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

Eurex Procedures related to the Spin-off of Syngenta AG (Spin-off of the Crop Protection and Seeds Business of Novartis)

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Content may be most important for:	**Attachments:**
➲ All Departments	None

Summary:

Novartis AG is planning to spin off of their Crop Protection and Seeds business and merge it with the Agrochemical business of AstraZeneca to form Syngenta AG. Start of trading in Syngenta shares is scheduled for 13 November, 2000. The circular gives an overview of the adjustment procedures at Eurex on the options on Novartis shares.

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Eurex Procedures related to the Spin-off of Syngenta AG (Spin-off of the Crop Protection and Seeds Business of Novartis)

Novartis AG is planning to spin off of their Crop Protection and Seeds business and to merge it with the Agrochemical business of AstraZeneca Plc. The spin-off will be effected by establishment of a new exchange-listed company (Syngenta AG) with registered offices in Basle, Switzerland. The spin-off will be carried out such that all Novartis shareholders will receive rights to obtain one additional Syngenta share for each Novartis share held. The allocation, against payment of CHF 10 per share, will be handled in the form of a non-cash dividend.

The start of trading of Syngenta shares on SWX is scheduled for 13 November, 2000. On 10 April, 2000 the Index Commission of SWX announced that Syngenta shares would be immediately included in the Swiss Market Index (SMI) from the start of its listing.

When the spin-off becomes effective, an adjustment to the Novartis option (NOVN) 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 Novartis option will be a basket consisting of Novartis-ex and Syngenta.
- Exercise prices and contract size of Novartis options will remain unchanged
- On exercise, a basket consisting of Novartis-ex and Syngenta shares will be delivered
- A new option will be introduced on Novartis-ex

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

The procedure is explained in detail below:

The day of the spin-off/last trading day cum is 03 November, 2000.

On **02 November, 2000** the Syngenta underlying share and the dummy Novartis underlying share will be set up (ISIN codes and exchange symbols will be announced in good time).

On **03 November, 2000** the following operations will be carried out on Eurex:

- After the close of trading, the security symbol and the ISIN of the existing Novartis option and the Novartis underlying will be converted to those of the basket (new ISIN and symbol).
- The dummy Novartis share set up on 02 November, 2000 will be renamed to the original Novartis share (NOVN/CH0004458847).

On 03 November, 2000 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 on 06 November, 2000, only the new data will be valid throughout all parts of the Eurex system.

After the spin-off, for technical reasons, Novartis and Syngenta shares cannot be pledged as cover for Short Call positions in the basket option.

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Thus, on **06 November, 2000** the following data will be available:

- Dummy Novartis option (new ISIN/symbol)
- Dummy Novartis underlying (ISIN/Symbol identical to the dummy option)
- Syngenta underlying
- Novartis underlying

On **06 November, 2000** a new Novartis option will be set up in the Eurex system with Novartis-ex as the underlying. Trading in the new Novartis option will begin on **07 November, 2000.**

In addition, an option on Syngenta AG shares will be introduced on Eurex, with start of trading scheduled for **13 November, 2000** to coincide with the start of trading of Syngenta shares on SWX.

No Trading in Syngenta Shares between 06 November and 10 November, 2000

A special situation exists in the structure of the combined transaction in that there are five exchange trading days between the date of the spin-off (ex-day) and the first trading day of Syngenta shares. In order to avoid suspending trading in the basket option, in the event of exercise the Eurex Management Boards have made the decision to settle Syngenta shares in cash during the period 06 November, 2000 to 10 November, 2000. Novartis shares will be physically delivered as normal.

Because no price data for Syngenta shares is available during this period, these will be determined as follows:

By using LEPOs (Low Exercise Price Options) it is possible to construct a price for Syngenta shares synthetically (price of the LEPO + CHF 1.00, minus price of Novartis-ex = value of Syngenta).

The cash equivalent price for Syngenta will be determined according to the Conditions for Trading at Eurex Deutschland and Eurex Zürich, Section 2.2.15.7 (3) sentence 5. In this respect, the last paid price of the LEPO will serve as the basis. If this price is older than 15 minutes, or does not correspond to the prevailing market conditions, the price will be determined by Eurex Clearing AG. On the basis of this price, the price of Syngenta will be determined according to the formula given above.

During the period 06 November to 10 November, 2000 the LEPO price will also be used in the calculation of the SMI. Otherwise, on the start of trading of Novartis-ex, the index would initially fall, and with the beginning of the listing of Syngenta show a corresponding rise again.

Contract Value after the Spin-off

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 NOVN-cum
S2 = Price of NOVN-ex
S3 = Price of Syngenta (LEPO + CHF 1.00 minus NOVN-ex, from 06 November to 10 November, 2000)
SB = Price of the basket

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

Nominal Value payment of CHF 10.00

The nominal value payment of CHF 10.00 will be taken into account on 10 November, 2000 after the close of trading. To ensure a value-neutral treatment, the adjustment to the basket will be made only to the contract size of Syngenta.

The formula given above is extended for this purpose with an adjustment factor.

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

By using the K-factor when a capital adjustment occurs, compensation can be calculated as a number of shares of the affected underlying and included in the basket.

K-factor = 1/R-factor

Because the shareholder must make a payment, the R-factor is greater than 1 and the K-factor is less than 1.

As an example, assuming that the closing price of the LEPO on 10 November, 2000 will be CHF 2,700 and the Novartis closing price will be CHF 2,550 the following calculation of the K-factor would apply:

CHF 2,700 + CHF 1 minus CHF 2,550 = CHF 151 (value of Syngenta)

Syngenta without nominal value payment	CHF 151
Syngenta after nominal value payment	CHF 161
R-factor (161/151)	1.0662
K-factor (1/1.0662)	0.9379
Syngenta contract size = 10*0.9379	9.379

Exercise

On exercise of the Basket option after the spin-off, two delivery instructions will be transmitted to SEGA InterSettle / Clearstream Banking AG:

Transaction 1: Delivery of 10 Novartis-ex shares against payment of C*exercise price
Transaction 2: Delivery of 9 Syngenta shares against payment of CHF 0

The actual payment is reduced by the cash payment (0.379*closing price of Syngenta shares on the day of exercise). For exercises between 06 November and 10 November, 2000 the actual payment is reduced by 10*calculated value of Syngenta shares.

Display in Eurex Reports

The Novartis and Syngenta shares as well as the cash compensation amount as individual components of the basket, will appear in the reports RPTCE080 (Pending Delivery) RPTCE090 (Late Delivery) and RPTCE100 (Settled Delivery). However, these will be included on the RPTCE080 report **one day later.** On the day of exercise only the basket will be displayed; on the following day Novartis, Syngenta and the cash compensation amount will appear individually.

You will be informed of the ISIN codes and exchange symbols for the individual components in good time via the Eurex Newsboard (Screen D050) or Market Supervision Window, and on our web-site “eurexchange.com” at ‘Entrance hall / Products /Product News’.

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