BERKSHIRE HATHAWAY INC.

1971

ANNUAL REPORT TO THE STOCKHOLDERS

(52 WEEKS ENDED JANUARY 1, 1972)

Contents

Berkshire Hathaway Inc.

To the Stockholders of
Berkshire Hathaway Inc.:

It is a pleasure to report that operating earnings in 1971, excluding capital gains, amounted to more than 14% of beginning shareholders' equity. This result — considerably above the average of American industry — was achieved in the face of inadequate earnings in our textile operation, making clear the benefits of redeployment of capital inaugurated five years ago. It will continue to be the objective of management to improve return on total capitalization (long term debt plus equity), as well as the return on equity capital. However, it should be realized that merely maintaining the present relatively high rate of return may well prove more difficult than was improvement from the very low levels of return which prevailed throughout most of the 1960's.

Textile Operations

We, in common with most of the textile industry, continued to struggle throughout 1971 with inadequate gross margins. Strong efforts to hammer down costs and a continuous search for less price-sensitive fabrics produced only marginal profits. However, without these efforts we would have operated substantially in the red. Employment was more stable throughout the year as our program to improve control of inventories achieved reasonable success.

As mentioned last year, Ken Chace and his management group have been swimming against a strong industry tide. This negative environment has only caused them to intensify their efforts. Currently we are witnessing a mild industry pickup which we intend to maximize with our greatly strengthened sales force. With the improvement now seen in volume and mix of business, we would expect better profitability — although not of a dramatic nature — from our textile operation in 1972.

Insurance Operations

An unusual combination of factors — reduced auto accident frequency, sharply higher effective rates in large volume lines, and the absence of major catastrophes — produced an extraordinarily good year for the property and casualty insurance industry. We shared in these benefits, although they are not without their negative connotations.

Our traditional business — and still our largest segment — is in the specialized policy or non-standard insured. When standard markets become tight because of unprofitable industry underwriting, we experience substantial volume increases as producers look to us. This was the condition several years ago, and largely accounts for the surge of direct volume experienced in 1970 and 1971. Now that underwriting has turned very profitable on an industry-wide basis, more companies are seeking the insureds they were rejecting a short while back and rates are being cut in some areas. We continue to have underwriting profitability as our primary goal and this may well mean a substantial decrease in National Indemnity's direct volume during 1972. Jack Ringwalt and Phil Liesche continue to guide this operation in a manner matched by very few in the business.

Our reinsurance business, which has been developed to a substantial operation in just two years by the outstanding efforts of George Young, faces much the same situation. We entered the reinsurance business late in 1969 at a time when rates had risen substantially and capacity was tight. The reinsurance industry was exceptionally profitable in 1971, and we are now seeing rate-cutting, as well as the formation of well-capitalized aggressive new competitors. These lower rates are frequently accompanied by greater exposure. Against this background we expect to see our business curtailed somewhat in 1972. We set no volume goals in our insurance business generally — and certainly not in reinsurance — as virtually any volume can be achieved if profitability standards are ignored. When catastrophes occur and underwriting experience sours, we plan to have the resources available to handle the increasing volume which we will then expect to be available at proper prices.

We inaugurated our "home-state" insurance operation in 1970 by the formation of Cornhusker Casualty Company. To date, this has worked well from both a marketing and an underwriting standpoint. We have therefore further developed this approach by the formation of Lakeland Fire & Casualty Company in Minnesota during 1971, and Texas United Insurance in 1972. Each of these companies will devote its entire efforts to a single state seeking to bring to the agents and insureds of its area a combination of large company capability and small company accessibility and sensitivity. John Ringwalt has been in overall charge of this operation since inception. Combining hard work with imagination and intelligence, he has transformed an idea into a well organized business. The "home-state" companies are still very small, accounting for a little over $1.5 million in premium volume during 1971. It looks as though this volume will more than double in 1972 and we will develop a more creditable base upon which to evaluate underwriting performance.

A highlight of 1971 was the acquisition of Home & Automobile Insurance Company, located in Chicago. This company was built by Victor Raab from a small initial investment into a major auto insurer in Cook County, writing about $7.5 million in premium volume during 1971. Vic is cut from the same cloth as Jack Ringwalt and Gene Abegg, with a talent for operating profitably accompanied by enthusiasm for his business. These three men have built their companies from scratch and, after selling their ownership position for cash, retain every bit of the proprietary interest and pride that they have always had.

While Vic has multiplied the original equity of Home & Auto many times since its founding, his ideas and talents have always been circumscribed by his capital base. We have added capital funds to the company, which will enable it to establish branch operations extending its highly-concentrated and on-the-spot marketing and claims approach to other densely populated areas.

All in all, it is questionable whether volume added by Home & Auto, plus the "home-state" business in 1972, will offset possible declines in direct and reinsurance business of National Indemnity Company. However, our large volume gains in 1970 and 1971 brought in additional funds for investment at a time of high interest rates, which will be of continuing benefit in future years. Thus, despite the unimpressive prospects regarding premium volume, the outlook for investment income and overall earnings from insurance in 1972 is reasonably good.

Banking Operations

Our banking subsidiary, The Illinois National Bank & Trust Company, continued to lead its industry as measured by earnings as a percentage of deposits. In 1971, Illinois National earned well over 2% after tax on average deposits while (1) not using borrowed funds except for very occasional reserve balancing transactions; (2) maintaining a liquidity position far above average; (3) recording loan losses far below average; and (4) utilizing a mix of over 50% time deposits with all consumer savings accounts receiving maximum permitted interest rates throughout the year. This reflects a superb management job by Gene Abegg and Bob Kline.

Interest rates received on loans and investments were down substantially throughout the banking industry during 1971. In the last few years, Illinois National's mix of deposits has moved considerably more than the industry average away from demand money to much more expensive time money. For example, interest paid on deposits has gone from under $1.7 million in 1969 to over $2.7 million in 1971. Nevertheless, the unusual profitability of the Bank has been maintained. Marketing efforts were intensified during the year, with excellent results.

With interest rates even lower now than in 1971, the banking industry is going to have trouble achieving gains in earnings during 1972. Our deposit gains at Illinois National continue to come in the time money area, which produces only very marginal incremental income at present. It will take very close cost control to enable Illinois National to maintain its 1971 level of earnings during 1972.

Financial

Because of the volume gains being experienced by our insurance subsidiaries early in 1971, we re-cast Berkshire Hathaway's bank loan so as to provide those companies with additional capital funds. This financing turned out to be particularly propitious when the opportunity to purchase Home & Auto occurred later in the year.

Our insurance and banking subsidiaries possess a fiduciary relationship with the public. We retain a fundamental belief in operating from a very strongly financed position so as to be in a position to unquestionably fulfill our responsibilities. Thus, we will continue to map our financial future for maximum financial strength in our subsidiaries as well as at the parent company level.

Warren E. Buffett
Chairman of the Board

March 13, 1972

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
40 WESTMINSTER STREET
PROVIDENCE, RHODE ISLAND 02903

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. as of January 1, 1972 and January 2, 1971, the statements of assets and liabilities of the Berkshire Hathaway Inc. - Insurance Group and the consolidated statements of condition of The Illinois National Bank & Trust Co. of Rockford and subsidiaries as of December 31, 1971 and 1970, and the related consolidated statements of earnings, retained earnings and changes in financial position of Berkshire Hathaway Inc. for the 52 week periods ended January 1, 1972 and January 2, 1971; the statements of income and realized investment gains, paid-in, and unassigned surplus and changes in financial position of the Berkshire Hathaway Inc. - Insurance Group for the years ended December 31, 1971 and 1970; and the consolidated statements of income, changes in capital accounts and changes in financial position of The Illinois National Bank and Trust Co. of Rockford and subsidiaries for the years ended December 31, 1971 and 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Berkshire Hathaway Inc., the Berkshire Hathaway Inc. - Insurance Group and The Illinois National Bank & Trust Co. of Rockford and subsidiaries at December 31, 1971 and 1970 (January 1, 1972 and January 2, 1971 in the case of Berkshire Hathaway Inc.) and the results of their operations and changes in financial position for the years ended December 31, 1971 and 1970 (the 52 week periods ended January 1, 1972 and January 2, 1971 in the case of Berkshire Hathaway Inc.) in accordance with generally accepted accounting principles applied on a consistent basis.

Peat Marwick Mitchell & Co.

March 10, 1972

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEETS

January 1, 1972 and January 2, 1971

	Jan. 1, 1972	*Jan. 2, 1971*
ASSETS		
Current assets:		
Cash and short-term investments, at cost which approximates market value	$ 962,010	$ 1,351,567
Accounts receivable (less allowance for doubtful accounts: 1972 — $197,708; 1971 — $215,191)	5,099,853	3,916,332
Inventories, at the lower of cost (first-in, first-out) or market (note 3)	6,030,647	8,471,798
Prepaid and deferred charges	110,290	200,341
Total current assets	12,202,800	13,940,038
Property, plant, and equipment (note 4):		
Property comprising land, buildings, machinery and equipment	14,941,903	14,919,300
Less accumulated depreciation and amortization	12,732,699	12,425,525
Net property, plant and equipment	2,209,204	2,493,775
Investment in unconsolidated subsidiaries (notes 1 and 2):		
Insurance subsidiaries	33,501,882	19,064,663
Bank subsidiary	20,116,846	19,877,908
Other subsidiaries	1,258,832	1,261,000
Total investment in unconsolidated subsidiaries	54,877,560	40,203,571
	$69,289,564	$56,637,384

LIABILITIES AND STOCKHOLDERS' EQUITY

	Jan. 1, 1972	*Jan. 2, 1971*
Current liabilities:		
Current installments of long-term debt	$ —	$ 1,500,000
Accounts payable and accrued expenses	3,305,390	2,014,843
Accrued Federal, State, and local taxes	174,009	247,908
Total current liabilities	3,479,399	3,762,751
Long-term debt, excluding current installments:		
Note payable to banks (note 7)	9,000,000	3,750,000
7½% subordinated debentures (note 8)	641,300	641,300
Total long-term debt	9,641,300	4,391,300
Stockholders' equity:		
Common stock, $5 par value. Authorized 1,722,983 shares; issued 1,017,547 shares	5,087,735	5,087,735
Retained earnings	51,898,505	44,212,973
	56,986,240	49,300,708
Less 37,978 shares of common stock in treasury, at cost	817,375	817,375
Total stockholders' equity	56,168,865	48,483,333
	$69,289,564	$56,637,384

Other information (notes 1, 6 and 9)

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENTS OF EARNINGS

	52 weeks ended January 1, 1972			
	Revenues (expenses) before Federal income taxes		*Current and deferred Federal income taxes (expense) benefit (See Note 5)*	*Net earnings*
Textile operations				
Net sales	$26,011,267			
Cost of sales, administrative and selling expense	25,777,924			
Earnings from textile operations		$ 233,343	(33,188)	200,155
Interest and dividends				
Interest and dividend income	81,273			
Interest (expense)	(594,885)			
Net interest expense		(513,612)	—	(513,612)
Corporate administrative costs		(134,676)	—	(134,676)
Equity in earnings (excluding realized investment gains) of unconsolidated subsidiaries				
Insurance subsidiaries		6,433,482	(1,211,620)	5,221,862
Bank subsidiary		2,273,391	(106,211)	2,167,180
Earnings before investment gains and extraordinary item		8,291,928	(1,351,019)	6,940,909
Investment gains				
Insurance subsidiaries		1,027,287	(308,262)	719,025
Bank subsidiary		34,391	(8,793)	25,598
Net investment gains		1,061,678	(317,055)	744,623
Earnings before extraordinary item		9,353,606	(1,668,074)	7,685,532
Extraordinary item — gain on liquidation or retirement of textile properties		—	—	—
Net earnings		$9,353,606	(1,668,074)	7,685,532
Net earnings per share of outstanding common stock				
Earnings before investment gains and extraordinary item				$7.09
Investment gains				.76
Extraordinary item				—
Net earnings				$7.85

See accompanying notes to consolidated financial statements.

52 weeks ended January 2, 1971

		Revenues (expenses) before Federal income taxes	*Current and deferred Federal income taxes (expense) benefit (See Note 5)*	*Net earnings*
Textile operations				
Net sales	$24,568,567			
Cost of sales, administrative and selling expense	(24,461,279)			
Earnings from textile operations		$ 107,288	(62,541)	44,747
Interest and dividends				
Interest and dividend income	60,285			
Interest (expense)	(580,835)			
Net interest expense		(520,550)	144,910	(375,640)
Corporate administrative costs		(63,443)	17,557	(45,886)
Equity in earnings (excluding realized investment gains) of unconsolidated subsidiaries				
Insurance subsidiaries		2,638,710	(586,837)	2,051,873
Bank subsidiary		2,643,039	(28,915)	2,614,124
Earnings before investment gains and extraordinary item		4,805,044	(515,826)	4,289,218
Investment gains				
Insurance subsidiaries		(301,047)	—	(301,047)
Bank subsidiary		358,819	—	358,819
Net investment gains		57,772	—	57,772
Earnings before extraordinary item		4,862,816	(515,826)	4,346,990
Extraordinary item — gain on liquidation or retirement of textile properties		281,839	(63,351)	218,488
Net earnings		$5,144,655	(579,177)	4,565,478
Net earnings per share of outstanding common stock				
Earnings before investment gains and extraordinary item				$4.38
Investment gains				.06
Extraordinary item				.22
Net earnings				$4.66

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

52 week periods ended January 1, 1972 and January 2, 1971

	Jan. 1, 1972	*Jan. 2, 1971*
Balance January 2, 1971	$44,212,973	$39,647,495
Net earnings	7,685,532	4,565,478
Balance January 1, 1972	$51,898,505	$44,212,973

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

52 week periods ended January 1, 1972 and January 2, 1971

	Jan. 1, 1972	*Jan. 2, 1971*
Funds provided:		
Net earnings	$ 7,685,532	$4,565,478
Nonfund items:		
Add depreciation and amortization	459,746	520,235
Deduct gain on liquidation or retirement of textile properties	—	(281,839)
Deduct equity in undistributed earnings of unconsolidated subsidiaries	(6,179,824)	(2,769,929)
Total nonfund items	(5,720,078)	(2,531,533)
Funds derived from operations	1,965,454	2,033,945
Long-term debt financing	9,000,000	—
Proceeds from sale of textile properties	—	532,477
Other	2,167	—
	10,967,621	2,566,422
Funds used:		
Investment in unconsolidated subsidiaries	8,496,332	1,989,271
Repayment of long-term debt	3,750,000	1,500,000
Additions to property and equipment, net	175,175	250,806
Purchase of treasury stock	—	205
	12,421,507	3,740,282
(Decrease) in working capital	($ 1,453,886)	($ 1,173,860)
Changes in working capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	($ 389,557)	($ 735,433)
Receivables	1,183,521	(2,480,689)
Inventories	(2,441,151)	(797,780)
Prepayments, etc.	(90,051)	(144,384)
Decrease (increase) in current liabilities:		
Current installments of long-term debt	1,500,000	—
Accounts payable and accrued expenses	(1,290,547)	1,789,479
Accrued Federal, State and local taxes	73,899	1,194,947
(Decrease) in working capital	($ 1,453,886)	($ 1,173,860)

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 1, 1972 and January 2, 1971

(1) Principles of Consolidation and Subsidiaries Not Consolidated

The accounts of Berkshire Hathaway Inc., the parent company, are consolidated with the accounts of Bourne Mills of Canada, Ltd., a wholly-owned Canadian textile sales subsidiary. Intercompany balances and transactions are eliminated in consolidation.

The Company owns 100% of the outstanding stock of National Fire & Marine Insurance Company and substantially 100% of the outstanding stock of National Indemnity Company, both casualty insurance underwriters. National Indemnity Company has three wholly-owned subsidiaries engaged in the casualty insurance business; Cornhusker Casualty Company, formed in 1970; Lakeland Fire and Casualty Company, formed in 1971; Home and Automobile Insurance Company, purchased in 1971. Berkshire Hathaway Inc. also owns approximately 98% of the outstanding stock of The Illinois National Bank and Trust Co. of Rockford as a result of purchase in 1969. The investments of Berkshire Hathaway Inc. in its insurance and bank subsidiaries are carried at cost plus the equity in accumulated undistributed earnings since acquisition. Berkshire Hathaway Inc. records as income its share of earnings and realized investment gains or losses of these subsidiaries.

Three immaterial subsidiaries (an insurance agency, a printing and a publishing operation) have not been consolidated and investments therein are carried at cost.

(2) Equity in Book Values of Subsidiaries Not Consolidated

The carrying values of $54,877,560 at January 1, 1972 and $40,203,571 at January 2, 1971 for all unconsolidated subsidiaries were, respectively, $911,000 and $2,124,000 in excess of the Company's equity in book values reflected in the accounts of the subsidiaries as of those dates. No part of the excess has been allocated between tangible and intangible assets as the effect on income of such allocation would not be material and the excess is not being amortized as management believes its value is not declining.

Book values for insurance subsidiaries reflect their stock investment portfolios at market value, whereas investment gains or losses are not recognized in their income accounts until realized. This results in a fluctuation in the difference between the Company's carrying value and its equity in the book values of those subsidiaries.

On January 1, 1972, the Company held cash and short-term investments of approximately $3,000,000 which were transferred on January 10, 1972 to insurance subsidiaries as additional capital. Such transfer has been given retroactive effect in the current balance sheets of the Company and the insurance subsidiaries.

Detailed financial statements of the Berkshire Hathaway Inc. insurance group and The Illinois National Bank & Trust Co. of Rockford and Subsidiaries (the bank subsidiary) are presented elsewhere herein.

(3) Inventories

A summary of inventories follows:

	Jan. 1, 1972	*Jan. 2, 1971*
Raw materials and supplies	$ 510,394	$ 543,660
Stock in process	1,331,472	1,425,216
Cloth	4,188,781	6,502,922
	$6,030,647	$8,471,798

(4) Property, Plant and Equipment

The Company's general policy is to provide for depreciation over the estimated useful lives as allowed by taxing authorities. Except for new additions subsequent to 1965 which are depreciated on the double-declining balance method, depreciation is provided on the straight-line basis. The composition of property, plant and equipment is shown below:

	Jan. 1, 1972	*Jan. 2, 1971*
Land	$ 87,116	$ 87,116
Buildings	2,345,977	2,345,977
Machinery and equipment	11,873,592	11,891,239
Furniture and fixtures and leasehold improvements	635,218	594,968
	14,941,903	14,919,300
Less accumulated depreciation and amortization	12,732,699	12,425,525
	$ 2,209,204	$ 2,493,775

Depreciation expense recorded in 1971 was $459,746 and $520,235 in 1970.

(5) Income Taxes

The Company and all of its subsidiaries eligible for inclusion have joined in the filing of consolidated Federal tax returns since 1968. The resulting liability for 1971 was apportioned to the members in ratio of their separate return liabilities. Deferred income tax expense of insurance subsidiaries, relating to prepaid policy acquisition costs not reportable as income for purposes of Federal income taxes, is not apportioned but is charged to income of the insurance subsidiaries. The parent's share, based on its equity, of such deferred tax expense was approximately $580,000 for 1971 and $872,000 for 1970.

For 1970 the consolidation for U. S. tax purposes resulted in a reporting of a U. S. net consolidated operating loss. In the 1970 return, tax losses of the parent company and insurance subsidiaries were offset against ordinary taxable income of the bank subsidiary, and capital losses of the insurance subsidiaries were offset in consolidation against capital gains of the parent and bank subsidiary. For these reasons, the tax effects in 1970 were not proportionate to the pretax income items reflected in the 1970 statement of earnings.

(6) Pension Plan

The Company has a noncontributory pension plan for salaried employees. Benefits are funded through the medium of an independently trusteed fund, the assets of which exceed the actuarially computed vested and nonvested benefits. Pension expense of $26,000 was accrued for 1971 and also for 1970, which amount represents approximate normal costs less amortization of the overfunded position at August 1, 1968 on a ten-year basis. No amounts were actually contributed to the Trust during either year.

(7) Long-Term Debt

The Company was liable under the terms of a May 1971 loan agreement with certain banks for $9,000,000 as of January 1, 1972. The agreement calls for repayment in twelve quarterly principal installments of $500,000, the first of which will be payable on June 30, 1973, plus a final installment of $3,000,000 on June 30, 1976. Proceeds of the loan were used to prepay $4,875,000 balance of a $7,500,000 prior term loan then outstanding to the same banks, the balance of the proceeds were for working capital and investment in subsidiaries. Interest is payable quarterly in arrears at ½% over the prime rate for 90-day commercial loans of The First National Bank of Boston which serves as the agent bank.

The agreement contains provisions, among others, that: the banks may at any time require the debt to become secured; the Company will maintain $10,000,000 in "tangible asset value" (defined to mean, generally, net assets other than investment in subsidiaries plus term debt outstanding); the Company will maintain $45,000,000 net worth; no equity distributions, which term includes dividends, will be made in an amount exceeding 50% of net income accumulations after 1969; insurance subsidiaries will maintain minimum net worth of $19,750,000; the bank subsidiary will maintain a minimum net worth of $17,000,000.

The agreement also limits the Company's ability, without consent of the banks, to pledge or dispose of any substantial portion of its assets, to incur additional indebtedness for borrowed money, or to enter into business combinations; subsidiaries may not issue additional shares of their capital stock, options therefor, or securities convertible thereto except pro rata to existing shareholders' nor may the Company or any subsidiary sell, transfer or otherwise dispose of the stock of a subsidiary.

(8) 7½% Subordinated Debentures

Debentures bear interest at the rate of 7½% payable February 1 and August 1 and will be due on August 1, 1987. The debentures are not secured by any lien and are not convertible; they are subordinated to senior indebtedness which includes indebtedness of the Company for money borrowed. The debentures may, at the Company's option, be redeemed at 105% through July 31, 1973 and thereafter at 100%. The indenture under which the debentures are issued requires the Company to provide for the retirement by redemption, through a sinking fund, on August 1 in each of the years 1973 to and including 1986, of one-fifteenth of the total amount of debentures issued. Redemption through the sinking fund shall be at principal amount plus accrued interest.

(9) "One-Bank Holding Company" Status

The Company is a bank holding company under Federal legislation enacted in 1970. It has filed with the Federal Reserve Board an irrevocable election to divest of its holdings in The Illinois National Bank & Trust Co. of Rockford prior to January 1, 1981. No determination has been made as to how it will effect such divestiture, and so long as the Company controls the bank, it is subject to the restrictions imposed upon it by the Federal Bank Holding Company Act.

Berkshire Hathaway Inc.

INSURANCE GROUP

Financial Statements
1971 and 1970

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF ASSETS AND LIABILITIES

December 31, 1971 and 1970

ASSETS

	1971	1970
Bonds, at amortized value (note 3)	$ 84,079,023	$ 51,609,294
Stocks, at market value:		
Preferred (cost, 1971, $983,247; 1970, $985,937)	998,631	1,041,065
Common (cost, 1971, $14,295,089; 1970, $9,854,347)	15,804,273	10,254,310
	16,802,904	11,295,375
Real estate, equipment and furniture, at cost less allowance for depreciation 1971, $342,808; 1970, $264,401 (note 4)	1,312,772	1,191,235
Cash and bank deposits	4,563,077	812,474
Agents' balances and premiums in course of collection less ceded reinsurance balances payable of 1971, $570,071; 1970, $531,069	7,131,037	3,036,395
Reinsurance recoverable on loss payments	440,396	—
Investment income due and accrued	1,500,148	898,223
Amounts due from sale of securities	206,513	98,350
Federal income taxes recoverable (note 5)	—	258,479
Other	172,984	55,984
Prepaid acquisition costs	6,771,656	4,990,146
Excess cost over market value of subsidiary	333,422	—
	$123,313,932	$ 74,245,955

LIABILITIES, CAPITAL STOCK AND SURPLUS

	1971	1970
Losses and loss adjustment expenses (note 6)	$ 52,990,625	$ 29,758,739
Unearned premiums (note 7)	25,516,268	17,482,957
Funds held under reinsurance treaties	1,025,737	516,720
Contingent commissions	268,151	331,728
Other expenses	347,788	134,622
Taxes, licenses and fees	908,500	781,218
Agents' and policyholders' deposits	787,429	940,979
Federal income taxes:		
Current	1,002,500	—
Deferred	3,742,611	2,527,588
Amounts due for purchase of securities	1,331,182	1,894,590
Mortgage and contract payable on rental property	9,845	19,014
Other liabilities	140,160	23,982
	88,070,796	54,412,137
Capital stock and surplus (note 8):		
Common stock of $10 par value per share.		
Authorized 500,000 shares 1971, issued 400,000 shares. Authorized 250,000 shares 1970; issued 250,000 shares	4,000,000	2,500,000
Common stock of $100 par value per share.		
Authorized 20,000 shares 1971; 10,000 shares 1970; issued 20,000 shares 1971; 10,000 shares 1970	2,000,000	1,000,000
Paid-in surplus	7,851,250	1,851,250
Unassigned surplus	21,391,886	14,482,568
	35,243,136	19,833,818
	$123,313,932	$ 74,245,955

Other information (notes 1, 2, and 9)

See notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF INCOME AND REALIZED INVESTMENT GAINS

Years ended December 31, 1971 and 1970

	1971	*1970*
Underwriting income:		
Net premiums written	$66,455,532	$ 45,086,095
Less increase in unearned premiums	5,588,326	5,913,583
Premiums earned	60,867,206	39,172,512
Losses and loss expenses incurred	40,783,230	26,857,814
	20,083,976	12,314,698
Underwriting expenses:		
Commissions and brokerage	15,331,620	10,995,200
Salaries and other compensation	1,667,167	1,182,607
Taxes, licenses and fees	1,325,562	886,085
Other underwriting expenses	1,667,362	1,232,287
Increase in prepaid acquisition costs	(1,316,962)	(1,651,156)
	18,674,749	12,645,023
Net underwriting gain (loss)	1,409,227	(330,325)
Investment income:		
Interest on bonds	4,429,701	2,320,228
Dividends on stock	595,041	561,879
Real estate income	221,085	195,233
	5,245,827	3,077,340
Investment expenses	272,199	207,167
	4,973,628	2,870,173
Profit from underwriting and investments	6,382,855	2,539,848
Other income	53,910	98
Income before Federal income taxes and realized gain or loss on investments	6,436,765	2,539,946
Federal income taxes (credit) (note 5):		
Current	625,647	(276,567)
Deferred	586,565	709,446
	1,212,212	432,879
Income before realized gain or loss on investments	5,224,553	2,107,067
Realized gain (loss) on investments	1,027,764	(301,166)
Less Federal income taxes on gain	308,405	—
	719,359	(301,166)
Net income	$ 5,943,912	$ 1,805,901

See notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.
INSURANCE GROUP

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended December 31, 1971 and 1970

	1971	*1970*
Funds provided:		
From operations:		
Net earnings including investment realized gains of $1,027,764; 1970, Loss $301,166	$ 5,943,912	$ 1,805,901
Charges (credits) to income not requiring funds:		
Increase in loss and loss expense reserves	23,231,886	7,599,378
Increase in unearned premium reserves	8,033,311	6,624,378
Increase in funds held under reinsurance treaties	509,017	610,596
Increase in deferred taxes	874,346	709,446
Increase in current income taxes	1,260,979	—
Increase in accrued taxes and expenses	276,049	233,780
(Increase) decrease in agents' balances and uncollected premiums, net	(4,094,642)	202,819
Increase in prepaid insurance acquisition costs	(1,781,510)	(1,651,156)
Depreciation	78,407	67,173
Increase in accrued investment income	(717,159)	(353,872)
(Increase) decrease in reinsurance recoverable loss payments	(440,396)	302,668
Decrease (increase) in agents' and policyholders' deposits	(153,550)	467,801
Other, net	30,311	17,201
Funds provided from operations	33,050,961	16,636,113
Proceeds from sale of capital stock	8,500,000	2,000,000
From investments sold or matured:		
Bonds	73,402,063	18,968,089
Common stocks	2,362,779	5,274,745
Preferred stocks	163,190	902,857
	75,928,032	25,145,691
Total funds provided	$117,478,993	$43,781,804
Funds used:		
Cost of investments purchased:		
Bonds	$106,166,036	$37,513,192
Common stocks	6,829,009	5,952,789
Preferred stocks	160,499	171,468
	113,155,544	43,637,449
Payments on mortgage note payable	9,169	9,168
Purchase of equipment, net of disposals	199,944	110,645
Increase in cash	3,750,603	24,542
Excess of purchase cost over market value of assets of acquired subsidiary	363,733	—
	$117,478,993	$43,781,804

See notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.
INSURANCE GROUP

STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS
Years Ended December 31, 1971 and 1970

PAID-IN SURPLUS

	1971	*1970*
Beginning of Year	$ 1,851,250	$ 351,250
Excess of proceeds over par value of capital stock issued	6,000,000	1,500,000
End of year	$ 7,851,250	$ 1,851,250

UNASSIGNED SURPLUS

Beginning of year	$14,482,568	$11,303,670
Net income	5,943,912	1,805,901
Increase in net unrealized appreciation of investments	1,306,083	1,505,757
Increase in deferred income taxes on unrealized appreciation of investments	(340,677)	(132,760)
End of Year	$21,391,886	$14,482,568

See notes to financial statements of Berkshire Hathaway Inc.— Insurance Group

Berkshire Hathaway Inc.
INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS
December 31, 1971 and 1970

(1) Basis of Presentation

The financial statements of the Berkshire Hathaway Inc. Insurance Group include those of National Indemity Company (a subsidiary of Berkshire Hathaway Inc.), and its wholly-owned subsidiaries, plus those of National Fire & Marine Insurance Company, owned 100% by Berkshire Hathaway Inc., on a combined basis, with significant intercompany transactions and balances eliminated.

(2) Organization and Purchase of Subsidiary Companies

During 1970 National Indemnity Company formed Cornhusker Casualty Company and in 1971 formed Lakeland Fire and Casualty Company. In exchange for assets, National Indemnity Company received 100% of the outstanding stock of both companies.

In addition, National Indemnity Company purchased 100% of the outstanding stock of Home and Automobile Insurance Company on September 30, 1971 for an aggregate amount of $2,013,620. This resulted in an excess of cost over net assets at the date of acquisition in the amount of $363,733, which is being amortized on a straight-line basis over a three-year period. The operations of Home and Automobile Insurance Company for the three months ended December 31, 1971 are reflected in the combined statements of income for 1971.

(3) Bonds

Bonds are carried at amortized cost in the accompanying combined statements of assets and liabilities. Bonds with amortized costs of $3,555,219 and $2,397,309 were on deposit with insurance departments of various states at December 31, 1971 and 1970, respectively.

(4) Real Estate and Equipment

Real estate consists of the Home Office Building and related real estate owned by National Indemnity Company and is included in the statements of assets and liabilities at cost less accumulated depreciation of

NOTES TO FINANCIAL STATEMENTS, *Continued*

$300,443 and $264,401 at December 31, 1971 and 1970, respectively. Provision for depreciation of real estate and equipment is based upon the estimated useful lives of the building and equipment, and is computed under the straight-line method. During 1971 and 1970, operations were charged $78,407 and $67,173, respectively for depreciation.

(5) Federal Income Taxes

The Insurance Companies join with Berkshire Hathaway Inc. in filing a consolidated Federal income tax return. Federal income tax recoverable included in the group statements of assets and liabilities at December 31, 1970 represented the amount of tax recoverable by the Insurance Companies from carryback of their apportioned share of a consolidated net operating loss reported for 1970. An application for refund was filed and the refund received during 1971. Separate Federal income tax returns filed by the Insurance Companies for years through 1968 have been examined by the Internal Revenue Service (with the exception of National Fire & Marine Insurance Company which has been examined through 1964), and certain deficiencies have been proposed. The companies are not fully in agreement with the proposed deficiencies, but any additional Federal taxes resulting from such deficiencies would not have a significant effect on the financial statements.

Home and Automobile Insurance Company filed separate Federal income tax returns for its operations through September 30, 1971. Its income for the three months ended December 31, 1971 will be included in the aforementioned consolidated tax return.

(6) Unpaid Losses and Loss Expenses

The net reserve for unpaid losses and loss expenses is after the deduction of amounts for reinsurance placed with other insurers in the amounts of $6,709,550 and $2,791,815 at December 31, 1971 and 1970, respectively.

(7) Unearned Premiums

Unearned premiums are computed on the monthly pro rata basis and include provisions for refunds under retrospectively rated policies and are stated after deduction on account of reinsurance placed with other insurers in the amounts of $5,738,332 and $3,666,374 at December 31, 1971 and 1970, respectively.

(8) Stockholders' Equity

The following additional common stock was sold during the two years ended December 31, 1971:

National Indemnity Company, $10 par value common stock:

November 1970	—	50,000 shares for $2,000,000
May 1971	—	100,000 shares for $4,500,000
January 1972	—	50,000 shares for $2,000,000

National Fire & Marine Insurance Company, $100 par value common stock:

April 1971	—	5,000 shares for $1,000,000
January 1972	—	5,000 shares for $1,000,000

The 1972 additions were made on January 12 and have been retroactively reflected as of December 31, 1971 in the accompanying financial statements.

Surplus is restricted for dividend purposes by the various insurance departments of the states in which the companies do business.

(9) Subsequent Event

On March 1, 1972 National Indemnity Company formed Texas United Insurance Company as a wholly-owned subsidiary. In exchange for cash and securities in the amount of $1,000,000 the Company received all of the issued common stock.

Berkshire Hathaway Inc.

BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford

Financial Statements
1971 and 1970

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION
December 31, 1971 and 1970

ASSETS

	1971	*1970*
Cash and due from banks	$ 17,832,686	$ 15,156,585
Investment securities (note 2):		
United States Government obligations	12,633,150	15,128,838
Obligations of states and political subdivisions	42,884,431	36,626,896
Other securities	5,864,759	210,000
Loans (note 3)	54,031,811	51,183,296
Bank premises and equipment, at cost less accumulated depreciation (note 4)	1,522,546	1,624,221
Accrued interest receivable and other assets	1,252,113	1,396,433
	$136,021,496	$121,326,269

LIABILITIES AND CAPITAL ACCOUNTS

	1971	*1970*
Demand deposits	$ 51,208,396	$ 52,478,179
Time deposits	64,639,857	49,095,130
Total deposits	115,848,253	101,573,309
Accrued taxes and other expenses	813,769	679,122
Total liabilities	116,662,022	102,252,431
Reserve for loan losses (note 5)	854,671	860,445
Capital accounts:		
Common stock, $20 par value. Authorized and issued 250,000 shares (100,000 in 1970) (note 8)	5,000,000	2,000,000
Surplus	5,000,000	5,000,000
Undivided profits	7,503,803	10,137,393
Reserve for contingencies	1,001,000	1,001,000
Reserve for asset re-evaluation	—	75,000
	18,504,803	18,213,393
Total capital accounts	$136,021,496	$121,326,269

Other information (notes 1 and 6)

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1971 and 1970

	1971	*1970*
Operating income:		
Interest and fees on loans	$4,006,094	$4,129,567
Income on Federal funds sold	109,271	316,798
Interest and dividends on:		
United States Government obligations	708,058	568,926
Obligations of states and political subdivisions	2,093,649	1,717,256
Other securities	227,684	12,600
Trust department	336,362	280,038
Service charges on deposit accounts	137,345	151,551
Other	306,616	354,321
Total operating income	7,925,079	7,531,057
Operating expenses:		
Salaries	1,351,500	1,298,380
Pensions, profit sharing, and other employee benefits	137,717	151,391
Interest on deposits	2,732,651	2,028,709
Interest on Federal funds purchased	1,632	3,573
Net occupancy expense of bank premises	329,305	358,468
Equipment rentals, depreciation, and maintenance	288,761	271,978
Provision for loan losses (note 5)	35,900	51,790
Other	720,702	661,286
Total operating expenses	5,598,168	4,825,575
Income before income taxes and securities gains	2,326,911	2,705,482
Applicable income taxes (note 7):		
Current	121,000	—
Deferred	(12,288)	29,599
Total applicable income taxes	108,712	29,599
Income before securities gains	2,218,199	2,675,883
Securities gains	35,201	367,297
Applicable income taxes (note 7)	(9,000)	—
Securities gains, net of applicable income taxes	26,201	367,297
Net income	$2,244,400	$3,043,180
Income per share (based on 250,000 shares during 1971 and 1970) (note 8):		
Income before securities gains	$8.87	$10.70
Net income	8.98	12.17

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL ACCOUNTS
Years Ended December 31, 1971 and 1970

	Common stock	*Surplus*	*Undivided profits*	*Reserve for contingencies*	*Reserve for asset re-evaluation*
Balance, January 1, 1970	$2,000,000	$5,000,000	$9,119,509	$1,001,000	$75,000
Add:					
Net income			3,043,180		
Less:					
Cash dividends			(2,000,000)		
Provision to reserve for loan losses from undivided profits, net of tax (note 5)			(25,296)		
Balance, December 31, 1970	2,000,000	5,000,000	10,137,393	1,001,000	75,000
Add:					
Net income			2,244,400		
Excess of loan loss provision over allowable for tax purposes, net of tax (note 5)			18,668		
Other			28,342		
Less:					
Cash dividends			(2,000,000)		
Transfer to common stock related to stock dividend (note 8)	3,000,000	(3,000,000)			
Transfer to surplus		3,000,000	(3,000,000)		
Transfer to undivided profits			75,000		(75,000)
Balance, December 31, 1971	$5,000,000	$5,000,000	$7,503,803	$1,001,000	—

See accompanying notes to consolidated financial statements of Bank Subsidiary.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended December 31, 1971 and 1970

	1971	*1970*
Funds provided for investment:		
Increase in:		
Capital funds:		
Net income	$ 2,244,400	$3,043,180
Cash dividends declared	(2,000,000)	(2,000,000)
Other, net	47,010	(25,296)
Net changes in capital funds	291,410	1,017,884
Deposits	14,274,944	2,018,491
Other, net	580,866	368,746
Decrease in:		
Cash and due from banks	—	4,761,076
Total	$15,147,220	$8,166,197
Funds used:		
Invested in earning assets:		
Loans	$ 2,844,218	$2,953,822
Investment securities	9,416,606	4,522,977
Direct lease equipment	89,430	374,569
	12,350,254	7,851,368
Additions to bank premises and equipment	120,865	31,667
Increase in cash and due from banks	2,676,101	—
Other, net	—	283,162
Total	$15,147,220	$8,166,197

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971 and 1970

(1) Basis of Presentation

These consolidated financial statements include the accounts of The Illinois National Bank and Trust Co. of Rockford (a subsidiary of Berkshire Hathaway Inc.) and its wholly-owned subsidiaries, Brown Building Corporation and Illinois National Safe Deposit Company. All significant intercompany transactions have been eliminated in consolidation.

(2) Investment Securities

Investment securities are stated at cost, adjusted for amortization of premium. The approximate market value of investments at December 31, 1971 and 1970 was $64,042,000 and $52,440,000, respectively.

Investment securities of $9,136,472 and $9,126,786 at December 31, 1971 and 1970, respectively, were pledged to secure public deposits and other purposes as required or permitted by law.

(3) Loans

Loans have been reduced by unearned discount and consumer credit loan payments. Unearned discount was $1,934,534 on December 31, 1971 and $2,185,639 on December 31, 1970. Consumer credit loan payments totaled $7,104,662 on December 31, 1971 and $10,901,329 on December 31, 1970.

(4) Bank Premises and Equipment

Bank premises and equipment are recorded at cost less accumulated depreciation of $1,480,008 and $1,265,043 at December 31, 1971 and 1970, respectively. Depreciation expense totaled $222,540 for 1971 and $232,610 for 1970. Depreciation is computed on the straight-line method for building and automobiles and on an accelerated method for improvements, equipment, and drive-in and parking facilities.

(5) Reserve for Loan Losses

The loan loss provision charged to operating expenses is based on a five-year moving average ratio of net charge-offs to total loans over the past five years, including the current year. Additional provisions provided under the Treasury Tax Formula of the Internal Revenue Service are charged to undivided profits net of the tax effect.

Transactions in the reserve for loan losses for the years ended December 31, 1971 and 1970 were as follows:

	1971	*1970*
Balance at beginning of year	$860,445	$800,271
Provision charged to:		
Operating expenses	35,900	51,790
Undivided profits	—	50,502
	896,345	902,563
Less loans charged off, net of recoveries of $29,232 in 1971 and $33,844 in 1970	5,774	42,118
Transfer to undivided profits (1)	35,900	—
Balance at end of year	$854,671	$860,445

(1) Provision charged to operating expenses not deductible for tax purposes. Transferred to undivided profits net of tax, in accordance with regulations of the Comptroller of the Currency.

(6) Pension and Profit-Sharing Plans

The Bank has a noncontributory pension plan and a profit-sharing plan for all officers and employees with two full years of service. The pension contribution for 1971 was $3,951; no contribution was required for 1970. The profit-sharing expense was $111,395 and $111,496 in 1971 and 1970, respectively.

As of January 1, 1971 and January 1, 1970, the market value of the pension trust assets exceeded the actuarial values of the vested benefits of the participants.

(7) Federal Income Taxes

The Bank's Federal income tax returns are prepared on a consolidated basis with its parent, Berkshire Hathaway Inc. The Federal income tax benefit from consolidation is recorded as a reduction of the current income tax provision in the Consolidated Statement of Income. Federal income tax benefits realized were $72,605 in 1971 and $633,000 in 1970.

Deferred Federal income taxes resulting from the difference between the accrual basis of accounting for book purposes and the cash basis of accounting for tax purposes have been provided in the consolidated financial statements.

Investment credit resulting from acquisitions of qualified properties under current Federal income tax regulations is recorded as a direct reduction of the current tax liability.

(8) Capital Accounts

On April 12, 1971, capital stock was increased $3,000,000 by a transfer from surplus representing the par value of 150,000 shares issued in connection with a 2½-for-1 stock split effected in the form of a stock dividend approved by the shareholders on January 12, 1971. Per share amounts for 1970 have been restated to reflect the additional shares issued.

BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT, *Chairman*
KENNETH V. CHACE
MALCOLM G. CHACE, JR.
JOHN WILLIAM SCOTT

BERKSHIRE HATHAWAY INC.

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