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SWISS TAKEOVER BOARD**5, cours des Bastions
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RECOMMENDATION

of June 12, 1998

Public exchange offer of Zurich Allied AG, Zurich, on all the shares of “Zürich” Versicherungs-Gesellschaft, Zurich

“Zürich” Versicherungs-Gesellschaft (“Zürich”) is a company with registered offices in Zurich. Its issued share capital amounts to Fr. 485'000'000.--, divided into 48'500'000 registered shares with a nominal value of Fr. 10.-- each. These shares are listed on the Swiss Exchange.

On December 22, 1997, “Zürich” and the British company B.A.T. Industries p.l.c. (B.A.T.) agreed to merge the “Zürich” group with the financial services businesses of B.A.T. Under the merger agreement, B.A.T. will – subject to the fulfilment or waiver of the agreed conditions –merge its financial services operations with “Zürich” businesses to form a jointly controlled Swiss holding company, Zurich Financial Services (ZFS). Prior to the merger, a reorganisation of both B.A.T. and “Zürich” will take place. The B.A.T. financial services businesses are to be separated from the tobacco businesses, and “Zürich” is to establish a new holding company for its group.

On June 11, 1998, “Zürich”'s shareholders general meeting approved the proposed merger and reorganisation.

To implement the reorganisation, “Zürich” has incorporated Zurich Allied AG (ZA), a new 100% Swiss subsidiary. ZA proposes now to offer the “Zürich” shareholders to exchange each of their “Zürich” shares against an authorised ZA share. If the exchange offer is successful, “Zürich” will become a subsidiary of ZA. ZA will then contribute its holding in “Zürich” to ZFS, in which it will hold 57% of the shares. If an insufficient number of shares is tendered, a holding structure will be created by transferring “Zürich”'s assets and liabilities to a newly established subsidiary.

A delegation composed of Mr. Alain Hirsch (Chairman), Jean-Paul Chapuis and Ulrich Oppikofer has been appointed to examine the offer.

On April 30, 1998, in a preliminary ruling the delegation ruled that the regulation on mandatory offers did not apply to the proposed exchange offer.

The delegation will now examine whether the ZA offer complies with the rules on voluntary offers. Its considerations are the following:

I. Scope of the takeover regulation

According to Art. 22.1 and 2 lit. e SESTA, the statutory provisions on public takeover offers apply to any offer made publicly to purchase or exchange equity securities of Swiss companies whose equity securities are, in whole or in part, listed on an exchange in Switzerland. The scope of the takeover rules is not limited to transactions which may lead to a shift of control over the offeree. These rules also apply if the offeror – as in the present matter – is a wholly owned subsidiary of the offeree and that the offer implies, consequently, no corporate "takeover", within the usual meaning of the term.

The absence of shift of control may, however, be of relevance to interpret the takeover regulation and to grant exemptions. If ZA's exchange offer is successful, the offeror will become a holding company with the offeree's shares as sole asset (before it contributes its holding in "Zürich" to ZFS). Consequently, immediately after the completion of the exchange offer, ZA shares will incorporate virtually the same rights as "Zürich" shares. Thus, the offeree's shareholders will not be submitted to the same pressure in making their decision as in a normal takeover situation. This circumstance justifies a flexible interpretation of the takeover rules. The fact that the group reorganisation has been approved by the offeree's shareholders may also be taken into account.

II. Conditions – incorporation by reference to the merger agreement's provisions

ZA's exchange offer is subject to the same conditions as the merger agreement. The prospectus does not reprint the full text of these conditions, but only refers to it.

According to Art. 18 TOO, a public takeover offer must be published in two or more newspapers in German and French so that the information is available nationwide. This rule does not prohibit the offeror from referring to unpublished documents in its prospectus. It only obliges him to allow the interested parties to obtain the quoted documents free of charge as of the publication date.

These conditions are met.

III. Resolutive conditions

ZA's exchange offer is subject to the resolutive condition that all conditions necessary to the completion of the merger agreement, such as the granting of regulatory or tax clearances or the absence of material adverse changes of situation, have been fulfilled or waived.

Under Art. 13 TOO, an offer may in principle be made subject exclusively to suspensive conditions (i.e. to conditions which must be fulfilled before the close of the offer period). An offer may be made subject to resolutive conditions (i.e. to conditions which may be fulfilled once the first acceptance period has expired) only with the approval of the Takeover Board. The purpose of this rule is to allow the recipients of the offer to make an informed decision during the additional acceptance period provided for by Art. 14.5 TOO. Consequently, the Board will approve resolutive conditions only if the advantages of such conditions for the offeror outweigh its disadvantages for the recipients of the offer and for the offeree.

This requirement is met in the present matter. The conditions necessary for the completion of

the merger agreement cannot be met within the maximum offer period of 40 trading days of Art. 14.4 TOO. The offeror has, therefore, an interest to draft these conditions as resolutive in its exchange offer. Such a solution should not have any material adverse consequence for the recipients of the offer, whose decision during the additional acceptance period should not be influenced by the fulfilment or the non fulfilment of conditions of the kind set forth in the merger agreement. The offer being friendly, resolutive conditions should not infringe the interests of the offeree either.

Thus, the Takeover Board approves the proposed conditions.

IV. Extension of the execution time-limit

According to art. 14.6 TOO, execution must in principle take place no later than 10 trading days after the close of the additional acceptance period.

ZA reserves the right to postpone the execution of the offer until January 31, 1999 at the latest if the resolutive conditions are not fulfilled at the close of the acceptance period.

In a normal takeover situation, the Takeover Board would not authorise in advance such an extension of the execution time-limit. It would rather wait until the close of the offer period and then require the offeror to state that all conditions would be fulfilled in a reasonable length of time.

However, such a procedure would not be appropriate in the present case. The date of January 31, 1999, corresponds to the time-limit set out in the merger agreement for the exchange offer's completion. "Zürich"s shareholders having approved the agreement, the Takeover Board has no reason to refuse the proposed time-limit extension.

V. Conditions – offeror's decisive control

According to Art. 13.1 TOO, an offer may be made subject only to suspensive conditions over which the offeror has no decisive control. This principle also applies to resolutive conditions.

The fulfilment of some of the offer's conditions lies clearly within the offeror's control. This is specially the case, when for example, the offer is made subject to the non-termination of the merger agreement by one of the parties. Such a condition would be inadmissible in a normal takeover situation. However, since the "Zürich"s shareholders approved the merger agreement and its conditions, such a scheme may be admitted in the present case.

VI. Exemption from the obligation to state the number of offeree's equity securities bought and sold in the twelve months preceding the offer

As a rule, the offer prospectus must state the number of equity securities of the offeree bought and sold by the offeror in the 12 months preceding the offer (Art. 19.1 lit. g TOO). Trades of persons acting in concert with the offeror must be aggregated with the offeror's transactions (Art. 12.3 TOO). This rule is designated to inform the recipients of the offer about the offeror's influence on the price of the offeree's shares. It must allow them to make a distinction between the price pressure resulting from the offeror's buying activity and other factors which are likely to influence the share's price.

Such information is immaterial in the present matter. The value of ZA shares will be virtually identical to the value of "Zürich" shares. Consequently, the market activity of the offeror prior to the offer would have influenced the price of the two shares in the same way. Information on such activity is, therefore, of no relevance for the recipients of the offer.

VII. Exemption from the obligation to value the unlisted securities offered in exchange

According to Art. 24.5 TOO, the offer prospectus must contain a review body's valuation of the securities offered in exchange, if these securities are unlisted.

The Takeover Board will grant an exemption from this requirement. ZA shares, although unlisted, may be easily valued, since they incorporate the same financial and social rights as the present "Zürich" shares.

VIII. Waiver of the cooling-off period

Conditions set out in Art. 14.2 TOO for a waiver of the cooling-off period are fulfilled.

IX. Fee

Under Art. 62 TOO, each offeror must pay a fee for review of the offer by the Takeover Board (par. 1). In principle, the fee shall amount to 0.5 o/oo of the total amount of the offer, but not more than Fr. 100'000.-- (par. 2). In the case of an exchange offer for securities listed on the main market, the total amount of the offer shall be established on the basis of the average opening price of these securities during the 10 trading days prior to submission of the offer to the Takeover Board (par. 4).

In the present case, the value of the securities offered in exchange will be deemed to be equal to the value of "Zürich" shares (see point VII above). The average opening price of these securities during the 10 trading days preceding the submission of the final revised draft prospectus, i.e. between May 27 and June 10, 1998, is Fr. 948.--. As the offer covers 48'500'000 shares, its total amount exceeds by far the amount of Fr. 200'000'000.-- above which the maximum fee of Fr. 100'000.-- must be charged.

Based on the foregoing, the Takeover Board adopts the following recommendation:

The offer of Zurich Allied AG complies with the Stock Exchange Act.

The Takeover Board grants the following exemptions from the Takeover Ordinance (Art. 4): waiver of the cooling-off period (Art. 14.2), extension of the execution time-limit (Art. 14.6), exemption from the obligation to state the number of equity securities of the offeree bought and sold by the offeror and the persons acting in concert with it in the twelve months preceding the offer (Art. 19.1 lit. g), exemption from the obligation to value the unlisted securities offered in exchange (Art. 24.5).

The fee amounts to Fr. 100'000.--.

The Chairman

Alain Hirsch

The present recommendation is communicated to:

- Zurich Allied AG, through its representative