e u r e x *circular 101/99*

To: All Eurex members and vendors

Date: Frankfurt, 14th October 1999

Treatment of the Spin-off of the Lonza Group

Dear Sir or Madam,

On 11th August 1999 the Alusuisse-Lonza group (Algroup) announced the spin-off of their chemical and energy activities. The spin-off is to be achieved by founding a new exchange-quoted company (Lonza Group AG). The spin-off will be effected so that each Algroup shareholder has the right to acquire one share in Lonza Group for each share held in Algroup.

Title to one share gives the owner the right to acquire one share of Lonza Group at the price of CHF 10.00, which corresponds to the nominal value of one Lonza Group share.

An adjustment to the Algroup option is also necessary when the spin-off comes into force. 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 Algroup option will be a basket consisting of Algroup-ex and Lonza Group.
- Exercise prices and contract size of Algroup options will remain unchanged
- On exercise, a basket consisting of Algroup and Lonza shares will be delivered
- Adjustment within the scope of capital measures will be performed exclusively on the contract sizes of the securities involved.

In order to be able to settle the basket, the Algroup option will be converted into a dummy option, and the Algroup share will be converted into a dummy underlying which represents the basket of Algroup and Lonza. Following the conversion of the former Algroup option on the day of the spin-off, only these 'Dummy' Algroup options will exist.

The procedure is explained in detail below:

The day of the spin-off/last trading day cum is day X.

On day X-1 the Lonza share and the dummy Algroup share will be set up (the ISIN codes and exchange symbols will be announced later).

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On day X the following operations will be carried out on Eurex:

- After the close of trading, the security symbol and the ISIN of the Algroup option and the Algroup underlying will be converted to those of the basket (new ISIN and symbol).
- The dummy Algroup share set up on day X-1 will be renamed to the original Algroup share (ALUN/CH0001418323).

This procedure is the same as that carried out in the past for other products which have changed their ISIN code/exchange symbol. On this day the old codes will still apply in all of the Eurex reports, the theoretical price file and all back office messages transmitted during the batch.

During the conversion no back office messages will be transmitted to the members' systems. With the start of the trading in the rights on Lonza shares, only the new data will be valid throughout all parts of the Eurex system.

After the spin-off the value of a contract will be calculated according to the following formula:

C*S1 = C*SB = C*S2 + C*S3

C = Contract size
S1 = Price of ALUN cum
S2 = Price of ALUN ex
S3 = Price of Lonza
SB = Basket price

This formula is always applicable for the valuation of option series after a spin-off. After the day of the spin-off, no new series will be introduced for reasons of price movements.

On exercise of an existing option series after the spin-off, two delivery instruction to SIC/DBC will automatically be generated.

Trade 1: Delivery of 10 Algroup shares against payment of C* the exercise price.
Trade 2: Delivery of 10 rights on Lonza against payment of 0 CHF.

After the spin-off, for technical reasons, Algroup shares cannot be pledged as cover for Short Call positions. In addition, you should note that for the dummy underlying (the basket) there will be no price information delivered in the underlying zone, in the ticker, nor in the Pricing Model Interface file. Only price information of the individual basket components, Algroup and Lonza, will be reported in the ticker.

Display in Eurex Reports

Lonza shares as a component of the basket will appear in the reports RPTCE080 (Pending Delivery), RPTCE090 (Late Delivery) and RPTCE100 (Settled Delivery). On the report RPTCE080 Lonza will first appear

one day later. The report on the day of exercise will temporarily identify the basket; the report of the following day will show Algroup and Lonza as separate deliverable components.

Concerning the Nominal Value payment of CHF 10.00

For the 2 days immediately after the spin-off of the Lonza Group, Lonza rights will be quoted. After close of trading of the second day, the adjustment of the CHF 10.00 nominal value payment will take place (R-factor greater than 1).

In order to ensure a value-neutral treatment, the adjustment of the basket will be applied only to the contract size of the Lonza option. The exercise price of the option will remain unchanged.

The procedure for the adjustment after the spin-off is explained below:

The formula already given above for valuation of the value of a contract is extended as follows:

C*S1 = C*SB = C*K2*S2 + C*K3* S3

K2 and K3 are capital adjustment factors through which compensation is calculated as a number of shares of the affected underlying when a capital adjustment takes place, and added to the basket.

K-factor = 1/ R-factor

As the R-factor is greater than 1, in this case the K-factor will be less than 1. The contract size of the Lonza option therefore will be less than 10 shares per contract. On exercise, fractions of shares will be multiplied by the relevant closing price of Lonza shares and credited to the receiver of the shares.

An example of the exercise of an option with an exercise price of 1600 is given below:

Assume:		
Price of Algroup		= 700.00
Lonza price without nominal value payment		= 500.00
Lonza price after nominal value payment		= 510.00
R-factor (510/500)		= 1.02
K-factor (1/R-factor)		= 0.9804
Lonza contract size = 10*0.9804		= 9.804
Calculated value	= 10*1600	= 16,000.00
Minus Lonza cash portion	= 0.804*510	= 410.04
Amount payable		= 15,589.96

After exercise, the beneficiary has the following share position:

10 ALUN *700	= 7,000
9 Lonza *510	= 4,590
Value of position	= 11,590

The intrinsic value, both before and after the adjustment, is equal to CHF 4,000.00 (apart from small rounding differences).

On the third trading day after the spin-off there will be no trading in the rights. Correspondingly, there will be no trading in the option. Exercises are also not possible on this day. The start of quotation for Lonza shares will begin on the following exchange trading day.

Further information on adjustments of Algroup options resulting from the amalgamation with ALCAN and Pechiney will be provided as soon as details of the timeframe become known.

The new ISIN code and exchange symbol referred to above will be published in good time on the Newsboard (Screen D050).

No further expirations will be introduced in the option on Algroup shares. As soon as the shares of Lonza Group are incorporated in the SMI index, an option on the new Lonza Group stock will be introduced. Details of this will be published in a further circular.

If you have any questions our Equity Products Help-desk on Tel. +49 (0)69-2101-1210 will be pleased to assist you.

Yours sincerely,

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