

KILN PLC

£16 million investment in W. R. Berkley Corporation's new FSA regulated casualty insurer

Further to its announcement of 5 March 2003, Kiln is pleased to announce that it has entered into an agreement with Berkley London Holdings, Inc. ("Berkley London"), an indirect wholly owned subsidiary of W. R. Berkley Corporation ("Berkley"), in respect of an indirect investment ("Investment") in W. R. Berkley Insurance (Europe), Limited ("WRB Insurance"), a newly incorporated insurance company. The Investment remains, *inter alia*, subject to FSA approval of WRB Insurance.

- It is intended that WRB Insurance will operate as a specialist casualty insurance provider in the London market, initially focusing on professional indemnity insurance.
- The initial capitalisation of WRB Insurance will be £80 million and it is anticipated that WRB Insurance will achieve an A- rating or higher with a major rating agency on completion.
- Kiln will obtain an indirect 20 per cent. interest in WRB Insurance for a total investment of £16 million and Berkley London will obtain the remaining 80 per cent. interest in WRB Insurance for a total investment of £64 million.
- The Investment will be financed without recourse to Kiln shareholders using the proceeds of a new committed £30 million letter of credit facility.
- The Investment furthers Kiln's strategic objectives of maximising shareholder value by exploiting the current hard insurance market and by developing specialist underwriting initiatives.
- The key benefits to Kiln resulting from the Investment are expected to include:
 - *Attractive market opportunity.* The Investment offers Kiln the opportunity to enter the casualty insurance market, which the Independent Directors believe has attractive prospects at the present time;
 - *Risk diversification.* The casualty insurance market typically demonstrates a different underwriting cycle from Kiln's core property-related insurance lines, thereby offering an attractive opportunity for risk diversification;
 - *Market diversification.* Kiln remains committed to its position within the Lloyd's market. The Investment will, however, allow Kiln to establish a broader underwriting platform encompassing interests outside, as well as inside, the Lloyd's market. The Independent Directors believe this will also provide Kiln with an attractive income diversification; and
 - *Development of the Berkley relationship.* Investing alongside the Berkley Group allows Kiln to participate in the attractive opportunity afforded by the casualty insurance market on a far greater scale than would be possible on a

stand alone basis and without raising significant additional capital from its shareholders.

The Berkley Group is a major shareholder in Kiln and as such the Investment is a related party transaction within the meaning of the Listing Rules. Certain arrangements with regards to Kiln's future ability to invest in, and exit from the Investment mean that the Investment is also classified as a Class 1 transaction under the Listing Rules. Due to this classification under the Listing Rules, completion of the Investment is conditional upon, *inter alia*, the approval of Kiln shareholders at an Extraordinary General Meeting which is to be convened for 9.15 a.m. on 27 June 2003. It is anticipated that the circular containing the terms of the Investment will be dispatched to shareholders later today.

Edward Creasy, Chief Executive Officer of Kiln, said:

“It has long been our strategy at Kiln to diversify our operations within the specialist insurance field, and in line with that strategy, this new venture will give us access to a complementary insurance market. It will also allow us to benefit from the rapidly increasing rates in the professional indemnity market, and I look forward to working with the management team at W. R. Berkley Insurance (Europe); I believe this is an excellent development for Kiln and its shareholders.”

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The Directors of Kiln are the persons responsible for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Lexicon Partners, which is regulated by the FSA, is acting exclusively as financial adviser to Kiln plc and, accordingly, will not be responsible to anyone other than Kiln plc for providing the protection afforded to its customers or for advising anyone other than Kiln plc in relation to the contents of this document or any other matter referred to herein.

Introduction

Kiln today announces that it has entered into a Share Subscription and Shareholders' Agreement with Berkley London, an indirect wholly owned subsidiary of Berkley, in respect of an Investment of £80 million in total in WRB Insurance, a newly incorporated insurance company. As a result of the Investment, Kiln will obtain a 20 per cent. interest in WRB Insurance for a total investment of £16 million, and Berkley London will obtain the remaining 80 per cent. interest in WRB Insurance for a total investment of £64 million.

Information on the Investment

Once authorised by the FSA, it is intended that WRB Insurance will operate as a specialist casualty insurance provider in the London market. WRB Insurance will be capitalised initially at £80 million and based on this level of capital (and as a result of the relationship with the Berkley Group as a major shareholder) Kiln and Berkley anticipate that WRB Insurance will achieve an A- rating or higher with a major rating agency on completion.

WRB Insurance plans to commence underwriting in early July 2003. It is anticipated that WRB Insurance will concentrate primarily on professional indemnity insurance initially, with general liability insurance (public liability and product liability) also being written. Other casualty insurance products may be considered in the future as the business develops. It is expected that WRB Insurance will participate in the London subscription market and will also underwrite smaller UK regional business on a 100 per cent. basis. WRB Insurance's business will be introduced by brokers, and it is not anticipated that WRB Insurance will deal with policyholders on a direct basis. WRB Insurance will underwrite predominantly UK-domiciled risks although it may add other territories as its portfolio of underwritten business grows.

WRB Insurance's underwriting portfolio will be balanced by the underwriting of both stand-alone primary and excess layer business. The maximum gross line size is expected to be £5 million for professional indemnity business and £10 million for general liability business. It is envisaged that WRB Insurance will principally write primary insurance business, although some facultative reinsurance may also be accepted.

WRB Insurance has recruited a high quality management team, which will be headed by Stuart Wright as Chief Executive Officer and Director of Underwriting. In addition, the executive management team will include Peter Glanfield as Professional Indemnity Underwriting Manager and Paul Hosking as Chief Financial Officer. The executive management team have well-established reputations in their fields. In particular, Stuart Wright has over 25 years and Peter Glanfield has over 13 years of underwriting experience, resulting in the team having well established and long standing relationships within the London market.

Kiln's interests in WRB Insurance are to be represented through the appointment of Kiln directors to the boards of both WRB Insurance and WRB Holdings. The board of WRB Holdings will be made up of five directors, four of whom will be nominated by Berkley London and one of whom will be nominated by Kiln who, in the first instance, will be Edward Creasy. The board of WRB Insurance will initially consist of two executive directors, one independent non-executive director, up to six Berkley London nominated directors (up to one of whom may be an executive director) and two Kiln nominated non-executive directors, who, in the first instance, will be Edward Creasy and Robert Chase. Berkley London's non-executive directors on the WRB Insurance board and the WRB Holdings board will include William Robert Berkley and W. Robert Berkley, Jr. At least one Kiln director is to be a member of all major board committees, and all major decisions affecting the ongoing business of WRB Insurance, subject to certain limitations, are to be subject to prior discussion with Kiln directors.

Background to and reasons for the Investment

In the Independent Directors' opinion, the Investment represents an attractive investment opportunity for Kiln. The proposed Investment in WRB Insurance furthers Kiln's stated strategic objectives of maximising shareholder value by exploiting the current hard insurance market and by developing specialist underwriting initiatives.

The Independent Directors believe that there are strong prospects for the UK casualty insurance market as a whole, in particular within the professional indemnity field. The Independent Directors anticipate that an experienced management and underwriting team, operating within a well-capitalised insurance vehicle, will be able to generate attractive returns from this market in the current underwriting environment.

Insurance rates in the casualty insurance market typically show a different correlation from rates in the property-related insurance market. Kiln's investment in WRB Insurance consequently provides access to a different underwriting cycle from Kiln's core property-related insurance lines, thereby offering an attractive opportunity for risk diversification.

The Investment in WRB Insurance also allows Kiln to develop a broader underwriting platform encompassing interests outside, as well as inside, the Lloyd's market. Whilst Kiln remains committed to its position within the Lloyd's market, the Independent Directors believe that there are benefits to Kiln in having an interest in an alternative underwriting platform, which will diversify Kiln's income streams and should serve to build Kiln's position of influence in the London insurance market as a whole.

The Investment will also serve to reinforce Kiln's relationship with the Berkley Group. On 25 April 2002, Kiln announced that it had entered into a relationship with the Berkley Group, under which the Berkley Group would become a substantial shareholder in Kiln. Kiln is pleased to be reinforcing further this relationship through the proposed Investment.

The Independent Directors believe that making the Investment in conjunction with the Berkley Group provides several advantages for Kiln compared with an equivalent stand alone investment. Notably:

- Kiln will be able to gain exposure to an attractive and complementary insurance market on a far greater scale than would be possible on a stand alone basis without significantly increasing Kiln's capital base;
- due to the relationship with the Berkley Group as a major shareholder, WRB Insurance will be able to achieve an A- rating or higher with a major rating agency without requiring significant excess capital in its formative years, which should enhance returns arising from the Investment;
- WRB Insurance will have access to Berkley's management capabilities and expertise in casualty insurance underwriting and so Kiln will not need to invest its

management's time and resources in setting up and growing the business to the same extent as would be the case with a stand alone investment; and

- taking a minority interest in the Investment reduces the impact on Kiln's net assets of the new business strain associated with a start-up insurance company.

In summary, the Independent Directors believe that the proposed Investment furthers Kiln's stated strategic objectives and demonstrates clearly the merits of Kiln's relationship with the Berkley Group, allowing Kiln to develop further the scale and influence of the Kiln business to enhance shareholder value whilst avoiding the need to raise significant additional capital from its shareholders.

Terms of the Investment

The terms of the Investment are governed by the Share Subscription and Shareholders' Agreement and the WRB Holdings articles of association, which include minority protection rights that seek to protect Kiln's interests in relation to the Investment, including a Kiln put option and a call option over Kiln's holding in WRB Insurance, together with drag along and tag along rights. Exercise of Kiln's put option and of Kiln's tag along right may be subject to further shareholder approval as a related party and/or Class 1 transaction, if applicable, under the Listing Rules.

In addition to its initial investment of £16 million, Kiln has the ability to increase its investment in WRB Holdings and WRB Finance by up to a further £9 million (which may be subject to Shareholder approval) on the same terms as set out in the Share Subscription and Shareholders' Agreement.

Implementation of the Investment

The Investment is conditional on certain conditions precedent (details of which are set out in the circular) being fulfilled or waived in writing by both Kiln and Berkley London. Kiln currently anticipates that the conditions precedent are likely to be satisfied on or around 30 June 2003.

Under the terms of the Share Subscription and Shareholders' Agreement, Kiln and Berkley London will obtain indirect shareholdings in WRB Insurance via intermediary equity and loan note investments in WRB Holdings and WRB Finance, two newly incorporated companies. The capitalisation of WRB Insurance will be £80 million. Kiln will obtain an indirect 20 per cent. equity interest in WRB Insurance for a total investment of £16 million. The Berkley Group will obtain the remaining 80 per cent. equity interest in WRB Insurance for a total investment of £64 million.

The Investment will be financed without recourse to Kiln's Shareholders. Kiln has entered into a Facility Agreement with Lloyds TSB Bank plc. Under the terms of the Facility Agreement, Lloyds TSB Bank plc will make available to Kiln a £30 million letter of credit facility to support Kiln Underwriting Limited's underwriting. This will enable

the release by Lloyd's of cash and other assets which will then be utilised in part to finance the Investment. The balance of the released Funds at Lloyd's will be used partly to refinance an existing letter of credit of National Westminster Bank plc (£5.5 million), which is used to support Kiln Underwriting Limited's current underwriting with the remainder being set aside for general corporate purposes. Lloyds TSB Bank plc will also make available to Kiln a £16 million short term bridging facility to finance the Investment for the period until the release by Lloyd's of the Funds at Lloyd's.

Financial effects of the Investment

It is expected that the Investment will be accounted for as an associate in the consolidated accounts of Kiln. It is not expected that the Investment will have a material impact on Kiln's net assets per share at Completion.

As WRB Insurance is a newly incorporated company, it has not generated any turnover or profit and, due to WRB Insurance's start-up costs, the Investment is expected to be initially modestly dilutive to Kiln's earnings per share. The Independent Directors consider, however, that the longer term financial and strategic prospects of the Investment will be beneficial to Shareholders.

It is expected that WRB Insurance will not pay any dividends to its shareholders in the short term, with any profits generated being retained to support further WRB Insurance's underwriting activities. Kiln's share of any increase in WRB Insurance's net assets will, however, be reflected in Kiln's own net assets under the expected accounting treatment of the Investment.

Classification of the transaction

Berkley, which is the ultimate parent company of Berkley London, owns, indirectly through Berkley Insurance Company, approximately 20.1 per cent. of the outstanding Kiln Shares. This means that the Investment is a related party transaction within the meaning of the Listing Rules. Berkley London will also have the right in certain circumstances to require Kiln to sell its holding in the New Group to Berkley London (under a call option) or to a third party (drag along rights). The exercise of the call option or the drag along is at the discretion of Berkley London and the value to be attributed of these arrangements is not subject to a maximum value, meaning that the Investment (including the call option and drag along) is classified as a Class 1 transaction under the Listing Rules.

Due to this classification under the Listing Rules, Completion of the Investment is conditional, *inter alia*, upon the approval of Kiln's independent Shareholders (being Shareholders other than those who are Associated with Berkley), which will be sought at the Extraordinary General Meeting, and the FSA authorisation of WRB Insurance.

William Robert Berkley and W. Robert Berkley, Jr. are both non-executive directors of the Company and are directors of Berkley, Berkley Insurance Company and Berkley

London, and so are not Independent Directors. Accordingly, they have played no part in the decision-making process of the Independent Directors relating to the Investment.

Recommendation

The Independent Directors, who have been so advised by Lexicon Partners, Kiln's financial adviser in relation to the Investment, consider the terms of the Investment to be fair and reasonable so far as the Shareholders are concerned. In providing advice to the Independent Directors, Lexicon Partners has taken into account the Independent Directors' commercial assessments of the Investment.

The Independent Directors consider the Investment to be in the best interests of Kiln and its Shareholders as a whole and accordingly recommend that you vote in favour of the resolution to approve the Investment at the EGM as they intend to do or procure support in respect of the shareholdings registered in their own names or beneficially held for them. The holdings of the Independent Directors, in aggregate, amount to approximately 1.19 million Kiln Shares, representing approximately 0.58 per cent. of Kiln's existing issued share capital.

Note to editors

Kiln

Founded in 1962, Kiln is an international insurance and reinsurance underwriting group. Kiln is listed on the London Stock Exchange with a market capitalisation of approximately £169 million. Kiln's principal operating subsidiary, R J Kiln, a Lloyd's managing agency, manages capacity of approximately £820 million (including qualifying quota share) for the 2003 year of account, making it the seventh largest Lloyd's agency currently trading in the Lloyd's insurance market. Kiln Underwriting Limited, a Lloyd's corporate member, participates on the Kiln syndicates, underwriting approximately £224.6 million of capacity for the 2003 year of account.

Berkley

Founded in 1967, Berkley is an insurance holding company which, through its subsidiaries, operates in five segments of the property casualty insurance business: speciality lines of insurance (including excess and surplus lines and commercial transportation); alternative markets (including the management of alternative insurance market mechanisms); reinsurance; regional property casualty insurance; and international. The group's speciality insurance, alternative markets and reinsurance operations are conducted throughout the USA. International operations are conducted primarily in Argentina and the Philippines. Berkley is listed on the New York Stock Exchange with a market capitalisation of approximately \$2.7 billion. For the twelve months to 31 December 2002, Berkley reported net premiums written of \$2.7 billion and net income of \$175.0 million. At 31 December 2002, Berkley's stockholders' equity was over \$1.3 billion.

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Associated”	Has the meaning ascribed thereto in chapter 11 of the Listing Rules
“Berkley”	W. R. Berkley Corporation of 475 Steamboat Road, Greenwich, Connecticut 06830, United States of America
“Berkley Group”	Berkley and any related companies including without limitation Berkley Insurance Company and Berkley London
“Berkley Insurance Company”	Berkley Insurance Company of 475 Steamboat Road, Greenwich, Connecticut 06830, United States of America, an indirect wholly owned subsidiary of Berkley
“Berkley London”	Berkley London Holdings, Inc. of 475 Steamboat Road, Greenwich, Connecticut 06830, United States of America, an indirect wholly owned subsidiary of Berkley
“Completion”	Completion of the Investment in accordance with the terms of the Share Subscription and Shareholders’ Agreement
“Extraordinary General Meeting” or “EGM”	The extraordinary general meeting of the Company to be convened at 9.15 a.m. on 27 June 2003 for the purpose of considering the ordinary resolution to approve the Investment
“FSA”	The Financial Services Authority
“Funds at Lloyd’s”	Funds held in trust at Lloyd's to support a Lloyd's member's underwriting activities
“Independent Directors”	Professor Ian Percy CBE, Edward Creasy, Roy Butler, Robert Chase, Peter Haynes, Graham Ball, Reginald Brown and Charles Sebag-Montefiore
“Investment”	The proposed investment in WRB Holdings and WRB Finance by Kiln and Berkley London, the proposed investment in WRB Holdings by WRB Finance and the proposed investment in WRB Insurance by WRB Holdings in accordance with the terms of the Share Subscription and Shareholders' Agreement
“Kiln” or the “Company”	Kiln plc
“Kiln Group” or the “Group”	Kiln and any related company
“Kiln Shares”	Ordinary shares of £0.01 each in the capital of Kiln plc
“Lexicon Partners”	Lexicon Partners Limited, a company regulated by the FSA
“Listing Rules”	The Listing Rules of the UK Listing Authority
“Lloyd’s”	The Society and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982, including the Council of Lloyd's (and its delegates and other persons through whom the Council of Lloyd's may act), as the context may require
“New Group”	WRB Finance, WRB Holdings, WRB Insurance and WRB Services
“Shareholders”	Holders of Kiln Shares

“Share Subscription and Shareholders' Agreement”	The conditional agreement dated 11 June 2003 between inter alia the Company and Berkley London providing for the ownership and management of WRB Finance, WRB Holdings, WRB Services and WRB Insurance
“UK Listing Authority”	The FSA, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“WRB Finance”	W. R. Berkley London Finance, Limited of 400 Capability Green, Luton, Bedfordshire, LU1 3LU
“WRB Holdings”	W. R. Berkley London Holdings, Limited of 400 Capability Green, Luton, Bedfordshire, LU1 3LU
“WRB Insurance”	W. R. Berkley Insurance (Europe), Limited of 400 Capability Green, Luton, Bedfordshire, LU1 3LU, a wholly owned subsidiary of WRB Holdings
“WRB Services”	W. R. Berkley London Staff, Limited of 400 Capability Green, Luton, Bedfordshire, LU1 3LU, a wholly owned subsidiary of WRB Holdings