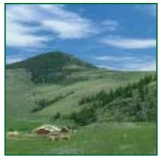
Property and Company Transactions



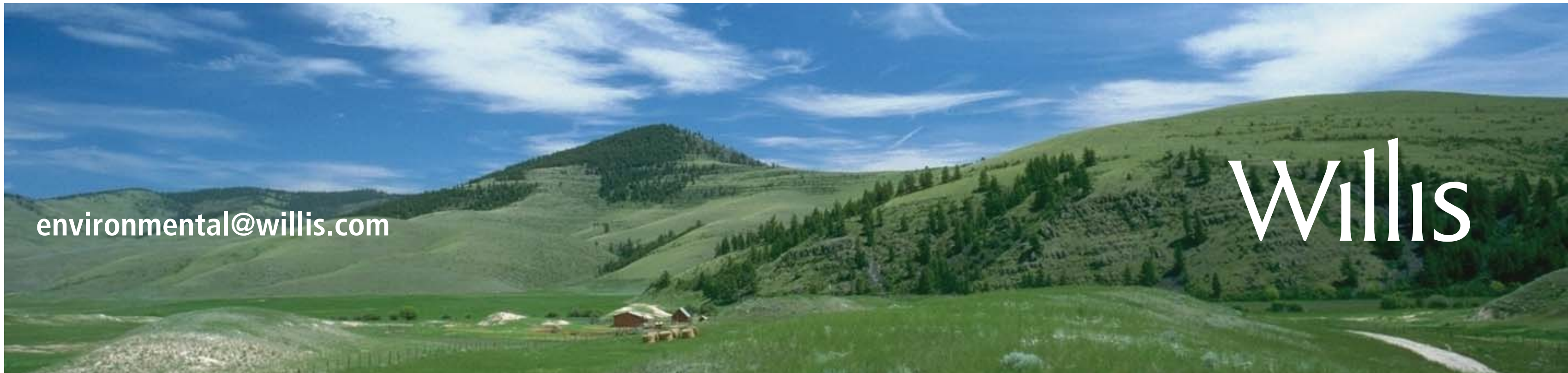
Significant uncertainty typically surrounds the extent of environmental liabilities associated with property. As a consequence, the allocation of environmental liabilities can become a significant point of contention between transaction counterparts, potentially jeopardising company and property deals. By transferring such liabilities, environmental insurance can remove the issue from negotiations, enabling both buyer and seller to maximise value from the transaction.

Case Study 1: Property Deal

Environmental insurance unlocked a £15 million property transaction when concerns over potential environmental liabilities looked set to thwart the deal. An environmental assessment identified contamination beneath the property, a former electricity transformer station, although no remedial works appeared to be necessary. However, due to access restrictions, it had not been possible to investigate many areas of the site, and as a result it was possible that contamination could be more severe and widespread than initially identified.

The vendor, a major UK utilities company, was to be indemnified by the purchaser for all liabilities arising from ground contamination. The vendor was concerned that, as the original polluter, they could face such liabilities if the purchaser was not able to fund future clean-up works that may be required. This was of particular concern as the purchaser was a special purpose company (SPC) with no asset base, established to develop the site for a residential end use. The SPC's parent company refused to offer a parent company guarantee, whilst the vendor was adamant that the indemnity offered insufficient protection.
The result? Deadlock.

Willis successfully placed 10 years' environmental insurance cover for both the vendor and purchaser, providing backing to the vendor's contingent liability without the need for the purchaser to provide a parent company guarantee. Both parties gained considerable value from the purchase of insurance, which cost less than one percent of the deal value. The vendor gained a clean exit from the site sale whilst maximising the sale price, and the purchaser gained certainty that future losses that could arise from the indemnity would be covered.



Case Study 2: Company Transaction

A US corporation was concerned that it might inherit significant environmental liabilities following the share purchase of a UK target company. Previous investigations had identified soil and groundwater contamination beneath one of the company's sites, as a result of historic landfilling as well as manufacturing activities. Further investigations commissioned by the purchaser confirmed that remedial works were needed in order to mitigate risks to an adjacent watercourse.

By working closely with the preferred insurer, the client and their environmental consultants, Willis succeeded in placing insurance to cover the 'known' pollution as well as the unknown. Full cover was achieved by applying an increased deductible (or excess) sum to the known pollution until the remedial works had been completed. This flexible approach enabled the deal to proceed within the required tight timescale, and the purchaser to fix their maximum future exposure to environmental liabilities and factor this into the negotiations.

Case Study 3: Buyer's Position

An agricultural supplies company seeking to acquire a competitor was concerned that the target company's portfolio of some 22 properties could present significant environmental liabilities as a result of both historic and current operations. A warranty provided by the seller was limited in scope, and obviously did not cover ongoing activities, so the buyer required further protection from such liabilities.

No environmental surveys had been undertaken by the seller, and the buyer was unwilling to pay for extensive due diligence. Despite these restrictions, Willis was successful in placing environmental insurance to cover both historic and new contamination, on the basis solely of non-intrusive due diligence surveys.

The entire placement process, including the due diligence, was undertaken within a rapid timescale, enabling the acquisition to proceed as planned. For a premium of approximately 1% of the purchase price of some £11 million, the buyer gained certainty that it would be protected from future environmental liabilities as a result of the acquisition, whilst the seller was able to maximise its sale price.

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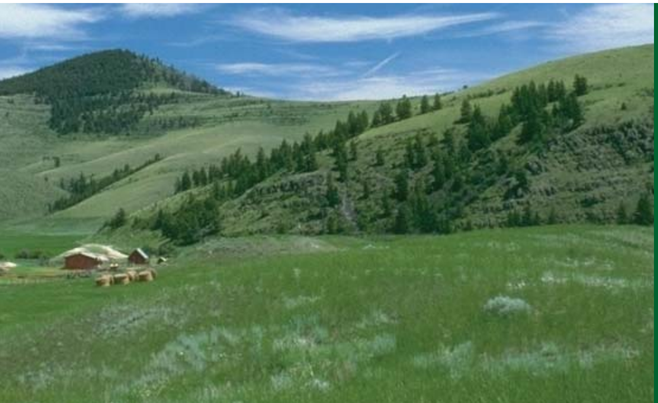

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