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Recipients: All Eurex members and vendors
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High Priority

Treatment of the Spin-off of Sulzer Medica AG

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Content may be most important for:	**Attachments:**
➲ Front Office / Trading ➲ Middle + Back Office ➲ Auditing / Security Coordination	None

Summary:

On 19 April, 2001, Sulzer shareholders voted to spin off the Sulzer shareholding in Sulzer Medica AG. In a press release, Sulzer has announced that the implementation of the transaction will take place on 10 July, 2001. For each Sulzer share held at the time of the spin-off, shareholders will receive a distribution of 2 Sulzer Medica shares.

When the spin-off becomes effective, an adjustment to the Sulzer option (SUN) at Eurex is required. The form of the adjustment has been chosen so that the result at the time of the adjustment is value-neutral.

- From the time of the spin-off the underlying security of the Sulzer option will be a basket consisting of Sulzer and Sulzer Medica.
- Exercise prices and contract size of Sulzer options will remain unchanged
- On exercise, a basket consisting of Sulzer and Sulzer Medica shares will be delivered

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Treatment of the Spin-off of Sulzer Medica AG

On 19 April, 2001, Sulzer shareholders voted to spin off the Sulzer shareholding in Sulzer Medica AG. In a press release, Sulzer has announced that the implementation of the transaction will take place on 10 July, 2001. For each Sulzer share held at the time of the spin-off, shareholders will receive a distribution of 2 Sulzer Medica shares.

When the spin-off becomes effective, an adjustment to the Sulzer option (SUN) at Eurex is required. The form of the adjustment has been chosen so that the result at the time of the adjustment is value-neutral. A description of the required steps is given below:

- From the time of the spin-off, the underlying security of the Sulzer option will be a basket consisting of Sulzer and Sulzer Medica.
- Exercise prices and contract size of Sulzer options will remain unchanged
- On exercise, a basket consisting of Sulzer and Sulzer Medica shares will be delivered

In order to be able to settle the basket, the Sulzer option will be converted into a dummy option, and the Sulzer share will be converted into a dummy underlying which represents the basket of Sulzer and Sulzer Medica.

The procedure is explained in detail below:

The day of the spin-off/last trading day-cum is 09 July, 2001.

On **06 July, 2001** the following products will be set up in the Eurex system:

- Sulzer Medica share (SMEN) ISIN: CH0006544859
- Dummy Sulzer underlying (ISIN and security code will be announced in good time)

On **09 July, 2001** after close of trading, the following entries will be made:

- the security symbol and the ISIN of the existing Sulzer option and the Sulzer underlying will be converted to those of the basket (new ISIN and symbol).
- the dummy Sulzer share set up on 08 July, 2001 will be renamed to the original Sulzer share (SUN/CH0002376454)

Thus on **10 July, 2001** the following data will be available:

- Sulzer Basket option (New ISIN/Symbol consisting of 10 Sulzer shares and 20 Sulzer Medica shares)
- Sulzer Basket underlying (ISIN/Symbol identical to the option)
- Sulzer share as underlying
- Sulzer Medica share as underlying

Currently, it is not known what effect the spin-off will have in relation to the participation of Sulzer and Sulzer Medica in the Swiss Market Index (SMI). The decision on whether options on the respective underlyings will be introduced after the spin-off will be announced in good time.

On 09 July, 2001, in all Eurex reports, in the theoretical price file, and in all back-office messages transmitted during the batch, the old data will apply. During the conversion, no back-office messages will be transmitted to members' systems. At the start of trading on 10 July, 2001, only the new data will be valid in all areas of the Eurex system.

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Following the spin-off, the value of a contract can be calculated according to the following formula:

C*S1 = C*SB = C*S2 + C*S3
C = Contract size
S1 = Price of SUN-cum
S2 = Price of SUN-ex
S3 = Price of Sulzer Medica
SB = Price of the basket

This formula is always applicable for the valuation of an option series after a spin-off. After the spin-off, no new series will be introduced in the basket option.

Exercise

On exercise of the basket option after the spin-off, two delivery instructions will be transmitted to SIS SegaInterSettle/Clearstream;

Trade 1: Delivery of 10 Sulzer-ex shares against payment of C* exercise price
Trade 2: Delivery of 20 Sulzer Medica shares against payment of CHF 0.

Covering Short Call Positions in the Basket Option

After the spin-off, for technical reasons, Sulzer and Sulzer Medica shares cannot be pledged as cover for short Call positions in the Basket option.

Reports

Sulzer and Sulzer Medica shares will appear in the reports RPTCE080 (Pending Delivery) RPTCE090 (Late Delivery) and RPTCE100 (Settled Delivery). In the report RPTCE080 however, these will first appear individually **one day later**. On the day of exercise, Report RPTCE080 will firstly show the basket. On the following day, the report will show Sulzer and Sulzer Medica as individual components of the basket.

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