maximisation of profits* *Social responsibility* *Sustainability of shareholder value (both environmental and financial)* *CSR / ESG)* This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus Ref: 1.1.1; 1.1.2; 1.2.2; 1.2.3; 1.4.3; 1.5.1; 1.5.4**	2 marks **Total marks: 10**
		Total: 50 marks

SECTION B – 50 MARKS

Answer TWO of the following THREE questions. (2 x 25 marks).

Questions test knowledge, analysis, application, insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level. Candidates are expected to be able to synthesise knowledge from different elements of the syllabus rather than be tested on discrete areas.

Total available for Section B: 50 marks

QUESTION 1: CASE STUDY

BlueWave Industries Ltd (BWI) is a longstanding manufacturing company listed on the Australian Stock Exchange, recognised for its operational excellence and consistent financial performance. Recently, BWI has seen its cash balances grow to levels that far exceed its immediate operational needs. While ample liquidity offers a safety net in volatile markets, BWI now faces a capital allocation challenge: excessive cash held in low-yield money market instruments may be hindering the maximisation of shareholder value.

In response, BWI's management is contemplating a share buyback programme as an alternative to increasing cash dividends. The proposed strategy involves repurchasing a portion of the 245 million shares currently in issue (outstanding). The management's goal is not only to put excess cash to better use but also to potentially enhance key financial metrics such as earnings per share (EPS) and return on equity (ROE) while signalling confidence in the company's future prospects. BWI implemented similar share buyback programmes in 2023 and 2024.

Background and strategic context

BWI's recent financial performance has been strong, yet the accumulation of cash on its balance sheet has prompted debate among analysts and investors. While maintaining robust cash reserves is typically viewed as prudent, there is growing concern that surplus liquidity is being inefficiently managed. In periods when money market returns are minimal, deploying this cash through strategic share buybacks or increased dividend payments may offer a more effective means of enhancing shareholder returns.

Financial year end	Number of shares repurchased (millions)	Average repurchase price (AUD)
2024	10	11.65
2023	8	10.53

Share price performance

Data	2024	2023
Opening share price (AUD)	11.05	9.85
Closing share price (AUD)	12.09	10.99
Dividends paid per share (AUD)	1.80	1.60

While share prices have generally trended upwards, and dividend payouts have increased, questions arise regarding the sustainability of these dividend levels, particularly when excess cash might be better deployed through buybacks. BWI management must weigh the benefits of providing immediate cash returns against the longer-term advantages of potentially higher share prices and improved per-share metrics.

A prominent shareholder activist at BWI has emerged as a critical voice demanding that the company return more cash to its investors. This activist, holding a sizable stake in BWI, argues that the company's considerable cash surplus—currently held in low-yield money market instruments—is being inefficiently managed. Instead of preserving this excess liquidity for potential future investments, the activist argues that BWI should redirect these funds to shareholders through increased dividend payouts.

In recent communications and during shareholder meetings, the activist has presented detailed analyses comparing BWI's capital allocation strategy with those of its industry peers, many of which have successfully implemented robust cash return programmes. Despite some resistance from management, who emphasise long-term growth and strategic reinvestment, the activist's campaign has garnered significant attention. It is increasingly influencing the ongoing debate on optimal capital structure and shareholder value at BWI.

QUESTION 1

a.	Assess the significance of a share buyback for BWI in the context of its large cash balances.	10 marks
b.	Calculate the total shareholder return for the years 2023 and 2024. You are required to show your workings. (Spreadsheet)	8 marks
c.	Discuss the factors that could lead to the shareholder activist influencing BWI's management and the board.	7 marks
		Total: 25 marks

Mark Scheme

Q1a

Efficient Use of Idle Cash: Rather than letting surplus cash generate minimal returns in money market funds, BWI can deploy this capital to repurchase its own shares. This not only reduces idle assets but also converts the surplus into a tangible return for shareholders.	2 marks
Enhancing EPS and ROE: By reducing the number of shares outstanding, a share buyback naturally increases Earnings Per Share (EPS) and, potentially, Return on Equity (ROE). These improved metrics can lead to a more attractive valuation in the market and reflect positively on the company's performance, even if the underlying net income remains constant. *(Also consider – McKinsey's 2018 view)*	2 marks
Capital Structure Optimisation: A share buyback helps to manage the capital structure by reducing equity. This can be strategically beneficial, primarily if the company aims to balance its financing mix or offset high dividend payouts. It is a prudent way to adjust the company's leverage, making it a more efficient operator.	2 marks
Signalling Confidence to the Market: Repurchasing shares is often interpreted by the market as a signal of management's confidence in the company's future prospects. If management believes that the shares are undervalued, buying them back can reassure investors that the company is strong enough to generate cash flow and sustain growth without external funding. However, it may also signalling that management have run out of investment ideas and therefore making it a low growth stock which in turn reduces its prices in the markets (assuming it was even valued with growth built in	2 marks
Flexibility in Returning Value: Share buybacks provide flexibility compared to dividends. While dividends set an expectation for recurring payouts, buybacks are discretionary and can be adjusted based on market conditions and cash availability. This flexibility is particularly valuable in uncertain economic environments.	2 marks **Total marks: 10**

Q1b

Financial Year	Opening Price (AUD)	Closing Price (AUD)	Capital Gain per Share (AUD)	Cash Dividend per Share (AUD)	Share Repurchase per Share (AUD)	Total TSR per Share (AUD)
2024	11.05	12.09	12.09 – 11.05 = 1.04	1.8	116.5 million / 245 million ≈ 0.475	1.04 + 1.80 + 0.475 ≈ 3.315
2023	9.85	10.99	10.99 – 9.85 = 1.14	1.6	84.24 million / 329.24 (245+84.24) million ≈ 0.256	1.14 + 1.60 + 0.256 ≈ 2.996

4 marks

4 marks

Total marks: 8

Syllabus Ref: 1.3.4

Q1c

Factor	Description	Impact on Activism Outcome
Alignment with Management's Interests	Activists must present proposals that align with or complement the company's strategic direction and management's priorities.	Enhances the likelihood of receiving support from the board and reduces resistance from management.
Proportion of Passive Shareholders	A high percentage of shareholders who are reluctant to vote against management can undermine activist efforts.	The greater the proportion of passive shareholders, the lower the probability that activist proposals will be successful.
Shareholder Composition	The mix of individual versus institutional shareholders plays a role, as short-term portfolio pressures may more influence institutions.	Activist campaigns can be more effective if backed by a broad base of individual shareholders or if institutional investors are open to change.
Short-Term Outlook and Trading Behaviour	Shareholders with a short-term focus might support rapid changes, while long-term investors might resist actions that jeopardise future growth.	Activists need to tailor their proposals to appeal to those with a long-term perspective to ensure sustained value creation rather than only short-term gains.

½ mark per factor.

½ mark per point.

External Control and Conflicts of Interest	Institutional investors may be subject to influences from company insiders, such as through pension funds, which can limit their willingness to support activist proposals.	When external control is limited, activist campaigns can gain more traction; if insiders dominate, activist proposals may face significant obstacles.

Max marks: 7

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.1.1, 1.2.1, 1.3.4

Total: 25 marks

QUESTION 2: CASE STUDY

Al Noor E-buses (ANE) is a pioneering green company based in Dubai, embarking on a transformative journey to reshape urban mobility in the Middle East. With a bold plan to invest USD1bn, ANE aims to introduce electric buses across major cities as part of a comprehensive strategy to promote sustainable transportation and achieve net-zero emissions.

Strategic rationale and background

In line with global efforts to reduce carbon emissions and support sustainable development, the UAE government has launched initiatives to transition public transportation towards environmentally friendly alternatives. Recognising the opportunity, ANE has secured an order from the Dubai government to deploy, operate, and maintain 150 nine-metre, fully built, air-conditioned electric buses for intracity public transportation over 10 years. This project is not merely an operational overhaul; it represents a strategic alignment with the nation's long-term net-zero ambitions.

By implementing electric buses, ANE aims to offset approximately 100,000 tonnes of carbon dioxide equivalent (CO2e) over the life of the contract.

Project details and financial structure

The project utilises an annuity-style revenue model. According to the agreement with the Dubai government, each bus will cover 85,000km annually at a fixed per-kilometre rate, with monthly payments. This reliable revenue stream is intended to provide ANE with consistent cash flows, which are crucial for repaying debt and supporting future expansion initiatives.

To support this ambitious endeavour, ANE has partnered with a seasoned banking institution to secure a USD150m project finance term loan. The chosen banking partner has demonstrated expertise in managing both foreign and local currency transactions for infrastructure projects in the Middle East. This comprehensive financing solution not only meets the specific needs of green infrastructure but also mitigates currency risk, which is crucial given the project's cross-border elements.

This term loan represents a first in Dubai's e-mobility sector, marking a significant milestone in the region's shift towards sustainable transportation. The rapidly changing technological landscape and evolving regulatory frameworks pose significant challenges for financiers. Nevertheless, the structured project finance model, supported by the expected annuity revenue yield, provides a robust framework for mitigating these risks while maintaining the project's long-term financial viability.

Environmental and sustainability considerations

A fundamental element of ANE's green initiative is its dedication to environmental responsibility. Transitioning from conventional diesel buses to electric ones represents a significant advancement in reducing greenhouse gas emissions. Based on the project guidelines, the 150 electric buses are anticipated to mitigate around 100,000 tonnes of carbon dioxide equivalent (CO2e) during the 10-year contract period. This environmental benefit aligns with Dubai's overarching net-zero goals and contributes to global efforts in sustainability. If the proper steps are taken, there will be scope to monetise the emissions reduction through the establishment of a carbon credit programme anchored by the 100,000 tonnes of CO2e. This would create additional income streams from carbon credit sales.

ANE solar plant

ANE is planning to establish a two megawatt (MW) solar facility to generate power for its electric bus fleet, aligning with its green initiative. The proposed solar plant is estimated at USD2.5m per MW, resulting in a total capital cost of USD5m. The facility is forecast to produce around 3,200 megawatt hours (MWh) of electricity annually. Based on operational estimates, each electric bus consumes approximately 25 kilowatt hours (kWh) per 100 km and travels 85,000km per year, resulting in an annual energy consumption of about 21,250 kWh per bus. For a fleet of 150 buses, the total annual consumption closely matches the solar plant's output.

The grid tariff in Dubai is USD0.25 per kWh. Operating and maintenance costs for the solar facility are estimated at USD50,000 per year. Over a projected 20-year lifespan, these savings significantly contribute to the project's financial performance. The solar plant will be funded through an Islamic Finance facility, which will be settled at a fixed rate of USD400,000 per annum.

QUESTION 2

a.	Assess **THREE** key characteristics of project finance and why such an approach would be appropriate for ANE..	9 marks
b.	Calculate the annual potential savings resulting from the establishment of the solar plant. You are required to show your workings. (Spreadsheet)	6 marks
c.	Evaluate the key elements that ANE is likely to seek from a banking partner, in light of its operations in the Middle East.	10 marks
		Total: 25 marks

Mark Scheme

Q2a

Characteristic	Explanation	Relevance for ANE	
Limited/Non-Recourse Financing	Project finance typically relies on the cash flows of the project rather than the full balance sheet of the sponsor. Lenders have limited recourse to the sponsor's assets.	ANE's project, with its predictable annuity-style revenue from the fixed per-kilometre fee, creates stable cash flows that can secure financing without heavily burdening ANE's balance sheet.	3 marks
Special Purpose Vehicle (SPV)	Projects are often structured through an SPV that isolates project risks and finances, ensuring that failure in one project does not impact the parent company.	Utilising an SPV for the electric bus project allows ANE to isolate the project's risks (such as technological changes or regulatory shifts in Dubai's e-mobility sector) while preserving its core operational stability.	3 marks
Cash Flow-Based Lending	Financing decisions in project finance are driven by the projected cash flows of the project rather than on traditional collateral. This approach emphasises long-term viability.	The annuity-style revenue model of the bus contract – with fixed payments based on kilometres travelled – ensures that the project generates reliable cash flows, making project finance an appropriate tool for ANE.	3 marks
			Total marks: 9

Q2b

- **Solar Facility Capacity:** 2 MW
- **Total Annual Electricity Production:** Approximately 3,200 MWh (or 3,200,000 kWh)
- **Bus Energy Consumption:** Each bus consumes about 25 kWh per 100 km
- **Annual Distance per Bus:** 85,000 km
- **Annual Consumption per Bus:**
  = (85,000 km / 100 km) × 25 kWh
  ≈ 21,250 kWh — 2 marks
- **Fleet Size:** 150 buses
- **Total Annual Consumption for Fleet:**
  = 21,250 kWh × 150 ≈ 3,187,500 kWh — 1 mark
- **Grid Tariff:** USD 0.25 per kWh
- **Operating & Maintenance (O&M) Cost**USD 50,000 per year

Calculation:

1. **Avoided Grid Electricity Cost:**
   Total Annual Consumption × Grid Tariff
   = 3,187,500 kWh × USD 0.25/kWh
   ≈ USD 796,875
2. **Net Savings (if USD400k and O&M are deducted):** — 2 marks
   = USD 796,875 – USD 450,000
   ≈ USD 346,875 per annum — 1 mark

Total marks: 6

Q2c

Key Element	Description	Relevance to ANE's Operations	
Expertise in Project Finance	Proven track record in managing large-scale infrastructure projects, with an understanding of annuity-style revenue models and risk assessment specific to project finance.	ANE's e-mobility project requires financing that is tailored to long-term, predictable cash flows. A banking partner with strong project finance experience can ensure that the project's unique risks are well managed.	2 marks
Foreign and Local Currency Experience	Ability to manage and hedge risks across multiple currencies, particularly in regions with cross-border transactions.	Given the mix of USD financing and operations in Dubai, proficiency in both foreign and local currency transactions is crucial to mitigate currency risks and ensure cost-effective funding.	2 marks

Green and Islamic Finance Expertise	Knowledge of sustainable finance solutions and the ability to structure green loans that adhere to Islamic finance principles, ensuring ethical investment practices.	Operating in the Middle East, ANE benefits from a banking partner that can offer innovative green finance instruments and Islamic finance options, aligning with regional values and regulatory frameworks.	2 marks
One-Stop Financing Solutions	A comprehensive approach to financing that provides integrated solutions, from initial project structuring to execution and ongoing monitoring.	ANE's complex project demands seamless financing arrangements that simplify administration and reduce the friction typically associated with multiple lenders.	2 marks
Strong Regulatory and Market Knowledge	Deep understanding of the local regulatory environment, market practices, and infrastructure finance trends in the Middle East.	With rapidly evolving technology and regulatory frameworks in Dubai's e-mobility sector, a banking partner well-versed in local conditions ensures that ANE's project complies with all necessary legal and market standards.	2 marks

Total marks: 10

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus Ref: 1.4.1, 1.4.4, 1.5.2

Total: 25 marks

QUESTION 3: CASE STUDY

Müller Maschinenbau GmbH (MMB) is an established German manufacturing company renowned for its high-quality industrial machinery. Historically, MMB operated as part of a well-known multinational group, benefiting from shared resources, established market channels and the financial backing of a large parent company. However, in a strategic shift, the parent company has recently determined that MMB is no longer a strategic fit for its long-term plans and has decided to divest the business. This separation marked a turning point for MMB, as it now had to redefine its financial strategy and capital structure as an independent entity. The parent company would, however, continue to do business with MMB, as it also manufactures key components used in its key operations.

Before the divestiture, MMB enjoyed a favourable investment-grade credit rating. According to major rating agencies, Fitch and S&P assigned a rating of BBB+, while Moody's assigned a rating of Baa1 to MMB. This investment-grade rating had positioned MMB well for accessing capital markets, and the management team had already been planning a strategic debt capital raise. In anticipation of future growth and new strategic opportunities, MMB's treasury team proposed issuing a medium-term note (MTN). The MTN was intended to secure the necessary funding while leveraging MMB's historically strong credit profile.

In the wake of the parent company's decision to sell, MMB's management saw an opportunity to conduct a highly leveraged management buyout (MBO). Leveraging its previous investment-grade status, management was able to bid for the business. To support its MBO, MMB needs to maintain its EBITDA above EUR125m per annum.

Following the MBO, all three credit rating agencies downgraded MMB's credit rating to just above junk status. This downgrade represented a marked deterioration from its previous investment-grade rating.

Facing these challenges, MMB's treasury team was tasked with exploring financing options that would help stabilise the business's capital structure while supporting its long-term strategic goals. The treasury team presented three primary options to management:

Initial public offering (IPO): An IPO would enable MMB to enhance its equity position by accessing the public capital markets. By issuing new shares, MMB could reduce its reliance on debt financing, thereby improving its credit profile over time.

Schuldschein loans: These loans are a form of private placement financing that is particularly popular in Germany. Long maturities and relatively flexible covenants characterise these loans, making them an attractive option for companies seeking to raise debt outside the public bond market.

Term loan with a guarantee: The third option involves issuing a term loan that is guaranteed by the former parent company, with support from future trade relationships with the parent.

The former parent company is also considering sponsoring an employee and community share ownership programme to broaden equity participation within MMB. This initiative aims to provide non-management staff and members of the community with the opportunity to acquire an ownership stake in the business, thereby aligning their interests with MMB's long-term success. By extending equity benefits beyond senior leadership, the programme seeks to foster a sense of shared responsibility and commitment among employees, which can drive operational excellence and innovation. Such an inclusive approach not only boosts morale but also promotes a more resilient and engaged workforce, ultimately enhancing the business's overall performance.

QUESTION 3

a.	Assess the importance of an investment-grade credit rating for MMB and the factors that contributed to its recent downgrades by the ratings agencies. Your assessment must include the potential ramifications of this downgrade on MMB's future financing options and strategic initiatives.	8 marks
b.	Compare and contrast the THREE funding options proposed by the MMB treasury team. You must also recommend and justify the best funding option for MMB.	11 marks
c.	Discuss the parent company's proposal to provide a guarantee as well as to support the employee share ownership programme in the context of Corporate Social Responsibility.	6 marks
		Total: 25 marks

Mark Scheme

Q3a

An investment-grade credit rating is critical because it enables a company to access capital at lower costs and with greater market confidence. For MMB, the former investment-grade ratings (BBB+ from Fitch and S&P and Baa1 from Moody's) signalled financial stability and a strong operating profile, which allowed the company to plan a debt capital raise via a Medium-Term Note (MTN). These ratings also attract institutional investors and enhance the company's bargaining position in financial markets.	2 marks
However, following the leveraged management buyout (MBO), MMB's increased debt burden and a loss of the parent company's backing led to heightened risk perceptions. The three credit rating agencies downgraded MMB to just above junk status for several potential reasons: • **Increased Leverage:** The MBO significantly increased MMB's debt levels relative to its cash flows, thereby raising the default risk. • **Loss of Financial Support:** The divestiture removed the implicit guarantee and support of the parent company, exposing MMB to independent market risks. • **Operational Risks:** Transitioning to an independent entity may increase uncertainty in management and operational integration. • **Market Conditions:** A more uncertain economic environment and sector-specific risks might have contributed to the agencies' more conservative outlook.	4 marks 2 marks

Going forward, this downgrade will impact MMB by increasing its cost of borrowing, constraining access to capital markets, and potentially limiting its strategic flexibility. MMB must now focus on rebuilding investor confidence and improving financial performance to restore a healthier credit profile.

Total marks: 8

Q3b

Funding Option	Assessment	Advantages	Disadvantages
Initial Public Offering (IPO)	IPO represents a transformative route for capital raising, expanding the equity base and reducing the reliance on debt. While an IPO can significantly enhance corporate transparency and market discipline, it exposes the firm to external market volatility and intense regulatory scrutiny. The process may dilute existing shareholders' stakes and require substantial upfront costs and ongoing compliance, which can be particularly challenging following a recent credit downgrade.	- Enhances equity base and reduces reliance on debt - Increases transparency and market discipline - Provides liquidity and potential for long-term growth through access to public capital	- Exposes the company to market volatility - Can lead to dilution of existing shareholders - High costs and regulatory requirements associated with public listing
Schuldschein Loans	Schuldschein loans offer a flexible and relatively confidential debt financing solution that is well-suited for the German market. This method benefits from longer maturities and flexible covenants, which can be tailored to the company's specific requirements. However, the relatively limited investor base and complex negotiation	- Offers long maturities with flexible covenants - Obtained via private placements, ensuring greater confidentiality - Competitive interest rates even with a downgraded credit profile	- Limited investor base may affect liquidity - Negotiation of terms can be complex - May not be as widely understood by all market participants compared to more traditional public debt instruments

3 marks per point (candidates can either provide assessment or pros / cons for the marks).

	process might impact liquidity and make pricing less competitive compared to more conventional instruments, especially in a post-downgrade environment.		
Term loan with a Guarantee	The term loan with a guarantee emerges as the most robust option, particularly given MMB's recent credit rating downgrade. This financing option leverages the former parent company's guarantee, providing significant credit enhancement that lowers borrowing costs and instils greater confidence among investors. It also incorporates support from ongoing trade relationships, which adds stability to the revenue stream. The structure is well-aligned with the current market conditions and offers a controlled, predictable debt cost, despite a potential loss of some strategic independence.	- Guarantee from the former parent enhances credit quality and lowers borrowing costs - Ties with future trade support reinforce revenue stability - Attractive to lendersdue to added security	- Introduces dependency on the former parent company - May limit strategic independence in the future - Structuring can be complex and contingent on the durability of future trade relationships with the former parent company

Based on the assessment above, the term loan with a guarantee is the most advantageous option for MMB. Its ability to enhance credit quality through the parent company's guarantee and to secure lower borrowing costs is critical, particularly in light of the recent credit downgrade. This option offers a more predictable cost of capital and leverages established trade relationships, making it the best fit for stabilizing MMB's capital structure while minimizing risk and maintaining financial flexibility.

2 marks for conclusion with a structured reasoning

Total marks: 11

Q3c	
Financial Stability: The guarantee from the former parent company provides a safety net that stabilises MMB's capital structure during its transition, ensuring the company can access financing on favourable terms while mitigating risks—a responsible approach aligned with CSR.	1 mark
Risk Mitigation: By backing the bond issuance, the guarantee helps reduce financing costs and safeguards the company's operations, reflecting a commitment to sustainable financial practices that protect the interests of all stakeholders.	1 mark
Inclusive Growth: Supporting an employee share ownership programme extends equity participation to non-management staff, ensuring that the benefits of improved financial performance are shared across the organisation and promoting social equity.	1 mark
Alignment of Interests: The employee share ownership scheme fosters a sense of ownership among employees, aligning their interests with the long-term performance of the company and driving a culture of accountability and innovation.	1 mark
Ethical Governance: Both the guarantee and the employee ownership initiative enhance corporate governance by demonstrating transparent and socially responsible practices that build trust with stakeholders and contribute to overall corporate social responsibility (CSR) goals.	1 mark
Positive Social Impact: These measures not only strengthen MMB's financial position but also promote community development by ensuring that employees, as well as external stakeholders, share in the company's success, underscoring a holistic approach to corporate social responsibility.	1 mark
(Holistic marking to be applied for question 3c)	
This mark scheme is not exhaustive – all valid points within answers will be awarded marks.	
Syllabus Ref: 1.1.1; 1.2.4; 1.3.2; 1.4.1; 1.4.3	**Total marks: 6**
	Total: 25 marks

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