

EQUITY OPTIONS

Fair value and redesignation explained

When a company makes a takeover bid for another company, the takeover price will usually be in shares of the offering company, in cash, or a combination of both.

What happens to my option when the underlying shares are subject to a takeover bid?

When a company makes a takeover bid for another company, the takeover price will usually be in shares of the offering company, in cash, or a combination of both.

Redesignation of the option when the bid is in shares

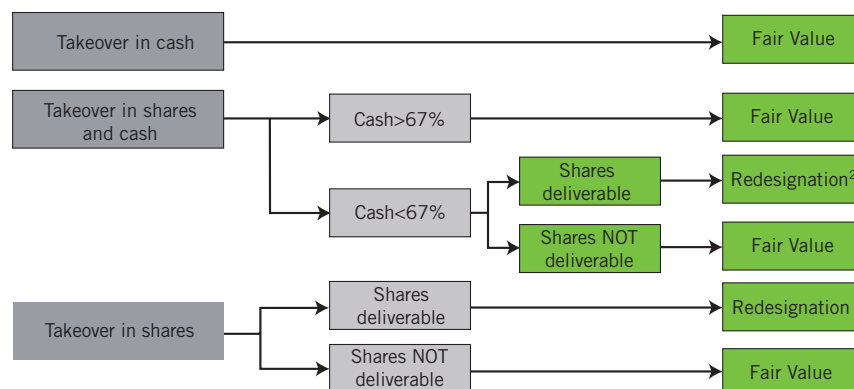
When the offering company takes over the target company in shares, the option is redesignated as an option on the shares of the offering company, using the exchange ratio of the bid. Redesignation can only take place if the shares¹ of the offering company are deliverable in the domestic market.

De-listing of the options and settlement at fair value when the bid is in cash

When shares are taken over in cash, the option cannot be continued. As soon as the offering company declares its bid unconditional, the option is de-listed. The option is then settled in cash, using the fair value method. This method not only takes account of the intrinsic value of the option, but also preserves the remaining time value.

Other situations when the Fair Value Method is used

The Fair Value method is also used when the cash component represents more than 67% of the total consideration and when the takeover bid is in shares which are not deliverable in the domestic market.



Fair value method explained

Fair values are calculated using the Cox Ross Rubenstein option valuation model. The necessary inputs to calculate fair values using this model are:

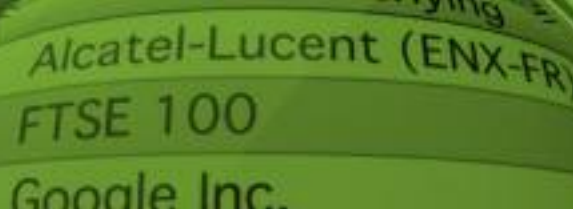
- i The price of the takeover bid;
- ii Euribor/LIBOR³ interest rate (the applicable rate for the remaining lifetime of the option);
- iii Dividends as forecast by an independent provider, i.e. “Markit Dividends”; and
- iv Implied volatilities for each option series, determined on the basis of the daily closing prices of these series 10 days prior to the announcement of the bid.

¹ In the UK market, the deliverable could be in Crest Depository Interest (CDI) form.

² Please note that the ratio method is used to replace the cash element with shares.

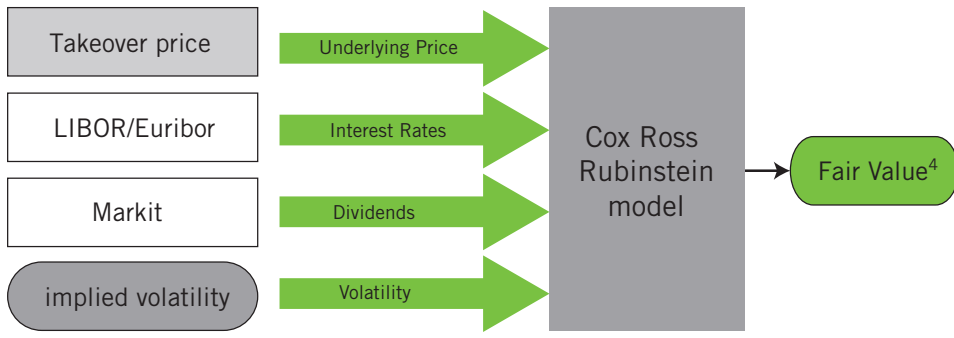
³ For options on UK based underlying shares, LIBOR interest rates are used.

⁴ Fair values are calculated for each series and take into account strike price, remaining lifetime and the option style (European or American) and type (call or put).



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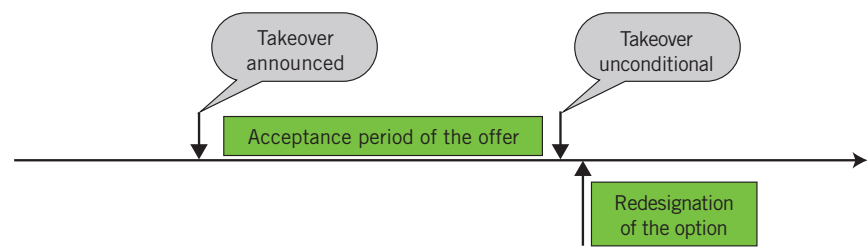


For full details of the corporate actions policy and a recent example of fair value adjustment (the takeover of VNU by KKR) please refer to Corporate Action Notices CA/2006/49/A to CA/2006/138/A on our website: http://www.euronext.com/news/corporateactionsdetail/0,4616,1732_200671249_788861477,00.html

Redesignation example

When company A takes over company B, whereby shareholders receive one share in company A for each two shares in company B, the option is redesignated and will continue to trade. The original lot size is divided by two and the exercise price of the option is multiplied by two.

JUN 450 call on 1000 shares company B becomes **JUN 900 call** on 500 shares of company A



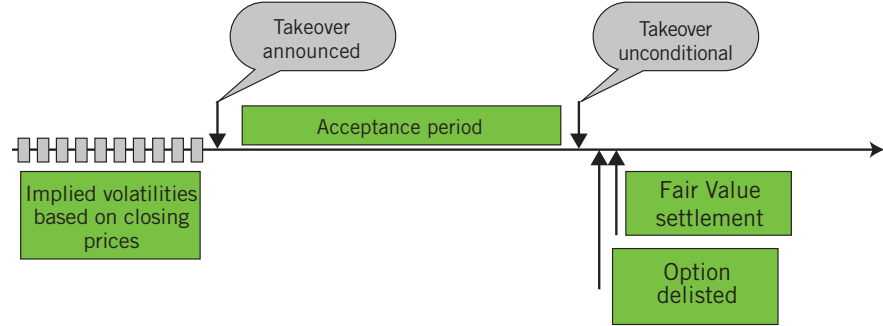
Further information:

Web: www.nyseeuronext.com/liffe
 Email: info@euronext.com
 Tel: + 31 20 550 5555

Fair value example

When company A takes over company B, whereby shareholders receive 500 pence for each share in company B, the option will be de-listed and settled at fair value, using the implied volatilities that are based on the closing prices prior to the bid.

JUN 450 call on 1000 shares company B is de-listed and: **Settled at fair value** taking into account 50 pence intrinsic value per share + **remaining time value**, in accordance with the fair value method



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