BERKSHIRE HATHAWAY INC.

2002 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, the sixth largest auto insurer in the United States, General Re, one of the four largest reinsurers in the world, and the Berkshire Hathaway Reinsurance Group.

Numerous business activities are conducted through non-insurance subsidiaries. Included in the non-insurance subsidiaries are several large manufacturing businesses. *Shaw Industries* is the world's largest manufacturer of tufted broadloom carpet. *Benjamin Moore* is a formulator, manufacturer and retailer of architectural and industrial coatings. *Johns Manville* is a leading manufacturer of insulation and building products. *Acme Building Brands* is a manufacturer of face brick and concrete masonry products. *MiTek Inc.* produces steel connector products and engineering software for the building components market. *Fruit of the Loom, Garan, Fechheimer, H.H. Brown, Lowell, Justin Brands* and *Dexter* manufacture, license and distribute apparel and footwear under a variety of brand names. *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.

FlightSafety International provides training of aircraft and ship operators. *NetJets* 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. Berkshire's finance and financial products businesses primarily engage in proprietary investing strategies, including commercial lending and real estate lending *(BH Finance* and *Berkshire Hathaway Credit Corporation)*, transportation equipment leasing *(XTRA)*, and risk management activities *(General Re Securities)*.

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; *Albecca*, a designer, manufacturer, and distributor of high-quality picture framing products; *CTB International*, a manufacturer of equipment for the livestock and agricultural industries; *International Dairy Queen*, a licensor and service provider to about 6,000 stores that offer prepared dairy treats and food; *CORT*, a provider of rental furniture, accessories and related services and *The Pampered Chef*, the largest direct seller of houseware products in the U.S.

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

	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)
Year			
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	.7
1998	48.3	28.6	19.7
1999	.5	21.0	(20.5)
2000	6.5	(9.1)	15.6
2001	(6.2)	(11.9)	5.7
2002	10.0	(22.1)	32.1
Average Annual Gain — 1965-2002	22.2	10.0	12.2
Overall Gain — 1964-2002	214,433	3,663	

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 2002 was $6.1 billion, which increased the per-share book value of both our Class A and Class B stock by 10.0%. Over the last 38 years (that is, since present management took over) per-share book value has grown from $19 to $41,727, a rate of 22.2% compounded annually.[*]

In all respects 2002 was a banner year. I'll provide details later, but here's a summary:

- Our various non-insurance operations performed exceptionally well, despite a sluggish economy. A decade ago Berkshire's annual pre-tax earnings from our non-insurance businesses was $272 million. Now, from our ever-expanding collection of manufacturing, retailing, service and finance businesses, we earn that sum *monthly*.
- Our insurance group increased its float to $41.2 billion, a hefty gain of $5.7 billion. Better yet, the use of these funds in 2002 cost us only 1%. Getting back to low-cost float feels good, particularly after our poor results during the three previous years. Berkshire's reinsurance division and GEICO shot the lights out in 2002, and underwriting discipline was restored at General Re.
- Berkshire acquired some important new businesses – with economic characteristics ranging from good to great, run by managers ranging from great to great. Those attributes are two legs of our "entrance" strategy, the third being a sensible purchase price. Unlike LBO operators and private equity firms, we have no "exit" strategy – we buy to keep. That's one reason why Berkshire is usually the first – and sometimes the only – choice for sellers and their managers.
- Our marketable securities outperformed most indices. For Lou Simpson, who manages equities at GEICO, this was old stuff. But, for me, it was a welcome change from the last few years, during which my investment record was dismal.

The confluence of these favorable factors in 2002 caused our book-value gain to outstrip the performance of the S&P 500 by 32.1 percentage points. This result is aberrational: Charlie Munger, Berkshire's vice chairman and my partner, and I hope to achieve – *at most* – an average annual advantage of a few points. In the future, there will be years in which the S&P soundly trounces us. That will in fact almost certainly happen during a strong bull market, because the portion of our assets committed to common stocks has significantly declined. This change, of course, helps our relative performance in down markets such as we had in 2002.

I have another caveat to mention about last year's results. If you've been a reader of financial reports in recent years, you've seen a flood of "pro-forma" earnings statements – tabulations in which managers invariably show "earnings" far in excess of those allowed by their auditors. In these presentations, the CEO tells his owners "don't count this, don't count that – just count what makes earnings fat." Often, a forget-all-this-bad-stuff message is delivered year after year without management so much as blushing.

---

[*] 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.

We've yet to see a pro-forma presentation disclosing that audited earnings were somewhat high. So let's make a little history: Last year, on a pro-forma basis, Berkshire had *lower* earnings than those we actually reported.

That is true because two favorable factors aided our reported figures. First, in 2002 there was no megacatastrophe, which means that Berkshire (and other insurers as well) earned more from insurance than if losses had been normal. In years when the reverse is true – because of a blockbuster hurricane, earthquake or man-made disaster – many insurers like to report that they would have earned X "except for" the unusual event. The implication is that since such megacats are infrequent, they shouldn't be counted when "true" earnings are calculated. That is deceptive nonsense. "Except for" losses will forever be part of the insurance business, and they will forever be paid with shareholders' money.

Nonetheless, for the purposes of this exercise, we'll take a page from the industry's book. For last year, when we didn't have any truly major disasters, a downward adjustment is appropriate if you wish to "normalize" our underwriting result.

Secondly, the bond market in 2002 favored certain strategies we employed in our finance and financial products business. Gains from those strategies will certainly diminish within a year or two – and may well disappear.

Soooo . . . "except for" a couple of favorable breaks, our pre-tax earnings last year would have been about $500 million less than we actually reported. We're happy, nevertheless, to bank the excess. As Jack Benny once said upon receiving an award: "I don't deserve this honor – but, then, I have arthritis, and I don't deserve that either."

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

We continue to be blessed with an extraordinary group of managers, many of whom haven't the slightest financial need to work. They stick around, though: In 38 years, we've never had a single CEO of a subsidiary elect to leave Berkshire to work elsewhere. Counting Charlie, we now have six managers over 75, and I hope that in four years that number increases by at least two (Bob Shaw and I are both 72). Our rationale: "It's hard to teach a new dog old tricks."

Berkshire's operating CEOs are masters of their crafts and run their businesses as if they were their own. My job is to stay out of their way and allocate whatever excess capital their businesses generate. It's easy work.

My managerial model is Eddie Bennett, who was a batboy. In 1919, at age 19, Eddie began his work with the Chicago White Sox, who that year went to the World Series. The next year, Eddie switched to the Brooklyn Dodgers, and they, too, won their league title. Our hero, however, smelled trouble. Changing boroughs, he joined the Yankees in 1921, and they promptly won their first pennant in history. Now Eddie settled in, shrewdly seeing what was coming. In the next seven years, the Yankees won five American League titles.

What does this have to do with management? It's simple – to be a winner, work with winners. In 1927, for example, Eddie received $700 for the 1/8th World Series share voted him by the legendary Yankee team of Ruth and Gehrig. This sum, which Eddie earned by working only four days (because New York swept the Series) was roughly equal to the full-year pay then earned by batboys who worked with ordinary associates.

Eddie understood that how he lugged bats was unimportant; what counted instead was hooking up with the cream of those on the playing field. I've learned from Eddie. At Berkshire, I regularly hand bats to many of the heaviest hitters in American business.

Acquisitions

We added some sluggers to our lineup last year. Two acquisitions pending at yearend 2001 were completed: Albecca (which operates under the name Larson-Juhl), the U.S. leader in custom-made picture frames; and Fruit of the Loom, the producer of about 33.3% of the men's and boy's underwear sold in the U.S. and of other apparel as well.

Both companies came with outstanding CEOs: Steve McKenzie at Albecca and John Holland at Fruit. John, who had retired from Fruit in 1996, rejoined it three years ago and rescued the company from the disastrous path it had gone down after he'd left. He's now 70, and I am trying to convince him to make his next retirement coincident with mine (presently scheduled for five years after my death – a date subject, however, to extension).

We initiated and completed two other acquisitions last year that were somewhat below our normal size threshold. In aggregate, however, these businesses earn more than $60 million pre-tax annually. Both operate in industries characterized by tough economics, but both also have important competitive strengths that enable them to earn decent returns on capital.

The newcomers are:

(a) CTB, a worldwide leader in equipment for the poultry, hog, egg production and grain industries; and

(b) Garan, a manufacturer of children's apparel, whose largest and best-known line is Garanimals®.

These two companies came with the managers responsible for their impressive records: Vic Mancinelli at CTB and Seymour Lichtenstein at Garan.

The largest acquisition we initiated in 2002 was The Pampered Chef, a company with a fascinating history dating back to 1980. Doris Christopher was then a 34-year-old suburban Chicago home economics teacher with a husband, two little girls, and absolutely no business background. Wanting, however, to supplement her family's modest income, she turned to thinking about what she knew best – food preparation. Why not, she wondered, make a business out of marketing kitchenware, focusing on the items she herself had found most useful?

To get started, Doris borrowed $3,000 against her life insurance policy – all the money *ever* injected into the company – and went to the Merchandise Mart on a buying expedition. There, she picked up a dozen each of this and that, and then went home to set up operations in her basement.

Her plan was to conduct in-home presentations to small groups of women, gathered at the homes of their friends. While driving to her first presentation, though, Doris almost talked herself into returning home, convinced she was doomed to fail.

But the women she faced that evening loved her and her products, purchased $175 of goods, and TPC was underway. Working with her husband, Jay, Doris did $50,000 of business in the first year. Today – only 22 years later – TPC does more than $700 million of business annually, working through 67,000 kitchen consultants.

I've been to a TPC party, and it's easy to see why the business is a success. The company's products, in large part proprietary, are well-styled and highly useful, and the consultants are knowledgeable and enthusiastic. Everyone has a good time. Hurry to pamperedchef.com on the Internet to find where to attend a party near you.

Two years ago, Doris brought in Sheila O'Connell Cooper, now CEO, to share the management load, and in August they met with me in Omaha. It took me about ten seconds to decide that these were two managers with whom I wished to partner, and we promptly made a deal. Berkshire shareholders couldn't be luckier than to be associated with Doris and Sheila.

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

Berkshire also made some important acquisitions last year through MidAmerican Energy Holdings (MEHC), a company in which our equity interest is 80.2%. Because the Public Utility Holding Company Act (PUHCA) limits us to 9.9% voting control, however, we are unable to fully consolidate MEHC's financial statements.

Despite the voting-control limitation – and the somewhat strange capital structure at MEHC it has engendered – the company is a key part of Berkshire. Already it has $18 billion of assets and delivers our largest stream of non-insurance earnings. It could well grow to be huge.

Last year MEHC acquired two important gas pipelines. The first, Kern River, extends from Southwest Wyoming to Southern California. This line moves about 900 million cubic feet of gas a day and is undergoing a $1.2 billion expansion that will double throughput by this fall. At that point, the line will carry enough gas to generate electricity for ten million homes.

The second acquisition, Northern Natural Gas, is a 16,600 mile line extending from the Southwest to a wide range of Midwestern locations. This purchase completes a corporate odyssey of particular interest to Omahans.

From its beginnings in the 1930s, Northern Natural was one of Omaha's premier businesses, run by CEOs who regularly distinguished themselves as community leaders. Then, in July, 1985, the company – which in 1980 had been renamed InterNorth – merged with Houston Natural Gas, a business less than half its size. The companies announced that the enlarged operation would be headquartered in Omaha, with InterNorth's CEO continuing in that job.

Within a year, those promises were broken. By then, the former CEO of Houston Natural had taken over the top job at InterNorth, the company had been renamed, and the headquarters had been moved to Houston. These switches were orchestrated by the new CEO – Ken Lay – and the name he chose was Enron.

Fast forward 15 years to late 2001. Enron ran into the troubles we've heard so much about and borrowed money from Dynegy, putting up the Northern Natural pipeline operation as collateral. The two companies quickly had a falling out, and the pipeline's ownership moved to Dynegy. That company, in turn, soon encountered severe financial problems of its own.

MEHC received a call on Friday, July 26, from Dynegy, which was looking for a quick and certain cash sale of the pipeline. Dynegy phoned the right party: On July 29, we signed a contract, and shortly thereafter Northern Natural returned home.

When 2001 began, Charlie and I had no idea that Berkshire would be moving into the pipeline business. But upon completion of the Kern River expansion, MEHC will transport about 8% of all gas used in the U.S. We continue to look for large energy-related assets, though in the electric utility field PUHCA constrains what we can do.

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

A few years ago, and somewhat by accident, MEHC found itself in the residential real estate brokerage business. It is no accident, however, that we have dramatically expanded the operation. Moreover, we are likely to keep on expanding in the future.

We call this business HomeServices of America. In the various communities it serves, though, it operates under the names of the businesses it has acquired, such as CBS in Omaha, Edina Realty in Minneapolis and Iowa Realty in Des Moines. In most metropolitan areas in which we operate, we are the clear market leader.

HomeServices is now the second largest residential brokerage business in the country. On one side or the other (or both), we participated in $37 billion of transactions last year, up 100% from 2001.

Most of our growth came from three acquisitions we made during 2002, the largest of which was Prudential California Realty. Last year, this company, the leading realtor in a territory consisting of Los Angeles, Orange and San Diego Counties, participated in $16 billion of closings.

In a very short period, Ron Peltier, the company's CEO, has increased HomeServices' revenues – and profits – dramatically. Though this business will always be cyclical, it's one we like and in which we continue to have an appetite for sensible acquisitions.

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

Dave Sokol, MEHC's CEO, and Greg Abel, his key associate, are huge assets for Berkshire. They are dealmakers, and they are managers. Berkshire stands ready to inject massive amounts of money into MEHC – and it will be fun to watch how far Dave and Greg can take the business.

The Economics of Property/Casualty Insurance

Our core 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. Moreover, the downward trend of interest rates in recent years has transformed underwriting losses that formerly were tolerable into burdens that move insurance businesses deeply into the lemon category.

Historically, Berkshire has obtained its float at a very low cost. Indeed, our cost has been less than zero in many years; that is, we've actually been paid for holding other people's money. In 2001, however, our cost was terrible, coming in at 12.8%, about half of which was attributable to World Trade Center losses. Back in 1983-84, we had years that were even worse. There's nothing automatic about cheap float.

The table that follows shows (at intervals) the float generated by the various segments of Berkshire's insurance operations since we entered the business 36 years ago upon acquiring National Indemnity Company (whose traditional lines are included in the segment "Other Primary"). For the table we have calculated our float — which we generate in large amounts relative to our premium volume — by adding net loss reserves, loss adjustment reserves, funds held under reinsurance assumed and unearned premium reserves, and then subtracting insurance-related receivables, prepaid acquisition costs, prepaid taxes and deferred charges applicable to assumed reinsurance. (Got that?)

Yearend Float (in $ millions)

Year	GEICO	General Re	Other Reinsurance	Other Primary	Total
1967				20	20
1977			40	131	171
1987			701	807	1,508
1997	2,917		4,014	455	7,386
1998	3,125	14,909	4,305	415	22,754
1999	3,444	15,166	6,285	403	25,298
2000	3,943	15,525	7,805	598	27,871
2001	4,251	19,310	11,262	685	35,508
2002	4,678	22,207	13,396	943	41,224

Last year our cost of float was 1%. As I mentioned earlier, you should temper your enthusiasm about this favorable result given that no megacatastrophe occurred in 2002. We're certain to get one of these disasters periodically, and when we do our float-cost will spike.

Our 2002 results were hurt by 1) a painful charge at General Re for losses that should have been recorded as costs in earlier years, and 2) a "desirable" charge we incur annually for retroactive insurance (see the next section for more about these items). These costs totaled $1.75 billion, or about 4.6% of float. Fortunately, our overall underwriting experience on 2002 business was excellent, which allowed us, even after the charges noted, to approach a no-cost result.

Absent a megacatastrophe, I expect our cost of float in 2003 to again be very low – perhaps even less than zero. In the rundown of our insurance operations that follows, you will see why I'm optimistic that, over time, our underwriting results will both surpass those achieved by the industry and deliver us investable funds at minimal cost.

Insurance Operations

If our insurance operations are to generate low-cost float over time, they must: (a) underwrite with unwavering discipline; (b) reserve conservatively; and (c) avoid an aggregation of exposures that would allow a supposedly "impossible" incident to threaten their solvency. All of our major insurance businesses, with one exception, have regularly met those tests.

The exception is General Re, and there was much to do at that company last year to get it up to snuff. I'm delighted to report that under Joe Brandon's leadership, and with yeoman assistance by Tad Montross, enormous progress has been made on each of the fronts described.

When I agreed in 1998 to merge Berkshire with Gen Re, I thought that company stuck to the three rules I've enumerated. I had studied the operation for decades and had observed underwriting discipline that was consistent and reserving that was conservative. At merger time, I detected no slippage in Gen Re's standards.

I was dead wrong. Gen Re's culture and practices had substantially changed and unbeknownst to management – and to me – the company was grossly mispricing its current business. In addition, Gen Re had accumulated an aggregation of risks that would have been fatal had, say, terrorists detonated several large-scale nuclear bombs in an attack on the U.S. A disaster of that scope was highly improbable, of course, but it is up to insurers to limit their risks in a manner that leaves their finances rock-solid if the "impossible" happens. Indeed, had Gen Re remained independent, the World Trade Center attack alone would have threatened the company's existence.

When the WTC disaster occurred, it exposed weaknesses in Gen Re's operations that I should have detected earlier. But I was lucky: Joe and Tad were on hand, freshly endowed with increased authority and eager to rapidly correct the errors of the past. They knew what to do – and they did it.

It takes time for insurance policies to run off, however, and 2002 was well along before we managed to reduce our aggregation of nuclear, chemical and biological risk (NCB) to a tolerable level. That problem is now behind us.

On another front, Gen Re's underwriting attitude has been dramatically altered: The entire organization now understands that we wish to write only properly-priced business, whatever the effect on volume. Joe and Tad judge themselves *only* by Gen Re's underwriting profitability. Size simply doesn't count.

Finally, we are making every effort to get our reserving right. If we fail at that, we can't know our true costs. And any insurer that has no idea what its costs are is heading for big trouble.

At yearend 2001, General Re attempted to reserve adequately for all losses that had occurred prior to that date and were not yet paid – but we failed badly. Therefore the company's 2002 underwriting results were penalized by an additional $1.31 billion that we recorded to correct the estimation mistakes of earlier years. When I review the reserving errors that have been uncovered at General Re, a line from a country song seems apt: "I wish I didn't know now what I didn't know then."

I can promise you that our top priority going forward is to avoid inadequate reserving. But I can't guarantee success. The natural tendency of most casualty-insurance managers is to underreserve, and they must have a particular mindset – which, it may surprise you, has nothing to do with actuarial expertise – if they are to overcome this devastating bias. Additionally, a reinsurer faces far more difficulties in reserving properly than does a primary insurer. Nevertheless, at Berkshire, we have generally been successful in our reserving, and we are determined to be at General Re as well.

In summary, I believe General Re is now well positioned to deliver huge amounts of no-cost float to Berkshire and that its sink-the-ship catastrophe risk has been eliminated. The company still possesses the important competitive strengths that I've outlined in the past. And it gained another highly significant advantage last year when each of its three largest worldwide competitors, previously rated AAA, was demoted by at least one rating agency. Among the giants, General Re, rated AAA across-the-board, is now in a class by itself in respect to financial strength.

No attribute is more important. Recently, in contrast, one of the world's largest reinsurers – a company regularly recommended to primary insurers by leading brokers – has all but ceased paying claims, including those both valid and due. This company owes many billions of dollars to hundreds of primary insurers who now face massive write-offs. "Cheap" reinsurance is a fool's bargain: When an insurer lays out money today in exchange for a reinsurer's promise to pay a decade or two later, it's dangerous – and possibly life-threatening – for the insurer to deal with any but the strongest reinsurer around.

Berkshire shareholders owe Joe and Tad a huge thank you for their accomplishments in 2002. They worked harder during the year than I would wish for anyone – and it is paying off.

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

At GEICO, everything went so well in 2002 that we should pinch ourselves. Growth was substantial, profits were outstanding, policyholder retention was up and sales productivity jumped significantly. These trends continue in early 2003.

Thank Tony Nicely for all of this. As anyone who knows him will attest, Tony has been in love with GEICO for 41 years – ever since he went to work for the company at 18 – and his results reflect this passion. He is proud of the money we save policyholders – about $1 billion annually versus what other insurers, on average, would have charged them. He is proud of the service we provide these policyholders: In a key industry survey, GEICO was recently ranked above all major competitors. He is proud of his 19,162 associates, who last year were awarded profit-sharing payments equal to 19% of their base salary because of the splendid results they achieved. And he is proud of the growing profits he delivers to Berkshire shareholders.

GEICO took in $2.9 billion in premiums when Berkshire acquired full ownership in 1996. Last year, its volume was $6.9 billion, with plenty of growth to come. Particularly promising is the company's Internet operation, whose new business grew by 75% last year. Check us out at GEICO.com (or call 800-847-7536). In most states, shareholders get a special 8% discount.

Here's one footnote to GEICO's 2002 earnings that underscores the need for insurers to do business with only the strongest of reinsurers. In 1981-1983, the managers then running GEICO decided to try their hand at writing commercial umbrella and product liability insurance. The risks seemed modest: the company took in only $3,051,000 from this line and used almost all of it – $2,979,000 – to buy reinsurance in order to limit its losses. GEICO was left with a paltry $72,000 as compensation for the minor portion of the risk that it retained. But this small bite of the apple was more than enough to make the experience memorable. GEICO's losses from this venture now total a breathtaking $94.1 *million* or about 130,000% of the net premium it received. Of the total loss, uncollectable receivables from deadbeat reinsurers account for no less than $90.3 million (including $19 million charged in 2002). So much for "cheap" reinsurance.

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

Ajit Jain's reinsurance division was the major reason our float cost us so little last year. If we ever put a photo in a Berkshire annual report, it will be of Ajit. In color!

Ajit's operation has amassed $13.4 billion of float, more than all but a handful of insurers have ever built up. He accomplished this from a standing start in 1986, and even now has a workforce numbering only 20. And, most important, he has produced underwriting profits.

His profits are particularly remarkable if you factor in some accounting arcana that I am about to lay on you. So prepare to eat your spinach (or, alternatively, if debits and credits aren't your thing, skip the next two paragraphs).

Ajit's 2002 underwriting profit of $534 million came *after* his operation recognized a charge of $428 million attributable to "retroactive" insurance he has written over the years. In this line of business, we assume from another insurer the obligation to pay up to a specified amount for losses they have already incurred – often for events that took place decades earlier – but that are yet to be paid (for example, because a worker hurt in 1980 will receive monthly payments for life). In these arrangements, an insurer pays us a large upfront premium, but one that is less than the losses we expect to pay. We willingly accept this differential because a) our payments are capped, and b) we get to use the money until loss payments are actually made, with these often stretching out over a decade or more. About 80% of the $6.6 billion in asbestos and environmental loss reserves that we carry arises from capped contracts, whose costs consequently can't skyrocket.

When we write a retroactive policy, we immediately record both the premium and a reserve for the expected losses. The difference between the two is entered as an asset entitled "deferred charges – reinsurance assumed." This is no small item: at yearend, for all retroactive policies, it was $3.4 billion. We then amortize this asset downward by charges to income over the expected life of each policy. These charges – $440 million in 2002, including charges at Gen Re – create an underwriting loss, but one that is intentional and desirable. And even after this drag on reported results, Ajit achieved a large underwriting gain last year.

We want to emphasize, however, that we assume risks in Ajit's operation that are huge – *far* larger than those retained by any other insurer in the world. Therefore, a single event could cause a major swing in Ajit's results in any given quarter or year. That bothers us not at all: As long as we are paid appropriately, we love taking on short-term volatility that others wish to shed. At Berkshire, we would rather earn a lumpy 15% over time than a smooth 12%.

If you see Ajit at our annual meeting, bow deeply.

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

Berkshire's smaller insurers had an outstanding year. Their aggregate float grew by 38%, and they realized an underwriting profit of $32 million, or 4.5% of premiums. Collectively, these operations would make one of the finest insurance companies in the country.

Included in these figures, however, were terrible results in our California workers' compensation operation. There, we have work to do. There, too, our reserving severely missed the mark. Until we figure out how to get this business right, we will keep it small.

For the fabulous year they had in 2002, we thank Rod Eldred, John Kizer, Tom Nerney, Don Towle and Don Wurster. They added a lot of value to your Berkshire investment.

Sources of Reported Earnings

The table that follows shows the main sources of Berkshire's reported earnings. You will notice that "Purchase-Accounting Adjustments" dropped sharply in 2002, the reason being that GAAP rules changed then, no longer requiring the amortization of goodwill. This change increases our reported earnings, but has no effect on our economic earnings.

	(in millions)			
	Pre-Tax Earnings		Berkshire's Share of Net Earnings (after taxes and Minority interests)	
	2002	*2001*	*2002*	*2001*
Operating Earnings:				
Insurance Group:				
Underwriting – General Re	$(1,393)	$(3,671)	$(930)	$(2,391)
Underwriting – Berkshire Group	534	(647)	347	(433)
Underwriting – GEICO	416	221	271	144
Underwriting – Other Primary	32	30	20	18
Net Investment Income	3,050	2,824	2,096	1,968
Apparel(1)	229	(33)	156	(28)
Building Products(2)	516	461	313	287
Finance and Financial Products Business	1,016	519	659	336
Flight Services	225	186	133	105
MidAmerican Energy (80% owned)	613	565	359	230
Retail Operations	166	175	97	101
Scott Fetzer (excluding finance operation)	129	129	83	83
Shaw Industries(3)	424	292	258	156
Other Businesses	256	212	160	131
Purchase-Accounting Adjustments	(119)	(726)	(65)	(699)
Corporate Interest Expense	(86)	(92)	(55)	(60)
Shareholder-Designated Contributions	(17)	(17)	(11)	(11)
Other	19	25	12	16
Operating Earnings	6,010	453	3,903	(47)
Capital Gains from Investments	603	1,320	383	842
Total Earnings – All Entities	$6,613	$1,773	$4,286	$ 795

(1) *Includes Fruit of the Loom from April 30, 2002 and Garan from September 4, 2002.*

(2) *Includes Johns Manville from February 27, 2001 and MiTek from July 31, 2001.*

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

Here's a summary of major developments at our non-insurance businesses:

- MidAmerican Energy's earnings grew in 2002 and will likely do so again this year. Most of the increase, both present and expected, results from the acquisitions described earlier. To fund these, Berkshire purchased $1,273 million of MidAmerican junior debt (bringing our total holdings of these 11% obligations to $1,728 million) and also invested $402 million in a "common-equivalent" stock. We now own (on a fully-diluted basis) 80.2% of MidAmerican's equity. MidAmerican's financial statements are presented in detail on page 37.

- Last year I told you of the problems at Dexter that led to a huge loss in our shoe business. Thanks to Frank Rooney and Jim Issler of H.H. Brown, the Dexter operation has been turned around. Despite the cost of unwinding our problems there, we earned $24 million in shoes last year, an upward swing of $70 million from 2001.

  Randy Watson at Justin also contributed to this improvement, increasing margins significantly while trimming invested capital. Shoes are a tough business, but we have terrific managers and believe that in the future we will earn reasonable returns on the capital we employ in this operation.

- In a so-so year for home-furnishing and jewelry retailers, our operations did well. Among our eight retailing operations, the best performer was Homemaker's in Des Moines. There, the talented Merschman family achieved outstanding gains in both sales and profits.

  Nebraska Furniture Mart will open a new blockbuster store in metropolitan Kansas City in August. With 450,000 square feet of retail space, it could well produce the second largest volume of any furniture store in the country – the Omaha operation being the national champion. I hope Berkshire shareholders in the Kansas City area will come out for the opening (and keep coming).

- Our home and construction-related businesses – Acme Brick, Benjamin Moore Paint, Johns-Manville, MiTek and Shaw – delivered $941 million of pre-tax earnings last year. Of particular significance was Shaw's gain from $292 million in 2001 to $424 million. Bob Shaw and Julian Saul are terrific operators. Carpet prices increased only 1% last year, but Shaw's productivity gains and excellent expense control delivered significantly improved margins.

  We cherish cost-consciousness at Berkshire. Our model is the widow who went to the local newspaper to place an obituary notice. Told there was a 25-cents-a-word charge, she requested "Fred Brown died." She was then informed there was a seven-word minimum. "Okay" the bereaved woman replied, "make it 'Fred Brown died, golf clubs for sale'."

- Earnings from flight services increased last year – but only because we realized a special pre-tax gain of $60 million from the sale of our 50% interest in FlightSafety Boeing. Without this gain, earnings from our training business would have fallen slightly in concert with the slowdown in business-aviation activity. FlightSafety training continues to be the gold standard for the industry, and we expect growth in the years to come.

  At NetJets, our fractional-ownership operation, we are the runaway leader of the four-company field. FAA records indicate that our industry share in 2002 was 75%, meaning that clients purchased or leased planes from us that were valued at triple those recorded by our three competitors *combined*. Last year, our fleet flew 132.7 million nautical miles, taking clients to 130 countries.

  Our preeminence is directly attributable to Rich Santulli, NetJets' CEO. He invented the business in 1986 and ever since has exhibited an unbending devotion to the highest levels of service, safety and security. Rich, Charlie and I insist on planes (and personnel) worthy of carrying our own families – because they regularly do.

  Though NetJets revenues set a record in 2002, the company again lost money. A small profit in the U.S. was more than offset by losses in Europe. Overall, the fractional-ownership industry lost significant sums last year, and that is almost certain to be the outcome in 2003 as well. The bald fact is that airplanes are costly to operate.

  Over time, this economic reality should work to our advantage, given that for a great many companies, private aircraft are an essential business tool. And for most of these companies, NetJets makes compelling sense as either a primary or supplementary supplier of the aircraft they need.

  Many businesses could save millions of dollars annually by flying with us. Indeed, the yearly savings at some large companies could exceed $10 million. Equally important, these companies would actually increase their operational capabilities by using us. A fractional ownership of a single NetJets plane allows a client to have several planes in the air simultaneously. Additionally, through the interchange arrangement we make available, an owner of an interest in one plane can fly any of 12 other models, using whatever plane makes most sense for a mission. (One of my sisters owns a fraction of a Falcon 2000, which she uses for trips to Hawaii, but – exhibiting the Buffett gene – she interchanges to a more economical Citation Excel for short trips in the U.S.)

  The roster of NetJets users confirms the advantages we offer major businesses. Take General Electric, for example. It has a large fleet of its own but also has an unsurpassed knowledge of how to utilize aircraft effectively and economically. And it is our largest customer.

- Our finance and financial products line covers a variety of operations, among them certain activities in high-grade fixed-income securities that proved highly profitable in 2002. Earnings in this arena will probably continue for a while, but are certain to decrease – and perhaps disappear – in time.

This category also includes a highly satisfactory – but rapidly diminishing – income stream from our Berkadia investment in Finova (described in last year's report). Our partner, Leucadia National Corp., has managed this operation with great skill, willingly doing far more than its share of the heavy lifting. I like this division of labor and hope to join with Leucadia in future transactions.

On the minus side, the Finance line also includes the operations of General Re Securities, a derivatives and trading business. This entity lost $173 million pre-tax last year, a result that, in part, is a belated acknowledgment of faulty, albeit standard, accounting it used in earlier periods. Derivatives, in fact, deserve an extensive look, both in respect to the accounting their users employ and to the problems they may pose for both individual companies and our economy.

Derivatives

Charlie and I are of one mind in how we feel about derivatives and the trading activities that go with them: We view them as time bombs, both for the parties that deal in them and the economic system.

Having delivered that thought, which I'll get back to, let me retreat to explaining derivatives, though the explanation must be general because the word covers an extraordinarily wide range of financial contracts. Essentially, these instruments call for money to change hands at some future date, with the amount to be determined by one or more reference items, such as interest rates, stock prices or currency values. If, for example, you are either long or short an S&P 500 futures contract, you are a party to a very simple derivatives transaction – with your gain or loss *derived* from movements in the index. Derivatives contracts are of varying duration (running sometimes to 20 or more years) and their value is often tied to several variables.

Unless derivatives contracts are collateralized or guaranteed, their ultimate value also depends on the creditworthiness of the counterparties to them. In the meantime, though, before a contract is settled, the counterparties record profits and losses – often huge in amount – in their current earnings statements without so much as a penny changing hands.

The range of derivatives contracts is limited only by the imagination of man (or sometimes, so it seems, madmen). At Enron, for example, newsprint and broadband derivatives, due to be settled many years in the future, were put on the books. Or say you want to write a contract speculating on the number of twins to be born in Nebraska in 2020. No problem – at a price, you will easily find an obliging counterparty.

When we purchased Gen Re, it came with General Re Securities, a derivatives dealer that Charlie and I didn't want, judging it to be dangerous. We failed in our attempts to sell the operation, however, and are now terminating it.

But closing down a derivatives business is easier said than done. It will be a great many years before we are totally out of this operation (though we reduce our exposure daily). In fact, the reinsurance and derivatives businesses are similar: Like Hell, both are easy to enter and almost impossible to exit. In either industry, once you write a contract – which may require a large payment decades later – you are usually stuck with it. True, there are methods by which the risk can be laid off with others. But most strategies of that kind leave you with residual liability.

Another commonality of reinsurance and derivatives is that both generate reported earnings that are often wildly overstated. That's true because today's earnings are in a significant way based on estimates whose inaccuracy may not be exposed for many years.

Errors will usually be honest, reflecting only the human tendency to take an optimistic view of one's commitments. But the parties to derivatives also have enormous incentives to cheat in accounting for them. Those who trade derivatives are usually paid (in whole or part) on "earnings" calculated by mark-to-market accounting. But often there is no real market (think about our contract involving twins) and "mark-to-model" is utilized. This substitution can bring on large-scale mischief. As a general rule, contracts involving multiple reference items and distant settlement dates increase the opportunities for counterparties to use fanciful assumptions. In the twins scenario, for example, the two parties to the contract might well use differing models allowing *both* to show substantial profits for many years. In extreme cases, mark-to-model degenerates into what I would call mark-to-myth.

Of course, both internal and outside auditors review the numbers, but that's no easy job. For example, General Re Securities at yearend (after ten months of winding down its operation) had 14,384 contracts outstanding, involving 672 counterparties around the world. Each contract had a plus or minus value derived from one or more reference items, including some of mind-boggling complexity. Valuing a portfolio like that, expert auditors could easily and honestly have widely varying opinions.

The valuation problem is far from academic: In recent years, some huge-scale frauds and near-frauds have been facilitated by derivatives trades. In the energy and electric utility sectors, for example, companies used derivatives and trading activities to report great "earnings" – until the roof fell in when they actually tried to convert the derivatives-related receivables on their balance sheets into cash. "Mark-to-market" then turned out to be truly "mark-to-myth."

I can assure you that the marking errors in the derivatives business have not been symmetrical. Almost invariably, they have favored either the trader who was eyeing a multi-million dollar bonus or the CEO who wanted to report impressive "earnings" (or both). The bonuses were paid, and the CEO profited from his options. Only much later did shareholders learn that the reported earnings were a sham.

Another problem about derivatives is that they can exacerbate trouble that a corporation has run into for completely unrelated reasons. This pile-on effect occurs because many derivatives contracts require that a company suffering a credit downgrade immediately supply collateral to counterparties. Imagine, then, that a company is downgraded because of general adversity and that its derivatives instantly kick in with *their* requirement, imposing an unexpected and enormous demand for cash collateral on the company. The need to meet this demand can then throw the company into a liquidity crisis that may, in some cases, trigger still more downgrades. It all becomes a spiral that can lead to a corporate meltdown.

Derivatives also create a daisy-chain risk that is akin to the risk run by insurers or reinsurers that lay off much of their business with others. In both cases, huge receivables from many counterparties tend to build up over time. (At Gen Re Securities, we still have $6.5 billion of receivables, though we've been in a liquidation mode for nearly a year.) A participant may see himself as prudent, believing his large credit exposures to be diversified and therefore not dangerous. Under certain circumstances, though, an exogenous event that causes the receivable from Company A to go bad will also affect those from Companies B through Z. History teaches us that a crisis often causes problems to correlate in a manner undreamed of in more tranquil times.

In banking, the recognition of a "linkage" problem was one of the reasons for the formation of the Federal Reserve System. Before the Fed was established, the failure of weak banks would sometimes put sudden and unanticipated liquidity demands on previously-strong banks, causing them to fail in turn. The Fed now insulates the strong from the troubles of the weak. But there is no central bank assigned to the job of preventing the dominoes toppling in insurance or derivatives. In these industries, firms that are fundamentally solid can become troubled simply because of the travails of other firms further down the chain. When a "chain reaction" threat exists within an industry, it pays to minimize links of any kind. That's how we conduct our reinsurance business, and it's one reason we are exiting derivatives.

Many people argue that derivatives reduce systemic problems, in that participants who can't bear certain risks are able to transfer them to stronger hands. These people believe that derivatives act to stabilize the economy, facilitate trade, and eliminate bumps for individual participants. And, on a micro level, what they say is often true. Indeed, at Berkshire, I sometimes engage in large-scale derivatives transactions in order to facilitate certain investment strategies.

Charlie and I believe, however, that the macro picture is dangerous and getting more so. Large amounts of risk, particularly credit risk, have become concentrated in the hands of relatively few derivatives dealers, who in addition trade extensively with one other. The troubles of one could quickly infect the others. On top of that, these dealers are owed huge amounts by non-dealer counterparties. Some of these counterparties, as I've mentioned, are linked in ways that could cause them to contemporaneously run into a problem because of a single event (such as the implosion of the telecom industry or the precipitous decline in the value of merchant power projects). Linkage, when it suddenly surfaces, can trigger serious systemic problems.

Indeed, in 1998, the leveraged and derivatives-heavy activities of a single hedge fund, Long-Term Capital Management, caused the Federal Reserve anxieties so severe that it hastily orchestrated a rescue effort. In later Congressional testimony, Fed officials acknowledged that, had they not intervened, the outstanding trades of LTCM – a firm unknown to the general public and employing only a few hundred people – could well have posed a serious threat to the stability of American markets. In other words, the Fed acted because its leaders were fearful of what might have happened to other financial institutions had the LTCM domino toppled. And this affair, though it paralyzed many parts of the fixed-income market for weeks, was far from a worst-case scenario.

One of the derivatives instruments that LTCM used was total-return swaps, contracts that facilitate 100% leverage in various markets, including stocks. For example, Party A to a contract, usually a bank, puts up all of the money for the purchase of a stock while Party B, without putting up any capital, agrees that at a future date it will receive any gain or pay any loss that the bank realizes.

Total-return swaps of this type make a joke of margin requirements. Beyond that, other types of derivatives severely curtail the ability of regulators to curb leverage and generally get their arms around the risk profiles of banks, insurers and other financial institutions. Similarly, even experienced investors and analysts encounter major problems in analyzing the financial condition of firms that are heavily involved with derivatives contracts. When Charlie and I finish reading the long footnotes detailing the derivatives activities of major banks, the only thing we understand is that we *don't* understand how much risk the institution is running.

The derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear. Knowledge of how dangerous they are has already permeated the electricity and gas businesses, in which the eruption of major troubles caused the use of derivatives to diminish dramatically. Elsewhere, however, the derivatives business continues to expand unchecked. Central banks and governments have so far found no effective way to control, or even monitor, the risks posed by these contracts.

Charlie and I believe Berkshire should be a fortress of financial strength – for the sake of our owners, creditors, policyholders and employees. We try to be alert to any sort of megacatastrophe risk, and that posture may make us unduly apprehensive about the burgeoning quantities of long-term derivatives contracts and the massive amount of uncollateralized receivables that are growing alongside. In our view, however, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal.

Investments

Below we show our common stock investments. Those that had a market value of more than $500 million at the end of 2002 are itemized.

		12/31/02	
Shares	*Company*	*Cost*	*Market*
		(dollars in millions)	
151,610,700	American Express Company	$ 1,470	$ 5,359
200,000,000	The Coca-Cola Company	1,299	8,768
96,000,000	The Gillette Company	600	2,915
15,999,200	H&R Block, Inc.	255	643
6,708,760	M&T Bank	103	532
24,000,000	Moody's Corporation	499	991
1,727,765	The Washington Post Company	11	1,275
53,265,080	Wells Fargo & Company	306	2,497
	Others	4,621	5,383
	Total Common Stocks	$9,164	$28,363

We continue to do little in equities. Charlie and I are increasingly comfortable with our holdings in Berkshire's major investees because most of them have increased their earnings while their valuations have decreased. But we are not inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued.

In our view, the same conclusion fits stocks generally. Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find *very* few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.

The aversion to equities that Charlie and I exhibit today is far from congenital. We love owning common stocks – if they can be purchased at attractive prices. In my 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pre-tax returns (which translate to 6½-7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity.

Last year we were, however, able to make sensible investments in a few "junk" bonds and loans. Overall, our commitments in this sector sextupled, reaching $8.3 billion by yearend.

Investing in junk bonds and investing in stocks are alike in certain ways: Both activities require us to make a price-value calculation and also to scan hundreds of securities to find the very few that have attractive reward/risk ratios. But there are important differences between the two disciplines as well. In stocks, we expect every commitment to work out well because we concentrate on conservatively financed businesses with strong competitive strengths, run by able and honest people. If we buy into these companies at sensible prices, losses should be rare. Indeed, during the 38 years we have run the company's affairs, gains from the equities we manage at Berkshire (that is, excluding those managed at General Re and GEICO) have exceeded losses by a ratio of about 100 to one.

Purchasing junk bonds, we are dealing with enterprises that are far more marginal. These businesses are usually overloaded with debt and often operate in industries characterized by low returns on capital. Additionally, the quality of management is sometimes questionable. Management may even have interests that are directly counter to those of debtholders. Therefore, we expect that we will have occasional large losses in junk issues. So far, however, we have done reasonably well in this field.

Corporate Governance

Both the ability and fidelity of managers have long needed monitoring. Indeed, nearly 2,000 years ago, Jesus Christ addressed this subject, speaking (Luke 16:2) approvingly of "a certain rich man" who told his manager, "Give an account of thy stewardship; for thou mayest no longer be steward."

Accountability and stewardship withered in the last decade, becoming qualities deemed of little importance by those caught up in the Great Bubble. As stock prices went up, the behavioral norms of managers went down. By the late '90s, as a result, CEOs who traveled the high road did not encounter heavy traffic.

Most CEOs, it should be noted, are men and women you would be happy to have as trustees for your children's assets or as next-door neighbors. Too many of these people, however, have in recent years behaved badly at the office, fudging numbers and drawing obscene pay for mediocre business achievements. These otherwise decent people simply followed the career path of Mae West: "I was Snow White but I drifted."

In theory, corporate boards should have prevented this deterioration of conduct. I last wrote about the responsibilities of directors in the 1993 annual report. (We will send you a copy of this discussion on request, or you may read it on the Internet in the Corporate Governance section of the 1993 letter.) There, I said that directors "should behave as if there was a single absentee owner, whose long-term interest they should try to further in all proper ways." This means that directors must get rid of a manager who is mediocre or worse, no matter how likable he may be. Directors must react as did the chorus-girl bride of an 85-year-old multimillionaire when he asked whether she would love him if he lost his money. "Of course," the young beauty replied, "I would miss you, but I would still love you."

In the 1993 annual report, I also said directors had another job: "If able but greedy managers over-reach and try to dip too deeply into the shareholders' pockets, directors must slap their hands." Since I wrote that, over-reaching has become common but few hands have been slapped.

Why have intelligent and decent directors failed so miserably? The answer lies not in inadequate laws – it's always been clear that directors are obligated to represent the interests of shareholders – but rather in what I'd call "boardroom atmosphere."

It's almost impossible, for example, in a boardroom populated by well-mannered people, to raise the question of whether the CEO should be replaced. It's equally awkward to question a proposed acquisition that has been endorsed by the CEO, particularly when his inside staff and outside advisors are present and unanimously support his decision. (They wouldn't be in the room if they didn't.) Finally, when the compensation committee – armed, as always, with support from a high-paid consultant – reports on a megagrant of options to the CEO, it would be like belching at the dinner table for a director to suggest that the committee reconsider.

These "social" difficulties argue for outside directors regularly meeting without the CEO – a reform that is being instituted and that I enthusiastically endorse. I doubt, however, that most of the other new governance rules and recommendations will provide benefits commensurate with the monetary and other costs they impose.

The current cry is for "independent" directors. It is certainly true that it is desirable to have directors who think and speak independently – but they must also be business-savvy, interested and shareholder-oriented. In my 1993 commentary, those are the three qualities I described as essential.

Over a span of 40 years, I have been on 19 public-company boards (excluding Berkshire's) and have interacted with perhaps 250 directors. Most of them were "independent" as defined by today's rules. But the great majority of these directors lacked at least one of the three qualities I value. As a result, their contribution to shareholder well-being was minimal at best and, too often, negative. These people, decent and intelligent though they were, simply did not know enough about business and/or care enough about shareholders to question foolish acquisitions or egregious compensation. My own behavior, I must ruefully add, frequently fell short as well: Too often I was silent when management made proposals that I judged to be counter to the interests of shareholders. In those cases, collegiality trumped independence.

So that we may further see the failings of "independence," let's look at a 62-year case study covering thousands of companies. Since 1940, federal law has mandated that a large proportion of the directors of investment companies (most of these mutual funds) be independent. The requirement was originally 40% and now it is 50%. In any case, the typical fund has long operated with a majority of directors who qualify as independent.

These directors and the entire board have many perfunctory duties, but in actuality have only two important responsibilities: obtaining the best possible investment manager and negotiating with that manager for the lowest possible fee. When you are seeking investment help yourself, those two goals are the only ones that count, and directors acting for other investors should have exactly the same priorities. Yet when it comes to independent directors pursuing either goal, their record has been absolutely pathetic.

Many thousands of investment-company boards meet annually to carry out the vital job of selecting who will manage the savings of the millions of owners they represent. Year after year the directors of Fund A select manager A, Fund B directors select manager B, etc. … in a zombie-like process that makes a mockery of stewardship. Very occasionally, a board will revolt. But for the most part, a monkey will type out a Shakespeare play before an "independent" mutual-fund director will suggest that his fund look at other managers, even if the incumbent manager has persistently delivered substandard performance. When they are handling their own money, of course, directors will look to alternative advisors – but it never enters their minds to do so when they are acting as fiduciaries for others.

The hypocrisy permeating the system is vividly exposed when a fund management company – call it "A" – is sold for a huge sum to Manager "B". Now the "independent" directors experience a "counter-revelation" and decide that Manager B is the best that can be found – even though B was available (and ignored) in previous years. Not so incidentally, B also could formerly have been hired at a far lower rate than is possible now that it has bought Manager A. That's because B has laid out a fortune to acquire A, and B must now recoup that cost through fees paid by the A shareholders who were "delivered" as part of the deal. (For a terrific discussion of the mutual fund business, read John Bogle's *Common Sense on Mutual Funds*.)

A few years ago, my daughter was asked to become a director of a family of funds managed by a major institution. The fees she would have received as a director were very substantial, enough to have increased her annual income by about 50% (a boost, she will tell you, she could use!). Legally, she would have been an independent director. But did the fund manager who approached her think there was *any* chance that she would think independently as to what advisor the fund should employ? Of course not. I am proud to say that she showed *real* independence by turning down the offer. The fund, however, had no trouble filling the slot (and – surprise – the fund has not changed managers).

Investment company directors have failed as well in negotiating management fees (just as compensation committees of many American companies have failed to hold the compensation of their CEOs to sensible levels). If you or I were empowered, I can assure you that we could easily negotiate materially lower management fees with the incumbent managers of most mutual funds. And, believe me, if directors were promised a portion of any fee savings they realized, the skies would be filled with falling fees. Under the current system, though, reductions mean nothing to "independent" directors while meaning everything to managers. So guess who wins?

Having the right money manager, of course, is far more important to a fund than reducing the manager's fee. Both tasks are nonetheless the job of directors. And in stepping up to these all-important responsibilities, tens of thousands of "independent" directors, over more than six decades, have failed miserably. (They've succeeded, however, in taking care of themselves; their fees from serving on multiple boards of a single "family" of funds often run well into six figures.)

When the manager cares deeply and the directors don't, what's needed is a powerful countervailing force – and that's the missing element in today's corporate governance. Getting rid of mediocre CEOs and eliminating overreaching by the able ones requires action by owners – big owners. The logistics aren't that tough: The ownership of stock has grown increasingly concentrated in recent decades, and today it would be easy for institutional managers to exert their will on problem situations. Twenty, or even fewer, of the largest institutions, acting together, could effectively reform corporate governance at a given company, simply by withholding their votes for directors who were tolerating odious behavior. In my view, this kind of concerted action is the only way that corporate stewardship can be meaningfully improved.

Unfortunately, certain major investing institutions have "glass house" problems in arguing for better governance elsewhere; they would shudder, for example, at the thought of their own performance and fees being closely inspected by their own boards. But Jack Bogle of Vanguard fame, Chris Davis of Davis Advisors, and Bill Miller of Legg Mason are now offering leadership in getting CEOs to treat their owners properly. Pension funds, as well as other fiduciaries, will reap better investment returns in the future if they support these men.

The acid test for reform will be CEO compensation. Managers will cheerfully agree to board "diversity," attest to SEC filings and adopt meaningless proposals relating to process. What many will fight, however, is a hard look at their own pay and perks.

In recent years compensation committees too often have been tail-wagging puppy dogs meekly following recommendations by consultants, a breed not known for allegiance to the faceless shareholders who pay their fees. (If you can't tell whose side someone is on, they are *not* on yours.) True, each committee is required by the SEC to state its reasoning about pay in the proxy. But the words are usually boilerplate written by the company's lawyers or its human-relations department.

This costly charade should cease. Directors should not serve on compensation committees unless they are *themselves* capable of negotiating on behalf of owners. They should explain both how they think about pay and how they measure performance. Dealing with shareholders' money, moreover, they should behave as they would were it their own.

In the 1890s, Samuel Gompers described the goal of organized labor as "More!" In the 1990s, America's CEOs adopted his battle cry. The upshot is that CEOs have often amassed riches while their shareholders have experienced financial disasters.

Directors should stop such piracy. There's nothing wrong with paying well for truly exceptional business performance. But, for anything short of that, it's time for directors to shout "Less!" It would be a travesty if the bloated pay of recent years became a baseline for future compensation. Compensation committees should go back to the drawing boards.

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

Rules that have been proposed and that are almost certain to go into effect will require changes in Berkshire's board, obliging us to add directors who meet the codified requirements for "independence."

Doing so, we will add a test that we believe is important, but far from determinative, in fostering independence: We will select directors who have huge and true ownership interests (that is, stock that they or their family have *purchased*, not been given by Berkshire or received via options), expecting those interests to influence their actions to a degree that dwarfs other considerations such as prestige and board fees.

That gets to an often-overlooked point about directors' compensation, which at public companies averages perhaps $50,000 annually. It baffles me how the many directors who look to these dollars for perhaps 20% or more of their annual income can be considered independent when Ron Olson, for example, who is on our board, may be deemed not independent because he receives a tiny percentage of his very large income from Berkshire legal fees. As the investment company saga suggests, a director whose moderate income is heavily dependent on directors' fees – and who hopes mightily to be invited to join other boards in order to earn more fees – is highly unlikely to offend a CEO or fellow directors, who in a major way will determine his reputation in corporate circles. If regulators believe that "significant" money taints independence (and it certainly can), they have overlooked a massive class of possible offenders.

At Berkshire, wanting our fees to be meaningless to our directors, we pay them only a pittance. Additionally, not wanting to insulate our directors from any corporate disaster we might have, we don't provide them with officers' and directors' liability insurance (an unorthodoxy that, not so incidentally, has saved our shareholders many millions of dollars over the years). Basically, we want the behavior of our directors to be driven by the effect their decisions will have on their family's net worth, not by their compensation. That's the equation for Charlie and me as managers, and we think it's the right one for Berkshire directors as well.

To find new directors, we will look through our shareholders list for people who directly, or in their family, have had large Berkshire holdings – in the millions of dollars – for a long time. Individuals making that cut should automatically meet two of our tests, namely that they be interested in Berkshire and shareholder-oriented. In our third test, we will look for business savvy, a competence that is far from commonplace.

Finally, we will continue to have members of the Buffett family on the board. They are not there to run the business after I die, nor will they then receive compensation of any kind. Their purpose is to ensure, for both our shareholders and managers, that Berkshire's special culture will be nurtured when I'm succeeded by other CEOs.

Any change we make in the composition of our board will not alter the way Charlie and I run Berkshire. We will continue to emphasize substance over form in our work and waste as little time as possible during board meetings in show-and-tell and perfunctory activities. The most important job of our board is likely to be the selection of successors to Charlie and me, and that is a matter upon which it will focus.

The board we have had up to now has overseen a shareholder-oriented business, consistently run in accord with the economic principles set forth on pages 68-74 (which I urge all new shareholders to read). Our goal is to obtain new directors who are equally devoted to those principles.

The Audit Committee

Audit committees can't audit. Only a company's outside auditor can determine whether the earnings that a management purports to have made are suspect. Reforms that ignore this reality and that instead focus on the structure and charter of the audit committee will accomplish little.

As we've discussed, far too many managers have fudged their company's numbers in recent years, using both accounting and operational techniques that are typically legal but that nevertheless materially mislead investors. Frequently, auditors knew about these deceptions. Too often, however, they remained silent. The key job of the audit committee is simply to get the auditors to divulge what they know.

To do this job, the committee must make sure that the auditors worry more about misleading its members than about offending management. In recent years auditors have not felt that way. They have instead generally viewed the CEO, rather than the shareholders or directors, as their client. That has been a natural result of day-to-day working relationships and also of the auditors' understanding that, no matter what the book says, the CEO and CFO pay their fees and determine whether they are retained for both auditing and other work. The rules that have been recently instituted won't materially change this reality. What *will* break this cozy relationship is audit committees unequivocally putting auditors on the spot, making them understand they will become liable for major monetary penalties if they don't come forth with what they know or suspect.

In my opinion, audit committees can accomplish this goal by asking four questions of auditors, the answers to which should be recorded and reported to shareholders. These questions are:

1. If the auditor were solely responsible for preparation of the company's financial statements, would they have in any way been prepared differently from the manner selected by management? This question should cover both material and nonmaterial differences. If the auditor would have done something differently, both management's argument and the auditor's response should be disclosed. The audit committee should then evaluate the facts.

2. If the auditor were an investor, would he have received – in plain English – the information essential to his understanding the company's financial performance during the reporting period?

3. Is the company following the same internal audit procedure that would be followed if the auditor himself were CEO? If not, what are the differences and why?

4. Is the auditor aware of any actions – either accounting or operational – that have had the purpose and effect of moving revenues or expenses from one reporting period to another?

If the audit committee asks these questions, its composition – the focus of most reforms – is of minor importance. In addition, the procedure will save time and expense. When auditors are put on the spot, they will do their duty. If they are not put on the spot . . . well, we have seen the results of that.

The questions we have enumerated should be asked at least a week before an earnings report is released to the public. That timing will allow differences between the auditors and management to be aired with the committee and resolved. If the timing is tighter – if an earnings release is imminent when the auditors and committee interact – the committee will feel pressure to rubberstamp the prepared figures. Haste is the enemy of accuracy. My thinking, in fact, is that the SEC's recent shortening of reporting deadlines will hurt the quality of information that shareholders receive. Charlie and I believe that rule is a mistake and should be rescinded.

The primary advantage of our four questions is that they will act as a prophylactic. Once the auditors know that the audit committee will require them to affirmatively endorse, rather than merely acquiesce to, management's actions, they will resist misdoings early in the process, well before specious figures become embedded in the company's books. Fear of the plaintiff's bar will see to that.

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

The Chicago Tribune ran a four-part series on Arthur Andersen last September that did a great job of illuminating how accounting standards and audit quality have eroded in recent years. A few decades ago, an Arthur Andersen audit opinion was the gold standard of the profession. Within the firm, an elite Professional Standards Group (PSG) insisted on honest reporting, no matter what pressures were applied by the client. Sticking to these principles, the PSG took a stand in 1992 that the cost of stock options should be recorded as the expense it clearly was. The PSG's position was reversed, however, by the "rainmaking" partners of Andersen who knew what their clients wanted – higher reported earnings no matter what the reality. Many CEOs also fought expensing because they knew that the obscene megagrants of options they craved would be slashed if the true costs of these had to be recorded.

Soon after the Andersen reversal, the independent accounting standards board (FASB) voted 7-0 for expensing options. Predictably, the major auditing firms and an army of CEOs stormed Washington to pressure the Senate – what better institution to decide accounting questions? – into castrating the FASB. The voices of the protesters were amplified by their large political contributions, usually made with corporate money belonging to the very owners about to be bamboozled. It was not a sight for a civics class.

To its shame, the Senate voted 88-9 against expensing. Several prominent Senators even called for the demise of the FASB if it didn't abandon its position. (So much for independence.) Arthur Levitt, Jr., then Chairman of the SEC – and generally a vigilant champion of shareholders – has since described his reluctant bowing to Congressional and corporate pressures as the act of his chairmanship that he most regrets. (The details of this sordid affair are related in Levitt's excellent book, *Take on the Street*.)

With the Senate in its pocket and the SEC outgunned, corporate America knew that it was now boss when it came to accounting. With that, a new era of anything-goes earnings reports – blessed and, in some cases, encouraged by big-name auditors – was launched. The licentious behavior that followed quickly became an air pump for The Great Bubble.

After being threatened by the Senate, FASB backed off its original position and adopted an "honor system" approach, declaring expensing to be preferable but also allowing companies to ignore the cost if they wished. The disheartening result: Of the 500 companies in the S&P, 498 adopted the method deemed less desirable, which of course let them report higher "earnings." Compensation-hungry CEOs loved this outcome: Let FASB have the honor; *they* had the system.

In our 1992 annual report, discussing the unseemly and self-serving behavior of so many CEOs, I said "the business elite risks losing its credibility on issues of significance to society – about which it may have much of value to say – when it advocates the incredible on issues of significance to itself."

That loss of credibility has occurred. The job of CEOs is now to regain America's trust – and for the country's sake it's important that they do so. They will not succeed in this endeavor, however, by way of fatuous ads, meaningless policy statements, or structural changes of boards and committees. Instead, CEOs must embrace stewardship as a way of life and treat their owners as partners, not patsies. It's time for CEOs to walk the walk.

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

Three suggestions for investors: First, beware of companies displaying weak accounting. If a company still does not expense options, or if its pension assumptions are fanciful, watch out. When managements take the low road in aspects that are visible, it is likely they are following a similar path behind the scenes. There is seldom just one cockroach in the kitchen.

Trumpeting EBITDA (earnings before interest, taxes, depreciation and amortization) is a particularly pernicious practice. Doing so implies that depreciation is not truly an expense, given that it is a "non-cash" charge. That's nonsense. In truth, depreciation is a particularly unattractive expense because the cash outlay it represents is paid up front, before the asset acquired has delivered any benefits to the business. Imagine, if you will, that at the beginning of this year a company paid all of its employees for the next ten years of their service (in the way they would lay out cash for a fixed asset to be useful for ten years). In the following nine years, compensation would be a "non-cash" expense – a reduction of a prepaid compensation asset established this year. Would anyone care to argue that the recording of the expense in years two through ten would be simply a bookkeeping formality?

Second, unintelligible footnotes usually indicate untrustworthy management. If you can't understand a footnote or other managerial explanation, it's usually because the CEO doesn't want you to. Enron's descriptions of certain transactions *still* baffle me.

Finally, be suspicious of companies that trumpet earnings projections and growth expectations. Businesses seldom operate in a tranquil, no-surprise environment, and earnings simply don't advance smoothly (except, of course, in the offering books of investment bankers).

Charlie and I not only don't know today what our businesses will earn *next year* – we don't even know what they will earn *next quarter*. We are suspicious of those CEOs who regularly claim they do know the future – and we become downright incredulous if they consistently reach their declared targets. Managers that always promise to "make the numbers" will at some point be tempted to *make up* the numbers.

Shareholder-Designated Contributions

About 97.3% of all eligible shares participated in Berkshire's 2002 shareholder-designated contributions program, with contributions totaling $16.5 million.

Cumulatively, over the 22 years of the program, Berkshire has made contributions of $197 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 $24 million in 2002, including in-kind donations of $4 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, 2003 will be ineligible for the 2003 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

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

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

In our usual fashion, we will run vans from the larger hotels to the meeting. Afterwards, the vans 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.

Our exhibit area for Berkshire goods and services will be bigger and better than ever this year. So be prepared to *spend*. I think you will particularly enjoy visiting The Pampered Chef display, where you may run into Doris and Sheila.

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

On Saturday, at the Omaha airport, we will have the usual array of aircraft from NetJets® available for your inspection. Just ask a representative at the Civic about viewing any of these planes. If you buy what we consider an appropriate number of items during the weekend, you may well need your own plane to take them home. Furthermore, if you buy a fraction of a plane, I'll personally see that you get a three-pack of briefs from Fruit of the Loom.

At Nebraska Furniture Mart, located on a 77-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 six years ago, and sales during the "Weekend" grew from $5.3 million in 1997 to $14.2 million in 2002.

To get the discount, you must make your purchases during the Thursday, May 1 through Monday, May 5 period and also present your meeting credential. The period's special pricing will even apply to the products of several prestigious manufacturers that normally have ironclad rules against discounting but that, in the spirit of our shareholder weekend, have made an exception for you. We appreciate their cooperation. NFM is open from 10 a.m. to 9 p.m. on weekdays and 10 a.m. to 6 p.m. on Sundays. On Saturday this year, from 6 p.m. to 10 p.m., we are having a special affair for shareholders only. I'll be there, eating hot dogs and drinking Coke.

Borsheim's — the largest jewelry store in the country except for Tiffany's Manhattan store — will have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 10 p.m. on Friday, May 2. The second, the main gala, will be from 9 a.m. to 5 p.m. on Sunday, May 4. Ask Charlie to autograph your *sales ticket*.

Shareholder prices will be available Thursday through Monday, so if you wish to avoid the large crowds that will assemble on Friday evening and Sunday, come at other times and identify yourself as a shareholder. On Saturday, we will be open until 6 p.m. Borsheim's operates on a gross margin that is fully twenty percentage points below that of its major rivals, so the more you buy, the more you save (or at least that's what my wife and daughter tell me).

In the mall outside of Borsheim's, we will have some of the world's top bridge experts available to play with our shareholders on Sunday afternoon. We expect Bob Hamman, Sharon Osberg, Fred Gitelman and Sheri Winestock to host tables. Patrick Wolff, twice U.S. chess champion, will also be in the mall, taking on all comers — blindfolded! Last year, Patrick played six games *simultaneously* — with his blindfold securely in place — and for the first time suffered a loss. (He won the other five games, however.) He's been training overtime ever since and is planning to start a new streak this year.

Additionally, Bill Robertie, one of only two players who have twice won the backgammon world championship, will be on hand to test your skill at that game. Finally, we will have a newcomer: Peter Morris, the winner of the World Scrabble Championship in 1991. Peter will play on five boards simultaneously (no blindfold for him, however) and will also allow his challengers to consult a Scrabble dictionary.

We are also going to test your vocal chords at the mall. My friend, Al Oehrle of Philadelphia, will be at the piano to play any song in any key. Susie and I will lead the singing. *She* is good.

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

There won't be a ball game this year. After my fastball was clocked at 5 mph last year, I decided to hang up my spikes. So I'll see you on Saturday night at NFM instead.

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

Next year our meeting will be held at Omaha's new convention center. This switch in locations will allow us to hold the event on either Saturday or Monday, whichever the majority of you prefer. Using the enclosed special ballot, please vote for your preference – *but only if you are likely to attend in the future*.

We will make the Saturday/Monday decision based upon a count of shareholders, not shares. That is, a Class B shareholder owning one share will have a vote equal to that of a Class A shareholder owning many shares. If the vote is close, we will go with the preference of out-of-towners.

Again, please vote only if there is a reasonable chance that you will be attending some meetings in the future.

Warren E. Buffett
February 21, 2003 Chairman of the Board

BERKSHIRE HATHAWAY INC.
and Subsidiaries

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

	2002	2001	2000	1999	1998
Revenues:					
Insurance premiums earned	$19,182	$17,905	$19,343	$14,306	$ 5,481
Sales and service revenues	17,347	14,902	7,361	5,918	4,675
Interest, dividend and other investment income	3,061	2,815	2,725	2,314	1,049
Revenues of finance and financial products businesses	2,126	1,658	1,505	987	394
Realized investment gains (1)	637	1,363	3,955	1,365	2,415
Total revenues	$42,353	$38,643	$34,889	$24,890	$14,014
Earnings:					
Net earnings (1) (3) (4)	$ 4,286	$ 795	$ 3,328	$ 1,557	$ 2,830
Net earnings per share (4)	$ 2,795	$ 521	$ 2,185	$ 1,025	$ 2,262
Year-end data: (2)					
Total assets	$169,544	$162,752	$135,792	$131,416	$122,237
Notes payable and other borrowings of non-finance businesses	4,807	3,485	2,663	2,465	2,385
Notes payable and other borrowings of finance businesses	4,481	9,019	2,116	1,998	1,503
Shareholders' equity	64,037	57,950	61,724	57,761	57,403
Class A equivalent common shares outstanding, in thousands	1,535	1,528	1,526	1,521	1,519
Shareholders' equity per outstanding Class A equivalent common share	$ 41,727	$ 37,920	$ 40,442	$ 37,987	$ 37,801

(1) *The amount of realized investment gains and losses 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. After-tax realized investment gains were $383 million in 2002, $842 million in 2001, $2,392 million in 2000, $886 million in 1999, and $1,553 million in 1998.*

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

(3) *Net earnings for the year ending December 31, 2001 includes pre-tax underwriting losses of $2.4 billion in connection with the September 11th terrorist attack. Such loss reduced net earnings by approximately $1.5 billion and earnings per share by $982.*

(4) *Effective January 1, 2002, Berkshire adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 changed the accounting for goodwill from a model that required amortization of goodwill, supplemented by impairment tests, to an accounting model that is based solely upon impairment tests.*

A reconciliation of Berkshire's Consolidated Statements of Earnings for each of the five years ending December 31, 2002 from amounts reported to amounts exclusive of goodwill amortization is shown below. Goodwill amortization for the years ending December 31, 2001 and 2000 includes $78 million and $65 million, respectively, related to Berkshire's equity method investment in MidAmerican Energy Holdings Company.

	2002	*2001*	*2000*	*1999*	*1998*
Net earnings as reported	*$4,286*	*$ 795*	*$ 3,328*	*$ 1,557*	*$ 2,830*
Goodwill amortization, after tax	*—*	*636*	*548*	*476*	*111*
Net earnings as adjusted	*$4,286*	*$ 1,431*	*$ 3,876*	*$ 2,033*	*$ 2,941*
Earnings per Class A equivalent common share:					
As reported	*$2,795*	*$ 521*	*$ 2,185*	*$ 1,025*	*$ 2,262*
Goodwill amortization	*—*	*416*	*360*	*313*	*88*
Earnings per share as adjusted	*$2,795*	*$ 937*	*$ 2,545*	*$ 1,338*	*$ 2,350*

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, 2002 and 2001, and the related consolidated statements of earnings, cash flows and changes in shareholders' equity and comprehensive income for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142 (“SFAS 142”), “Goodwill and Other Intangible Assets”, effective January 1, 2002.

DELOITTE & TOUCHE LLP
March 6, 2003
Omaha, Nebraska

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

	December 31, 2002	December 31, 2001
ASSETS		
Insurance and Other:		
Cash and cash equivalents	$ 10,294	$ 5,313
Investments:		
Securities with fixed maturities	38,096	36,219
Equity securities	28,363	28,675
Other investments	4,044	2,264
Insurance premiums receivable	6,228	5,571
Reinsurance recoverables on unpaid losses	2,623	2,957
Trade and other receivables	4,324	3,398
Inventories	3,030	2,213
Property, plant and equipment	5,407	4,776
Goodwill of acquired businesses	22,298	21,510
Deferred charges reinsurance assumed	3,379	3,232
Other	4,229	3,207
	132,315	119,335
Investments in MidAmerican Energy Holdings Company	3,651	1,826
Finance and Financial Products:		
Cash and cash equivalents	2,454	1,185
Investments in securities with fixed maturities:		
Available-for-sale	15,666	21,413
Held-to-maturity	1,019	1,461
Trading	168	2,252
Trading account assets	6,582	5,561
Loans and other receivables	3,863	6,262
Other	3,826	3,457
	33,578	41,591
	$169,544	$162,752

See accompanying Notes to Consolidated Financial Statements

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

	December 31, 2002	December 31, 2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance and Other:		
Losses and loss adjustment expenses	$ 43,925	$ 40,716
Unearned premiums	6,694	4,814
Life and health insurance benefits	2,642	2,058
Other policyholder liabilities	4,218	3,319
Accounts payable, accruals and other liabilities	5,053	4,249
Income taxes	8,051	7,021
Notes payable and other borrowings	4,807	3,485
	75,390	65,662
Finance and Financial Products:		
Securities sold under agreements to repurchase	13,789	21,465
Trading account liabilities	7,274	4,803
Notes payable and other borrowings	4,481	9,019
Other	3,182	2,504
	28,726	37,791
Total liabilities	104,116	103,453
Minority shareholders' interests	1,391	1,349
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	26,028	25,607
Accumulated other comprehensive income	14,271	12,891
Retained earnings	23,730	19,444
Total shareholders' equity	64,037	57,950
	$169,544	$162,752

* *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 1,534,657 shares outstanding at December 31, 2002 versus 1,528,217 shares outstanding at December 31, 2001.*

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,		
	2002	**2001**	**2000**
Revenues:			
Insurance and Other:			
Insurance premiums earned	$19,182	$17,905	$19,343
Sales and service revenues	17,347	14,902	7,361
Interest, dividend and other investment income	3,061	2,815	2,725
Realized investment gains	637	1,363	3,955
	40,227	36,985	33,384
Finance and Financial Products:			
Interest income	1,497	1,377	910
Other	629	281	595
	2,126	1,658	1,505
	42,353	38,643	34,889
Cost and expenses:			
Insurance and Other:			
Insurance losses and loss adjustment expenses	15,269	18,398	17,332
Insurance underwriting expenses	4,324	3,574	3,632
Cost of sales and services	12,077	10,446	4,893
Selling, general and administrative expenses	3,310	3,000	1,703
Goodwill amortization	—	572	715
Interest expense	194	209	144
	35,174	36,199	28,419
Finance and Financial Products:			
Interest expense	531	759	772
Other	530	331	177
	1,061	1,090	949
	36,235	37,289	29,368
Earnings before income taxes and equity in net earnings of MidAmerican Energy Holdings Company	6,118	1,354	5,521
Equity in net earnings of MidAmerican Energy Holdings Company	317	115	66
Earnings before income taxes and minority interest	6,435	1,469	5,587
Income taxes	2,134	620	2,018
Minority interest	15	54	241
Net earnings	$ 4,286	$ 795	$ 3,328
Average common shares outstanding *	1,533,294	1,527,234	1,522,933
Net earnings per common share *	$ 2,795	$ 521	$ 2,185

* *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 $93 per share for 2002, $17 per share for 2001, and $73 per share for 2000.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2002	**2001**	**2000**
Cash flows from operating activities:			
Net earnings	$ 4,286	$ 795	$3,328
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gains	(637)	(1,363)	(3,955)
Depreciation and amortization	811	1,076	997
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	3,209	7,571	5,976
Deferred charges reinsurance assumed	(147)	(498)	(1,075)
Unearned premiums	1,880	929	97
Receivables	(896)	219	(3,062)
Accounts payable, accruals and other liabilities	1,062	(339)	660
Finance businesses operating activities	2,720	(1,083)	(1,126)
Income taxes	195	(329)	757
Other	(1,280)	(404)	350
Net cash flows from operating activities	11,203	6,574	2,947
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(17,797)	(16,475)	(16,550)
Purchases of equity securities	(1,756)	(1,075)	(4,145)
Proceeds from sales of securities with fixed maturities	9,126	8,470	13,119
Proceeds from redemptions and maturities of securities with fixed maturities	7,974	4,305	2,530
Proceeds from sales of equity securities	1,406	3,881	6,870
Loans and investments originated in finance businesses	(840)	(9,502)	(857)
Principal collection on loans and investments originated in finance businesses	3,974	4,126	1,142
Acquisitions of businesses, net of cash acquired	(2,620)	(4,697)	(3,798)
Other	(846)	(727)	(582)
Net cash flows from investing activities	(1,379)	(11,694)	(2,271)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	211	6,288	120
Proceeds from other borrowings	1,472	824	681
Repayments of borrowings of finance businesses	(3,802)	(865)	(274)
Repayments of other borrowings	(774)	(798)	(806)
Change in short term borrowings of finance businesses	(1,207)	826	500
Changes in other short term borrowings	380	(377)	324
Other	146	116	(75)
Net cash flows from financing activities	(3,574)	6,014	470
Increase in cash and cash equivalents	6,250	894	1,146
Cash and cash equivalents at beginning of year	6,498	5,604	4,458
Cash and cash equivalents at end of year *	$12,748	$ 6,498	$ 5,604
** Cash and cash equivalents at end of year are comprised of the following:*			
Insurance and Other	*$10,294*	*$ 5,313*	*$ 5,263*
Finance and Financial Products	*2,454*	*1,185*	*341*
	$12,748	*$ 6,498*	*$ 5,604*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2002	2001	2000
Class A & B Common Stock			
Balance at beginning and end of year	$ 8	$ 8	$ 8
Capital in Excess of Par Value			
Balance at beginning of year	$25,607	$25,524	$25,209
Common stock issued in connection with business acquisitions	324	—	224
Exercise of stock options issued in connection with business acquisitions and SQUARZ warrant premiums	97	83	91
Balance at end of year	$26,028	$25,607	$25,524
Retained Earnings			
Balance at beginning of year	$19,444	$18,649	$15,321
Net earnings	4,286	795	3,328
Balance at end of year	$23,730	$19,444	$18,649
Accumulated Other Comprehensive Income			
Unrealized appreciation of investments	$ 2,859	$ (5,708)	$ 4,406
Applicable income taxes and minority interests	(1,041)	2,039	(1,586)
Reclassification adjustment for appreciation included in net earnings	(637)	(1,363)	(3,955)
Applicable income taxes and minority interests	232	493	1,563
Foreign currency translation adjustments and other	272	(114)	(157)
Applicable income taxes and minority interests	(55)	24	49
Minimum pension liability adjustment	(279)	(35)	—
Applicable income taxes and minority interests	29	12	—
Other comprehensive income (loss)	$ 1,380	$(4,652)	$ 320
Accumulated other comprehensive income at beginning of year	12,891	17,543	17,223
Accumulated other comprehensive income at end of year	$14,271	$12,891	$17,543
Comprehensive Income			
Net earnings	$ 4,286	$ 795	$ 3,328
Other comprehensive income (loss)	1,380	(4,652)	320
Total comprehensive income (loss)	$ 5,666	$(3,857)	$ 3,648

See accompanying Notes to Consolidated Financial Statements

(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 primary and reinsurance basis. Further information regarding these businesses and Berkshire's other reportable business segments is contained in Note 18. Berkshire initiated and/or consummated a number of business acquisitions over the past three years which are discussed in Notes 2 and 3.

The accompanying Consolidated Financial Statements include the accounts of Berkshire consolidated with the accounts of all of its subsidiaries and affiliates, including special purpose entities that Berkshire controls as of the financial statement date. Normally control reflects the ownership of majority voting interests. However, control can be attained when less than a majority voting interest is held. Factors considered in determining whether control exists include whether Berkshire provides significant financial support as a result of its authority to purchase or sell assets or make other operating decisions that significantly affect the entity's results of operations or whether Berkshire bears a majority of the financial risks. Intercompany accounts and transactions have been eliminated. Certain amounts in 2001 and 2000 have been reclassified to conform with the current year presentation.

(b) Use of estimates in preparation of financial statements

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. In particular, estimates of unpaid losses and loss adjustment expenses and related recoverables under reinsurance for property and casualty insurance are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with the amortization of deferred charges reinsurance assumed, the determination of fair value of invested assets and related impairments, and the determination of goodwill impairments require considerable judgement by management. 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 in securities with fixed maturities and equity securities at the time of acquisition and re-evaluates the classifications at each balance sheet date. Berkshire's investments in fixed maturity and equity securities are primarily classified as available-for-sale, except for certain investments which are classified as held-to-maturity. Held-to-maturity investments are carried at amortized cost, reflecting Berkshire's intent and ability to hold the securities to maturity. Available-for-sale securities are stated at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income.

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. Berkshire reviews investments classified as held-to-maturity or available-for-sale as of each balance sheet date with respect to investments of an issuer carried at a net unrealized loss. If in management's judgement, the decline in value is other-than-temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in determining whether an impairment exists include: the financial condition, business prospects and creditworthiness of the issuer, the length of time that the asset value has been less than cost, and Berkshire's ability and intent to hold such investments until the fair value recovers.

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

(d) Investments (Continued)

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

Berkshire utilizes the equity method of accounting with respect to investments where it exercises significant influence, but not control, over the policies of the investee. A voting interest of at least 20% and no greater than 50% is normally a prerequisite for utilizing the equity method. However Berkshire may apply the equity method with less than 20% voting interests based upon the facts and circumstances including representation on the Board of Directors, contractual veto or approval rights, participation in policy making processes, the existence or absence of other significant owners and the expected duration of the investment. Berkshire applies the equity method to investments in common stock and investments in preferred stock when such preferred stock possesses substantially identical subordinated interests to common stock.

In applying the equity method, investments are recorded at cost and subsequently increased or decreased by the proportionate share of net earnings or losses of the investee. Berkshire also records its proportionate share of other comprehensive income items of the investee as a component of its comprehensive income. Dividends or other equity distributions are recorded as a reduction of the investment. In the event that net losses of the investee have reduced the equity method investment to zero, additional net losses may be recorded if additional investments in the investee are at-risk, even if Berkshire has not committed to provide financial support to the investee. Berkshire bases such additional equity method loss amounts, if any, on the change in its claim on the investee's book value.

(e) Finance and financial products

Certain Berkshire finance affiliates utilize derivative instruments as risk management tools. Such instruments include interest rate, currency and equity swaps and options, interest rate caps and floors, futures and forward contracts and foreign exchange contracts. 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) and reflect reductions permitted under master netting agreements with counterparties. The fair values of these instruments represent the present value of expected future cash flows under the contract, which is a function of underlying interest rates, currency rates, security values, related volatility, the creditworthiness of counterparties and duration of the contract. Future changes in these factors or a combination thereof may affect the fair value of these instruments. Changes in fair value of trading account assets and liabilities during the period are included in the Consolidated Statements of Earnings. The carrying values of trading account assets and trading account liabilities reflect a net decrease of $19.1 billion at December 31, 2002 and $17.5 billion at December 31, 2001 as a result of the netting arrangements.

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. Other investment securities owned and liabilities associated with investment securities sold but not yet purchased are carried at fair value. Loans and finance receivables are principally commercial and consumer loans, which are carried at amortized cost.

(f) 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. As of December 31, 2002, approximately 44% of the total inventory cost was determined using the last-in-first-out ("LIFO") method, 33% using the first-in-first-out ("FIFO") method, with the remainder using the specific identification 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, 2002 and December 31, 2001.

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

(g) Property, plant and equipment

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

(h) Goodwill of acquired businesses

Goodwill of acquired businesses represents the difference between purchase cost and the fair value of net assets of acquisitions accounted for under the purchase method. Prior to 2002, goodwill from each acquisition was generally amortized as a charge to earnings over periods not exceeding 40 years, and was reviewed for impairment if conditions were identified that indicated possible impairment.

Effective January 1, 2002, Berkshire adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 eliminated the periodic amortization of goodwill in favor of an accounting model that is based solely upon impairment tests. Goodwill is reviewed for impairment using a variety of methods at least annually, and impairments, if any, are charged to operating earnings.

(i) Revenue recognition

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

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

(j) Insurance premium acquisition costs

Certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. Acquisition costs consist of commissions, premium taxes, advertising and other underwriting costs. The recoverability of premium acquisition costs, generally, reflects anticipation of investment income. The unamortized balances of deferred premium acquisition costs are included in other assets and were $1,303 million and $1,029 million at December 31, 2002 and 2001, respectively.

(k) 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 with respect to losses that have occurred as of the balance sheet date. The liabilities for losses and loss adjustment expenses are recorded at the estimated ultimate payment amounts, except that amounts arising from certain reinsurance businesses are discounted as discussed below. Estimated ultimate payment amounts are based upon (1) individual case estimates, (2) reports of losses from ceding insurers and (3) estimates of incurred but not reported ("IBNR") losses.

The estimated liabilities of 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 workers' compensation risks are based upon an annual discount rate of 4.5%, which is the same discount rate used under statutory accounting principles. 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%. Payments under such contracts are characterized as fixed and determinable. The periodic discount accretion is included in the Consolidated Statements of Earnings as a component of losses and loss adjustment expenses.

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

(l) 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 claim settlement periods. The periodic amortization charges are reflected in the accompanying Consolidated Statements of Earnings as losses and loss adjustment expenses.

Changes to the timing and amount of estimated loss payments produce changes in the unamortized deferred charge balance. Such changes in estimates are accounted for under the retrospective method with the net effect included in amortization expense in the period of the change.

(m) Reinsurance

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

(n) 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 accumulated other comprehensive income. Gains and losses arising from other transactions denominated in a foreign currency are included in the Consolidated Statements of Earnings.

(o) Deferred income taxes

Deferred income taxes are calculated under the liability method. Deferred tax assets and liabilities are recorded based on differences between the financial statement and tax bases of assets and liabilities at the enacted tax rates. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income, primarily unrealized investment gains are charged or credited directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense.

(p) Accounting pronouncements to become effective subsequent to December 31, 2002

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143 "Accounting for Asset Retirement Obligations," which addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 became effective for Berkshire on January 1, 2003.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 generally requires that costs associated with an exit or disposal activity be recognized as liabilities when incurred, rather than the date of commitment to an exit plan, and it establishes that fair value is the standard for initial measurement of such liabilities. SFAS 146 applies to exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of annual periods ending after December 31, 2002.

The adoption of SFAS 143, SFAS 146 and FIN 45 is not expected to have a material effect on Berkshire's consolidated financial position or results of operations.

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

(p) Accounting pronouncements to become effective subsequent to December 31, 2002 (Continued)

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which addresses the consolidation of certain entities ("variable interest entity") when control exists through other than voting interests. FIN 46 requires that a variable interest entity be consolidated by the holder of the majority of the risks and rewards associated with the activities of the variable interest entity. FIN 46 is effective immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to February 1, 2003, FIN 46 is effective for the first interim period beginning after June 15, 2003, and may be applied retroactively or prospectively. Berkshire has not completed its assessment of FIN 46. However, based on a preliminary review, Berkshire believes that its investment in Value Capital L.P., currently accounted for under the equity method, will be subject to consolidation in accordance with the guidelines established by FIN 46 (see Note 9).

(2) Significant business acquisitions

Berkshire's long-held acquisition strategy is to purchase businesses with consistent earning power, good returns on equity, able and honest management and at sensible prices. Businesses with these characteristics typically have market values that exceed net asset value, thus producing goodwill for accounting purposes.

During 2002, Berkshire completed five business acquisitions for cash consideration of approximately $2.3 billion in the aggregate. Information concerning these acquisitions follows.

Albecca Inc. ("Albecca")

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

Fruit of the Loom ("FOL")

On April 30, 2002, Berkshire acquired the basic apparel business of Fruit of the Loom, LTD. FOL is a leading vertically integrated basic apparel company manufacturing and marketing underwear, activewear, casualwear and childrenswear. FOL operates on a worldwide basis and sells its products principally in North America under the Fruit of the Loom and BVD brand names.

Garan, Incorporated ("Garan")

On September 4, 2002, Berkshire acquired all of the outstanding common stock of Garan. Garan is a leading manufacturer of children's, women's, and men's apparel bearing the private labels of its customers as well as several of its own trademarks, including GARANIMALS.

CTB International ("CTB")

On October 31, 2002, Berkshire acquired all of the outstanding shares of CTB, a manufacturer of equipment and systems for the poultry, hog, egg production and grain industries.

The Pampered Chef, LTD ("The Pampered Chef")

On October 31, 2002, Berkshire acquired The Pampered Chef, LTD. The Pampered Chef is the largest branded kitchenware company and the largest direct seller of housewares in the U.S.

In addition, Berkshire completed four business acquisitions during 2001. Information concerning these acquisitions follows.

Shaw Industries, Inc. ("Shaw")

On January 8, 2001, Berkshire acquired approximately 87.3% of the common stock of Shaw for $19 per share, or $2.1 billion in total. 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 Shaw directors and members of management acquired the remaining 12.7% interest. In January 2002, Berkshire acquired the remaining shares in exchange for 4,505 shares of Berkshire Class A common stock and 7,063 shares of Class B common stock. The aggregate market value of Berkshire stock issued was approximately $324 million.

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

Johns Manville Corporation ("Johns Manville")

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

(2) Significant business acquisitions *(Continued)*

MiTek Inc. ("MiTek")

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

XTRA Corporation ("XTRA")

On September 20, 2001, Berkshire acquired all of the outstanding shares of XTRA for approximately $578 million. XTRA is a leading operating lessor of transportation equipment, including over-the-road trailers, marine containers and intermodal equipment.

Berkshire completed five acquisitions in 2000. 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. Information concerning these acquisitions follows.

On February 18, 2000, Wesco Financial Corporation, an 80.1% owned subsidiary of Berkshire, acquired CORT Business Services Corporation, a leading national provider of rental furniture, accessories and related services in the "rent-to-rent" segment of the furniture industry. On July 3, 2000, Berkshire acquired Ben Bridge Jeweler, a leading operator of upscale jewelry stores based in major shopping malls in the Western U.S. On August 1, 2000, Berkshire acquired Justin Industries, Inc., a leading manufacturer and producer of face brick, concrete masonry products and ceramic and marble floor and wall tile (Acme Brick) and a leading manufacturer of Western footwear under a number of brand names (Justin Brands). On August 8, 2000, Berkshire acquired U.S. Investment Corporation, the parent of the United States Liability Insurance Group, one of the premier U.S. writers of specialty insurance. On December 18, 2000, Berkshire acquired Benjamin Moore & Co., a formulator, manufacturer and retailer of a broad range of architectural and industrial coatings, available principally in the U.S. and Canada.

The results of operations for each of the entities acquired are included in Berkshire's consolidated results of operations from the effective date of each acquisition. The following table sets forth certain unaudited consolidated earnings data for 2002 and 2001, as if each of the acquisitions discussed above were consummated on the same terms at the beginning of each year. Dollars are in millions, except per share amounts.

	2002	2001
Total revenues	$43,634	$42,120
Net earnings	4,402	997
Earnings per equivalent Class A common share	2,870	651

(3) Investments in MidAmerican Energy Holdings Company

On March 14, 2000, Berkshire acquired 900,942 shares of common stock and 34,563,395 shares of convertible preferred stock of MidAmerican Energy Holdings Company ("MidAmerican") for $35.05 per share, or approximately $1.24 billion in the aggregate. During 2002, Berkshire acquired an additional 6,700,000 shares of convertible preferred stock for $402 million. Such investments currently give Berkshire about a 9.7% voting interest and an 83.4% economic interest in the equity of MidAmerican (80.2% on a fully diluted basis). Berkshire and certain of its subsidiaries have also acquired approximately $1,728 million of 11% non-transferable trust preferred securities, of which $455 million were acquired in 2000 and $1,273 million were acquired in 2002. Mr. Walter Scott, Jr., a member of Berkshire's Board of Directors, controls approximately 86% of the voting interest in MidAmerican.

MidAmerican is a U.S. based global energy company whose principal businesses are regulated electric and natural gas utilities, regulated interstate natural gas transmission and electric power generation. Through its subsidiaries it owns and operates a combined electric and natural gas utility company in the U.S., two natural gas pipeline companies in the U.S., two electricity distribution companies in the United Kingdom and a diversified portfolio of domestic and international electric power projects. It also owns the second largest residential real estate brokerage firm in the U.S.

While the convertible preferred stock does not vote generally with the common stock in the election of directors, the convertible preferred stock gives Berkshire the right to elect 20% of MidAmerican's Board of Directors. The convertible preferred stock is convertible into common stock only upon the occurrence of specified events, including modification or elimination of the Public Utility Holding Company Act of 1935 so that holding company registration would not be triggered by conversion. Additionally, the prior approval of the holders of convertible preferred stock is required for certain fundamental transactions by MidAmerican. Such transactions include, among others: a) significant asset sales or dispositions; b) merger transactions; c) significant business acquisitions or capital expenditures; d) issuances or repurchases of equity securities and e) the removal or appointment of the Chief Executive Officer. Through its investments in common and convertible preferred stock of MidAmerican, Berkshire has the ability to exercise significant influence on the operations of MidAmerican.

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

MidAmerican's Articles of Incorporation further provide that the convertible preferred shares: a) are not mandatorily redeemable by MidAmerican or at the option of the holder; b) participate in dividends and other distributions to common shareholders as if they were common shares and otherwise possess no dividend rights; c) are convertible into common shares on a 1 for 1 basis, as adjusted for splits, combinations, reclassifications and other capital changes by MidAmerican and d) upon liquidation, except for a de minimus first priority distribution of $1 per share, share ratably with the shareholders of common stock. Further, the aforementioned dividend and distribution arrangements cannot be modified without the positive consent of the preferred shareholders. Accordingly, the convertible preferred stock is, in substance, a substantially identical subordinate interest to a share of common stock and economically equivalent to common stock. Therefore, Berkshire is accounting for its investments in common and convertible preferred stock of MidAmerican pursuant to the equity method.

Berkshire's aggregate investments in MidAmerican are included in the Consolidated Balance Sheets as Investments in MidAmerican Energy Holdings Company, and include the common and convertible preferred stock investments accounted for pursuant to the equity method totaling $1,923 million at December 31, 2002 and $1,371 million at December 31, 2001. The 11% non-transferable trust preferred securities are classified as held-to-maturity and are carried at cost.

Condensed consolidated balance sheets of MidAmerican are as follows. Amounts are in millions.

	December 31, 2002	December 31, 2001
Assets:		
Properties, plants, contracts and equipment, net	$ 9,810	$ 6,537
Goodwill	4,258	3,639
Other assets	3,948	2,450
	$18,016	$12,626
Liabilities and shareholders' equity:		
Term debt	$ 9,952	$ 7,163
Redeemable securities held by Berkshire	1,728	455
Redeemable securities held by others	429	554
Other liabilities and minority interests	3,613	2,746
	15,722	10,918
Shareholders' equity	2,294*	1,708
	$18,016	$12,626

* *Shareholders' equity was reduced during 2002 by a net charge to other comprehensive income of $177 million, consisting of a minimum pension liability charge of $313 million net of a credit of $136 million related primarily to a foreign currency translation adjustment.*

Condensed consolidated statements of earnings of MidAmerican for the years ending December 31, 2002 and 2001 and for the period March 14, 2000 through December 31, 2000 are as follows. Amounts are in millions.

	2002	2001	2000
Revenues	$4,968	$4,973	$4,013
Costs and expenses:			
Cost of sales and operating expenses	3,189	3,522	3,100
Depreciation and amortization	526	539	383
Interest expense – securities held by Berkshire	118	50	40
Other interest expense	640	443	336
	4,473	4,554	3,859
Earnings before taxes	495	419	154
Income taxes and minority interests	115	276	73
Net earnings	$ 380	$ 143	$ 81

(4) Investments in securities with fixed maturities

Investments in securities with fixed maturities as of December 31, 2002 and 2001 are shown below (in millions).

December 31, 2002	*Amortized Cost*	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Insurance and other:				
Available-for-sale:				
Obligations of U.S. Treasury, U.S. government corporations and agencies	$ 9,091	$ 966	$ —	$10,057
Obligations of states, municipalities and political subdivisions	6,346	280	(1)	6,625
Obligations of foreign governments	3,813	92	(2)	3,903
Corporate bonds	10,007	1,031	(114)	10,924
Redeemable preferred stocks	113	10	(4)	119
Mortgage-backed securities	6,155	321	(8)	6,468
	$35,525	$2,700	$ (129)	$38,096
Finance and financial products:				
Available-for-sale:				
Obligations of U.S. Treasury, U.S. government corporations and agencies	$ 3,543	$ 331	$ —	$ 3,874
Corporate bonds	1,261	40	(10)	1,291
Mortgage-backed securities	10,202	299	—	10,501
	$15,006	$ 670	$ (10)	$15,666
Held-to-maturity, mortgage-backed securities	$ 1,019	$ 178	$ —	$ 1,197

December 31, 2001	*Amortized Cost*	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Insurance and other:				
Available-for-sale:				
Obligations of U.S. Treasury, U.S. government corporations and agencies	$ 8,969	$ 62	$ (212)	$ 8,819
Obligations of states, municipalities and political subdivisions	7,390	98	(43)	7,445
Obligations of foreign governments	2,460	55	(15)	2,500
Corporate bonds	5,802	427	(498)	5,731
Redeemable preferred stocks	93	1	(4)	90
Mortgage-backed securities	11,379	257	(2)	11,634
	$36,093	$ 900	$ (774)	$36,219
Finance and financial products:				
Available-for-sale:				
Obligations of U.S. Treasury, U.S. government corporations and agencies	$ 2,944	$ —	$ (47)	$ 2,897
Corporate bonds	1,169	—	(26)	1,143
Mortgage-backed securities	17,364	33	(24)	17,373
	$21,477	$ 33	$ (97)	$21,413
Held-to-maturity, mortgage-backed securities	$ 1,461	$ 92	$ (17)	$ 1,536

(4) Investments in securities with fixed maturities *(Continued)*

Shown below are the amortized cost and estimated fair values of securities with fixed maturities at December 31, 2002, by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in millions.

	Amortized Cost	*Fair Value*
Due in one year or less	$ 4,184	$ 4,301
Due after one year through five years	7,601	7,995
Due after five years through ten years	9,881	10,850
Due after ten years	12,508	13,647
	34,174	36,793
Mortgage-backed securities	17,376	18,166
	$51,550	$54,959

(5) Investments in equity securities

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

	Cost	*Unrealized Gains*[2]	*Fair Value*
December 31, 2002			
Common stock of:			
American Express Company[1]	$1,470	$ 3,889	$ 5,359
The Coca-Cola Company	1,299	7,469	8,768
The Gillette Company	600	2,315	2,915
Wells Fargo & Company	306	2,191	2,497
Other equity securities	5,489	3,335	8,824
	$9,164	$19,199	$28,363
December 31, 2001			
Common stock of:			
American Express Company[1]	$1,470	$ 3,940	$ 5,410
The Coca-Cola Company	1,299	8,131	9,430
The Gillette Company	600	2,606	3,206
Wells Fargo & Company	306	2,009	2,315
Other equity securities	4,868	3,446	8,314
	$8,543	$20,132	$28,675

[1] Common shares of American Express Company ("AXP") owned by Berkshire and its subsidiaries possessed approximately 11.5% of the voting rights of all AXP shares outstanding at December 31, 2002. The shares are held subject to various agreements which, generally, prohibit Berkshire from (i) unilaterally seeking representation on the Board of Directors of AXP and (ii) possessing 17% or more of the aggregate voting securities of AXP. Berkshire has entered into an agreement with AXP which will remain effective so long as Berkshire owns 5% or more of AXP's voting securities. The agreement obligates Berkshire, so long as Kenneth Chenault is chief executive officer of AXP, to vote its shares in accordance with the recommendations of AXP's Board of Directors. Additionally, subject to certain exceptions, Berkshire has agreed not to sell AXP common shares to any person who owns 5% or more of AXP voting securities or seeks to control AXP, without the consent of AXP.

[2] Net of unrealized losses of $406 million and $143 million as of December 31, 2002 and 2001, respectively.

Notes to Consolidated Financial Statements *(Continued)*

(6) Realized investment gains (losses)

Realized gains (losses) from sales and redemptions of investments are summarized below (in millions). Realized losses include impairment charges of $574 million and $247 million in 2002 and 2001, respectively.

	2002	2001	2000
Equity securities and other investments —			
Gross realized gains	$ 787	$1,522	$4,467
Gross realized losses	(583)	(369)	(317)
Securities with fixed maturities —			
Gross realized gains	688	411	153
Gross realized losses	(255)	(201)	(348)
	$ 637	$1,363	$3,955

(7) Goodwill of acquired businesses

Effective January 1, 2002, Berkshire adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 changed the accounting for goodwill from a model that required amortization of goodwill, supplemented by impairment tests, to an accounting model that is based solely upon impairment tests. Thus, Berkshire's Consolidated Statement of Earnings for the year ended December 31, 2002 includes no periodic amortization of goodwill.

Berkshire completed its initial assessment of goodwill during the second quarter of 2002 and no transitional impairment charges were required. In addition, goodwill was reviewed during the fourth quarter of 2002 and no impairment charges were required. Subsequently, goodwill must be reviewed for impairment at least annually, and impairments, if any, will be charged to operating earnings.

The increase in goodwill from December 31, 2001 to December 31, 2002 reflects Berkshire's acquisitions that were completed during 2002. Substantially all of the $788 million increase is attributable to the several business acquisitions described in Note 2.

A reconciliation of Berkshire's Consolidated Statements of Earnings for each of the three years ended December 31, 2002 from amounts reported to amounts exclusive of goodwill amortization is shown below. Goodwill amortization for the years ended December 31, 2001 and 2000 includes $78 million, and $65 million, respectively, related to Berkshire's equity method investment in MidAmerican. Dollar amounts are in millions, except per share amounts.

	2002	2001	2000
Net earnings as reported	$4,286	$ 795	$3,328
Goodwill amortization, after tax	—	636	548
Net earnings as adjusted	$4,286	$1,431	$3,876
Earnings per equivalent share of Class A common stock:			
As reported	$2,795	$ 521	$2,185
Goodwill amortization	—	416	360
Earnings per share as adjusted	$2,795	$ 937	$2,545

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

(8) Derivatives

General Re Securities ("GRS"), a wholly owned subsidiary of Berkshire, regularly utilizes derivatives in providing risk management products to clients. In January 2002, it was announced that GRS would commence a long-term run-off of its operations. The run-off is expected to occur over a number of years during which GRS will limit its new business to certain risk management transactions and will unwind its existing asset and liability positions in an orderly manner. Additional information regarding GRS's derivative instruments follows.

The derivative financial instruments involve, to varying degrees, elements of market, credit, and liquidity risks. GRS controls market risk exposures by taking offsetting positions in either cash instruments or other derivatives. GRS manages its exposures on a portfolio basis and monitors its market risk on a daily basis across all products by calculating the effect on operating results of potential changes in market variables, which include volatility, correlation and liquidity over a one week period. GRS has established $15 million as its value at risk limit with a 99th percentile confidence interval for potential losses over a weekly horizon.

GRS evaluates and records a fair value adjustment against trading revenue to recognize counterparty credit exposure and future costs associated with administering each contract. The fair value adjustment for counterparty credit exposures and future administrative costs on existing contracts was $95 million at December 31, 2002. Counterparty credit limits are established, and credit exposures are monitored in accordance with these limits. GRS receives cash and/or investment grade securities from certain counterparties as collateral and, where appropriate, may purchase credit insurance or enter into other transactions to mitigate its credit exposure. GRS also incorporates into contracts with certain counterparties provisions which allow the unwinding of these transactions in the event of a downgrade in credit rating or other indications of decline in creditworthiness of the counterparty.

At December 31, 2002, GRS had accepted collateral that is permitted by contract or industry practice to sell or repledge with a fair value of $1,884 million. Of the securities held as collateral, approximately $83 million were repledged as of December 31, 2002. At December 31, 2002, securities owned by GRS with a fair value of approximately $421 million (which includes $83 million of repledged securities as described above) were pledged against derivative transactions with a fair value of $753 million. Further, securities with a fair value of approximately $75 million were pledged against futures positions at two futures clearing brokers. Contractual terms with counterparties often require additional collateral to be posted immediately in the event of a decline in the financial rating of the counterparty or its guarantor.

Assuming non-performance by all counterparties on all contracts potentially subject to a loss, the maximum potential loss, based on the cost of replacement, net of collateral held, at market rates prevailing at December 31, 2002 approximated $4,933 million. The following table presents GRS's derivatives portfolio by counterparty credit quality and maturity at December 31, 2002. The amounts shown under gross exposure in the table are before consideration of netting arrangements and collateral held by GRS. Net fair value shown in the table represents unrealized gains on financial instrument contracts in gain positions, net of any unrealized loss owed to these counterparties on offsetting positions. Net exposure shown in the table that follows is net fair value less collateral held by GRS. Amounts are in millions.

	Gross Exposure						
	0 – 5	6 – 10	Over 10	Total	Net Fair Value	Net Exposure	Percentage of Total
Credit quality	(years)						
AAA	$1,201	$1,026	$1,072	$ 3,299	$ 917	$ 917	19%
AA	3,749	3,514	3,734	10,997	3,124	2,437	49
A	3,649	2,999	3,787	10,435	2,106	1,303	26
BBB and Below	489	364	105	958	435	276	6
Total	$9,088	$7,903	$8,698	$25,689	$6,582	$4,933	100%

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

(9) Investment in Value Capital

On July 1, 1998, Value Capital L.P., ("Value Capital") a limited partnership commenced operations. A wholly owned Berkshire subsidiary is a limited partner in Value Capital. The partnership's objective is to achieve income and capital growth from investments and arbitrage in fixed income investments. Berkshire currently accounts for this investment pursuant to the equity method. Since inception Berkshire has contributed $430 million to the partnership and other partners, including the general partner, have contributed $20 million. Profits and losses of the partnership are allocated to the partners based upon each partner's investment. At December 31, 2002, the carrying value of $603 million (including Berkshire's share of accumulated earnings of $173 million) is included as a component of other assets of finance and financial products businesses. Berkshire possesses no management authority over the activities conducted by Value Capital and it does not provide any financial support of the obligations of this partnership or of the other partners. As a limited partner, Berkshire's exposure to loss is limited to the carrying value of its investment.

(9) Investment in Value Capital *(Continued)*

As discussed in Note 1(p), Berkshire has preliminarily concluded that Value Capital is a variable interest entity. Accordingly, pursuant to the provisions of FIN 46, Berkshire will be required to consolidate the accounts of Value Capital in the third quarter of 2003. This change will have no effect on reported net earnings but based upon December 31, 2002 balances will increase Berkshire's reported assets by about $20 billion with a corresponding increase to liabilities and minority interest.

(10) Unpaid losses and loss adjustment expenses

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

	2002	*2001*	*2000*
Unpaid losses and loss adjustment expenses:			
Gross liabilities at beginning of year	$40,716	$33,022	$26,802
Ceded losses and deferred charges	(6,189)	(5,590)	(3,848)
Net balance	34,527	27,432	22,954
Incurred losses recorded:			
Current accident year	12,206	15,608	15,252
All prior accident years	1,553	1,165	211
Total incurred losses	13,759	16,773	15,463
Payments with respect to:			
Current accident year	4,042	4,435	4,589
All prior accident years	6,666	5,366	5,890
Total payments	10,708	9,801	10,479
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	37,578	34,404	27,938
Ceded losses and deferred charges	6,002	6,189	5,590
Foreign currency translation adjustment	345	30	(722)
Net liabilities assumed in connection with business acquisitions	—	93	216
Gross liabilities at end of year	$43,925	$40,716	$33,022

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 including estimates for incurred but not reported ("IBNR") claims. Considerable judgment is required to evaluate claims and establish estimated claim liabilities, particularly with respect to certain lines of business, such as reinsurance assumed because of the inherent delays in receiving loss information from ceding companies. Also, certain types of claims, such as asbestos, environmental or latent injury liabilities are both long-tailed and subject to changing legal and settlement cost trends. 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.

Incurred losses "all prior accident years" reflects the amount of estimation error charged or credited to earnings in each year with respect to the liabilities established as of the beginning of that year. During 2002, Berkshire's insurance subsidiaries recorded additional losses of $1,553 million in connection with claims occurring in years prior to 2002. This amount includes $1,310 million arising from General Re's North American and international property/casualty business. The reserve increases were attributed to casualty lines of businesses.

Prior accident years' losses incurred also include amortization of deferred charges related to retroactive reinsurance contracts incepting prior to January 1, 2002. Amortization charges included in prior accident years' losses were $430 million in 2002, $328 million in 2001, and $145 million in 2000. The increases in such charges are the result of several new contracts written over the past three years. Net discounted liabilities at December 31, 2002 and 2001 were $2,169 million and $1,834 million, respectively, and are net of discounts totaling $2,974 million and $2,653 million. Periodic accretions of these discounts are also a component of prior years' losses incurred. The accretion of discounted liabilities is included in incurred losses for all prior accident years and was approximately $95 million in 2002 and $80 million in both 2001 and 2000.

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

Estimates of unpaid losses resulting from the September 11th terrorist attack were $1.9 billion as of December 31, 2002 and $2.4 billion as of December 31, 2001. Berkshire's management believes it will take many years to resolve complicated coverage issues, which could produce a material change in the ultimate loss amount.

As previously indicated, Berkshire's insurance subsidiaries are exposed to environmental, asbestos and other latent injury claims arising from insurance and reinsurance contracts. Loss reserve estimates for environmental and asbestos exposures include case basis reserves, which also reflect reserves for legal and other loss adjustment expenses and IBNR reserves. IBNR reserves are determined based upon Berkshire's historic general liability exposure base and policy language, previous environmental and loss experience and the assessment of current trends of environmental law, environmental cleanup costs, asbestos liability law and judgmental settlements of asbestos liabilities.

The liabilities for environmental, asbestos, and latent injury claims and claims expenses net of reinsurance recoverables were approximately $6.6 billion at December 31, 2002 and $6.3 billion at December 31, 2001. Approximately, $5.2 billion of year end 2002 reserves were assumed under retroactive reinsurance contracts written by the Berkshire Hathaway Reinsurance Group. Claim liabilities arising from these contracts are subject to aggregate policy limits. Thus, Berkshire's exposure to environmental and latent injury claims under these contracts are, likewise, limited. Claims paid or reserved under these policies were approximately 85% of aggregate policy limits as of the end of 2002.

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 increases in these liabilities. Such development could be material to Berkshire's results of operations. It is not possible to estimate reliably the amount of additional net loss, or the range of net loss, that is reasonably possible.

(11) Notes payable and other borrowings

Notes payable and other borrowings of Berkshire and its subsidiaries as of December 31, 2002 and 2001 are summarized below. Amounts are in millions.

	2002	*2001*
Insurance and other:		
Commercial paper and other short-term borrowings	$2,205	$1,777
Borrowings under investment agreements	770	478
SQUARZ notes payable due 2007	400	—
Other debt due 2003-2032	1,432	1,230
	$4,807	$3,485
Finance and financial products:		
Commercial paper and other short-term borrowings	$ 204	$2,073
Borrowings of Berkadia LLC due 2006	2,175	4,900
Notes payable	1,454	1,650
Other	648	396
	$4,481	$9,019

Commercial paper and other short-term borrowings are obligations of certain businesses that utilize short-term borrowings as part of their day-to-day operations. Berkshire affiliates have approximately $3.6 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 may be redeemable without premium prior to the contractual maturity dates.

On May 28, 2002, Berkshire issued 40,000 SQUARZ securities for net proceeds of $398 million. Each SQUARZ security consists of a $10,000 par amount senior note due in November 2007 together with a warrant, which expires in May 2007, to purchase either 0.1116 shares of Class A common stock or 3.3480 shares of Class B common stock for $10,000. A warrant premium is payable to Berkshire at an annual rate of 3.75% and interest is payable to note holders at a rate of 3.00% per annum. All debt and warrants issued in conjunction with SQUARZ securities were outstanding at December 31, 2002.

(11) Notes payable and other borrowings *(Continued)*

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

Borrowings of Berkadia LLC ("Berkadia") relate to Berkadia's loan to FINOVA Capital Corporation ("FNV Capital"), a subsidiary of The FINOVA Group ("FNV"). On August 21, 2001, Berkshire and Leucadia National Corporation ("Leucadia"), through Berkadia LLC, a newly formed and jointly owned entity formed for this purpose, loaned $5.6 billion on a senior secured basis (the "Berkadia Loan") to FNV Capital, in connection with a restructuring of all of FNV Capital's then outstanding bank debt and publicly traded debt securities. Berkadia financed the entire Berkadia Loan through a third party lending facility led by Fleet Bank ("Fleet Loan"). Both the Berkadia Loan and the Fleet Loan are due on August 20, 2006. Under the terms of the Fleet Loan, which is collateralized by the Berkadia Loan, Berkadia is obligated to use the proceeds received from principal prepayments on the Berkadia Loan to prepay the Fleet Loan. Among other things, the Fleet Loan requires that FNV maintain a minimum ratio of its consolidated assets to the outstanding Fleet Loan balance. Berkadia is required to pay down the loan to the extent such ratio is under the minimum. Berkshire provided Berkadia's lenders with a 90% primary guaranty of the Berkadia Loan and also provided a secondary guaranty to a 10% primary guaranty provided by Leucadia. Berkshire has a 90% economic interest in both the Berkadia Loan and the Fleet Loan. Subsequent to December 31, 2002, FNV has prepaid an additional $450 million principal amount on the Berkadia Loan and Berkadia has prepaid an identical amount on the Fleet Loan.

In connection with the restructuring and concurrent with Berkadia's loan to FNV Capital, Berkadia received 61,020,581 shares of FNV common stock representing 50% of the total FNV outstanding shares. Berkadia initially recorded the FNV common stock at fair value and subsequently accounted for the stock pursuant to the equity method. Berkshire and Leucadia each possess a 50% economic interest in Berkadia's ownership of FNV common stock. Due to large operating losses of FNV between August 21, 2001 and September 30, 2001, Berkadia's investment in FNV common stock was written down to zero through the application of the equity method. Consequently, the equity method was suspended as of September 30, 2001, because neither Berkshire nor Berkadia has guaranteed any obligations of FNV.

Payments of principal amounts expected during the next five years are as follows (in millions).

	2003	*2004*	*2005*	*2006*	*2007*
Insurance and other	$2,270	$ 23	$ 263	$ 99	$ 557
Finance and financial products	1,612	1,093	500	465	93
	$3,882	$1,116	$ 763	$ 564	$ 650

(12) Income taxes

The liability for income taxes as of December 31, 2002 and 2001 as reflected in the accompanying Consolidated Balance Sheets is as follows (in millions).

	2002	*2001*
Payable currently	$ (21)	$ (272)
Deferred	8,072	7,293
	$8,051	$7,021

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

	2002	*2001*	*2000*
Federal	$1,991	$ 629	$2,136
State	87	68	32
Foreign	56	(77)	(150)
	$2,134	$ 620	$2,018
Current	$2,259	$ 109	$2,012
Deferred	(125)	511	6
	$2,134	$ 620	$2,018

(12) Income taxes *(Continued)*

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are shown below (in millions).

	2002	*2001*
Deferred tax liabilities:		
Unrealized appreciation of investments	$7,884	$7,078
Deferred charges reinsurance assumed	1,183	1,131
Property, plant and equipment	1,059	937
Investments	282	232
Other	648	616
	11,056	9,994
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(870)	(752)
Unearned premiums	(413)	(294)
Other	(1,701)	(1,655)
	(2,984)	(2,701)
Net deferred tax liability	$8,072	$7,293

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

	2002	*2001*	*2000*
Earnings before income taxes	$6,435	$1,469	$5,587
Hypothetical amounts applicable to above computed at the Federal statutory rate	$2,252	$ 514	$1,955
Decreases resulting from:			
Tax-exempt interest income	(109)	(123)	(135)
Dividends received deduction	(174)	(129)	(116)
Goodwill amortization	—	191	240
State income taxes, less Federal income tax benefit	57	44	21
Foreign tax rate differential	59	82	34
Other differences, net	49	41	19
Total income taxes	$2,134	$ 620	$2,018

(13) Dividend restrictions – Insurance subsidiaries

Payments of dividends by insurance subsidiaries are restricted by insurance statutes and regulations. Without prior regulatory approval, insurance subsidiaries may pay up to approximately $2.45 billion as ordinary dividends during 2003.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $28.4 billion at December 31, 2002 and $27.2 billion at December 31, 2001. Effective January 1, 2001, Berkshire's U.S. based insurance subsidiaries adopted several new statutory accounting policies as required under the Codification of Statutory Accounting Principles. The adoption of the new statutory accounting policies reduced the combined statutory surplus of Berkshire's U.S. based insurance subsidiaries by approximately $8.0 billion. The most significant new accounting policy related to the recording of net deferred income tax liabilities, which included deferred taxes on existing unrealized gains in equity securities.

Statutory surplus differs from the corresponding amount determined on the basis of GAAP. The major differences between statutory basis accounting and GAAP are that deferred charges reinsurance assumed, deferred policy acquisition costs, unrealized gains and losses on investments in securities with fixed maturities and related deferred income taxes are recognized under GAAP but not for statutory reporting purposes. In addition, statutory accounting for goodwill of acquired businesses requires amortization of goodwill over 10 years as compared to 40 years under GAAP for periods ending December 31, 2001 and prior. As described in Note 7, as of January 1, 2002, goodwill is no longer amortized under GAAP and is only subject to tests for impairment.

(14) Common stock

Changes in issued and outstanding Berkshire common stock during the three years ended December 31, 2002 are shown in the table below.

	Class A Common, $5 Par Value (1,650,000 shares authorized) Shares Issued and Outstanding	*Class B Common $0.1667 Par Value* (55,000,000 shares authorized) Shares Issued and Outstanding
Balance December 31, 1999	1,341,663	5,366,955
Common stock issued in connection with acquisitions of businesses	3,572	1,626
Conversions of Class A common stock to Class B common stock and other	(1,331)	101,205
Balance December 31, 2000	1,343,904	5,469,786
Conversions of Class A common stock to Class B common stock and other	(20,494)	674,436
Balance December 31, 2001	1,323,410	6,144,222
Common stock issued in connection with a business acquisition	4,505	7,063
Conversions of Class A common stock to Class B common stock and other	(16,729)	552,832
Balance December 31, 2002	1,311,186	6,704,117

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

(15) Fair values of financial instruments

The estimated fair values of Berkshire's financial instruments as of December 31, 2002 and 2001, are as follows (in millions).

	Carrying Value		*Fair Value*	
	2002	*2001*	*2002*	*2001*
Investments in securities with fixed maturities	$38,096	$36,219	$38,096	$36,219
Investments in equity securities	28,363	28,675	28,363	28,675
Assets of finance and financial products businesses	33,578	41,591	33,881	41,710
Notes payable and other borrowings	4,807	3,485	4,957	3,624
Liabilities of finance and financial products businesses	28,726	37,791	29,090	37,917

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

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

(16) Pension plans

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

(16) Pension plans *(Continued)*

U.S. employees are generally unfunded. Plan assets are primarily invested in fixed income obligations of U.S. government corporations and agencies, cash equivalents and equity securities.

The components of net periodic pension expense for each of the three years ending December 31, 2002 are as follows (in millions).

	2002	*2001*	*2000*
Service cost	$ 91	$ 72	$ 44
Interest cost	165	138	73
Expected return on plan assets	(147)	(137)	(73)
Net amortization, deferral and other	6	3	(2)
Net pension expense	$ 115	$ 76	$ 42

Changes in the projected benefit obligations and plan assets during 2002 and 2001 are as follows (in millions).

	2002	*2001*
Projected benefit obligation, beginning of year	$2,376	$1,337
Service cost	91	72
Interest cost	165	138
Benefits paid	(165)	(102)
Benefit obligations of acquired businesses	318	730
Actuarial loss and other	81	201
Projected benefit obligation, end of year	$2,866	$2,376
Plan assets at fair value, beginning of year	$2,215	$1,434
Employer contributions	56	36
Benefits paid	(162)	(99)
Plan assets of acquired businesses	231	707
Actual return on plan assets	196	139
Expenses and other	9	(2)
Plan assets at fair value, end of year	$2,545	$2,215

The funded status of the plans as of December 31, 2002 and 2001 is as follows (in millions).

	2002	*2001*
Plan assets under projected benefit obligations	$ (321)	$ (161)
Unrecognized net actuarial gains and other	(104)	(114)
Accrued benefit cost liability	$ (425)	$ (275)

Certain actuarial assumptions which were being used to value the assets and obligations of these plans were revised in 2001 and 2002 to better reflect the current economic environment and, in particular, the recent decline in interest rates. The total net deficit status for plans with accumulated benefit obligations in excess of plan assets was $324 million and $195 million as of December 31, 2002 and 2001, respectively.

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

	2002	*2001*
Discount rate	6.3	6.6
Discount rate – non-U.S. plans	5.9	6.0
Long-term expected rate of return on plan assets	6.5	6.7
Rate of compensation increase	4.7	4.8
Rate of compensation increase – non-U.S. plans	3.8	4.3

Most Berkshire subsidiaries also sponsor defined contribution retirement plans, such as a 401(k) or profit sharing plans. The plans generally cover all employees who meet specified eligibility requirements. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. Berkshire subsidiaries generally match these contributions up to levels specified in the plans, and may make additional discretionary contributions as determined by management. The total expenses related to employer contributions for these plans were $193 million, $70 million and $80 million for the years ended December 31, 2002, 2001 and 2000, respectively.

(17) Litigation

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

Berkshire and its subsidiaries are parties in a variety of legal actions arising out of the normal course of business. In particular, 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.

(18) Business segment data

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

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

Other businesses not specifically identified above consist of: Buffalo News, a daily newspaper publisher in Western New York; International Dairy Queen, which licenses and services a system of about 6,000 Dairy Queen stores; See's Candies, a manufacturer and distributor of boxed chocolates and other confectionery products; CORT Business Services, a leading national provider of rental furniture and related services; Albecca, which designs, manufactures, and distributes high-quality custom picture framing products; CTB International, a manufacturer of equipment and systems for the poultry, hog, egg production and grain industries and The Pampered Chef, a direct seller of houseware products.

(18) Business segment data *(Continued)*

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

Operating Businesses:	**Revenues**		
Insurance group:	*2002*	*2001*	*2000*
Premiums earned:			
GEICO	$ 6,670	$ 6,060	$ 5,610
General Re	8,500	8,353	8,696
Berkshire Hathaway Reinsurance Group	3,300	2,991	4,712
Berkshire Hathaway Primary Group	712	501	325
Investment income	3,067	2,844	2,796
Total insurance group	22,249	20,749	22,139
Apparel	1,619	726	678
Building products	3,702	3,269	178
Finance and financial products	2,126	1,658	1,505
Flight services	2,837	2,563	2,279
Retail	2,103	1,998	1,864
Scott Fetzer Companies	899	914	963
Shaw Industries	4,334	4,012	—
Other businesses	1,983	1,488	1,436
	41,852	37,377	31,042
Reconciliation of segments to consolidated amount:			
Realized investment gains	637	1,363	3,955
Other revenues	29	35	54
Eliminations	(56)	(65)	(26)
Purchase-accounting adjustments	(109)	(67)	(136)
	$42,353	$38,643	$34,889

Operating Businesses:	**Operating Profit before taxes**		
Insurance group operating profit:	*2002*	*2001*	*2000*
Underwriting profit (loss):			
GEICO	$ 416	$ 221	$ (224)
General Re	(1,393)	(3,671)	(1,254)
Berkshire Hathaway Reinsurance Group	534	(647)	(162)
Berkshire Hathaway Primary Group	32	30	25
Net investment income	3,050	2,824	2,773
Total insurance group operating profit (loss)	2,639	(1,243)	1,158
Apparel	229	(33)	6
Building products	516	461	34
Finance and financial products	1,016	519	530
Flight services	225	186	213
Retail	166	175	175
Scott Fetzer Companies	129	129	122
Shaw Industries	424	292	—
Other businesses	691	377	320
	6,035	863	2,558
Reconciliation of segments to consolidated amount:			
Realized investment gains	603	1,320	3,955
Interest expense*	(86)	(92)	(92)
Corporate and other	2	8	22
Goodwill amortization and other purchase-accounting adjustments	(119)	(630)	(856)
	$ 6,435	$ 1,469	$ 5,587

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

(18) Business segment data *(Continued)*

Operating Businesses:	**Capital expenditures *** 2002	2001	2000	**Deprec. & amort. of tangible assets** 2002	2001	2000
Insurance group:						
GEICO	$ 31	$ 20	$ 29	$ 32	$ 70	$ 64
General Re	18	19	22	17	20	39
Berkshire Hathaway Reinsurance Group	—	—	—	—	—	—
Berkshire Hathaway Primary Group	4	3	4	3	2	1
Total insurance group	53	42	55	52	92	104
Apparel	51	8	6	32	13	12
Building products	158	152	15	157	124	9
Finance and financial products	48	16	1	143	50	3
Flight services	241	408	472	127	108	90
Retail	113	76	48	40	37	33
Scott Fetzer Companies	7	6	11	10	10	10
Shaw Industries	196	71	—	91	88	—
Other businesses	61	32	22	27	22	21
	$ 928	$ 811	$ 630	$ 679	$ 544	$ 282

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

Operating Businesses:	**Goodwill at year-end** 2002	2001	**Identifiable assets at year-end** 2002	2001
Insurance group:				
GEICO	$ 1,370	$ 1,370	$ 12,751	$ 11,309
General Re	13,503	13,502	38,726	34,575
Berkshire Hathaway Reinsurance Group	—	—	40,913	38,603
Berkshire Hathaway Primary Group	142	119	4,770	3,360
Total insurance group	15,015	14,991	97,160	87,847
Apparel	57(1)	57	1,539	419
Building products	2,082	1,992	2,515	2,535
Finance and financial products	256	256	33,578	41,591
Flight services	1,369	1,369	3,105	2,816
Retail	434	434	1,341	1,215
Scott Fetzer Companies	12	12	415	281
Shaw Industries	1,941	1,686	1,932	1,619
Other businesses	1,132(2)	713	4,415	1,884
	$22,298	$21,510	146,000	140,207
Reconciliation of segments to consolidated amount:				
Corporate and other			1,205	992
Goodwill and other purchase-accounting adjustments			22,339	21,553
			$169,544	$162,752

(1) *Excludes other intangible assets not subject to amortization of $314.*

(2) *Excludes other intangible assets not subject to amortization of $697.*

(19) 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, 2002 are summarized below. Dollars are in millions.

	Property/Casualty			*Life/Health*		
	2002	2001	2000	2002	2001	2000
Premiums Written:						
Direct	$ 9,457	$ 8,294	$ 6,858			
Assumed	10,471	9,332	11,270	$2,031	$2,162	$2,520
Ceded	(961)	(890)	(729)	(132)	(157)	(257)
	$18,967	$16,736	$17,399	$1,899	$2,005	$2,263
Premiums Earned:						
Direct	$ 8,825	$ 7,654	$ 6,666			
Assumed	9,293	9,097	11,036	$2,021	$2,143	$2,513
Ceded	(822)	(834)	(620)	(135)	(155)	(252)
	$17,296	$15,917	$17,082	$1,886	$1,988	$2,261

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

	Property/Casualty			*Life/Health*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
United States	*$14,297*	*$13,319*	*$11,409*	*$1,153*	*$1,176*	*$1,296*
Western Europe	*3,870*	*2,352*	*5,064**	*411*	*518*	*633*
All other	*800*	*1,065*	*926*	*335*	*311*	*334*
	$18,967	*$16,736*	*$17,399*	*$1,899*	*$2,005*	*$2,263*

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

A summary of supplemental cash flow information for each of the three years ending December 31, 2002 is presented in the following table (in millions).

	2002	*2001*	*2000*
Cash paid during the year for:			
Income taxes	$1,945	$ 905	$1,396
Interest of finance and financial products businesses	508	722	794
Other interest	208	225	157
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	700	3,507	901
Common shares issued in connection with acquisitions of businesses	324	—	224

(20) Quarterly data

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

2002	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Revenues	$9,521	$10,051	$10,637	$12,144
Net earnings [(1)]	916	1,045	1,141	1,184
Net earnings per equivalent Class A common share	598	681	744	772
2001				
Revenues	$8,304	$10,886	$ 9,554	$ 9,899
Net earnings (loss) [(1)]	606	773	(679)[(2)]	95
Net earnings (loss) per equivalent Class A common share	397	506	(445)	63

(1) Includes realized investment gains, which, for any given period have 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. After-tax realized investment gains for the periods presented above are as follows:

	1st Quarter	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Realized investment gains – 2002	*$ 98*	*$ 13*	*$ 27*	*$ 245*
Realized investment gains – 2001	*144*	*420*	*216*	*62*

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

BERKSHIRE HATHAWAY INC.
and Subsidiaries
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 income taxes and minority interest.

	— (dollars in millions) —		
	2002	2001	2000
Insurance – underwriting	$ (292)	$(2,662)	$(1,041)
Insurance – investment income	2,096	1,968	1,946
Non-insurance businesses	2,218	1,305	891
Interest expense	(55)	(60)	(61)
Purchase-accounting adjustments	(65)	(603)	(818)
Other	1	5	19
Earnings before realized investment gains	3,903	(47)	936
Realized investment gains	383	842	2,392
Net earnings	$ 4,286	$ 795	$ 3,328

The business segment data (Note 18 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) —		
	2002	2001	2000
Underwriting gain (loss) attributable to:			
GEICO	$ 416	$ 221	$ (224)
General Re	(1,393)	(3,671)	(1,254)
Berkshire Hathaway Reinsurance Group	534	(647)	(162)
Berkshire Hathaway Primary Group	32	30	25
Underwriting loss — pre-tax	(411)	(4,067)	(1,615)
Income taxes and minority interest	(119)	(1,405)	(574)
Net underwriting loss	$ (292)	$(2,662)	$(1,041)

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 U.S., (2) General Re, one of the four largest reinsurers in the world, (3) Berkshire Hathaway Reinsurance Group ("BHRG") and (4) Berkshire Hathaway Primary Group. Berkshire's management views insurance businesses as possessing two distinctive operations – underwriting and investment. Accordingly, Berkshire evaluates performance of underwriting operations without any allocation of investment income.

A significant marketing strategy followed by all these businesses is the maintenance of extraordinary capital strength. Statutory surplus of Berkshire's insurance businesses totaled approximately $28.4 billion at December 31, 2002. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into contracts of insurance and reinsurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers. Additional information regarding Berkshire's insurance and reinsurance operations follows.

Insurance — Underwriting *(Continued)*

GEICO

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

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

	— (dollars in millions) —					
	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Premiums written	$6,963		$6,176		$5,778	
Premiums earned	$6,670	100.0	$6,060	100.0	$5,610	100.0
Losses and loss adjustment expenses	5,137	77.0	4,842	79.9	4,809	85.7
Underwriting expenses	1,117	16.8	997	16.5	1,025	18.3
Total losses and expenses	6,254	93.8	5,839	96.4	5,834	104.0
Pre-tax underwriting gain (loss)	$ 416		$ 221		$ (224)	

Premiums earned in 2002 were $6,670 million, up 10.1% from $6,060 million in 2001. The growth in premiums earned for voluntary auto was 9.6%, reflecting a 9.0% increase in policies-in-force during the past year. In 2001, premiums earned were $6,060 million, an increase of 8.0% over 2000. The increase in premiums in 2001 was due to increased rates, as policies-in-force declined 0.8%.

Policies-in-force over the last twelve months increased 7.0% in the preferred risk auto market and increased 17.4% in the standard and nonstandard auto lines. Voluntary auto new business sales in 2002 increased 30.9% compared to 2001. The sales closure ratio (new policies written to quotes) and the policy retention rate both improved in 2002 aided by recent rate increases taken by competitors. Total voluntary auto policies-in-force at December 31, 2002 were 419,000 higher than at December 31, 2001, following a slight decline in policies-in-force in 2001 from 2000.

Losses and loss adjustment expenses incurred increased 6.1% to $5,137 million in 2002. GEICO's loss ratio was 77.0% in 2002 compared to 79.9% in 2001. The improvement reflects the impact of rate increases and better than expected loss experience. Claims frequency changes have been slight for most coverages. In 2002, claim frequencies benefited from mild winter weather during the first quarter while during 2001 claim frequencies were lower than normal due to the September 11th terrorist attack. In 2002, claim severity continued to increase but at a slower rate than in 2001. Catastrophe losses added 0.3 points to the loss ratio in 2002 compared to 0.8 points in 2001.

GEICO companies are defendants in several class action lawsuits related to the use of collision repair parts not produced by the original auto manufacturers, the calculation of "total loss" value and whether to pay diminished value as part of the settlement of certain claims. GEICO intends to vigorously defend its position on these claim settlement procedures. However, the lawsuits are in various stages of development and the ultimate outcome cannot be reasonably determined at this time.

Underwriting expenses for 2002 were $1,117 million, an increase of $120 million (12.0%) from 2001, following a decrease of $28 million in 2001 from 2000. Advertising expense was unchanged in 2002 as compared to 2001 and significantly lower than in 2000. Underwriting expenses reflect higher associate profit sharing expense than in 2001.

GEICO's business produced outstanding underwriting results in each of the past two years reflecting favorable claims experience and the effects of rate increases taken primarily in 2000. GEICO believes its rates are adequate in nearly all states and expects additional policy growth in 2003 as competitors increase their rates.

General Re

General Re conducts a reinsurance business, which provides reinsurance coverage in the United States and worldwide. General Re's principal reinsurance operations are comprised of: (1) North American property/casualty, (2) international property/casualty, which consists of reinsurance business written principally through Germany-based Cologne Re and London market business written principally through the Faraday operations, and (3) global life/health. At December 31, 2002, General Re had an 89% economic ownership interest in Cologne Re.

Insurance — Underwriting *(Continued)*

General Re *(Continued)*

General Re's pre-tax underwriting results for the past three years are summarized below.

	— (dollars in millions) —					
	Premiums earned			Pre-tax underwriting loss		
	2002	2001	2000	2002	2001	2000
North American property/casualty	$3,967	$3,968	$3,389	$(1,019)	$(2,843)	$ (656)
International property/casualty	2,647	2,397	3,046	(319)	(746)	(518)
Global life/health	1,886	1,988	2,261	(55)	(82)	(80)
	$8,500	$8,353	$8,696	$(1,393)	$(3,671)	$(1,254)

General Re's underwriting results were negatively impacted in both 2002 and 2001 by increases in loss reserve estimates established for claims occurring in prior years with respect to the North American property/casualty business. Additionally, underwriting results for 2001 were severely impacted by losses from the September 11th terrorist attack.

General Re took significant underwriting actions to better align premium rates with coverage terms during the past two years. Improved current accident year results for 2002 in the North American, London market and global life/health operations, in part, reflect these efforts. However, management continues to believe that additional premium rate increases and more favorable coverage terms are needed in certain lines and territories to achieve targeted long-term underwriting profitability. Information with respect to each of General Re's underwriting units is presented below.

North American property/casualty

General Re's North American property/casualty operations underwrite predominantly excess reinsurance across multiple lines of business. Excess reinsurance provides indemnification of losses above a stated retention on either an individual claim basis or in the aggregate across all claims in a portfolio. Reinsurance contracts are written on both a treaty (group of risks) and facultative (individual risk) basis.

Premiums earned in 2002 were unchanged from premiums earned in 2001. Premiums earned in 2001 increased over 2000 levels by $579 million (17.1%). Premiums earned in 2002 were primarily impacted by rate increases (estimated at approximately $800 million) across most lines of business, partially offset by reductions from cancellations in excess of new business written. Premiums earned in 2001 included $400 million from one retroactive reinsurance contract and a large quota share agreement. An aggregate excess reinsurance contract produced earned premiums of $404 million in 2000. There were no such contracts written in 2002.

The North American property/casualty business had underwriting losses of $1,019 million in 2002, $2,843 million in 2001, and $656 million in 2000. The underwriting loss in 2002 included charges of $990 million (24.9% of premiums earned in 2002) from increases to prior years' loss reserves. Underwriting losses for 2001 and 2000 included charges of $800 million and $92 million respectively for prior years' loss reserve increases. Underwriting results in 2002 also included a net gain of $66 million with respect to the 2002 accident year. The favorable effects of re-pricing efforts and improved contract terms and conditions implemented over the past two years contributed to the net gain. In addition, underwriting results for 2002 were favorably impacted by the absence of major catastrophes and other large individual property losses ($20 million or greater), a condition that is unusual and should not be expected to occur regularly in the future. As a result, 2002 accident year results for property lines were better than normally expected. Underwriting results for 2001 included approximately $1.54 billion of net losses from the September 11th terrorist attack, as well as $87 million of losses from other catastrophes (principally Tropical Storm Allison) and other large individual property losses. Results for 2000 included $53 million of catastrophe and other large property losses and a loss of $239 million from a large excess reinsurance contract.

The adjustment of $990 million to prior year loss estimates in 2002 was from casualty lines of business and related principally to the 1997 through 2000 accident years. Increases in prior years' general liability claims totaled about $400 million. The remainder of the increase in prior years' reserves in 2002 was split fairly evenly among workers' compensation, medical malpractice, auto liability and professional liability coverages. The 2002 prior year loss reserve adjustment was net of a $115 million reduction in reserves established in connection with the September 11th terrorist attack. The reduction in reserves related to the September 11th terrorist attack was due primarily to decreased loss estimates for certain claims. As of December 31, 2002, approximately $241 million of claims arising as a result of the September 11th terrorist attack have been paid.

About $386 million of the reserve increases for prior years' claims resulted from actual reported claims exceeding expectations. This under-estimation of expected claims indicated that the level of premium rate erosion that occurred in recent years was greater than had been previously contemplated in General Re's earlier loss reserve estimates. As a result of the higher than anticipated reported losses, General Re increased reserves for incurred but not reported ("IBNR") claims by an additional $604 million.

The process of establishing reserves by General Re, like most other reinsurers, requires numerous estimates and judgments by management. Loss reserve estimates are based primarily on claims reported by ceding companies (such amounts generally exclude IBNR claims), analysis of historical claim reporting patterns of ceding companies, and estimates of expected overall loss amounts for all accident periods. Expected overall losses are partly based upon assumptions with respect to both General Re's and ceding companies' premium rate adequacy. Premium rate adequacy assumptions are an indicator of the profitability of the subject business reinsured and are important in establishing reserves for claims that will be reported and settled over long periods into the future. Claim frequency or count analyses are generally not practicable because such data is either not provided by ceding companies or otherwise not timely or reliable. Loss reserves, which are established based on estimates by line of business and type of coverage, are regularly re-evaluated and appropriate adjustments are made to bring reserves in line with the revised estimates.

IBNR reserves are largely comprised of liability and workers' compensation exposures because these claims tend to be reported by and settled with ceding companies over long time periods. Therefore, such claims are subject to a higher degree of estimation error as a result of changes in the legal environment, jury awards, medical cost trends and general cost inflation. Based upon statistical analysis of past reporting trends, General Re estimates how much IBNR is required to cover claims that will be reported by ceding companies in future years. Subsequently, as claims are reported, amounts are measured against previous expectations, with variances (positive or negative) recognized in earnings as a component of losses and loss adjustment expenses. Significant variances are analyzed and revised judgments are made with respect to remaining IBNR reserve levels, and are also recognized in earnings.

There is considerable judgment employed in developing the estimates because of inherent delays in claim emergence and reporting by ceding companies, particularly with respect to liability claims. Normally only about 15% of ultimate excess casualty reinsurance claims are reported in the year of loss occurrence. General Re has not quantified a range of possible reserve estimates.

Among other factors, management believes the revised estimates in 2002 for prior years were due to: (a) an increase in claim severity, which has a leveraged effect on excess of loss coverages provided by General Re by producing a disproportionate increase in claims exceeding General Re's attachment point; (b) escalating medical inflation and utilization that adversely affect workers' compensation and other casualty lines; (c) an increased frequency in corporate bankruptcies, scandals and accounting restatements which increased losses under directors and officers coverages; (d) broadened coverage terms under General Re's reinsurance contracts during 1997 through 2000; (e) increased ceding companies' reserve inadequacies, likely arising from broadened terms and conditions, as well as previously unrecognized premium inadequacies; and (f) increased primary company insolvencies, which changed historical claim reporting patterns.

General Re continuously estimates its liabilities and related reinsurance recoverables for environmental and asbestos claims and claim expenses. Most liabilities for such claims arise from exposures in North America. Environmental and asbestos exposures do not lend themselves to traditional methods of loss development determination and therefore reserves related to these exposures may be considered less reliable than reserves for standard lines of business (e.g., automobile). The estimate for environmental and asbestos losses is composed of four parts: known claims, development on known claims, IBNR and direct excess coverage litigation expenses. At December 31, 2002, environmental and asbestos loss reserves for North America were $1,161 million ($1,008 million net of reinsurance). As of December 31, 2001 such amounts totaled $1,248 million ($966 million net of reinsurance). Net paid losses on such claims were $59 million in 2002. The changing legal environment concerning asbestos claims together with the widespread use of asbestos related products in the U.S. over the past century has made quantification of potential exposures very difficult. Future changes to the legal environment may precipitate significant changes in reserves.

Due to the long-tail nature of casualty business, a very high degree of estimation is involved in establishing loss reserves for current accident year occurrences. Thus, the ultimate level of underwriting gain or loss with respect to the 2002 accident year will not be fully known for many years. North American property/casualty loss reserves were $16.2 billion ($14.9 billion net of reinsurance) at December 31, 2002 and $15.1 billion ($13.6 billion net of reinsurance) at December 31, 2001. About 50% of these amounts represent estimates of IBNR losses.

Although loss reserve levels are now believed to be adequate, there can be no guarantees. A relatively small change in the estimate of net reserves can produce large changes in annual underwriting results. For instance, a one percentage point change in net reserves at year end 2002 would produce a pre-tax underwriting gain or loss of $149 million, or roughly 4% of premiums earned in 2002. In addition, the timing and magnitude of catastrophes and large individual property losses are expected to continue to contribute to volatile periodic underwriting results in the future.

International property/casualty

The international property/casualty operations write quota-share and excess reinsurance on risks around the world. International property/casualty business is written on a direct reinsurance basis (primarily through Cologne Re) and in the London market (through Faraday). In recent years, General Re's largest international markets have been in Western Europe.

Overall premiums earned in 2002 exceeded 2001 amounts by $250 million (10.4%). Adjusting for the effects of foreign exchange rates, premiums earned in local currencies increased 8.5% in 2002. In local currencies, premiums earned in the direct markets declined 2.1% in 2002, primarily due to a substantial decline in premiums in Argentina, the non-renewal of under-performing business in continental Europe and parts of Asia, partially offset by increases in the United Kingdom and Australia. London market premiums in local currencies increased 41.9% primarily due to increased participation in Faraday Syndicate 435 from 60.6% in 2001 to 96.7% in 2002. Premiums earned in 2001 declined $649 million from 2000. The primary reason for the decline was the elimination of the one-quarter lag in reporting by this business in the fourth quarter of 2000. As a result, 2000's fourth quarter included two quarters of activity for the international property/casualty operations. Otherwise, international property/casualty premiums earned in 2001 reflected growth in the London market operations from increased participation in Faraday Syndicate 435 (60.6% in 2001 versus 39.7% in 2000).

The direct market reinsurance operations produced an underwriting loss of $315 million for 2002. Significantly impacting 2002 results were $240 million of net losses on prior years' loss estimates, where claims reported exceeded actuarial expectations, and approximately $107 million in catastrophe and other large individual property losses, principally European flood losses in August and European storm Jeanette in October. The underwriting loss of $568 million in 2001 included $247 million of net losses related to the September 11th terrorist attack and $143 million resulting from other large individual property losses. Large individual property losses for 2000 aggregated $80 million.

London market operations produced an underwriting loss in 2002 of $4 million, compared with an underwriting loss of $178 million in 2001. Underwriting results in 2002 benefited from improved market conditions and below normal property losses in the current accident year, but were adversely impacted by $17 million of European flood losses and $80 million of increases in prior years' loss reserve estimates. The London market underwriting loss in 2001 included $66 million from the September 11th terrorist attack as well as relatively high property losses.

Insurance — Underwriting *(Continued)*

General Re *(Continued)*

At December 31, 2002, the international property/casualty operations had gross loss reserves accrued of $7.1 billion, ($6.4 billion net of reinsurance). Loss reserves for these operations are established based on methodologies similar to those used in the North American property/casualty operations; however, cedant reports for continental Europe and certain other international markets are generally required less frequent or are due later than those provided by North American cedants.

Global life/health

General Re's global life/health affiliates reinsure such risks worldwide. Premiums earned in 2002 for the global life/health operations declined $102 million (5.1%) from 2001. In 2001, premiums declined $273 million from 2000, primarily due to the elimination of the one quarter reporting lag in the fourth quarter of 2000. Global life/health generated underwriting losses of $55 million in 2002, compared with $82 million in 2001, and $80 million in 2000. Underwriting results for 2001 include $19 million of net losses related to the September 11th terrorist attack. Otherwise, the poor underwriting results in 2002 and 2001 reflected losses generated from discontinued lines of the health business and in 2000 were from the international health business.

Berkshire Hathaway Reinsurance Group

The Berkshire Hathaway Reinsurance Group ("BHRG") underwrites excess-of-loss and quota-share 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. Since July 2001, BHRG has also written a number of policies or contracts primarily for large or otherwise unusual discrete commercial property risks on a direct and facultative reinsurance basis. This business is referred to as individual risk. BHRG's pre-tax underwriting results are summarized in the table below.

	— (dollars in millions) —					
	Premiums earned			Pre-tax underwriting gain		
	2002	2001	2000	2002	2001	2000
Catastrophe and individual risk	$1,283	$ 553	$ 321	$1,006	$ (150)	$ 196
Retroactive reinsurance	407	1,993	3,944	(446)	(371)	(191)
Quota share	1,289	220	22	(86)	(57)	(3)
Other	321	225	425	60	(69)	(164)
Total	$3,300	$2,991	$4,712	$ 534	$(647)	$(162)

During the second half of 2001, opportunities for BHRG to write catastrophe and individual risk business increased significantly, particularly post-September 11. Contracts written may provide exceptionally large limits of indemnification, often several hundred million dollars and occasionally in excess of $1 billion, and may cover catastrophe risks (such as hurricanes, earthquakes or other natural disasters) or other property risks (such as aviation and aerospace, commercial multi-peril or terrorism). Industry capacity devoted to these coverages will likely increase in the future which will reduce the opportunities for BHRG to underwrite risks at acceptable prices. Consequently, the volume of such business may decline, perhaps significantly.

The catastrophe and individual risk business produced substantial underwriting gains in 2002 and 2000, due to the lack of catastrophic or otherwise large loss events. The net underwriting loss in 2001 included about $410 million from the September 11th terrorist attack. Losses related to the September 11th terrorist attack were reduced by about $85 million in 2002, as payments to settle claims under certain policies were below original estimates. Approximately $300 million of reserves related to the terrorist attack remained as of December 31, 2002. Although a very large underwriting gain was achieved in 2002 as a result of unusually low catastrophe occurrences, a single loss event could have easily eliminated those gains. Berkshire's management expects a catastrophic event will one day occur that will produce an extraordinary level of losses under policies written by BHRG.

BHRG cedes virtually none of the risk associated with this business to other reinsurers due to the perceived uncertainty of collecting recoverable losses ceded to financially weaker companies. Underwriting results of this business will remain subject to extreme volatility. Nevertheless, Berkshire's management remains willing to accept such volatility provided there is a reasonable prospect of long-term profitability.

Insurance — Underwriting *(Continued)*

<u>Berkshire Hathaway Reinsurance Group</u> *(Continued)*

Retroactive reinsurance contracts indemnify ceding companies for losses arising under insurance or reinsurance contracts written in the past, usually many years ago. While contract terms vary, losses under the contracts are subject to a very large aggregate dollar limit, occasionally exceeding $1 billion under a single contract. Generally, it is also anticipated, although not assured, that claims under retroactive contracts will be paid over long time periods. As a result, premiums paid by ceding companies are, in part, discounted for time value. However, these contracts do not produce an immediate underwriting loss for financial reporting purposes. The excess of the estimated ultimate claims payable over the premiums received is established as a deferred charge asset which is subsequently amortized over the expected claim settlement periods. Such amortization is included as a component of losses incurred and essentially represents the net underwriting losses from this business in each of the past three years.

Retroactive reinsurance contracts are expected to generate significant underwriting losses over time due to the amortization of these deferred charges. This business is accepted due to the exceptionally large amounts of float generated which totaled about $7.5 billion at December 31, 2002. Unamortized deferred charges under BHRG contracts were $3.2 billion at December 31, 2002 and $3.1 billion as of December 31, 2001. It is currently expected that losses incurred in 2003 will include about $400 million of deferred charge amortization from contracts in effect as of December 31, 2002.

In 2002, BHRG wrote an increasing amount of business under quota-share contracts. Most of the increased premium volume in 2002 derived from several new contracts with Lloyd's syndicates and from a new contract with a major U.S. based insurer. In a quota-share arrangement, BHRG essentially participates proportionately in the premiums and claims of the business written by the ceding company. BHRG was willing to enter into these new contracts because it believed the level of rate adequacy in certain property/casualty markets was much improved in relation to past years. BHRG's continued participation in this business will depend on the availability of other sources of capacity for Lloyd's syndicates as well as the expectation of continued rate adequacy of the Lloyd's business being reinsured. Accordingly, the level of this business expected to be written in 2003 is uncertain.

<u>Berkshire Hathaway Primary Group</u>

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

Collectively, Berkshire's other primary insurance businesses produced earned premiums of $712 million in 2002, $501 million in 2001 and $325 million in 2000. The increases in premiums earned during the past two years were largely attributed to increased volume at USIC and the NICO Primary Group. Net underwriting gains of Berkshire's other primary insurance businesses totaled $32 million in 2002, $30 million in 2001 and $25 million in 2000. The improvement in year-to-year comparative underwriting results was due in large part to USIC and the NICO Primary Group offset by poor results in the workers' compensation business of the Homestate Group.

Insurance — Investment Income

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

	— (dollars in millions) —		
	2002	2001	2000
Investment income before taxes	$3,050	$2,824	$2,773
Applicable income taxes and minority interest	954	856	827
Investment income after taxes and minority interest	$2,096	$1,968	$1,946

Investment income from insurance operations in 2002 increased $226 million (8.0%) over 2001. Investment income in 2001 exceeded amounts earned in 2000 by $51 million (1.8%). Investment income in 2000 included five quarters with respect to General Re's international reinsurance operations, as a result of the elimination of the one quarter lag in reporting in the fourth quarter. Pre-tax investment income in 2000 included $103 million related to the extra quarter.

Invested assets increased during 2002 by $7 billion to $79 billion at December 31, 2002 following a decrease of $4 billion during 2001. The increase in invested assets during 2002 was primarily the result of significant operating cash flow, represented by a $6 billion increase in policyholder float. In 2001 the decrease in invested assets was primarily attributed to a $6 billion decline in the market values of Berkshire's major equity investments and $4 billion of dividends paid to Berkshire during the year. Partially offsetting these declines was an increase in investments resulting from an increase in float generated by insurance operations.

Float represents an estimate of the amount of funds ultimately payable to policyholders that is available for investment. The total float at December 31, 2002 was approximately $41.2 billion compared to $35.5 billion at December 31, 2001 and about $27.9 billion at December 31, 2000. Increases in float were achieved at all underwriting units in 2002. The cost of float, represented by the ratio of the pre-tax underwriting loss over the average float, was about 1.1% for 2002 as compared to 12.8% for 2001. In 2000, the cost of float was approximately 6.1%.

During 2002, Berkshire increased its investments in high-yield corporate bonds to approximately $8 billion at December 31, 2002. Approximately $7 billion of these investments are held by Berkshire insurance subsidiaries with the remaining portion held by finance subsidiaries. These investments were primarily acquired at distressed prices. The credit risk associated with these investments is much greater than with other fixed income investments, which are generally U.S. Government, municipal and mortgage-backed securities. Approximately $4 billion of these investments were issued by companies in the energy industry and approximately $2 billion were issued by telecommunications businesses. Berkshire believes that credit losses may eventually occur with respect to some of these investments. However, the Company also believes that over time these investments will produce reasonable returns in relation to credit risk.

Non-Insurance Businesses

Berkshire's numerous non-insurance businesses grew significantly through the acquisition of a number of businesses subsequent to December 31, 1999. Additional information regarding these acquisitions is contained in Notes 2 and 3 of the Consolidated Financial Statements. As a result of these acquisitions, three new non-insurance business segments were formed in the last two years.

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

	— (dollars in millions) —					
	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Revenues	$19,603	100	$16,628	100	$8,903	100
Cost and expenses	16,207	83	14,522	87	7,503	84
Pre-tax earnings	3,396	17	2,106	13	1,400	16
Income taxes and minority interest	1,178	6	801	5	509	6
Net earnings	$ 2,218	11	$ 1,305	8	$ 891	10

A comparison of revenues and pre-tax earnings between 2002, 2001 and 2000 for the non-insurance businesses follows.

	— (dollars in millions) —					
	Revenues			Pre-tax earnings (loss)		
Non-Insurance Businesses	2002	2001	2000	2002	2001	2000
Apparel	$ 1,619	$ 726	$ 678	$ 229	$ (33)	$ 6
Building products	3,702	3,269	178	516	461	34
Finance and financial products	2,126	1,658	1,505	1,016	519	530
Flight services	2,837	2,563	2,279	225	186	213
Retail	2,103	1,998	1,864	166	175	175
Scott Fetzer Companies	899	914	963	129	129	122
Shaw Industries	4,334	4,012	—	424	292	—
Other businesses	1,983	1,488	1,436	691	377	320
	$19,603	$16,628	$8,903	$3,396	$2,106	$1,400

Non-Insurance Businesses *(Continued)*

The largest new segment in terms of revenue is Shaw Industries ("Shaw"), in which Berkshire acquired an 87.3% interest on January 8, 2001. In January 2002, Berkshire acquired the remaining interest in Shaw. The building products segment consists of four recently acquired businesses (MiTek Inc., acquired in July 2001; Johns Manville, acquired in February 2001; Benjamin Moore, acquired in December 2000; and Acme Building Brands, acquired in August 2000). The third new segment, apparel, consists of several businesses, including Fruit of the Loom (acquired in April 2002), Garan (acquired in September 2002), Justin Brands (acquired in August 2000) and several other businesses that have been owned by Berkshire for many years but were previously not part of a reportable segment (H.H. Brown Shoe Group and Fechheimer).

Berkshire's finance and financial products businesses segment grew in 2001 with the September acquisition of XTRA Corporation. Berkshire also acquired Ben Bridge Jeweler in July 2000, which is included as part of Berkshire's retail segment. Other businesses acquired during the last three years include CORT Business Services (February 2000), MidAmerican Energy Holdings Company (March 2000), Albecca (February 2002), CTB (October 2002) and The Pampered Chef (October 2002). The results of each of the aforementioned businesses are reflected in Berkshire's earnings from their respective acquisition dates.

2002 compared to 2001

Apparel

Berkshire’s apparel businesses grew significantly during 2002 as a result of the Fruit of the Loom and Garan acquisitions. From their acquisition dates, these two businesses generated combined revenues of $957 million and pre-tax earnings of $190 million. Revenues from Berkshire’s other apparel businesses declined $64 million in 2002 as compared to 2001 primarily due to lower revenues from the Dexter shoe business. Pre-tax earnings in 2002 from the other apparel businesses totaled $39 million compared to a pre-tax loss of $33 million in 2001 which included significant operating losses and a restructuring charge at Dexter.

Building products

Each of Berkshire’s building products businesses manufactures and distributes products and services for the residential and commercial construction and home improvement markets. Revenues of the building products group in 2002 totaled $3.7 billion compared to $3.3 billion in 2001. Pre-tax earnings of these businesses in 2002 were $516 million compared to $461 million in 2001.

On a comparative full year basis, building products revenues in 2002 were roughly unchanged from 2001. In 2002, a volume decline of 12% in insulation and roofing systems (Johns Manville) was offset by 5% growth in paint and coatings volume (Benjamin Moore), higher sales of connector plates and related products (MiTek) and increased brick and block unit sales (Acme). Full year pre-tax earnings of $516 million were relatively unchanged from 2001. A decline in pre-tax earnings occurred at Johns Manville where comparative results were negatively affected by the weakness in U.S. commercial construction and roofing markets. The other units benefited from relatively good conditions in the residential markets.

Finance and financial products

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

Pre-tax earnings of the finance and financial products group in 2002 increased $497 million (95.8%) to $1,016 million. Pre-tax earnings of BH Finance in 2002 increased $425 million from 2001, due primarily to lower interest expense as a result of declining short-term rates as well as an increase of $152 million in realized investment gains. Under the current market conditions, BH Finance is expected to continue to produce significant earnings in 2003.

Non-Insurance Businesses *(Continued)*

Finance and financial products (Continued)

GRS had a pre-tax loss in 2002 of $173 million compared to earnings of $11 million in 2001. In January 2002, it was announced that GRS would commence a long-term run-off of its business. During the run-off period, GRS will limit new business to certain risk management transactions and will unwind existing asset and liability positions in an orderly manner. It is expected that the run-off will take a number of years to complete. The pre-tax loss in 2002 included a charge of $31 million for employee severance and related run-off costs as well as net transaction and position losses of $68 million. Additional losses will likely be incurred over time in connection with the run-off. The timing and amounts of such losses is uncertain.

In August 2001, Berkadia LLC commenced operation by lending $5.6 billion to FINOVA in connection with that company's bankruptcy reorganization. The structure of this transaction and risks associated with this transaction are described in Note 11 to the Consolidated Financial Statements. This special purpose lender generated pre-tax earnings of $115 million in 2002 compared to a loss of $40 million in 2001, which included a charge of $189 million from the writedown of FINOVA common stock received in the loan transaction. Earnings of Berkadia are directly correlated with the outstanding amount of the loan to FINOVA, which declined $2.725 billion in 2002 to $2.175 billion at December 31, 2002. Consequently, Berkadia's earnings will decline in 2003.

Flight services

This segment includes FlightSafety, a leading provider of high technology training to operators of aircraft and ships and NetJets, the world's leading provider of fractional ownership programs for general aviation aircraft. FlightSafety's worldwide clients include corporations, the military and government agencies. Revenues in 2002 from flight services increased $274 million (10.7%) over 2001 due to increases in flight operations and aircraft sales at NetJets. Total revenues from FlightSafety in 2002 were relatively unchanged as compared to 2001 as a decline in training and product revenues was offset by a one-time gain of $60 million from the disposition of its interest in a joint venture training operation with Boeing. Excluding the aforementioned gain, pre-tax earnings from flight services in 2002 decreased $21 million from 2001 due to a slowdown in business aviation activity. NetJet's pre-tax earnings in 2002 were relatively unchanged from 2001 as each year's results reflect losses related to expansion into Europe somewhat offset by small profits from its domestic operations.

Retail

Berkshire's retailing businesses consist of four independently managed retailers of home furnishings (Nebraska Furniture Mart and its subsidiaries ("NFM"), R.C. Willey Home Furnishings ("R.C. Willey"), Star Furniture ("Star") and Jordan's Furniture) and three independently managed retailers of fine jewelry (Borsheim's Jewelry, Helzberg's Diamond Shops ("Helzberg"), and Ben Bridge Jeweler). Revenues of the retail businesses in 2002 increased $105 million (5.3%) as compared to 2001. The increase in revenues in 2002 was primarily attributed to comparatively higher sales at R.C. Willey's recently opened Nevada location and to several new Helzberg stores. Comparative pre-tax earnings of the retail group in 2002 declined $9 million (5.1%) from 2001. Higher earnings associated with the new R.C. Willey store were more than offset by start-up costs incurred in connection with a new store being built in metropolitan Kansas City by NFM and comparatively lower pre-tax earnings at Star and Helzberg.

Scott Fetzer Companies

The Scott Fetzer companies are a group of about twenty diverse manufacturing and distribution businesses under common management. Principal businesses in this group of companies sell products under the Kirby (home cleaning systems), Campbell Hausfeld (air compressors, paint sprayers, generators and pressure washers) and World Book (encyclopedias and other educational products) names. Revenues in 2002 from Scott Fetzer's businesses decreased $15 million (1.6%) as compared to 2001. Pre-tax earnings in 2002 were $129 million, unchanged from 2001.

Shaw Industries

Shaw is a leading manufacturer and distributor of carpet and rugs for residential and commercial use. Shaw also provides installation services and offers hardwood floor and other floor coverings. Shaw's revenues in 2002 of $4.3 billion increased by $322 million (8.0%) from 2001. The increase in revenues reflects a 5% increase in the volume of residential carpets sold and increased sales of hard floor surfaces. In 2002, Shaw's pre-tax earnings totaled $424 million, an increase of $132 million (45.2%) over 2001. Shaw's operating results in 2002 benefited from higher operating efficiencies and the increased levels of unit sales.

Non-Insurance Businesses *(Continued)*

<u>*Other businesses*</u>

Revenues in 2002 of Berkshire's other businesses increased $495 million to $1,983 million and pre-tax earnings increased $314 million to $691 million. Pre-tax earnings from other businesses include interest on trust preferred securities issued by MidAmerican Energy as well as Berkshire's proportionate share of MidAmerican's net earnings related to Berkshire's investments in common and convertible preferred stock of MidAmerican. Berkshire's earnings from these investments totaled $435 million in 2002 and $165 million in 2001. MidAmerican's earnings in 2002 benefited from acquisitions of two natural gas pipelines and acquisitions of three real estate brokerage businesses. The remainder of the comparative increases in revenues and operating profits was primarily due to the inclusion of the results of businesses acquired in 2002 from their respective acquisition dates (Albecca—February 8, 2002, The Pampered Chef and CTB International—both October 31, 2002).

<u>*2001 compared to 2000*</u>

Revenues from the non-insurance businesses increased $7,725 million (86.8%) in 2001 as compared to 2000. Pre-tax earnings of $2,106 million during 2001 increased $706 million (50.4%) from the comparable 2000 amount. Business acquisitions, principally Shaw and the building products group, which were all completed during 2000 and 2001, account for much of the comparative revenue and earnings increases.

Purchase-Accounting Adjustments

Purchase-accounting adjustments reflect the after-tax effect on net earnings with respect to the amortization of fair value adjustments to certain assets and liabilities recorded at various business acquisition dates. Prior to 2002, this amount also included the systematic amortization of goodwill.

Effective January 1, 2002, Berkshire ceased amortizing goodwill of previously acquired businesses in accordance with the provisions of SFAS No. 142. See Note 7 to the Consolidated Financial Statements for additional information related to this new accounting standard. Purchase-accounting adjustments for 2001 and 2000 included $636 million and $548 million, respectively, of after-tax goodwill amortization. These amounts include Berkshire's share of goodwill amortization charges taken by MidAmerican, with respect to Berkshire's investments accounted for under the equity method.

Other purchase-accounting adjustments consist primarily of the amortization of the excess of market value over historical cost of fixed maturity investments held by certain businesses at their acquisition dates. Berkshire included such excess in the cost of the investments and subsequently amortizes it over the remaining lives of the investments.

Realized Investment Gains

Realized investment gains and losses have been a recurring element in Berkshire's net earnings for many years. Such amounts — recorded when investments are: (1) sold; (2) other-than-temporarily impaired; or (3) marked-to-market with a corresponding gain or loss included in earnings — may fluctuate significantly from period to period, resulting in a meaningful effect on reported net earnings. However, the amount of realized gains in a given period has no practical analytical value, especially given the magnitude of unrealized gains existing in Berkshire's consolidated investment portfolio.

The Consolidated Statements of Earnings include after-tax realized investment gains of $383 million in 2002, $842 million in 2001 and $2,392 million in 2000. In 2002 and 2001, realized investment gains were net of after-tax losses of $373 million and $161 million related to charges for other-than-temporary impairments. Management evaluates investments for impairment as of each balance sheet date. Factors considered in determining whether an impairment charge is warranted include the length of time the unrealized loss has existed, the financial condition of the investee, future business prospects and creditworthiness of the investee, and Berkshire's ability and intent to hold the investment until the value recovers. When an impairment charge is recorded, the cost of the investment is written down to fair value through a charge to earnings. Consequently, impairment charges related to essentially all of Berkshire's investments produced no effect on total shareholders' equity because these investments were already carried at fair value with the difference between fair value and cost included directly in shareholders' equity as a component of accumulated other comprehensive income.

Financial Condition

Berkshire’s balance sheet continues to reflect significant liquidity and a strong capital base. Consolidated shareholders’ equity at December 31, 2002 totaled $64.0 billion. Consolidated cash and invested assets, excluding assets of finance and financial products businesses, totaled approximately $80.8 billion at December 31, 2002 and $72.5 billion at December 31, 2001. During 2002, Berkshire deployed about $3.9 billion in internally generated cash for business acquisitions, including $1.3 billion of additional investments in MidAmerican Energy interest bearing trust preferred securities. During 2001 and 2000, additional cash of $8.5 billion was deployed in business acquisitions.

Berkshire’s consolidated borrowings under investment agreements and other debt, excluding borrowings of finance businesses, totaled $4.8 billion at December 31, 2002 and $3.5 billion at December 31, 2001. The increase in borrowings during 2002 relates to pre-acquisition debt of Albecca Inc., which was acquired in February 2002, Berkshire’s issuance of the SQUARZ securities in May 2002, a net increase in Berkshire’s borrowings under investment agreements and increases in short-term borrowing by certain Berkshire subsidiaries. Albecca’s outstanding borrowings at December 31, 2002 primarily consisted of $135 million of 10.75% senior subordinated notes, due in August 2008. The notes are redeemable beginning in August 2003 and it is Berkshire’s intention to redeem the notes at that time. The SQUARZ securities consist of $400 million par amount of senior notes due in November 2007 together with warrants to purchase Berkshire Class A or Class B common stock, which expire in May 2007. A warrant premium is payable to Berkshire at an annual rate of 3.75% and interest is payable to note holders at a rate of 3.00%.

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

Berkshire is contingently liable for the borrowings of Berkadia LLC through a primary guaranty of 90% of its debt and a secondary guaranty of the remaining 10% of Berkadia’s borrowings through Fleet Bank. At December 31, 2002, Berkadia’s unpaid loan balance was $2.175 billion. Through February 2003, the loan balance was subsequently reduced through prepayments to $1.725 billion.

Assets of the finance and financial products businesses totaled $33.6 billion at December 31, 2002 and $41.6 billion at December 31, 2001. The overall decline reflects a decline in assets of BH Finance as a result of the liquidation of certain fixed income investments and $2.725 billion in repayments of Berkadia’s loan to FINOVA.

Notes payable and other borrowings of Berkshire’s finance and financial products businesses totaled $4.5 billion at December 31, 2002 and $9.0 billion at December 31, 2001. These balances include Berkadia’s outstanding term loan of $2.175 billion at December 31, 2002 and $4.9 billion at December 31, 2001. The remaining decrease in finance business borrowings relates to decreases in notes payable and commercial paper borrowings by GRS.

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

Market Risk Disclosures

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

Interest Rate Risk

Berkshire's management prefers to invest in equity securities or to acquire entire businesses based upon the principles discussed in the following section on equity price risk. When unable to do so, management may alternatively invest in bonds, loans 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 notes payable and other borrowings 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 creditworthiness 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. Dollars are in millions.

		Estimated Fair Value after Hypothetical Change in Interest Rates (bp=basis points)			
Insurance and other businesses	Fair Value	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
As of December 31, 2002					
Investments in securities with fixed maturities	$38,096	$40,411	$36,087	$34,129	$32,262
Notes payable and other borrowings	4,957	5,042	4,879	4,809	4,744
As of December 31, 2001					
Investments in securities with fixed maturities	$36,219	$38,532	$33,969	$31,809	$29,820
Notes payable and other borrowings	3,624	3,708	3,545	3,474	3,407
Finance and financial products businesses *					
As of December 31, 2002					
Investments in securities with fixed maturities and loans and other receivables	$20,011	$20,152	$20,062	$19,779	$19,161
Notes payable and other borrowings **	17,205	17,285	17,080	17,000	16,930
As of December 31, 2001					
Investments in securities with fixed maturities and loans and other receivables	$28,126	$28,545	$27,221	$26,140	$25,025
Notes payable and other borrowings **	26,373	26,451	26,307	26,244	26,186

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

** *Includes securities sold under agreements to repurchase.*

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 December 31, 2002, 68.9% of the total fair value of equity investments 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 equity 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.

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

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.

The table below summarizes Berkshire's equity price risks as of December 31, 2002 and 2001 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned concentrations existing in Berkshire's equity investment portfolio. Dollars are in millions.

	Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
As of December 31, 2002.................	$28,363	30% increase	$36,872	8.6
		30% decrease	19,854	(8.6)
As of December 31, 2001.................	$28,675	30% increase	$37,277	9.6
		30% decrease	20,072	(9.6)

Financial Products Risk

General Re Securities ("GRS") operates as a dealer in various types of derivative instruments in conjunction with offering risk management products to its clients. As previously noted, in January 2002, it was announced that GRS would commence a long-term run off of its business. It is expected that the orderly run-off will take several years to complete. GRS monitors its market risk on a daily basis across all swap and option products by estimating the effect on operating results of potential changes in market variables over a one week period, based on historical market volatility, correlation data and informed judgment. This evaluation is performed on an individual trading book basis, against limits set by individual book, to a 99% probability level. GRS sets market risk limits for each type of risk, and for an aggregate measure of risk across all trading books, based on a 99% probability that movements in market rates will not affect the results from operations in excess of the risk limit over a one week period. GRS's weekly aggregate market risk limit was $15 million in 2002. In 2002, weekly losses exceeded the estimated value at risk twice. There were no days during 2002 when the value at risk exceeded the aggregate limit. In addition to these daily and weekly assessments of risk, GRS prepares periodic stress tests to assess its exposure to extreme movements in various market risk factors.

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

	2002					2001
	Interest Rate	Foreign Exchange Rate	Equity	Credit	All Risks	All Risks
Highest	$14	$7	$5	$2	$9	$14
Lowest..............................	7	4	2	0	0	3
Average	9	5	3	1	4	7

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 estimated 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. During 2002, GRS did not experience any credit losses.

Critical Accounting Policies

In applying certain accounting policies, Berkshire's management is required to make estimates and judgments regarding transactions that have occurred and ultimately will be settled several years in the future. Amounts recognized in the financial statements from such estimates are necessarily based on assumptions about numerous factors involving varying, and possibly significant, degrees of judgment and uncertainty. Accordingly, the amounts currently recorded in the financial statements may prove, with the benefit of hindsight, to be inaccurate. The balance sheet items most significantly affected by these estimates are property and casualty insurance and reinsurance related liabilities, invested assets where no market quotations are available and goodwill.

Berkshire accrues liabilities for unpaid losses and loss adjustment expenses under property and casualty insurance and reinsurance contracts based upon estimates of the ultimate amounts payable under the contracts related to losses occurring on or before the balance sheet date. As of any balance sheet date, all claims have not yet been reported and some claims may not be reported for many years. As a result, the liability includes significant estimates for incurred-but-not-reported claims. Additionally, reported claims are in various stages of the settlement process. Each claim is settled individually based upon its merits and certain liability or workers' compensation claims may take years to settle, especially if legal action is involved.

Berkshire uses a variety of techniques to establish the liabilities for unpaid claims recorded at the balance sheet date. While techniques may vary, each employs significant judgments and assumptions. Techniques may involve detailed statistical analysis of past claim reporting, settlement activity, claim frequency and severity data when sufficient information exists to lend statistical credibility to the analysis. The analysis may be based upon internal loss experience, the experience of clients or industry experience. Techniques may vary depending on the type of claim being estimated. More judgmental techniques are used in lines of business when statistical data is insufficient or unavailable. Liabilities may also reflect implicit or explicit assumptions regarding the potential effects of future economic and social inflation, judicial decisions, law changes, and recent trends in such factors.

Receivables recorded with respect to insurance losses ceded to other reinsurers under reinsurance contracts are estimated in a manner similar to liabilities for insurance losses and, therefore, are also subject to estimation error. In addition to the factors cited above, reinsurance recoverables may ultimately prove to be uncollectible if the reinsurer is unable to perform under the contract. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify its own policyholders.

Berkshire's Consolidated Balance Sheet includes estimated liabilities for unpaid losses and loss adjustment expenses from property and casualty insurance and reinsurance contracts of $43.9 billion and reinsurance recoverables of $2.6 billion at December 31, 2002. Due to the inherent uncertainties in the process of establishing these amounts, the actual ultimate claims amounts will differ from the currently recorded estimated amounts. A small percentage change in estimates of this magnitude will result in a material effect on reported earnings. For instance, a 5% increase in the December 31, 2002 net estimate would produce a $2.1 billion charge to pre-tax earnings. Future effects from changes in these estimates will be recorded as a component of losses incurred in the period of the change.

Berkshire records deferred charges as assets on its balance sheet with respect to liabilities assumed under retroactive reinsurance contracts. At the inception of these contracts the deferred charges represent the difference between the consideration received and the estimated ultimate liability for unpaid losses. The deferred charges are amortized as a component of losses incurred using the interest method over an estimate of the ultimate claim payment period. The deferred charge balance may be adjusted periodically to reflect new projections of the amount and timing of loss payments. Adjustments to these assumptions are applied retrospectively from the inception of the contract. Unamortized deferred charges totaled $3.4 billion at December 31, 2002. Significant changes in either the timing or ultimate amount of loss payments may have a significant effect on unamortized deferred charges and the amount of periodic amortization.

Berkshire's financial position reflects large amounts of invested assets, including assets of its finance and financial products businesses. A substantial portion of these assets are carried at fair values based upon current market quotations and, when not available, based upon fair value pricing models. Berkshire's finance businesses maintain significant balances of finance receivables, which are carried at amortized cost. Considerable judgment is required in determining the assumptions used in certain pricing models, which may address interest rates, loan prepayment speeds, and creditworthiness of the issuer.

Critical Accounting Policies *(Continued)*

Berkshire's Consolidated Balance Sheet as of December 31, 2002 includes goodwill of acquired businesses of approximately $22.3 billion. These amounts have been recorded as a result of Berkshire's numerous prior business acquisitions accounted for under the purchase method. Prior to 2002, goodwill from each acquisition was generally amortized as a charge to earnings over periods not exceeding 40 years. Under SFAS No. 142, which was adopted by Berkshire as of January 1, 2002, periodic amortization ceased, in favor of an impairment-only accounting model.

A significant amount of judgment is required in performing goodwill impairment tests. Such tests include periodically determining or reviewing the estimated fair value of Berkshire's reporting units. Under SFAS No. 142, fair value refers to the amount for which the entire reporting unit may be bought or sold. There are several methods of estimating reporting unit values, including market quotations, asset and liability fair values and other valuation techniques, such as discounted cash flows and multiples of earnings or revenues. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then individual assets, including identifiable intangible assets and liabilities of the reporting unit are estimated at fair value. The excess of the estimated fair value of the reporting unit over the estimated fair value of net assets would establish the implied value of goodwill. The excess of the recorded amount of goodwill over the implied value is then charged to earnings as an impairment loss.

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 purpose of the manual was to explain Berkshire's broad economic principles of operation. The Owner's Manual is reproduced on this and the following six pages.

INTRODUCTION

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

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

OWNER-RELATED BUSINESS PRINCIPLES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AN ADDED PRINCIPLE

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

INTRINSIC VALUE

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

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

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

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

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

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

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

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

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

THE MANAGING OF BERKSHIRE

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

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

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

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

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

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

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

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

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

Warren E. Buffett
Chairman

BERKSHIRE HATHAWAY INC.

COMMON STOCK

General

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

Stock Transfer Agent

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

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

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

Shareholders

Berkshire had approximately 8,200 record holders of its Class A Common Stock and 14,300 record holders of its Class B Common Stock at March 5, 2003. Record owners included nominees holding at least 400,000 shares of Class A Common Stock and 6,500,000 shares of Class B Common Stock on behalf of beneficial-but-not-of-record owners.

Price Range of Common Stock

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

	2002				2001			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$74,900	$69,000	$2,499	$2,285	$74,600	$63,000	$2,475	$2,085
Second Quarter	78,500	66,500	2,620	2,215	69,800	62,800	2,330	2,075
Third Quarter	75,900	59,600	2,530	1,925	70,900	59,000	2,367	1,977
Fourth Quarter	75,000	67,800	2,500	2,244	75,600	66,600	2,525	2,210

Dividends

Berkshire has not declared a cash dividend since 1967.

BERKSHIRE HATHAWAY INC.

MAJOR OPERATING COMPANIES

Company	Location	Website
Acme Building Brands	Fort Worth, TX	brick.com
Adalet [(1)]	Cleveland, OH	adalet.com
Ben Bridge Jeweler	Seattle, WA	benbridge.com
Benjamin Moore	Montvale, NJ	benjaminmoore.com
Berkshire Hathaway Credit Corporation	Omaha, NE	
Berkshire Hathaway Homestate Companies	Omaha, NE	bh-hc.com
Berkshire Hathaway Reinsurance Division	Stamford, CT	brkdirect.com
Borsheim's Jewelry	Omaha, NE	borsheims.com
The Buffalo News	Buffalo, NY	buffnews.com
CalEnergy [(2)]	Omaha, NE	calenergy.com
Campbell Hausfeld [(1)]	Harrison, OH	chpower.com
Carefree of Colorado [(1)]	Broomfield, CO	carefreeofcolorado.com
Central States Indemnity Co.	Omaha, NE	csi-omaha.com
CORT Business Services	Fairfax, VA	cort1.com
CTB International	Milford, IN	ctbinc.com
Dairy Queen	Edina, MN	dairyqueen.com
Douglas/Quikut [(1)]	Walnut Ridge, AR	quikut.com
Fechheimer Brothers	Cincinnati, OH	fechheimer.com
FlightSafety International	Flushing, NY	flightsafety.com
France [(1)]	Fairview, TN	franceformer.com
Fruit of the Loom	Bowling Green, KY	fruit.com
Garan	New York, NY	garanimals.com
GEICO	Washington, DC	geico.com
General Re Corporation	Stamford, CT	gcr.com
H. H. Brown Shoe Group	Greenwich, CT	hhbrown.com
Halex [(1)]	Cleveland, OH	halexco.com
Helzberg's Diamond Shops	North Kansas City, MO	helzberg.com
HomeServices of America [(2)]	Edina, MN	homeservices.com
Johns Manville	Denver, CO	jm.com
Jordan's Furniture	Avon, MA	jordansfurniture.com
Justin Brands	Fort Worth, TX	justinbrands.com
Kansas Bankers Surety Company	Topeka, KS	
Kern River Gas Transmission Company [(2)]	Salt Lake City, UT	kernrivergas.com
Kingston [(1)]	Smithville, TN	kingstonproducts.com
Kirby [(1)]	Cleveland, OH	kirby.com
Larson-Juhl	Norcross, GA	larsonjuhl.com
Meriam Instrument [(1)]	Cleveland, OH	meriam.com
MidAmerican Energy Company [(2)]	Des Moines, IA	midamerican.com
MiTek Inc.	Chesterfield, MO	mitekinc.com
National Indemnity Company	Omaha, NE	nationalindemnity.com
Nebraska Furniture Mart	Omaha, NE	nfm.com
NetJets	Woodbridge, NJ	netjets.com
Northern Natural Gas [(2)]	Omaha, NE	northernnaturalgas.com
Northern and Yorkshire Electric [(2)]	United Kingdom	northern-electric.co.uk
Northland [(1)]	Watertown, NY	northlandmotor.com
The Pampered Chef	Addison, IL	pamperedchef.com
Precision Steel Warehouse	Franklin Park, IL	precisionsteel.com
See's Candies	South San Francisco, CA	sees.com
Shaw Industries	Dalton, GA	shawinc.com
Stahl [(1)]	Wooster, OH	stahl.cc
Star Furniture	Houston, TX	starfurniture.com
United Consumer Finance Company [(1)]	Cleveland, OH	ucfs.net
United States Liability Insurance Group	Wayne, PA	usli.com
Wayne Water Systems [(1)]	Harrison, OH	waynepumps.com
Wesco Financial Corp.	Pasadena, CA	
Western Enterprises [(1)]	Avon Lake, OH	westernenterprises.com
R. C. Willey Home Furnishings	Salt Lake City, UT	shoprcwilley.com
World Book [(1)]	Chicago, IL	worldbook.com
XTRA	Westport, CT	xtracorp.com

(1) A Scott Fetzer Company
(2) A MidAmerican Energy Holdings Company

BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT, *Chairman*
Chief Executive Officer of Berkshire
CHARLES T. MUNGER, *Vice Chairman of Berkshire*
SUSAN T. BUFFETT
HOWARD G. BUFFETT,
President of Buffett Farms and BioImages, a photography and publishing company.
MALCOLM G. CHACE,
Chairman of the Board of Directors of BankRI, a community bank located in the State of Rhode Island.
RONALD L. OLSON,
Partner of the law firm of Munger, Tolles & Olson LLP.
WALTER SCOTT, JR.,
Chairman of Level 3 Communications, a successor to certain businesses of Peter Kiewit Sons' Inc. which is engaged in telecommunications and computer outsourcing.

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*
CHARLES T. MUNGER, *Vice Chairman*
MARC D. HAMBURG, *Vice President, Treasurer*
DANIEL J. JAKSICH, *Controller*
FORREST N. KRUTTER, *Secretary*

REBECCA K. AMICK,
Director of Internal Auditing
JERRY W. HUFTON,
Director of Taxes
MARK D. MILLARD,
Director of Financial Assets

Letters from Annual Reports (1977 through 2002), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at berkshirehathaway.com. Berkshire's 2003 quarterly reports are scheduled to be posted on the Internet on May 9, August 8 and November 7. Berkshire's 2003 Annual Report is scheduled to be posted on the Internet on Saturday March 6, 2004.

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