X-pand into the Future

e u r e x *circular 174/04*

Date: Frankfurt, December 9, 2004
Recipients: All Eurex members and vendors
Authorized by: Peter Reitz

⚠ **Action Required** ⚠ **High Priority**

Handling of the Spin-off of Lanxess AG from Bayer AG

Contact: Eurex Helpdesk Equity Products, Tel. +49-69-211-1 12 10

Content may be most important for:

- Front Office / Trading
- Middle + Back Office
- Auditing / Security Coordination

Attachments:

none

Summary:

On November 17, 2004 the Extraordinary General Meeting of Bayer AG approved the spin-off and takeover agreement between Bayer AG and Lanxess AG dated September 22, 2004.

Thereby, the shareholders of Bayer AG will receive one no-par share of Lanxess AG issued to the bearer for ten no-par shares of Bayer AG issued to the bearer, when the spin-off becomes effective.

The transaction is planned for the beginning of 2005.

In the following please find a description of the adjustment procedure of Eurex options on Bayer AG shares.

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When the spin-off becomes effective an adjustment of the Eurex options on shares of Bayer AG will be required. The form of the adjustment has been chosen so that the result at the time of the adjustment will be value-neutral.

A description of the required steps is given below:

- From the time of the spin-off, the underlying of the Bayer option will be a basket consisting of one Bayer AG share, plus 0.10 shares of Lanxess AG.
- The exercise price and contract size of the Bayer option will remain unchanged.
- Upon exercise, a basket consisting of Bayer AG and Lanxess AG will be delivered (for further details, please see “Exercises” below).

In order to settle the basket, the Bayer option will be converted in the Eurex system into a dummy option, which represents the basket consisting of Bayer AG and Lanxess AG.

Following the spin-off, the value of a contract will be calculated as follows:

Contract size 100 * Bayer AG price + 10 * Lanxess AG price.

A new Eurex option on shares of Bayer AG (ex Lanxess AG) with a standard contract size of 100 will be introduced for trading at the earliest on the second exchange day after the spin-off.

Exercises

On exercise of the basket option after the spin-off, two delivery instructions will be transmitted to SIS SegaInterSettle AG, Zürich/Clearstream Banking Frankfurt (CBF):

Transaction 1: Delivery of 100 Bayer AG shares against payment of old contract size (100) * exercise price

Transaction 2: Delivery of ten Lanxess AG shares free of payment

On the days prior to the capital measure, the *Contract Cover Assignment Entry* window should be used to delete all allocations of shares covering short call positions in the BAY product.

After the spin-off, for technical reasons, Bayer AG shares cannot be pledged as cover for short call positions in the basket option.

Kindly note that due to the capital measure Eurex will not enter any data into the Eurex system on the last cum trading day. Adjustments will only be made in line with the delivery process. Therefore, exercise prices and contract size of the basket option on Bayer AG will remain unchanged in the Eurex system.

Eurex Reports

The Bayer AG share as well as the Lanxess AG share as components of the basket will appear in the reports RPTCE080 (Pending Delivery) and RPTCE100 (Settled Delivery). In the report RPTCE080, however, these will only appear one day later. On the day of exercise, report RPTCE070 will only show the basket. On the following days, the reports will show Bayer AG and Lanxess AG separately, as individual components of the basket.

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Further information, particularly the detailed time schedule, the new product codes and ISINs, will be published in due time after the announcement of the spin-off date.

Please contact the Functional Helpdesk Equity Products on telephone number +49-69-211-1 12 10 should you have any further questions.

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