

**BERKSHIRE HATHAWAY
INTERNATIONAL INSURANCE LIMITED**

Report and Financial Statements

**for the period from 26 July 1996 to
31 December 1997**



**Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR**

**REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD FROM
26 JULY 1996 TO 31 DECEMBER 1997**

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr T A Bolt (Managing Director) (U.S.)

OTHER DIRECTORS

Mr D Martin-Clark (resigned 25.12.97)

Mr S R Doerr (U.S.)

Mr F N Krutter (U.S.)

Mr D T Young

Mr B G Snover (U.S.)

Mr J.H. Bishop (appointed 25.11.97)

SECRETARY

Mr T A Bolt

REGISTERED OFFICE

108 Fenchurch Street
London EC3M 5JJ

BANKERS

Citibank N.A.
Citibank House
336 Strand
London WC2R 1HB

Lloyds Bank Limited
3rd Floor
34 Moorgate
London EC2R 6DN

Barclays Bank Limited
54 Lombard Street,
London EC3P 3AH

AIB Bank
61 South Richmond Street,
Dublin 2

SOLICITORS

Clifford Chance,
200 Aldersgate Street,
London EC1A 4JJ.

AUDITORS

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period from 26 July 1996 to 31 December 1997.

ACTIVITIES

Berkshire Hathaway International Insurance Limited commenced trading on 1st January 1997 and its principal activity is underwriting general insurance business. The company's operations are managed by Creechurch Underwriting Limited under a management agreement.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company transacts motor insurance business as a consortium underwriter with Lloyd's Syndicate 892, Holdsure Motor Policies. Public and employers' liability business is underwritten on a consortium basis with Lloyd's Syndicate 962 and its associated service company Charrington (962) Ltd. In 1997, the Berkshire Hathaway International Insurance Ltd share of risks underwritten was 61.25% of motor business and 6% of liability business. For 1998, Berkshire Hathaway International Insurance Ltd will continue these arrangements with increased commitments of 81% for motor and 8% for liability business.

While the underwriting loss for 1997 is unacceptable, significant pricing and operating changes are being effected by the managers for the 1998 policy year. The company will continue its philosophy seeking underwriting profitability irrespective of the impact on premium volume.

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

No directors have any interest, directly or indirectly, in any shares of the company.

None of the directors had any interest in any material contract entered into or subsisting during the year and relating to the business of the company.

DIRECTORS' REPORT

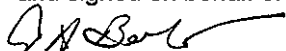
PAYMENTS TO CREDITORS

It is Company policy to pay suppliers within agreed terms of credit upon timely receipt of an accurate invoice.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors. Pursuant to Section 386 of the Companies Act 1985, an Elective Resolution was passed dispensing with the requirement to appoint Auditors annually. Deloitte & Touche are therefore deemed to continue as Auditors.

Approved by the Board of Directors
and signed on behalf of the Board



T A Bolt
Secretary

15 May 1998

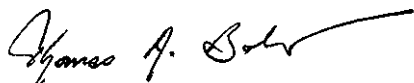
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



T A Bolt
Secretary

15 May 1998

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 to 18 which have been prepared under the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its loss for the period from 26 July 1996 to 31 December 1997 and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and
Registered Auditors
Stonecutter Court
1 Stonecutter Street
London
EC4A 4TR

19th May 1998

PROFIT AND LOSS ACCOUNT

For the period from 26 July 1996 to 31 December 1997

TECHNICAL ACCOUNT - General business

	Note	1997 £'000
Earned premiums, net of reinsurance	2	
Gross premiums written		27,701
Outward reinsurance premiums		(14,687)
Net premiums written		13,014
Change in the provision for unearned premiums	10	
Gross amount		(14,524)
Reinsurers' share		7,700
Change in the net provision for unearned premiums	10	(6,824)
Earned premiums, net of reinsurance and total technical income		<u>6,190</u>
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(3,977)
Reinsurers' share		1,988
Net claims paid		(1,989)
Change in the provision for claims	10	
Gross amount		(8,403)
Reinsurers' share		4,400
Change in the net provision for claims	10	(4,003)
Claims incurred, net of reinsurance		(5,992)
Change in other technical provisions		
Gross amount		(2,730)
Reinsurers' share		1,365
Change in other technical provisions - net	10	(1,365)
Net operating expenses	3	(1,751)
Total technical charges		<u>(9,108)</u>
Balance on the technical account for general business		<u>(2,918)</u>

PROFIT AND LOSS ACCOUNT**For the period from 26 July 1996 to 31 December 1997****NON-TECHNICAL ACCOUNT**

	Note	1997 £'000
Balance on the general business technical account		(2,918)
Investment income	5	1,781
Unrealised losses on investments		(391)
Loss on ordinary activities before tax and operating loss		(1,528)
Tax on loss on ordinary activities	6	(4)
Loss on ordinary activities after tax retained for the year		(1,532)

There are no recognised gains or losses other than the loss for the period and accordingly no statement of recognised gains and losses has been prepared.

All of the operations of the company are continuing.

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the period from 26th July 1996 to 31 December 1997

	1997 £'000
Loss for the period	(1,532)
Share capital issued	18,000
	<hr/>
Closing equity shareholders' funds	16,468
	<hr/>

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

BALANCE SHEET
As at 31 December 1997

	Note	1997 £'000
ASSETS		
Investments	7	
Other financial investments		20,705
		<hr/>
Reinsurers' share of technical provisions	10	
Provision for unearned premiums		7,700
Claims outstanding		4,400
Other technical provisions		1,365
		<hr/>
		13,465
		<hr/>
Debtors		
Debtors arising out of direct insurance operations	8	6,995
Other debtors		516
		<hr/>
		7,511
		<hr/>
Other assets		
Cash at bank and in hand		604
		<hr/>
Prepayments and accrued income		
Accrued interest		631
Deferred acquisition costs		1,495
		<hr/>
		2,126
		<hr/>
TOTAL ASSETS		44,411
		<hr/>

BERKSHIRE HATHAWAY INTERNATIONAL INSURANCE LIMITED

Report and financial statements - 31 December 1997

BALANCE SHEET continued
As at 31 December 1997

	Note	1997 £'000
LIABILITIES		
Capital and reserves	9	
Called up share capital		18,000
Profit and loss account		(1,532)
Equity shareholders' funds		<u>16,468</u>
Technical provisions	10	
Provision for unearned premiums		14,524
Claims outstanding		8,403
Other technical provisions		2,730
		<u>25,657</u>
 Creditors		
Creditors arising out of direct insurance operations		14
Creditors arising out of reinsurance operations		1,960
Other creditors including taxation and social security		312
		<u>2,286</u>
 TOTAL LIABILITIES		<u><u>44,411</u></u>

These financial statements were approved by the Board of Directors on 12 May 1998.

Signed on behalf of the Board of Directors



T.A. Bolt
Director

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified by the revaluation of investments.

The particular accounting policies adopted are described below.

Cash Flow

Advantage has been taken of the exemption under the revised FRS1 not to present a statement of cash flow as the company is 90% or more controlled within the Berkshire Hathaway group of companies, and the consolidated financial statements in which the subsidiary undertaking is included are publicly available.

Basis of accounting for underwriting activities

All classes of business are accounted for on an annual basis.

Premiums

Under the annual basis of accounting, written premiums comprise the premiums on contracts incepting in the financial year.

Estimates are included of pipeline premiums due but not yet notified to the company.

Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums. The amount due but not paid is included in 'Other creditors including taxation and social security' in the balance sheet.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business.

Unearned premiums

For business accounted on an annual basis, a provision for unearned premiums is made which represents that part of gross, and reinsurers' share of, premiums written which is estimated to be earned in the following or subsequent financial years. It is calculated separately for each insurance contract on the 24ths or 365ths basis. The incidence of risk is estimated to be the same throughout the period of the contract.

Deferred acquisition costs

Acquisition costs represent the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs are accrued over an equivalent period to that over which the underlying business is written and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

1. ACCOUNTING POLICIES continued

Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

Claims outstanding

Provision is made for outstanding claims and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are deducted from outstanding claims.

Provisions for claims outstanding are based on information available to the directors and the eventual outcome may vary from the original assessment.

Other technical provisions - unexpired risks

Provision is made for unexpired risks when, after taking account of investment income, it is anticipated, on the basis of information available at the year end, that unearned premiums will be insufficient to meet future claims and related expenses of business in force at the end of the year. The provision for unexpired risks is included within 'Other technical provisions' in the balance sheet.

Premium levies

Full provision is made for the potential liability payable to the Policyholders' Protection Board and the Motor Insurers' Bureau in respect of premiums recognised in these accounts. The charge is included within administrative expenses.

Foreign exchange

Transactions in foreign currencies during the year are translated into sterling at the rates of exchange ruling at 31 December 1997. Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the non-technical account.

Investment income, expenses and charges

Investment income comprises interest and dividends. Interest is dealt with on an accruals basis and dividends are included on an ex-dividend basis. All investment income, together with the tax credit, is recognised in the non-technical account.

Realised gains or losses are calculated as the difference between the net sales proceeds and purchase price and are recognised in the non-technical account.

Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

1. ACCOUNTING POLICIES continued**Unrealised gains and losses**

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. All unrealised gains or losses are recognised in the non-technical account.

Allocation of investment return

All the investment return is recognised in the non-technical account.

Investments

Shares in unlisted securities are shown at cost. Shares in listed securities and other variable-yield securities are valued at market value. Investments in redeemable fixed interest securities are stated at amortised cost. The amortisation is calculated to write off the difference between the purchase price and the maturity value over the life of the security. All other financial investments are stated at market value.

2. SEGMENTAL INFORMATION

Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expenses and the reinsurance balance:

	Motor comprehensive	Motor third party	Third party liability	Total Direct
	£'000	£'000	£'000	£'000
Gross premiums written	23,161	4,350	190	27,701
Gross premiums earned	10,994	2,110	73	13,177
Gross claims incurred	(8,988)	(3,333)	(59)	(12,380)
Gross operating expenses	(2,926)	(551)	(25)	(3,502)
Reinsurance balance	132	1,023	(3)	1,152

Motor third party includes third party, fire and theft business.

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

2. SEGMENTAL INFORMATION continued

Analysis of direct gross premiums written:

	1997 £'000
Contracts written by the company in:	
United Kingdom	24,814
Ireland	2,887
	<u>27,701</u>

Analysis of gross premiums written, loss before tax and net assets:

The following sets out analysis by the country of origin of risks:

	Gross premiums written	Loss before tax	Net assets
	1997 £'000	1997 £'000	1997 £'000
<i>By geographical segment</i>			
United Kingdom	24,814	1,034	14,855
Ireland	<u>2,887</u>	<u>494</u>	<u>1,613</u>
Total	<u>27,701</u>	<u>1,528</u>	<u>16,468</u>

The information reported above includes amounts in respect of reinsurance acceptances. These amounts, which total less than ten percent of gross premium written and therefore have not been broken down separately, relate to reinsurance written through a 100% quota share treaty as an interim measure prior to authorisation to write business in the Republic of Ireland.

These amounts relating to reinsurance acceptances have been disclosed within the class of business that would apply had they been written as direct premium.

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

3. NET OPERATING EXPENSES

	1997 £'000
Acquisition costs	6,297
Change in gross deferred acquisition costs	<u>(2,989)</u>
	3,308
Administrative expenses	<u>194</u>
Gross operating expenses	3,502
Reinsurers' share of operating expenses	<u>(1,751)</u>
Net operating expenses	<u><u>1,751</u></u>

The Company's operations are managed by Creechurch Underwriting Limited and underwriting transactions and claims settlements are undertaken by service companies which are subsidiaries of Creechurch Underwriting Limited. The service companies incur the majority of operating expenses and are then reimbursed by Berkshire Hathaway International Insurance Limited.

Administrative expenses include:

	1997 £'000
Auditors' remuneration	
Audit fees	8
Other services	5
Operating lease rentals - land and buildings	<u>7</u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' remuneration

	1997 £'000
Emoluments	<u><u>21</u></u>

The emoluments stated above are in respect of the services of non-executive directors. The Company did not make any contributions to any pension scheme and no director is entitled to any other benefits.

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES continued

	1997 £'000
Highest paid director's remuneration:	10

Employees

All the Company's operations are delegated to Creechurch Underwriting Limited and the Company has no permanent employees.

Staff costs incurred during the year were:

	1997 £'000
Wages and salaries	29
Social security costs	1
	<u>30</u>

5. INVESTMENT INCOME

	1997 £'000
Income from other financial investments	2,009
Net losses on the realisation of investments	<u>(228)</u>
	<u>1,781</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	1997 £'000
Tax on franked investment income	4
	<u>4</u>

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

7. INVESTMENTS IN OTHER FINANCIAL INVESTMENTS

	Cost 1997 £'000	Current value 1997 £'000
Shares and other variable - yield securities	168	168
Debt securities and other fixed income securities	16,600	16,209
Deposits with credit instructions	4,328	4,328
	<u>21,096</u>	<u>20,705</u>

INVESTMENTS VALUED AT AMORTISED COST

Details of those fixed income securities valued at amortised cost are as follows:

	1997 £'000
Cost	16,600
Cumulative amortisation	<u>(391)</u>
Amortised cost	16,209
Unamortised maturity value	<u>(909)</u>
Maturity value	<u>15,300</u>
Current value	<u>16,658</u>

8. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	1997 £'000
Amounts owed by intermediaries	<u>6,995</u>

9. CALLED UP SHARE CAPITAL

	1997 £'000
Authorised: 18,000,000 ordinary shares of £1 each	<u>18,000</u>
Called up, allotted and fully paid: 18,000,000 ordinary shares of £1 each	<u>18,000</u>

NOTES TO THE ACCOUNTS

For the period from 26 July 1996 to 31 December 1997

10. TECHNICAL PROVISIONS

	Provision for unearned premiums £'000	Claims outstanding £'000	Other technical provisions £'000	Total £'000
Gross				
Movement in provision and balance at 31 December 1997	14,524	8,403	2,730	25,657
Reinsurance amount				
Movement in provision and balance at 31 December 1997	7,700	4,400	1,365	13,465
Net				
At 31 December 1997	6,824	4,003	1,365	12,192

11. RELATED PARTIES

The company has taken advantage of the exemption allowed by FRS 8 not to disclose related party transactions with Berkshire Hathaway Inc. and its subsidiaries.

The company has an interest in 55,000 redeemable convertible participating cumulative preference shares of £1 each in Creechurch Underwriting Limited and transacts business with that company and its subsidiaries as follows:

	Holdsure Service Co Ltd £'000	Erin Service Co Ltd £'000	Charrington (962) Ltd £'000	Creechurch Underwriting Ltd £'000
Premiums Written	26,247	1,454	190	n/a
Claims paid	3,862	116	-	n/a
Expenses reimbursed	1,752	17	11	217
Balance due from/(to) related party at 31 December 1997	6,027	847	13	(14)

12. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Financial commitments under a non-cancellable operating lease expiring within two to five years will result in the following payments falling due in the year to 31 December 1998.

	£'000
Land and buildings	13

13. ULTIMATE PARENT COMPANY

The Company's ultimate parent company and controlling party is Berkshire Hathaway Inc. Incorporated in the United States of America. This company produces group accounts which consolidate the results of Berkshire Hathaway International Insurance Limited. Copies may be obtained from 1440 Kiewit Plaza, Omaha, Nebraska, USA 68131.