BERKSHIRE HATHAWAY INC.

2000 ANNUAL REPORT

TABLE OF CONTENTS

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 $1 billion at the end of 2000 include approximately 11% of the outstanding 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 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.

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 nearly 6,000 stores that offer prepared dairy treats, food, and other snack items; *Acme Building Brands*, a manufacturer of face brick and concrete masonry products and ceramic and marble wall tile; and *CORT*, a provider of rental furniture, accessories and related services.

In late 2000 and early 2001, Berkshire's non-insurance business activities expanded significantly through the acquisitions of *Benjamin Moore*, a leading formulator and manufacturer of architectural and industrial coatings, *Shaw Industries*, the world's largest manufacturer of tufted broadloom carpet, and *Johns Manville*, a leading manufacturer of insulation and building products.

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.

****

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
Average Annual Gain – 1965-2000	23.6%	11.8%	11.8%
Overall Gain – 1964-2000	207,821%	5,383%	202,438%

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.:

Our gain in net worth during 2000 was \$3.96 billion, which increased the per-share book value of both our Class A and Class B stock by 6.5%. Over the last 36 years (that is, since present management took over) per-share book value has grown from \$19 to \$40,442, a gain of 23.6% compounded annually.*

Overall, we had a decent year, our book-value gain having outpaced the performance of the S&P 500. And, though this judgment is necessarily subjective, we believe Berkshire's gain in per-share intrinsic value moderately exceeded its gain in book value. (Intrinsic value, as well as other key investment and accounting terms and concepts, are explained in our Owner's Manual on pages 59-66. Intrinsic value is discussed on page 64.)

Furthermore, we completed two significant acquisitions that we negotiated in 1999 and initiated six more. All told, these purchases have cost us about \$8 billion, with 97% of that amount paid in cash and 3% in stock. The eight businesses we've acquired have aggregate sales of about \$13 billion and employ 58,000 people. Still, we incurred no debt in making these purchases, and our shares outstanding have increased only $^1/_3$ of 1%. Better yet, we remain awash in liquid assets and are both eager and ready for even larger acquisitions.

I will detail our purchases in the next section of the report. But I will tell you now that we have embraced the 21st century by entering such cutting-edge industries as brick, carpet, insulation and paint. Try to control your excitement.

On the minus side, policyholder growth at GEICO slowed to a halt as the year progressed. It has become much more expensive to obtain new business. I told you last year that we would get our money's worth from stepped-up advertising at GEICO in 2000, but I was wrong. We'll examine the reasons later in the report.

Another negative — which has persisted for several years — is that we see our equity portfolio as only mildly attractive. We own stocks of some excellent businesses, but most of our holdings are fully priced and are unlikely to deliver more than moderate returns in the future. We're not alone in facing this problem: The long-term prospect for equities in general is far from exciting.

Finally, there is the negative that recurs annually: Charlie Munger, Berkshire's Vice Chairman and my partner, and I are a year older than when we last reported to you. Mitigating this adverse development is the indisputable fact that the age of your top managers is increasing at a considerably lower rate — *percentage-wise* — than is the case at almost all other major corporations. Better yet, this differential will widen in the future.

Charlie and I continue to aim at increasing Berkshire's per-share value at a rate that, over time, will modestly exceed the gain from owning the S&P 500. As the table on the facing page shows, a small annual advantage in our favor can, if sustained, produce an anything-but-small long-term advantage. To reach our goal we will need to add a few good businesses to Berkshire's stable each year, have the businesses we own generally gain in value, and avoid any material increase in our outstanding shares. We are confident about meeting the last two objectives; the first will require some luck.

It's appropriate here to thank two groups that made my job both easy and fun last year — just as they do every year. First, our operating managers continue to run their businesses in splendid fashion, which allows me to spend my time allocating capital rather than supervising them. (I wouldn't be good at that anyway.)

---

*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 economic interest equal to 1/30th that of the A.

Our managers are a very special breed. At most large companies, the truly talented divisional managers seldom have the job they really want. Instead they yearn to become CEOs, either at their present employer or elsewhere. Indeed, if they stay put, they and their colleagues are likely to feel they have failed.

At Berkshire, our all-stars have *exactly* the jobs they want, ones that they hope and expect to keep throughout their business lifetimes. They therefore concentrate solely on maximizing the long-term value of the businesses that they "own" and love. If the businesses succeed, they have succeeded. And they stick with us: In our last 36 years, Berkshire has never had a manager of a significant subsidiary voluntarily leave to join another business.

The other group to which I owe enormous thanks is the home-office staff. After the eight acquisitions more than doubled our worldwide workforce to about 112,000, Charlie and I went soft last year and added one more person at headquarters. (Charlie, bless him, never lets me forget Ben Franklin's advice: "A small leak can sink a great ship.") Now we have 13.8 people.

This tiny band works miracles. In 2000 it handled all of the details connected with our eight acquisitions, processed extensive regulatory and tax filings (our tax return covers 4,896 pages), smoothly produced an annual meeting to which 25,000 tickets were issued, and accurately dispensed checks to 3,660 charities designated by our shareholders. In addition, the group dealt with all the routine tasks served up by a company with a revenue run-rate of $40 billion and more than 300,000 owners. And, to add to all of this, the other 12.8 are a delight to be around.

I should pay to have my job.

Acquisitions of 2000

Our acquisition technique at Berkshire is simplicity itself: We answer the phone. I'm also glad to report that it rings a bit more often now, because owners and/or managers increasingly wish to join their companies with Berkshire. Our acquisition criteria are set forth on page 23, and the number to call is 402-346-1400.

Let me tell you a bit about the businesses we have purchased during the past 14 months, starting with the two transactions that were initiated in 1999, but closed in 2000. (This list excludes some smaller purchases that were made by the managers of our subsidiaries and that, in most cases, will be integrated into their operations.)

- I described the first purchase — 76% of **MidAmerican Energy** — in last year's report. Because of regulatory constraints on our voting privileges, we perform only a "one-line" consolidation of MidAmerican's earnings and equity in our financial statements. If we instead fully consolidated the company's figures, our revenues in 2000 would have been $5 billion greater than we reported, though net income would remain the same.

- On November 23, 1999, I received a one-page fax from Bruce Cort that appended a *Washington Post* article describing an aborted buyout of **CORT Business Services**. Despite his name, Bruce has no connection with CORT. Rather, he is an airplane broker who had sold Berkshire a jet in 1986 and who, before the fax, had not been in touch with me for about ten years.

  I knew nothing about CORT, but I immediately printed out its SEC filings and liked what I saw. That same day I told Bruce I had a possible interest and asked him to arrange a meeting with Paul Arnold, CORT's CEO. Paul and I got together on November 29, and I knew at once that we had the right ingredients for a purchase: a fine though unglamorous business, an outstanding manager, and a price (going by that on the failed deal) that made sense.

  Operating out of 117 showrooms, CORT is the national leader in "rent-to-rent" furniture, primarily used in offices but also by temporary occupants of apartments. This business, it should be noted, has no similarity to "rent-to-own" operations, which usually involve the sale of home furnishings and electronics to people having limited income and poor credit.

We quickly purchased CORT for Wesco, our 80%-owned subsidiary, paying about $386 million in cash. You will find more details about CORT's operations in Wesco's 1999 and 2000 annual reports. Both Charlie and I enjoy working with Paul, and CORT looks like a good bet to beat our original expectations.

- Early last year, Ron Ferguson of General Re put me in contact with Bob Berry, whose family had owned **U.S. Liability** for 49 years. This insurer, along with two sister companies, is a medium-sized, highly-respected writer of unusual risks — "excess and surplus lines" in insurance jargon. After Bob and I got in touch, we agreed by phone on a half-stock, half-cash deal.

  In recent years, Tom Nerney has managed the operation for the Berry family and has achieved a rare combination of excellent growth and unusual profitability. Tom is a powerhouse in other ways as well. In addition to having four adopted children (two from Russia), he has an extended family: the Philadelphia Belles, a young-teen girls basketball team that Tom coaches. The team had a 62-4 record last year and finished second in the AAU national tournament.

  Few property-casualty companies are outstanding businesses. We have far more than our share, and U.S. Liability adds luster to the collection.

- **Ben Bridge Jeweler** was another purchase we made by phone, prior to any face-to-face meeting between me and the management. Ed Bridge, who with his cousin, Jon, manages this 65-store West Coast retailer, is a friend of Barnett Helzberg, from whom we bought Helzberg Diamonds in 1995. Upon learning that the Bridge family proposed to sell its company, Barnett gave Berkshire a strong recommendation. Ed then called and explained his business to me, also sending some figures, and we made a deal, again half for cash and half for stock.

  Ed and Jon are fourth generation owner-managers of a business started 89 years ago in Seattle. Both the business and the family— including Herb and Bob, the fathers of Jon and Ed — enjoy extraordinary reputations. Same-store sales have increased by 9%, 11%, 13%, 10%, 12%, 21% and 7% over the past seven years, a truly remarkable record.

  It was vital to the family that the company operate in the future as in the past. No one wanted another jewelry chain to come in and decimate the organization with ideas about synergy and cost saving (which, though they would never work, were certain to be tried). I told Ed and Jon that they would be in charge, and they knew I could be believed: After all, it's obvious that your Chairman would be a disaster at actually running a store or selling jewelry (though there are members of his family who have earned black belts as purchasers).

  In their typically classy way, the Bridges allocated a substantial portion of the proceeds from their sale to the hundreds of co-workers who had helped the company achieve its success. We're proud to be associated with both the family and the company.

- In July we acquired **Justin Industries**, the leading maker of Western boots — including the Justin, Tony Lama, Nocona, and Chippewa brands — and the premier producer of brick in Texas and five neighboring states.

  Here again, our acquisition involved serendipity. On May 4th, I received a fax from Mark Jones, a stranger to me, proposing that Berkshire join a group to acquire an unnamed company. I faxed him back, explaining that with rare exceptions we don't invest with others, but would happily pay him a commission if he sent details and we later made a purchase. He replied that the "mystery company" was Justin. I then went to Fort Worth to meet John Roach, chairman of the company and John Justin, who had built the business and was its major shareholder. Soon after, we bought Justin for $570 million in cash.

  John Justin loved Justin Industries but had been forced to retire because of severe health problems (which sadly led to his death in late February). John was a class act — as a citizen, businessman and human being. Fortunately, he had groomed two outstanding managers, Harrold Melton at Acme and Randy Watson at Justin Boot, each of whom runs his company autonomously.

Acme, the larger of the two operations, produces more than one billion bricks per year at its 22 plants, about 11.7% of the industry's national output. The brick business, however, is necessarily regional, and in its territory Acme enjoys unquestioned leadership. When Texans are asked to name a brand of brick, 75% respond Acme, compared to 16% for the runner-up. (Before our purchase, I couldn't have named a brand of brick. Could you have?) This brand recognition is not only due to Acme's product quality, but also reflects many decades of extraordinary community service by both the company and John Justin.

I can't resist pointing out that Berkshire — whose top management has long been mired in the 19th century — is now one of the very few authentic "clicks-and-bricks" businesses around. We went into 2000 with GEICO doing significant business on the Internet, and then we added Acme. You can bet this move by Berkshire is making them *sweat* in Silicon Valley.

- In June, Bob Shaw, CEO of **Shaw Industries**, the world's largest carpet manufacturer, came to see me with his partner, Julian Saul, and the CEO of a second company with which Shaw was mulling a merger. The potential partner, however, faced huge asbestos liabilities from past activities, and any deal depended on these being eliminated through insurance.

  The executives visiting me wanted Berkshire to provide a policy that would pay *all* future asbestos costs. I explained that though we could write an exceptionally large policy — far larger than any other insurer would ever think of offering — we would never issue a policy that lacked a cap.

  Bob and Julian decided that if we didn't want to bet the ranch on the extent of the acquiree's liability, neither did they. So their deal died. But my interest in Shaw was sparked, and a few months later Charlie and I met with Bob to work out a purchase by Berkshire. A key feature of the deal was that both Bob and Julian were to continue owning at least 5% of Shaw. This leaves us associated with the best in the business as shown by Bob and Julian's record: Each built a large, successful carpet business before joining forces in 1998.

  Shaw has annual sales of about $4 billion, and we own 87.3% of the company. Leaving aside our insurance operation, Shaw is by far our largest business. Now, if people walk all over us, we won't mind.

- In July, Bob Mundheim, a director of **Benjamin Moore Paint**, called to ask if Berkshire might be interested in acquiring it. I knew Bob from Salomon, where he was general counsel during some difficult times, and held him in very high regard. So my answer was "Tell me more."

  In late August, Charlie and I met with Richard Roob and Yvan Dupuy, past and present CEOs of Benjamin Moore. We liked them; we liked the business; and we made a $1 billion cash offer on the spot. In October, their board approved the transaction, and we completed it in December. Benjamin Moore has been making paint for 117 years and has thousands of independent dealers that are a vital asset to its business. Make sure you specify our product for your next paint job.

- Finally, in late December, we agreed to buy **Johns Manville Corp.** for about $1.8 billion. This company's incredible odyssey over the last few decades — too multifaceted to be chronicled here — was shaped by its long history as a manufacturer of asbestos products. The much-publicized health problems that affected many people exposed to asbestos led to JM's declaring bankruptcy in 1982.

  Subsequently, the bankruptcy court established a trust for victims, the major asset of which was a controlling interest in JM. The trust, which sensibly wanted to diversify its assets, agreed last June to sell the business to an LBO buyer. In the end, though, the LBO group was unable to obtain financing.

Consequently, the deal was called off on Friday, December 8th. The following Monday, Charlie and I called Bob Felise, chairman of the trust, and made an all-cash offer with no financing contingencies. The next day the trustees voted tentatively to accept our offer, and a week later we signed a contract.

JM is the nation's leading producer of commercial and industrial insulation and also has major positions in roofing systems and a variety of engineered products. The company's sales exceed $2 billion and the business has earned good, if cyclical, returns. Jerry Henry, JM's CEO, had announced his retirement plans a year ago, but I'm happy to report that Charlie and I have convinced him to stick around.

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

Two economic factors probably contributed to the rush of acquisition activity we experienced last year. First, many managers and owners foresaw near-term slowdowns in their businesses — and, in fact, we purchased several companies whose earnings will almost certainly decline this year from peaks they reached in 1999 or 2000. The declines make no difference to us, given that we expect all of our businesses to now and then have ups and downs. (Only in the sales presentations of investment banks do earnings move forever upward.) We don't care about the bumps; what matters are the overall results. But the decisions of other people are sometimes affected by the near-term outlook, which can both spur sellers and temper the enthusiasm of purchasers who might otherwise compete with us.

A second factor that helped us in 2000 was that the market for junk bonds dried up as the year progressed. In the two preceding years, junk bond purchasers had relaxed their standards, buying the obligations of ever-weaker issuers at inappropriate prices. The effects of this laxity were felt last year in a ballooning of defaults. In this environment, "financial" buyers of businesses — those who wish to buy using only a sliver of equity — became unable to borrow all they thought they needed. What they could still borrow, moreover, came at a high price. Consequently, LBO operators became less aggressive in their bidding when businesses came up for sale last year. Because we analyze purchases on an all-equity basis, our evaluations did not change, which means we became considerably more competitive.

Aside from the economic factors that benefited us, we now enjoy a major and growing advantage in making acquisitions in that we are often the buyer of choice for the seller. That fact, of course, doesn't assure a deal — sellers have to like our price, and we have to like their business and management — but it does help.

We find it meaningful when an owner *cares* about whom he sells to. We like to do business with someone who loves his company, not just the money that a sale will bring him (though we certainly understand why he likes that as well). When this emotional attachment exists, it signals that important qualities will likely be found within the business: honest accounting, pride of product, respect for customers, and a loyal group of associates having a strong sense of direction. The reverse is apt to be true, also. When an owner auctions off his business, exhibiting a total lack of interest in what follows, you will frequently find that it has been dressed up for sale, particularly when the seller is a "financial owner." And if owners behave with little regard for their business and its people, their conduct will often contaminate attitudes and practices throughout the company.

When a business masterpiece has been created by a lifetime — or several lifetimes — of unstinting care and exceptional talent, it should be important to the owner what corporation is entrusted to carry on its history. Charlie and I believe Berkshire provides an almost unique home. We take our obligations to the people who created a business very seriously, and Berkshire's ownership structure ensures that we can fulfill our promises. When we tell John Justin that his business will remain headquartered in Fort Worth, or assure the Bridge family that its operation will not be merged with another jeweler, these sellers can take those promises to the bank.

How much better it is for the "painter" of a business Rembrandt to personally select its permanent home than to have a trust officer or uninterested heirs auction it off. Throughout the years we have had great experiences with those who recognize that truth and apply it to their business creations. We'll leave the auctions to others.

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.

A caution is appropriate here: Because loss costs must be estimated, insurers have enormous latitude in figuring their underwriting results, and that makes it very difficult for investors to calculate a company's true cost of float. Errors of estimation, usually innocent but sometimes not, can be huge. The consequences of these miscalculations flow directly into earnings. An experienced observer can usually detect large-scale errors in reserving, but the general public can typically do no more than accept what's presented, and at times I have been amazed by the numbers that big-name auditors have implicitly blessed. Both the income statements and balance sheets of insurers can be minefields.

At Berkshire, we strive to be both consistent and conservative in our reserving. But we will make mistakes. And we warn you that there is nothing symmetrical about surprises in the insurance business: They almost always are unpleasant.

The table that follows shows (at intervals) the float generated by the various segments of Berkshire’s insurance operations since we entered the business 34 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. (Don’t panic, there won’t be a quiz.)

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

We’re pleased by the growth in our float during 2000 but not happy with its cost. Over the years, our cost of float has been very close to zero, with the underwriting profits realized in most years offsetting the occasional terrible year such as 1984, when our cost was a staggering 19%. In 2000, however, we had an underwriting loss of $1.6 billion, which gave us a float cost of 6%. Absent a mega-catastrophe, we expect our float cost to fall in 2001 — perhaps substantially — in large part because of corrections in pricing at General Re that should increasingly be felt as the year progresses. On a smaller scale, GEICO may experience the same improving trend.

There are two factors affecting our cost of float that are very rare at other insurers but that now loom large at Berkshire. First, a few insurers that are currently experiencing large losses have offloaded a significant portion of these on us in a manner that penalizes our current earnings but gives us float we can use for many years to come. After the loss that we incur in the first year of the policy, there are *no* further costs attached to this business.

When these policies are properly priced, we welcome the pain-today, gain-tomorrow effects they have. In 1999, $400 million of our underwriting loss (about 27.8% of the total) came from business of this kind and in 2000 the figure was $482 million (34.4% of our loss). We have no way of predicting how much similar business we will write in the future, but what we do get will typically be in large chunks. Because these transactions can materially distort our figures, we will tell you about them as they occur.

Other reinsurers have little taste for this insurance. They simply can't stomach what huge underwriting losses do to their reported results, even though these losses are produced by policies whose overall economics are certain to be favorable. You should be careful, therefore, in comparing our underwriting results with those of other insurers.

An even more significant item in our numbers — which, again, you won't find much of elsewhere — arises from transactions in which we assume *past* losses of a company that wants to put its troubles behind it. To illustrate, the XYZ insurance company might have last year bought a policy obligating us to pay the first $1 billion of losses and loss adjustment expenses from events that happened in, say, 1995 and earlier years. These contracts can be very large, though we always require a cap on our exposure. We entered into a number of such transactions in 2000 and expect to close several more in 2001.

Under GAAP accounting, this "retroactive" insurance neither benefits nor penalizes our current earnings. Instead, we set up an asset called "deferred charges applicable to assumed reinsurance," in an amount reflecting the difference between the premium we receive and the (higher) losses we expect to pay (for which reserves are immediately established). We then amortize this asset by making annual charges to earnings that create equivalent underwriting losses. You will find the amount of the loss that we incur from these transactions in both our quarterly and annual management discussion. By their nature, these losses will continue for many years, often stretching into decades. As an offset, though, we have the use of float — lots of it.

Clearly, float carrying an annual cost of this kind is not as desirable as float we generate from policies that are expected to produce an underwriting profit (of which we have plenty). Nevertheless, this retroactive insurance should be decent business for us.

The net of all this is that a) I expect our cost of float to be very attractive in the future but b) rarely to return to a "no-cost" mode because of the annual charge that retroactive reinsurance will lay on us. Also — obviously — the ultimate benefits that we derive from float will depend not only on its cost but, fully as important, how effectively we deploy it.

Our retroactive business is almost single-handedly the work of Ajit Jain, whose praises I sing annually. It is impossible to overstate how valuable Ajit is to Berkshire. Don't worry about my health; worry about his.

Last year, Ajit brought home a $2.4 billion reinsurance premium, perhaps the largest in history, from a policy that retroactively covers a major U.K. company. Subsequently, he wrote a large policy protecting the Texas Rangers from the possibility that Alex Rodriguez will become permanently disabled. As sports fans know, "A-Rod" was signed for $252 million, a record, and we think that our policy probably also set a record for disability insurance. We cover many other sports figures as well.

In another example of his versatility, Ajit last fall negotiated a very interesting deal with Grab.com, an Internet company whose goal was to attract millions of people to its site and there to extract information from them that would be useful to marketers. To lure these people, Grab.com held out the possibility of a $1 billion prize (having a $170 million present value) and we insured its payment. A message on the site explained that the chance of anyone winning the prize was low, and indeed no one won. But the possibility of a win was far from nil.

Writing such a policy, we receive a modest premium, face the possibility of a huge loss, and get good odds. Very few insurers like that equation. And they're unable to cure their unhappiness by reinsurance. Because each policy has unusual — and sometimes unique — characteristics, insurers can't lay off the occasional shock loss through their standard reinsurance arrangements. Therefore, any insurance CEO doing a piece of business like this must run the small, but real, risk of a horrible quarterly earnings number, one that he would not enjoy explaining to his board or shareholders. Charlie and I, however, like any proposition that makes compelling mathematical sense, regardless of its effect on reported earnings.

At General Re, the news has turned considerably better: Ron Ferguson, along with Joe Brandon, Tad Montross, and a talented supporting cast took many actions during 2000 to bring that company's profitability back to past standards. Though our pricing is not fully corrected, we have significantly repriced business that was severely unprofitable or dropped it altogether. If there's no mega-catastrophe in 2001, General Re's float cost should fall materially.

The last couple of years haven't been any fun for Ron and his crew. But they have stepped up to tough decisions, and Charlie and I applaud them for these. General Re has several important and enduring business advantages. Better yet, it has managers who will make the most of them.

In aggregate, our smaller insurance operations produced an excellent underwriting profit in 2000 while generating significant float — just as they have done for more than a decade. If these companies were a single and separate operation, people would consider it an outstanding insurer. Because the companies instead reside in an enterprise as large as Berkshire, the world may not appreciate their accomplishments — but I sure do. Last year I thanked Rod Eldred, John Kizer, Don Towle and Don Wurster, and I again do so. In addition, we now also owe thanks to Tom Nerney at U.S. Liability and Michael Stearns, the new head of Cypress.

You may notice that Brad Kinstler, who *was* CEO of Cypress and whose praises I've sung in the past, is no longer in the list above. That's because we needed a new manager at Fechheimer Bros., our Cincinnati-based uniform company, and called on Brad. We seldom move Berkshire managers from one enterprise to another, but maybe we should try it more often: Brad is hitting home runs in his new job, just as he always did at Cypress.

GEICO (1-800-847-7536 or GEICO.com)

We show below the usual table detailing GEICO's growth. Last year I enthusiastically told you that we would step up our expenditures on advertising in 2000 and that the added dollars were the best investment that GEICO could make. I was wrong: The extra money we spent did not produce a commensurate increase in inquiries. Additionally, the percentage of inquiries that we converted into sales fell for the first time in many years. These negative developments combined to produce a sharp increase in our per-policy acquisition cost.

Years	New Auto Policies(1)	Auto Policies In-Force(1)
1993	346,882	2,011,055
1994	384,217	2,147,549
1995	443,539	2,310,037
1996	592,300	2,543,699
1997	868,430	2,949,439
1998	1,249,875	3,562,644
1999	1,648,095	4,328,900
2000	1,472,853	4,696,842

(1) "Voluntary" only; excludes assigned risks and the like.

Agonizing over errors is a mistake. But acknowledging and analyzing them can be useful, though that practice is rare in corporate boardrooms. There, Charlie and I have almost never witnessed a candid post-mortem of a failed decision, *particularly one involving an acquisition*. A notable exception to this never-look-back approach is that of The Washington Post Company, which unfailingly and objectively reviews its acquisitions three years after they are made. Elsewhere, triumphs are trumpeted, but dumb decisions either get no follow-up or are rationalized.

The financial consequences of these boners are regularly dumped into massive restructuring charges or write-offs that are casually waved off as "nonrecurring." Managements just love these. Indeed, in recent years it has seemed that no earnings statement is complete without them. The origins of these charges, though, are never explored. When it comes to corporate blunders, CEOs invoke the concept of the Virgin Birth.

To get back to our examination of GEICO: There are at least four factors that could account for the increased costs we experienced in obtaining new business last year, and all probably contributed in some manner.

First, in our advertising we have pushed "frequency" very hard, and we probably overstepped in certain media. We've always known that increasing the number of messages through any medium would eventually produce diminishing returns. The third ad in an hour on a given cable channel is simply not going to be as effective as the first.

Second, we may have already picked much of the low-hanging fruit. Clearly, the willingness to do business with a direct marketer of insurance varies widely among individuals: Indeed, some percentage of Americans — particularly older ones — are reluctant to make direct purchases of any kind. Over the years, however, this reluctance will ebb. A new generation with new habits will find the savings from direct purchase of their auto insurance too compelling to ignore.

Another factor that surely decreased the conversion of inquiries into sales was stricter underwriting by GEICO. Both the frequency and severity of losses increased during the year, and rates in certain areas became inadequate, in some cases substantially so. In these instances, we necessarily tightened our underwriting standards. This tightening, as well as the many rate increases we put in during the year, made our offerings less attractive to some prospects.

A high percentage of callers, it should be emphasized, can still save money by insuring with us. Understandably, however, some prospects will switch to save $200 per year but will not switch to save $50. Therefore, rate increases that bring our prices closer to those of our competitors will hurt our acceptance rate, even when we continue to offer the best deal.

Finally, the competitive picture changed in at least one important respect: State Farm — by far the largest personal auto insurer, with about 19% of the market — has been very slow to raise prices. Its costs, however, are clearly increasing right along with those of the rest of the industry. Consequently, State Farm had an underwriting loss last year from auto insurance (including rebates to policyholders) of 18% of premiums, compared to 4% at GEICO. Our loss produced a float cost for us of 6.1%, an unsatisfactory result. (Indeed, at GEICO we expect float, over time, to be free.) But we estimate that State Farm's float cost in 2000 was about 23%. The willingness of the largest player in the industry to tolerate such a cost makes the economics difficult for other participants.

That does not take away from the fact that State Farm is one of America's greatest business stories. I've urged that the company be studied at business schools because it has achieved fabulous success while following a path that in many ways defies the dogma of those institutions. Studying counter-evidence is a highly useful activity, though not one always greeted with enthusiasm at citadels of learning.

State Farm was launched in 1922, by a 45-year-old, semi-retired Illinois farmer, to compete with long-established insurers — haughty institutions in New York, Philadelphia and Hartford — that possessed overwhelming advantages in capital, reputation, and distribution. Because State Farm is a mutual company, its board members and managers could not be owners, and it had no access to capital markets during its years of fast growth. Similarly, the business never had the stock options or lavish salaries that many people think vital if an American enterprise is to attract able managers and thrive.

In the end, however, State Farm eclipsed all its competitors. In fact, by 1999 the company had amassed a tangible net worth exceeding that of all but four American businesses. If you want to read how this happened, get a copy of *The Farmer from Merna*.

Despite State Farm's strengths, however, GEICO has much the better business model, one that embodies significantly lower operating costs. And, when a company is selling a product with commodity-like economic characteristics, being the low-cost producer is all-important. This enduring competitive advantage of GEICO — one it possessed in 1951 when, as a 20-year-old student, I first became enamored with its stock — is the reason that over time it will inevitably increase its market share significantly while simultaneously achieving excellent profits. Our growth will be slow, however, if State Farm elects to continue bearing the underwriting losses that it is now suffering.

Tony Nicely, GEICO's CEO, remains an owner's dream. Everything he does makes sense. He never engages in wishful thinking or otherwise distorts reality, as so many managers do when the unexpected happens. As 2000 unfolded, Tony cut back on advertising that was not cost-effective, and he will continue to do that in 2001 if cutbacks are called for (though we will always maintain a *massive* media presence). Tony has also aggressively filed for price increases where we need them. He looks at the loss reports every day and is never behind the curve. To steal a line from a competitor, we are in good hands with Tony.

I've told you about our profit-sharing arrangement at GEICO that targets only two variables — growth in policies and the underwriting results of seasoned business. Despite the headwinds of 2000, we still had a performance that produced an 8.8% profit-sharing payment, amounting to $40.7 million.

GEICO will be a huge part of Berkshire's future. Because of its rock-bottom operating costs, it offers a great many Americans the cheapest way to purchase a high-ticket product that they *must* buy. The company then couples this bargain with service that consistently ranks high in independent surveys. That's a combination inevitably producing growth and profitability.

In just the last few years, *far* more drivers have learned to associate the GEICO brand with saving money on their insurance. We will pound that theme relentlessly until all Americans are aware of the value that we offer.

Investments

Below we present our common stock investments. Those that had a market value of more than $1 billion at the end of 2000 are itemized.

		12/31/00	
Shares	*Company*	*Cost*	*Market*
		(dollars in millions)	
151,610,700	American Express Company	$1,470	$ 8,329
200,000,000	The Coca-Cola Company	1,299	12,188
96,000,000	The Gillette Company	600	3,468
1,727,765	The Washington Post Company	11	1,066
55,071,380	Wells Fargo & Company	319	3,067
	Others	6,703	9,501
	Total Common Stocks	$10,402	$ 37,619

In 2000, we sold nearly all of our Freddie Mac and Fannie Mae shares, established 15% positions in several mid-sized companies, bought the high-yield bonds of a few issuers (very few — the category is not labeled junk without reason) and added to our holdings of high-grade, mortgage-backed securities. There are no "bargains" among our current holdings: We're content with what we own but far from excited by it.

Many people assume that marketable securities are Berkshire's first choice when allocating capital, but that's not true: Ever since we first published our economic principles in 1983, we have consistently stated that we would rather purchase businesses than stocks. (See number 4 on page 60.) One reason for that preference is personal, in that I love working with our managers. They are high-grade, talented and loyal. And, frankly, I find their business behavior to be more rational and owner-oriented than that prevailing at many public companies.

But there's also a powerful financial reason behind the preference, and that has to do with taxes. The tax code makes Berkshire's owning 80% or more of a business far more profitable for us, proportionately, than our owning a smaller share. When a company we own all of earns $1 million after tax, the entire amount inures to our benefit. If the $1 million is upstreamed to Berkshire, we owe no tax on the dividend. And, if the earnings are retained and we were to sell the subsidiary — not likely at Berkshire! — for $1million more than we paid for it, we would owe no capital gains tax. That's because our "tax cost" upon sale would include both what we paid for the business and all earnings it subsequently retained.

Contrast that situation to what happens when we own an investment in a marketable security. There, if we own a 10% stake in a business earning $10 million after tax, our $1 million share of the earnings is subject to *additional* state and federal taxes of (1) about $140,000 if it is distributed to us (our tax rate on most dividends is 14%); or (2) no less than $350,000 if the $1 million is retained and subsequently captured by us in the form of a capital gain (on which our tax rate is usually about 35%, though it sometimes approaches 40%). We may defer paying the $350,000 by not immediately realizing our gain, but eventually we must pay the tax. In effect, the government is our "partner" twice when we own part of a business through a stock investment, but only once when we own at least 80%.

Leaving aside tax factors, the formula we use for evaluating stocks and businesses is identical. Indeed, the formula for valuing *all* assets that are purchased for financial gain has been unchanged since it was first laid out by a very smart man in about 600 B.C. (though he wasn't smart enough to know it was 600 B.C.).

The oracle was Aesop and his enduring, though somewhat incomplete, investment insight was "a bird in the hand is worth two in the bush." To flesh out this principle, you must answer only three questions. How certain are you that there are indeed birds in the bush? When will they emerge and how many will there be? What is the risk-free interest rate (which we consider to be the yield on long-term U.S. bonds)? If you can answer these three questions, you will know the maximum value of the bush — and the maximum number of the birds you now possess that should be offered for it. And, of course, don't literally think birds. Think dollars.

Aesop's investment axiom, thus expanded and converted into dollars, is immutable. It applies to outlays for farms, oil royalties, bonds, stocks, lottery tickets, and manufacturing plants. And neither the advent of the steam engine, the harnessing of electricity nor the creation of the automobile changed the formula one iota — nor will the Internet. Just insert the correct numbers, and you can rank the attractiveness of all possible uses of capital throughout the universe.

Common yardsticks such as dividend yield, the ratio of price to earnings or to book value, and even growth rates have *nothing* to do with valuation except to the extent they provide clues to the amount and timing of cash flows into and from the business. Indeed, growth can destroy value if it requires cash inputs in the early years of a project or enterprise that exceed the discounted value of the cash that those assets will generate in later years. Market commentators and investment managers who glibly refer to "growth" and "value" styles as contrasting approaches to investment are displaying their ignorance, not their sophistication. Growth is simply a component — usually a plus, sometimes a minus — in the value equation.

Alas, though Aesop's proposition and the third variable — that is, interest rates — are simple, plugging in numbers for the other two variables is a difficult task. Using precise numbers is, in fact, foolish; working with a range of possibilities is the better approach.

Usually, the range must be so wide that no useful conclusion can be reached. Occasionally, though, even very conservative estimates about the future emergence of birds reveal that the price quoted is startlingly low in relation to value. (Let's call this phenomenon the IBT — Inefficient Bush Theory.) To be sure, an investor needs some general understanding of business economics as well as the ability to think independently to reach a well-founded positive conclusion. But the investor does not need brilliance nor blinding insights.

At the other extreme, there are many times when the *most* brilliant of investors can't muster a conviction about the birds to emerge, not even when a very broad range of estimates is employed. This kind of uncertainty frequently occurs when new businesses and rapidly changing industries are under examination. In cases of this sort, *any* capital commitment must be labeled speculative.

Now, speculation — in which the focus is not on what an asset will produce but rather on what the next fellow will pay for it — is neither illegal, immoral nor un-American. But it is not a game in which Charlie and I wish to play. We bring nothing to the party, so why should we expect to take anything home?

The line separating investment and speculation, which is never bright and clear, becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities — that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future — will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands.

Last year, we commented on the exuberance — and, yes, it was irrational — that prevailed, noting that investor expectations had grown to be several multiples of probable returns. One piece of evidence came from a Paine Webber-Gallup survey of investors conducted in December 1999, in which the participants were asked their opinion about the annual returns investors could expect to realize over the decade ahead. Their answers averaged 19%. That, for sure, was an irrational expectation: For American business as a whole, there couldn't possibly be enough birds in the 2009 bush to deliver such a return.

Far more irrational still were the huge valuations that market participants were then putting on businesses almost certain to end up being of modest or no value. Yet investors, mesmerized by soaring stock prices and ignoring all else, piled into these enterprises. It was as if some virus, racing wildly among investment professionals as well as amateurs, induced hallucinations in which the values of stocks in certain sectors became decoupled from the values of the businesses that underlay them.

This surreal scene was accompanied by much loose talk about "value creation." We readily acknowledge that there has been a huge amount of true value created in the past decade by new or young businesses, and that there is much more to come. But value is destroyed, not created, by any business that loses money over its lifetime, no matter how high its interim valuation may get.

What actually occurs in these cases is wealth *transfer*, often on a massive scale. By shamelessly merchandising birdless bushes, promoters have in recent years moved billions of dollars from the pockets of the public to their own purses (and to those of their friends and associates). The fact is that a bubble market has allowed the creation of bubble companies, entities designed more with an eye to making money *off* investors rather than *for* them. Too often, an IPO, not profits, was the primary goal of a company's promoters. At bottom, the "business model" for these companies has been the old-fashioned chain letter, for which many fee-hungry investment bankers acted as eager postmen.

But a pin lies in wait for every bubble. And when the two eventually meet, a new wave of investors learns some very old lessons: First, many in Wall Street — a community in which quality control is not prized — will sell investors anything they will buy. Second, speculation is most dangerous when it looks easiest.

At Berkshire, we make *no* attempt to pick the few winners that will emerge from an ocean of unproven enterprises. We're not smart enough to do that, and we know it. Instead, we try to apply Aesop's 2,600-year-old equation to opportunities in which we have reasonable confidence as to how many birds are in the bush and when they will emerge (a formulation that my grandsons would probably update to "A girl in a convertible is worth five in the phonebook."). Obviously, we can never precisely predict the timing of cash flows in and out of a business or their exact amount. We try, therefore, to keep our estimates conservative and to focus on industries where business surprises are unlikely to wreak havoc on owners. Even so, we make many mistakes: I'm the fellow, remember, who thought he understood the future economics of trading stamps, textiles, shoes and second-tier department stores.

Lately, the most promising "bushes" have been negotiated transactions for entire businesses, and that pleases us. You should clearly understand, however, that these acquisitions will at best provide us only reasonable returns. Really juicy results from negotiated deals can be anticipated only when capital markets are severely constrained and the whole business world is pessimistic. We are 180 degrees from that point.

Sources of Reported Earnings

The table that follows shows the main sources of Berkshire's reported earnings. In this presentation, purchase-accounting adjustments 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. For the reasons discussed on page 65, this form of presentation seems to us to be more useful to investors and managers than one utilizing generally accepted accounting principles (GAAP), which require purchase-premiums to be charged off business-by-business. The total net earnings we show in the table are, of course, identical to the GAAP total in our audited financial statements.

	(in millions)			
	Pre-Tax Earnings		*Berkshire's Share of Net Earnings (after taxes and minority interests)*	
	2000	*1999*	*2000*	*1999*
Operating Earnings:				
Insurance Group:				
Underwriting – Reinsurance	$(1,399)	$(1,440)	$(899)	$(927)
Underwriting – GEICO	(224)	24	(146)	16
Underwriting – Other Primary	38	22	24	14
Net Investment Income	2,747	2,482	1,929	1,764
Finance and Financial Products Business	556	125	360	86
Flight Services	213	225	126	132
MidAmerican Energy (76% owned)	197	--	109	--
Retail Operations	175	130	104	77
Scott Fetzer (excluding finance operation)	122	147	80	92
Other Businesses	225	210	134	131
Purchase-Accounting Adjustments	(881)	(739)	(843)	(648)
Corporate Interest Expense	(92)	(109)	(61)	(70)
Shareholder-Designated Contributions	(17)	(17)	(11)	(11)
Other	39	25	30	15
Operating Earnings	1,699	1,085	936	671
Capital Gains from Investments	3,955	1,365	2,392	886
Total Earnings – All Entities	$5,654	$2,450	$3,328	$1,557

Most of our manufacturing, retailing and service businesses did at least reasonably well last year.

The exception was shoes, particularly at Dexter. In our shoe businesses generally, our attempt to keep the bulk of our production in domestic factories has cost us dearly. We face another very tough year in 2001 also, as we make significant changes in how we do business.

I clearly made a mistake in paying what I did for Dexter in 1993. Furthermore, I compounded that mistake in a huge way by using Berkshire shares in payment. Last year, to recognize my error, we charged off all the remaining accounting goodwill that was attributable to the Dexter transaction. We may regain some economic goodwill at Dexter in the future, but we clearly have none at present.

The managers of our shoe businesses are first-class from both a business and human perspective. They are working very hard at a tough — and often terribly painful — job, even though their personal financial circumstances don't require them to do so. They have my admiration and thanks.

On a more pleasant note, we continue to be the undisputed leader in two branches of Aircraft Services — pilot training at FlightSafety (FSI) and fractional ownership of business jets at Executive Jet (EJA). Both companies are run by their remarkable founders.

Al Ueltschi at FSI is now 83 and continues to operate at full throttle. Though I am not a fan of stock splits, I am planning to split Al's age 2-for-1 when he hits 100. (If it works, guess who's next.)

We spent $272 million on flight simulators in 2000, and we'll spend a similar amount this year. Anyone who thinks that the annual charges for depreciation don't reflect a real cost — every bit as real as payroll or raw materials — should get an internship at a simulator company. Every year we spend amounts equal to our depreciation charge simply to stay in the same economic place — and then spend additional sums to grow. And growth is in prospect for FSI as far as the eye can see.

Even faster growth awaits EJA (whose fractional-ownership program is called NetJets®). Rich Santulli is the dynamo behind this business.

Last year I told you that EJA's recurring revenue from monthly management fees and hourly usage grew by 46% in 1999. In 2000 the growth was 49%. I also told you that this was a low-margin business, in which survivors will be few. Margins were indeed slim at EJA last year, in part because of the major costs we are incurring in developing our business in Europe.

Regardless of the cost, you can be sure that EJA's spending on safety will be whatever is needed. Obviously, we would follow this policy under any circumstances, but there's some self-interest here as well: I, my wife, my children, my sisters, my 94-year-old aunt, all but one of our directors, and at least nine Berkshire managers regularly fly in the NetJets program. Given that cargo, I applaud Rich's insistence on unusually high amounts of pilot training (an average of 23 days a year). In addition, our pilots cement their skills by flying 800 or so hours a year. Finally, each flies only one model of aircraft, which means our crews do no switching around among planes with different cockpit and flight characteristics.

EJA's business continues to be constrained by the availability of new aircraft. Still, our customers will take delivery of more than 50 new jets in 2001, 7% of world output. We are confident we will remain the world leader in fractional ownership, in respect to number of planes flying, quality of service, and standards of safety.

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

Additional information about our various businesses is given on pages 42-58, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 67-73, we have rearranged Berkshire's financial data into four segments on a non-GAAP basis, a presentation that corresponds to the way Charlie and I think about the company.

Look-Through Earnings

Reported earnings are an inadequate measure of economic progress at Berkshire, in part because the numbers shown in the table on page 15 include only the dividends we receive from investees — though these dividends typically represent only a small fraction of the earnings attributable to our ownership. To depict something closer to economic reality at Berkshire than reported earnings, though, we employ the concept of "look-through" earnings. As we calculate these, they consist of: (1) the operating earnings reported on page 15; plus; (2) our share of the retained operating earnings of major investees that, under GAAP accounting, are not reflected in our profits, less; (3) an allowance for the tax that would be paid by Berkshire if these retained earnings of investees had instead been distributed to us. When tabulating "operating earnings" here, we exclude purchase-accounting adjustments as well as capital gains and other major non-recurring items.

The following table sets forth our 2000 look-through earnings, though I warn you that the figures can be no more than approximate, since they are based on a number of judgment calls. (The dividends paid to us by these investees have been included in the operating earnings itemized on page 15, mostly under "Insurance Group: Net Investment Income.")

Berkshire's Major Investees	Berkshire's Approximate Ownership at Yearend[1]	Berkshire's Share of Undistributed Operating Earnings (in millions)[2]
American Express Company	11.4%	$265
The Coca-Cola Company	8.1%	160
Freddie Mac	0.3%	106
The Gillette Company	9.1%	51
M&T Bank	7.2%	23
The Washington Post Company	18.3%	18
Wells Fargo & Company	3.2%	117
Berkshire's share of undistributed earnings of major investees		740
Hypothetical tax on these undistributed investee earnings[3]		(104)
Reported operating earnings of Berkshire		1,779
Total look-through earnings of Berkshire		$ 2,415

(1) Does not include shares allocable to minority interests
(2) Calculated on average ownership for the year
(3) The tax rate used is 14%, which is the rate Berkshire pays on most dividends it receives

Full and Fair Reporting

At Berkshire, full reporting means giving you the information that we would wish you to give to us if our positions were reversed. What Charlie and I would want under that circumstance would be all the important facts about current operations as well as the CEO's frank view of the long-term economic characteristics of the business. We would expect both a lot of financial details and a discussion of any significant data we would need to interpret what was presented.

When Charlie and I read reports, we have no interest in pictures of personnel, plants or products. References to EBITDA make us shudder — does management think the tooth fairy pays for capital expenditures? We're very suspicious of accounting methodology that is vague or unclear, since too often that means management wishes to hide something. And we don't want to read messages that a public relations department or consultant has turned out. Instead, we expect a company's CEO to explain in his or her own words what's happening.

For us, fair reporting means getting information to our 300,000 "partners" simultaneously, or as close to that mark as possible. We therefore put our annual and quarterly financials on the Internet between the close of the market on a Friday and the following morning. By our doing that, shareholders and other interested investors have timely access to these important releases and also have a reasonable amount of time to digest the information they include before the markets open on Monday. This year our quarterly information will be available on the Saturdays of May 12, August 11, and November 10. The 2001 annual report will be posted on March 9.

We applaud the work that Arthur Levitt, Jr., until recently Chairman of the SEC, has done in cracking down on the corporate practice of "selective disclosure" that had spread like cancer in recent years. Indeed, it had become virtually standard practice for major corporations to "guide" analysts or large holders to earnings expectations that were intended either to be on the nose or a tiny bit below what the company truly expected to earn. Through the selectively dispersed hints, winks and nods that companies engaged in, speculatively-minded institutions and advisors were given an information edge over investment-oriented individuals. This was corrupt behavior, unfortunately embraced by both Wall Street and corporate America.

Thanks to Chairman Levitt, whose general efforts on behalf of investors were both tireless and effective, corporations are now required to treat all of their owners equally. The fact that this reform came about because of coercion rather than conscience should be a matter of shame for CEOs and their investor relations departments.

One further thought while I'm on my soapbox: Charlie and I think it is both deceptive and dangerous for CEOs to predict growth rates for their companies. They are, of course, frequently egged on to do so by both analysts and their own investor relations departments. They should resist, however, because too often these predictions lead to trouble.

It's fine for a CEO to have his own internal goals and, in our view, it's even appropriate for the CEO to publicly express some hopes about the future, if these expectations are accompanied by sensible caveats. But for a major corporation to predict that its per-share earnings will grow over the long term at, say, 15% annually is to court trouble.

That's true because a growth rate of that magnitude can only be maintained by a very small percentage of large businesses. Here's a test: Examine the record of, say, the 200 highest earning companies from 1970 or 1980 and tabulate how many have increased per-share earnings by 15% annually since those dates. You will find that only a handful have. I would wager you a very significant sum that fewer than 10 of the 200 most profitable companies in 2000 will attain 15% annual growth in earnings-per-share over the next 20 years.

The problem arising from lofty predictions is not just that they spread unwarranted optimism. Even more troublesome is the fact that they corrode CEO behavior. Over the years, Charlie and I have observed many instances in which CEOs engaged in uneconomic operating maneuvers so that they could meet earnings targets they had announced. Worse still, after exhausting all that operating acrobatics would do, they sometimes played a wide variety of accounting games to "make the numbers." These accounting shenanigans have a way of snowballing: Once a company moves earnings from one period to another, operating shortfalls that occur thereafter require it to engage in further accounting maneuvers that must be even more "heroic." These can turn fudging into fraud. (More money, it has been noted, has been stolen with the point of a pen than at the point of a gun.)

Charlie and I tend to be leery of companies run by CEOs who woo investors with fancy predictions. A few of these managers will prove prophetic — but others will turn out to be congenital optimists, or even charlatans. Unfortunately, it's not easy for investors to know in advance which species they are dealing with.

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

I've warned you in the past that you should not believe everything you read or hear about Berkshire — even when it is published or broadcast by a prestigious news organization. Indeed, erroneous reports are particularly dangerous when they are circulated by highly-respected members of the media, simply because most readers and listeners know these outlets to be generally credible and therefore believe what they say.

An example is a glaring error about Berkshire's activities that appeared in the December 29 issue of *The Wall Street Journal*, a generally excellent paper that I have for all of my life found useful. On the front page (and above the fold, as they say) *The Journal* published a news brief that said, in unequivocal terms, that we were buying bonds of Conseco and Finova. This item directed the reader to the lead story of the Money and Investing section. There, in the second paragraph of the story, *The Journal* reported, *again without any qualification*, that Berkshire was buying Conseco and Finova bonds, adding that Berkshire had invested "several hundred million dollars" in each. Only in the 18th paragraph of the story (which by that point had jumped to an inside page) did the paper hedge a bit, saying that our Conseco purchases had been disclosed by "people familiar with the matter."

Well, not *that* familiar. True, we had purchased bonds and bank debt of Finova — though the report was wildly inaccurate as to the amount. But to this day neither Berkshire nor I have *ever* bought a share of stock or a bond of Conseco.

Berkshire is normally covered by a *Journal* reporter in Chicago who is both accurate and conscientious. In this case, however, the "scoop" was the product of a New York reporter for the paper. Indeed, the 29th was a busy day for him: By early afternoon, he had repeated the story on CNBC. Immediately, in lemming-like manner, other respected news organizations, relying solely on the *Journal*, began relating the same "facts." The result: Conseco stock advanced sharply during the day on exceptional volume that placed it ninth on the NYSE most-active list.

During all of the story's iterations, I never heard or read the word "rumor." Apparently reporters and editors, who generally pride themselves on their careful use of language, just can't bring themselves to attach this word to their accounts. But what description would fit more precisely? Certainly not the usual "sources say" or "it has been reported."

A column entitled "Today's Rumors," however, would not equate with the self-image of the many news organizations that think themselves above such stuff. These members of the media would feel that publishing such acknowledged fluff would be akin to *L'Osservatore Romano* initiating a gossip column. But rumors are what these organizations often publish and broadcast, whatever euphemism they duck behind. At a minimum, readers deserve honest terminology — a warning label that will protect their financial health in the same way that smokers whose physical health is at risk are given a warning.

The Constitution's First Amendment allows the media to print or say almost anything. Journalism's First Principle should require that the media be scrupulous in deciding what that will be.

Miscellaneous

In last year's report we examined the battle then raging over the use of "pooling" in accounting for mergers. It seemed to us that both sides were voicing arguments that were strong in certain respects and seriously flawed in others. We are pleased that the Financial Accounting Standards Board has since gone to an alternative approach that strikes us as very sound.

If the proposed rule becomes final, we will no longer incur a large annual charge for amortization of intangibles. Consequently, our reported earnings will more closely reflect economic reality. (See page 65.) None of this will have an effect on Berkshire's intrinsic value. Your Chairman, however, will personally benefit in that there will be one less item to explain in these letters.

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

I'm enclosing a report — generously supplied by *Outstanding Investor Digest* — of Charlie's remarks at last May's Wesco annual meeting. Charlie thinks about business economics and investment matters better than anyone I know, and I've learned a lot over the years by listening to him. Reading his comments will improve your understanding of Berkshire.

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

In 1985, we purchased Scott Fetzer, acquiring not only a fine business but the services of Ralph Schey, a truly outstanding CEO, as well. Ralph was then 61. Most companies, focused on the calendar rather than ability, would have benefited from Ralph's talents for only a few years.

At Berkshire, in contrast, Ralph ran Scott Fetzer for 15 years until his retirement at the end of 2000. Under his leadership, the company distributed $1.03 billion to Berkshire against our net purchase price of $230 million. We used these funds, in turn, to purchase other businesses. All told, Ralph's contributions to Berkshire's present value extend well into the billions of dollars.

As a manager, Ralph belongs in Berkshire's Hall of Fame, and Charlie and I welcome him to it.

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

A bit of nostalgia: It was exactly 50 years ago that I entered Ben Graham's class at Columbia. During the decade before, I had enjoyed — make that *loved* ¾ analyzing, buying and selling stocks. But my results were no better than average.

Beginning in 1951 my performance improved. No, I hadn't changed my diet or taken up exercise. The only new ingredient was Ben's ideas. Quite simply, a few hours spent at the feet of the master proved far more valuable to me than had ten years of supposedly original thinking.

In addition to being a great teacher, Ben was a wonderful friend. My debt to him is incalculable.

Shareholder-Designated Contributions

About 97% of all eligible shares participated in Berkshire's 2000 shareholder-designated contributions program, with contributions totaling $16.9 million. A full description of the program appears on pages 74-75.

Cumulatively, over the 20 years of the program, Berkshire has made contributions of $164 million pursuant to the instructions of our shareholders. The rest of Berkshire's giving is done by our subsidiaries, which stick to the philanthropic patterns that prevailed before they were acquired (except that their former owners themselves take on the responsibility for their personal charities). In aggregate, our subsidiaries made contributions of $18.3 million in 2000, including in-kind donations of $3 million.

To participate in future 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, 2001 will be ineligible for the 2001 program. When you get the contributions form from us, return it promptly so that it does not get put aside or forgotten. Designations received after the due date will not be honored.

The Annual Meeting

Last year we moved the annual meeting to the Civic Auditorium, and it worked very well for us. We will meet there again on Saturday, April 28. 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, with sandwiches available at the Civic’s concession stands. Except for that interlude, Charlie and I will answer questions until 3:30.

For the next couple of years, the Civic is our only choice. We must therefore hold the meeting on either Saturday or Sunday to avoid the traffic and parking nightmare that would occur on a weekday. Shortly, however, Omaha will have a new Convention Center with ample parking. Assuming that the Center is then available to us, I will poll shareholders to see whether you wish to return to a Monday meeting. We will decide that vote based on the wishes of a majority of shareholders, not shares.

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 this year’s 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. In our normal fashion, we will run buses from the larger hotels to the meeting. After the meeting, 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. One new product, however, deserves special note: Bob Shaw has designed a 3 x 5 rug featuring an excellent likeness of Charlie. Obviously, it would be embarrassing for Charlie — make that humiliating — if slow sales forced us to slash the rug’s price, so step up and do your part.

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 offer you a special shareholder’s discount (usually 8%). Bring the details of your existing insurance and check out whether we can save you some money.

At the Omaha airport on Saturday, we will have the usual array of aircraft from Executive Jet available for your inspection. Just ask an EJA 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.

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 four years ago and sales during the “Weekend” grew from $5.3 million in 1997 to $9.1 million in 2000.

To get the discount, you must make your purchases between Wednesday, April 25 and Monday, April 30 and also present your meeting credential. The period's special pricing will even apply to the products of several prestige 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, April 27. The second, the main gala, will be from 9 a.m. to 5 p.m. on Sunday, April 29. 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 family always tells me).

In the mall outside of Borsheim's, we will have local bridge experts available to play with our shareholders on Sunday. Bob Hamman, who normally is with us, will be in Africa this year. He has promised, however, to be on hand in 2002. 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 demolished his opponents.

As if all this isn't enough to test your skills, our Borsheim's Olympiad this year will also include Bill Robertie, one of only two players to twice win the backgammon world championship. Backgammon can be a big money game, so bring along your stock certificates.

Gorat's — my favorite steakhouse — will again be open exclusively for Berkshire shareholders on Sunday, April 29, and will be serving from 4 p.m. until 10 p.m. Please remember that you can't come to Gorat's on Sunday without a reservation. To make one, call 402-551-3733 on April 2 (*but not before*). If Sunday is sold out, try Gorat's on one of the other evenings you will be in town. If you order a rare T-bone with a double order of hash browns, you will establish your credentials as an epicure.

The usual baseball game will be held at Rosenblatt Stadium at 7 p.m. on Saturday night. This year the Omaha Golden Spikes will play the New Orleans Zephyrs. Ernie Banks is again going to be on hand to — bravely — face my fastball (once clocked at 95 mpm — miles per month).

My performance last year was not my best: It took me five pitches to throw anything resembling a strike. And, believe me, it gets lonely on the mound when you can't find the plate. Finally, I got one over, and Ernie lashed a line drive to left field. After I was yanked from the game, the many sports writers present asked what I had served up to Ernie. I quoted what Warren Spahn said after Willie Mays hit one of his pitches for a home run (Willie's first in the majors): "It was a helluva pitch for the first sixty feet."

It will be a different story this year. I don't want to tip my hand, so let's just say Ernie will have to deal with a pitch he has never seen before.

Our proxy statement contains instructions about obtaining tickets to the game and also a large quantity of other 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.

Warren E. Buffett
Chairman of the Board

February 28, 2001

BERKSHIRE HATHAWAY INC.

Selected Financial Data for the Past Five Years

(dollars in millions, except per share data)

	2000	1999	1998	1997	1996
Revenues:					
Insurance premiums earned	$19,343	$14,306	$ 5,481	$ 4,761	$ 4,118
Sales and service revenues	7,331	5,918	4,675	3,615	3,095
Interest, dividend and other investment income	2,791	2,314	1,049	916	778
Income from finance and financial products businesses	556	125	212	32	25
Realized investment gain [1]	3,955	1,365	2,415	1,106	2,484
Total revenues	$33,976	$24,028	$13,832	$10,430	$10,500
Earnings:					
Before realized investment gain	$ 936	$ 671	$ 1,277	$ 1,197	$ 884
Realized investment gain [1]	2,392	886	1,553	704	1,605
Net earnings	$ 3,328	$ 1,557	$ 2,830	$ 1,901	$ 2,489
Earnings per share:					
Before realized investment gain	$ 614	$ 442	$ 1,021	$ 971	$ 733
Realized investment gain [1]	1,571	583	1,241	571	1,332
Net earnings	$ 2,185	$ 1,025	$ 2,262	$ 1,542	$ 2,065
Year-end data [2]:					
Total assets	$135,792	$131,416	$122,237	$56,111	$43,409
Borrowings under investment agreements and other debt [3]	2,663	2,465	2,385	2,267	1,944
Shareholders' equity	61,724	57,761	57,403	31,455	23,427
Class A equivalent common shares outstanding, in thousands	1,526	1,521	1,519	1,234	1,232
Shareholders' equity per outstanding Class A equivalent share	$ 40,442	$ 37,987	$ 37,801	$25,488	$19,011

---

[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.*

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, 2000 and 1999, 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, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
March 5, 2001
Omaha, Nebraska

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

	December 31, 2000	December 31, 1999
ASSETS		
Cash and cash equivalents	$ 5,263	$ 3,835
Investments:		
Securities with fixed maturities	32,567	30,222
Equity securities	37,619	37,772
Other	1,637	1,736
Receivables	11,764	8,558
Inventories	1,275	844
Investments in MidAmerican Energy Holdings Company	1,719	—
Assets of finance and financial products businesses	16,829	24,229
Property, plant and equipment	2,699	1,903
Goodwill of acquired businesses	18,875	18,281
Other assets	5,545	4,036
	$135,792	$131,416
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 33,022	$ 26,802
Unearned premiums	3,885	3,718
Accounts payable, accruals and other liabilities	8,374	7,458
Income taxes, principally deferred	10,125	9,566
Borrowings under investment agreements and other debt	2,663	2,465
Liabilities of finance and financial products businesses	14,730	22,223
	72,799	72,232
Minority shareholders' interests	1,269	1,423
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	25,524	25,209
Accumulated other comprehensive income	17,543	17,223
Retained earnings	18,649	15,321
Total shareholders' equity	61,724	57,761
	$135,792	$131,416

* *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 1,526,230 shares outstanding at December 31, 2000 versus 1,520,562 shares outstanding at December 31, 1999.*

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,		
	2000	**1999**	**1998**
Revenues:			
Insurance premiums earned	$19,343	$14,306	$ 5,481
Sales and service revenues	7,331	5,918	4,675
Interest, dividend and other investment income	2,686	2,314	1,049
Income from MidAmerican Energy Holdings Company	105	—	—
Income from finance and financial products businesses	556	125	212
Realized investment gain	3,955	1,365	2,415
	33,976	24,028	13,832
Cost and expenses:			
Insurance losses and loss adjustment expenses	17,332	12,518	4,040
Insurance underwriting expenses	3,602	3,220	1,184
Cost of products and services sold	4,893	4,065	3,018
Selling, general and administrative expenses	1,703	1,164	1,056
Goodwill amortization	715	477	111
Interest expense	144	134	109
	28,389	21,578	9,518
Earnings before income taxes and minority interest	5,587	2,450	4,314
Income taxes	2,018	852	1,457
Minority interest	241	41	27
Net earnings	$ 3,328	$ 1,557	$ 2,830
Average common shares outstanding *	1,522,933	1,519,703	1,251,363
Net earnings per common share *	$ 2,185	$ 1,025	$ 2,262

* *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 $73 per share for 2000, $34 per share for 1999, and $75 per share for 1998.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2000	**1999**	**1998**
Cash flows from operating activities:			
Net earnings	$3,328	$1,557	$2,830
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gain	(3,955)	(1,365)	(2,415)
Depreciation and amortization	997	688	265
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	5,976	3,790	347
Deferred charges – reinsurance assumed	(1,075)	(958)	(80)
Unearned premiums	97	394	179
Receivables	(3,062)	(834)	(56)
Accounts payable, accruals and other liabilities	660	(5)	4
Finance businesses trading activities	(1,126)	473	52
Income taxes	757	(1,395)	(329)
Other	350	(145)	(140)
Net cash flows from operating activities	2,947	2,200	657
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(16,550)	(18,380)	(2,697)
Purchases of equity securities	(4,145)	(3,664)	(1,865)
Proceeds from sales of securities with fixed maturities	13,119	4,509	6,339
Proceeds from redemptions and maturities of securities with fixed maturities	2,530	2,833	2,132
Proceeds from sales of equity securities	6,870	4,355	4,868
Loans and investments originated in finance businesses	(857)	(2,526)	(1,028)
Principal collection on loans and investments originated in finance businesses	1,142	845	295
Acquisitions of businesses, net of cash acquired	(3,798)	(153)	4,971
Other	(582)	(417)	(302)
Net cash flows from investing activities	(2,271)	(12,598)	12,713
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	120	736	120
Proceeds from other borrowings	681	1,118	1,266
Repayments of borrowings of finance businesses	(274)	(46)	(83)
Repayments of other borrowings	(806)	(1,333)	(1,225)
Change in short term borrowings of finance businesses	500	(311)	—
Changes in other short term borrowings	324	340	(20)
Other	(75)	(137)	3
Net cash flows from financing activities	470	367	61
Increase (decrease) in cash and cash equivalents	1,146	(10,031)	13,431
Cash and cash equivalents at beginning of year	4,458	14,489	1,058
Cash and cash equivalents at end of year *	$5,604	$4,458	$14,489
** Cash and cash equivalents at end of year are comprised of the following:*			
Finance and financial products businesses	*$ 341*	*$ 623*	*$ 907*
Other	*5,263*	*3,835*	*13,582*
	$5,604	*$ 4,458*	*$14,489*

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, 1997	$ 7	$ 2,316	$10,934	$18,198	
Common stock issued in connection with acquisitions of businesses	1	22,805			
Net earnings			2,830		$ 2,830
Other comprehensive income items:					
Unrealized appreciation of investments				3,011	3,011
Reclassification adjustment for appreciation included in net earnings				(2,415)	(2,415)
Income taxes and minority interests				(284)	(284)
Other comprehensive income					312
Total comprehensive income					$ 3,142
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	
Common stock issued in connection with acquisitions of businesses		224			
Net earnings			3,328		$ 3,328
Exercise of stock options issued in connection with business acquisitions		91			
Other comprehensive income items:					
Unrealized appreciation of investments				4,410	$4,410
Reclassification adjustment for appreciation included in net earnings				(3,955)	(3,955)
Foreign currency translation losses				(161)	(161)
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	

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000

(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 16. 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.

Since acquired in December 1998, the International property/casualty and Global life/health reinsurance activities of General Re have been 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 that now permit 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. 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 classified as available-for-sale. Available-for-sale securities are stated at fair value with unrealized gains or losses, net of taxes and minority interest, 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 limited partnerships and commodities which are carried at fair value in the accompanying balance sheets. The 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 7.

(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 54% 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, 2000 and December 31, 1999.

(f) Property, plant and equipment

Property, plant and equipment is recorded at cost. Renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred. 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 10 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.

During the fourth quarter of 2000, Berkshire management concluded that an impairment of goodwill existed with respect to the investment in Dexter Shoe. For the years ended December 31, 2000 and 1999, as a result of intense competition from importers, Dexter Shoe has incurred operating losses. During 2000, certain manufacturing facilities were closed and certain other facilities are expected to close in 2001. Goodwill amortization shown in the accompanying Consolidated Statements of Earnings for 2000 includes a charge of $219 million related to the impairment.

(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 over the contract period. Consideration received for retroactive reinsurance policies, including structured settlements, 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 or merchandise 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 generally 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. The recoverability of premium acquisition costs of direct insurance businesses is determined without regard to investment income. The recoverability of premium acquisition costs from reinsurance assumed businesses, generally, reflects anticipation of investment income. The unamortized balances of deferred premium acquisition costs are included in other assets and were $916 million and $791 million at December 31, 2000 and 1999, respectively.

(1) Significant accounting polices 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 amounts arising from certain reinsurance assumed businesses are discounted. 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 certain workers' compensation claims assumed under reinsurance contracts and liabilities assumed under structured settlement reinsurance contracts are carried in the Consolidated Balance Sheets at discounted amounts. Discounted amounts pertaining to reinsurance of certain 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 accretion of discounts is included in the Consolidated Statements of Earnings as a component of losses and loss adjustment expenses. Net discounted liabilities were $1,531 million at December 31, 2000 and $1,529 million at December 31, 1999.

(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. The unamortized balance of deferred charges is included in other assets and was $2,593 million at December 31, 2000 and $1,518 million at December 31, 1999.

(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 that will be ultimately 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 and totaled $2,997 million and $2,331 million at December 31, 2000 and 1999, respectively.

(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, 2000

In 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137, which delayed the effective date for implementing SFAS No. 133 until the beginning of 2001. In June 2000, the FASB issued SFAS No. 138, which amended certain provisions of SFAS No. 133 with the objective of easing the implementation difficulties expected to arise. Berkshire adopted SFAS No. 133 as amended by SFAS No. 138 as of the beginning of 2001 and does not anticipate that the adoption of these new standards will have a material effect on its financial position or results of operations.

(2) Significant business acquisitions

During 2000, Berkshire initiated and/or consummated eight significant business acquisitions. Six of the acquisitions were completed in 2000 and the other two were completed in early 2001. Information concerning seven of these acquisitions follows. Information concerning the other acquisition is contained in Note 3 (Investment in MidAmerican Energy Holdings Company).

(2) Significant business acquisitions *(Continued)*

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 all of the outstanding shares of Ben Bridge common stock. Ben Bridge is the leading operator of upscale jewelry stores based in major shopping malls in the Western United States.

Justin Industries, Inc. ("Justin")
Effective August 1, 2000, Berkshire acquired 100% of the outstanding shares of 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 all of the outstanding shares of USIC common stock. 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 United States 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.

Shaw Industries, Inc. ("Shaw")
On October 20, 2000, Berkshire announced that it had formally entered into a merger agreement whereby it would acquire approximately 87.3% of the common stock of Shaw for $19 per share. The transaction was completed on January 8, 2001. 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.

Shaw is the world's largest manufacturer of tufted broadloom carpet and rugs for residential and commercial applications throughout the United States 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 December 19, 2000, Berkshire entered into an Agreement and Plan of Merger whereby Berkshire would acquire Johns Manville. Under the terms of the Merger Agreement, among other things, Berkshire commenced a tender offer to purchase all of the outstanding shares of Johns Manville common stock for $13 per share. The acquisition was completed on February 27, 2001.

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. Johns Manville operates manufacturing facilities in North America, Europe and China.

Berkshire paid approximately $3,830 million in cash to shareholders of Shaw and Johns Manville in connection with the acquisitions.

The results of operations for each of these entities are or will be 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 the years ended December 31, 2000 and 1999, as if each of the seven acquisitions discussed above were consummated on the same terms at the beginning of 1999. Dollars in millions except per share amounts.

	2000	*1999*
Total revenues	$41,396	$32,014
Net earnings	3,347	1,812
Earnings per equivalent Class A Common Share	2,195	1,189

(2) Significant business acquisitions *(Continued)*

During 1998 and 1999, Berkshire completed four significant business acquisitions. Information concerning these acquisitions follows. Effective January 7, 1998, Berkshire acquired 100% of the outstanding common stock of International Dairy Queen, Inc. ("Dairy Queen"). Dairy Queen develops, licenses and services a system of over 6,000 Dairy Queen, Orange Julius and Karmelkorn stores located throughout the United States, Canada, and other foreign countries, which feature various dairy desserts, beverages, blended fruit drinks, prepared foods, popcorn and snacks.

Effective August 7, 1998, Berkshire acquired all of the outstanding common shares of Executive Jet, Inc. ("Executive Jet"). Executive Jet is the world's leading provider of fractional ownership programs for general aviation aircraft. Executive Jet currently operates its fractional ownership programs in the United States and Europe.

Effective December 21, 1998, Berkshire acquired all of the outstanding common stock of General Re Corporation ("General Re"). Through its subsidiaries, General Re conducts global reinsurance and related risk management operations. General Re's principal U.S. subsidiary, General Reinsurance Corporation, which together with its affiliates, comprise the largest professional property and casualty reinsurance group domiciled in the United States. General Re also owns a controlling interest in Kölnische Rückversicherungs-Gesellschaft AG ("Cologne Re"), a major international reinsurer. General Re operates in 28 countries and provides reinsurance coverage in 130 countries around the world.

In addition, General Re affiliates write excess and surplus lines insurance, provide reinsurance brokerage services, manage aviation insurance risks, act as business development consultants and reinsurance intermediaries and provide specialized investment services to the insurance industry. General Re also operates as a dealer in the swap and derivatives market through Gen Re Securities Holdings Limited (formerly General Re Financial Products Corporation).

In November 1999, Berkshire acquired Jordan's Furniture, Inc. ("Jordan's"). Jordan's operates a furniture retail business from four locations and is believed to be the largest furniture retailer in the Massachusetts and New Hampshire areas.

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.

(3) Investment in MidAmerican Energy Holdings Company

On October 24, 1999, Berkshire entered into an agreement along with Walter Scott, Jr. and David L. Sokol, to acquire MidAmerican Energy Holdings Company ("MidAmerican"). The transaction closed on March 14, 2000. Pursuant to the terms of the agreement, Berkshire invested approximately $1.24 billion in common stock and a non-dividend paying convertible preferred stock of a newly formed entity that merged with and into MidAmerican, with MidAmerican continuing as the surviving corporation. Such investment gives 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. Under certain conditions, for a period of up to seven years subsequent to the closing, Berkshire may be required to purchase up to $345 million of additional trust preferred securities. Mr. Scott, a member of Berkshire's Board of Directors, controls approximately 86% of the voting interest in MidAmerican. Mr. Sokol is the CEO of MidAmerican.

Through its retail utility subsidiaries, MidAmerican Energy in the U.S. and Northern Electric in the U.K., MidAmerican provides electric service to approximately 1.8 million customers and natural gas service to 1.1 million customers worldwide. MidAmerican owns interests in over 10,000 net megawatts of diversified power generation facilities in operation, construction and development.

Berkshire's aggregate investments in MidAmerican are included in the Consolidated Balance Sheet as Investments in MidAmerican Energy Holdings Company. Berkshire is accounting for the common and non-dividend paying convertible preferred stock pursuant to the equity method. The carrying value of these equity method investments totaled $1,264 million at December 31, 2000.

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 $66 million for the period from March 14, 2000 through December 31, 2000.

(4) Investments in securities with fixed maturities

The amortized cost and estimated fair values of investments in securities with fixed maturities as of December 31, 2000 and 1999 are as follows (in millions):

December 31, 2000[(1)]	*Amortized Cost*[(2)]	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
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

December 31, 1999[(1)]	*Amortized Cost*[(2)]	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,001	$ 3	$ (189)	$ 3,815
Obligations of states, municipalities and political subdivisions	9,029	13	(436)	8,606
Obligations of foreign governments	2,208	6	(49)	2,165
Corporate bonds	5,901	21	(237)	5,685
Redeemable preferred stocks	133	1	(5)	129
Mortgage-backed securities	10,157	7	(342)	9,822
	$31,429	$ 51	$(1,258)	$30,222

(1) Amounts above exclude securities with fixed maturities held by finance and financial products businesses. See Note 7.

(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 $680 million at December 31, 2000 and $940 million at December 31, 1999.

Shown below are the amortized cost and estimated fair values of securities with fixed maturities at December 31, 2000, 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	*Estimated Fair Value*
Due in one year or less	$ 4,557	$ 4,616
Due after one year through five years	5,665	5,613
Due after five years through ten years	4,343	4,313
Due after ten years	5,246	5,206
	19,811	19,748
Mortgage-backed securities	12,609	12,819
	$32,420	$32,567

Notes to Consolidated Financial Statements *(Continued)*

(5) Investments in equity securities

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

December 31, 2000	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company *	$ 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**	$37,619

December 31, 1999	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company *	$ 1,470	$ 6,932	$ 8,402
The Coca-Cola Company	1,299	10,351	11,650
The Gillette Company	600	3,354	3,954
Wells Fargo & Company	349	2,042	2,391
Other equity securities	5,956	5,419	11,375
	$ 9,674	$28,098**	$37,772

* *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, 2000. 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.*

*** Net of unrealized losses of $77 million and $131 million as of December 31, 2000 and 1999, respectively.*

(6) Realized investment gains (losses)

Realized gains (losses) from sales and redemptions of investments are summarized below (in millions):

	2000	*1999*	*1998*
Equity securities and other investments —			
Gross realized gains	$4,467	$1,507	$2,087
Gross realized losses	(317)	(77)	(272)
Securities with fixed maturities —			
Gross realized gains	153	39	602
Gross realized losses	(348)	(104)	(2)
	$3,955	$1,365	$2,415

(7) Finance and financial products businesses

Assets and liabilities of Berkshire's finance and financial products businesses are summarized below (in millions).

	Dec. 31, 2000	Dec. 31, 1999
Assets		
Cash and cash equivalents	$ 341	$ 623
Investments in securities with fixed maturities:		
Held-to-maturity, at cost (fair value $1,897 in 2000; $1,930 in 1999)	1,826	2,002
Trading, at fair value (cost $5,277 in 2000; $11,330 in 1999)	5,327	11,277
Available-for-sale, at fair value (cost $880 in 2000; $997 in 1999)	880	999
Trading account assets	5,429	5,881
Securities purchased under agreements to resell	680	1,171
Other	2,346	2,276
	$16,829	$24,229
Liabilities		
Securities sold under agreements to repurchase	$ 3,386	$10,216
Securities sold but not yet purchased	715	1,174
Trading account liabilities	4,974	5,930
Notes payable and other borrowings*	2,116	1,998
Annuity reserves and policyholder liabilities	868	843
Other	2,671	2,062
	$14,730	$22,223

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

2001	*2002*	*2003*	*2004*	*2005*
$629	*$242*	*$651*	*$184*	*$ 1*

Berkshire's finance and financial products businesses consist primarily of the financial products businesses of General Re, the consumer finance business of Scott Fetzer Financial Group, the real estate finance business of Berkshire Hathaway Credit Corporation, the financial instrument trading business of BH Finance and a life insurance subsidiary in the business of selling annuities. General Re's financial products businesses consist of the Gen Re Securities Holdings Limited ("GRS") group. Significant accounting policies and disclosures for these businesses are discussed below.

Investment securities (principally fixed maturity and equity investments) that are acquired for purposes 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 from trading activities are included in income from finance and financial products businesses. 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.

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

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.

A summary of notional amounts of derivative contracts at December 31, 2000 and 1999 is included in the table below. For these transactions, the notional amount represents the principal volume, which is referenced by the counterparties in computing payments to be exchanged, and are not indicative of the Company's exposure to market or credit risk, future cash requirements or receipts from such transactions.

	December 31, 2000 (in millions)	*December 31, 1999 (in millions)*
Interest rate and currency swap agreements	$651,913	$531,645
Options written	91,655	121,683
Options purchased	102,743	151,006
Financial futures contracts:		
Commitments to purchase	9,535	32,377
Commitments to sell	17,069	11,368
Forward - rate agreements	7,070	5,164
Foreign exchange spot and forward contracts	6,163	10,430

The following tables disclose the net fair value or carrying amount at December 31, 2000 and 1999 as well as the average fair value during 2000 and 1999 for each class of derivative financial contract held or issued by GRS.

	December 31, 2000		*December 31, 1999*	
	Asset	*Liability*	*Asset*	*Liability*
	(in millions)		*(in millions)*	
Interest rate and foreign currency swaps	$16,840	$16,312	$22,593	$22,819
Interest rate and foreign currency options	2,864	2,919	5,980	5,714
Gross fair value	19,704	19,231	28,573	28,533
Adjustment for counterparty netting	(14,275)	(14,275)	(22,692)	(22,692)
Net fair value	5,429	4,956	5,881	5,841
Security receivables/payables	—	18	—	89
Trading account assets/liabilities	$ 5,429	$ 4,974	$ 5,881	$ 5,930

	Average 2000		*Average 1999*	
	Asset	*Liability*	*Asset*	*Liability*
	(in millions)		*(in millions)*	
Interest rate and foreign currency swaps	$20,431	$20,533	$23,213	$23,071
Interest rate and foreign currency options	3,147	3,174	4,657	4,687
Gross fair value	23,578	23,707	27,870	27,758
Adjustment for counterparty netting	(17,960)	(17,960)	(22,579)	(22,579)
Net fair value	5,618	5,747	5,291	5,179
Security receivables/payables	98	40	85	111
Trading account assets/liabilities	$ 5,716	$ 5,787	$ 5,376	$ 5,290

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

The derivative financial instruments involve, to varying degrees, elements of market, credit, and legal risks. Market risk is the possibility that future changes in market conditions may make the derivative financial instrument less valuable. 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. Legal risk arises from the uncertainty of the enforceability of the obligations of another party, including contractual provisions intended to reduce credit exposure by providing for the offsetting or netting of mutual obligations.

With respect to Berkshire's life insurance business, 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 charged against income from finance and financial products businesses.

Investments in securities with fixed maturities held by Berkshire's life insurance business are classified as held-to-maturity. Investments classified as held-to-maturity are carried at amortized cost reflecting the Company's ability and intent to hold such investments to maturity. Such items consist predominantly of mortgage loans and collateralized mortgage obligations.

(8) 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:

	2000	*1999*	*1998*
Unpaid losses and loss adjustment expenses:			
Balance at beginning of year	$26,802	$23,012	$6,850
Ceded liabilities and deferred charges	(3,848)	(2,727)	(754)
Net balance	22,954	20,285	6,096
Incurred losses recorded:			
Current accident year	15,252	11,275	4,235
All prior accident years	211	(192)	(195)
Total incurred losses	15,463	11,083	4,040
Payments with respect to:			
Current accident year	4,589	3,648	1,919
All prior accident years	5,890	4,532	1,834
Total payments	10,479	8,180	3,753
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	27,938	23,188	6,383
Ceded liabilities and deferred charges	5,590	3,848	2,727
Foreign currency translation adjustment	(722)	(234)	—
Net liabilities assumed in connection with business acquisitions	216	—	13,902
Balance at end of year	$33,022	$26,802	$23,012

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. This amount includes amortization of deferred charges regarding retroactive reinsurance assumed and accretion of discounted liabilities. See Note 1 for additional information regarding these items. 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 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.

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

Berkshire continuously evaluates its liabilities and related reinsurance recoverable for environmental and latent injury claims and claim expenses, which arise from exposures in the U.S., as well as internationally. Environmental and latent injury exposures do not lend themselves to traditional methods of loss development determination and therefore reserve estimates related to these exposures may be considerably less reliable than for other lines of business (e.g., automobile). The effect of joint and several liability claims severity and a provision for inflation have been included in the loss development estimate. The Company has also established a liability for litigation costs associated with coverage disputes arising out of direct insurance policies.

The liabilities for environmental and latent injury claims and claim expenses net of related reinsurance recoverables were $4,444 million and $3,211 million, respectively, at December 31, 2000 and 1999. The liabilities recorded for environmental and latent injury claims and claim expenses are management's best estimate of future ultimate claim and claim expense payments and recoveries and are expected to develop over the next several decades.

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.

(9) Income taxes

The liability for income taxes as reflected in the accompanying Consolidated Balance Sheets is as follows (in millions):

	Dec. 31, 2000	*Dec. 31, 1999*
Payable currently	$ 522	$ (27)
Deferred	9,603	9,593
	$10,125	$9,566

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

	2000	*1999*	*1998*
Federal	$2,136	$ 748	$1,421
State	32	43	31
Foreign	(150)	61	5
	$2,018	$ 852	$1,457
Current	$2,012	$1,189	$1,643
Deferred	6	(337)	(186)
	$2,018	$ 852	$1,457

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2000 and 1999 are shown below (in millions):

	2000	*1999*
Deferred tax liabilities:		
Relating to unrealized appreciation of investments	$9,571	$9,383
Deferred charges reinsurance assumed	916	534
Investments	441	644
Other	717	74
	11,645	10,635
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(1,061)	(697)
Unearned premiums	(227)	(205)
Other	(754)	(140)
	(2,042)	(1,042)
Net deferred tax liability	$9,603	$9,593

(9) 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):

	2000	*1999*	*1998*
Earnings before income taxes	$5,587	$2,450	$4,314
Hypothetical amounts applicable to above computed at the federal statutory rate	$1,955	$ 858	$1,510
Decreases resulting from:			
Tax-exempt interest income	(135)	(145)	(30)
Dividends received deduction	(116)	(95)	(78)
Goodwill amortization	240	161	39
State income taxes, less federal income tax benefit	21	28	20
Foreign tax rate differential	34	45	—
Other differences, net	19	—	(4)
Total income taxes	$2,018	$ 852	$1,457

(10) Borrowings under investment agreements and other debt

Liabilities for this balance sheet caption are as follows (in millions):

	Dec. 31, 2000	*Dec. 31, 1999*
Commercial paper and other short-term borrowings	$ 991	$ 484
Borrowings under investment agreements	508	613
1% Senior Exchangeable Notes due 2001 (“Exchange Notes”)	235	449
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 2001 – 2028	619	609
	$ 2,663	$ 2,465

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. The obligations are, in most instances, guaranteed by Berkshire. Berkshire affiliates have approximately $4 billion available unused lines of credit to support their short-term borrowing programs and, otherwise, provide additional liquidity.

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 are redeemable prior to the contractual maturity dates.

Under certain conditions, each $1,000 par amount Exchange Note is currently exchangeable at the option of the holder or redeemable at the option of Berkshire into 59.833 shares of Citigroup common stock or at Berkshire’s option, at the equivalent value in cash. The carrying value of the Exchange Notes is equal to the value of the Citigroup shares into which they can be exchanged.

Other debt includes variable and fixed rate term bonds and notes issued by a variety of Berkshire subsidiaries. These obligations generally may be redeemed 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):

2001	*2002*	*2003*	*2004*	*2005*
$1,271	$22	$46	$24	$266

(11) Dividend restrictions - Insurance subsidiaries

Payments of dividends by insurance subsidiaries members are restricted by insurance statutes and regulations. Without prior regulatory approval, Berkshire can receive up to approximately $1.1 billion as dividends from insurance subsidiaries during 2001. During 2000, subsidiaries declared approximately $4.8 billion in dividends, of which $2 billion was paid in 2001.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $41.5 billion at December 31, 2000. This amount differs from the corresponding amount determined on the basis of GAAP. The major differences between statutory basis accounting and GAAP are that deferred income tax assets and liabilities, deferred charges-reinsurance assumed, unrealized gains and losses on investments in securities with fixed maturities and goodwill of acquired businesses are recognized under GAAP but not for statutory reporting purposes.

Effective January 1, 2001, Berkshire's insurance companies will be required to adopt several new accounting policies as a result of the completion of the Codification of Statutory Accounting Principles ("SAP") by the National Association of Insurance Commissioners. The most significant new accounting policy affecting Berkshire's insurance companies will be the requirement to record deferred income tax liabilities, including amounts related to unrealized gains in investment securities. Deferred tax liabilities were previously not recognized under SAP.

As a result, the combined statutory surplus of Berkshire's insurance businesses will decline significantly in 2001. Berkshire estimates that the combined surplus of the group would approximate $33 billion at December 31, 2000 under the new statutory accounting rules.

(12) Common stock

Changes in issued and outstanding common stock of the Company during the three years ended December 31, 2000 are shown in the table below.

	Class A Common, $5 Par Value (1,650,000 shares authorized)			*Class B Common $0.1667 Par Value (55,000,000 shares authorized)*
	Shares Issued	*Treasury Shares*	*Shares Outstanding*	*Shares Issued and Outstanding*
Balance December 31, 1997	1,366,090	168,202	1,197,888	1,087,156
Common stock issued in connection with acquisitions of businesses	168,670	(9,709)	178,379	3,174,677
Conversions of Class A common stock to Class B common stock and other	(26,732)		(26,732)	808,546
Retirement of treasury shares	(158,493)	(158,493)		
Balance December 31, 1998	1,349,535	0	1,349,535	5,070,379
Conversions of Class A common stock to Class B common stock and other	(7,872)		(7,872)	296,576
Balance December 31, 1999	1,341,663	0	1,341,663	5,366,955
Common stock issued in connection with acquisitions of businesses	3,572		3,572	1,626
Conversions of Class A common stock to Class B common stock and other	(1,331)		(1,331)	101,205
Balance December 31, 2000	1,343,904	0	1,343,904	5,469,786

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.

In connection with the General Re merger, all shares of Class A and Class B Common Stock of the Company outstanding immediately prior to the effective date of the merger were canceled and replaced with new Class A and Class B common shares and all Class A treasury shares were canceled and retired. See Note 2 for information regarding the General Re merger.

(13) Fair values of financial instruments

The estimated fair values of Berkshire's financial instruments as of December 31, 2000 and 1999, are as follows (in millions):

	Carrying Value		*Fair Value*	
	2000	*1999*	*2000*	*1999*
Investments in securities with fixed maturities	$32,567	$30,222	$32,567	$30,222
Investments in equity securities	37,619	37,772	37,619	37,772
Assets of finance and financial products businesses	16,829	24,229	16,913	24,167
Borrowings under investment agreements and other debt	2,663	2,465	2,704	2,418
Liabilities of finance and financial products businesses	14,730	22,223	14,896	22,151

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.

(14) Litigation

GEICO has been named as a defendant in a number of class action lawsuits related to the use of repair parts not produced by original equipment manufacturers in connection with settlement of collision damage claims. A number of the lawsuits have been dismissed. The remaining lawsuits are in the early stages of development and the ultimate outcome of any case cannot be reasonably determined at this time. Management intends to defend vigorously GEICO's position of recommending use of after-market parts in certain auto accident repairs.

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.

(15) 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, 2000 are summarized below. Dollars are in millions.

	Property/Casualty			*Life/Health*		
	2000	*1999*	*1998*	*2000*	*1999*	*1998*
Premiums Written: (1) (2)						
Direct	$ 6,858	$ 5,798	$4,503			
Assumed	11,270	7,951	1,184	$2,520	$1,981	$ 46
Ceded	(729)	(818)	(83)	(257)	(245)	(5)
	$17,399	$12,931	$5,604	$2,263	$1,736	$ 41
Premiums Earned: (2)						
Direct	$ 6,666	$ 5,606	$4,382			
Assumed	11,036	7,762	1,147	$2,513	$1,971	$ 45
Ceded	(620)	(788)	(89)	(252)	(245)	(4)
	$17,082	$12,580	$5,440	$2,261	$1,726	$ 41

(1) *Prior to 1999, Berkshire's insurance premium revenues were predominantly derived in the United States. Insurance premiums written by geographic region (based upon the domicile of the ceding company) are summarized below.*

	Property/Casualty		*Life/Health*	
	2000	*1999*	*2000*	*1999*
United States	*$11,409*	*$ 8,862*	*$1,296*	*$ 970*
Western Europe	*5,064**	*2,000*	*633*	*539*
All other	*926*	*2,069*	*334*	*227*
	$17,399	*$12,931*	*$2,263*	*$1,736*

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

(2) *See Note 1(a) for information related to General Re's international property/casualty and global life/health business.*

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

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

	2000	*1999*	*1998*
Cash paid during the year for:			
Income taxes	$1,396	$2,215	$1,703
Interest of finance and financial products businesses	794	513	21
Other interest	157	136	111
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	901	61	36,064
Common shares issued in connection with acquisitions of businesses	224	—	22,795
Contingent value of Exchange Notes recognized in earnings	117	87	54
Value of equity securities used to redeem Exchange Notes	278	298	344

(16) Business Segment Data

SFAS No. 131 requires certain disclosures about operating segments in a manner that is consistent with how management evaluates the performance of the segment. 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 Direct Insurance Group	Underwriting multiple lines of property and casualty insurance policies for primarily commercial accounts
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's Diamond Shops and Ben Bridge Jeweler ("Retail Businesses")	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

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 almost 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 Acme Building Brands, a manufacturer and distributor of building materials. This group of businesses also includes several independently operated finance and financial products businesses. In 2000, other businesses also include CORT Business Services, a leading national provider of rental furniture and related services and Benjamin Moore, a formulator, manufacturer and retailer of a range of architectural and industrial coatings and paints.

General Re's reinsurance business is included as a separate reportable segment beginning in 1999.

(16) 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.

	Revenues		
	2000	*1999*	*1998*
Operating Segments:			
Insurance group:			
Premiums earned:			
GEICO	$ 5,610	$ 4,757	$ 4,033
General Re **	8,696	6,905	—
Berkshire Hathaway Reinsurance Group	4,705	2,382	939
Berkshire Hathaway Direct Insurance Group	332	262	328
Interest, dividend and other investment income	2,810	2,500	982
Total insurance group	22,153	16,806	6,282
Flight services	2,279	1,856	858
Retail businesses	1,864	1,402	1,213
Scott Fetzer Companies	963	1,021	1,002
Other businesses	2,780	1,763	1,792
	30,039	22,848	11,147
Reconciliation of segments to consolidated amount:			
Realized investment gain	3,955	1,365	2,415
Other revenues	118	40	276
Purchase-accounting adjustments	(136)	(225)	(6)
	$33,976	$24,028	$13,832

	Operating Profit before Taxes		
	2000	*1999*	*1998*
Operating Segments:			
Insurance group operating profit:			
Underwriting profit(loss):			
GEICO	$ (224)	$ 24	$ 269
General Re **	(1,224)	(1,184)	—
Berkshire Hathaway Reinsurance Group	(175)	(256)	(21)
Berkshire Hathaway Direct Insurance Group	38	22	17
Interest, dividend and other investment income	2,787	2,482	974
Total insurance group operating profit	1,202	1,088	1,239
Flight services	213	225	181
Retail businesses	175	130	110
Scott Fetzer Companies	122	147	137
Other businesses	781	335	432
	2,493	1,925	2,099
Reconciliation of segments to consolidated amount:			
Realized investment gain	3,955	1,365	2,415
Interest expense *	(92)	(109)	(100)
Corporate and other	87	8	23
Goodwill amortization and other purchase-accounting adjustments	(856)	(739)	(123)
	$ 5,587	$ 2,450	$ 4,314

* *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.*

** *See Note 1(a) for additional information concerning the reporting of General Re's international property/casualty and global life/health businesses.*

(16) Business Segment Data *(Continued)*

	Capital expenditures *			Deprec. & amort. of tangible assets		
Operating Segments:	*2000*	*1999*	*1998*	*2000*	*1999*	*1998*
Insurance group:						
GEICO	$ 29	$ 87	$ 101	$ 64	$ 40	$ 27
General Re	22	17	—	39	25	—
Berkshire Hathaway Reinsurance Group	—	—	—	—	—	—
Berkshire Hathaway Direct Insurance Group	4	1	1	1	1	1
Total insurance group	55	105	102	104	66	28
Flight services	472	323	213	90	77	58
Retail businesses	45	55	33	31	27	23
Scott Fetzer Companies	11	14	10	10	11	11
Other businesses	47	33	41	46	33	25
	630	530	399	281	214	145
Reconciliation of segments to consolidated amount:						
Corporate and other	—	—	—	—	1	2
Purchase-accounting adjustments	—	—	—	1	3	8
	$ 630	$ 530	$ 399	$ 282	$ 218	$ 155

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

	Identifiable assets at year-end		
Operating Segments:	*2000*	*1999*	*1998*
Insurance group:			
GEICO	$ 10,569	$ 9,381	$ 8,663
General Re	31,594	30,168	32,011
Berkshire Hathaway Reinsurance Group	45,775	39,607	36,611
Berkshire Hathaway Direct Insurance Group	4,168	4,866	5,564
Total insurance group	92,106	84,022	82,849
Flight services	2,336	1,790	1,345
Retail businesses	1,154	906	723
Scott Fetzer Companies	295	298	242
Other businesses	18,647	24,947	17,376
	114,538	111,963	102,535
Reconciliation of segments to consolidated amount:			
Corporate and other	2,313	945	938
Goodwill and other purchase-accounting adjustments	18,941	18,508	18,764
	$135,792	$131,416	$122,237

(17) 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.

2000	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Revenues	$6,474	$6,553	$8,426	$12,523
Earnings:				
Excluding realized investment gain	$ 354	$ 245	$ 301	$ 36
Realized investment gain *	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 *	298	260	326	687
Net earnings	$ 531	$ 421	$ 523	$ 710
1999				
Revenues	$5,446	$5,461	$7,051	$6,070
Earnings:				
Excluding realized investment gain	$ 294	$ 299	$ 156	$ (78)
Realized investment gain *	247	273	264	102
Net earnings	$ 541	$ 572	$ 420	$ 24
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 194	$ 197	$ 103	$ (52)
Realized investment gain *	162	179	173	69
Net earnings	$ 356	$ 376	$ 276	$ 17

* *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.*

(18) Subsequent event

On February 26, 2001, Berkshire and Leucadia National Corporation, through a jointly owned entity, entered into a commitment letter with FINOVA Group and its subsidiary FINOVA Capital Corporation to loan $6 billion to FINOVA Capital on a senior secured basis. The loan commitment was made in connection with a proposed restructuring of all of FINOVA Capital's outstanding bank debt and publicly traded debt securities and is subject to bankruptcy court approval and various other conditions.

The $6 billion term loan will be made by Berkadia LLC, an entity formed for this purpose and owned jointly by BH Finance, an indirect wholly-owned subsidiary of Berkshire and a wholly-owned subsidiary of Leucadia. Berkadia has received a $60 million commitment fee and, in addition to certain other fees, will receive an additional $60 million fee upon funding of the loan. Berkadia's commitment for the loan has been guaranteed by Berkshire and Leucadia and expires on August 31, 2001, or earlier, if certain conditions are not satisfied. Berkadia expects to finance its funding commitment and Berkshire will provide Berkadia's lenders with a 90% primary guarantee of such financing, with Leucadia providing a 10% primary guarantee and Berkshire providing a secondary guarantee of Leucadia's guarantee.

The term loan will be secured by all assets of FINOVA Capital and will bear interest at an annual rate equal to the greater of 9% or LIBOR plus 3%. In addition, an annual facility fee will be payable at the rate of 25 basis points on the outstanding principal amount of the term loan. After payment of accrued interest on the term loan and operating and other corporate expenses, providing for reserves and payment of accrued interest on the restructured FINOVA Group senior notes, 100% of excess cash flow and net proceeds from asset sales will be used to make mandatory prepayments of principal on the term loan without premium. Any remaining principal and accrued and unpaid interest on the term loan will be due at maturity (five years from the closing).

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) —		
	2000	1999	1998
Insurance – underwriting	$(1,021)	$ (897)	$ 171
Insurance – investment income	1,955	1,764	731
Non-Insurance businesses	804	518	538
Interest expense	(61)	(70)	(63)
Goodwill amortization and other purchase-accounting adjustments	(818)	(648)	(118)
Other	77	4	18
Earnings before realized investment gain	936	671	1,277
Realized investment gain	2,392	886	1,553
Net earnings	$3,328	$1,557	$2,830

The business segment data (Note 16 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) —		
	2000	1999	1998
Underwriting gain (loss) attributable to:			
GEICO	$ (224)	$ 24	$ 269
General Re	(1,224)	(1,184)	—
Berkshire Hathaway Reinsurance Group	(175)	(256)	(21)
Berkshire Hathaway Direct Insurance Group	38	22	17
Underwriting gain (loss) — pre-tax	(1,585)	(1,394)	265
Income taxes and minority interest	(564)	(497)	94
Net underwriting gain (loss)	$(1,021)	$ (897)	$ 171

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 Direct Insurance Group.

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 $41.5 billion at December 31, 2000. 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 is presented on the following pages.

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 are in millions) —					
	2000		1999		1998	
	Amount	%	Amount	%	Amount	%
Premiums written	$5,778		$4,953		$4,182	
Premiums earned	$5,610	100.0	$4,757	100.0	$4,033	100.0
Losses and loss expenses	4,809	85.7	3,815	80.2	2,978	73.8
Underwriting expenses	1,025	18.3	918	19.3	786	19.5
Total losses and expenses	5,834	104.0	4,733	99.5	3,764	93.3
Underwriting gain (loss) — pre-tax	$ (224)		$ 24		$ 269	

Premiums earned by GEICO in 2000 totaled $5,610 million, an increase of 17.9% over 1999, which, in turn exceeded premiums earned in 1998 by 17.9%. The growth in premiums earned in 2000 for voluntary auto was 18.3% reflecting an 8.5% increase in policies-in-force during the past year and increased premium rates. During 2000, in response to increased losses, GEICO implemented rate increases in many states and tightened underwriting standards. Additional rate increases will be taken, as necessary, to align rates with pricing targets. It takes six to twelve months for the full effect of a rate change to be reflected in premiums earned.

While policies-in-force grew over the last twelve months (8.2% in the preferred-risk auto market and 9.5% in the standard and nonstandard auto lines), total policies-in-force were relatively unchanged during the second half of 2000. Voluntary auto new business sales in 2000 decreased 10.6% compared to 1999 due to decreased response to advertising, increased premium rates and tightened underwriting standards. The decline in new business sales over the last half of 2000 was significant. It is currently believed that policies-in-force in the preferred-risk auto line will increase in 2001. However, policies-in-force may decline in the standard and nonstandard auto lines.

Losses and loss adjustment expenses incurred increased 26.1% to $4,809 million in 2000. GEICO's loss ratio, which measures the portion of premiums earned that is paid or reserved for losses and related claims handling expenses, was 85.7% in 2000 compared to 80.2% in 1999 and 73.8% in 1998. The increased ratio in 2000 reflects higher severity of losses related to personal injury protection coverages and increasing cost trends for medical payments and automobile repair costs. The increases in severity were greater than anticipated resulting in larger than expected underwriting losses. As mentioned previously, GEICO has filed for rate increases to reflect the increased average severity of claims.

The levels of catastrophe losses incurred in each of the past three years were relatively minor. Catastrophe losses added approximately one percentage point to the loss ratio in each of the past three years.

GEICO's insurance subsidiaries are defendants in several class action lawsuits related to the use of collision repair parts not produced by the original auto manufacturers. Management intends to vigorously defend GEICO's position over the use of these after-market parts. However, these lawsuits are in early stages of development and the ultimate outcome cannot be reasonably determined.

GEICO's underwriting expenses in 2000 increased $107 million (11.7%) over 1999, following an increase of $132 million (16.8%) in 1999 over 1998. The increases in underwriting expenses reflect increased advertising and costs related to new business growth. In 2000, these increases were somewhat offset by significantly lower employee profit sharing expense. The unit cost of acquiring new business has continued to increase significantly in 2000 reflecting higher aggregate media spending and a lower ratio of new policies generated to new policies quoted. In response to higher unit costs, GEICO expects to reduce advertising expenditures in 2001. It is anticipated that the reduction in advertising expenditures combined with the expected impact of the previously noted underwriting actions will result in underwriting results slowly improving over the next twelve months.

Insurance — Underwriting *(Continued)*

General Re

General Re was acquired by Berkshire effective December 21, 1998. General Re's results of operations are included in Berkshire's consolidated results beginning as of that date. The historical results for all of 1998 are presented for comparative purposes, although the full-year results are not included in Berkshire's 1998 consolidated results.

General Re and its affiliates conduct a global reinsurance business, which provides reinsurance coverage in the United States and 129 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, 2000, 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.

	2000[1] Amount	1999 Amount	1998 Amount
Premiums earned	$ 8,696	$ 6,905	$ 6,095
Underwriting loss — pre-tax	$(1,224)	$(1,184)	$ (370)

[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.*

Generally, underwriting conditions within the reinsurance industry during 2000 remained difficult. General Re's overall underwriting results during 2000 and 1999 were unsatisfactory in both the property/casualty and life/health reinsurance businesses. General Re management continues to take underwriting actions to address these matters with the objective of returning underwriting results to acceptable levels. Although the underwriting losses for 2000 were considerable, $239 million of the loss was attributed to a single large aggregate excess contract written in 2000. Additional information regarding this arrangement is provided in the North American property/casualty discussion.

Otherwise, General Re's results for 2000 were improved over 1999. The improvement is believed to be a result of the actions already taken both in the North American and international businesses, as well as signs of improvement in certain segments of the reinsurance market. However, the impact of underwriting initiatives on international business may take longer to become effective than on U.S. business. Absent large property/catastrophe losses or adverse development with respect to existing loss reserves, Berkshire expects that General Re's underwriting results will continue to improve in 2001. Additional information and analysis 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 years ending December 31, 2000, 1999 and 1998 are summarized below.

	2000		1999		1998	
	Amount	%	Amount	%	Amount	%
Premiums written	$3,517		$2,801		$2,707	
Premiums earned	$3,389	100.0	$2,837	100.0	$2,708	100.0
Losses and loss expenses	3,161	93.3	2,547	89.8	1,830	67.6
Underwriting expenses	854	25.2	874	30.8	857	31.6
Total losses and expenses	4,015	118.5	3,421	120.6	2,687	99.2
Underwriting gain (loss) — pre-tax	$ (626)		$ (584)		$ 21	

Insurance — Underwriting *(Continued)*

General Re *(Continued)*

General Re's North American property/casualty operations underwrite predominantly excess reinsurance across multiple lines of business. Premiums earned in 2000 exceeded premiums earned in 1999 by $552 million or 19.5%. Premiums earned in 1999 increased over 1998 levels by $129 million or 4.8%. A single large aggregate excess reinsurance contract affected premiums earned in the past two years. This reinsurance contract accounted for earned premiums of $404 million in 2000 and $154 million in 1999. The contract was not renewed in 2001. Excluding the effects of this contract, the growth in North American premiums during 2000 was primarily due to net increases in the national accounts, excess and surplus reinsurance lines and individual risk businesses. This net growth resulted from a combination of new business, the effects of rate increases on existing business, and was partially offset by the non-renewal of significantly under-performing business. In addition, the net increase in premiums in 2000 was partially due to reductions in reinsurance premiums ceded to the Berkshire Hathaway Reinsurance Group.

Underwriting results from North American property/casualty operations for 2000 and 1999 produced underwriting losses of $626 million and $584 million, respectively. Underwriting results for 2000 include $239 million of net underwriting loss from assumption of the aggregate excess reinsurance contract referenced above. The effect of this aggregate excess reinsurance 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 net loss, it is expected to provide more than commensurate investment benefits in future years due to the large amount of float generated. Notwithstanding, this large excess contract added 5.5 points to the combined loss and expense ratio in 2000.

When the effects of the aforementioned large aggregate excess contract are excluded, General Re's North American property/casualty underwriting results improved in 2000 as compared to the results for 1999. The underwriting loss ratio declined from 121.8% in 1999 to 113.0% in 2000. The improved results in 2000 were primarily due to the initial effects of underwriting actions on both property and casualty lines. In addition, catastrophe and large property losses were less in 2000 than in 1999. Losses arising from catastrophic events and other large property losses added 3.5 points to the North American property/casualty loss and loss expense ratio for 2000, as compared to 9.4 points for 1999 and 4.1 points for 1998. While the potential for catastrophe and large property losses are factors normally considered in underwriting decisions, the timing and magnitude of such losses can cause significant volatility in periodic underwriting results.

The improvement in property lines in 2000 was partially offset by adverse development of reserves established for prior years' claims. The adverse loss development in 2000 arose primarily in the medical malpractice, commercial umbrella and casualty treaty reinsurance lines. In 1999 and 1998, General Re's North American property/casualty loss reserves experienced favorable reserve development, although the amount of favorable development in 1999 was considerably less than in 1998.

General Re's International property/casualty underwriting results for the years ending December 31, 2000, 1999 and 1998 are summarized below.

	2000[1]		2000[2]		1999		1998	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums written	$3,036		$2,505		$2,506		$2,072	
Premiums earned	$3,046	100.0	$2,478	100.0	$2,343	100.0	$2,095	100.0
Losses and loss expenses	2,577	84.6	2,091	84.4	2,041	87.1	1,514	72.3
Underwriting expenses	987	32.4	803	32.4	775	33.1	682	32.5
Total losses and expenses	3,564	117.0	2,894	116.8	2,816	120.2	2,196	104.8
Underwriting loss — pre-tax	$ (518)		$ (416)		$ (473)		$ (101)	

[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 and 1998.*

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. The preceding table shows underwriting results for both the twelve month and fifteen month periods. The comparative analysis that follows excludes the additional quarter, with results for the additional three month period of 2000 discussed separately afterward.

Premiums earned in the twelve months of 2000 exceeded 1999 amounts by 5.8%, whereas 1999 premiums earned exceeded 1998 levels by 11.8%. Adjusting for the effects of overall declining foreign exchange rates, earned premiums in local currencies grew 16.7% during 2000 and 12.0% during 1999. The growth in 2000 earned premiums was primarily due to increased premiums in European markets outside Germany, premiums which became due in 2000 to reinstate coverage as a result of fourth quarter 1999 European winter storm losses, new business in South America, and the effect of increased volume and participation in DP Mann's Syndicate 435 at Lloyd's of London. This growth was partially offset by the cancellation of some significant quota-share treaties.

Underwriting results for General Re's International property/casualty segment for 2000 remained very bad. Loss and loss expense ratios for the twelve months of 2000 were 84.4% as compared to 87.1% for 1999 and 72.3% for 1998. The decrease in the loss ratio from 1999 was primarily due to lower levels of catastrophe and other large losses in 2000. The effect of catastrophes and other large property losses represented 5.9 points of the loss and loss expense ratio for 2000, compared to 5.4 points for 1999. The loss and loss expense ratio for 1999 also included approximately 4.0 points related to coverages for the motion picture business, which has since been discontinued. In 1998, catastrophe losses represented 1.3 points. Due to the large amount of property business written in the International property/casualty operations, periodic underwriting results can be volatile.

The International property/casualty business generated an underwriting loss of $102 million during the additional quarter being reported in the 2000 financial statements (three month period ended December 31, 2000). The results were adversely affected by two catastrophes involving flood losses in the United Kingdom and Italy, totaling $25 million.

General Re's Global life/health underwriting results for the years ending December 31, 2000, 1999 and 1998 are summarized below.

	2000(1)		2000(2)		1999		1998	
	Amount	%	Amount	%	Amount	%	Amount	%
Premiums written	$2,263		$1,781		$1,736		$1,305	
Premiums earned	$2,261	100.0	$1,773	100.0	$1,725	100.0	$1,292	100.0
Losses and loss expenses	1,869	82.6	1,473	83.1	1,434	83.2	1,263	97.8
Underwriting expenses	472	20.9	384	21.6	418	24.2	319	24.6
Total losses and expenses	2,341	103.5	1,857	104.7	1,852	107.4	1,582	122.4
Underwriting loss — pre-tax	$ (80)		$ (84)		$ (127)		$ (290)	

(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 and 1998.*

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, with results for that period discussed separately afterward.

Global life/health premiums earned in 2000 increased 2.8% over 1999 amounts. Premiums earned in 1999 increased 33.5% over 1998 levels. Adjusting both the 2000 and 1999 periods for the effects of run-off business written by a former London-based managing underwriter, Global life/health earned premiums increased 9.8% in 2000 and 20.3% in 1999. The increase in earned premiums in 2000 is primarily due to increases in the U.S. individual health segment and reduced retrocessions of business.

The Global life/health operations produced improved but still unsatisfactory underwriting results for 2000. Underwriting results weakened in the international life/health business, while the U.S. life/health operations continued to show improvement. Of the $84 million Global life/health underwriting loss in 2000, $23 million was attributable to the U.S. operations and $61 million was incurred in the international operations. The U.S. life segment produced modest underwriting profits in 2000 and a significantly reduced loss in its health operations. Results in the international life operations deteriorated from 1999, primarily due to losses on personal accident and pension lines of business.

Underwriting results for the additional quarter of 2000 produced a small profit of $4 million. While all segments showed improvement, the U.S. individual life and international health segments both produced underwriting profits during the quarter. The improvement in the U.S. individual life segment was primarily due to reduced mortality and better persistency.

<u>*Berkshire Hathaway Reinsurance Group*</u>

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. Dollar amounts are in millions.

	2000		1999		1998	
	Amount	%	Amount	%	Amount	%
Premiums written	$4,724		$2,410		$ 986	
Premiums earned	$4,705	100.0	$2,382	100.0	$ 939	100.0
Losses and loss expenses	4,766	101.3	2,573	108.0	765	81.5
Underwriting expenses	114	2.4	65	2.7	195	20.7
Total losses and expenses	4,880	103.7	2,638	110.7	960	102.2
Underwriting loss — pre-tax	$ (175)		$(256)		$ (21)	

Premiums earned from retroactive reinsurance contracts were $3,944 million in 2000, $1,508 million in 1999 and $343 million in 1998. In 2000, premiums of $2,438 million were derived from a single contract. Generally, retroactive reinsurance contracts indemnify the ceding company, subject to aggregate loss limits, with respect to insured loss events that are attributed to insurance contracts written in the past, usually many years ago. Many of these contracts may give rise to considerable amounts of environmental and latent injury claims.

It is generally expected that losses ultimately paid under retroactive contracts will exceed the premiums received, in some cases by a wide margin. Premiums are based in part on time-value-of-money concepts because loss payments may occur over lengthy time periods. However, retroactive contracts do not significantly impact reported earnings in the year of inception. Consistent with Berkshire's accounting policy, the excess of the estimated ultimate losses payable over the premiums received is established as a deferred charge and amortized against income over the estimated future claim settlement periods. Although Berkshire expects that these contracts will produce significant underwriting losses over time, the business is accepted due to the exceptional levels of policyholder float generated.

Insurance — Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group *(Continued)*

Net underwriting losses with respect to retroactive reinsurance contracts were $191 million in 2000, $97 million in 1999 and $90 million in 1998. The net underwriting losses from this business reflect the amortization of deferred charges on retroactive reinsurance as well as the accretion of discounted structured settlement liabilities. The amortization and accretion charges are reported as losses incurred and, because there are no offsetting premiums, as underwriting losses. Due to the magnitude of the retroactive reinsurance contracts entered into during the past two years, deferred charges increased significantly. Consequently, as a result of the periodic amortization of deferred charges, underwriting losses are expected to increase in future periods.

Premiums earned from non-catastrophe reinsurance contracts totaled $447 million in 2000, $560 million in 1999 and $310 million in 1998. In each of the last three years, the premiums earned from this business were derived predominantly from a small number of sizable contracts. Premiums earned in 2000 and 1999 included $58 million and $113 million, respectively, from contracts with General Re's North American property/casualty operations.

Net underwriting losses from the non-catastrophe reinsurance business were $167 million in 2000, $355 million in 1999 and $86 million in 1998. BHRG incurred a net loss of approximately $186 million from a single aggregate excess contract during the fourth quarter of 2000. In 1999, BHRG had net underwriting losses of $220 million from a similar single excess contract. As with retroactive reinsurance contracts, the premiums established for non-catastrophe reinsurance contracts are based on time-value-of-money concepts because loss payments are expected to occur over lengthy time periods. Loss reserves for this business are established without such time discounting but, unlike retroactive reinsurance contracts, no deferred charges are established. Consequently, significant underwriting losses can result. This business is accepted because of the large amounts of float that is produced. It is anticipated that Berkshire will derive significant economic benefits over the lengthy period of time that the float is available for investment.

Premiums earned from catastrophe excess contracts were $314 million in 2000 and 1999 and $286 million in 1998. Competition within the catastrophe reinsurance markets remains intense, which in many instances, makes premium rates inadequate or coverage conditions unacceptable. As a result, BHRG has accepted relatively few new arrangements. However, it is expected that this business will still produce meaningful amounts of earned premiums during 2001.

Net underwriting gains from catastrophe reinsurance were $183 million in 2000, $196 million in 1999 and $155 million in 1998. Catastrophe losses incurred in each of the past three years were relatively minor. Significant exposure to losses remains with respect to contracts that are in-force at year-end 2000, especially with respect to a major earthquake in California or a major hurricane affecting the U.S. Future periodic underwriting results of this business are subject to extreme volatility. However, Berkshire's management is willing to accept volatility in reported results, provided there is a reasonable prospect of long-term profitability.

Berkshire Hathaway Direct Insurance Group

The Berkshire Hathaway Direct Insurance Group is comprised of a wide variety of smaller property/casualty businesses. These businesses include: National Indemnity Company's traditional commercial motor vehicle and specialty risk operations ("NICO"); several companies collectively referred to as the "homestate" operations, which provide primarily standard commercial coverages to insureds and Central States Indemnity Company ("CSI"), a provider of credit card credit insurance to individuals nationwide through financial institutions. In August 2000, this group of businesses was expanded as a result of Berkshire's acquisition of United States Investment Corporation ("USIC"), whose insurance subsidiaries underwrite specialty insurance coverage in the United States.

Collectively, direct insurance businesses produced earned premiums of $332 million in 2000, $262 million in 1999 and $328 million in 1998. In 2000, premiums earned increased primarily due to the inclusion of USIC and to comparatively greater amounts earned by CSI. The decrease in premiums earned in 1999 compared to 1998 was principally attributed to lower premiums at CSI. Net underwriting gains of the direct businesses totaled $38 million in 2000, $22 million in 1999 and $17 million in 1998. The increase in underwriting profits in 2000 over 1999 was primarily due to underwriting gains from USIC and an increase in underwriting gains at NICO.

Insurance — Investment Income

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

	(dollars in millions)		
	2000	1999	1998
Investment income before taxes	$2,787	$2,482	$974
Applicable income taxes and minority interest	832	718	243
Investment income after taxes and minority interest	$1,955	$1,764	$731

Investment income before taxes from the insurance operations increased in 2000 by $305 million (12.3%) over 1999. The increase in investment income in 2000 as compared to 1999 is due to greater amounts of taxable interest and dividend income, partially offset by reduced tax exempt interest. Approximately one-third of the total increase in pre-tax investment income in 2000 was attributed to the inclusion of the fifth quarter of General Re's International property/casualty and Global life/health operations, as previously discussed. Investment income in 1999 includes income of General Re's insurance operations, which were acquired by Berkshire in December 1998.

At December 31, 2000, cash and invested assets totaled approximately $76.5 billion, an increase of approximately $4.1 billion from December 31, 1999. Insurance invested assets grew by about $25 billion in 1998 as a result of the General Re acquisition.

Berkshire's insurance businesses generate large amounts of investment income derived from shareholder capital, as well as policyholder float. Float represents an estimate of the amount of funds ultimately payable to policyholders that is available for investment. Float denotes the sum of net loss and loss adjustment expense reserves, unearned premiums, and funds held under reinsurance agreements, less premiums receivable, deferred acquisition costs, deferred charges on retroactive reinsurance and prepaid income taxes. The aggregate float was approximately $27.9 billion at December 31, 2000 and $25.3 billion at December 31, 1999. Most of the increase in float during 2000 was generated by BHRG.

Income taxes and minority interest as a percentage of investment income before taxes were 29.9% for 2000, 28.9% for 1999 and 24.9% for 1998. The increase in the rates reflects an increase in the proportion of taxable interest income relative to the amounts of dividend and tax exempt interest, which are effectively taxed at lower rates.

Non-Insurance Businesses

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

	— (dollars in millions) —					
	2000		1999		1998	
	Amount	%	Amount	%	Amount	%
Revenues	$7,886	100	$6,042	100	$4,865	100
Cost and expenses	6,595	84	5,205	86	4,005	82
Operating profit	1,291	16	837	14	860	18
Income taxes and minority interest	487	6	319	5	322	7
Contribution to net earnings	$ 804	10	$ 518	9	$ 538	11

A comparison of revenues and operating profits between 2000, 1999 and 1998 for the non-insurance businesses follows.

	— (dollars in millions) —						Operating Profit		
	Revenues			Operating Profits			as a % of Revenues		
Non-Insurance Businesses	2000	1999	1998	2000	1999	1998	2000	1999	1998
Flight Services	2,279	1,856	858	213	225	181	9	12	21
Retail businesses	1,864	1,402	1,213	175	130	110	9	9	9
Scott Fetzer Companies	963	1,021	1,002	122	147	137	13	14	14
Other businesses	2,780	1,763	1,792	781	335	432	28	19	24
	$7,886	$6,042	$4,865	$1,291	$837	$860			

Non-Insurance Businesses *(Continued)*

2000 compared to 1999

Revenues from Berkshire's numerous and diverse non-insurance businesses of $7,886 million in 2000 increased $1,844 million (30.5%) from the prior year. The aggregate operating profits from these businesses of $1,291 million in 2000 increased $454 million (54.2%). Revenues and operating results for Berkshire's non-insurance business activities will change considerably in 2001. Just prior to the end of 2000, Berkshire acquired Benjamin Moore, a leading formulator and manufacturer of architectural and industrial coatings. Additionally, during the first two months of 2001, Berkshire acquired 87.3% of Shaw Industries, the world's largest producer of tufted broadloom carpet and rugs and Johns Manville, a leading producer of insulation and building products. These three businesses generated approximately $7 billion in sales revenues in 2000.

The following is a discussion of significant matters impacting comparative results for the non-insurance businesses.

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 2000 increased $423 million (22.8%) over 1999. Most 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 10% in 2000 as compared to 1999, reflecting both increased training revenues and product sales. Operating profits in 2000 decreased $12 million (5.3%) as compared to 1999. Increased operating profits at FlightSafety were more than offset by reduced operating profits at Executive Jet. Executive Jet's results in 2000 and 1999 reflect operating losses related to expansion into Europe as well as significantly higher operating costs incurred to generate future domestic growth.

Retail Businesses

These businesses include four independently managed retailers of home furnishings (Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture and Jordan's Furniture) and three independently managed retailers of fine jewelry (Borsheim's, Helzberg's Diamond Shops and Ben Bridge Jeweler). Two of these businesses were acquired during the past two years (Jordan's Furniture – November, 1999 and Ben Bridge Jeweler – July, 2000). Revenues of these businesses in 2000 increased $462 million (33.0%) as compared to 1999 and operating profits in 2000 increased $45 million (34.6%) as compared to 1999. Approximately 70% of the increase in revenues and 80% of the increase in operating profits in 2000 was due to the inclusion of the results of Jordan's for the full year in 2000 and to the inclusion of Ben Bridge from the date of its acquisition.

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. These three businesses normally produce approximately 60% of the revenues and 65% of the operating profits of Scott Fetzer. Revenues in 2000 from Scott Fetzer's businesses decreased $58 million (5.7%) as compared to 1999. Operating profits in 2000 declined $25 million (17.0%) as compared to 1999. The decline in revenues was due primarily to lower sales of power generators at Campbell Hausfeld and lower unit sales at Kirby. In 1999, sales of generators were unusually high due in part to Year 2000 concerns. In addition to the impact on operating profits from the aforementioned revenue declines, the decline in operating profits was also due in part to reduced profits at World Book.

Other Businesses

Other businesses conduct a broad range of activities. A brief description of the most significant of the activities conducted by this diverse group of non-insurance businesses is provided in Note 16 to the accompanying Consolidated Financial Statements. During 2000, Berkshire acquired three businesses that are currently included in this group (CORT Business Services, acquired in February, 2000; Justin Brands and Acme Building Brands, acquired in August, 2000; and Benjamin Moore, acquired in December, 2000).

Non-Insurance Businesses *(Continued)*

Other Businesses (Continued)

Revenues in 2000 of this group of businesses increased approximately $1,017 million (57.7%) over 1999. Operating profits of these businesses in 2000 exceeded 1999 by $446 million (133%). Approximately $600 million of the increase in revenues and $85 million of the increase in operating profits was attributed to the aforementioned business acquisitions. In addition, a significant increase in net revenues and operating profits was generated by Berkshire's finance and financial products businesses. The increase in operating profits of the finance and financial products businesses in 2000 was produced primarily from realized gains on a large portfolio of fixed maturity securities acquired in 1999 pursuant to a proprietary trading strategy. These securities were disposed of during 2000. Partially offsetting the realized gains on trading securities in 2000 were operating losses at GRS.

1999 compared to 1998

Revenues from the non-insurance businesses increased $1,177 million (24.2%) in 1999 as compared to 1998. Operating profits of $837 million during 1999 decreased $23 million (2.7%) from the comparable 1998 amount. The most significant factor giving rise to the revenue increase was the inclusion of Executive Jet for a full year in 1999 versus just under five months during 1998. Operating profits increased at Berkshire's Flight Services, Retail and Scott Fetzer business segments. However, more than offsetting these increases was a decline of $87 million in operating profits from Berkshire's finance and financial products businesses.

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. The increase in 2000 as compared to 1999 is primarily due to the inclusion of a charge of $219 million related to the write-off of goodwill related to Dexter Shoe (see Note 1(g) to the Consolidated Financial Statements). The significant increase in such charges during 1999 as compared to 1998 periods is primarily due to the acquisition of General Re at the end of 1998.

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, principally GEICO and General Re. 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 $680 million at December 31, 2000, $940 million at December 31, 1999 and $1.2 billion at December 31, 1998.

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 equity prices and interest rates and to a lesser degree financial products. The following sections address the significant market risks associated with Berkshire's business activities.

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 2000 and 1999, approximately 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.

In addition to its equity investments, Berkshire's obligations with respect to the 1% Senior Exchangeable Notes are subject to equity price risks. See Note 10 to the Consolidated Financial Statements for information regarding the Exchange Notes. The Exchange Notes had a carrying value of $235 million at December 31, 2000 and $449 million at December 31, 1999. For purposes of this discussion, these amounts have been deducted from the fair value of equity securities.

The table below summarizes Berkshire's equity price risks as of December 31, 2000 and 1999 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) Shareholders' Equity
As of December 31, 2000................	$37,384	30% increase	$48,599	11.7
		30% decrease	26,170	(11.7)
As of December 31, 1999................	$37,323	30% increase	$48,520	12.4
		30% decrease	26,126	(12.4)

Interest Rate Risk

This section discusses interest rate risks associated with Berkshire's financial assets and liabilities, other than those of its finance and financial products businesses, which are discussed later. Berkshire's management prefers to invest in equity securities or to acquire entire businesses based upon the principles discussed in the preceding 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.

Interest Rate Risk *(Continued)*

The fair values of Berkshire's fixed maturity investments and borrowings under investment agreements 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.

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)			
	Fair	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
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
As of December 31, 1999					
Investments in securities with fixed maturities....	$30,222	$31,942	$28,483	$26,852	$25,413
Borrowings under investment agreements and other debt..	1,971	2,059	1,891	1,819	1,753

Financial Products Risk

The finance and financial products operations are subject to market risk principally through Gen Re Securities Holdings Limited ("GRS"). GRS monitors its market risk on a daily basis across all swap and option products by calculating 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 done 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, 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 2000 and $15 million in 1999. During 1999, the actual losses exceeded the market risk limit on one occasion. 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. Dollars are in millions.

	2000					1999
	Interest Rate	Foreign Exchange Rate	Equity	Credit	All Risks	All Risks
Highest............................	$7	$6	$4	$3	$14	$10
Lowest.............................	3	3	—	1	1	4
Average...........................	5	4	1	1	4	8

Financial Products Risk *(Continued)*

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. Since inception, GRS has not experienced any credit losses.

Liquidity and Capital Resources

Berkshire's balance sheet continues to reflect significant liquidity and a strong capital base. Consolidated shareholders' equity at December 31, 2000 totaled $61.7 billion. Consolidated cash and invested assets, excluding assets of finance and financial products businesses totaled approximately $77.1 billion at December 31, 2000. Berkshire has deployed about $7.7 billion in cash for business acquisitions and investments in MidAmerican during 2000 and the first two months of 2001. Cash utilized in these acquisitions was generated internally.

The net amount of borrowings under investment agreements and other debt increased $198 million during 2000. The increase was due to the inclusion of debt of subsidiaries assumed in connection with business acquisitions during 2000 and an increase in borrowings of certain Berkshire subsidiaries, partially offset by a decline in corporate debt.

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.

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 booklet was reprinted in January 1999 and distributed to all of Berkshire's 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 seven 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 attempt to offset the shortcomings of conventional accounting by regularly reporting "look-through" earnings (though, for special and nonrecurring reasons, we occasionally omit them). The look-through numbers include Berkshire's own reported operating earnings, excluding capital gains and purchase-accounting adjustments (an explanation of which occurs later in this message) plus Berkshire's share of the undistributed earnings of our major investees — amounts that are not included in Berkshire's figures under conventional accounting. From these undistributed earnings of our investees we subtract the tax we would have owed had the earnings been paid to us as dividends. We also exclude capital gains, purchase-accounting adjustments and extraordinary charges or credits from the investee numbers.

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 <u>not</u>, 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 two terms that I mentioned earlier and that you will encounter in future annual reports.

Let's start with intrinsic value, 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.

PURCHASE-ACCOUNTING ADJUSTMENTS

Next: spinach time. I know that a discussion of accounting technicalities turns off many readers, so let me assure you that a full and happy life can still be yours if you decide to skip this section.

Our 1996 acquisition of GEICO, however, means that purchase-accounting adjustments of about $40 million are charged against our annual earnings as recorded under generally accepted accounting principles (GAAP). Our General Re acquisition will produce an annual charge many times this number, but we don't have final figures at this time. So the magnitude of these charges makes them a subject of importance to Berkshire. In our annual reports, therefore, we will sometimes talk of earnings that we will describe as "before purchase-accounting adjustments." The discussion that follows will tell you why we think earnings of that description have far more economic meaning than the earnings produced by GAAP.

When Berkshire buys a business for a premium over the GAAP net worth of the acquiree — as will usually be the case, since most companies we'd want to buy don't come at a discount — that premium has to be entered on the asset side of our balance sheet. There are loads of rules about just how a company should record the premium. But to simplify this discussion, we will focus on "Goodwill," the asset item to which almost all of Berkshire's acquisition premiums have been allocated. For example, when we acquired in 1996 the half of GEICO we didn't previously own, we recorded goodwill of about $1.6 billion.

GAAP requires goodwill to be amortized — that is, written off — over a period no longer than 40 years. Therefore, to extinguish our $1.6 billion in GEICO goodwill, we will take annual charges of about $40 million until 2036. This amount is not deductible for tax purposes, so it reduces both our pre-tax and after-tax earnings by $40 million.

In an accounting sense, consequently, our GEICO goodwill will disappear gradually in even-sized bites. But the one thing I can guarantee you is that the *economic* goodwill we have purchased at GEICO will not decline in the same measured way. In fact, my best guess is that the economic goodwill assignable to GEICO has dramatically increased since our purchase and will likely continue to increase — quite probably in a very substantial way.

I made a similar statement in our 1983 Annual Report about the goodwill attributed to See's Candy, when I used that company as an example in a discussion of goodwill accounting. At that time, our balance sheet carried about $36 million of See's goodwill. We have since been charging about $1 million against earnings every year in order to amortize the asset, and the See's goodwill on our balance sheet is now down to about $21 million. In other words, from an accounting standpoint, See's is now presented as having lost a good deal of goodwill since 1983.

The economic facts could not be more different. In 1983, See's earned about $27 million pre-tax on $11 million of net operating assets; in 1997 it earned $59 million on $5 million of net operating assets. Clearly See's economic goodwill has increased dramatically during the interval rather than decreased. Just as clearly, See's is worth many hundreds of millions of dollars more than its stated value on our books.

We could, of course, be wrong, but we expect that GEICO's gradual loss of accounting value will continue to be paired with major increases in its economic value. Certainly that has been the pattern at most of our subsidiaries, not just See's. That is why we regularly present our operating earnings in a way that allows you to ignore all purchase-accounting adjustments.

Before leaving this subject, we should issue an important warning: Investors are often led astray by CEOs and Wall Street analysts who equate depreciation charges with the amortization charges we have just discussed. In no way are the two the same: With rare exceptions, depreciation is an economic cost every bit as real as wages, materials, or taxes. Certainly that is true at Berkshire and at virtually all the other businesses we have studied. Furthermore, we do *not* think so-called EBITDA (earnings before interest, taxes, depreciation and amortization) is a meaningful measure of performance. Managements that dismiss the importance of depreciation — and emphasize "cash flow" or EBITDA — are apt to make faulty decisions, and you should keep that in mind as you make your own investment decisions.

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.

COMBINED FINANCIAL STATEMENTS

BUSINESS GROUPS

Berkshire's consolidated data is rearranged in the presentations on the following six pages into four categories, corresponding to the way Mr. Buffett and Mr. Munger think about Berkshire's businesses. The presentations may be helpful to readers in making estimates of Berkshire's intrinsic value.

The presentations in this section do not conform in all respects to GAAP. Principal departures from GAAP relate to accounting treatment for assets acquired in business acquisitions, although students and practitioners of accounting will recognize others.

Opinions of Berkshire's independent auditors were not solicited for this data. The four-category presentations in no way fell within their purview.

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Berkshire's insurance businesses are comprised of four operating groups of subsidiaries. GEICO, through its subsidiaries, is a multiple line property and casualty insurer the principal business of which is writing private passenger automobile insurance. 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. GEICO is currently the sixth largest auto insurer in the U.S.

The Berkshire Hathaway Reinsurance Group provides treaty and limited facultative reinsurance to other property/casualty insurers and reinsurers. Berkshire is one of the world's leading providers of catastrophe excess of loss reinsurance. In recent years, the group has generated significant premium volume from a few very sizable retroactive reinsurance contracts. Berkshire's unparalleled capital strength has enabled it to offer dollar coverages of a magnitude far in excess of its competitors.

On December 21, 1998, Berkshire acquired General Re Corporation. General Re is a holding company for global reinsurance and related risk management operations. General Re, through its domestic subsidiaries, General Reinsurance Corporation and National Reinsurance Corporation, is one of the largest professional property/casualty reinsurance groups domiciled in the United States. General Re also owns a controlling interest in Cologne Re, a major international reinsurer.

Berkshire's fourth group of businesses underwrite miscellaneous forms of direct insurance. National Indemnity Company and other affiliated entities underwrite multiple lines of traditional insurance for primarily commercial accounts. The "Homestate Group" companies underwrite various commercial coverages for risks in an increasing number of selected states. Cypress Insurance Company provides workers' compensation insurance to employers in California and other states. Central States Indemnity Company issues credit insurance distributed through credit card issuers nationwide, Kansas Bankers Surety Company is an insurer for primarily small and medium sized banks located in the midwest and the United States Liability Insurance Group (acquired on August 8, 2000) is a provider of excess and surplus lines of insurance.

Combined financial statements of the Insurance Group — unaudited and not fully adjusted to conform to GAAP — are presented on the following page. These combined financial statements exclude the operating results of General Re from 1998's Statement of Earnings.

BERKSHIRE HATHAWAY INC.
INSURANCE GROUP
Balance Sheets
(dollars in millions)

	December 31, 2000	December 31, 1999
Assets		
Investments:		
Fixed maturities at market	$32,381	$30,217
Equity securities and other investments at market:		
American Express Company	8,147	8,218
The Coca-Cola Company	12,159	11,622
Freddie Mac	146	2,803
The Gillette Company	3,468	3,954
Wells Fargo & Company	2,964	2,316
Other	12,008	10,256
	71,273	69,386
Cash and cash equivalents	4,700	2,981
Deferred costs	3,508	2,309
Other	12,808	9,490
	$92,289	$84,166
Liabilities		
Losses and loss adjustment expenses	$33,022	$26,802
Unearned premiums	3,885	3,718
Policyholder liabilities and other accruals	6,986	6,537
Income taxes, principally deferred	9,729	9,430
	53,622	46,487
Equity		
Minority shareholders'	1,157	1,337
Berkshire shareholders'	37,510	36,342
	38,667	37,679
	$92,289	$84,166

Statements of Earnings
(dollars in millions)

	2000	1999	1998
Premiums written	$19,662	$14,667	$5,476
Premiums earned	$19,343	$14,306	$5,300
Losses and loss expenses	17,326	12,518	3,904
Underwriting expenses	3,602	3,182	1,131
Total losses and expenses	20,928	15,700	5,035
Underwriting gain (loss) — pre-tax	(1,585)	(1,394)	265
Net investment income*	2,811	2,488	974
Realized investment gain	3,920	1,364	2,462
Earnings before income taxes	5,146	2,458	3,701
Income tax expense	1,604	672	1,186
	3,542	1,786	2,515
Minority interest	230	35	17
Net earnings	$ 3,312	$ 1,751	$2,498
** Net investment income is summarized below:*			
Dividends	*$ 493*	*$ 476*	*$363*
Interest	*2,340*	*2,030*	*621*
Investment expenses	*(22)*	*(18)*	*(10)*
	$2,811	*$2,488*	*$974*

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

MANUFACTURING, RETAILING AND SERVICES BUSINESSES

Combined financial statements of Berkshire's Manufacturing, Retailing and Services businesses - unaudited and not fully adjusted to conform to GAAP - are presented on the following page. The operations whose data have been combined in these presentations include the following:

Operation	*Product/Service/Activity*
Acme Building Brands	Face brick and other building materials
Adalet	Electrical enclosure systems and cable accessories
Ben Bridge Jeweler	Retailing fine jewelry
Benjamin Moore	Architectural and industrial coatings
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Buffalo News	Daily and Sunday newspaper
Campbell Hausfeld	Air compressors and tools, painting systems, pressure washers, welders and generators
Carefree	Comfort and convenience products for the recreational vehicle industry
Cleveland Wood Products	Vacuum cleaner brushes and bags
CORT Business Services	Provider of rental furniture, accessories and related services
Dexter Shoe Company	Dress, casual and athletic shoes
Douglas Products	Specialty and cordless vacuum cleaners
Executive Jet	Fractional ownership programs for general aviation aircraft
Fechheimer Bros. Co.	Uniforms and accessories
FlightSafety	High technology training to operators of aircraft and ships
France	Sign transformers including components and battery chargers
H. H. Brown Shoe Co.	Work shoes, boots and casual footwear
Halex	Zinc die cast conduit fittings and other electrical construction materials
Helzberg's Diamond Shops	Retailing fine jewelry
International Dairy Queen	Licensing and servicing Dairy Queen Stores
Jordan's Furniture	Retailing home furnishings
Justin Brands	Western footwear
Kingston	Appliance controls and actuators
Kirby	Home cleaning systems
Lowell Shoe, Inc.	Women's and nurses' shoes
Meriam	Pressure and flow measurement devices
MidAmerican Energy	Production, supply and distribution of energy
Nebraska Furniture Mart	Retailing home furnishings
Northland	Fractional horsepower electric motors
Powerwinch	Marine and general purpose winches, windlasses, and hoists
Precision Steel Products	Steel service center
Quikut	Cutlery for the home and sporting goods markets
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scot Labs	Cleaning compounds and solutions
See's Candies	Boxed chocolates and other confectionery products
Stahl	Truck equipment including service flatbed and dump bodies, cranes, tool boxes, and hoists
Star Furniture Company	Retailing home furnishings
Wayne Combustion Systems	Oil and gas burners for residential and commercial appliances and equipment
Wayne Water Systems	Sump, utility, sewage and well pumps
Western Enterprises	Medical and industrial compressed gas fittings and regulators
Western Plastics	Molded plastic components
R.C. Willey Home Furnishings	Retailing home furnishings
World Book	Printed and multimedia encyclopedias and other educational materials

BERKSHIRE HATHAWAY INC.

MANUFACTURING, RETAILING AND SERVICES BUSINESSES

Balance Sheets
(dollars in millions)

	December 31, 2000	December 31, 1999
Assets		
Cash and cash equivalents	$ 400	$ 370
Accounts receivable	1,226	923
Inventories	1,215	806
Investments in MidAmerican Energy Holdings Company	1,719	—
Properties and equipment	2,250	1,509
Other	921	388
	$7,731	$3,996
Liabilities		
Accounts payable, accruals and other	$1,674	$ 908
Income taxes	187	196
Term debt and other borrowings	1,213	740
	3,074	1,844
Equity		
Minority shareholders'	59	75
Berkshire shareholders'	4,598	2,077
	4,657	2,152
	$7,731	$3,996

Statements of Earnings
(dollars in millions)

	2000	1999	1998
Revenues:			
Sales and service revenues	$7,326	$5,918	$4,675
Income from MidAmerican Energy Holdings Company	197	—	—
Interest income	18	11	8
	7,541	5,929	4,683
Cost and expenses:			
Cost of products and services sold	4,893	4,061	3,010
Selling, general and administrative expenses	1,657	1,126	1,014
Interest on debt	85	31	19
	6,635	5,218	4,043
Earnings from operations before income taxes	906	711	640
Income tax expense	334	267	234
	572	444	406
Minority interest	21	5	5
Net earnings	$ 551	$ 439	$ 401

This presentation reflects the results of operations of recent business acquisitions from their respective dates of acquisition; (International Dairy Queen — January 7, 1998; Executive Jet — August 7, 1998; Jordan's Furniture — November 13, 1999; CORT Business Services — February 18, 2000; MidAmerican Energy — March 14, 2000 (accounted for on the equity method); Ben Bridge Jeweler — July 3, 2000; Acme Building Brands and Justin Brands — August 1, 2000; Benjamin Moore — December 18, 2000).

Purchase-accounting adjustments, including goodwill, arising from Berkshire's business acquisitions are not reflected in these statements, but instead are reflected in the statements of non-operating activities at page 73.

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

FINANCE AND FINANCIAL PRODUCTS BUSINESSES

Scott Fetzer Financial Group, Inc., Berkshire Hathaway Life Insurance Co. of Nebraska, Berkshire Hathaway Credit Corporation, BH Finance and *Gen Re Securities Holdings Limited ("GRS") (formerly General Re Financial Products)* make up Berkshire's finance and financial products businesses.

Balance Sheets
(dollars in millions)

	2000	1999
Assets		
Cash and cash equivalents	$ 341	$ 623
Investment in securities with fixed maturities:		
Held-to-maturity, at cost (fair value $1,897 in 2000; $1,930 in 1999)	1,826	2,002
Trading, at fair value (cost $5,277 in 2000; $11,330 in 1999)	5,327	11,277
Available-for-sale, at fair value (cost $880 in 2000; $997 in 1999)	880	999
Trading account assets	5,429	5,881
Securities purchased under agreements to resell	680	1,171
Other	2,346	2,276
	$16,829	$24,229
Liabilities		
Annuity reserves and policyholder liabilities	$ 868	$ 843
Securities sold under agreements to repurchase	3,386	10,216
Securities sold but not yet purchased	715	1,174
Trading account liabilities	4,974	5,930
Notes payable and other borrowings	2,116	1,998
Other	3,004	2,304
	15,063	22,465
Equity		
Berkshire shareholders'	1,766	1,764
	$16,829	$24,229

Statements of Earnings
(dollars in millions)

	2000	1999	1998
Revenues:			
Interest income	$ 910	$ 740	$ 131
Other revenues	595	247	257
	1,505	987	388
Expenses:			
Interest expense	798	596	27
Annuity benefits and underwriting expenses	55	54	146
General and administrative	123	228	16
	976	878	189
Earnings from operations before income taxes	529	109	199
Income tax expense	187	32	70
Net earnings	$ 342	$ 77	$ 129

GRS was acquired in connection with the acquisition of General Re Corporation on December 21, 1998. These statements reflect GRS's operating results for the years ended December 31, 2000 and 1999.

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

NON-OPERATING ACTIVITIES

These statements reflect the consolidated financial statement values for assets, liabilities, shareholders' equity, revenues and expenses that were not assigned to any Berkshire operating group in the unaudited, and not fully GAAP - adjusted group financial statements heretofore presented (pages 67 to 72).

Statements of Net Assets
(dollars in millions)

	December 31, 2000	December 31, 1999
Assets		
Cash and cash equivalents	$ 163	$ 484
Investments:		
Fixed maturities	184	2
Equity securities	365	339
Unamortized goodwill and other purchase-accounting adjustments *	18,831	18,489
Deferred tax assets	62	80
Other	69	50
	$19,674	$19,444
Liabilities		
Accounts payable, accruals and other	$ 163	$ 76
Income taxes	236	86
Borrowings under investment agreements and other debt	1,372	1,693
	1,771	1,855
Equity		
Minority shareholders'	53	11
Berkshire shareholders'	17,850	17,578
	17,903	17,589
	$19,674	$19,444

Statements of Earnings
(dollars in millions)

	2000	1999	1998
Revenues:			
Interest, dividend and other income	$ 35	$ 39	$ 63
Realized investment gain	35	1	40
	70	40	103
Expenses:			
Corporate administration	6	6	6
Shareholder-designated contributions	17	17	17
Amortization of goodwill and purchase-accounting adjustments *	876	739	210
Interest on debt	98	106	96
	997	868	329
Loss before income taxes	(927)	(828)	(226)
Income tax benefit	(55)	(119)	(33)
	(872)	(709)	(193)
Minority interest	5	1	5
Net loss	$(877)	$(710)	$(198)

* *Purchase-accounting adjustments and goodwill arose in accounting for business acquisitions.*

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past twenty 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

** 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 2001, 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, 2001,* 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 <u>with our Registrar</u> 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 <u>not</u> 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

Fleet National Bank, N.A. c/o EquiServe, P.O. Box 43010, Providence, RI 02940-3010 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence may be directed to Shareholder Services, Mail Stop 45-02-64. Certificates for re-issue or transfer should be directed to Transfer Operations, Mail Stop 45-01-05. Notices for conversion and underlying stock certificates should be directed to Corporate Reorganization, Mail Stop 45-01-40. Phone inquiries should be directed to Investor Relations — (781) 575-3100.

Shareholders of record wishing to convert Class A Common Stock into Class B Common Stock should contact EquiServe to obtain a "form of conversion notice" and instructions for converting their shares. Shareholders may call EquiServe between 9:00 a.m. and 6:00 p.m. Eastern Time to request a "form of conversion notice."

Alternatively, shareholders may notify EquiServe in writing. Along with the underlying stock certificate, shareholders should provide EquiServe 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 8,800 record holders of its Class A Common Stock and 14,000 record holders of its Class B Common Stock at March 2, 2001. Record owners included nominees holding at least 410,000 shares of Class A Common Stock and 5,200,000 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:

	2000				1999			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$58,000	$40,800	$1,888	$1,351	$81,100	$61,900	$2,713	$2,048
Second Quarter	60,800	51,800	1,975	1,660	78,600	68,300	2,540	2,211
Third Quarter	64,400	51,600	2,086	1,706	73,000	54,600	2,333	1,802
Fourth Quarter	71,300	53,500	2,375	1,761	66,900	52,000	2,219	1,700½

Dividends

Berkshire has not declared a cash dividend since 1967.

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,
Chairman of the Board of Directors of The GSI Group, a company primarily engaged in the manufacture of agricultural equipment.
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 2000), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at berkshirehathaway.com. Berkshire's 2001 quarterly reports are scheduled to be posted on the Internet on May 12, August 11 and November 10. Berkshire's 2001 Annual Report is scheduled to be posted on the Internet on Saturday March 9, 2002.

A three volume set of compilations of letters (1977 through 1999) 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.