BERKSHIRE HATHAWAY INC.

2001 ANNUAL REPORT

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Business Activities

Berkshire Hathaway Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these is the property and casualty insurance business conducted on both a direct and reinsurance basis through a number of subsidiaries. Included in this group of subsidiaries is GEICO Corporation, the sixth largest auto insurer in the United States and General Re Corporation, one of the four largest reinsurers in the world.

Investment portfolios of insurance subsidiaries include meaningful equity ownership percentages of other publicly traded companies. Investments with a market value in excess of $500 million at the end of 2001 include approximately 11% of the capital stock of American Express Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 9% of the capital stock of The Gillette Company, approximately 9% of the capital stock of H&R Block, Inc., approximately 15% of the capital stock of Moody’s Corporation, approximately 18% of the capital stock of The Washington Post Company and approximately 3% of the capital stock of Wells Fargo and Company. Much information about these publicly-owned companies is available, including information released from time to time by the companies themselves.

Numerous business activities are conducted through non-insurance subsidiaries. *FlightSafety International* provides training of aircraft and ship operators. *Executive Jet* provides fractional ownership programs for general aviation aircraft. *Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture*, and *Jordan’s Furniture* are retailers of home furnishings. *Borsheim’s*, *Helzberg Diamond Shops* and *Ben Bridge Jeweler* are retailers of fine jewelry. *Scott Fetzer* is a diversified manufacturer and distributor of commercial and industrial products, the principal products are sold under the *Kirby* and *Campbell Hausfeld* brand names.

Also included in the non-insurance subsidiaries are several large manufacturing businesses acquired during 2000 and 2001. *Shaw Industries* is the world’s largest manufacturer of tufted broadloom carpet. *Benjamin Moore* is a formulator, manufacturer and retailer of architectural and industrial coatings. *Johns Manville* is a leading manufacturer of insulation and building products. *Acme Building Brands* is a manufacturer of face brick and concrete masonry products. *MiTek Inc.* produces steel connector products and engineering software for the building components market.

In addition, Berkshire’s other non-insurance business activities include: *Buffalo News*, a publisher of a daily and Sunday newspaper; *See’s Candies*, a manufacturer and seller of boxed chocolates and other confectionery products; *H.H. Brown*, *Lowell*, *Dexter* and *Justin Brands*, manufacturers and distributors of footwear under a variety of brand names; *International Dairy Queen*, which licenses and services a system of about 6,000 stores that offer prepared dairy treats and food; *CORT*, a provider of rental furniture, accessories and related services and *XTRA Corporation*, a leading operating lessor of transportation equipment.

Operating decisions for the various Berkshire businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for Berkshire and its subsidiaries by Warren E. Buffett, in consultation with Charles T. Munger. Mr. Buffett is Chairman and Mr. Munger is Vice Chairman of Berkshire's Board of Directors.

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Note: The following table appears in the printed Annual Report on the facing page of the Chairman's Letter and is referred to in that letter.

Berkshire's Corporate Performance vs. the S&P 500

Year	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	.7
1998	48.3	28.6	19.7
1999	.5	21.0	(20.5)
2000	6.5	(9.1)	15.6
2001	(6.2)	(11.9)	5.7
Average Annual Gain – 1965-2001	22.6%	11.0%	11.6%
Overall Gain – 1964-2001	194,936%	4,742%	190,194%

Notes: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.

Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules. In all other respects, the results are calculated using the numbers originally reported.

The S&P 500 numbers are **pre-tax** whereas the Berkshire numbers are **after-tax**. If a corporation such as Berkshire were simply to have owned the S&P 500 and accrued the appropriate taxes, its results would have lagged the S&P 500 in years when that index showed a positive return, but would have exceeded the S&P in years when the index showed a negative return. Over the years, the tax costs would have caused the aggregate lag to be substantial.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Berkshire's *loss* in net worth during 2001 was $3.77 billion, which decreased the per-share book value of both our Class A and Class B stock by 6.2%. Over the last 37 years (that is, since present management took over) per-share book value has grown from $19 to $37,920, a rate of 22.6% compounded annually.*

Per-share intrinsic grew somewhat faster than book value during these 37 years, and in 2001 it probably decreased a bit less. We explain intrinsic value in our Owner's Manual, which begins on page 62. I urge new shareholders to read this manual to become familiar with Berkshire's key economic principles.

Two years ago, reporting on 1999, I said that we had experienced both the worst absolute and relative performance in our history. I added that "relative results are what concern us," a viewpoint I've had since forming my first investment partnership on May 5, 1956. Meeting with my seven founding limited partners that evening, I gave them a short paper titled "The Ground Rules" that included this sentence: "Whether we do a good job or a poor job is to be measured against the general experience in securities." We initially used the Dow Jones Industrials as our benchmark, but shifted to the S&P 500 when that index became widely used. Our comparative record since 1965 is chronicled on the facing page; last year Berkshire's advantage was 5.7 percentage points.

Some people disagree with our focus on relative figures, arguing that "you can't eat relative performance." But if you expect – as Charlie Munger, Berkshire's Vice Chairman, and I do – that owning the S&P 500 will produce reasonably satisfactory results over time, it follows that, for long-term investors, gaining small advantages annually over that index *must* prove rewarding. Just as you can eat well throughout the year if you own a profitable, but highly seasonal, business such as See's (which loses considerable money during the summer months) so, too, can you regularly feast on investment returns that beat the averages, however variable the absolute numbers may be.

Though our corporate performance last year was satisfactory, *my* performance was anything but. I manage most of Berkshire's equity portfolio, and my results were poor, just as they have been for several years. Of even more importance, I allowed General Re to take on business without a safeguard I knew was important, and on September 11th, this error caught up with us. I'll tell you more about my mistake later and what we are doing to correct it.

Another of my 1956 Ground Rules remains applicable: "I cannot promise results to partners." But Charlie and I *can* promise that your economic result from Berkshire will parallel ours during the period of your ownership: We will not take cash compensation, restricted stock or option grants that would make our results superior to yours.

Additionally, I will keep well over 99% of my net worth in Berkshire. My wife and I have never sold a share nor do we intend to. Charlie and I are disgusted by the situation, so common in the last few years, in which shareholders have suffered billions in losses while the CEOs, promoters, and other higher-ups who fathered these disasters have walked away with extraordinary wealth. Indeed, many of these people were urging investors to buy shares while concurrently dumping their own, sometimes using methods that hid their actions. To their shame, these business leaders view shareholders as patsies, not partners.

Though Enron has become the symbol for shareholder abuse, there is no shortage of egregious conduct elsewhere in corporate America. One story I've heard illustrates the all-too-common attitude of managers toward

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*All figures used in this report apply to Berkshire's A shares, the successor to the only stock that the company had outstanding before 1996. The B shares have an ec onomic interest equal to 1/30th that of the A.

owners: A gorgeous woman slinks up to a CEO at a party and through moist lips purrs, "I'll do anything – *anything* – you want. Just tell me what you would like." With no hesitation, he replies, "Reprice my options."

One final thought about Berkshire: In the future we won't come close to replicating our past record. To be sure, Charlie and I will strive for above-average performance and will not be satisfied with less. But two conditions at Berkshire are far different from what they once were: Then, we could often buy businesses and securities at much lower valuations than now prevail; and more important, we were then working with far less money than we now have. Some years back, a good $10 million idea could do wonders for us (witness our investment in Washington Post in 1973 or GEICO in 1976). Today, the combination of *ten* such ideas and a triple in the value of *each* would increase the net worth of Berkshire by only ¼ of 1%. We need "elephants" to make significant gains now – and they are hard to find.

On the positive side, we have as fine an array of operating managers as exists at any company. (You can read about many of them in a new book by Robert P. Miles: *The Warren Buffett CEO*.) In large part, moreover, they are running businesses with economic characteristics ranging from good to superb. The ability, energy and loyalty of these managers is simply extraordinary. We now have completed 37 Berkshire years without having a CEO of an operating business elect to leave us to work elsewhere.

Our star-studded group grew in 2001. First, we completed the purchases of two businesses that we had agreed to buy in 2000 – Shaw and Johns Manville. Then we acquired two others, MiTek and XTRA, and contracted to buy two more: Larson-Juhl, an acquisition that has just closed, and Fruit of the Loom, which will close shortly if creditors approve our offer. All of these businesses are led by smart, seasoned and trustworthy CEOs.

Additionally, all of our purchases last year were for cash, which means our shareholders became owners of these additional businesses without relinquishing any interest in the fine companies they already owned. We will continue to follow our familiar formula, striving to increase the value of the excellent businesses we have, adding new businesses of similar quality, and issuing shares only grudgingly.

Acquisitions of 2001

A few days before last year's annual meeting, I received a heavy package from St. Louis, containing an unprepossessing chunk of metal whose function I couldn't imagine. There was a letter in the package, though, from Gene Toombs, CEO of a company called MiTek. He explained that MiTek is the world's leading producer of this thing I'd received, a "connector plate," which is used in making roofing trusses. Gene also said that the U.K. parent of MiTek wished to sell the company and that Berkshire seemed to him the ideal buyer. Liking the sound of his letter, I gave Gene a call. It took me only a minute to realize that he was our kind of manager and MiTek our kind of business. We made a cash offer to the U.K. owner and before long had a deal.

Gene's managerial crew is exceptionally enthusiastic about the company and wanted to participate in the purchase. Therefore, we arranged for 55 members of the MiTek team to buy 10% of the company, with each putting up a minimum of $100,000 in cash. Many borrowed money so they could participate.

As they would *not* be if they had options, all of these managers are true *owners*. They face the downside of decisions as well as the upside. They incur a cost of capital. And they can't "reprice" their stakes: What they paid is what they live with.

Charlie and I love the high-grade, truly entrepreneurial attitude that exists at MiTek, and we predict it will be a winner for all involved.

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In early 2000, my friend, Julian Robertson, announced that he would terminate his investment partnership, Tiger Fund, and that he would liquidate it entirely except for four large holdings. One of these was XTRA, a leading lessor of truck trailers. I then called Julian, asking whether he might consider selling his XTRA block or whether, for that matter, the company's management might entertain an offer for the entire company. Julian referred me to Lew Rubin, XTRA's CEO. He and I had a nice conversation, but it was apparent that no deal was to be done.

Then in June 2001, Julian called to say that he had decided to sell his XTRA shares, and I resumed conversations with Lew. The XTRA board accepted a proposal we made, which was to be effectuated through a tender offer expiring on September 11th. The tender conditions included the usual "out," allowing us to withdraw if the stock market were to close before the offer's expiration. Throughout much of the 11th, Lew went through a particularly wrenching experience: First, he had a son-in-law working in the World Trade Center who couldn't be located; and second, he knew we had the option of backing away from our purchase. The story ended happily: Lew's son-in-law escaped serious harm, and Berkshire completed the transaction.

Trailer leasing is a cyclical business but one in which we should earn decent returns over time. Lew brings a new talent to Berkshire, and we hope to expand in leasing.

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On December 3rd, I received a call from Craig Ponzio, owner of Larson-Juhl, the U.S. leader in custom-made picture frames. Craig had bought the company in 1981 (after first working at its manufacturing plant while attending college) and thereafter increased its sales from $3 million to $300 million. Though I had never heard of Larson-Juhl before Craig's call, a few minutes talk with him made me think we would strike a deal. He was straightforward in describing the business, cared about who bought it, and was realistic as to price. Two days later, Craig and Steve McKenzie, his CEO, came to Omaha and in ninety minutes we reached an agreement. In ten days we had signed a contract.

Larson-Juhl serves about 18,000 framing shops in the U.S. and is also the industry leader in Canada and much of Europe. We expect to see opportunities for making complementary acquisitions in the future.

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As I write this letter, creditors are considering an offer we have made for Fruit of the Loom. The company entered bankruptcy a few years back, a victim both of too much debt and poor management. And, a good many years before that, I had some Fruit of the Loom experience of my own.

In August 1955, I was one of five employees, including two secretaries, working for the three managers of Graham-Newman Corporation, a New York investment company. Graham-Newman controlled Philadelphia and Reading Coal and Iron ("P&R"), an anthracite producer that had excess cash, a tax loss carryforward, and a declining business. At the time, I had a significant portion of my limited net worth invested in P&R shares, reflecting my faith in the business talents of my bosses, Ben Graham, Jerry Newman and Howard (Micky) Newman.

This faith was rewarded when P&R purchased the Union Underwear Company from Jack Goldfarb for $15 million. Union (though it was then only a licensee of the name) produced Fruit of the Loom underwear. The company possessed $5 million in cash – $2.5 million of which P&R used for the purchase – and was earning about $3 million pre-tax, earnings that could be sheltered by the tax position of P&R. And, oh yes: Fully $9 million of the remaining $12.5 million due was satisfied by non-interest-bearing notes, payable from 50% of any earnings Union had in excess of $1 million. (*Those* were the days; I get goosebumps just thinking about such deals.)

Subsequently, Union bought the licensor of the Fruit of the Loom name and, along with P&R, was merged into Northwest Industries. Fruit went on to achieve annual pre-tax earnings exceeding $200 million.

John Holland was responsible for Fruit's operations in its most bountiful years. In 1996, however, John retired, and management loaded the company with debt, in part to make a series of acquisitions that proved disappointing. Bankruptcy followed. John was then rehired, and he undertook a major reworking of operations. Before John's return, deliveries were chaotic, costs soared and relations with key customers deteriorated. While correcting these problems, John also reduced employment from a bloated 40,000 to 23,000. In short, he's been restoring the old Fruit of the Loom, albeit in a much more competitive environment.

Stepping into Fruit's bankruptcy proceedings, we made a proposal to creditors to which we attached no financing conditions, even though our offer had to remain outstanding for many months. We did, however, insist on a very unusual proviso: John had to be available to continue serving as CEO after we took over. To us, John and the brand are Fruit's key assets.

I was helped in this transaction by my friend and former boss, Micky Newman, now 81. What goes around truly does come around.

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Our operating companies made several “bolt-on” acquisitions during the year, and I can’t resist telling you about one. In December, Frank Rooney called to tell me H.H. Brown was buying the inventory and trademarks of Acme Boot for $700,000.

That sounds like small potatoes. But – would you believe it? – Acme was the second purchase of P&R, an acquisition that took place just before I left Graham-Newman in the spring of 1956. The price was $3.2 million, part of it again paid with non-interest bearing notes, for a business with sales of $7 million.

After P&R merged with Northwest, Acme grew to be the world’s largest bootmaker, delivering annual profits many multiples of what the company had cost P&R. But the business eventually hit the skids and never recovered, and that resulted in our purchasing Acme’s remnants.

In the frontispiece to *Security Analysis*, Ben Graham and Dave Dodd quoted Horace: “Many shall be restored that now are fallen and many shall fall that are now in honor.” Fifty-two years after I first read those lines, my appreciation for what they say about business and investments continues to grow.

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In addition to bolt-on acquisitions, our managers continually look for ways to grow internally. In that regard, here’s a postscript to a story I told you two years ago about R.C. Willey’s move to Boise. As you may remember, Bill Child, R.C. Willey’s chairman, wanted to extend his home-furnishings operation beyond Utah, a state in which his company does more than $300 million of business (up, it should be noted, from $250,000 when Bill took over 48 years ago). The company achieved this dominant position, moreover, with a “closed on Sunday” policy that defied conventional retailing wisdom. I was skeptical that this policy could succeed in Boise or, for that matter, anyplace outside of Utah. After all, Sunday is the day many consumers most like to shop.

Bill then insisted on something extraordinary: He would invest $11 million of his own money to build the Boise store and would sell it to Berkshire at cost (without interest!) if the venture succeeded. If it failed, Bill would keep the store and eat the loss on its disposal. As I told you in the 1999 annual report, the store immediately became a huge success — and it has since grown.

Shortly after the Boise opening, Bill suggested we try Las Vegas, and this time I was even more skeptical. How could we do business in a metropolis of that size and be closed on Sundays, a day that all of our competitors would be exploiting? Buoyed by the Boise experience, however, we proceeded to locate in Henderson, a mushrooming city adjacent to Las Vegas.

The result: This store outsells all others in the R.C. Willey chain, doing a volume of business that far exceeds the volume of any competitor and that is twice what I had anticipated. I cut the ribbon at the grand opening in October – this was after a “soft” opening and a few weeks of exceptional sales – and, just as I did at Boise, I suggested to the crowd that the new store was my idea.

It didn’t work. Today, when I pontificate about retailing, Berkshire people just say, “What does Bill think?” (I’m going to draw the line, however, if he suggests that we also close on Saturdays.)

The Economics of Property/Casualty Insurance

Our main business — though we have others of great importance — is insurance. To understand Berkshire, therefore, it is necessary that you understand how to evaluate an insurance company. The key determinants are: (1) the amount of float that the business generates; (2) its cost; and (3) most critical of all, the long-term outlook for both of these factors.

To begin with, float is money we hold but don't own. In an insurance operation, float arises because premiums are received before losses are paid, an interval that sometimes extends over many years. During that time, the insurer invests the money. This pleasant activity typically carries with it a downside: The premiums that an insurer takes in usually do not cover the losses and expenses it eventually must pay. That leaves it running an "underwriting loss," which is the cost of float. An insurance business has value if its cost of float over time is less than the cost the company would otherwise incur to obtain funds. But the business is a lemon if its cost of float is higher than market rates for money.

Historically, Berkshire has obtained its float at a very low cost. Indeed, our cost has been less than zero in about half of the years in which we've operated; that is, we've actually been paid for holding other people's money. Over the last few years, however, our cost has been too high, and in 2001 it was terrible.

The table that follows shows (at intervals) the float generated by the various segments of Berkshire's insurance operations since we entered the business 35 years ago upon acquiring National Indemnity Company (whose traditional lines are included in the segment "Other Primary"). For the table we have calculated our float — which we generate in large amounts relative to our premium volume — by adding net loss reserves, loss adjustment reserves, funds held under reinsurance assumed and unearned premium reserves, and then subtracting insurance-related receivables, prepaid acquisition costs, prepaid taxes and deferred charges applicable to assumed reinsurance. (Got that?)

Yearend Float (in $ millions)

Year	GEICO	General Re	Other Reinsurance	Other Primary	Total
1967				20	20
1977			40	131	171
1987			701	807	1,508
1997	2,917		4,014	455	7,386
1998	3,125	14,909	4,305	415	22,754
1999	3,444	15,166	6,285	403	25,298
2000	3,943	15,525	7,805	598	27,871
2001	4,251	19,310	11,262	685	35,508

Last year I told you that, barring a mega-catastrophe, our cost of float would probably drop from its 2000 level of 6%. I had in mind natural catastrophes when I said that, but instead we were hit by a man-made catastrophe on September 11th – an event that delivered the insurance industry its largest loss in history. Our float cost therefore came in at a staggering 12.8%. It was our worst year in float cost since 1984, and a result that to a significant degree, as I will explain in the next section, we brought upon ourselves.

If no mega-catastrophe occurs, I – once again – expect the cost of our float to be low in the coming year. We will indeed need a low cost, as will *all* insurers. Some years back, float costing, say, 4% was tolerable because government bonds yielded twice as much, and stocks prospectively offered still loftier returns. Today, fat returns are nowhere to be found (at least *we* can't find them) and short-term funds earn less than 2%. Under these conditions, each of our insurance operations, save one, must deliver an underwriting profit if it is to be judged a good business. The exception is our retroactive reinsurance operation (a business we explained in last year's annual report), which has desirable economics even though it currently hits us with an annual underwriting loss of about $425 million.

Principles of Insurance Underwriting

When property/casualty companies are judged by their cost of float, very few stack up as satisfactory businesses. And interestingly – unlike the situation prevailing in many other industries – neither size nor brand name determines an insurer's profitability. Indeed, many of the biggest and best-known companies regularly deliver mediocre results. What counts in this business is underwriting discipline. The winners are those that unfailingly stick to three key principles:

1. *They accept only those risks that they are able to properly evaluate (staying within their circle of competence) and that, after they have evaluated all relevant factors including remote loss scenarios, carry the expectancy of profit. These insurers ignore market-share considerations and are sanguine about losing business to competitors that are offering foolish prices or policy conditions.*

2. *They limit the business they accept in a manner that guarantees they will suffer no aggregation of losses from a single event or from related events that will threaten their solvency. They ceaselessly search for possible correlation among seemingly-unrelated risks.*

3. *They avoid business involving moral risk: No matter what the rate, trying to write good contracts with bad people doesn't work. While most policyholders and clients are honorable and ethical, doing business with the few exceptions is usually expensive, sometimes extraordinarily so.*

The events of September 11th made it clear that our implementation of rules 1 and 2 at General Re had been dangerously weak. In setting prices and also in evaluating aggregation risk, we had either overlooked or dismissed the possibility of large-scale terrorism losses. That was a relevant underwriting factor, and we ignored it.

In pricing property coverages, for example, we had looked to the past and taken into account only costs we might expect to incur from windstorm, fire, explosion and earthquake. But what will be the largest insured property loss in history (after adding related business-interruption claims) originated from none of these forces. In short, all of us in the industry made a fundamental underwriting mistake by focusing on experience, rather than exposure, thereby assuming a huge terrorism risk for which we received no premium.

Experience, of course, is a highly useful starting point in underwriting most coverages. For example, it's important for insurers writing California earthquake policies to know how many quakes in the state during the past century have registered 6.0 or greater on the Richter scale. This information will not tell you the exact probability of a big quake next year, or where in the state it might happen. But the statistic has utility, particularly if you are writing a huge statewide policy, as National Indemnity has done in recent years.

At certain times, however, using experience as a guide to pricing is not only useless, but actually dangerous. Late in a bull market, for example, large losses from directors and officers liability insurance ("D&O") are likely to be relatively rare. When stocks are rising, there are a scarcity of targets to sue, and both questionable accounting and management chicanery often go undetected. At that juncture, experience on high-limit D&O may look great.

But that's just when *exposure* is likely to be exploding, by way of ridiculous public offerings, earnings manipulation, chain-letter-like stock promotions and a potpourri of other unsavory activities. When stocks fall, these sins surface, hammering investors with losses that can run into the hundreds of billions. Juries deciding whether those losses should be borne by small investors or big insurance companies can be expected to hit insurers with verdicts that bear little relation to those delivered in bull-market days. Even one jumbo judgment, moreover, can cause settlement costs in later cases to mushroom. Consequently, the correct rate for D&O "excess" (meaning the insurer or reinsurer will pay losses above a high threshold) might well, if based on *exposure*, be five or more times the premium dictated by *experience*.

Insurers have always found it costly to ignore new exposures. Doing that in the case of terrorism, however, could literally bankrupt the industry. No one knows the probability of a nuclear detonation in a major metropolis this year (or even multiple detonations, given that a terrorist organization able to construct one bomb might not stop there). Nor can anyone, with assurance, assess the probability in this year, or another, of deadly biological or chemical agents being introduced simultaneously (say, through ventilation systems) into multiple office buildings and manufacturing plants. An attack like that would produce astronomical workers' compensation claims.

Here's what we *do* know:

(a) The probability of such mind-boggling disasters, though likely very low at present, is not zero.

(b) The probabilities are increasing, in an irregular and immeasurable manner, as knowledge and materials become available to those who wish us ill. Fear may recede with time, but the danger won't – the war against terrorism can never be won. The best the nation can achieve is a long succession of stalemates. There can be no checkmate against hydra-headed foes.

(c) Until now, insurers and reinsurers have blithely assumed the financial consequences from the incalculable risks I have described.

(d) Under a "close-to-worst-case" scenario, which could conceivably involve $1 trillion of damage, the insurance industry would be destroyed unless it manages in some manner to dramatically limit its assumption of terrorism risks. Only the U.S. Government has the resources to absorb such a blow. If it is unwilling to do so on a prospective basis, the general citizenry must bear its own risks and count on the Government to come to its rescue after a disaster occurs.

Why, you might ask, didn't I recognize the above facts *before* September 11th? The answer, sadly, is that I did – but I didn't convert thought into action. I violated the Noah rule: Predicting rain doesn't count; building arks does. I consequently let Berkshire operate with a dangerous level of risk – at General Re in particular. I'm sorry to say that much risk for which we haven't been compensated remains on our books, but it is running off by the day.

At Berkshire, it should be noted, we have for some years been willing to assume more risk than any other insurer has *knowingly* taken on. That's still the case. We are perfectly willing to lose $2 billion to $2½ billion in a single event (as we did on September 11th) if we have been paid properly for assuming the risk that caused the loss (which on that occasion we weren't).

Indeed, we have a major competitive advantage because of our tolerance for huge losses. Berkshire has massive liquid resources, substantial non-insurance earnings, a favorable tax position and a knowledgeable shareholder constituency willing to accept volatility in earnings. This unique combination enables us to assume risks that far exceed the appetite of even our largest competitors. Over time, insuring these jumbo risks should be profitable, though periodically they will bring on a terrible year.

The bottom-line today is that we will write some coverage for terrorist-related losses, including a few non-correlated policies with very large limits. But we will not knowingly expose Berkshire to losses beyond what we can comfortably handle. We will control our total exposure, no matter what the competition does.

Insurance Operations in 2001

Over the years, our insurance business has provided ever-growing, low-cost funds that have fueled much of Berkshire's growth. Charlie and I believe this will continue to be the case. But we stumbled in a big way in 2001, largely because of underwriting losses at General Re.

In the past I have assured you that General Re was underwriting with discipline – and I have been proven wrong. Though its managers' intentions were good, the company broke each of the three underwriting rules I set forth in the last section and has paid a huge price for doing so. One obvious cause for its failure is that it did not reserve correctly – more about this in the next section – and therefore severely miscalculated the cost of the product it was selling. Not knowing your costs will cause problems in any business. In long-tail reinsurance, where years of unawareness will promote and prolong severe underpricing, ignorance of true costs is dynamite.

Additionally, General Re was overly-competitive in going after, and retaining, business. While all concerned may intend to underwrite with care, it is nonetheless difficult for able, hard-driving professionals to curb their urge to prevail over competitors. If "winning," however, is equated with market share rather than profits, trouble awaits. "No" must be an important part of any underwriter's vocabulary.

At the risk of sounding Pollyannaish, I now assure you that underwriting discipline is being restored at General Re (and its Cologne Re subsidiary) with appropriate urgency. Joe Brandon was appointed General Re's CEO in September and, along with Tad Montross, its new president, is committed to producing underwriting profits. Last fall, Charlie and I read Jack Welch's terrific book, *Jack, Straight from the Gut* (get a copy!). In discussing it, we agreed that Joe has many of Jack's characteristics: He is smart, energetic, hands-on, and expects much of both himself and his organization.

When it was an independent company, General Re often shone, and now it also has the considerable strengths Berkshire brings to the table. With that added advantage and with underwriting discipline restored, General Re should be a huge asset for Berkshire. I predict that Joe and Tad will make it so.

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At the National Indemnity reinsurance operation, Ajit Jain continues to add enormous value to Berkshire. Working with only 18 associates, Ajit manages one of the world's largest reinsurance operations measured by assets, and *the* largest, based upon the size of individual risks assumed.

I have known the details of almost every policy that Ajit has written since he came with us in 1986, and never on even a single occasion have I seen him break any of our three underwriting rules. His extraordinary discipline, of course, does not eliminate losses; it does, however, prevent foolish losses. And that's the key: Just as is the case in investing, insurers produce outstanding long-term results primarily by avoiding dumb decisions, rather than by making brilliant ones.

Since September 11th, Ajit has been particularly busy. Among the policies we have written and retained entirely for our own account are (1) $578 million of property coverage for a South American refinery once a loss there exceeds $1 billion; (2) $1 billion of non-cancelable third-party liability coverage for losses arising from acts of terrorism at several large international airlines; (3) £500 million of property coverage on a large North Sea oil platform, covering losses from terrorism and sabotage, above £600 million that the insured retained or reinsured elsewhere; and (4) significant coverage on the Sears Tower, including losses caused by terrorism, above a $500 million threshold. We have written many other jumbo risks as well, such as protection for the World Cup Soccer Tournament and the 2002 Winter Olympics. In all cases, however, we have attempted to avoid writing groups of policies from which losses might seriously aggregate. We will not, for example, write coverages on a large number of office and apartment towers in a single metropolis without excluding losses from both a nuclear explosion and the fires that would follow it.

No one can match the speed with which Ajit can offer huge policies. After September 11th, his quickness to respond, always important, has become a major competitive advantage. So, too, has our unsurpassed financial strength. Some reinsurers – particularly those who, in turn, are accustomed to laying off much of their business on a second layer of reinsurers known as retrocessionaires – are in a weakened condition and would have difficulty surviving a second mega-cat. When a daisy chain of retrocessionaires exists, a single weak link can pose trouble for all. In assessing the soundness of their reinsurance protection, insurers must therefore apply a stress test to all participants in the chain, and must contemplate a catastrophe loss occurring during a very unfavorable economic environment. After all, you only find out who is swimming naked when the tide goes out. At Berkshire, we retain our risks and depend on no one. And whatever the world's problems, our checks will clear.

Ajit's business will ebb and flow – but his underwriting principles won't waver. It's impossible to overstate his value to Berkshire.

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GEICO, by far our largest primary insurer, made major progress in 2001, thanks to Tony Nicely, its CEO, and his associates. Quite simply, Tony is an owner's dream.

GEICO's premium volume grew 6.6% last year, its float grew $308 million, and it achieved an underwriting profit of $221 million. This means we were actually paid that amount last year to hold the $4.25 billion in float, which of course doesn't belong to Berkshire but can be used by us for investment.

The only disappointment at GEICO in 2001 – and it's an important one – was our inability to add policyholders. Our preferred customers (81% of our total) grew by 1.6% but our standard and non-standard policies fell by 10.1%. Overall, policies in force fell .8%.

New business has improved in recent months. Our closure rate from telephone inquiries has climbed, and our Internet business continues its steady growth. We, therefore, expect at least a modest gain in policy count during 2002. Tony and I are eager to commit much more to marketing than the $219 million we spent last year, but at the moment we cannot see how to do so effectively. In the meantime, our operating costs are low and far below those of our major competitors; our prices are attractive; and our float is cost-free and growing.

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Our other primary insurers delivered their usual fine results last year. These operations, run by Rod Eldred, John Kizer, Tom Nerney, Michael Stearns, Don Towle and Don Wurster had combined premium volume of $579 million, up 40% over 2000. Their float increased 14.5% to $685 million, and they recorded an underwriting profit of $30 million. In aggregate, these companies are one of the finest insurance operations in the country, and their 2002 prospects look excellent.

"Loss Development" and Insurance Accounting

Bad terminology is the enemy of good thinking. When companies or investment professionals use terms such as "EBITDA" and "pro forma," they want you to unthinkingly accept concepts that are dangerously flawed. (In golf, my score is frequently below par on a *pro forma* basis: I have firm plans to "restructure" my putting stroke and therefore only count the swings I take before reaching the green.)

In insurance reporting, “loss development” is a widely used term – and one that is seriously misleading. First, a definition: Loss reserves at an insurer are not funds tucked away for a rainy day, but rather a liability account. If properly calculated, the liability states the amount that an insurer will have to pay for *all* losses (including associated costs) that have occurred prior to the reporting date but have not yet been paid. When calculating the reserve, the insurer will have been notified of many of the losses it is destined to pay, but others will not yet have been reported to it. These losses are called IBNR, for incurred but not reported. Indeed, in some cases (involving, say, product liability or embezzlement) the insured itself will not yet be aware that a loss has occurred.

It’s clearly difficult for an insurer to put a figure on the ultimate cost of all such reported and unreported events. But the ability to do so with reasonable accuracy is vital. Otherwise the insurer’s managers won’t know what its actual loss costs are and how these compare to the premiums being charged. GEICO got into huge trouble in the early 1970s because for several years it severely underreserved, and therefore believed its product (insurance protection) was costing considerably less than was truly the case. Consequently, the company sailed blissfully along, underpricing its product and selling more and more policies at ever-larger losses.

When it becomes evident that reserves at past reporting dates understated the liability that truly existed at the time, companies speak of “loss development.” In the year discovered, these shortfalls penalize reported earnings because the “catch-up” costs from prior years must be added to current-year costs when results are calculated. This is what happened at General Re in 2001: a staggering $800 million of loss costs that actually occurred in earlier years, but that were not then recorded, were belatedly recognized last year and charged against current earnings. The mistake was an honest one, I can assure you of that. Nevertheless, for several years, this underreserving caused us to believe that our costs were much lower than they truly were, an error that contributed to woefully inadequate pricing. Additionally, the overstated profit figures led us to pay substantial incentive compensation that we should not have and to incur income taxes far earlier than was necessary.

We recommend scrapping the term “loss development” and its equally ugly twin, “reserve strengthening.” (Can you imagine an insurer, upon finding its reserves excessive, describing the reduction that follows as “reserve weakening”?) “Loss development” suggests to investors that some natural, uncontrollable event has occurred in the current year, and “reserve strengthening” implies that adequate amounts have been further buttressed. The truth, however, is that management made an error in estimation that in turn produced an error in the earnings previously reported. The losses didn’t “develop” – they were there all along. What developed was management’s understanding of the losses (or, in the instances of chicanery, management’s willingness to finally fess up).

A more forthright label for the phenomenon at issue would be “loss costs we failed to recognize when they occurred” (or maybe just “oops”). Underreserving, it should be noted, is a common – and serious – problem throughout the property/casualty insurance industry. At Berkshire we told you of our own problems with underestimation in 1984 and 1986. Generally, however, our reserving has been conservative.

Major underreserving is common in cases of companies struggling for survival. In effect, insurance accounting is a self-graded exam, in that the insurer gives some figures to its auditing firm and generally doesn’t get an argument. (What the *auditor* gets, however, is a letter from management that is designed to take his firm off the hook if the numbers later look silly.) A company experiencing financial difficulties – of a kind that, if truly faced, could put it out of business – seldom proves to be a tough grader. Who, after all, wants to prepare his own execution papers?

Even when companies have the best of intentions, it’s not easy to reserve properly. I’ve told the story in the past about the fellow traveling abroad whose sister called to tell him that their dad had died. The brother replied that it was impossible for him to get home for the funeral; he volunteered, however, to shoulder its cost. Upon returning, the brother received a bill from the mortuary for $4,500, which he promptly paid. A month later, and a month after that also, he paid $10 pursuant to an add-on invoice. When a third $10 invoice came, he called his sister for an explanation. “Oh,” she replied, “I forgot to tell you. We buried dad in a rented suit.”

There are a lot of “rented suits” buried in the past operations of insurance companies. Sometimes the problems they signify lie dormant for decades, as was the case with asbestos liability, before virulently manifesting themselves. Difficult as the job may be, it’s management’s responsibility to adequately account for *all* possibilities. Conservatism is essential. When a claims manager walks into the CEO’s office and says “Guess what just happened,” his boss, if a veteran, does not expect to hear it’s good news. Surprises in the insurance world have been far from symmetrical in their effect on earnings.

Because of this one-sided experience, it is folly to suggest, as some are doing, that all property/casualty insurance reserves be *discounted*, an approach reflecting the fact that they will be paid in the future and that therefore their present value is less than the stated liability for them. Discounting might be acceptable *if* reserves could be precisely established. They can't, however, because a myriad of forces – judicial broadening of policy language and medical inflation, to name just two chronic problems – are constantly working to make reserves inadequate. Discounting would exacerbate this already-serious situation and, additionally, would provide a new tool for the companies that are inclined to fudge.

I'd say that the effects from telling a profit-challenged insurance CEO to lower reserves through discounting would be comparable to those that would ensue if a father told his 16-year-old son to have a normal sex life. Neither party needs that kind of push.

Sources of Reported Earnings

The table that follows shows the main sources of Berkshire's reported earnings. In this presentation, purchase-accounting adjustments (primarily relating to "goodwill") are not assigned to the specific businesses to which they apply, but are instead aggregated and shown separately. This procedure lets you view the earnings of our businesses as they would have been reported had we not purchased them. In recent years, our "expense" for goodwill amortization has been large. Going forward, generally accepted accounting principles ("GAAP") will no longer require amortization of goodwill. This change will increase our reported earnings (though not our true economic earnings) and simplify this section of the report.

	(in millions)			
	Pre-Tax Earnings		*Berkshire's Share of Net Earnings (after taxes and Minority interests)*	
	2001	*2000*	*2001*	*2000*
Operating Earnings:				
Insurance Group:				
Underwriting – Reinsurance	$(4,318)	$(1,416)	$(2,824)	$(911)
Underwriting – GEICO	221	(224)	144	(146)
Underwriting – Other Primary	30	25	18	16
Net Investment Income	2,824	2,773	1,968	1,946
Building Products[1]	461	34	287	21
Finance and Financial Products Business	519	530	336	343
Flight Services	186	213	105	126
MidAmerican Energy (76% owned)	600	197	230	109
Retail Operations	175	175	101	104
Scott Fetzer (excluding finance operation)	129	122	83	80
Shaw Industries[2]	292	--	156	--
Other Businesses	179	221	103	133
Purchase-Accounting Adjustments	(726)	(881)	(699)	(843)
Corporate Interest Expense	(92)	(92)	(60)	(61)
Shareholder-Designated Contributions	(17)	(17)	(11)	(11)
Other	25	39	16	30
Operating Earnings	488	1,699	(47)	936
Capital Gains from Investments	1,320	3,955	842	2,392
Total Earnings – All Entities	$1,808	$5,654	$ 795	$3,328

(1) *Includes Acme Brick from August 1, 2000; Benjamin Moore from December 18, 2000; Johns Manville from February 27, 2001; and MiTek from July 31, 2001.*

(2) *From date of acquisition, January 8, 2001.*

Here are some highlights (and lowlights) from 2001 relating to our non-insurance activities:

- Our shoe operations (included in "other businesses") lost $46.2 million pre-tax, with profits at H.H. Brown and Justin swamped by losses at Dexter.

  I've made three decisions relating to Dexter that have hurt you in a major way: (1) buying it in the first place; (2) paying for it with stock and (3) procrastinating when the need for changes in its operations was obvious. I would like to lay these mistakes on Charlie (or anyone else, for that matter) but they were mine. Dexter, prior to our purchase – and indeed for a few years after – prospered despite low-cost foreign competition that was brutal. I concluded that Dexter could continue to cope with that problem, and I was wrong.

  We have now placed the Dexter operation – which is still substantial in size – under the management of Frank Rooney and Jim Issler at H.H. Brown. These men have performed outstandingly for Berkshire, skillfully contending with the extraordinary changes that have bedeviled the footwear industry. During part of 2002, Dexter will be hurt by unprofitable sales commitments it made last year. After that, we believe our shoe business will be reasonably profitable.

- MidAmerican Energy, of which we own 76% on a fully-diluted basis, had a good year in 2001. Its reported earnings should also increase considerably in 2002 given that the company has been shouldering a large charge for the amortization of goodwill and that this "cost" will disappear under the new GAAP rules.

  Last year MidAmerican swapped some properties in England, adding Yorkshire Electric, with its 2.1 million customers. We are now serving 3.6 million customers in the U.K. and are its 2nd largest electric utility. We have an equally important operation in Iowa as well as major generating facilities in California and the Philippines.

  At MidAmerican – this may surprise you – we also own the second-largest residential real estate brokerage business in the country. We are market-share leaders in a number of large cities, primarily in the Midwest, and have recently acquired important firms in Atlanta and Southern California. Last year, operating under various names that are locally familiar, we handled about 106,000 transactions involving properties worth nearly $20 billion. Ron Peltier has built this business for us, and it's likely he will make more acquisitions in 2002 and the years to come.

- Considering the recessionary environment plaguing them, our retailing operations did well in 2001. In jewelry, same-store sales fell 7.6% and pre-tax margins were 8.9% versus 10.7% in 2000. Return on invested capital remains high.

  Same-store sales at our home-furnishings retailers were unchanged and so was the margin – 9.1% pre-tax – these operations earned. Here, too, return on invested capital is excellent.

  We continue to expand in both jewelry and home-furnishings. Of particular note, Nebraska Furniture Mart is constructing a mammoth 450,000 square foot store that will serve the greater Kansas City area beginning in the fall of 2003. Despite Bill Child's counter-successes, we will keep this store open on Sundays.

- The large acquisitions we initiated in late 2000 – Shaw, Johns Manville and Benjamin Moore – all came through their first year with us in great fashion. Charlie and I knew at the time of our purchases that we were in good hands with Bob Shaw, Jerry Henry and Yvan Dupuy, respectively – and we admire their work even more now. Together these businesses earned about $659 million pre-tax.

  Shortly after yearend we exchanged 4,740 Berkshire A shares (or their equivalent in B shares) for the 12.7% minority interest in Shaw, which means we now own 100% of the company. Shaw is our largest non-insurance operation and will play a big part in Berkshire's future.

- All of the income shown for Flight Services in 2001 – and a bit more – came from FlightSafety, our pilot-training subsidiary. Its earnings increased 2.5%, though return on invested capital fell slightly because of the $258 million investment we made last year in simulators and other fixed assets. My 84-year-old friend, Al Ueltschi, continues to run FlightSafety with the same enthusiasm and competitive spirit that he has exhibited since 1951, when he invested $10,000 to start the company. If I line Al up with a bunch of 60-year-olds at the annual meeting, you will not be able to pick him out.

After September 11th, training for commercial airlines fell, and today it remains depressed. However, training for business and general aviation, our main activity, is at near-normal levels and should continue to grow. In 2002, we expect to spend $162 million for 27 simulators, a sum far in excess of our annual depreciation charge of $95 million. Those who believe that EBITDA is in any way equivalent to true earnings are welcome to pick up the tab.

Our NetJets® fractional ownership program sold a record number of planes last year and also showed a gain of 21.9% in service income from management fees and hourly charges. Nevertheless, it operated at a small loss, versus a small profit in 2000. We made a little money in the U.S., but these earnings were more than offset by European losses. Measured by the value of our customers' planes, NetJets accounts for about half of the industry. We believe the other participants, in aggregate, lost significant money.

Maintaining a premier level of safety, security and service was always expensive, and the cost of sticking to those standards was exacerbated by September 11th. No matter how much the cost, we will continue to be the industry leader in all three respects. An uncompromising insistence on delivering only the best to his customers is embedded in the DNA of Rich Santulli, CEO of the company and the inventor of fractional ownership. I'm delighted with his fanaticism on these matters for both the company's sake and my family's: I believe the Buffetts fly more fractional-ownership hours – we log in excess of 800 annually – than does any other family. In case you're wondering, we use exactly the same planes and crews that serve NetJet's other customers.

NetJets experienced a spurt in new orders shortly after September 11th, but its sales pace has since returned to normal. Per-customer usage declined somewhat during the year, probably because of the recession.

Both we and our customers derive significant operational benefits from our being the runaway leader in the fractional ownership business. We have more than 300 planes constantly on the go in the U.S. and can therefore be wherever a customer needs us on very short notice. The ubiquity of our fleet also reduces our "positioning" costs below those incurred by operators with smaller fleets.

These advantages of scale, and others we have, give NetJets a significant economic edge over competition. Under the competitive conditions likely to prevail for a few years, however, our advantage will at best produce modest profits.

- Our finance and financial products line of business now includes XTRA, General Re Securities (which is in a run-off mode that will continue for an extended period) and a few other relatively small operations. The bulk of the assets and liabilities in this segment, however, arise from a few fixed-income strategies, involving highly-liquid AAA securities, that I manage. This activity, which only makes sense when certain market relationships exist, has produced good returns in the past and has reasonable prospects for continuing to do so over the next year or two.

Investments

Below we present our common stock investments. Those that had a market value of more than $500 million at the end of 2001 are itemized.

		12/31/01	
Shares	*Company*	*Cost*	*Market*
		(dollars in millions)	
151,610,700	American Express Company	$ 1,470	$ 5,410
200,000,000	The Coca-Cola Company	1,299	9,430
96,000,000	The Gillette Company	600	3,206
15,999,200	H&R Block, Inc.	255	715
24,000,000	Moody's Corporation	499	957
1,727,765	The Washington Post Company	11	916
53,265,080	Wells Fargo & Company	306	2,315
	Others	4,103	5,726
	Total Common Stocks	$8,543	$28,675

We made few changes in our portfolio during 2001. As a group, our larger holdings have performed poorly in the last few years, some because of disappointing operating results. Charlie and I still like the basic businesses of all the companies we own. But we do not believe Berkshire's equity holdings as a group are undervalued.

Our restrained enthusiasm for these securities is matched by decidedly lukewarm feelings about the prospects for stocks in general over the next decade or so. I expressed my views about equity returns in a speech I gave at an Allen and Company meeting in July (which was a follow-up to a similar presentation I had made two years earlier) and an edited version of my comments appeared in a December 10th *Fortune* article. I'm enclosing a copy of that article. You can also view the *Fortune* version of my 1999 talk at our website www.berkshirehathaway.com.

Charlie and I believe that American business will do fine over time but think that today's equity prices presage only moderate returns for investors. The market outperformed business for a very long period, and that phenomenon had to end. A market that no more than parallels business progress, however, is likely to leave many investors disappointed, particularly those relatively new to the game.

Here's one for those who enjoy an odd coincidence: The Great Bubble ended on March 10, 2000 (though we didn't realize that fact until some months later). On that day, the NASDAQ (recently 1,731) hit its all-time high of 5,132. That same day, Berkshire shares traded at $40,800, their lowest price since mid-1997.

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During 2001, we were somewhat more active than usual in "junk" bonds. These are not, we should emphasize, suitable investments for the general public, because too often these securities live up to their name. We have *never* purchased a newly-issued junk bond, which is the only kind most investors are urged to buy. When losses occur in this field, furthermore, they are often disastrous: Many issues end up at a small fraction of their original offering price and some become entirely worthless.

Despite these dangers, we periodically find a few – a *very* few – junk securities that are interesting to us. And, so far, our 50-year experience in distressed debt has proven rewarding. In our 1984 annual report, we described our purchases of Washington Public Power System bonds when that issuer fell into disrepute. We've also, over the years, stepped into other apparent calamities such as Chrysler Financial, Texaco and RJR Nabisco – all of which returned to grace. Still, if we stay active in junk bonds, you can expect us to have losses from time to time.

Occasionally, a purchase of distressed bonds leads us into something bigger. Early in the Fruit of the Loom bankruptcy, we purchased the company's public and bank debt at about 50% of face value. This was an unusual bankruptcy in that interest payments on senior debt were continued without interruption, which meant we earned about a 15% current return. Our holdings grew to 10% of Fruit's senior debt, which will probably end up returning us about 70% of face value. Through this investment, we indirectly reduced our purchase price for the whole company by a small amount.

In late 2000, we began purchasing the obligations of FINOVA Group, a troubled finance company, and that, too, led to our making a major transaction. FINOVA then had about $11 billion of debt outstanding, of which we purchased 13% at about two-thirds of face value. We expected the company to go into bankruptcy, but believed that liquidation of its assets would produce a payoff for creditors that would be well above our cost. As default loomed in early 2001, we joined forces with Leucadia National Corporation to present the company with a prepackaged plan for bankruptcy.

The plan as subsequently modified (and I'm simplifying here) provided that creditors would be paid 70% of face value (along with full interest) and that they would receive a newly-issued 7½% note for the 30% of their claims not satisfied by cash. To fund FINOVA's 70% distribution, Leucadia and Berkshire formed a jointly-owned entity – mellifluently christened Berkadia – that borrowed $5.6 billion through FleetBoston and, in turn, re-lent this sum to FINOVA, concurrently obtaining a priority claim on its assets. Berkshire guaranteed 90% of the Berkadia borrowing and also has a secondary guarantee on the 10% for which Leucadia has primary responsibility. (Did I mention that I am simplifying?).

There is a spread of about two percentage points between what Berkadia pays on its borrowing and what it receives from FINOVA, with this spread flowing 90% to Berkshire and 10% to Leucadia. As I write this, each loan has been paid down to $3.9 billion.

As part of the bankruptcy plan, which was approved on August 10, 2001, Berkshire also agreed to offer 70% of face value for up to $500 million principal amount of the $3.25 billion of new 7½% bonds that were issued by FINOVA. (Of these, we had already received $426.8 million in principal amount because of our 13% ownership of the original debt.) Our offer, which was to run until September 26, 2001, could be withdrawn under a variety of conditions, one of which became operative if the New York Stock Exchange closed during the offering period. When that indeed occurred in the week of September 11th, we promptly terminated the offer.

Many of FINOVA's loans involve aircraft assets whose values were significantly diminished by the events of September 11th. Other receivables held by the company also were imperiled by the economic consequences of the attack that day. FINOVA's prospects, therefore, are not as good as when we made our proposal to the bankruptcy court. Nevertheless we feel that overall the transaction will prove satisfactory for Berkshire. Leucadia has day-to-day operating responsibility for FINOVA, and we have long been impressed with the business acumen and managerial talent of its key executives.

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It's déjà vu time again: In early 1965, when the investment partnership I ran took control of Berkshire, that company had its main banking relationships with First National Bank of Boston and a large New York City bank. Previously, I had done no business with either.

Fast forward to 1969, when I wanted Berkshire to buy the Illinois National Bank and Trust of Rockford. We needed $10 million, and I contacted both banks. There was no response from New York. However, two representatives of the Boston bank immediately came to Omaha. They told me they would supply the money for our purchase and that we would work out the details later.

For the next three decades, we borrowed almost nothing from banks. (Debt is a four-letter word around Berkshire.) Then, in February, when we were structuring the FINOVA transaction, I again called Boston, where First National had morphed into FleetBoston. Chad Gifford, the company's president, responded just as Bill Brown and Ira Stepanian had back in 1969 – "you've got the money and we'll work out the details later."

And that's just what happened. FleetBoston syndicated a loan for $6 billion (as it turned out, we didn't need $400 million of it), and it was quickly oversubscribed by 17 banks throughout the world. Sooooo . . . if you ever need $6 billion, just give Chad a call – assuming, that is, your credit is AAA.

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One more point about our investments: The media often report that "Buffett is buying" this or that security, having picked up the "fact" from reports that Berkshire files. These accounts are sometimes correct, but at other times the transactions Berkshire reports are actually being made by Lou Simpson, who runs a $2 billion portfolio for GEICO that is quite independent of me. Normally, Lou does not tell me what he is buying or selling, and I learn of his activities only when I look at a GEICO portfolio summary that I receive a few days after the end of each month. Lou's thinking, of course, is quite similar to mine, but we usually end up in different securities. That's largely because he's working with less money and can therefore invest in smaller companies than I. Oh, yes, there's also another minor difference between us: In recent years, Lou's performance has been far better than mine.

Charitable Contributions

Berkshire follows a highly unusual policy in respect to charitable contributions – but it's one that Charlie and I believe is both rational and fair to owners.

First, we let our operating subsidiaries make their own charitable decisions, requesting only that the owners/managers who once ran these as independent companies make all donations to their *persona*l charities from their own funds, instead of using company money. When our managers are using company funds, we trust them to make gifts in a manner that delivers commensurate tangible or intangible benefits to the operations they manage. Last year contributions from Berkshire subsidiaries totaled $19.2 million.

At the parent company level, we make no contributions except those designated by shareholders. We do not match contributions made by directors or employees, nor do we give to the favorite charities of the Buffetts or the Mungers. However, prior to our purchasing them, a few of our subsidiaries had employee-match programs and we feel fine about their continuing them: It's not our style to tamper with successful business cultures.

To implement our *owners'* charitable desires, each year we notify registered holders of A shares (A's represent 86.6% of our equity capital) of a per-share amount that they can instruct us to contribute to as many as three charities. Shareholders name the charity; Berkshire writes the check. Any organization that qualifies under the Internal Revenue Code can be designated by shareholders. Last year Berkshire made contributions of $16.7 million at the direction of 5,700 shareholders, who named 3,550 charities as recipients. Since we started this program, our shareholders' gifts have totaled $181 million.

Most public corporations eschew gifts to religious institutions. These, however, are favorite charities of our shareholders, who last year named 437 churches and synagogues to receive gifts. Additionally, 790 schools were recipients. A few of our larger shareholders, including Charlie and me, designate their personal foundations to get gifts, so that those entities can, in turn, disburse their funds widely.

I get a few letters every week criticizing Berkshire for contributing to Planned Parenthood. These letters are usually prompted by an organization that wishes to see boycotts of Berkshire products. The letters are invariably polite and sincere, but their writers are unaware of a key point: It's not Berkshire, but rather its owners who are making charitable decisions – and these owners are about as diverse in their opinions as you can imagine. For example, they are probably on both sides of the abortion issue in roughly the same proportion as the American population. We'll follow their instructions, whether they designate Planned Parenthood or Metro Right to Life, just as long as the charity possesses 501(c)(3) status. It's as if we paid a dividend, which the shareholder then donated. Our form of disbursement, however, is more tax-efficient.

In neither the purchase of goods nor the hiring of personnel, do we ever consider the religious views, the gender, the race or the sexual orientation of the persons we are dealing with. It would not only be wrong to do so, it would be idiotic. We need all of the talent we can find, and we have learned that able and trustworthy managers, employees and suppliers come from a very wide spectrum of humanity.

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To participate in our future charitable contribution programs, you must own Class A shares that are registered in the name of the actual owner, not the nominee name of a broker, bank or depository. Shares not so registered on August 31, 2002 will be ineligible for the 2002 program. When you get the contributions form from us, return it promptly. Designations received after the due date will not be honored.

The Annual Meeting

This year's annual meeting will be on Saturday, May 4, and we will again be at the Civic Auditorium. The doors will open at 7 a.m., the movie will begin at 8:30, and the meeting itself will commence at 9:30. There will be a short break at noon for food. (Sandwiches can be bought at the Civic's concession stands.) Except for that interlude, Charlie and I will answer questions until 3:30. Give us your best shot.

For at least the next year, the Civic, located downtown, is the only site available to us. We must therefore hold the meeting on either Saturday or Sunday to avoid the traffic and parking nightmare sure to occur on a weekday. Shortly, however, Omaha will have a new Convention Center with plenty of parking facilities. Assuming that we then head for the Center, I will poll shareholders to see whether you wish to return to the Monday meeting that was standard until 2000. We will decide that vote based on a count of shareholders, not shares. (This is *not* a system, however, we will ever institute to decide who should be CEO.)

An attachment to the proxy material that is enclosed with this report explains how you can obtain the credential you will need for admission to the meeting and other events. As for plane, hotel and car reservations, we have again signed up American Express (800-799-6634) to give you special help. They do a terrific job for us each year, and I thank them for it.

In our usual fashion, we will run buses from the larger hotels to the meeting. Afterwards, the buses will make trips back to the hotels and to Nebraska Furniture Mart, Borsheim's and the airport. Even so, you are likely to find a car useful.

We have added so many new companies to Berkshire this year that I'm not going to detail all of the products that we will be *selling* at the meeting. But come prepared to carry home everything from bricks to candy. And underwear, of course. Assuming our Fruit of the Loom purchase has closed by May 4, we will be selling Fruit's latest styles, which will make you your neighborhood's fashion leader. Buy a lifetime supply.

GEICO will have a booth staffed by a number of its top counselors from around the country, all of them ready to supply you with auto insurance quotes. In most cases, GEICO will be able to give you a special shareholder discount (usually 8%). This special offer is permitted by 41 of the 49 jurisdictions in which we operate. Bring the details of your existing insurance and check out whether we can save you money.

At the Omaha airport on Saturday, we will have the usual array of aircraft from NetJets® available for your inspection. Just ask a representative at the Civic about viewing any of these planes. If you buy what we consider an appropriate number of items during the weekend, you may well need your own plane to take them home. And, if you buy a fraction of a plane, we might even throw in a three-pack of briefs or boxers.

At Nebraska Furniture Mart, located on a 75-acre site on 72nd Street between Dodge and Pacific, we will again be having "Berkshire Weekend" pricing, which means we will be offering our shareholders a discount that is customarily given only to employees. We initiated this special pricing at NFM five years ago, and sales during the "Weekend" grew from $5.3 million in 1997 to $11.5 million in 2001.

To get the discount, you must make your purchases on Thursday, May 2 through Monday, May 6 and also present your meeting credential. The period's special pricing will even apply to the products of several prestigious manufacturers that normally have ironclad rules against discounting but that, in the spirit of our shareholder weekend, have made an exception for you. We appreciate their cooperation. NFM is open from 10 a.m. to 9 p.m. on weekdays and 10 a.m. to 6 p.m. on Saturdays and Sundays.

Borsheim's — the largest jewelry store in the country except for Tiffany's Manhattan store — will have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 10 p.m. on Friday, May 3. The second, the main gala, will be from 9 a.m. to 5 p.m. on Sunday, May 5. Shareholder prices will be available Thursday through Monday, so if you wish to avoid the large crowds that will assemble on Friday evening and Sunday, come at other times and identify yourself as a shareholder. On Saturday, we will be open until 6 p.m. Borsheim's operates on a gross margin that is fully twenty percentage points below that of its major rivals, so the more you buy, the more you save (or at least that's what my wife and daughter tell me). Come by and let us perform a walletectomy on you.

In the mall outside of Borsheim's, we will have some of the world's top bridge experts available to play with our shareholders on Sunday afternoon. We expect Bob and Petra Hamman along with Sharon Osberg to host tables. Patrick Wolff, twice U.S. chess champion, will also be in the mall, taking on all comers — blindfolded!

Last year, Patrick played as many as six games simultaneously — with his blindfold securely in place — and this year will try for seven. Finally, Bill Robertie, one of only two players who have twice won the backgammon world championship, will be on hand to test your skill at that game. Come to the mall on Sunday for the Mensa Olympics.

Gorat's — my favorite steakhouse — will again be open exclusively for Berkshire shareholders on Sunday, May 5, and will be serving from 4 p.m. until 10 p.m. Please remember that to come to Gorat's on Sunday, you must have a reservation. To make one, call 402-551-3733 on April 1 (*but not before*). If Sunday is sold out, try Gorat's on one of the other evenings you will be in town. Show your sophistication by ordering a rare T-bone with a double order of hash browns.

The usual baseball game will be held at Rosenblatt Stadium at 7 p.m. on Saturday night. This year the Omaha Royals will play the Oklahoma RedHawks. Last year, in an attempt to emulate the career switch of Babe Ruth, I gave up pitching and tried batting. Bob Gibson, an Omaha native, was on the mound and I was terrified, fearing Bob's famous brush-back pitch. Instead, he delivered a fast ball in the strike zone, and with a Mark McGwire-like swing, I managed to connect for a hard grounder, which inexplicably died in the infield. I didn't run it out: At my age, I get winded playing a hand of bridge.

I'm not sure what will take place at the ballpark this year, but come out and be surprised. Our proxy statement contains instructions for obtaining tickets to the game. Those people ordering tickets to the annual meeting will receive a booklet containing all manner of information that should help you enjoy your visit in Omaha. There will be plenty of action in town. So come for Woodstock Weekend and join our Celebration of Capitalism at the Civic.

* * * * * * * * * * * *

Finally, I would like to thank the wonderful and incredibly productive crew at World Headquarters (all 5,246.5 square feet of it) who make my job so easy. Berkshire added about 40,000 employees last year, bringing our workforce to 110,000. At headquarters we added one employee and now have 14.8. (I've tried in vain to get JoEllen Rieck to change her workweek from four days to five; I think she likes the national recognition she gains by being .8.)

The smooth handling of the array of duties that come with our current size and scope – as well as some additional activities almost unique to Berkshire, such as our shareholder gala and designated-gifts program – takes a very special group of people. And that we most definitely have.

Warren E. Buffett
February 28, 2002 Chairman of the Board

BERKSHIRE HATHAWAY INC.

Selected Financial Data for the Past Five Years
(dollars in millions, except per share data)

	2001	2000	1999	1998	1997
Revenues:					
Insurance premiums earned	$17,905	$19,343	$14,306	$ 5,481	$ 4,761
Sales and service revenues	14,902	7,361	5,918	4,675	3,615
Interest, dividend and other investment income	2,930	2,791	2,314	1,049	916
Income from finance and financial products businesses	568	556	125	212	32
Realized investment gain [1]	1,363	3,955	1,365	2,415	1,106
Total revenues	$37,668	$34,006	$24,028	$13,832	$10,430
Earnings:					
Before realized investment gain	$ (47) [4]	$ 936	$ 671	$ 1,277	$ 1,197
Realized investment gain [1]	842	2,392	886	1,553	704
Net earnings	$ 795	$ 3,328	$ 1,557	$ 2,830	$ 1,901
Earnings per share:					
Before realized investment gain	$ (30) [4]	$ 614	$ 442	$ 1,021	$ 971
Realized investment gain [1]	551	1,571	583	1,241	571
Net earnings	$ 521	$ 2,185	$ 1,025	$ 2,262	$ 1,542
Year-end data [2]:					
Total assets	$162,752	$135,792	$131,416	$122,237	$56,111
Borrowings under investment agreements and other debt [3]	3,485	2,663	2,465	2,385	2,267
Shareholders' equity	57,950	61,724	57,761	57,403	31,455
Class A equivalent common shares outstanding, in thousands	1,528	1,526	1,521	1,519	1,234
Shareholders' equity per outstanding Class A equivalent share	$ 37,920	$ 40,442	$ 37,987	$ 37,801	$25,488

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(1) *The amount of realized investment gain/loss for any given period has no predictive value, and variations in amount from period to period have no practical analytical value, particularly in view of the unrealized appreciation now existing in Berkshire's consolidated investment portfolio.*

(2) *Year-end data for 1998 includes General Re Corporation acquired by Berkshire on December 21, 1998.*

(3) *Excludes borrowings of finance businesses.*

(4) *Includes pre-tax underwriting loss of $2.4 billion in connection with the September 11, 2001 terrorist attack. Such loss reduced net earnings by approximately $1.5 billion and earnings per share by $982.*

BERKSHIRE HATHAWAY INC.

ACQUISITION CRITERIA

We are eager to hear *from principals or their representatives* about businesses that meet all of the following criteria:

(1) Large purchases (at least $50 million of before-tax earnings),
(2) Demonstrated consistent earning power (future projections are of no interest to us, nor are "turnaround" situations),
(3) Businesses earning good returns on equity while employing little or no debt,
(4) Management in place (we can't supply it),
(5) Simple businesses (if there's lots of technology, we won't understand it),
(6) An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

The larger the company, the greater will be our interest: We would like to make an acquisition in the $5-20 billion range. *We are not interested, however, in receiving suggestions about purchases we might make in the general stock market.*

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer — customarily within five minutes — as to whether we're interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

Charlie and I frequently get approached about acquisitions that don't come close to meeting our tests: We've found that if you advertise an interest in buying collies, a lot of people will call hoping to sell you their cocker spaniels. A line from a country song expresses our feeling about new ventures, turnarounds, or auction-like sales: "When the phone don't ring, you'll know it's me."

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Berkshire Hathaway Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Hathaway Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of earnings, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
March 5, 2002
Omaha, Nebraska

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions except per share amounts)

	December 31, 2001	December 31, 2000
ASSETS		
Cash and cash equivalents	$ 5,313	$ 5,263
Investments:		
Securities with fixed maturities	36,509	32,567
Equity securities	28,675	37,619
Other	1,974	1,637
Receivables	11,926	11,764
Inventories	2,213	1,275
Investments in MidAmerican Energy Holdings Company	1,826	1,719
Assets of finance and financial products businesses	41,591	16,829
Property, plant and equipment	4,776	2,699
Goodwill of acquired businesses	21,407	18,875
Other assets	6,542	5,545
	$162,752	$135,792
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 40,716	$ 33,022
Unearned premiums	4,814	3,885
Accounts payable, accruals and other liabilities	9,626	8,374
Income taxes	7,021	10,125
Borrowings under investment agreements and other debt	3,485	2,663
Liabilities of finance and financial products businesses	37,791	14,730
	103,453	72,799
Minority shareholders' interests	1,349	1,269
Shareholders' equity:		
Common Stock:*		
Class A Common Stock, $5 par value and Class B Common Stock, $0.1667 par value	8	8
Capital in excess of par value	25,607	25,524
Accumulated other comprehensive income	12,891	17,543
Retained earnings	19,444	18,649
Total shareholders' equity	57,950	61,724
	$162,752	$135,792

* *Class B Common Stock has economic rights equal to one-thirtieth (1/30) of the economic rights of Class A Common Stock. Accordingly, on an equivalent Class A Common Stock basis, there are 1,528,217 shares outstanding at December 31, 2001 versus 1,526,230 shares outstanding at December 31, 2000.*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in millions except per share amounts)

	Year Ended December 31,		
	2001	2000	1999
Revenues:			
Insurance premiums earned	$17,905	$19,343	$14,306
Sales and service revenues	14,902	7,361	5,918
Interest, dividend and other investment income	2,765	2,686	2,314
Income from MidAmerican Energy Holdings Company	165	105	—
Income from finance and financial products businesses	568	556	125
Realized investment gain	1,363	3,955	1,365
	37,668	34,006	24,028
Cost and expenses:			
Insurance losses and loss adjustment expenses	18,398	17,332	12,518
Insurance underwriting expenses	3,574	3,632	3,220
Cost of products and services sold	10,446	4,893	4,065
Selling, general and administrative expenses	3,000	1,703	1,164
Goodwill amortization	572	715	477
Interest expense	209	144	134
	36,199	28,419	21,578
Earnings before income taxes and minority interest	1,469	5,587	2,450
Income taxes	620	2,018	852
Minority interest	54	241	41
Net earnings	$ 795	$ 3,328	$ 1,557
Average common shares outstanding *	1,527,234	1,522,933	1,519,703
Net earnings per common share *	$ 521	$ 2,185	$ 1,025

* *Average shares outstanding include average Class A Common shares and average Class B Common shares determined on an equivalent Class A Common Stock basis. Net earnings per common share shown above represents net earnings per equivalent Class A Common share. Net earnings per Class B Common share is equal to one-thirtieth (1/30) of such amount or $17 per share for 2001, $73 per share for 2000, and $34 per share for 1999.*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net earnings	$ 795	$3,328	$1,557
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gain	(1,363)	(3,955)	(1,365)
Depreciation and amortization	1,076	997	688
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	7,571	5,976	3,790
Deferred charges – reinsurance assumed	(498)	(1,075)	(958)
Unearned premiums	929	97	394
Receivables	219	(3,062)	(834)
Accounts payable, accruals and other liabilities	(339)	660	(5)
Finance businesses trading activities	(1,083)	(1,126)	473
Income taxes	(329)	757	(1,395)
Other	(404)	350	(145)
Net cash flows from operating activities	6,574	2,947	2,200
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(16,475)	(16,550)	(18,380)
Purchases of equity securities	(1,075)	(4,145)	(3,664)
Proceeds from sales of securities with fixed maturities	8,470	13,119	4,509
Proceeds from redemptions and maturities of securities with fixed maturities	4,305	2,530	2,833
Proceeds from sales of equity securities	3,881	6,870	4,355
Loans and investments originated in finance businesses	(9,502)	(857)	(2,526)
Principal collection on loans and investments originated in finance businesses	4,126	1,142	845
Acquisitions of businesses, net of cash acquired	(4,697)	(3,798)	(153)
Other	(727)	(582)	(417)
Net cash flows from investing activities	(11,694)	(2,271)	(12,598)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	6,288	120	736
Proceeds from other borrowings	824	681	1,118
Repayments of borrowings of finance businesses	(865)	(274)	(46)
Repayments of other borrowings	(798)	(806)	(1,333)
Change in short term borrowings of finance businesses	826	500	(311)
Changes in other short term borrowings	(377)	324	340
Other	116	(75)	(137)
Net cash flows from financing activities	6,014	470	367
Increase (decrease) in cash and cash equivalents	894	1,146	(10,031)
Cash and cash equivalents at beginning of year	5,604	4,458	14,489
Cash and cash equivalents at end of year *	$ 6,498	$ 5,604	$ 4,458
** Cash and cash equivalents at end of year are comprised of the following:*			
Finance and financial products businesses	*$ 1,185*	*$ 341*	*$ 623*
Other	*5,313*	*5,263*	*3,835*
	$ 6,498	*$ 5,604*	*$ 4,458*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

	Class A & B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balance December 31, 1998	$ 8	$25,121	$13,764	$18,510	
Net earnings			1,557		$ 1,557
Exercise of stock options issued in connection with business acquisitions		88			
Other comprehensive income items:					
Unrealized appreciation of investments				(795)	(795)
Reclassification adjustment for appreciation included in net earnings				(1,365)	(1,365)
Foreign currency translation losses				(16)	(16)
Income taxes and minority interests				889	889
Other comprehensive income					(1,287)
Total comprehensive income					$ 270
Balance December 31, 1999	$ 8	$25,209	$15,321	$17,223	
Net earnings			3,328		$ 3,328
Common stock issued in connection with business acquisitions		224			
Exercise of stock options issued in connection with business acquisitions		91			
Other comprehensive income items:					
Unrealized appreciation of investments				4,402	$4,402
Reclassification adjustment for appreciation included in net earnings				(3,955)	(3,955)
Foreign currency translation losses and other				(153)	(153)
Income taxes and minority interests				26	26
Other comprehensive income					320
Total comprehensive income					$ 3,648
Balance December 31, 2000	$ 8	$25,524	$18,649	$17,543	
Net earnings			795		$ 795
Exercise of stock options issued in connection with business acquisitions		83			
Other comprehensive income items:					
Unrealized appreciation of investments				(5,706)	(5,706)
Reclassification adjustment for appreciation included in net earnings				(1,363)	(1,363)
Foreign currency translation losses and other				(151)	(151)
Income taxes and minority interests				2,568	2,568
Other comprehensive income					(4,652)
Total comprehensive income					$(3,857)
Balance December 31, 2001	$ 8	$25,607	$19,444	$12,891	

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001

(1) Significant accounting policies and practices

(a) Nature of operations and basis of consolidation

Berkshire Hathaway Inc. ("Berkshire" or "Company") is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these are property and casualty insurance businesses conducted on both a direct and reinsurance basis. Further information regarding these businesses and Berkshire's other reportable business segments is contained in Note 19. Berkshire initiated and/or consummated several business acquisitions over the past three years. The significant business acquisitions are described more fully in Note 2. The accompanying Consolidated Financial Statements include the accounts of Berkshire consolidated with accounts of all its subsidiaries. Intercompany accounts and transactions have been eliminated. Certain amounts in 2000 and 1999 have been reclassified to conform with current year presentation.

Since acquired in December 1998 and through the third quarter of 2000, the international property/casualty and global life/health reinsurance activities of General Re were reported in Berkshire's financial statements based on a one-quarter lag to facilitate the timely completion of the Consolidated Financial Statements. During the fourth quarter of 2000, General Re implemented a number of procedural changes and improvements to allow reporting of these businesses without the one-quarter lag. Accordingly, Berkshire's Consolidated Statements of Earnings and Cash Flows for the year ended December 31, 2000 include five quarters of results of operations and cash flows of these operations. The effect of eliminating the one-quarter lag in reporting was not significant to Berkshire's Consolidated Statement of Earnings for the year ending December 31, 2000.

(b) Use of estimates in preparation of financial statements

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. In particular, estimates of unpaid losses and loss adjustment expenses for property and casualty insurance are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. Actual results may differ from the estimates and assumptions used in preparing the Consolidated Financial Statements.

(c) Cash equivalents

Cash equivalents consist of funds invested in money market accounts and in investments with a maturity of three months or less when purchased.

(d) Investments

Berkshire's management determines the appropriate classifications of investments at the time of acquisition and re-evaluates the classifications at each balance sheet date. Investments may be classified as held-for-trading, held-to-maturity, or, when neither of those classifications is appropriate, as available-for-sale. Berkshire's investments in fixed maturity and equity securities are primarily classified as available-for-sale, except for certain investments, which are classified as held-to-maturity. Held-to-maturity investments are carried at amortized cost, reflecting Berkshire's intent and ability to hold the securities to maturity. Available-for-sale securities are stated at fair value with net unrealized gains or losses reported as a separate component in shareholders' equity. Realized gains and losses, which arise when available-for-sale investments are sold (as determined on a specific identification basis) or other-than-temporarily impaired are included in the Consolidated Statements of Earnings.

Other investments include investments in commodities, limited partnerships and warrants, which are carried at fair value in the accompanying Consolidated Balance Sheets. Realized and unrealized gains and losses associated with these investments are included in the Consolidated Statements of Earnings as a component of realized investment gain.

Accounting policies and practices for investments held by finance and financial products businesses are described in Note 9.

(1) Significant accounting policies and practices *(Continued)*

(e) Inventories

Inventories are stated at the lower of cost or market. Cost with respect to manufactured goods includes raw materials, direct and indirect labor and factory overhead. Approximately 46% of the total inventory cost was determined using the first-in-first-out (FIFO) method with the remainder valued using the last-in-first-out (LIFO) method. With respect to inventories carried at LIFO cost, the aggregate difference in value between LIFO cost and cost determined under FIFO methods was not material as of December 31, 2001 and December 31, 2000.

(f) Property, plant and equipment

Property, plant and equipment is recorded at cost. Depreciation is provided principally on the straight-line method over estimated useful lives as follows: aircraft, simulators, training equipment and spare parts, 4 to 20 years; buildings and improvements, 10 to 40 years; machinery, equipment, furniture and fixtures, 3 to 20 years. Leasehold improvements are amortized over the life of the lease or the life of the improvement, whichever is shorter. Interest is capitalized as an integral component of cost during the construction period of simulators and facilities and is amortized over the life of the related assets.

(g) Goodwill of acquired businesses

Goodwill of acquired businesses represents the difference between purchase cost and the fair value of the net assets of acquired businesses and is being amortized on a straight-line basis generally over 40 years. The Company periodically reviews the recoverability of the carrying value of goodwill of acquired businesses to ensure it is appropriately valued. In the event that a condition is identified which may indicate an impairment issue exists, an assessment is performed using a variety of methodologies.

As a result of new accounting standards issued in June 2001, accounting for goodwill has changed. Goodwill arising from business acquisitions after July 1, 2001 is subject to an impairment only model, instead of an amortization and impairment model. See Note 1(n) below for further discussion of these new standards.

During the fourth quarter of 2000, Berkshire management concluded that an impairment of goodwill existed with respect to the Dexter Shoe business. Goodwill amortization shown in the accompanying Consolidated Statements of Earnings for 2000 includes a goodwill impairment charge of $219 million related to this business.

(h) Revenue recognition

Insurance premiums for prospective property/casualty insurance and reinsurance and health reinsurance policies are earned in proportion to the level of insurance protection provided. In most cases, premiums are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Consideration received for retroactive reinsurance policies is recognized as premiums earned at the inception of the contracts. Premiums for life contracts are earned when due. Premiums earned are stated net of amounts ceded to reinsurers.

Revenues from product sales are recognized upon passage of title to the customer, which coincides with customer pickup, product shipment, delivery or acceptance, depending on terms of the sales arrangement. Service revenues are recognized as the services are performed. Services provided pursuant to a contract are either recognized over the contract period, or upon completion of the elements specified in the contract, depending on the terms of the contract.

(i) Insurance premium acquisition costs

Certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. Acquisition costs consist of commissions, premium taxes, advertising and other underwriting costs. The recoverability of premium acquisition costs, generally, reflects anticipation of investment income. The unamortized balances of deferred premium acquisition costs are included in other assets and were $1,029 million and $916 million at December 31, 2001 and 2000, respectively.

(1) Significant accounting policies and practices *(Continued)*

(j) Losses and loss adjustment expenses

Liabilities for unpaid losses and loss adjustment expenses represent estimated claim and claim settlement costs of property/casualty insurance and reinsurance contracts. The liabilities for losses and loss adjustment expenses are recorded at the estimated ultimate payment amounts, except that amounts arising from certain reinsurance businesses are discounted as discussed below. Estimated ultimate payment amounts are based upon (1) individual case estimates, (2) estimates of incurred-but-not-reported losses, based upon past experience and (3) reports of losses from ceding insurers.

The estimated liabilities of workers' compensation claims assumed by General Re under reinsurance contracts and liabilities assumed under structured settlement reinsurance contracts by Berkshire Hathaway Reinsurance Group are carried in the Consolidated Balance Sheets at discounted amounts. Discounted amounts pertaining to General Re's workers' compensation risks are based upon an annual discount rate of 4.5%. The discounted amounts for structured settlement reinsurance contracts are based upon the prevailing market discount rates when the contracts were written and range from 5% to 13%. The periodic discount accretion is included in the Consolidated Statements of Earnings as a component of losses and loss adjustment expenses.

(k) Deferred charges-reinsurance assumed

The excess of estimated liabilities for claims and claim costs over the consideration received with respect to retroactive property and casualty reinsurance contracts that provide for indemnification of insurance risk is established as a deferred charge at inception of such contracts. The deferred charges are subsequently amortized using the interest method over the expected settlement periods of the claim liabilities. The periodic amortization charges are reflected in the accompanying Consolidated Statements of Earnings as losses and loss adjustment expenses.

(l) Reinsurance

Provisions for losses and loss adjustment expenses are reported in the accompanying Consolidated Statements of Earnings after deducting amounts recovered and estimates of amounts recoverable under reinsurance contracts. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify policyholders with respect to the underlying insurance and reinsurance contracts. Estimated losses and loss adjustment expenses recoverable under reinsurance contracts are included in receivables.

(m) Foreign currency

The accounts of several foreign-based subsidiaries are measured using the local currency as the functional currency. Revenues and expenses of these businesses are translated into U.S. dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Gains or losses from translating the financial statements of foreign-based operations are included in shareholders' equity as a component of other comprehensive income. Gains and losses arising from other transactions denominated in a foreign currency are included in the Consolidated Statements of Earnings.

(n) Accounting pronouncements to be adopted subsequent to December 31, 2001

In June 2001, the Financial Accounting Standards Board ("FASB") issued two Statements of Financial Accounting Standards ("SFAS"). SFAS No. 141 "Business Combinations" requires usage of the purchase method for all business combinations initiated after June 30, 2001, and prohibits the usage of the pooling of interests method. The provisions of SFAS No. 141 relating to the application of the purchase method are generally effective for business combinations completed after July 1, 2001.

SFAS No. 142 "Goodwill and Other Intangible Assets" changes the current accounting model that requires amortization of goodwill, supplemented by impairment tests, to an accounting model that is based solely upon impairment tests. SFAS No. 142 also provides guidance on accounting for identifiable intangible assets that may or may not require amortization. The provisions of SFAS No. 142 related to accounting for goodwill and intangible assets will be generally effective for Berkshire at the beginning of 2002, except, among other things, that goodwill and identifiable intangible assets with indefinite lives arising from combinations completed after July 1, 2001 are not being amortized.

(1) Significant accounting policies and practices *(Continued)*

(n) Accounting pronouncements to be adopted subsequent to December 31, 2001 (Continued)

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" generally retains the basic accounting model for the identification and measurement of impairments to long-lived assets to be held and such assets to be disposed. SFAS No. 144 also addresses several implementation and financial statement presentation issues not previously addressed under GAAP. The provisions of SFAS No. 144 will be effective for Berkshire at the beginning of 2002.

Although Berkshire has not completed its assessment of these new accounting standards, it expects that the provisions of SFAS No. 142 related to accounting for goodwill will have a significant impact on its consolidated earnings in 2002 when compared to consolidated earnings for years prior to 2002. The accompanying Consolidated Statement of Earnings for 2001 includes goodwill amortization of $572 million. Additionally Berkshire's equity income from its investment in MidAmerican Energy Holdings Company includes its share of MidAmerican's $96 million of goodwill amortization.

(2) Significant business acquisitions

During 2001, Berkshire completed four significant business acquisitions. Information concerning these acquisitions follows.

Shaw Industries, Inc. ("Shaw")

On January 8, 2001, Berkshire acquired approximately 87.3% of the common stock of Shaw for $19 per share or $2.1 billion in total. An investment group consisting of Robert E. Shaw, Chairman and CEO of Shaw, Julian D. Saul, President of Shaw, certain family members and related family interests of Messrs. Shaw and Saul, and certain other directors and members of management acquired the remaining 12.7% of Shaw. In January 2002, Berkshire acquired all of the shares of Shaw held by the investment group in exchange for 4,505 shares of Berkshire Class A common stock and 7,063 shares of Class B common stock.

Shaw is the world's largest manufacturer of tufted broadloom carpet and rugs for residential and commercial applications throughout the U.S. and exports to most markets worldwide. Shaw markets its residential and commercial products under a variety of brand names.

Johns Manville Corporation ("Johns Manville")

On February 27, 2001, Berkshire acquired Johns Manville. Berkshire purchased all of the outstanding shares of Johns Manville common stock for $13 per share or $1.8 billion in total. Johns Manville is a leading manufacturer of insulation and building products. Johns Manville manufactures and markets products for building and equipment insulation, commercial and industrial roofing systems, high-efficiency filtration media, and fibers and non-woven mats used as reinforcements in building and industrial applications.

MiTek Inc. ("MiTek")

On July 31, 2001, Berkshire acquired a 90% equity interest in MiTek from Rexam PLC for approximately $400 million. Existing MiTek management acquired the remaining 10% interest. MiTek, headquartered in Chesterfield, Missouri, produces steel connector products, design engineering software and ancillary services for the building components market.

XTRA Corporation ("XTRA")

On September 20, 2001, Berkshire acquired XTRA through a cash tender offer and subsequent statutory merger for all of the outstanding shares. Holders of XTRA common stock received aggregate consideration of approximately $578 million. XTRA, headquartered in Westport, Connecticut, is a leading operating lessor of transportation equipment, including over-the-road trailers, marine containers and intermodal equipment.

In addition, Berkshire completed six significant acquisitions in 2000. Information concerning five of these acquisitions follows. Information concerning the other acquisition is contained in Note 3 (Investments in MidAmerican Energy Holdings Company).

CORT Business Services Corporation ("CORT")

Effective February 18, 2000, Wesco Financial Corporation, an indirect 80.1% owned subsidiary of Berkshire, acquired CORT. CORT is a leading national provider of rental furniture, accessories and related services in the "rent-to-rent" segment of the furniture industry.

Ben Bridge Jeweler ("Ben Bridge")

Effective July 3, 2000, Berkshire acquired Ben Bridge. Ben Bridge is the leading operator of upscale jewelry stores based in major shopping malls in the Western U.S.

(2) Significant business acquisitions *(Continued)*

Justin Industries, Inc. ("Justin")

Effective August 1, 2000, Berkshire acquired Justin. Principal businesses of Justin include: Acme Building Brands, a leading manufacturer and producer of face brick, concrete masonry products and ceramic and marble floor and wall tile and Justin Brands, a leading manufacturer of Western footwear under a number of brand names.

U.S. Investment Corporation ("USIC")

Effective August 8, 2000, Berkshire acquired USIC. USIC is the parent of the United States Liability Insurance Group, one of the premier U.S. writers of specialty insurance.

Benjamin Moore & Co. ("Benjamin Moore")

Effective December 18, 2000, Berkshire acquired Benjamin Moore. Benjamin Moore is a formulator, manufacturer and retailer of a broad range of architectural and industrial coatings, available principally in the U.S. and Canada.

Aggregate consideration paid for the five business acquisitions consummated in 2000 totaled $2,370 million, consisting of $2,146 million in cash and the remainder in Berkshire Class A and Class B common stock.

Each of the business acquisitions described above was accounted for under the purchase method. The excess of the purchase cost of the business over the fair value of net assets acquired was recorded as goodwill of acquired businesses.

The results of operations for each of the nine entities acquired in 2001 and 2000 are included in Berkshire's consolidated results of operations from the effective date of each merger. The following table sets forth certain unaudited consolidated earnings data for 2001 and 2000, as if each of the acquisitions discussed above were consummated on the same terms at the beginning of each year. Dollars are in millions except per share amounts.

	2001	*2000*
Total revenues	$38,137	$41,724
Net earnings	803	3,420
Earnings per equivalent Class A Common Share	526	2,243

During the second half of 2001 Berkshire initiated two additional business acquisitions which had not closed as of December 31, 2001. Information concerning these transactions follows.

Albecca Inc. ("Albecca")

Effective February 8, 2002, Berkshire acquired for cash all of the outstanding shares of Albecca. Albecca designs, manufactures and distributes a complete line of high-quality custom picture framing products primarily under the Larson-Juhl name.

Fruit of the Loom ("FOL")

On November 1, 2001, Berkshire announced that it had entered into an agreement with Fruit of the Loom, LTD. and Fruit of the Loom, Inc. (together the "FOL entities") to acquire the FOL entities' basic apparel business. Under terms of the agreement, the purchase price of $835 million in cash is subject to significant reduction for certain liabilities, as well as adjustment upward or downward depending on working capital levels.

The FOL entities are currently operating as debtors-in-possession pursuant to its Chapter 11 bankruptcy filing currently pending before the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). On January 2, 2002, the Bankruptcy Court issued an order determining Berkshire as the successful bidder for the FOL entities' basic apparel business. A hearing to determine whether the FOL reorganization plan is confirmed (such plan contemplates the aforementioned sale of the basic apparel business to Berkshire) has been scheduled for April 4, 2002. If the FOL reorganization plan is confirmed at that time, the closing will occur in the second quarter of 2002.

The FOL apparel business is a leading vertically integrated basic apparel company manufacturing and marketing underwear, activewear, casualwear and childrenswear. The FOL apparel business operates on a worldwide basis and sells its products principally in North America under the Fruit of the Loom and BVD brand names.

(3) Investments in MidAmerican Energy Holdings Company

On March 14, 2000, Berkshire invested approximately $1.24 billion in common stock and a non-dividend paying convertible preferred stock of MidAmerican Energy Holdings Company ("MidAmerican"). Such investment gave Berkshire about a 9.7% voting interest and a 76% economic interest in MidAmerican on a fully-diluted basis. Berkshire subsidiaries also acquired approximately $455 million of an 11% non-transferable trust preferred security. Mr. Walter Scott, Jr., a member of Berkshire's Board of Directors, controls approximately 86% of the voting interest in MidAmerican.

(3) Investments in MidAmerican Energy Holdings Company *(Continued)*

MidAmerican is a global leader in the production of energy from diversified fuel sources including geothermal, natural gas, hydroelectric, nuclear and coal. MidAmerican also is a leader in the supply and distribution of energy in the U.S. and U.K. consumer markets.

Berkshire's aggregate investments in MidAmerican are included in the Consolidated Balance Sheets as Investments in MidAmerican Energy Holdings Company. Berkshire is accounting for its investments in the common and non-dividend paying convertible preferred stock pursuant to the equity method. The carrying value of these equity method investments totaled $1,372 million at December 31, 2001 and $1,264 million at December 31, 2000. The 11% non-transferable trust preferred security is classified as a held-to-maturity security, and is carried at cost.

The Consolidated Statements of Earnings reflect, as Income from MidAmerican Energy Holdings Company, Berkshire's proportionate share of MidAmerican's net income with respect to the investments accounted for pursuant to the equity method, as well as interest earned on the 11% trust preferred security. Income derived from equity method investments totaled $115 million in 2001 and $66 million for the period beginning on March 14, 2000 and ending December 31, 2000.

Condensed consolidated balance sheets of MidAmerican as of December 31, 2001 and 2000 are as follows. Amounts are in millions.

	2001	*2000*
Assets:		
Properties, plants, contracts and equipment, net	$ 6,527	$ 5,349
Goodwill	3,639	3,673
Other assets	2,452	2,659
	$12,618	$11,681
Liabilities and shareholders' equity:		
Term debt	$ 7,163	$ 5,919
Redeemable preferred securities	1,009	1,032
Other liabilities and minority interests	2,734	3,154
	10,906	10,105
Shareholders' equity	1,712	1,576
	$12,618	$11,681

Condensed consolidated statements of earnings of MidAmerican for the year ending December 31, 2001 and for the period from March 14, 2000 through December 31, 2000 are as follows. Amounts are in millions.

	2001	*2000*
Revenues:		
Operating revenue	$ 5,061	$ 3,946
Other income	276	94
	5,337	4,040
Costs and expenses:		
Cost of sales and operating expenses	3,794	3,041
Depreciation and amortization	539	383
Interest expense and minority interest	606	482
	4,939	3,906
Income before taxes	398	134
Income taxes	250	53
Cumulative effect of accounting change	5	—
Net income	$ 143	$ 81

Notes to Consolidated Financial Statements *(Continued)*

(4) Investments in securities with fixed maturities

Data with respect to investments in securities with fixed maturities are shown below (in millions).

December 31, 2001[1]	*Amortized Cost*[2]	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Available for sale:				
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 8,969	$ 62	$(212)	$ 8,819
Obligations of states, municipalities and political subdivisions	7,390	98	(43)	7,445
Obligations of foreign governments	2,460	55	(15)	2,500
Corporate bonds	5,802	427	(498)	5,731
Redeemable preferred stocks	93	1	(4)	90
Mortgage-backed securities	11,379	257	(2)	11,634
	36,093	900	(774)	36,219
Held to maturity securities	290	94	–	384
	$36,383	$994	$(774)	$36,603

December 31, 2000[1]	*Amortized Cost*[2]	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Available for sale:				
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 3,662	$ 26	$ (9)	$ 3,679
Obligations of states, municipalities and political subdivisions	8,185	45	(57)	8,173
Obligations of foreign governments	1,944	19	(20)	1,943
Corporate bonds	5,918	147	(209)	5,856
Redeemable preferred stocks	102	–	(5)	97
Mortgage-backed securities	12,609	275	(65)	12,819
	$32,420	$512	$(365)	$32,567

[1] *Amounts above exclude securities with fixed maturities held by finance and financial products businesses. See Note 9.*

[2] *In connection with the acquisition of General Re on December 21, 1998, fixed maturity securities with a fair value of $17.6 billion were acquired. Such amount was approximately $1.2 billion in excess of General Re's historical amortized cost. The unamortized excess amount was $565 million at December 31, 2001 and $680 million at December 31, 2000.*

Shown below are the amortized cost and estimated fair values of securities with fixed maturities at December 31, 2001, by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in millions.

	Amortized Cost	*Fair Value*
Due in one year or less	$ 2,498	$ 2,563
Due after one year through five years	5,141	5,265
Due after five years through ten years	6,022	6,016
Due after ten years	11,281	11,063
	24,942	24,907
Mortgage-backed securities	11,441	11,696
	$36,383	$36,603

(5) Investments in equity securities

Data with respect to investments in equity securities are shown below. Amounts are in millions.

December 31, 2001	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company[1]	$1,470	$ 3,940	$ 5,410
The Coca-Cola Company	1,299	8,131	9,430
The Gillette Company	600	2,606	3,206
Wells Fargo & Company	306	2,009	2,315
Other equity securities	4,868	3,446	8,314
	$8,543	$20,132[2]	$28,675

December 31, 2000	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company[1]	$ 1,470	$ 6,859	$ 8,329
The Coca-Cola Company	1,299	10,889	12,188
The Gillette Company	600	2,868	3,468
Wells Fargo & Company	319	2,748	3,067
Other equity securities	6,714	3,853	10,567
	$10,402	$27,217[2]	$37,619

[1] Common shares of American Express Company ("AXP") owned by Berkshire and its subsidiaries possessed approximately 11% of the voting rights of all AXP shares outstanding at December 31, 2001. The shares are held subject to various agreements with certain insurance and banking regulators which, among other things, prohibit Berkshire from (i) seeking representation on the Board of Directors of AXP (Berkshire may agree, if it so desires, at the request of management or the Board of Directors of AXP to have no more than one representative stand for election to the Board of Directors of AXP) and (ii) acquiring or retaining shares that would cause its ownership of AXP voting securities to equal or exceed 17% of the amount outstanding (should Berkshire have a representative on the Board of Directors, such amount is limited to 15%). In connection therewith, Berkshire has entered into an agreement with AXP which became effective when Berkshire's ownership interest in AXP voting securities reached 10% and will remain effective so long as Berkshire owns 5% or more of AXP's voting securities. The agreement obligates Berkshire, so long as Kenneth Chenault is chief executive officer of AXP, to vote its shares in accordance with the recommendations of AXP's Board of Directors. Additionally, subject to certain exceptions, Berkshire has agreed not to sell AXP common shares to any person who owns 5% or more of AXP voting securities or seeks to control AXP, without the consent of AXP.

[2] Net of unrealized losses of $143 million and $77 million as of December 31, 2001 and 2000, respectively.

(6) Realized investment gains (losses)

Realized gains (losses) from sales and redemptions of investments are summarized below (in millions). Realized losses include impairment charges of $247 million in 2001.

	2001	*2000*	*1999*
Equity securities and other investments —			
Gross realized gains	$1,522	$4,467	$1,507
Gross realized losses	(369)	(317)	(77)
Securities with fixed maturities —			
Gross realized gains	411	153	39
Gross realized losses	(201)	(348)	(104)
	$1,363	$3,955	$1,365

(7) Receivables

Receivable balances as of December 31, 2001 and 2000 are as follows (in millions).

	2001	*2000*
Insurance and reinsurance premiums	$ 5,571	$ 5,624
Ceded loss reserves	2,959	2,997
Trade receivables and other	3,396	3,143
	$11,926	$11,764

(8) Accounts payable, accruals and other liabilities

Accounts payable, accruals and other liabilities as of December 31, 2001 and 2000 are as follows (in millions).

	2001	*2000*
Life and health insurance benefits	$ 2,058	$ 1,959
Other balances due to policyholders	3,319	3,554
Trade payables and other	4,249	2,861
	$ 9,626	$ 8,374

(9) Finance and financial products businesses

Berkshire’s finance and financial products businesses consist of numerous businesses engaged in a variety of activities. The principal business activities include proprietary investing (BH Finance), real estate financing (Berkshire Hathaway Credit Corporation), transportation equipment leasing (XTRA Corporation, acquired in September 2001), risk management products (General Re Securities or “GRS”), annuities (Berkshire Hathaway Life Insurance Company of Nebraska) and Berkadia LLC (see Note (c) below).

In January 2002, General Re announced that it would commence a long-term run-off of GRS. The run-off is expected to occur over a period of years, during which, GRS will limit its new business to certain risk management transactions and will unwind its existing asset and liability positions in an orderly manner.

Assets and liabilities of Berkshire's finance and financial products businesses as of December 31, 2001 and 2000 are summarized below (in millions).

	2001	*2000*
Assets		
Cash and cash equivalents	$ 1,185	$ 341
Investments in securities with fixed maturities:		
Held-to-maturity, at cost (fair value $1,888 in 2001; $1,734 in 2000)	1,813	1,664
Available-for-sale, at fair value (cost $21,125 in 2001; $880 in 2000)*	21,061	880
Trading, at fair value (cost $2,297 in 2001; $5,194 in 2000)	2,252	5,244
Trading account assets	5,561	5,429
Loans and other receivables	6,262	1,186
Securities purchased under agreements to resell	333	680
Other	3,124	1,405
	$41,591	$16,829
Liabilities		
Securities sold under agreements to repurchase	$21,465	$ 3,386
Securities sold but not yet purchased	354	715
Trading account liabilities	4,803	4,974
Notes payable and other borrowings**	9,019	2,116
Annuity reserves and policyholder liabilities	894	868
Other	1,256	2,671
	$37,791	$14,730

* *Consists primarily of U.S. Treasury securities and obligations of U.S. government corporations and agencies.*

** *Payments of principal amounts of notes payable and other borrowings during the next five years are due as follows (in millions).*

2002	*2003*	*2004*	*2005*	*2006*
$2,405	*$490*	*$459*	*$73*	*$5,022*

(9) Finance and financial products businesses *(Continued)*

Income of Berkshire's finance and financial products businesses is shown below (in millions).

	2001	2000	1999
Revenues			
Interest income	$1,377	$ 910	$ 737
Realized investment gain	120	367	103
Unrealized investment gain (loss)	5	177	(221)
Other	62	51	368
	1,564	1,505	987
Cost and expenses			
Annuity expenses	57	54	53
Selling, general and administrative expenses	180	123	228
Interest expense	759	772	581
	996	949	862
Earnings before income taxes	$ 568	$ 556	$ 125

Additional information regarding Berkshire's finance and financial products business follows:

a) Significant accounting policies

Investment securities (principally fixed maturity and equity investments) that are acquired with the expectation of selling them in the near term are classified as trading securities. Such assets are carried at fair value. Realized and unrealized gains and losses related to securities classified as trading are included in income. Trading account assets and liabilities are marked-to-market on a daily basis and represent the estimated fair values of derivatives in net gain positions (assets) and in net loss positions (liabilities). The net gains and losses reflect reductions permitted under master netting agreements with counterparties.

Securities purchased under agreements to resell (assets) and securities sold under agreements to repurchase (liabilities) are accounted for as collateralized investments and borrowings and are recorded at the contractual resale or repurchase amounts plus accrued interest. Other investment securities owned and liabilities associated with investment securities sold but not yet purchased are carried at fair value.

GRS is engaged as a dealer in various types of derivative instruments, including interest rate, currency and equity swaps and options, as well as structured finance products. These instruments are carried at their current estimates of fair value, which is a function of underlying interest rates, currency rates, security values, volatilities and the creditworthiness of counterparties. Future changes in these factors or a combination thereof may affect the fair value of these instruments with any resulting adjustment to be included currently in the Consolidated Statements of Earnings. The net fair values of derivative contracts reflect the legal right to net transactions through qualifying master netting arrangements with various counterparties. The carrying values of trading account assets and trading account liabilities reflect a net decrease of $18,129 million at December 31, 2001 and $14,275 million at December 31, 2000 as a result of the netting arrangements.

Annuity reserves and policyholder liabilities are carried at the present value of the actuarially determined ultimate payment amounts discounted at market interest rates existing at the inception of the contracts. Such interest rates range from 5% to 8%. Periodic accretions of the discounted liabilities are included in annuity expenses.

b) Derivative instruments

Interest rate, currency and equity swaps are agreements between two parties to exchange, at particular intervals, payment streams calculated on a specified notional amount. Interest rate, currency and equity options grant the purchaser the right, but not the obligation, to either purchase from or sell to the writer a specified financial instrument under agreed terms. Interest rate caps and floors require the writer to pay the purchaser at specified future dates the amount, if any, by which the option's underlying market interest rate exceeds the fixed cap or falls below the fixed floor, applied to a notional amount.

Futures contracts are commitments to either purchase or sell a financial instrument at a future date for a specified price and are generally settled in cash. Forward-rate agreements are financial instruments that settle in cash at a specified future date based on the differential between agreed interest rates applied to a notional amount. Foreign exchange contracts generally involve the exchange of two currencies at agreed rates on a specified date; spot contracts usually require the exchange to occur within two business days of the contract date.

(9) Finance and financial products businesses *(Continued)*

b) Derivative instruments (Continued)

The derivative financial instruments involve, to varying degrees, elements of market, credit, and liquidity risks. Market risk is the possibility that future changes in market conditions may make the derivative financial instrument less valuable. The level of market risk is influenced by factors such as volatility, correlation and liquidity. GRS controls market risk exposures by taking offsetting positions in either cash instruments or other derivatives. GRS manages its exposures on a portfolio basis and monitors its market risk on a daily basis across all products by calculating the effect on operating results of potential changes in market variables over a one week period. GRS has established $22 million as its value at risk (VAR) limit with a 99th percentile confidence interval for potential losses over a weekly horizon.

Credit risk is defined as the possibility that a loss may occur from the failure of another party to perform in accordance with the terms of the contract which exceeds the value of existing collateral, if any. The derivative's risk of credit loss is generally a small fraction of notional value of the instrument and is represented by the fair value of the derivative financial instrument. GRS evaluates and records a fair value adjustment against trading revenue to recognize counterparty credit exposure and future costs associated with administering each contract. The fair value adjustment for counterparty credit exposures and future administrative costs on existing contracts was $126.1 million at December 31, 2001. Counterparty credit limits are established, and credit exposures are monitored in accordance with these limits. GRS receives cash and/or investment grade securities from certain counterparties as collateral and, where appropriate, may purchase credit insurance or enter into other transactions to mitigate its credit exposure. GRS also incorporates into contracts with certain counterparties provisions which allow the unwinding of these transactions in the event of a downgrade in credit rating or other indications of decline in creditworthiness of the counterparty.

At December 31, 2001, GRS had accepted collateral that is permitted by contract or industry practice to sell or repledge with a fair value of $1,150 million. Of the securities held as collateral, approximately $41 million were repledged as of December 31, 2001. At December 31, 2001, securities owned by GRS with a fair value of approximately $347 million (which includes $41 million of repledged securities as described above) were pledged against derivative transactions with a fair value of $550 million. Further, securities with a fair value of approximately $97 million were pledged against futures positions at two futures clearing brokers. Contractual terms with counterparties often require additional collateral to be posted immediately in the event of a decline in the financial rating of the counterparty or its guarantor.

Assuming non-performance by all counterparties on all contracts potentially subject to a loss, the maximum potential loss, based on the cost of replacement, net of collateral held, at market rates prevailing at December 31, 2001 approximated $4,375 million. The following table presents GRS's derivatives portfolio by counterparty credit quality and maturity at December 31, 2001. The amounts shown under gross exposure in the table are before consideration of netting arrangements and collateral held by GRS. Net fair value shown in the table represents unrealized gains on financial instrument contracts in gain positions, net of any unrealized loss owed to these counterparties on offsetting positions. Net exposure shown in the table that follows is net fair value less collateral held by GRS. Amounts are in millions.

	Gross Exposure						
	0 – 5	6 – 10	Over 10	Total	Net Fair Value	Net Exposure	Percentage of Total
Credit quality							
AAA	$ 1,735	$ 738	$1,058	$ 3,531	$1,295	$1,295	29%
AA	4,913	3,761	2,719	11,393	2,521	1,969	45
A	3,224	2,238	1,681	7,143	1,338	1,033	24
BBB and Below	1,050	404	133	1,587	371	78	2
Total	$10,922	$7,141	$5,591	$23,654	$5,525	$4,375	100%

Liquidity risk can arise from funding of GRS's portfolio of open transactions. Movements in underlying market variables affect both future cash flows related to the transactions and collateral required to cover the value of open positions. Strategies have been developed to ensure GRS has sufficient resources to cover its potential liquidity needs through its access to General Re Corporation's (the parent company of GRS) internal sources of liquidity, commercial paper program, lines of credit and medium-term program.

c) Berkadia LLC

On August 21, 2001, Berkshire and Leucadia National Corporation ("Leucadia"), through Berkadia LLC, a newly formed and jointly owned entity formed for this purpose, loaned $5.6 billion on a senior secured basis (the "Berkadia Loan") to FINOVA Capital Corporation, ("FNV Capital") a subsidiary of The FINOVA Group ("FNV"). The Berkadia Loan was made in connection with a restructuring of all of FNV Capital's outstanding bank debt and publicly traded debt securities. As of December 31, 2001, the unpaid balance of the Berkadia Loan was $4.9 billion and is included in loans and other receivables.

(9) Finance and financial products businesses *(Continued)*

c) Berkadia LLC (Continued)

Berkadia financed the entire Berkadia Loan through a third party lending facility led by Fleet Bank ("Fleet Loan"). Both the Berkadia Loan and the Fleet Loan are due on August 20, 2006. Under the terms of the Fleet Loan, Berkadia is obligated to use the proceeds received from principal prepayments on the Berkadia Loan to prepay the Fleet Loan. Since the end of 2001, FNV Capital has prepaid $1.0 billion aggregate principal amount of the Berkadia Loan and Berkadia has repaid a like amount to its lenders. The Fleet Loan is collateralized by the Berkadia Loan. Among other things, the Fleet Loan requires that FNV maintain a minimum ratio of its consolidated assets to the outstanding Fleet Loan balance. Berkadia is required to pay down the loan to the extent such ratio is under the minimum. Berkshire provided Berkadia's lenders with a 90% primary guaranty of the Berkadia Loan and also provided a secondary guaranty to the 10% primary guaranty provided by Leucadia. Berkshire has a 90% economic interest in Berkadia's loan to FNV Capital and Berkadia's borrowings from the lending facility.

In connection with the restructuring and concurrent with the loan to FNV Capital, Berkadia received 61,020,581 shares of FNV common stock representing 50% of the total FNV outstanding shares. Berkadia initially recorded the FNV common stock at fair value and subsequently accounted for the stock pursuant to the equity method. The value assigned to the stock increased the discount on the Berkadia Loan, which will subsequently be accreted into interest income over the life of the Berkadia Loan. Berkshire and Leucadia each have a 50% economic interest in Berkadia's ownership of the FNV common stock. Due to post-August 21 operating losses of FNV, the investment in FNV common stock was completely written off. Consequently, the equity method was suspended as of September 30, 2001.

d) Other investment

On July 1, 1998, Value Capital L.P., a limited partnership commenced operations. A wholly owned subsidiary of Berkshire is a limited partner in Value Capital. The partnership's investment objective is to achieve income and capital growth from investments and arbitrage in fixed income investments. Berkshire accounts for this investment pursuant to the equity method. Since inception Berkshire has contributed $430 million to the partnership. At December 31, 2001, the carrying value of $542 million (including Berkshire's share of accumulated earnings of $112 million) is included as a component of other assets on the preceding summary of assets and liabilities. Neither Berkshire nor any of its subsidiaries provides or will provide any financial support of the obligations of this partnership or of the other partners. As a limited partner, Berkshire's exposure to loss is limited to the carrying value of its investment.

(10) Unpaid losses and loss adjustment expenses

Supplemental data with respect to unpaid losses and loss adjustment expenses of property/casualty insurance subsidiaries (in millions) is as follows.

	2001	*2000*	*1999*
Unpaid losses and loss adjustment expenses:			
Gross liabilities at beginning of year	$33,022	$26,802	$23,012
Ceded losses and deferred charges	(5,590)	(3,848)	(2,727)
Net balance	27,432	22,954	20,285
Incurred losses recorded:			
Current accident year	15,608	15,252	11,275
All prior accident years	1,165	211	(192)
Total incurred losses	16,773	15,463	11,083
Payments with respect to:			
Current accident year	4,435	4,589	3,648
All prior accident years	5,366	5,890	4,532
Total payments	9,801	10,479	8,180
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	34,404	27,938	23,188
Ceded losses and deferred charges	6,189	5,590	3,848
Foreign currency translation adjustment	30	(722)	(234)
Net liabilities assumed in connection with business acquisitions	93	216	—
Gross liabilities at end of year	$40,716	$33,022	$26,802

(10) Unpaid losses and loss adjustment expenses *(Continued)*

The balances of unpaid losses and loss adjustment expenses are based upon estimates of the ultimate claim costs associated with claim occurrences as of the balance sheet dates. Considerable judgment is required to evaluate claims and establish estimated claim liabilities, particularly with respect to certain lines of business, such as reinsurance assumed, or certain types of claims, such as environmental or latent injury liabilities. Additional information regarding incurred losses will be revealed over time and the estimates will be revised resulting in gains or losses in the periods made.

The accompanying Consolidated Statement of Earnings for 2001 includes estimated pre-tax underwriting losses of approximately $2.4 billion resulting from the terrorist attack in the U.S. on September 11, 2001. This amount is included in the table as incurred loss – current accident year. Berkshire's management believes it will literally take years to resolve complicated coverage issues, which could produce a material change in the ultimate loss amount.

Incurred losses "all prior accident years" reflects the amount of estimation error charged or credited to earnings in each year with respect to the liabilities established as of the beginning of that year. During 2001, Berkshire's insurance subsidiaries recorded additional losses of $1,165 million in connection with losses occurring in years prior to 2001. This amount includes $878 million arising from General Re's traditional North American property/casualty business. The net effect of General Re's prior year reserve adjustments was a reduction of pre-tax income of approximately $800 million due to additional premiums triggered by the losses. Most of the reserve increases were taken in several casualty lines of businesses.

Prior accident years' losses incurred also include amortization of deferred charges related to retroactive reinsurance contracts incepting prior to the current year. Amortization charges included in prior accident years' losses were $328 million in 2001, $145 million in 2000 and $59 million in 1999. The increases in such charges in 2001 and 2000 are the result of several new contracts written over the past three years. The unamortized balance of deferred charges was $3,232 million at December 31, 2001 compared to $2,593 million at December 31, 2000. Net discounted liabilities at December 31, 2001 and 2000 were $1,834 million and $1,531 million, respectively. Periodic accretions of these liabilities are also a component of prior year losses incurred. See Note 1 for additional information.

Berkshire has exposure to environmental, asbestos and other latent injury claims arising from insurance and reinsurance contracts. Loss reserve estimates for environmental and asbestos exposures include case basis reserves, which also reflect reserves for legal and other loss adjustment expenses and incurred but not reported ("IBNR") reserves. IBNR reserves are determined based upon Berkshire's historic general liability exposure base and policy language, previous environmental and loss experience and the assessment of current trends of environmental law, environmental cleanup costs, asbestos liability law and judgmental settlements of asbestos liabilities.

The liabilities for environmental and latent injury claims and claims expenses net of reinsurance recoverables were approximately $6.3 billion at December 31, 2001. Approximately, $5.0 billion of these reserves were assumed under retroactive reinsurance contracts written by the Berkshire Hathaway Reinsurance Group. Claims arising from these contracts are subject to aggregate policy limits. Thus, Berkshire's exposure to environmental and latent injury claims under these contracts are, likewise, limited.

Berkshire monitors evolving case law and its effect on environmental and latent injury claims. Changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could result in significant amounts of adverse development of the balance sheet liabilities. Such development could be material to Berkshire's results of operations. It is not possible to estimate reliably the amount of additional net loss, or the range of net loss, that is reasonably possible.

(11) Borrowings under investment agreements and other debt

Liabilities as of December 31, 2001 and 2000 for this balance sheet caption are as follows (in millions).

	2001	*2000*
Commercial paper and other short-term borrowings	$1,777	$ 991
Borrowings under investment agreements	478	508
General Re Corporation 9% debentures due 2009 (non-callable)	150	150
GEICO Corporation 7.35% debentures due 2023 (non-callable)	160	160
Other debt due 2002 – 2028	920	854
	$3,485	$2,663

Commercial paper and other short-term borrowings are obligations of several Berkshire subsidiaries that utilize short-term borrowings as part of their day-to-day business operations. Berkshire affiliates have approximately $4 billion available unused lines of credit to support their short-term borrowing programs and, otherwise, provide additional liquidity.

(11) Borrowings under investment agreements and other debt *(Continued)*

Borrowings under investment agreements are made pursuant to contracts calling for interest payable, normally semiannually, at fixed rates ranging from 2.5% to 8.6% per annum. Contractual maturities of borrowings under investment agreements generally range from 3 months to 30 years. Under certain conditions, these borrowings may be redeemable prior to the contractual maturity dates.

Other debt includes variable and fixed rate term bonds and notes issued by various of Berkshire subsidiaries. These obligations generally, are redeemable prior to maturity at the option of the issuing company.

No materially restrictive covenants are included in any of the various debt agreements. Payments of principal amounts expected during the next five years are as follows (in millions).

2002	*2003*	*2004*	*2005*	*2006*
$1,835	$53	$40	$415	$98

During the second quarter of 2001, Berkshire filed a shelf registration to issue up to $700 million in new debt securities at a future date. The intended purpose of the future issuance of debt is to fund the repayment of borrowings of certain Berkshire subsidiaries. The timing and amount of the debt to be issued under the shelf registration has not yet been determined.

(12) Income taxes

The liability for income taxes as of December 31, 2001 and 2000 as reflected in the accompanying Consolidated Balance Sheets is as follows (in millions).

	2001	*2000*
Payable currently	$ (272)	$ 522
Deferred	7,293	9,603
	$7,021	$10,125

The Consolidated Statements of Earnings reflect charges for income taxes as shown below (in millions).

	2001	*2000*	*1999*
Federal	$ 629	$2,136	$ 748
State	68	32	43
Foreign	(77)	(150)	61
	$ 620	$2,018	$ 852
Current	$ 109	$2,012	$1,189
Deferred	511	6	(337)
	$ 620	$2,018	$ 852

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2001 and 2000 are shown below (in millions).

	2001	*2000*
Deferred tax liabilities:		
Relating to unrealized appreciation of investments	$7,078	$9,571
Deferred charges reinsurance assumed	1,131	916
Investments	382	441
Other	1,552	717
	10,143	11,645
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(752)	(1,061)
Unearned premiums	(294)	(227)
Other	(1,804)	(754)
	(2,850)	(2,042)
Net deferred tax liability	$7,293	$9,603

(12) Income taxes *(Continued)*

Charges for income taxes are reconciled to hypothetical amounts computed at the Federal statutory rate in the table shown below (in millions).

	2001	2000	1999
Earnings before income taxes	$1,469	$5,587	$2,450
Hypothetical amounts applicable to above computed at the Federal statutory rate	$ 514	$1,955	$ 858
Decreases resulting from:			
Tax-exempt interest income	(123)	(135)	(145)
Dividends received deduction	(129)	(116)	(95)
Goodwill amortization	191	240	161
State income taxes, less Federal income tax benefit	44	21	28
Foreign tax rate differential	82	34	45
Other differences, net	41	19	—
Total income taxes	$ 620	$2,018	$ 852

(13) Dividend restrictions – Insurance subsidiaries

Payments of dividends by insurance subsidiaries are restricted by insurance statutes and regulations. Without prior regulatory approval, insurance subsidiaries may pay up to approximately $637 million as dividends from insurance subsidiaries during 2002.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $27.2 billion at December 31, 2001 and $41.5 billion at December 31, 2000. Effective January 1, 2001, Berkshire's insurance companies adopted several new statutory accounting policies as required under the Codification of Statutory Accounting Principles. Upon adoption of the new statutory accounting policies, the combined statutory surplus of Berkshire's insurance businesses declined approximately $8.0 billion to $33.5 billion as of January 1, 2001. The most significant new accounting policy related to the recording of net deferred income tax liabilities, which included deferred taxes on existing unrealized gains in equity securities. During 2001, combined statutory surplus declined further, primarily as a result of a decline in the net unrealized appreciation of certain equity investments.

Statutory surplus differs from the corresponding amount determined on the basis of GAAP. The major differences between statutory basis accounting and GAAP are that deferred charges-reinsurance assumed, deferred policy acquisition costs, unrealized gains and losses on investments in securities with fixed maturities and related deferred income taxes are recognized under GAAP but not for statutory reporting purposes. In addition, statutory accounting for goodwill of acquired businesses requires amortization over 10 years, compared to 40 years under GAAP.

(14) Common stock

Changes in issued and outstanding Berkshire common stock during the three years ended December 31, 2001 are shown in the table below.

	Class A Common, $5 Par Value (1,650,000 shares authorized) Shares Issued and Outstanding	*Class B Common $0.1667 Par Value (55,000,000 shares authorized) Shares Issued and Outstanding*
Balance December 31, 1998	1,349,535	5,070,379
Conversions of Class A common stock to Class B common stock and other	(7,872)	296,576
Balance December 31, 1999	1,341,663	5,366,955
Common stock issued in connection with acquisitions of businesses	3,572	1,626
Conversions of Class A common stock to Class B common stock and other	(1,331)	101,205
Balance December 31, 2000	1,343,904	5,469,786
Conversions of Class A common stock to Class B common stock and other	(20,494)	674,436
Balance December 31, 2001	1,323,410	6,144,222

Each share of Class A Common Stock is convertible, at the option of the holder, into thirty shares of Class B Common Stock. Class B Common Stock is not convertible into Class A Common Stock. Each share of Class B Common Stock possesses voting rights equivalent to one-two-hundredth (1/200) of the voting rights of a share of Class A Common Stock. Class A and Class B common shares vote together as a single class.

(15) Fair values of financial instruments

The estimated fair values of Berkshire's financial instruments as of December 31, 2001 and 2000, are as follows (in millions).

	Carrying Value		*Fair Value*	
	2001	*2000*	*2001*	*2000*
Investments in securities with fixed maturities	$36,509	$32,567	$36,603	$32,567
Investments in equity securities	28,675	37,619	28,675	37,619
Assets of finance and financial products businesses	41,591	16,829	41,710	16,913
Borrowings under investment agreements and other debt	3,485	2,663	3,624	2,704
Liabilities of finance and financial products businesses	37,791	14,730	37,917	14,896

In determining fair value of financial instruments, Berkshire used quoted market prices when available. For instruments where quoted market prices were not available, independent pricing services or appraisals by Berkshire's management were used. Those services and appraisals reflected the estimated present values utilizing current risk adjusted market rates of similar instruments. The carrying values of cash and cash equivalents, receivables and accounts payable, accruals and other liabilities are deemed to be reasonable estimates of their fair values.

Considerable judgment is necessarily required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

(16) Litigation

GEICO has been named as a defendant in a number of class action lawsuits related to the use of replacement repair parts not produced by the original auto manufacturer, the calculation of "total loss" value and whether to pay diminished value as part of the settlement of certain claims. Management intends to vigorously defend GEICO's position on these claim settlement procedures. However, these lawsuits are in various stages of development and the ultimate outcome cannot be reasonably determined.

Berkshire and its subsidiaries are parties in a variety of legal actions arising out of the normal course of business. In particular, and in common with the insurance industry in general, such legal actions affect Berkshire's insurance and reinsurance businesses. Such litigation generally seeks to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by Berkshire subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. Berkshire does not believe that such normal and routine litigation will have a material effect on its financial condition or results of operations.

(17) Insurance premium and supplemental cash flow information

Premiums written and earned by Berkshire's property/casualty and life/health insurance businesses during each of the three years ending December 31, 2001 are summarized below. Dollars are in millions.

	Property/Casualty			*Life/Health*		
	2001	*2000*	*1999*	*2001*	*2000*	*1999*
Premiums Written:						
Direct	$ 8,294	$ 6,858	$ 5,798			
Assumed	9,332	11,270	7,951	$2,162	$2,520	$1,981
Ceded	(890)	(729)	(818)	(157)	(257)	(245)
	$16,736	$17,399	$12,931	$2,005	$2,263	$1,736
Premiums Earned:						
Direct	$ 7,654	$ 6,666	$ 5,606			
Assumed	9,097	11,036	7,762	$2,143	$2,513	$1,971
Ceded	(834)	(620)	(788)	(155)	(252)	(245)
	$15,917	$17,082	$12,580	$1,988	$2,261	$1,726

Insurance premiums written by geographic region (based upon the domicile of the insured) are summarized below.

	Property/Casualty			*Life/Health*		
	2001	*2000*	*1999*	*2001*	*2000*	*1999*
United States	*$13,319*	*$11,409*	*$ 8,862*	*$1,176*	*$1,296*	*$ 970*
Western Europe	*2,352*	*5,064**	*2,000*	*518*	*633*	*539*
All other	*1,065*	*926*	*2,069*	*311*	*334*	*227*
	$16,736	*$17,399*	*$12,931*	*$2,005*	*$2,263*	*$1,736*

**Premiums attributed to Western Europe include $2,438 million from a single reinsurance policy.*

(17) Insurance premium and supplemental cash flow information *(Continued)*

A summary of supplemental cash flow information is presented in the following table (in millions).

	2001	2000	1999
Cash paid during the year for:			
Income taxes	$ 905	$1,396	$2,215
Interest of finance and financial products businesses	672	794	513
Other interest	225	157	136
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	3,507	901	61
Common shares issued in connection with acquisitions of businesses	—	224	—
Contingent value of Exchange Notes recognized in earnings	105	117	87
Value of equity securities used to redeem Exchange Notes	228	278	298

(18) Pension plans

Certain Berkshire insurance and non-insurance subsidiaries individually sponsor defined benefit pension plans covering their employees. Benefits under the plans are generally based on years of service and compensation, although benefits under certain plans are based on years of service and fixed benefit rates. Funding policies are generally to contribute amounts required to meet regulatory requirements plus additional amounts determined by management based on actuarial valuations. Most U.S. plans are funded through assets held in trust. However, pension obligations under plans for non-U.S. employees are unfunded. Plan assets are primarily invested in fixed income obligations of U.S. Government Corporations and agencies and cash equivalents and equity securities.

The components of net periodic pension expense for all plans are as follows (in millions).

	2001	2000	1999
Service cost	$ 71	$ 44	$ 44
Interest cost	140	73	66
Expected return on plan assets	(136)	(73)	(66)
Net amortization, deferral and other	2	(2)	6
Net pension expense	$ 77	$ 42	$ 50

Changes in projected benefit obligations and plan assets are as follows (in millions).

	2001	2000
Projected benefit obligation, beginning of year	$1,335	$ 978
Service cost	71	44
Interest cost	140	73
Benefits paid	(101)	(53)
Benefit obligations of acquired businesses	730	257
Actuarial (gain) loss and other	208	36
Projected benefit obligation, end of year	$2,383	$1,335
Plan assets at fair value, beginning of year	$1,433	$1,015
Employer contributions	34	10
Benefits paid	(98)	(49)
Plan assets of acquired businesses	707	346
Actual return on plan assets	140	112
Expenses and other	(2)	(1)
Plan assets at fair value, end of year	$2,214	$1,433

The funded status of the plans is as follows (in millions).

	Dec. 31, 2001	Dec. 31, 2000
Plan assets over (under) benefit obligations	$ (169)	$ 98
Unrecognized net actuarial gains and other	(107)	(308)
Accrued benefit cost liability	$ (276)	$ (210)

(18) Pension plans *(Continued)*

Four of Berkshire's recently acquired businesses sponsor defined benefit plans. Certain actuarial assumptions which were being used to value the assets and obligations of these plans at the time of acquisition have been revised in 2001 to better reflect the current economic environment and in particular the recent decline in interest rates. The total funded status for plans with benefit obligations in excess of assets was $424 million and $211 million as of December 31, 2001 and 2000, respectively.

Weighted average assumptions used in determining projected benefit obligations were as follows.

	2001	*2000*
Discount rate	6.6	7.4
Discount rate – non-U.S. plans	5.9	6.0
Long-term expected rate of return on plan assets	6.5	8.3
Rate of compensation increase	4.8	5.1
Rate of compensation increase – non-U.S. plans	4.5	3.5

Most Berkshire subsidiaries also have defined contribution retirement plans, such as a 401(k) or profit sharing plans. The plans generally cover all employees who meet specified eligibility requirements. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. Berkshire subsidiaries generally match these contributions up to levels specified in the plans, and may make additional discretionary contributions as determined by management. The total expenses related to employer contributions for these plans were $70 million, $80 million and $144 million for the years ended December 31, 2001, 2000 and 1999, respectively.

(19) Business Segment Data

Information related to Berkshire's reportable business operating segments is shown below.

Business Identity	*Business Activity*
GEICO	Underwriting private passenger automobile insurance mainly by direct response methods
General Re	Underwriting excess-of-loss, quota-share and facultative reinsurance worldwide
Berkshire Hathaway Reinsurance Group	Underwriting excess-of-loss and quota-share reinsurance for property and casualty insurers and reinsurers
Berkshire Hathaway Primary Insurance Group	Underwriting multiple lines of property and casualty insurance policies for primarily commercial accounts
Acme Building Brands, Benjamin Moore, Johns Manville and MiTek ("Building products")	Manufacturing and distribution of a variety of building materials and related products and services
Finance and financial products	Proprietary investing, real estate financing, transportation equipment leasing and risk management products
FlightSafety and Executive Jet ("Flight services")	Training to operators of aircraft and ships and providing fractional ownership programs for general aviation aircraft
Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture Company, Jordan's Furniture, Borsheim's, Helzberg Diamond Shops and Ben Bridge Jeweler ("Retail")	Retail sales of home furnishings, appliances, electronics, fine jewelry and gifts
Scott Fetzer Companies	Diversified manufacturing and distribution of various consumer and commercial products with principal brand names including Kirby and Campbell Hausfeld
Shaw Industries	Manufacturing and distribution of carpet and floor coverings under a variety of brand names

Other businesses not specifically identified above consist of: Buffalo News, a daily newspaper publisher in Western New York; International Dairy Queen, which licenses and services a system of about 6,000 Dairy Queen stores; See's Candies, a manufacturer and distributor of boxed chocolates and other confectionery products; H.H. Brown Shoe, Lowell Shoe, Dexter Shoe and Justin Brands, manufacturers and distributors of footwear and CORT Business Services, a leading national provider of rental furniture and related services.

(19) Business Segment Data *(Continued)*

A disaggregation of Berkshire's consolidated data for each of the three most recent years is presented in the tables which follow on this and the following page. Amounts are in millions.

Operating Businesses:	**Revenues**		
Insurance group:	*2001*	*2000*	*1999*
Premiums earned:			
GEICO	$ 6,060	$ 5,610	$ 4,757
General Re	8,353	8,696	6,905
Berkshire Hathaway Reinsurance Group	2,991	4,712	2,387
Berkshire Hathaway Primary Insurance Group	501	325	257
Investment income	2,844	2,796	2,507
Total insurance group	20,749	22,139	16,813
Building products	3,269	178	—
Finance and financial products	519	530	117
Flight services	2,563	2,279	1,856
Retail	1,998	1,864	1,402
Scott Fetzer Companies	914	963	1,021
Shaw Industries	4,012	—	—
Other businesses	2,329	2,180	1,639
	36,353	30,133	22,848
Reconciliation of segments to consolidated amount:			
Realized investment gain	1,363	3,955	1,365
Other revenues	35	54	40
Eliminations	(16)	—	—
Purchase-accounting adjustments	(67)	(136)	(225)
	$37,668	$34,006	$24,028

Operating Businesses:	**Operating Profit before Taxes**		
Insurance group operating profit:	*2001*	*2000*	*1999*
Underwriting profit (loss):			
GEICO	$ 221	$ (224)	$ 24
General Re	(3,671)	(1,254)	(1,184)
Berkshire Hathaway Reinsurance Group	(647)	(162)	(251)
Berkshire Hathaway Primary Insurance Group	30	25	17
Net investment income	2,824	2,773	2,489
Total insurance group operating profit (loss)	(1,243)	1,158	1,095
Building products	461	34	—
Finance and financial products	519	530	117
Flight services	186	213	225
Retail	175	175	130
Scott Fetzer Companies	129	122	147
Shaw Industries	292	—	—
Other businesses	344	326	211
	863	2,558	1,925
Reconciliation of segments to consolidated amount:			
Realized investment gain	1,320	3,955	1,365
Interest expense*	(92)	(92)	(109)
Corporate and other	8	22	8
Goodwill amortization and other purchase-accounting adjustments	(630)	(856)	(739)
	$ 1,469	$ 5,587	$ 2,450

* *Amounts of interest expense represent interest on borrowings under investment agreements and other debt exclusive of that of finance businesses and interest allocated to certain businesses.*

(19) Business Segment Data *(Continued)*

Operating Businesses:	Capital expenditures * 2001	2000	1999	Deprec. & amort. of tangible assets 2001	2000	1999
Insurance group:						
GEICO	$ 20	$ 29	$ 87	$ 70	$ 64	$ 40
General Re	19	22	17	20	39	25
Berkshire Hathaway Reinsurance Group	—	—	—	—	—	—
Berkshire Hathaway Primary Insurance Group	3	4	1	2	1	1
Total insurance group	42	55	105	92	104	66
Building products	152	15	—	124	9	—
Finance and financial products	16	1	4	50	3	6
Flight services	408	472	323	108	90	77
Retail	76	48	55	37	33	27
Scott Fetzer Companies	6	11	14	10	10	11
Shaw Industries	71	—	—	88	—	—
Other businesses	40	28	29	34	32	27
	811	630	530	543	281	214
Reconciliation of segments to consolidated amount:						
Corporate and other	—	—	—	—	—	1
Purchase-accounting adjustments	—	—	—	1	1	3
	$ 811	$ 630	$ 530	$ 544	$ 282	$ 218

* *Excludes expenditures which were part of business acquisitions.*

Operating Businesses:	Identifiable assets at year-end 2001	2000	1999
Insurance group:			
GEICO	$ 11,309	$ 10,569	$ 9,381
General Re	34,575	31,594	30,168
Berkshire Hathaway Reinsurance Group	38,595	45,775	39,607
Berkshire Hathaway Primary Insurance Group	3,360	4,168	4,866
Total insurance group	87,839	92,106	84,022
Building products	2,535	686	—
Finance and financial products	41,599	16,837	24,235
Flight services	2,816	2,336	1,790
Retail	1,215	1,154	906
Scott Fetzer Companies	281	295	298
Shaw Industries	1,619	—	—
Other businesses	2,406	2,388	712
	140,310	115,802	111,963
Reconciliation of segments to consolidated amount:			
Corporate and other	992	1,049	945
Goodwill and other purchase-accounting adjustments	21,450	18,941	18,508
	$162,752	$135,792	$131,416

Notes to Consolidated Financial Statements *(Continued)*

(20) Quarterly data

A summary of revenues and earnings by quarter for each of the last two years is presented in the following table. This information is unaudited. Dollars are in millions, except per share amounts.

2001	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Revenues	$8,142	$10,656	$9,310	$ 9,560
Earnings:				
Excluding realized investment gain	$ 462	$ 353	$ (895)[2]	$ 33
Realized investment gain[1]	144	420	216	62
Net earnings (loss)	$ 606	$ 773	$ (679)	$ 95
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 303	$ 231	$ (586)	$ 22
Realized investment gain[1]	94	275	141	41
Net earnings (loss)	$ 397	$ 506	$ (445)	$ 63
2000				
Revenues	$6,479	$ 6,564	$8,434	$12,529
Earnings:				
Excluding realized investment gain	$ 354	$ 245	$ 301	$ 36
Realized investment gain[1]	453	395	496	1,048
Net earnings	$ 807	$ 640	$ 797	$ 1,084
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 233	$ 161	$ 197	$ 23
Realized investment gain[1]	298	260	326	687
Net earnings	$ 531	$ 421	$ 523	$ 710

(1) The amount of realized gain for any given period has no predictive value and variations in amount from period to period have no practical analytical value particularly in view of the unrealized appreciation now existing in Berkshire's consolidated investment portfolio.

(2) Includes pre-tax underwriting losses of $2.275 billion related to the then estimated losses incurred in connection with the September 11th terrorist attack.

BERKSHIRE HATHAWAY INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net earnings for each of the past three years are disaggregated in the table that follows. Amounts are after deducting minority interests and taxes.

	— (dollars in millions) —		
	2001	2000	1999
Insurance – underwriting	$(2,662)	$(1,041)	$ (897)
Insurance – investment income	1,968	1,946	1,769
Non-insurance businesses	1,305	891	513
Interest expense	(60)	(61)	(70)
Goodwill amortization and other purchase-accounting adjustments	(603)	(818)	(648)
Other	5	19	4
Earnings before realized investment gain	(47)	936	671
Realized investment gain	842	2,392	886
Net earnings	$ 795	$ 3,328	$ 1,557

The business segment data (Note 19 to Consolidated Financial Statements) should be read in conjunction with this discussion.

Insurance — Underwriting

A summary follows of underwriting results from Berkshire's insurance businesses for the past three years.

	— (dollars in millions) —		
	2001	2000	1999
Underwriting gain (loss) attributable to:			
GEICO	$ 221	$ (224)	$ 24
General Re	(3,671)	(1,254)	(1,184)
Berkshire Hathaway Reinsurance Group	(647)	(162)	(251)
Berkshire Hathaway Primary Insurance Group	30	25	17
Underwriting loss — pre-tax	(4,067)	(1,615)	(1,394)
Income taxes and minority interest	(1,405)	(574)	(497)
Net underwriting loss	$(2,662)	$(1,041)	$ (897)

Berkshire engages in both primary insurance and reinsurance of property and casualty risks. Through General Re, Berkshire also reinsures life and health risks. In primary insurance activities, Berkshire subsidiaries assume defined portions of the risks of loss from persons or organizations that are directly subject to the risks. In reinsurance activities, Berkshire subsidiaries assume defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities. Berkshire's principal insurance businesses are: (1) GEICO, the sixth largest auto insurer in the United States, (2) General Re, one of the four largest reinsurers in the world, (3) Berkshire Hathaway Reinsurance Group ("BHRG") and (4) Berkshire Hathaway Primary Insurance Group. Berkshire's management views insurance businesses as possessing two distinctive operations – underwriting and investment. Accordingly, Berkshire evaluates performance of underwriting operations without any allocation of investment income.

Berkshire's reinsurance businesses recorded significant underwriting losses as a result of the September 11, 2001 terrorist attack. In the aggregate, Berkshire's reinsurance businesses recorded pre-tax underwriting losses of about $2.4 billion related to the terrorist attack. The losses recorded are based upon estimates and, therefore, are subject to considerable estimation error. Over time, claims will be paid and additional information will be revealed that will result in re-estimation of the ultimate amount of losses incurred. Changes in reserve estimates are included in earnings as a component of losses and loss expenses incurred in the period of the change. Additional information related to these losses is included in the discussion that follows.

Insurance — Underwriting *(Continued)*

A significant marketing strategy followed by all these businesses is the maintenance of extraordinary capital strength. Statutory surplus as regards policyholders of Berkshire's insurance businesses totaled approximately $27.2 billion at December 31, 2001. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into contracts of insurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers. Additional information regarding Berkshire's insurance and reinsurance operations follows.

GEICO

GEICO provides primarily private passenger automobile coverages to insureds in 48 states and the District of Columbia. GEICO policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company over the telephone, through the mail or via the Internet. This is a significant element in GEICO's strategy to be a low cost insurer and, yet, provide high value to policyholders.

GEICO's underwriting results for the past three years are summarized below.

	— (dollars in millions) —					
	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
Premiums written	$6,176		$5,778		$4,953	
Premiums earned	$6,060	100.0	$5,610	100.0	$4,757	100.0
Losses and loss expenses	4,842	79.9	4,809	85.7	3,815	80.2
Underwriting expenses	997	16.5	1,025	18.3	918	19.3
Total losses and expenses	5,839	96.4	5,834	104.0	4,733	99.5
Underwriting gain (loss) — pre-tax	$ 221		$ (224)		$ 24	

Premiums earned by GEICO in 2001 totaled $6,060 million, an 8.0% increase over 2000. Premiums earned in 2000 exceeded premiums earned in 1999 by 17.9%. The growth in premiums earned during 2001 reflects increased rates, partially offset by a slight reduction in policies-in-force. In response to the underwriting losses of 2000, GEICO implemented rate increases in many states and tightened underwriting resulting in the much improved underwriting results in 2001.

Voluntary auto policies-in-force at December 31, 2001 declined 0.8% from December 31, 2000. In comparison, voluntary policies-in-force increased 8.5% during 2000 and 21.5% during 1999. During 2001, policies-in-force increased 1.6% in the preferred risk auto market and decreased 10.1% in the standard and nonstandard auto lines. Voluntary auto new business sales in 2001 decreased 30.2% from 2000 due to decreased advertising and a lower closure ratio.

Losses and loss adjustment expenses incurred increased 0.7% to $4,842 million in 2001. The loss ratio for property and casualty insurance, which measures the portion of premiums earned that is paid or reserved for losses and related claims handling expenses, was 79.9% in 2001 compared to 85.7% in 2000. The lower ratio reflects the effect of premium rate increases and tightened underwriting standards. Additionally, the rate of increase in claim severity (the cost per claim) slowed in 2001 and the frequency of accidents decreased in many coverages compared to the prior year. The mild winter weather conditions during the fourth quarter of 2001 also contributed to the relatively low loss ratio. Catastrophe losses added slightly less than 1 point to the loss ratio in each of the past three years.

GEICO's insurance subsidiaries are defendants in a number of class action lawsuits related to the use of replacement repair parts not produced by the original auto manufacturer, the calculation of "total loss" value and whether to pay diminished value as part of the settlement of certain claims. Management intends to vigorously defend GEICO's position on these claim settlement procedures. However, these lawsuits are in various stages of development and the ultimate outcome cannot be reasonably determined.

Underwriting expenses incurred in 2001 decreased $28 million (2.7%) from 2000, following an increase of $107 million (11.7%) in 2000 over 1999. Advertising expense declined significantly in 2001 from 2000 following a large increase in 2000 over 1999. Although advertising expense declined in 2001, the unit cost of acquiring new business continued to increase in 2001 as fewer new policies were written in relation to quotes. Other underwriting expenses for 2001 also reflect lower profit sharing expense in 2001.

Throughout 2001, GEICO focused on improving underwriting profitability, but did so at the expense of growth. Entering 2002, rates are believed to be adequate in nearly all states and GEICO is in a better position to grow as many competitors are expected to take rate increases.

Insurance — Underwriting *(Continued)*
General Re

General Re conducts a global reinsurance business, which provides reinsurance coverage in the United States and 135 other countries around the world. General Re's principal reinsurance operations are: (1) North American property/casualty, (2) international property/casualty, and (3) global life/health. The international property/casualty operations are conducted primarily through Germany-based Cologne Re and its subsidiaries. At December 31, 2001, General Re had an 88% economic ownership interest in Cologne Re.

General Re's consolidated underwriting results for the past three years are summarized below. Dollar amounts are in millions.

	2001 Amount	2000[1] Amount	1999 Amount
Premiums earned	$ 8,353	$ 8,696	$ 6,905
Underwriting loss — pre-tax	$(3,671)	$(1,254)	$(1,184)

[1] *During the fourth quarter of 2000, the international property/casualty and global life/health operations discontinued reporting their results on a one-quarter lag. Consequently, General Re's 2000 results include one additional quarter for these businesses. See Note 1(a) to the accompanying Consolidated Financial Statements for additional information.*

Since Berkshire's acquisition in 1998, General Re's overall underwriting results have been very poor. Over this period, increases in loss costs accelerated and outpaced pricing corrections. Losses from the September 11th terrorist attack severely impacted the results as General Re recorded aggregate net losses of approximately $1.9 billion related to the terrorist attack. During 2001, it was determined that reserve estimates established for claims arising in prior years with respect to the North American property/casualty business were insufficient. As a result, an $800 million underwriting loss was recorded.

General Re's management has taken several underwriting actions relative to better aligning premium rates with coverage terms over the past two years. However, as evidenced by the 2001 results, additional actions will be required to achieve targeted break-even underwriting results. Information with respect to each of General Re's underwriting units is presented below. In the tables that follow, dollar amounts are in millions.

General Re's North American property/casualty underwriting results for the past three years are summarized below.

	— (dollars in millions) —					
	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 4,172		$3,517		$2,801	
Premiums earned	$ 3,968	100.0	$3,389	100.0	$2,837	100.0
Losses and loss expenses	5,795	146.0	3,161	93.3	2,547	89.8
Underwriting expenses	1,016	25.6	884	26.1	874	30.8
Total losses and expenses	6,811	171.6	4,045	119.4	3,421	120.6
Underwriting loss — pre-tax	$(2,843)		$ (656)		$ (584)	

General Re's North American property/casualty operations underwrite predominantly excess reinsurance across multiple lines of business. Premiums earned in 2001 exceeded premiums earned in 2000 by $579 million or 17.1%. Earned premiums in 2000 increased over 1999 levels by $552 million or 19.5%. Much of the increase in premiums derived from rate increases and new business (net of the non-renewal of unprofitable business) in the facultative individual risk and casualty treaty markets. Earned premiums in 2001 include $400 million from one retroactive reinsurance contract and a large quota share agreement. An aggregate excess reinsurance contract generated earned premiums of $404 million in 2000 and $154 million in 1999. The North American property/casualty operations generated underwriting losses of $2,843 million in 2001, $656 million in 2000 and $584 million in 1999. The underwriting results in 2001 reflect an exceptionally large loss from the September 11th terrorist attack and charges from revisions to inadequate loss reserve estimates established for pre-2001 claims primarily driven by higher than expected levels of reported claims.

Insurance — Underwriting *(Continued)*

General Re *(Continued)*

Underwriting results for 2001 include approximately $1.54 billion of net losses from the September 11th terrorist attack. While the potential impact of catastrophes and other large individual property losses is normally factored into reinsurance prices, past pricing did not consider the unprecedented magnitude of possible losses arising from the terrorist acts. The severity of the losses arising from the September 11th attack underscored that risks of this kind were not contemplated in premium rates. Lines of business that previously were expected to have little correlation were adversely affected in the same event to an unforeseen degree. Claims arising from other catastrophes and large individual property losses ($20 million or greater) in 2001, 2000 and 1999 periods were $87 million, $53 million and $202 million, respectively. In addition, during 2001 General Re recorded $46 million of estimated losses associated with Enron-related liability coverages.

Results in 2001 also included $800 million of net underwriting losses arising from increases to loss reserve estimates for loss events occurring in 2000 and prior years. The reserve increases occurred in almost all casualty lines of business, including commercial umbrella, professional liability, medical malpractice, general liability, and workers compensation. Long-tail liabilities such as these, particularly reinsurance lines, are inherently difficult to estimate, and while management now believes that reserves are now approximately correct, there are no guarantees. In 2000, underwriting results for the traditional reinsurance operations also included underwriting losses from increases to prior years' reserves of about $92 million, arising primarily in the medical malpractice, commercial umbrella and casualty treaty reinsurance lines. In 1999, North American property/casualty results included a small gain from the reduction of prior years' loss reserve estimates.

Underwriting results for 2000 also included a net underwriting loss of $239 million from a large excess reinsurance contract in-force during 1999 and 2000. The effect of this agreement on the 1999 net underwriting results was not significant due to a retrocession to the Berkshire Hathaway Reinsurance Group. Although, this contract produced a sizable underwriting loss, it is expected to provide more than commensurate investment benefits in future years due to the large amount of float generated.

General Re's international property/casualty underwriting results for the past three years are summarized below.

	— (dollars in millions) —							
	2001		2000(1)		2000(2)		1999	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums written	$2,553		$3,036		$2,505		$2,506	
Premiums earned	$2,397	100.0	$3,046	100.0	$2,478	100.0	$2,343	100.0
Losses and loss expenses	2,413	100.7	2,577	84.6	2,091	84.4	2,041	87.1
Underwriting expenses	730	30.4	987	32.4	803	32.4	775	33.1
Total losses and expenses	3,143	131.1	3,564	117.0	2,894	116.8	2,816	120.2
Underwriting loss — pre-tax	$ (746)		$ (518)		$ (416)		$ (473)	

(1) *Column includes 15 months of data due to elimination of one-quarter lag reporting in 2000.*
(2) *Column includes 12 months reported on a one-quarter lag and is shown for comparability with 1999.*

The international property/casualty operations write quota-share and excess reinsurance on risks around the world. In recent years, the largest international markets have been in Germany and Western Europe. As previously noted, the international property/casualty operations discontinued reporting their results on a one-quarter lag during the fourth quarter of 2000. Results for the 2000 period contain fifteen months, or one additional quarter of information (fourth quarter of 1999 plus four quarters of 2000). The preceding table shows underwriting results for both the twelve month and fifteen month periods. The comparative analysis that follows excludes the additional quarter.

Earned premiums in 2001 decreased from 2000 amounts by 3.3%, whereas 2000 earned premiums exceeded 1999 levels by 5.8%. Adjusting for the effects of overall declining foreign exchange rates, earned premiums in local currencies increased 3.9% during 2001, 16.7% during 2000 and 12.0% during 1999. Growth in 2001 premiums was primarily due to increased premiums in Lloyd's Syndicate 435 and in the U.K. casualty treaty business, partially offset by decreased premiums in Latin America and at Cologne Re. The decrease at Cologne Re relates primarily to the non-renewal of unprofitable treaty business. Earned premium growth in 2000 was principally attributable to premiums to reinstate coverage as a result of the 1999 European winter storm losses as well as increases in Lloyd's Syndicate 435.

Insurance — Underwriting *(Continued)*

General Re *(Continued)*

Underwriting results for General Re's international property/casualty businesses have been unsatisfactory. Included in 2001 underwriting results were $500 million of gross and $313 million of net losses related to the September 11th terrorist attack. Other international property/casualty net underwriting losses were $433 million in 2001, including a loss of $143 million from an explosion at a steel plant in the United Kingdom. Catastrophe and other large individual property losses for 2000 and 1999 were $80 million and $112 million, respectively. Underwriting losses in 1999 also included approximately $100 million related to credit coverages for the motion picture business. Due to the large amount of property business written in the international property/casualty operations, periodic underwriting results will be volatile.

General Re conducts reinsurance business in Argentina through a wholly-owned subsidiary. Currently, Argentina is in the midst of an economic and political crisis. Since the beginning of 2002, the Argentine government has significantly devalued the peso relative to the U.S. dollar. It is still uncertain what effect this and other actions that may be taken will have on the international property/casualty business.

General Re's global life/health underwriting results for the past three years are summarized below.

	— (dollars in millions) —							
	2001		2000[1]		2000[2]		1999	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums written	$2,005		$2,263		$1,781		$1,736	
Premiums earned	$1,988	100.0	$2,261	100.0	$1,773	100.0	$1,725	100.0
Losses and loss expenses	1,625	81.7	1,869	82.6	1,473	83.1	1,434	83.2
Underwriting expenses	445	22.4	472	20.9	384	21.6	418	24.2
Total losses and expenses	2,070	104.1	2,341	103.5	1,857	104.7	1,852	107.4
Underwriting loss — pre-tax	$ (82)		$ (80)		$ (84)		$ (127)	

(1) Column includes 15 months of data due to elimination of one-quarter lag reporting in 2000.
(2) Column includes 12 months reported on a one-quarter lag and is shown for comparability with 1999.

General Re's global life/health affiliates reinsure such risks worldwide. Global life/health operations previously reported their results on a one-quarter lag. As previously noted, the global life/health operations discontinued reporting results on a one-quarter lag during the fourth quarter of 2000. Reported results for 2000 contain fifteen months. The table above shows underwriting results for both the twelve-month and fifteen-month periods. The analysis that follows excludes this additional quarter.

In 2001, earned premiums in the U.S. life/health business increased $194 million (20%) to $1,147 million. In 2000, U.S. life/health premiums exceeded amounts earned in 1999 by $28 million (3.0%). The increase in 2001 was primarily related to increases in the U.S. life business and the acquisition of two Medicare supplement (health) blocks of business. In 2001, premiums from international life/health business increased $21 million (3%) to $841 million. In 2000, international life/health premiums exceeded 1999 by $20 million (3.0%). Adjusting for the effect of foreign exchange, international life/health earned premiums increased 10.4% in 2001 and 14.8% in 2000. The increases in 2001 occurred primarily in the Western Europe and Asia life markets.

Underwriting losses in the U.S. life/health operations were $87 million in 2001, compared with losses of $23 million in 2000 and $117 million in 1999. The U.S. life/health underwriting results for 2001 include $15 million of net losses related to the September 11th terrorist attack. Results for the U.S. life/health reinsurance operations include $46 million of reserve increases related primarily to special risk business, which was discontinued in 1999. Partially offsetting the aforementioned losses were the effects of improved mortality in the U.S. individual life business, favorable claim development and rate increases in the U.S. individual health business.

International life/health operations generated an underwriting gain of $5 million in 2001 compared to losses of $61 million in 2000 and $10 million in 1999. In 2001, improved results were achieved in both the life and health businesses, which each reported a small underwriting profit in 2001. The losses in 2000 primarily related to personal accident and pension lines of business.

Insurance — Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group

The Berkshire Hathaway Reinsurance Group ("BHRG") underwrites principally excess-of-loss reinsurance coverages for insurers and reinsurers around the world. BHRG is believed to be one of the leaders in providing catastrophe excess-of-loss reinsurance. In addition, over the past three years, BHRG has generated significant premium volume from a few very sizable retroactive reinsurance contracts.

Underwriting results for the past three years are summarized in the following table.

	— (dollars in millions) —					
	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
Premiums written	$3,254		$4,732		$2,418	
Premiums earned	$2,991	100.0	$4,712	100.0	$2,387	100.0
Losses and loss expenses	3,443	115.1	4,759	101.0	2,572	107.8
Underwriting expenses	195	6.5	115	2.4	66	2.7
Total losses and expenses	3,638	121.6	4,874	103.4	2,638	110.5
Underwriting loss — pre-tax	$ (647)		$ (162)		$(251)	

Premiums earned by BHRG were $2,991 million in 2001, $4,712 million in 2000 and $2,387 million in 1999. Premiums earned from retroactive coverages were $1,993 million in 2001, $3,944 million in 2000 and $1,507 million in 1999. Premiums earned from catastrophe and non-retroactive reinsurance business totaled $998 million in 2001, $768 million in 2000 and $880 million in 1999. Of these amounts, catastrophe reinsurance policies contributed $511 million in 2001 and $314 million in both 2000 and 1999. In 2001, premiums earned from these businesses include BHRG's participation in Lloyd's Syndicate 1861. Otherwise, the non-catastrophe premiums earned in each year derive from a few sizable quota-share and excess contracts.

BHRG's underwriting losses in 2001 were $647 million, compared to losses of $162 million in 2000 and $251 million in 1999. Underwriting losses from retroactive reinsurance contracts totaled $371 million in 2001, $191 million in 2000 and $ 97 million in 1999. Retroactive reinsurance contracts indemnify ceding companies for losses arising under insurance or reinsurance contracts written in the past, usually many years ago. Consequently, these contracts are often expected to provide indemnification of environmental and other latent injury claims. While contract terms vary, losses under the contracts are subject to a very large aggregate dollar limit, occasionally exceeding $1 billion under a single contract.

Generally, it is also anticipated, although not assured, that claims under retroactive contracts will be paid over long time periods. As a result, premiums are, in part, discounted for time value. However, when written, these contracts do not produce an underwriting loss for financial reporting purposes because the excess of the estimated ultimate claims payable over the premiums earned is established as a deferred charge. The deferred charge is subsequently amortized over the expected claim settlement periods and is included as a component of losses incurred. When written, retroactive reinsurance contracts are expected to generate significant underwriting losses over time due to the amortization of these deferred charges. Nevertheless, this business is accepted due to the exceptionally large amounts of float generated. Unamortized deferred charges under BHRG contracts were $3.1 billion as of December 31, 2001 compared to $2.6 billion at December 31, 2000. It is currently expected that losses incurred in 2002 will include about $400 million of deferred charge amortization.

The catastrophe and other non-retroactive reinsurance businesses generated an underwriting loss of $276 million in 2001, an underwriting gain of $29 million in 2000 and an underwriting loss of $154 million in 1999. The underwriting loss for 2001 includes a net loss of approximately $530 million from the terrorist attack on September 11th. Partially offsetting this loss were profits from the remainder of the catastrophe reinsurance business and loss reserve reductions on contracts written in prior years. In 2000 and 1999, the catastrophe reinsurance business generated underwriting gains of $183 million and $196 million, respectively, reflecting relatively minor amounts of catastrophe losses. The timing and magnitude of catastrophe losses can produce considerable volatility in periodic underwriting results.

Insurance — Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group *(Continued)*

In 2000 and 1999, underwriting losses included $186 million and $220 million, respectively, from an aggregate excess contract covering losses occurring in those years. In 1999, BHRG recorded an additional underwriting loss of $126 million from business assumed from General Re related to a similar arrangement written by General Re in that year. Similar to retroactive reinsurance contracts, premiums under these contracts are in part, discounted for time value as losses are often expected to be paid over lengthy periods. Unlike retroactive contracts, no deferred charges are recorded and thus underwriting losses result as premiums are earned. However, similar to the retroactive contracts, this business was accepted because of the large amounts of float generated.

Berkshire Hathaway Primary Insurance Group

Berkshire's other primary insurance businesses consist of a wide variety of smaller insurance businesses that principally write liability coverages for commercial accounts. These businesses include: National Indemnity Company's primary group operation ("NICO Primary Group"), a writer of motor vehicle and general liability coverages; United States Investment Corporation ("USIC"), acquired by Berkshire in August 2000 and whose subsidiaries underwrite specialty insurance coverages; a group of companies referred to internally as "Homestate" operations, providers of standard multi-line insurance, and Central States Indemnity Company, a provider of credit and disability insurance to individuals nationwide through financial institutions.

Collectively, Berkshire's other primary insurance businesses produced earned premiums of $501 million in 2001, $325 million in 2000 and $257 million in 1999. The increases in premiums earned during the past two years was largely attributed to the inclusion of USIC's business beginning in August 2000. During 2001, increased premiums were also earned by the NICO Primary Group and Homestate businesses. Net underwriting gains of Berkshire's other primary insurance businesses totaled $30 million in 2001, $25 million in 2000 and $17 million in 1999. The improvement in year-to-year comparative underwriting results was due in large part to USIC.

Insurance — Investment Income

Following is a summary of the net investment income of insurance operations for the past three years.

	— (dollars in millions) —		
	2001	2000	1999
Investment income before taxes	$2,824	$2,773	$2,489
Applicable income taxes and minority interest	856	827	720
Investment income after taxes and minority interest	$1,968	$1,946	$1,769

Investment income from insurance operations in 2001 increased $51 million (1.8%) over 2000. Investment income in 2000 exceeded amounts earned in 1999 by $284 million (11.4%). As discussed in Note 1(a) to the Consolidated Financial Statements, results for 2000 include five quarters with respect to General Re's international reinsurance operations. Pre-tax investment income in 2000 includes $103 million related to that extra quarter. Invested assets decreased during 2001 by $4 billion to $72 billion at December 31. The decrease in invested assets was primarily attributed to a $6 billion decline in the market values of Berkshire's major equity investments and $4 billion in dividends paid to Berkshire during the year. Partially offsetting these declines was an increase in investments from an increase in float generated by insurance operations. Float represents an estimate of the amount of funds ultimately payable to policyholders that is available for investment.

The total float at December 31, 2001 was approximately $35.5 billion compared to about $27.9 billion at December 31, 2000. Although the increase in float during 2001 was significant, its cost, represented by the pre-tax underwriting loss over the average float, was also significant. Due to the magnitude of underwriting losses in 2001, the cost of float was about 12.8%. In 2000, the cost of float was approximately 6.0%. Pre-tax investment income in 2001 was also adversely affected by declining interest rates, particularly for short to medium term investments.

Non-Insurance Businesses

A summary follows of results from Berkshire's non-insurance businesses for the past three years.

	— (dollars in millions) —					
	2001		2000		1999	
	Amount	%	Amount	%	Amount	%
Revenues	$15,604	100	$7,994	100	$6,035	100
Cost and expenses	13,498	87	6,594	83	5,205	86
Operating profit	2,106	13	1,400	17	830	14
Income taxes and minority interest	801	5	509	6	317	5
Contribution to net earnings	$ 1,305	8	$ 891	11	$ 513	9

A comparison of revenues and operating profits between 2001, 2000 and 1999 for the non-insurance businesses follows.

	— (dollars in millions) —					
	Revenues			Operating Profits		
Non-Insurance Businesses	2001	2000	1999	2001	2000	1999
Building products	$ 3,269	$ 178	—	$ 461	$ 34	—
Finance and financial products	519	530	$ 117	519	530	$117
Flight services	2,563	2,279	1,856	186	213	225
Retail	1,998	1,864	1,402	175	175	130
Scott Fetzer Companies	914	963	1,021	129	122	147
Shaw Industries	4,012	—	—	292	—	—
Other businesses	2,329	2,180	1,639	344	326	211
	$15,604	$7,994	$6,035	$2,106	$1,400	$830

2001 compared to 2000

Berkshire's numerous non-insurance businesses grew significantly through the acquisition of several businesses in 2000 and 2001. As a result, in 2001 there are two new significant non-insurance business segments. One new segment is Shaw Industries ("Shaw"), in which Berkshire acquired an approximately 87.3% interest on January 8, 2001. (Subsequent to December 31, 2001, Berkshire acquired the remaining interest in Shaw.) In addition, the building products segment consists of four recently acquired businesses (MiTek Inc., acquired July 31, 2001, Johns Manville, acquired February 27, 2001, Benjamin Moore, acquired in December 2000 and Acme Building Brands, acquired in August 2000). Also, Berkshire's finance and financial products businesses are being presented as a segment which in 2001 includes XTRA Corporation from the date acquired of September 20, 2001. Berkshire also acquired Ben Bridge Jeweler in July 2000, which is included as part of Berkshire's retailing segment. Other businesses acquired in 2000 include CORT Business Services (February 2000), Justin Brands (August 2000) and MidAmerican Energy Holdings Company (March 2000). The results of each of the aforementioned businesses are reflected in Berkshire's earnings from their respective acquisition dates.

Additional information regarding each significant business acquisition is contained in Notes 2 and 3 of the Consolidated Financial Statements. In general, many of Berkshire's non-insurance businesses have been adversely affected by the general economic slowdown in the United States during 2001 and exacerbated by the effects of the terrorist attack on September 11, 2001. Nevertheless, Berkshire's management considers that most of its non-insurance businesses have performed well under these difficult conditions. The following is a discussion of significant matters impacting comparative results for the non-insurance businesses.

Building products

Berkshire's building products businesses include Johns Manville, acquired on February 27, 2001, Benjamin Moore, acquired in December 2000, Acme Brick, acquired in August 2000, and MiTek Inc., acquired July 31, 2001. Each of these businesses manufactures and distributes products and services for the residential and commercial construction and home improvement markets. Revenues of the building products group in 2001 totaled $3,269 million and pre-tax operating profits of the building products group in 2001 totaled $461 million.

Non-Insurance Businesses *(Continued)*

Building products (Continued)

On a comparative full year basis, building products revenues were $3,746 million roughly unchanged from the prior year. Full year operating profits of approximately $570 million declined about 4%. Most of the decline occurred at Johns Manville where comparative results were negatively impacted by higher raw material prices and energy costs.

Finance and financial products

Several finance and financial products businesses are included in this segment. Generally, these businesses invest in various types of fixed-income securities, loans, leases and other financial instruments, often utilizing leverage or borrowed funds in the process. The most significant of these businesses are BH Finance, a business engaged in proprietary trading strategies, General Re Securities ("GRS"), a dealer in derivative contracts and XTRA Corporation, a transportation equipment leasing business.

Operating income of the finance and financial products group in 2001 decreased $11 million (2.1%) as compared to 2000. Income of BH Finance in 2001 declined $39 million from 2000. In 2001, interest income, net of interest expense, of BH Finance increased significantly, but was more than offset by reduced realized investment gains. Realized gains in 2000 derived from the disposition of a large portfolio of fixed income securities. Under the current market conditions, BH Finance should continue to produce significant operating profits in 2002.

GRS's operating profit in 2001 was $11 million compared to a loss of $63 million in 2000. In January 2002, management announced that it would commence a long-term run-off of GRS. During the run-off period, GRS will limit new business to certain risk management transactions and will unwind existing asset and liability positions in an orderly manner. It is expected that the run-off will take several years to complete. It is currently unknown what impact this decision may have on operating results in 2002.

In 2001, Berkshire's finance and financial products businesses also include the results of Berkadia LLC. In 2001, the operating results included a pre-tax loss of $40 million from Berkadia. Such loss was caused by a loss from Berkadia's application of the equity method of accounting related to its investment in FINOVA common stock partially offset by net interest income. The structure of this transaction and risks associated with this transaction are described in Note 9 to the Consolidated Financial Statements.

Flight services

This segment includes FlightSafety and Executive Jet. FlightSafety provides high technology training to operators of aircraft and ships. FlightSafety's worldwide clients include corporations, the military and government agencies. Executive Jet is the world's leading provider of fractional ownership programs for general aviation aircraft. Revenues from flight services in 2001 increased $284 million (12.4%) over 2000. About 83% of the increase in revenues was attributed to Executive Jet, which produced significant increases in revenues from both flight operations and aircraft sales. Revenues from FlightSafety also increased approximately 7.7% in 2001 as compared to 2000, reflecting both increased training revenues and product sales. Operating profits in 2001 decreased $27.1 million (12.8%) as compared to 2000. Increased operating profits at FlightSafety were more than offset by reduced operating profits at Executive Jet. Executive Jet's results in 2001 and 2000 reflect operating losses related to expansion into Europe as well as significantly higher operating costs incurred to insure that a premier level of safety, security and service is maintained. The increases in safety and security costs were exacerbated by the September 11^{th} terrorist attack.

Retail

Berkshire's retailing businesses consist of four independently managed retailers of home furnishings (Nebraska Furniture Mart and its subsidiaries ("NFM"), R.C. Willey Home Furnishings ("RC Willey"), Star Furniture and Jordan's Furniture) and three independently managed retailers of fine jewelry (Borsheim's Jewelry, Helzberg's Diamond Shops, and Ben Bridge Jeweler).

Non-Insurance Businesses *(Continued)*

Retail *(Continued)*

Revenues of the retail businesses in 2001 increased $134 million (7.2%) as compared to 2000 and operating profits in 2001 of $175 million were unchanged from 2000. The increase in revenues was attributed to the inclusion of a full year of results for Ben Bridge, the acquisition of a relatively small furniture retailer by NFM in November 2000 and sales from a new store opened in 2001 by RC Willey in Henderson, Nevada. Otherwise, same store sales for the home furnishing retailers were relatively unchanged between years and same store sales for the fine jewelry retailers declined 7.6%. Home furnishings comparative pre-tax earnings were relatively unchanged between years and pre-tax earnings declined at each of the jewelry businesses. The economic recession that developed during 2001 and weak post-September 11th retail sales are believed to be the primary causes for these results.

Scott Fetzer Companies

The Scott Fetzer companies are a group of about twenty diverse manufacturing and distribution businesses under common management. Principal businesses in this group of companies sell products under the Kirby (home cleaning systems), Campbell Hausfeld (air compressors, paint sprayers, generators and pressure washers) and World Book (encyclopedias and other educational products) names.

Revenues in 2001 from Scott Fetzer's businesses decreased $49 million (5.1%) as compared to 2000. Operating profits in 2001 increased $7 million (5.7%) as compared to 2000. The decline in revenues was due primarily to lower foreign unit sales at Kirby, weakening demand for products of many of Scott Fetzer’s smaller businesses and lower sales volume at World Book. The increase in operating profits in 2001 was attributed to lower raw material prices and reduced labor and overhead costs at Campbell Hausfeld and the benefit of administrative cost reduction programs, partially offset by the impact of overall lower sales volume.

Shaw Industries

Berkshire acquired 87.3% of Shaw on January 8, 2001. Shaw is a leading manufacturer and distributor of carpet and rugs for residential and commercial use. Shaw also provides installation services and offers hardwood floor and other floor coverings. In January 2002, Berkshire acquired the remaining 12.7% of Shaw.

On a comparative full-year basis, Shaw’s revenues in 2001 of $4,012 million declined by about $100 million from 2000. The decline in revenues reflects primarily a decline in square yards sold. Sales in 2001 were negatively affected by the economic recession in the U.S., particularly in the commercial markets, and by slowing demand after the September 11th terrorist attack.

In 2001, Shaw’s pre-tax operating profit totaled $292 million. Shaw’s operating results in 2001 benefited from lower raw material costs and lower interest costs, partially offset by higher energy costs. Although uncertainty in the U.S. economy persists, management is cautiously optimistic that sales and results will be stable in 2002.

2000 compared to 1999

Revenues from the non-insurance businesses increased $1,959 million (32.5%) in 2000 as compared to 1999. Operating profits of $1,400 million during 2000 increased $570 million (68.7%) from the comparable 1999 amount. Business acquisitions completed during 1999 and 2000 account for a significant portion of the revenue increase. The acquisitions of Jordan’s Furniture (November 1999), CORT Business Services (February 2000), Ben Bridge Jeweler (July 2000) and Justin Brands and Acme Brick (August 2000) account for about 50% of the increase. The flight services segment and the finance and financial products segment account for most of the remaining comparative increase. Most of the increase in the flight services segment was attributed to Executive Jet which produced significant increases in revenues from both flight operations and aircraft sales. Operating profits for the finance and financial products segment increased $413 million primarily as a result of realized gains on a large portfolio of fixed maturity securities acquired during 1999 pursuant to a proprietary trading strategy. These securities were sold during 2000. The aforementioned business acquisitions in the aggregate accounted for substantially all of the remaining increase in operating profits.

Goodwill amortization and other purchase-accounting adjustments

Goodwill amortization and other purchase-accounting adjustments reflect the after-tax effect on net earnings with respect to the amortization of goodwill of acquired businesses and the amortization of fair value adjustments to certain assets and liabilities which were recorded at the business acquisition dates. Amortization of goodwill was $572 million in 2001, $715 million in 2000 and $477 million in 1999. Goodwill amortization in 2000 included a charge of $219 million to write-off the remaining goodwill related to Dexter Shoe (see Note 1(g) to the Consolidated Financial Statements).

As a result of new accounting standards issued by the FASB in June 2001, accounting for goodwill has changed. Goodwill arising from business acquisitions completed after July 1, 2001 is not subject to systematic amortization. In addition, the systematic amortization of goodwill related to businesses acquired before June 30, 2001 will be discontinued effective January 1, 2002. The new accounting standards require that goodwill of acquired businesses continue to be tested for impairment. Berkshire has not fully completed an assessment of the new standards, however, adoption of the new standards is expected to have a significant impact on earnings.

Other purchase-accounting adjustments consist primarily of the amortization of the excess market value over the historical cost of fixed maturity investments that existed as of the date of certain business acquisitions. Such excess is included in Berkshire’s cost of the investments and is being amortized over the estimated remaining lives of the assets. The unamortized excess remaining in the cost of fixed maturity investments was $565 million at December 31, 2001, $680 million at December 31, 2000 and $940 million at December 31, 1999.

Realized Investment Gain

Realized investment gain has been a recurring element in Berkshire's net earnings for many years. The amount — recorded when investments are sold, other-than-temporarily impaired or in certain situations, as required by GAAP, when investments are marked-to-market with the corresponding gain or loss included in earnings — may fluctuate significantly from period to period, with a meaningful effect upon Berkshire's consolidated net earnings. However, the amount of realized investment gain or loss for any given period has no predictive value, and variations in amount from period to period have no practical analytical value, particularly in view of the net unrealized price appreciation now existing in Berkshire's consolidated investment portfolio.

While the effects of realized gains are often material to the Consolidated Statements of Earnings, such gains often produce a minimal impact on Berkshire's total shareholders' equity. This is due to the fact that Berkshire's investments are carried in prior periods' Consolidated Financial Statements at market value with unrealized gains, net of tax, reported as a separate component of shareholders' equity.

Market Risk Disclosures

Berkshire's Consolidated Balance Sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risks. Berkshire’s significant market risks are primarily associated with interest rates and equity prices and to a lesser degree financial products. The following sections address the significant market risks associated with Berkshire's business activities.

Interest Rate Risk

This section discusses interest rate risks associated with Berkshire’s financial assets and liabilities. Berkshire's management prefers to invest in equity securities or to acquire entire businesses based upon the principles discussed in the following section on equity price risk. When unable to do so, management may alternatively invest in bonds or other interest rate sensitive instruments. Berkshire's strategy is to acquire securities that are attractively priced in relation to the perceived credit risk. Management recognizes and accepts that losses may occur. Berkshire has historically utilized a modest level of corporate borrowings and debt. Further, Berkshire strives to maintain the highest credit ratings so that the cost of debt is minimized. Berkshire utilizes derivative products to manage interest rate risks to a very limited degree.

The fair values of Berkshire's fixed maturity investments and borrowings under investment agreements, notes payable and other debt will fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

Interest Rate Risk *(Continued)*

The following table summarizes the estimated effects of hypothetical increases and decreases in interest rates on assets and liabilities that are subject to interest rate risk. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risks. The hypothetical changes in market interest rates do not reflect what could be deemed best or worst case scenarios. Variations in market interest rates could produce significant changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table which follows. Dollars are in millions.

		Estimated Fair Value after Hypothetical Change in Interest Rates (bp=basis points)			
Non-finance businesses	Fair Value	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
As of December 31, 2001					
Investments in securities with fixed maturities	$36,603	$38,937	$34,333	$32,154	$30,148
Borrowings under investment agreements and other debt	3,624	3,708	3,545	3,474	3,407
As of December 31, 2000					
Investments in securities with fixed maturities	$32,567	$33,466	$31,346	$30,005	$28,690
Borrowings under investment agreements and other debt	2,470	2,540	2,404	2,336	2,274
Finance and financial products businesses *					
As of December 31, 2001					
Investments in securities with fixed maturities and loans and other receivables	$28,126	$28,545	$27,221	$26,140	$25,025
Notes payable and other borrowings **	26,373	26,451	26,307	26,244	26,186
As of December 31, 2000					
Investments in securities with fixed maturities and loans and other receivables	$6,460	$6,752	$6,125	$5,700	$5,304
Notes payable and other borrowings **	4,285	4,339	4,252	4,215	4,182

* *Excludes General Re Securities – See Financial Products Risk section for discussion of risks associated with this business.*

** *Includes securities sold under agreements to repurchase with a carrying value of $20,430 million at December 31, 2001 and $2,887 million at December 31, 2000.*

Equity Price Risk

Strategically, Berkshire strives to invest in businesses that possess excellent economics, with able and honest management and at sensible prices. Berkshire's management prefers to invest a meaningful amount in each investee. Accordingly, Berkshire's equity investments are concentrated in relatively few investees. At year-end 2001 and 2000, over 70% of the total fair value of investments in equity securities was concentrated in four investees.

Berkshire's preferred strategy is to hold equity investments for very long periods of time. Thus, Berkshire management is not necessarily troubled by short term price volatility with respect to its investments provided that the underlying business, economic and management characteristics of the investees remain favorable. Berkshire strives to maintain above average levels of shareholder capital to provide a margin of safety against short term equity price volatility.

The carrying values of investments subject to equity price risks are based on quoted market prices or management's estimates of fair value as of the balance sheet dates. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

***Equity Price Risk** (Continued)*

The table below summarizes Berkshire's equity price risks as of December 31, 2001 and 2000 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned concentrations existing in Berkshire's equity investment portfolio. Dollars are in millions.

	Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
As of December 31, 2001................	$28,675	30% increase	$37,277	9.6
		30% decrease	20,072	(9.6)
As of December 31, 2000................	$37,384	30% increase	$48,599	11.7
		30% decrease	26,170	(11.7)

Financial Products Risk

Gen Re Securities Holdings Limited ("GRS") operates as a dealer in various types of derivative instruments in conjunction with offering risk management products to its clients. As previously noted, in January 2002, General Re announced that it would commence a long-term run off of GRS's business. It is expected that the orderly run-off will take several years to complete. GRS monitors its market risk on a daily basis across all swap and option products by estimating the effect on operating results of potential changes in market variables over a one week period, based on historical market volatility, correlation data and informed judgment. This evaluation is performed on an individual trading book basis, against limits set by individual book, to a 99% probability level. GRS sets market risk limits for each type of risk, and for an aggregate measure of risk across all trading books, based on a 99% probability that movements in market rates will not affect the results from operations in excess of the risk limit over a one week period. GRS's weekly aggregate market risk limit was $22 million in 2001. In 2001, there were no days where the actual losses exceeded the estimated value at risk and no days where the value at risk exceeded the aggregate limit. In addition to these daily and weekly assessments of risk, GRS prepares periodic stress tests to assess its exposure to extreme movements in various market risk factors.

The table below shows the highest, lowest and average value at risk, as calculated using the above methodology, by broad category of market risk to which GRS is exposed over one week intervals. Dollars are in millions.

	2001					2000
	Interest Rate	Foreign Exchange Rate	Equity	Credit	All Risks	All Risks
Highest	$18	$8	$5	$3	$14	$14
Lowest..............................	10	3	2	1	3	1
Average	13	4	3	1	7	4

GRS evaluates and records a fair-value adjustment to recognize counterparty credit exposure and future costs associated with administering each contract. The expected credit exposure for each trade is initially established on the trade date and is determined through the use of a proprietary credit exposure model that is based on historical default probabilities, market volatilities and, if applicable, the legal right of setoff. These exposures are continually monitored and adjusted due to changes in the credit quality of the counterparty, changes in interest and currency rates or changes in other factors affecting credit exposure.

Liquidity and Capital Resources

Berkshire's balance sheet continues to reflect significant liquidity and a strong capital base. Consolidated shareholders' equity at December 31, 2001 totaled $58.0 billion. Consolidated cash and invested assets, excluding assets of finance and financial products businesses totaled approximately $72.5 billion at December 31, 2001 compared to $77.1 billion at December 31, 2000, including approximately $5.3 billion in cash and cash equivalents at the end of each year. During 2001 Berkshire deployed about $4.7 billion in cash for business acquisitions. Cash utilized in these acquisitions was generated internally. Also contributing to the decline in invested assets was a $7.0 billion reduction in unrealized gains in Berkshire's investments in equity securities. Partially offsetting these declines was cash flows generated from operations of approximately $6.6 billion, primarily from insurance operations.

Liquidity and Capital Resources *(Continued)*

Berkshire’s consolidated borrowings under investment agreements and other debt, excluding finance businesses, totaled $3,485 million at December 31, 2001 compared to $2,663 million at December 31, 2000. The increase in borrowings during 2001 relates primarily to pre-acquisition debt of Shaw and Johns Manville, as well as an increase in borrowings by Executive Jet to finance aircraft inventory and core fleet acquisitions. During the second quarter of 2001, Berkshire filed a shelf registration to issue up to $700 million in new debt securities at a future date. The intended purpose of the future issuance of debt is to fund the repayment of currently outstanding borrowings of certain Berkshire subsidiaries. The timing and amount of the debt to be issued under the shelf registration has not yet been determined.

As of December 31, 2001, Berkshire’s borrowings under investment agreements and other debt, excluding finance businesses, included commercial paper and other short-term borrowings totaling $1.8 billion. Most of these borrowings were by Executive Jet and Shaw for operating needs. Berkshire is also contingently liable for the unpaid debt of Berkadia LLC through a primary guaranty of 90% of the debt and a secondary guaranty of the remaining 10% of the loan. At December 31, 2001, Berkadia’s unpaid loan balance was $4.9 billion, of which $1.0 billion has been prepaid subsequent to the end of 2001. See Note 9 to the Consolidated Financial Statements for additional information. Most of Berkshire’s borrowings under investment agreements contain contractual provisions that could require Berkshire to collateralize or prepay the outstanding obligations upon a downgrade in Berkshire’s senior debt ratings.

Invested assets of the finance and financial products businesses totaled $41.6 billion at December 31, 2001 compared to $16.8 billion at December 31, 2000. Most of the increase was due to increased investments in U.S. Treasury securities and obligations of U.S. government-sponsored enterprises. These investments were primarily financed through repurchase agreements. The repurchase agreements require that fair value of the pledged collateral exceed the amount borrowed. A decline in the value of the investments pledged would require pledges of cash or additional collateral. Under the contractual terms with counterparties to its derivatives trading activities, General Re Securities (“GRS”) may be required to post collateral against trading account liabilities.

Notes payable and other borrowings of Berkshire’s finance and financial products businesses totaled $9.0 billion at December 31, 2001 and $2.1 billion at December 31, 2000. The balance at December 31, 2001 includes Berkadia’s outstanding term loan of $4.9 billion (see Note 9 to the Consolidated Financial Statements) and $613 million of debt of XTRA Corporation, which Berkshire acquired on September 20, 2001. The remaining increase was due to increased commercial paper borrowings by GRS to fund short-term liquidity needs.

Berkshire believes that it currently maintains sufficient liquidity to cover its existing liquidity requirements and provide for contingent liquidity needs.

Forward-Looking Statements

Investors are cautioned that certain statements contained in this document, as well as some statements by the Company in periodic press releases and some oral statements of Company officials during presentations about the Company, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," or similar expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the industries in which the Company does business, among other things. These statements are not guaranties of future performance and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause the Company's actual performance and future events and actions to differ materially from such forward-looking statements, include, but are not limited to, changes in market prices of Berkshire's significant equity investees, the occurrence of one or more catastrophic events, such as an earthquake or hurricane that causes losses insured by Berkshire's insurance subsidiaries, changes in insurance laws or regulations, changes in Federal income tax laws, and changes in general economic and market factors that affect the prices of securities or the industries in which Berkshire and its affiliates do business, especially those affecting the property and casualty insurance industry.

Shortly after the September 11th terrorist attack, Berkshire's Chairman, Warren E. Buffett, sent a letter to the CEO of each of Berkshire's operating businesses. The letter is reproduced below.

MEMO

TO: Berkshire Hathaway Managers ("The All-Stars")

FROM: Warren E. Buffett

DATE: September 26, 2001

The last few weeks have been tough times for all of us in our personal lives and for many of us in our business activities.

At Berkshire we have estimated our September 11 insurance loss was $2.2 billion. We've labeled this a "guess" because that's all it is. It will be many years before we can tell the world within a narrow range what the true figure was.

A very high percentage of the loss occurred in our U.S. insurance companies, with the balance in German and U.K. entities. Because we have regularly paid very large amounts of U.S. income taxes, we will bear 65% of the cost applicable to the U.S. operations; the government will bear 35%. Many insurers will not have their loss mitigated in this manner and some may not survive. Though much of our loss will be paid very soon, significant payments in the liability area will take a considerable time to settle.

Even with tax recoveries, our loss is huge. Nevertheless, it's one Berkshire can easily bear. We have long been in the super-cat business and we have been prepared, both financially and psychologically, to handle them when they occur. This won't be our last hit, though we fervently hope disasters in the future arise from natural causes, rather than be man-made. (We also would hope they would be of lesser magnitude.)

What should you be doing in running your business? Just what you always do: Widen the moat, build enduring competitive advantage, delight your customers, and relentlessly fight costs. With the exception of insurance pricing and coverages, almost all operating decisions that made sense a month ago make sense today.

For my part, I'll keep looking for sensible acquisitions and continue to manage our resources so that Berkshire remains a financial Rock of Gibraltar. I'm sure we are in a recession, probably a relatively deep and extended one, but they are part of business life and we are prepared.

In short, you do the managing and I'll do the worrying. That's a division of labor that's worked for us in the past, and it will continue to work well in the future.

Thanks, as always, for the great job all of you do that, in turn, makes my job so easy.

Warren

P.S. If you wish, share this message with any of your associates.

In June 1996, Berkshire's Chairman, Warren E. Buffett, issued a booklet entitled **"An Owner's Manual"** to Berkshire's Class A and Class B shareholders. The purpose of the manual was to explain Berkshire's broad economic principles of operation. The Owner's Manual is reproduced on this and the following six pages.

INTRODUCTION

Augmented by the General Re merger, Berkshire's shareholder count has doubled in the past year to about 250,000. Charlie Munger, Berkshire's Vice Chairman and my partner, and I welcome each of you. As a further greeting, we have prepared a second printing of this booklet to help you understand our business, goals, philosophy and limitations.

These pages are aimed at explaining our broad principles of operation, not at giving you detail about Berkshire's many businesses. For more detail and a continuing update on our progress, you should look to our annual reports. We will be happy to send a copy of our 1997 report to any shareholder requesting it. A great deal of additional information, including our 1977-1996 annual letters, is available at our Internet site: www.berkshirehathaway.com.

OWNER-RELATED BUSINESS PRINCIPLES

At the time of the Blue Chip merger in 1983, I set down 13 owner-related business principles that I thought would help new shareholders understand our managerial approach. As is appropriate for "principles," all 13 remain alive and well today, and they are stated here in italics. A few words have been changed to bring them up-to-date and to each I've added a short commentary.

1. *Although our form is corporate, our attitude is partnership. Charlie Munger and I think of our shareholders as owner-partners, and of ourselves as managing partners. (Because of the size of our shareholdings we are also, for better or worse, controlling partners.) We do not view the company itself as the ultimate owner of our business assets but instead view the company as a conduit through which our shareholders own the assets.*

   Charlie and I hope that you do not think of yourself as merely owning a piece of paper whose price wiggles around daily and that is a candidate for sale when some economic or political event makes you nervous. We hope you instead visualize yourself as a part owner of a business that you expect to stay with indefinitely, much as you might if you owned a farm or apartment house in partnership with members of your family. For our part, we do not view Berkshire shareholders as faceless members of an ever-shifting crowd, but rather as co-venturers who have entrusted their funds to us for what may well turn out to be the remainder of their lives.

   The evidence suggests that most Berkshire shareholders have indeed embraced this long-term partnership concept. The annual percentage turnover in Berkshire's shares is a small fraction of that occurring in the stocks of other major American corporations, even when the shares I own are excluded from the calculation.

   In effect, our shareholders behave in respect to their Berkshire stock much as Berkshire itself behaves in respect to companies in which it has an investment. As owners of, say, Coca-Cola or Gillette shares, we think of Berkshire as being a non-managing partner in two extraordinary businesses, in which we measure our success by the long-term progress of the companies rather than by the month-to-month movements of their stocks. In fact, we would not care in the least if several years went by in which there was no trading, or quotation of prices, in the stocks of those companies. If we have good long-term expectations, short-term price changes are meaningless for us except to the extent they offer us an opportunity to increase our ownership at an attractive price.

2. *In line with Berkshire's owner-orientation, most of our directors have a major portion of their net worth invested in the company. We eat our own cooking.*

Charlie's family has 90% or more of its net worth in Berkshire shares; my wife, Susie, and I have more than 99%. In addition, many of my relatives — my sisters and cousins, for example — keep a huge portion of their net worth in Berkshire stock.

Charlie and I feel totally comfortable with this eggs-in-one-basket situation because Berkshire itself owns a wide variety of truly extraordinary businesses. Indeed, we believe that Berkshire is close to being unique in the quality and diversity of the businesses in which it owns either a controlling interest or a minority interest of significance.

Charlie and I cannot promise you results. But we can guarantee that your financial fortunes will move in lockstep with ours for whatever period of time you elect to be our partner. We have no interest in large salaries or options or other means of gaining an "edge" over you. We want to make money only when our partners do and in exactly the same proportion. Moreover, when I do something dumb, I want you to be able to derive some solace from the fact that my financial suffering is proportional to yours.

3. *Our long-term economic goal (subject to some qualifications mentioned later) is to maximize Berkshire's average annual rate of gain in intrinsic business value on a per-share basis. We do not measure the economic significance or performance of Berkshire by its size; we measure by per-share progress. We are certain that the rate of per-share progress will diminish in the future — a greatly enlarged capital base will see to that. But we will be disappointed if our rate does not exceed that of the average large American corporation.*

Since that was written at yearend 1983, our intrinsic value (a topic I'll discuss a bit later) has increased at an annual rate of more than 25%, a pace that has definitely surprised both Charlie and me. Nevertheless the principle just stated remains valid: Operating with large amounts of capital as we do today, we cannot come close to performing as well as we once did with much smaller sums. The best rate of gain in intrinsic value we can even hope for is an average of 15% per annum, and we may well fall far short of that target. Indeed, we think very few large businesses have a chance of compounding intrinsic value at 15% per annum over an extended period of time. So it may be that we will end up meeting our stated goal — being above average — with gains that fall significantly short of 15%.

4. *Our preference would be to reach our goal by directly owning a diversified group of businesses that generate cash and consistently earn above-average returns on capital. Our second choice is to own parts of similar businesses, attained primarily through purchases of marketable common stocks by our insurance subsidiaries. The price and availability of businesses and the need for insurance capital determine any given year's capital allocation.*

As has usually been the case, it is easier today to buy small pieces of outstanding businesses via the stock market than to buy similar businesses in their entirety on a negotiated basis. Nevertheless, we continue to prefer the 100% purchase, and in some years we get lucky: In the last three years in fact, we made seven acquisitions. Though there will be dry years also, we expect to make a number of acquisitions in the decades to come, and our hope is that they will be large. If these purchases approach the quality of those we have made in the past, Berkshire will be well served.

The challenge for us is to generate ideas as rapidly as we generate cash. In this respect, a depressed stock market is likely to present us with significant advantages. For one thing, it tends to reduce the prices at which entire companies become available for purchase. Second, a depressed market makes it easier for our insurance companies to buy small pieces of wonderful businesses — including additional pieces of businesses we already own — at attractive prices. And third, some of those same wonderful businesses, such as Coca-Cola, are consistent buyers of their own shares, which means that they, and we, gain from the cheaper prices at which they can buy.

Overall, Berkshire and its long-term shareholders benefit from a sinking stock market much as a regular purchaser of food benefits from declining food prices. So when the market plummets — as it will from time to time — neither panic nor mourn. It's good news for Berkshire.

5. *Because of our two-pronged approach to business ownership and because of the limitations of conventional accounting, consolidated reported earnings may reveal relatively little about our true economic performance. Charlie and I, both as owners and managers, virtually ignore such consolidated numbers. However, we will also report to you the earnings of each major business we control, numbers we consider of great importance. These figures, along with other information we will supply about the individual businesses, should generally aid you in making judgments about them.*

To state things simply, we try to give you in the annual report the numbers and other information that really matter. Charlie and I pay a great deal of attention to how well our businesses are doing, and we also work to understand the environment in which each business is operating. For example, is one of our businesses enjoying an industry tailwind or is it facing a headwind? Charlie and I need to know exactly which situation prevails and to adjust our expectations accordingly. We will also pass along our conclusions to you.

Over time, practically all of our businesses have exceeded our expectations. But occasionally we have disappointments, and we will try to be as candid in informing you about those as we are in describing the happier experiences. When we use unconventional measures to chart our progress — for instance, you will be reading in our annual reports about insurance "float" — we will try to explain these concepts and why we regard them as important. In other words, we believe in telling you how we think so that you can evaluate not only Berkshire's businesses but also assess our approach to management and capital allocation.

6. *Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase $2 of earnings that is not reportable by us under standard accounting principles than to purchase $1 of earnings that is reportable. This is precisely the choice that often faces us since entire businesses (whose earnings will be fully reportable) frequently sell for double the pro-rata price of small portions (whose earnings will be largely unreportable). In aggregate and over time, we expect the unreported earnings to be fully reflected in our intrinsic business value through capital gains.*

We have found over time that the undistributed earnings of our investees, in aggregate, have been fully as beneficial to Berkshire as if they had been distributed to us (and therefore had been included in the earnings we officially report). This pleasant result has occurred because most of our investees are engaged in truly outstanding businesses that can often employ incremental capital to great advantage, either by putting it to work in their businesses or by repurchasing their shares. Obviously, every capital decision that our investees have made has not benefitted us as shareholders, but overall we have garnered far more than a dollar of value for each dollar they have retained. We consequently regard look-through earnings as realistically portraying our yearly gain from operations.

In 1992, our look-through earnings were $604 million, and in that same year we set a goal of raising them by an average of 15% per annum to $1.8 billion in the year 2000. Since that time, however, we have issued additional shares — including a significant number in the 1998 merger with General Re — so that we now need look-through earnings of $2.4 billion in 2000 to match the per-share goal we originally were shooting for. This is a target we still hope to hit.

7. *We use debt sparingly and, when we do borrow, we attempt to structure our loans on a long-term fixed-rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, lenders and the many equity holders who have committed unusually large portions of their net worth to our care. (As one of the Indianapolis "500" winners said: "To finish first, you must first finish.")*

The financial calculus that Charlie and I employ would never permit our trading a good night's sleep for a shot at a few extra percentage points of return. I've never believed in risking what my family and friends have and need in order to pursue what they don't have and don't need.

Besides, Berkshire has access to two low-cost, non-perilous sources of leverage that allow us to safely own far more assets than our equity capital alone would permit: deferred taxes and "float," the funds of others that our insurance business holds because it receives premiums before needing to pay out losses. Both of these funding sources have grown rapidly and now total about $32 billion.

Better yet, this funding to date has been cost-free. Deferred tax liabilities bear no interest. And as long as we can break even in our insurance underwriting — which we have done, on the average, during our 32 years in the business — the cost of the float developed from that operation is zero. Neither item, of course, is equity; these are real liabilities. But they are liabilities without covenants or due dates attached to them. In effect, they give us the benefit of debt — an ability to have more assets working for us — but saddle us with none of its drawbacks.

Of course, there is no guarantee that we can obtain our float in the future at no cost. But we feel our chances of attaining that goal are as good as those of anyone in the insurance business. Not only have we reached the goal in the past (despite a number of important mistakes by your Chairman), our 1996 acquisition of GEICO, materially improved our prospects for getting there in the future.

8. *A managerial "wish list" will not be filled at shareholder expense. We will not diversify by purchasing entire businesses at control prices that ignore long-term economic consequences to our shareholders. We will only do with your money what we would do with our own, weighing fully the values you can obtain by diversifying your own portfolios through direct purchases in the stock market.*

Charlie and I are interested only in acquisitions that we believe will raise the *per-share* intrinsic value of Berkshire's stock. The size of our paychecks or our offices will never be related to the size of Berkshire's balance sheet.

9. *We feel noble intentions should be checked periodically against results. We test the wisdom of retaining earnings by assessing whether retention, over time, delivers shareholders at least $1 of market value for each $1 retained. To date, this test has been met. We will continue to apply it on a five-year rolling basis. As our net worth grows, it is more difficult to use retained earnings wisely.*

We continue to pass the test, but the challenges of doing so have grown more difficult. If we reach the point that we can't create extra value by retaining earnings, we will pay them out and let our shareholders deploy the funds.

10. *We will issue common stock only when we receive as much in business value as we give. This rule applies to all forms of issuance — not only mergers or public stock offerings, but stock-for-debt swaps, stock options, and convertible securities as well. We will not sell small portions of your company — and that is what the issuance of shares amounts to — on a basis inconsistent with the value of the entire enterprise.*

When we sold the Class B shares in 1996, we stated that Berkshire stock was not undervalued — and some people found that shocking. That reaction was not well-founded. Shock should have registered instead had we issued shares when our stock *was* undervalued. Managements that say or imply during a public offering that their stock is undervalued are usually being economical with the truth or uneconomical with their existing shareholders' money: Owners unfairly lose if their managers deliberately sell assets for 80¢ that in fact are worth $1. We didn't commit that kind of crime in our offering of Class B shares and we never will. (We did not, however, say at the time of the sale that our stock was overvalued, though many media have reported that we did.)

11. *You should be fully aware of one attitude Charlie and I share that hurts our financial performance: Regardless of price, we have no interest at all in selling any good businesses that Berkshire owns. We are also very reluctant to sell sub-par businesses as long as we expect them to generate at least some cash and as long as we feel good about their managers and labor relations. We hope not to repeat the capital-allocation mistakes that led us into such sub-par businesses. And we react with great caution to suggestions that our poor businesses can be restored to satisfactory profitability by major capital expenditures. (The projections will be dazzling and the advocates sincere, but, in the end, major additional investment in a terrible industry usually is about as rewarding as struggling in quicksand.) Nevertheless, gin rummy managerial behavior (discard your least promising business at each turn) is not our style. We would rather have our overall results penalized a bit than engage in that kind of behavior.*

We continue to avoid gin rummy behavior. True, we closed our textile business in the mid-1980's after 20 years of struggling with it, but only because we felt it was doomed to run never-ending operating losses. We have not, however, given thought to selling operations that would command very fancy prices nor have we dumped our laggards, though we focus hard on curing the problems that cause them to lag.

12. *We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less. Moreover, as a company with a major communications business, it would be inexcusable for us to apply lesser standards of accuracy, balance and incisiveness when reporting on ourselves than we would expect our news people to apply when reporting on others. We also believe candor benefits us as managers: The CEO who misleads others in public may eventually mislead himself in private.*

    At Berkshire you will find no "big bath" accounting maneuvers or restructurings nor any "smoothing" of quarterly or annual results. We will always tell you how many strokes we have taken on each hole and never play around with the scorecard. When the numbers are a very rough "guesstimate," as they necessarily must be in insurance reserving, we will try to be both consistent and conservative in our approach.

    We will be communicating with you in several ways. Through the annual report, I try to give all shareholders as much value-defining information as can be conveyed in a document kept to reasonable length. We also try to convey a liberal quantity of condensed but important information in our quarterly reports, though I don't write those (one recital a year is enough). Still another important occasion for communication is our Annual Meeting, at which Charlie and I are delighted to spend five hours or more answering questions about Berkshire. But there is one way we *can't* communicate: on a one-on-one basis. That isn't feasible given Berkshire's many thousands of owners.

    In all of our communications, we try to make sure that no single shareholder gets an edge: We do not follow the usual practice of giving earnings "guidance" or other information of value to analysts or large shareholders. Our goal is to have all of our owners updated at the same time.

13. *Despite our policy of candor, we will discuss our activities in marketable securities only to the extent legally required. Good investment ideas are rare, valuable and subject to competitive appropriation just as good product or business acquisition ideas are. Therefore we normally will not talk about our investment ideas. This ban extends even to securities we have sold (because we may purchase them again) and to stocks we are incorrectly rumored to be buying. If we deny those reports but say "no comment" on other occasions, the no-comments become confirmation.*

    Though we continue to be unwilling to talk about specific stocks, we freely discuss our business and investment philosophy. I benefitted enormously from the intellectual generosity of Ben Graham, the greatest teacher in the history of finance, and I believe it appropriate to pass along what I learned from him, even if that creates new and able investment competitors for Berkshire just as Ben's teachings did for him.

AN ADDED PRINCIPLE

*To the extent possible, we would like each Berkshire shareholder to record a gain or loss in market value during his period of ownership that is proportional to the gain or loss in per-share intrinsic value recorded by the company during that holding period. For this to come about, the relationship between the intrinsic value and the market price of a Berkshire share would need to remain constant, and by our preferences at 1-to-1. As that implies, we would rather see Berkshire's stock price at a **fair** level than a **high** level. Obviously, Charlie and I can't control Berkshire's price. But by our policies and communications, we can encourage informed, rational behavior by owners that, in turn, will tend to produce a stock price that is also rational. Our it's-as-bad-to-be-overvalued-as-to-be-undervalued approach may disappoint some shareholders. We believe, however, that it affords Berkshire the best prospect of attracting long-term investors who seek to profit from the progress of the company rather than from the investment mistakes of their partners.*

INTRINSIC VALUE

Now let's focus on a term that I mentioned earlier and that you will encounter in future annual reports.

Intrinsic value is an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.

The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover — and this would apply even to Charlie and me — will almost inevitably come up with at least slightly different intrinsic value figures. That is one reason we never give you our estimates of intrinsic value. What our annual reports do supply, though, are the facts that we ourselves use to calculate this value.

Meanwhile, we regularly report our per-share book value, an easily calculable number, though one of limited use. The limitations do not arise from our holdings of marketable securities, which are carried on our books at their current prices. Rather the inadequacies of book value have to do with the companies we control, whose values as stated on our books may be far different from their intrinsic values.

The disparity can go in either direction. For example, in 1964 we could state with certitude that Berkshire's per-share book value was $19.46. However, that figure considerably overstated the company's intrinsic value, since all of the company's resources were tied up in a sub-profitable textile business. Our textile assets had neither going-concern nor liquidation values equal to their carrying values. Today, however, Berkshire's situation is reversed: Now, our book value *far* understates Berkshire's intrinsic value, a point true because many of the businesses we control are worth much more than their carrying value.

Inadequate though they are in telling the story, we give you Berkshire's book-value figures because they today serve as a rough, albeit significantly understated, tracking measure for Berkshire's intrinsic value. In other words, the percentage change in book value in any given year is likely to be reasonably close to that year's change in intrinsic value.

You can gain some insight into the differences between book value and intrinsic value by looking at one form of investment, a college education. Think of the education's cost as its "book value." If this cost is to be accurate, it should include the earnings that were foregone by the student because he chose college rather than a job.

For this exercise, we will ignore the important non-economic benefits of an education and focus strictly on its economic value. First, we must estimate the earnings that the graduate will receive over his lifetime and subtract from that figure an estimate of what he would have earned had he lacked his education. That gives us an excess earnings figure, which must then be discounted, at an appropriate interest rate, back to graduation day. The dollar result equals the intrinsic economic value of the education.

Some graduates will find that the book value of their education exceeds its intrinsic value, which means that whoever paid for the education didn't get his money's worth. In other cases, the intrinsic value of an education will far exceed its book value, a result that proves capital was wisely deployed. In all cases, what is clear is that book value is meaningless as an indicator of intrinsic value.

THE MANAGING OF BERKSHIRE

I think it's appropriate that I conclude with a discussion of Berkshire's management, today and in the future. As our first owner-related principle tells you, Charlie and I are the managing partners of Berkshire. But we subcontract all of the heavy lifting in this business to the managers of our subsidiaries. In fact, we delegate almost to the point of abdication: Though Berkshire has about 45,000 employees, only 12 of these are at headquarters.

Charlie and I mainly attend to capital allocation and the care and feeding of our key managers. Most of these managers are happiest when they are left alone to run their businesses, and that is customarily just how we leave them. That puts them in charge of all operating decisions and of dispatching the excess cash they generate to headquarters. By sending it to us, they don't get diverted by the various enticements that would come their way were they responsible for deploying the cash their businesses throw off. Furthermore, Charlie and I are exposed to a much wider range of possibilities for investing these funds than any of our managers could find in his or her own industry.

Most of our managers are independently wealthy, and it's therefore up to us to create a climate that encourages them to choose working with Berkshire over golfing or fishing. This leaves us needing to treat them fairly and in the manner that we would wish to be treated if our positions were reversed.

As for the allocation of capital, that's an activity both Charlie and I enjoy and in which we have acquired some useful experience. In a general sense, grey hair doesn't hurt on this playing field: You don't need good hand-eye coordination or well-toned muscles to push money around (thank heavens). As long as our minds continue to function effectively, Charlie and I can keep on doing our jobs pretty much as we have in the past.

On my death, Berkshire's ownership picture will change but not in a disruptive way: First, only about 1% of my stock will have to be sold to take care of bequests and taxes; second, the balance of my stock will go to my wife, Susan, if she survives me, or to a family foundation if she doesn't. In either event, Berkshire will possess a controlling shareholder guided by the same philosophy and objectives that now set our course.

At that juncture, the Buffett family will not be involved in managing the business, only in picking and overseeing the managers who do. Just who those managers will be, of course, depends on the date of my death. But I can anticipate what the management structure will be: Essentially my job will be split into two parts, with one executive becoming responsible for investments and another for operations. If the acquisition of new businesses is in prospect, the two will cooperate in making the decisions needed. Both executives will report to a board of directors who will be responsive to the controlling shareholder, whose interests will in turn be aligned with yours.

Were we to need the management structure I have just described on an immediate basis, my family and a few key individuals know who I would pick to fill both posts. Both currently work for Berkshire and are people in whom I have total confidence.

I will continue to keep my family posted on the succession issue. Since Berkshire stock will make up virtually my entire estate and will account for a similar portion of the assets of either my wife or the foundation for a considerable period after my death, you can be sure that I have thought through the succession question carefully. You can be equally sure that the principles we have employed to date in running Berkshire will continue to guide the managers who succeed me.

Lest we end on a morbid note, I also want to assure you that I have never felt better. I love running Berkshire, and if enjoying life promotes longevity, Methuselah's record is in jeopardy.

Warren E. Buffett
Chairman

BERKSHIRE HATHAWAY INC.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past twenty-one years. On October 14, 1981, the Chairman sent to the shareholders a letter* explaining the program. Portions of that letter follow:

"On September 30, 1981 Berkshire received a tax ruling from the U.S. Treasury Department that, in most years, should produce a significant benefit for charities of your choice.

"Each Berkshire shareholder — on a basis proportional to the number of shares of Berkshire that he owns — will be able to designate recipients of charitable contributions by our company. You'll name the charity; Berkshire will write the check. The ruling states that there will be no personal tax consequences to our shareholders from making such designations.

"Thus, our approximately 1500 owners now can exercise a perquisite that, although routinely exercised by the owners in closely-held businesses, is almost exclusively exercised by the managers in more widely-held businesses.

"In a widely-held corporation the executives ordinarily arrange all charitable donations, with no input at all from shareholders, in two main categories:

(1) Donations considered to benefit the corporation directly in an amount roughly commensurate with the cost of the donation; and

(2) Donations considered to benefit the corporation indirectly through hard-to-measure, long-delayed feedback effects of various kinds.

"I and other Berkshire executives have arranged in the past, as we will arrange in the future, all charitable donations in the first category. However, the aggregate level of giving in such category has been quite low, and very likely will remain quite low, because not many gifts can be shown to produce roughly commensurate direct benefits to Berkshire.

"In the second category, Berkshire's charitable gifts have been virtually nil, because I am not comfortable with ordinary corporate practice and had no better practice to substitute. What bothers me about ordinary corporate practice is the way gifts tend to be made based more on who does the asking and how corporate peers are responding than on an objective evaluation of the donee's activities. Conventionality often overpowers rationality.

"A common result is the use of the stockholder's money to implement the charitable inclinations of the corporate manager, who usually is heavily influenced by specific social pressures on him. Frequently there is an added incongruity; many corporate managers deplore governmental allocation of the taxpayer's dollar but embrace enthusiastically their own allocation of the shareholder's dollar.

"For Berkshire, a different model seems appropriate. Just as I wouldn't want you to implement your personal judgments by writing checks on my bank account for charities of your choice, I feel it inappropriate to write checks on your corporate "bank account" for charities of my choice. Your charitable preferences are as good as mine and, for both you and me, funds available to foster charitable interests in a tax-deductible manner reside largely at the corporate level rather than in our own hands.

"Under such circumstances, I believe Berkshire should imitate more closely-held companies, not larger public companies. If you and I each own 50% of a corporation, our charitable decision making would be simple. Charities very directly related to the operations of the business would have first claim on our available charitable funds. Any balance available after the "operations-related" contributions would be divided among various charitable interests of the two of us, on a basis roughly proportional to our ownership interest. If the manager of our company had some suggestions, we would listen carefully — but the final decision would be ours. Despite our corporate form, in this aspect of the business we probably would behave as if we were a partnership.

"Wherever feasible, I believe in maintaining such a partnership frame of mind, even though we operate through a large, fairly widely-held corporation. Our Treasury ruling will allow such partnership-like behavior in this area . . .

"I am pleased that Berkshire donations can become owner-directed. It is ironic, but understandable, that a large and growing number of major corporations have charitable policies pursuant to which they will match gifts made by their employees (and — brace yourself for this one — many even match gifts made by directors) but none, to my knowledge, has a plan matching charitable gifts by owners. I say "understandable" because much of the stock of many large corporations is owned on a "revolving door" basis by institutions that have short-term investment horizons, and that lack a long-term owner's perspective . . .

"Our own shareholders are a different breed. As I mentioned in the 1979 annual report, at the end of each year more than 98% of our shares are owned by people who were shareholders at the beginning of the year. This long-term commitment to the business reflects an owner mentality which, as your manager, I intend to acknowledge in all feasible ways. The designated contributions policy is an example of that intent."

* * *

The history of contributions made pursuant to this program since its inception follows:

Year	*Specified Amount Per share*	*Percent of Eligible* Shares Participating*	*Amount Contributed*	*No. of Charities*
1981	$2	95.6%	$ 1,783,655	675
1982	$1	95.8%	$ 890,948	704
1983	$3	96.4%	$ 3,066,501	1,353
1984	$3	97.2%	$ 3,179,049	1,519
1985	$4	96.8%	$ 4,006,260	1,724
1986	$4	97.1%	$ 3,996,820	1,934
1987	$5	97.2%	$ 4,937,574	2,050
1988	$5	97.4%	$ 4,965,665	2,319
1989	$6	96.9%	$ 5,867,254	2,550
1990	$6	97.3%	$ 5,823,672	2,600
1991	$7	97.7%	$ 6,772,024	2,630
1992	$8	97.0%	$ 7,634,784	2,810
1993	$10	97.3%	$ 9,448,370	3,110
1994	$11	95.7%	$10,419,497	3,330
1995	$12	96.3%	$11,558,616	3,600
1996	$14	97.2%	$13,309,044	3,910
1997	$16	97.7%	$15,424,480	3,830
1998	$18	97.5%	$16,931,538	3,880
1999	$18	97.3%	$17,174,158	3,850
2000	$18	97.0%	$16,894,872	3,660
2001	$18	97.8%	$16,672,992	3,550

** Shares registered in street name are not eligible to participate.*

In addition to the shareholder-designated contributions summarized above, Berkshire and its subsidiaries have made certain contributions pursuant to local level decisions of operating managers of the businesses.

* * *

The program may not be conducted in the occasional year, if any, when the contributions would produce substandard or no tax deductions. In other years Berkshire expects to inform shareholders of the amount per share that may be designated, and a reply form will accompany the notice allowing shareholders to respond with their designations. If the program is conducted in 2002, the notice will be mailed on or about September 15 *to Class A shareholders of record reflected in our Registrar's records as of the close of business August 31, 2002,* and shareholders will be given until *November 15* to respond.

Shareholders should note the fact that Class A shares held in street name are not eligible to participate in the program. To qualify, shares must be registered with our Registrar on August 31 in the owner's individual name(s) or the name of an owning trust, corporation, partnership or estate, as applicable. Also, shareholders should note that Class B shares are not eligible to participate in the program.

BERKSHIRE HATHAWAY INC.

COMMON STOCK

General

Berkshire has two classes of common stock designated Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is convertible, at the option of the holder, into 30 shares of Class B Common Stock. Shares of Class B Common Stock are not convertible into shares of Class A Common Stock.

Stock Transfer Agent

Wells Fargo Bank Minnesota, N.A., P. O. Box 64854, St. Paul, MN 55164-0854 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence may be directed to Wells Fargo at the address indicated or at www.wellsfargo.com/shareownerservices. Telephone inquiries should be directed to the Shareowner Relations Department at 1-877-602-7411 between 7:00 A.M. and 7:00 P.M. Central Time. Certificates for re-issue or transfer should be directed to the Transfer Department at the address indicated.

Shareholders of record wishing to convert Class A Common Stock into Class B Common Stock may contact Wells Fargo in writing. Along with the underlying stock certificate, shareholders should provide Wells Fargo with specific written instructions regarding the number of shares to be converted and the manner in which the Class B shares are to be registered. We recommend that you use certified or registered mail when delivering the stock certificates and written instructions.

If Class A shares are held in "street name," shareholders wishing to convert all or a portion of their holding should contact their broker or bank nominee. It will be necessary for the nominee to make the request for conversion.

Shareholders

Berkshire had approximately 8,500 record holders of its Class A Common Stock and 14,000 record holders of its Class B Common Stock at March 6, 2002. Record owners included nominees holding at least 400,000 shares of Class A Common Stock and 5,500,000 shares of Class B Common Stock on behalf of beneficial-but-not-of-record owners.

Price Range of Common Stock

Berkshire's Class A and Class B Common Stock are listed for trading on the New York Stock Exchange, trading symbol: BRK.A and BRK.B. The following table sets forth the high and low sales prices per share, as reported on the New York Stock Exchange Composite List during the periods indicated:

	2001				2000			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$74,600	$63,000	$2,475	$2,085	$58,000	$40,800	$1,888	$1,351
Second Quarter	69,800	62,800	2,330	2,075	60,800	51,800	1,975	1,660
Third Quarter	70,900	59,000	2,367	1,977	64,400	51,600	2,086	1,706
Fourth Quarter	75,600	66,600	2,525	2,210	71,300	53,500	2,375	1,761

Dividends

Berkshire has not declared a cash dividend since 1967.

BERKSHIRE HATHAWAY INC. SUBSIDIARY LISTING

Acme Building Brands
2821 West 7th Street
Fort Worth, TX 76107-2219
(817) 390-2409
www.brick.com

Ben Bridge Corporation
2901 Third Avenue
Seattle, WA 98121
(206) 448-8800
www.benbridge.com

Benjamin Moore
51 Chestnut Ridge Rd.
Montvale, NJ 07645
(800) 344-0400
www.benjaminmoore.com

Berkshire Hathaway Credit Corp.
1440 Kiewit Plaza
Omaha, NE 68131
(402) 346-1400

Berkshire Hathaway Homestate Companies
9290 West Dodge Road
Omaha, NE 68114
(402) 393-7255
www.bh-hc.com

Berkshire Hathaway Reinsurance Division
100 First Stamford Place
Stamford, CT 06902-6745
(203) 363-5200
www.brkdirect.com

Borsheim's Jewelry
120 Regency Parkway
Omaha, NE 68114
(402) 391-0400
www.borsheims.com

H. H. Brown Shoe Co., Inc.
124 West Putnam Avenue
Greenwich, CT 06830
(203) 661-2424
www.hhbrown.com; www.dextershoe.com

The Buffalo News
One News Plaza
Buffalo, NY 14240
(716) 849-3434
www.buffnews.com

Central States Indemnity Co.
1212 No. 96 Street
Omaha, NE 68114-2274
(402) 397-1111
www.csi-omaha.com

CORT Business Services Corporation
11250 Waples Mill Road
Fairfax, VA 22030
(703) 968-8500
www.cort1.com

Dairy Queen
7505 Metro Boulevard
Edina, MN 55439
(952) 830-0200
www.dairyqueen.com

Executive Jet
581 Main Street
Woodbridge, NJ 07095
(732) 326-3700
www.netjets.com

Fechheimer Brothers Co.
4545 Malsbary Road
Cincinnati, OH 45242
(513) 793-5400
www.fechheimer.com

FlightSafety International Inc.
La Guardia Airport
Flushing, NY 11371-1061
(718) 565-4100
www.flightsafety.com

GEICO
One GEICO Plaza
Washington, DC 20076-0001
(301) 986-3000
www.geico.com

General Re Corporation
695 East Main Street
Stamford, CT 06904-2351
(203) 328-5000
www.gcr.com

Helzberg's Diamond Shops
1825 Swift
North Kansas City, MO 64116-3671
(816) 842-7780
www.helzberg.com

Johns Manville Corporation
717 17th Street
Denver, CO 80202
(303) 978-2000
www.jm.com

Jordan's Furniture
100 Stockwell Drive
Avon, MA 02322
(508) 580-4600
www.jordansfurniture.com

Justin Brands Inc.
610 West Daggett
Fort Worth, TX 76104
(800) 358-7846
www.justinbrands.com

Kansas Bankers Surety Company
1220 S.W. Executive Drive
Topeka, KS 66615
(785) 228-0000

Larson-Juhl
3900 Steve Reynolds Blvd.
Norcross, GA 30093
(770) 279-5200
www.larsonjuhl.com

MidAmerican Energy Holdings Co.
666 Grand Ave.
Des Moines, IA 50390
(515) 242-4300
www.midamerican.com

MiTek Inc.
14515 North Outer Forty Dr.
Chesterfield, MO 63017-5746
(314) 434-1200
www.mitekinc.com

National Indemnity Co.
3024 Harney Street
Omaha, NE 68131
(402) 536-3000
www.nationalindemnity.com

Nebraska Furniture Mart
700 South 72nd Street
Omaha, NE 68114
(402) 397-6100
www.nfm.com

Precision Steel Warehouse
3500 North Wolf Road
Franklin Park, IL 60131
(847) 455-7000
www.precisionsteel.com

Scott Fetzer Companies
28800 Clemens Rd.
Westlake, OH 44145-1197
(440) 892-3000
www.carefreecolorado.com; www.chpower.com
www.kirby.com; www.quikut.com
www.waynepumps.com; www.worldbook.com

See's Candies, Inc.
210 El Camino Real
South San Francisco, CA 94080
(650) 761-2490
www.sees.com

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616 E. Walnut Ave.
Dalton, GA 30720
(706) 278-3812
www.shawinc.com

Star Furniture
16666 Barker Springs Road
Houston, TX 77218
(281) 492-6661
www.starfurniture.com

United States Liability Insurance Group
190 South Warner Road
Wayne, PA 19087
(610) 688-2535
www.usli.com

Wesco Financial Corp.
301 East Colorado Blvd.
Pasadena, CA 91101-1901
(626) 585-6700

R. C. Willey Home Furnishings
2301 South 300 West
Salt Lake City, UT 84115
(801) 461-3900
www.shoprcwilley.com

XTRA Corporation
200 Nyala Farms Road
Westport, CT 06880
(203) 221-1005
www.xtracorp.com

BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT, *Chairman*
Chief Executive Officer of Berkshire

CHARLES T. MUNGER, *Vice Chairman of Berkshire*

SUSAN T. BUFFETT

HOWARD G. BUFFETT,
President of Buffett Farms and BioImages, a photography and publishing company.

MALCOLM G. CHACE,
Chairman of the Board of Directors of BankRI, a community bank located in the State of Rhode Island.

RONALD L. OLSON,
Partner of the law firm of Munger Tolles & Olson, LLP.

WALTER SCOTT, JR.,
Chairman of Level 3 Communications, a successor to certain businesses of Peter Kiewit Sons' Inc. which is engaged in telecommunications and computer outsourcing.

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*

CHARLES T. MUNGER, *Vice Chairman*

MARC D. HAMBURG, *Vice President, Treasurer*

DANIEL J. JAKSICH, *Controller*

FORREST N. KRUTTER, *Secretary*

REBECCA K. AMICK,
Director of Internal Auditing

JERRY W. HUFTON,
Director of Taxes

MARK D. MILLARD,
Director of Financial Assets

Letters from Annual Reports (1977 through 2001), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at berkshirehathaway.com. Berkshire's 2002 quarterly reports are scheduled to be posted on the Internet on May 11, August 10 and November 9. Berkshire's 2002 Annual Report is scheduled to be posted on the Internet on Saturday March 8, 2003.

A three volume set of compilations of letters (1977 through 2000) is available upon written request accompanied by a payment of $35.00 to cover production, postage and handling costs. Requests should be submitted to the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131.