Berkshire Hathaway Inc.

2012
ANNUAL REPORT

Business Activities

Berkshire Hathaway Inc. is a holding company owning subsidiaries that engage in a number of diverse business activities including insurance and reinsurance, freight rail transportation, utilities and energy, finance, manufacturing, services and retailing. Included in the group of subsidiaries that underwrite insurance and reinsurance is GEICO, the third largest private passenger auto insurer in the United States and two of the largest reinsurers in the world, General Re and the Berkshire Hathaway Reinsurance Group. Other subsidiaries that underwrite property and casualty insurance include: National Indemnity Company, Berkshire Hathaway Homestate Insurance Company, Medical Protective Company, Applied Underwriters, U.S. Liability Insurance Company, Central States Indemnity Company, Kansas Bankers Surety, Cypress Insurance Company, BoatU.S. and the Guard Insurance Group.

Burlington Northern Santa Fe ("BNSF") operates one of the largest railroad systems in North America. In serving the Midwest, Pacific Northwest and the Western, Southwestern and Southeastern regions and ports of the U.S., BNSF transports a range of products and commodities derived from manufacturing, agricultural and natural resource industries. MidAmerican Energy Holdings Company ("MidAmerican") is an international energy holding company owning a wide variety of operating companies engaged in the generation, transmission and distribution of energy. MidAmerican's principal operating energy companies are: MidAmerican Energy Company, Pacific Energy, Pacific Power and Rocky Mountain Power, Northern Powergrid, and Kern River Gas Transmission Company and Northern Natural Gas. In addition, MidAmerican owns HomeServices of America, a real estate brokerage firm.

Numerous business activities are conducted through Berkshire's manufacturing services, retailing and finance subsidiaries. *The Marmon Group* is an international association of approximately 150 manufacturing and service businesses that operate independently within diverse business sectors. *The Lubrizol Corporation* is a specialty chemical company that produces and supplies chemical products for transportation, industrial and consumer markets. *IMC International Metalworking Companies (Iscar)* is an industry leader in the metal cutting tools business. *McLane Company* is a wholesale distributor of groceries and nonfood items to discount retailers, convenience stores, quick service restaurants and others. Berkshire's finance and financial products businesses primarily engage in proprietary investing strategies, consumer lending *(Clayton Homes)* and transportation equipment and furniture leasing *(XTRA* and *CORT).*

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 Brick* 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, Russell, Vanity Fair, Garan, Fechheimer, H.H. Brown Shoe Group, Justin Brands* and *Brooks Sports* manufacture, license and distribute apparel and footwear under a variety of brand names. *FlightSafety International* provides training to aircraft 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. *Borsheims, Helzberg Diamond Shops* and *Ben Bridge Jeweler* are retailers of fine jewelry.

In addition, other manufacturing, service and retail businesses include: *The Buffalo News* and *BH Media Group* (publisher of *The Omaha World-Herald* and 26 other daily newspapers); *See's Candies,* a manufacturer and seller of boxed chocolates and other confectionery products; *Scott Fetzer,* a diversified manufacturer and distributor of commercial and industrial products; *Larson-Juhl,* a designer, manufacturer and distributor of high-quality picture framing products; *CTB,* a manufacturer of equipment for the livestock and agricultural industries; *International Dairy Queen,* a licensor and service provider to over 6,200 stores that offer prepared dairy treats and food; *The Pampered Chef,* the premier direct seller of kitchen tools in the U.S.; *Forest River,* a leading manufacturer of leisure vehicles in the U.S.; *Business Wire,* the leading global distributor of corporate news, multimedia and regulatory filings; *TTI, Inc.,* a leading distributor of electronic components; *Richline Group,* a leading jewelry manufacturer; and *Oriental Trading Company*, a direct retailer of party supplies, school supplies and toys and novelties.

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

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BERKSHIRE HATHAWAY INC.

2012 ANNUAL REPORT

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

Year	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	0.7
1998	48.3	28.6	19.7
1999	0.5	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
2003	21.0	28.7	(7.7)
2004	10.5	10.9	(0.4)
2005	6.4	4.9	1.5
2006	18.4	15.8	2.6
2007	11.0	5.5	5.5
2008	(9.6)	(37.0)	27.4
2009	19.8	26.5	(6.7)
2010	13.0	15.1	(2.1)
2011	4.6	2.1	2.5
2012	14.4	16.0	(1.6)
Compounded Annual Gain – 1965-2012	19.7%	9.4%	10.3
Overall Gain – 1964-2012	586,817%	7,433%	

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 500 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.:

In 2012, Berkshire achieved a total gain for its shareholders of $24.1 billion. We used $1.3 billion of that to repurchase our stock, which left us with an increase in net worth of $22.8 billion for the year. The per-share book value of both our Class A and Class B stock increased by 14.4%. Over the last 48 years (that is, since present management took over), book value has grown from $19 to $114,214, a rate of 19.7% compounded annually.*

A number of good things happened at Berkshire last year, but let's first get the bad news out of the way.

- When the partnership I ran took control of Berkshire in 1965, I could never have dreamed that a year in which we had a gain of $24.1 billion would be subpar, in terms of the comparison we present on the facing page.

  But subpar it was. For the ninth time in 48 years, Berkshire's percentage increase in book value was less than the S&P's percentage gain (a calculation that includes dividends as well as price appreciation). In eight of those nine years, it should be noted, the S&P had a gain of 15% or more. We do better when the wind is in our face.

  To date, we've never had a five-year period of underperformance, having managed 43 times to surpass the S&P over such a stretch. (The record is on page 103.) But the S&P has now had gains in each of the last four years, outpacing us over that period. If the market continues to advance in 2013, our streak of five-year wins will end.

  One thing of which you can be certain: Whatever Berkshire's results, my partner Charlie Munger, the company's Vice Chairman, and I will not change yardsticks. It's our *job* to increase intrinsic business value – for which we use book value as a *significantly understated* proxy – at a faster rate than the market gains of the S&P. If we do so, Berkshire's share price, though unpredictable from year to year, will itself outpace the S&P over time. If we fail, however, our management will bring no value to our investors, who themselves can earn S&P returns by buying a low-cost index fund.

  Charlie and I believe the gain in Berkshire's intrinsic value will over time likely surpass the S&P returns by a small margin. We're confident of that because we have some outstanding businesses, a cadre of terrific operating managers and a shareholder-oriented culture. Our relative performance, however, is almost certain to be better when the market is down or flat. In years when the market is particularly strong, expect us to fall short.

- The second disappointment in 2012 was my inability to make a major acquisition. I pursued a couple of elephants, but came up empty-handed.

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* All per-share figures used in this report apply to Berkshire's A shares. Figures for the B shares are 1/1500th of those shown for A.

Our luck, however, changed early this year. In February, we agreed to buy 50% of a holding company that will own all of H. J. Heinz. The other half will be owned by a small group of investors led by Jorge Paulo Lemann, a renowned Brazilian businessman and philanthropist.

We couldn't be in better company. Jorge Paulo is a long-time friend of mine and an extraordinary manager. His group and Berkshire will each contribute about $4 billion for common equity in the holding company. Berkshire will also invest $8 billion in preferred shares that pay a 9% dividend. The preferred has two other features that materially increase its value: at some point it will be redeemed at a significant premium price and the preferred also comes with warrants permitting us to buy 5% of the holding company's common stock for a nominal sum.

Our total investment of about $12 billion soaks up much of what Berkshire earned last year. But we still have plenty of cash and are generating more at a good clip. So it's back to work; Charlie and I have again donned our safari outfits and resumed our search for elephants.

Now to some good news from 2012:

- Last year I told you that BNSF, Iscar, Lubrizol, Marmon Group and MidAmerican Energy – our five most profitable non-insurance companies – were likely to earn more than $10 billion pre-tax in 2012. They delivered. Despite tepid U.S. growth and weakening economies throughout much of the world, our "powerhouse five" had aggregate earnings of $10.1 billion, about $600 million more than in 2011.

  Of this group, only MidAmerican, then earning $393 million pre-tax, was owned by Berkshire eight years ago. Subsequently, we purchased another three of the five on an all-cash basis. In acquiring the fifth, BNSF, we paid about 70% of the cost in cash, and for the remainder, issued shares that increased the amount outstanding by 6.1%. Consequently, the $9.7 billion gain in annual earnings delivered Berkshire by the five companies has been accompanied by only minor dilution. That satisfies our goal of not simply growing, but rather increasing *per-share* results.

  Unless the U.S. economy tanks – which we don't expect – our powerhouse five should again deliver higher earnings in 2013. The five outstanding CEOs who run them will see to that.

- Though I failed to land a major acquisition in 2012, the managers of our subsidiaries did far better. We had a record year for "bolt-on" purchases, spending about $2.3 billion for 26 companies that were melded into our existing businesses. These transactions were completed without Berkshire issuing *any* shares.

  Charlie and I love these acquisitions: Usually they are low-risk, burden headquarters not at all, and expand the scope of our proven managers.

- Our insurance operations shot the lights out last year. While giving Berkshire $73 billion of *free* money to invest, they also delivered a $1.6 billion underwriting gain, the tenth consecutive year of profitable underwriting. This is truly having your cake and eating it too.

  GEICO led the way, continuing to gobble up market share without sacrificing underwriting discipline. Since 1995, when we obtained control, GEICO's share of the personal-auto market has grown from 2.5% to 9.7%. Premium volume meanwhile increased from $2.8 billion to $16.7 billion. Much more growth lies ahead.

  The credit for GEICO's extraordinary performance goes to Tony Nicely and his 27,000 associates. And to that cast, we should add our Gecko. Neither rain nor storm nor gloom of night can stop him; the little lizard just soldiers on, telling Americans how they can save big money by going to GEICO.com.

  When I count my blessings, I count GEICO twice.

- Todd Combs and Ted Weschler, our new investment managers, have proved to be smart, models of integrity, helpful to Berkshire in many ways beyond portfolio management, and a perfect cultural fit. We hit the jackpot with these two. In 2012 each outperformed the S&P 500 by double-digit margins. They left me in the dust as well.

  Consequently, we have increased the funds managed by each to almost $5 billion (some of this emanating from the pension funds of our subsidiaries). Todd and Ted are young and will be around to manage Berkshire's massive portfolio long after Charlie and I have left the scene. You can rest easy when they take over.

- Berkshire's yearend employment totaled a record 288,462 (see page 106 for details), up 17,604 from last year. Our headquarters crew, however, remained unchanged at 24. No sense going crazy.

- Berkshire's "Big Four" investments – American Express, Coca-Cola, IBM and Wells Fargo – all had good years. Our ownership interest in each of these companies increased during the year. We purchased additional shares of Wells Fargo (our ownership now is 8.7% versus 7.6% at yearend 2011) and IBM (6.0% versus 5.5%). Meanwhile, stock repurchases at Coca-Cola and American Express raised our percentage ownership. Our equity in Coca-Cola grew from 8.8% to 8.9% and our interest at American Express from 13.0% to 13.7%.

  Berkshire's ownership interest in all four companies is likely to increase in the future. Mae West had it right: "Too much of a good thing can be wonderful."

  The four companies possess marvelous businesses and are run by managers who are both talented and shareholder-oriented. At Berkshire we much prefer owning a non-controlling but substantial portion of a wonderful business to owning 100% of a so-so business. Our flexibility in capital allocation gives us a significant advantage over companies that limit themselves only to acquisitions they can operate.

  Going by our yearend share count, our portion of the "Big Four's" 2012 earnings amounted to $3.9 billion. In the earnings we report to you, however, we include only the dividends we receive – about $1.1 billion. But make no mistake: The $2.8 billion of earnings we do not report is every bit as valuable to us as what we record.

  The earnings that the four companies retain are often used for repurchases – which enhance our share of future earnings – and also for funding business opportunities that are usually advantageous. Over time we expect substantially greater earnings from these four investees. If we are correct, dividends to Berkshire will increase and, even more important, so will our unrealized capital gains (which, for the four, totaled $26.7 billion at yearend).

- There was a lot of hand-wringing last year among CEOs who cried "uncertainty" when faced with capital-allocation decisions (despite many of their businesses having enjoyed record levels of both earnings and cash). At Berkshire, we didn't share their fears, instead spending a record $9.8 billion on plant and equipment in 2012, about 88% of it in the United States. That's 19% more than we spent in 2011, our previous high. Charlie and I love investing large sums in worthwhile projects, whatever the pundits are saying. We instead heed the words from Gary Allan's new country song, "Every Storm Runs Out of Rain."

  We will keep our foot to the floor and will almost certainly set still another record for capital expenditures in 2013. Opportunities abound in America.

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

  A thought for my fellow CEOs: Of course, the immediate future is uncertain; America has faced the unknown since 1776. It's just that sometimes people focus on the myriad of uncertainties that always exist while at other times they ignore them (usually because the recent past has been uneventful).

American business will do fine over time. And stocks will do well just as certainly, since their fate is tied to business performance. Periodic setbacks will occur, yes, but investors and managers are in a game that is heavily stacked in their favor. (The Dow Jones Industrials advanced from 66 to 11,497 in the 20th Century, a staggering 17,320% increase that materialized despite four costly wars, a Great Depression and many recessions. And don't forget that shareholders received substantial dividends throughout the century as well.)

Since the basic game is so favorable, Charlie and I believe it's a terrible mistake to try to dance in and out of it based upon the turn of tarot cards, the predictions of "experts," or the ebb and flow of business activity. The risks of being out of the game are huge compared to the risks of being in it.

My own history provides a dramatic example: I made my first stock purchase in the spring of 1942 when the U.S. was suffering major losses throughout the Pacific war zone. Each day's headlines told of more setbacks. Even so, there was no talk about uncertainty; *every* American I knew believed we would prevail.

The country's success since that perilous time boggles the mind: On an inflation-adjusted basis, GDP per capita more than *quadrupled* between 1941 and 2012. Throughout that period, *every* tomorrow has been uncertain. America's destiny, however, has always been clear: ever-increasing abundance.

If you are a CEO who has some large, profitable project you are shelving because of short-term worries, call Berkshire. Let us unburden you.

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In summary, Charlie and I hope to build per-share intrinsic value by (1) improving the earning power of our many subsidiaries; (2) further increasing their earnings through bolt-on acquisitions; (3) participating in the growth of our investees; (4) repurchasing Berkshire shares when they are available at a meaningful discount from intrinsic value; and (5) making an occasional large acquisition. We will also try to maximize results for *you* by rarely, if ever, issuing Berkshire shares.

Those building blocks rest on a rock-solid foundation. A century hence, BNSF and MidAmerican Energy will continue to play major roles in the American economy. Insurance, moreover, will always be essential for both businesses and individuals – and no company brings greater resources to that arena than Berkshire. As we view these and other strengths, Charlie and I like your company's prospects.

Intrinsic Business Value

As much as Charlie and I talk about intrinsic business value, we cannot tell you precisely what that number is for Berkshire shares (or, for that matter, any other stock). In our 2010 annual report, however, we laid out the three elements – one of which was qualitative – that we believe are the keys to a sensible estimate of Berkshire's intrinsic value. That discussion is reproduced in full on pages 104-105.

Here is an update of the two quantitative factors: In 2012 our per-share investments increased 15.7% to $113,786, and our per-share pre-tax earnings from businesses other than insurance and investments also increased 15.7% to $8,085.

Since 1970, our per-share investments have increased at a rate of 19.4% compounded annually, and our per-share earnings figure has grown at a 20.8% clip. It is no coincidence that the price of Berkshire stock over the 42-year period has increased at a rate very similar to that of our two measures of value. Charlie and I like to see gains in both areas, but our strong emphasis will always be on building operating earnings.

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Now, let's examine the four major sectors of our operations. Each has vastly different balance sheet and income characteristics from the others. Lumping them together therefore impedes analysis. So we'll present them as four separate businesses, which is how Charlie and I view them.

Insurance

Let's look first at insurance, Berkshire's core operation and the engine that has propelled our expansion over the years.

Property-casualty ("P/C") insurers receive premiums upfront and pay claims later. In extreme cases, such as those arising from certain workers' compensation accidents, payments can stretch over decades. This collect-now, pay-later model leaves us holding large sums – money we call "float" – that will eventually go to others. Meanwhile, we get to invest this float for Berkshire's benefit. Though individual policies and claims come and go, the amount of float we hold remains quite stable in relation to premium volume. Consequently, as our business grows, so does our float. And *how* we have grown, as the following table shows:

Year	*Float (in $ millions)*
1970	$ 39
1980	237
1990	1,632
2000	27,871
2010	65,832
2012	73,125

Last year I told you that our float was likely to level off or even decline a bit in the future. Our insurance CEOs set out to prove me wrong and *did*, increasing float last year by $2.5 billion. I now expect a further increase in 2013. But further gains will be tough to achieve. On the plus side, GEICO's float will almost certainly grow. In National Indemnity's reinsurance division, however, we have a number of run-off contracts whose float drifts downward. If we do experience a decline in float at some future time, it will be *very* gradual – at the outside no more than 2% in any year.

If our premiums exceed the total of our expenses and eventual losses, we register an underwriting profit that adds to the investment income our float produces. When such a profit is earned, we enjoy the use of free money – and, better yet, get *paid* for holding it. That's like your taking out a loan and having the bank pay *you* interest.

Unfortunately, the wish of all insurers to achieve this happy result creates intense competition, so vigorous in most years that it causes the P/C industry as a whole to operate at a significant underwriting *loss*. This loss, in effect, is what the industry pays to hold its float. For example, State Farm, by far the country's largest insurer and a well-managed company besides, incurred an underwriting loss in eight of the eleven years ending in 2011. (Their financials for 2012 are not yet available.) There are a lot of ways to lose money in insurance, and the industry never ceases searching for new ones.

As noted in the first section of this report, we have now operated at an underwriting profit for ten consecutive years, our pre-tax gain for the period having totaled $18.6 billion. Looking ahead, I believe we will continue to underwrite profitably in most years. If we do, our float will be better than free money.

So how does our attractive float affect the calculations of intrinsic value? When Berkshire's book value is calculated, the *full* amount of our float is deducted as a liability, just as if we had to pay it out tomorrow and were unable to replenish it. But that's an incorrect way to look at float, which should instead be viewed as a revolving fund. If float is both costless and long-enduring, which I believe Berkshire's will be, the true value of this liability is *dramatically* less than the accounting liability.

A partial offset to this overstated liability is $15.5 billion of "goodwill" that is attributable to our insurance companies and included in book value as an asset. In effect, this goodwill represents the price we paid for the float-generating capabilities of our insurance operations. The cost of the goodwill, however, has *no* bearing on its true value. For example, if an insurance business sustains large and prolonged underwriting losses, any goodwill asset carried on the books should be deemed valueless, whatever its original cost.

Fortunately, that's not the case at Berkshire. Charlie and I believe the true economic value of our insurance goodwill – what we would happily pay to purchase an insurance operation producing float *of similar quality* – to be far in excess of its historic carrying value. The value of our float is one reason – a huge reason – why we believe Berkshire's intrinsic business value substantially exceeds its book value.

Let me emphasize once again that cost-free float is *not* an outcome to be expected for the P/C industry as a whole: There is very little "Berkshire-quality" float existing in the insurance world. In 37 of the 45 years ending in 2011, the industry's premiums have been inadequate to cover claims plus expenses. Consequently, the industry's overall return on tangible equity has for many decades fallen far short of the average return realized by American industry, a sorry performance almost certain to continue.

A further unpleasant reality adds to the industry's dim prospects: Insurance earnings are now benefitting from "legacy" bond portfolios that deliver much higher yields than will be available when funds are reinvested during the next few years – and perhaps for many years beyond that. Today's bond portfolios are, in effect, wasting assets. Earnings of insurers will be hurt in a significant way as bonds mature and are rolled over.

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Berkshire's outstanding economics exist only because we have some terrific managers running some extraordinary insurance operations. Let me tell you about the major units.

First by float size is the Berkshire Hathaway Reinsurance Group, run by Ajit Jain. Ajit insures risks that no one else has the desire or the capital to take on. His operation combines capacity, speed, decisiveness and, most important, brains in a manner unique in the insurance business. Yet he never exposes Berkshire to risks that are inappropriate in relation to our resources. Indeed, we are *far* more conservative in avoiding risk than most large insurers. For example, if the insurance industry should experience a $250 billion loss from some mega-catastrophe – a loss about triple anything it has ever experienced – Berkshire as a whole would likely record a significant profit for the year because it has so many streams of earnings. All other major insurers and reinsurers would meanwhile be far in the red, with some facing insolvency.

From a standing start in 1985, Ajit has created an insurance business with float of $35 billion and a significant cumulative underwriting profit, a feat that no other insurance CEO has come close to matching. He has thus added a great many billions of dollars to the value of Berkshire. If you meet Ajit at the annual meeting, bow deeply.

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We have another reinsurance powerhouse in General Re, managed by Tad Montross.

At bottom, a sound insurance operation needs to adhere to four disciplines. It must (1) understand *all* exposures that might cause a policy to incur losses; (2) conservatively assess the likelihood of any exposure actually causing a loss and the probable cost if it does; (3) set a premium that, on average, will deliver a profit after both prospective loss costs and operating expenses are covered; and (4) be willing to walk away if the appropriate premium can't be obtained.

Many insurers pass the first three tests and flunk the fourth. They simply can't turn their back on business that is being eagerly written by their competitors. That old line, "The other guy is doing it, so we must as well," spells trouble in any business, but none more so than insurance.

Tad has observed all four of the insurance commandments, and it shows in his results. General Re's huge float has been better than cost-free under his leadership, and we expect that, on average, it will continue to be. We are particularly enthusiastic about General Re's international life reinsurance business, which has achieved consistent and profitable growth since we acquired the company in 1998.

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Finally, there is GEICO, the insurer on which I cut my teeth 62 years ago. GEICO is run by Tony Nicely, who joined the company at 18 and completed 51 years of service in 2012.

I rub my eyes when I look at what Tony has accomplished. Last year, it should be noted, his record was considerably better than is indicated by GEICO's GAAP underwriting profit of $680 million. Because of a change in accounting rules at the beginning of the year, we recorded a charge to GEICO's underwriting earnings of $410 million. This item had *nothing* to do with 2012's operating results, changing neither cash, revenues, expenses nor taxes. In effect, the writedown simply widened the already huge difference between GEICO's intrinsic value and the value at which we carry it on our books.

GEICO earned its underwriting profit, moreover, despite the company suffering its largest single loss in history. The cause was Hurricane Sandy, which cost GEICO more than three times the loss it sustained from Katrina, the previous record-holder. We insured 46,906 vehicles that were destroyed or damaged in the storm, a staggering number reflecting GEICO's leading market share in the New York metropolitan area.

Last year GEICO enjoyed a meaningful increase in both the renewal rate for existing policyholders ("persistency") and in the percentage of rate quotations that resulted in sales ("closures"). Big dollars ride on those two factors: A sustained gain in persistency of a bare one percentage point increases intrinsic value by more than $1 billion. GEICO's gains in 2012 offer dramatic proof that when people check the company's prices, they usually find they can save important sums. (Give us a try at 1-800-847-7536 or GEICO.com. Be sure to mention that you are a shareholder; that fact will usually result in a discount.)

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In addition to our three major insurance operations, we own a group of smaller companies, most of them plying their trade in odd corners of the insurance world. In aggregate, these companies have consistently delivered an underwriting profit. Moreover, as the table below shows, they also provide us with substantial float. Charlie and I treasure these companies and their managers.

Late in 2012, we enlarged this group by acquiring Guard Insurance, a Wilkes-Barre company that writes workers compensation insurance, primarily for smaller businesses. Guard's annual premiums total about $300 million. The company has excellent prospects for growth in both its traditional business and new lines it has begun to offer.

	Underwriting Profit		*Yearend Float*	
	(in millions)			
Insurance Operations	*2012*	*2011*	*2012*	*2011*
BH Reinsurance	$ 304	$(714)	$34,821	$33,728
General Re	355	144	20,128	19,714
GEICO	680*	576	11,578	11,169
Other Primary	286	242	6,598	5,960
	$1,625	$ 248	$73,125	$70,571

*After a $410 million charge against earnings arising from an industry-wide accounting change.

Among large insurance operations, Berkshire's impresses me as the best in the world. It was our lucky day when, in March 1967, Jack Ringwalt sold us his two property-casualty insurers for $8.6 million.

Regulated, Capital-Intensive Businesses

We have two major operations, BNSF and MidAmerican Energy, that have important common characteristics distinguishing them from our other businesses. Consequently, we assign them their own section in this letter and split out their combined financial statistics in our GAAP balance sheet and income statement.

A key characteristic of both companies is their huge investment in very long-lived, regulated assets, with these partially funded by large amounts of long-term debt that is *not* guaranteed by Berkshire. Our credit is in fact not needed because each business has earning power that even under terrible conditions amply covers its interest requirements. In last year's tepid economy, for example, BNSF's interest coverage was 9.6x. (Our definition of coverage is pre-tax earnings/interest, *not* EBITDA/interest, a commonly-used measure we view as deeply flawed.) At MidAmerican, meanwhile, two key factors ensure its ability to service debt under all circumstances: the company's recession-resistant earnings, which result from our exclusively offering an essential service, and its great diversity of earnings streams, which shield it from being seriously harmed by any single regulatory body.

Every day, our two subsidiaries power the American economy in major ways:

- BNSF carries about 15% (measured by ton-miles) of *all* inter-city freight, whether it is transported by truck, rail, water, air, or pipeline. Indeed, we move more ton-miles of goods than *anyone* else, a fact making BNSF the most important artery in our economy's circulatory system.

  BNSF also moves its cargo in an extraordinarily fuel-efficient and environmentally friendly way, carrying a ton of freight about 500 miles on a single gallon of diesel fuel. Trucks taking on the same job guzzle about four times as much fuel.

- MidAmerican's electric utilities serve regulated retail customers in ten states. Only one utility holding company serves more states. In addition, we are the leader in renewables: first, from a standing start nine years ago, we now account for 6% of the country's wind generation capacity. Second, when we complete three projects now under construction, we will own about 14% of U.S. solar-generation capacity.

Projects like these require huge capital investments. Upon completion, indeed, our renewables portfolio will have cost $13 billion. We relish making such commitments if they promise reasonable returns – and on that front, we put a large amount of trust in future regulation.

Our confidence is justified both by our past experience and by the knowledge that society will forever need massive investment in both transportation and energy. It is in the self-interest of governments to treat capital providers in a manner that will ensure the continued flow of funds to essential projects. And it is in our self-interest to conduct our operations in a manner that earns the approval of our regulators and the people they represent.

Our managers must think today of what the country will need far down the road. Energy and transportation projects can take many years to come to fruition; a growing country simply can't afford to get behind the curve.

We have been doing our part to make sure that doesn't happen. Whatever you may have heard about our country's crumbling infrastructure in no way applies to BNSF or railroads generally. America's rail system has never been in better shape, a consequence of huge investments by the industry. We are not, however, resting on our laurels: BNSF will spend about $4 billion on the railroad in 2013, roughly double its depreciation charge and more than any railroad has spent in a single year.

In Matt Rose, at BNSF, and Greg Abel, at MidAmerican, we have two outstanding CEOs. They are extraordinary managers who have developed businesses that serve both their customers and owners well. Each has my gratitude and each deserves yours. Here are the key figures for their businesses:

MidAmerican (89.8% owned)	Earnings (in millions)	
	2012	*2011*
U.K. utilities	$ 429	$ 469
Iowa utility	236	279
Western utilities	737	771
Pipelines	383	388
HomeServices	82	39
Other (net)	91	36
Operating earnings before corporate interest and taxes	1,958	1,982
Interest	314	336
Income taxes	172	315
Net earnings	$ 1,472	$ 1,331
Earnings applicable to Berkshire	$ 1,323	$ 1,204

BNSF	Earnings (in millions)	
	2012	*2011*
Revenues	$20,835	$19,548
Operating expenses	14,835	14,247
Operating earnings before interest and taxes	6,000	5,301
Interest (net)	623	560
Income taxes	2,005	1,769
Net earnings	$ 3,372	$ 2,972

Sharp-eyed readers will notice an incongruity in the MidAmerican earnings tabulation. What in the world is HomeServices, a real estate brokerage operation, doing in a section entitled "Regulated, Capital-Intensive Businesses?"

Well, its ownership came with MidAmerican when we bought control of that company in 2000. At that time, I focused on MidAmerican's utility operations and barely noticed HomeServices, which then owned only a few real estate brokerage companies.

Since then, however, the company has regularly added residential brokers – three in 2012 – and now has about 16,000 agents in a string of major U.S. cities. (Our real estate brokerage companies are listed on page 107.) In 2012, our agents participated in $42 billion of home sales, up 33% from 2011.

Additionally, HomeServices last year purchased 67% of the Prudential and Real Living franchise operations, which together license 544 brokerage companies throughout the country and receive a small royalty on their sales. We have an arrangement to purchase the balance of those operations within five years. In the coming years, we will gradually rebrand both our franchisees and the franchise firms we own as Berkshire Hathaway HomeServices.

Ron Peltier has done an outstanding job in managing HomeServices during a depressed period. Now, as the housing market continues to strengthen, we expect earnings to rise significantly.

Manufacturing, Service and Retailing Operations

Our activities in this part of Berkshire cover the waterfront. Let's look, though, at a summary balance sheet and earnings statement for the entire group.

Balance Sheet 12/31/12 (in millions)

Assets		*Liabilities and Equity*	
Cash and equivalents	$ 5,338	Notes payable	$ 1,454
Accounts and notes receivable	7,382	Other current liabilities	8,527
Inventory	9,675	Total current liabilities	9,981
Other current assets	734		
Total current assets	23,129		
		Deferred taxes	4,907
Goodwill and other intangibles	26,017	Term debt and other liabilities	5,826
Fixed assets	18,871	Non-controlling interests	2,062
Other assets	3,416	Berkshire equity	48,657
	$71,433		$71,433

Earnings Statement (in millions)

	2012	*2011**	*2010*
Revenues	$83,255	$72,406	$66,610
Operating expenses	76,978	67,239	62,225
Interest expense	146	130	111
Pre-tax earnings	6,131	5,037	4,274
Income taxes and non-controlling interests	2,432	1,998	1,812
Net earnings	$ 3,699	$ 3,039	$ 2,462

*Includes earnings of Lubrizol from September 16.

Our income and expense data conforming to Generally Accepted Accounting Principles ("GAAP") is on page 29. In contrast, the operating expense figures above are non-GAAP. In particular, they exclude some purchase-accounting items, primarily the amortization of certain intangible assets. We present the data in this manner because Charlie and I believe the adjusted numbers more accurately reflect the real expenses and profits of the businesses aggregated in the table.

I won't explain all of the adjustments – some are small and arcane – but serious investors should understand the disparate nature of intangible assets: Some truly deplete over time while others never lose value. With software, for example, amortization charges are very real expenses. Charges against other intangibles such as the amortization of customer relationships, however, arise through purchase-accounting rules and are clearly not real expenses. GAAP accounting draws no distinction between the two types of charges. Both, that is, are recorded as expenses when calculating earnings – even though from an investor's viewpoint they could not be more different.

In the GAAP-compliant figures we show on page 29, amortization charges of $600 million for the companies included in this section are deducted as expenses. We would call about 20% of these "real" – and indeed that is the portion we have included in the table above – and the rest not. This difference has become significant because of the many acquisitions we have made.

"Non-real" amortization expense also looms large at some of our major investees. IBM has made many small acquisitions in recent years and now regularly reports "adjusted operating earnings," a non-GAAP figure that excludes certain purchase-accounting adjustments. Analysts focus on this number, as they should.

A "non-real" amortization charge at Wells Fargo, however, is not highlighted by the company and never, to my knowledge, has been noted in analyst reports. The earnings that Wells Fargo reports are heavily burdened by an "amortization of core deposits" charge, the implication being that these deposits are disappearing at a fairly rapid clip. Yet core deposits regularly *increase*. The charge last year was about $1.5 billion. In *no* sense, except GAAP accounting, is this whopping charge an expense.

And that ends today's accounting lecture. Why is no one shouting "More, more?"

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The crowd of companies in this section sell products ranging from lollipops to jet airplanes. Some of the businesses enjoy terrific economics, measured by earnings on unleveraged net *tangible* assets that run from 25% after-tax to more than 100%. Others produce good returns in the area of 12-20%. A few, however, have very poor returns, a result of some serious mistakes I made in my job of capital allocation.

More than 50 years ago, Charlie told me that it was far better to buy a wonderful business at a fair price than to buy a fair business at a wonderful price. Despite the compelling logic of his position, I have sometimes reverted to my old habit of bargain-hunting, with results ranging from tolerable to terrible. Fortunately, my mistakes have usually occurred when I made smaller purchases. Our large acquisitions have generally worked out well and, in a few cases, more than well.

Viewed as a single entity, therefore, the companies in this group are an excellent business. They employ $22.6 billion of net tangible assets and, on that base, earned 16.3% after-tax.

Of course, a business with terrific economics can be a bad investment if the price paid is excessive. We have paid substantial premiums to net tangible assets for most of our businesses, a cost that is reflected in the large figure we show for intangible assets. Overall, however, we are getting a decent return on the capital we have deployed in this sector. Furthermore, the intrinsic value of the businesses, in aggregate, exceeds their carrying value by a good margin. Even so, the difference between intrinsic value and carrying value in the insurance and regulated-industry segments is *far* greater. It is there that the huge winners reside.

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Marmon provides an example of a clear and substantial gap existing between book value and intrinsic value. Let me explain the odd origin of this differential.

Last year I told you that we had purchased additional shares in Marmon, raising our ownership to 80% (up from the 64% we acquired in 2008). I also told you that GAAP accounting required us to immediately record the 2011 purchase on our books at far less than what we paid. I've now had a year to think about this weird accounting rule, but I've yet to find an explanation that makes *any* sense – nor can Charlie or Marc Hamburg, our CFO, come up with one. My confusion increases when I am told that if we hadn't already owned 64%, the 16% we purchased in 2011 would have been entered on our books at our cost.

In 2012 (and in early 2013, retroactive to yearend 2012) we acquired an additional 10% of Marmon and the same bizarre accounting treatment was required. The $700 million write-off we immediately incurred had no effect on earnings but did reduce book value and, therefore, 2012's gain in net worth.

The cost of our recent 10% purchase implies a $12.6 billion value for the 90% of Marmon we now own. Our balance-sheet carrying value for the 90%, however, is $8 billion. Charlie and I believe our current purchase represents excellent value. If we are correct, our Marmon holding is worth at least $4.6 billion more than its carrying value.

Marmon is a diverse enterprise, comprised of about 150 companies operating in a wide variety of industries. Its largest business involves the ownership of tank cars that are leased to a variety of shippers, such as oil and chemical companies. Marmon conducts this business through two subsidiaries, Union Tank Car in the U.S. and Procor in Canada.

Union Tank Car has been around a long time, having been owned by the Standard Oil Trust until that empire was broken up in 1911. Look for its UTLX logo on tank cars when you watch trains roll by. As a Berkshire shareholder, you own the cars with that insignia. When you spot a UTLX car, puff out your chest a bit and enjoy the same satisfaction that John D. Rockefeller undoubtedly experienced as he viewed *his* fleet a century ago.

Tank cars are owned by either shippers or lessors, not by railroads. At yearend Union Tank Car and Procor together owned 97,000 cars having a net book value of $4 billion. A new car, it should be noted, costs upwards of $100,000. Union Tank Car is also a major manufacturer of tank cars – some of them to be sold but most to be owned by it and leased out. Today, its order book extends well into 2014.

At both BNSF and Marmon, we are benefitting from the resurgence of U.S. oil production. In fact, our railroad is now transporting about 500,000 barrels of oil daily, roughly 10% of the total produced in the "lower 48" (i.e. not counting Alaska and offshore). All indications are that BNSF's oil shipments will grow substantially in coming years.

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Space precludes us from going into detail about the many other businesses in this segment. Company-specific information about the 2012 operations of some of the larger units appears on pages 76 to 79.

Finance and Financial Products

This sector, our smallest, includes two rental companies, XTRA (trailers) and CORT (furniture), as well as Clayton Homes, the country's leading producer and financer of manufactured homes. Aside from these 100%-owned subsidiaries, we also include in this category a collection of financial assets and our 50% interest in Berkadia Commercial Mortgage.

We include Clayton in this sector because it owns and services 332,000 mortgages, totaling $13.7 billion. In large part, these loans have been made to lower and middle-income families. Nevertheless, the loans have performed well throughout the housing collapse, thereby validating our conviction that a reasonable down payment and a sensible payments-to-income ratio will ward off outsized foreclosure losses, even during stressful times.

Clayton also produced 25,872 manufactured homes last year, up 13.5% from 2011. That output accounted for about 4.8% of all single-family residences built in the country, a share that makes Clayton America's number one homebuilder.

CORT and XTRA are leaders in their industries as well. Our expenditures for new rental equipment at XTRA totaled $256 million in 2012, more than double its depreciation expense. While competitors fret about today's uncertainties, XTRA is preparing for tomorrow.

Berkadia continues to do well. Our partners at Leucadia do most of the work in this venture, an arrangement that Charlie and I happily embrace.

Here's the pre-tax earnings recap for this sector:

	2012	*2011*
	(in millions)	
Berkadia	$ 35	$ 25
Clayton	255	154
CORT	42	29
XTRA	106	126
Net financial income*	410	440
	$848	$774

*Excludes capital gains or losses

Investments

Below we show our common stock investments that at yearend had a market value of more than $1 billion.

			12/31/12	
Shares	*Company*	*Percentage of Company Owned*	*Cost**	*Market*
			(in millions)	
151,610,700	American Express Company	13.7	$ 1,287	$ 8,715
400,000,000	The Coca-Cola Company	8.9	1,299	14,500
24,123,911	ConocoPhillips	2.0	1,219	1,399
22,999,600	DIRECTV	3.8	1,057	1,154
68,115,484	International Business Machines Corp.	6.0	11,680	13,048
28,415,250	Moody's Corporation	12.7	287	1,430
20,060,390	Munich Re	11.3	2,990	3,599
20,668,118	Phillips 66	3.3	660	1,097
3,947,555	POSCO	5.1	768	1,295
52,477,678	The Procter & Gamble Company	1.9	336	3,563
25,848,838	Sanofi	2.0	2,073	2,438
415,510,889	Tesco plc	5.2	2,350	2,268
78,060,769	U.S. Bancorp	4.2	2,401	2,493
54,823,433	Wal-Mart Stores, Inc.	1.6	2,837	3,741
456,170,061	Wells Fargo & Company	8.7	10,906	15,592
	Others		7,646	11,330
	Total Common Stocks Carried at Market		$49,796	$87,662

*This is our actual purchase price and also our tax basis; GAAP "cost" differs in a few cases because of write-ups or write-downs that have been required.

One point about the composition of this list deserves mention. In Berkshire's past annual reports, every stock itemized in this space has been bought by me, in the sense that I made the decision to buy it for Berkshire. But starting with this list, any investment made by Todd Combs or Ted Weschler – or a combined purchase by them – that meets the dollar threshold for the list ($1 billion this year) will be included. Above is the first such stock, DIRECTV, which both Todd and Ted hold in their portfolios and whose combined holdings at the end of 2012 were valued at the $1.15 billion shown.

Todd and Ted also manage the pension funds of certain Berkshire subsidiaries, while others, for regulatory reasons, are managed by outside advisers. We do not include holdings of the pension funds in our annual report tabulations, though their portfolios often overlap Berkshire's.

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We continue to wind down the part of our derivatives portfolio that involved the assumption by Berkshire of insurance-like risks. (Our electric and gas utility businesses, however, will continue to use derivatives for operational purposes.) New commitments would require us to post collateral and, with minor exceptions, we are unwilling to do that. Markets can behave in extraordinary ways, and we have no interest in exposing Berkshire to some out-of-the-blue event in the financial world that might require our posting mountains of cash on a moment's notice.

Charlie and I believe in operating with many redundant layers of liquidity, and we avoid any sort of obligation that could drain our cash in a material way. That reduces our returns in 99 years out of 100. But we will survive in the 100th while many others fail. And we will sleep well in all 100.

The derivatives we have sold that provide credit protection for corporate bonds will all expire in the next year. It's now almost certain that our profit from these contracts will approximate $1 billion pre-tax. We also received very substantial sums upfront on these derivatives, and the "float" attributable to them has averaged about $2 billion over their five-year lives. All told, these derivatives have provided a more-than-satisfactory result, especially considering the fact that we were guaranteeing corporate credits – mostly of the high-yield variety – throughout the financial panic and subsequent recession.

In our other major derivatives commitment, we sold long-term puts on four leading stock indices in the U.S., U.K., Europe and Japan. These contracts were initiated between 2004 and 2008 and even under the worst of circumstances have only minor collateral requirements. In 2010 we unwound about 10% of our exposure at a profit of $222 million. The remaining contracts expire between 2018 and 2026. Only the index value at expiration date counts; our counterparties have no right to early termination.

Berkshire received premiums of $4.2 billion when we wrote the contracts that remain outstanding. If all of these contracts had come due at yearend 2011, we would have had to pay $6.2 billion; the corresponding figure at yearend 2012 was $3.9 billion. With this large drop in immediate settlement liability, we reduced our GAAP liability at yearend 2012 to $7.5 billion from $8.5 billion at the end of 2011. Though it's no sure thing, Charlie and I believe it likely that the final liability will be considerably less than the amount we currently carry on our books. In the meantime, we can invest the $4.2 billion of float derived from these contracts as we see fit.

We Buy Some Newspapers . . . Newspapers?

During the past fifteen months, we acquired 28 daily newspapers at a cost of $344 million. This may puzzle you for two reasons. First, I have long told you in these letters and at our annual meetings that the circulation, advertising and profits of the newspaper industry overall are *certain* to decline. That prediction still holds. Second, the properties we purchased fell far short of meeting our oft-stated size requirements for acquisitions.

We can address the second point easily. Charlie and I love newspapers and, *if their economics make sense*, will buy them even when they fall far short of the size threshold we would require for the purchase of, say, a widget company. Addressing the first point requires me to provide a more elaborate explanation, including some history.

News, to put it simply, is what people don't know that they want to know. And people will seek their news – what's important to *them* – from whatever sources provide the best combination of immediacy, ease of access, reliability, comprehensiveness and low cost. The relative importance of these factors varies with the nature of the news and the person wanting it.

Before television and the Internet, newspapers were the *primary* source for an incredible variety of news, a fact that made them indispensable to a very high percentage of the population. Whether your interests were international, national, local, sports or financial quotations, your newspaper usually was first to tell you the latest information. Indeed, your paper contained so much you wanted to learn that you received your money's worth, even if only a small number of its pages spoke to your specific interests. Better yet, advertisers typically paid almost all of the product's cost, and readers rode their coattails.

Additionally, the ads themselves delivered information of vital interest to hordes of readers, in effect providing even more "news." Editors would cringe at the thought, but for many readers learning what jobs or apartments were available, what supermarkets were carrying which weekend specials, or what movies were showing where and when was far more important than the views expressed on the editorial page.

In turn, the local paper was indispensable to advertisers. If Sears or Safeway built stores in Omaha, they required a "megaphone" to tell the city's residents why their stores should be visited *today*. Indeed, big department stores and grocers vied to outshout their competition with multi-page spreads, knowing that the goods they advertised would fly off the shelves. With no other megaphone remotely comparable to that of the newspaper, ads sold themselves.

As long as a newspaper was the only one in its community, its profits were certain to be extraordinary; whether it was managed well or poorly made little difference. (As one Southern publisher famously confessed, "I owe my exalted position in life to two great American institutions – nepotism and monopoly.")

Over the years, almost all cities became one-newspaper towns (or harbored two competing papers that joined forces to operate as a single economic unit). This contraction was inevitable because most people wished to read and pay for only one paper. When competition existed, the paper that gained a significant lead in circulation almost automatically received the most ads. That left ads drawing readers and readers drawing ads. This symbiotic process spelled doom for the weaker paper and became known as "survival of the fattest."

Now the world has changed. Stock market quotes and the details of national sports events are old news long before the presses begin to roll. The Internet offers extensive information about both available jobs and homes. Television bombards viewers with political, national and international news. In one area of interest after another, newspapers have therefore lost their "primacy." And, as their audiences have fallen, so has advertising. (Revenues from "help wanted" classified ads – long a huge source of income for newspapers – have plunged more than 90% in the past 12 years.)

Newspapers continue to reign supreme, however, in the delivery of local news. If you want to know what's going on in *your* town – whether the news is about the mayor or taxes or high school football – there is no substitute for a local newspaper that is doing its job. A reader's eyes may glaze over after they take in a couple of paragraphs about Canadian tariffs or political developments in Pakistan; a story about the reader himself or his neighbors will be read to the end. Wherever there is a pervasive sense of community, a paper that serves the special informational needs of that community will remain indispensable to a significant portion of its residents.

Even a valuable product, however, can self-destruct from a faulty business strategy. And that process has been underway during the past decade at almost all papers of size. Publishers – including Berkshire in Buffalo – have offered their paper free on the Internet while charging meaningful sums for the physical specimen. How could this lead to anything other than a sharp and steady drop in sales of the printed product? Falling circulation, moreover, makes a paper less essential to advertisers. Under these conditions, the "virtuous circle" of the past reverses.

The Wall Street Journal went to a pay model early. But the main exemplar for local newspapers is the *Arkansas Democrat-Gazette*, published by Walter Hussman, Jr. Walter also adopted a pay format early, and over the past decade his paper has retained its circulation far better than any other large paper in the country. Despite Walter's powerful example, it's only been in the last year or so that other papers, including Berkshire's, have explored pay arrangements. Whatever works best – and the answer is not yet clear – will be copied widely.

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Charlie and I believe that papers delivering comprehensive and reliable information to tightly-bound communities *and* having a sensible Internet strategy will remain viable for a long time. We do not believe that success will come from cutting either the news content or frequency of publication. Indeed, skimpy news coverage will almost certainly lead to skimpy readership. And the less-than-daily publication that is now being tried in some large towns or cities – while it may improve profits in the short term – seems certain to diminish the papers' relevance over time. Our goal is to keep our papers loaded with content of interest to our readers and to be paid appropriately by those who find us useful, whether the product they view is in their hands or on the Internet.

Our confidence is buttressed by the availability of Terry Kroeger's outstanding management group at the *Omaha World-Herald*, a team that has the ability to oversee a large group of papers. The individual papers, however, will be independent in their news coverage and editorial opinions. (I voted for Obama; of our 12 dailies that endorsed a presidential candidate, 10 opted for Romney.)

Our newspapers are certainly not insulated from the forces that have been driving revenues downward. Still, the six small dailies we owned throughout 2012 had unchanged revenues for the year, a result far superior to that experienced by big-city dailies. Moreover, the two large papers we operated throughout the year – *The Buffalo News* and the *Omaha World-Herald* – held their revenue loss to 3%, which was also an above-average outcome. Among newspapers in America's 50 largest metropolitan areas, our Buffalo and Omaha papers rank near the top in circulation penetration of their home territories.

This popularity is no accident: Credit the editors of those papers – Margaret Sullivan at the *News* and Mike Reilly at the *World-Herald* — for delivering information that has made their publications indispensable to community-interested readers. (Margaret, I regret to say, recently left us to join *The New York Times*, whose job offers are tough to turn down. That paper made a great hire, and we wish her the best.)

Berkshire's cash earnings from its papers will almost certainly trend downward over time. Even a sensible Internet strategy will not be able to prevent modest erosion. At our cost, however, I believe these papers will meet or exceed our economic test for acquisitions. Results to date support that belief.

Charlie and I, however, still operate under economic principle 11 (detailed on page 99) and will not continue the operation of *any* business doomed to unending losses. One daily paper that we acquired in a bulk purchase from Media General was significantly unprofitable under that company's ownership. After analyzing the paper's results, we saw no remedy for the losses and reluctantly shut it down. All of our remaining dailies, however, should be profitable for a long time to come. (They are listed on page 108.) At appropriate prices – and that means at a *very* low multiple of current earnings – we will purchase more papers of the type we like.

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A milestone in Berkshire's newspaper operations occurred at yearend when Stan Lipsey retired as publisher of *The Buffalo News*. It's no exaggeration for me to say that the *News* might now be extinct were it not for Stan.

Charlie and I acquired the *News* in April 1977. It was an evening paper, dominant on weekdays but lacking a Sunday edition. Throughout the country, the circulation trend was toward morning papers. Moreover, Sunday was becoming ever more critical to the profitability of metropolitan dailies. Without a Sunday paper, the *News* was destined to lose out to its morning competitor, which had a fat and entrenched Sunday product.

We therefore began to print a Sunday edition late in 1977. And then all hell broke loose. Our competitor sued us, and District Judge Charles Brieant, Jr. authored a harsh ruling that crippled the introduction of our paper. His ruling was later reversed – after 17 long months – in a 3-0 sharp rebuke by the Second Circuit Court of Appeals. While the appeal was pending, we lost circulation, hemorrhaged money and stood in constant danger of going out of business.

Enter Stan Lipsey, a friend of mine from the 1960s, who, with his wife, had sold Berkshire a small Omaha weekly. I found Stan to be an extraordinary newspaperman, knowledgeable about every aspect of circulation, production, sales and editorial. (He was a key person in gaining that small weekly a Pulitzer Prize in 1973.) So when I was in big trouble at the *News*, I asked Stan to leave his comfortable way of life in Omaha to take over in Buffalo.

He never hesitated. Along with Murray Light, our editor, Stan persevered through four years of very dark days until the *News* won the competitive struggle in 1982. Ever since, despite a difficult Buffalo economy, the performance of the *News* has been exceptional. As both a friend and as a manager, Stan is simply the best.

Dividends

A number of Berkshire shareholders – including some of my good friends – would like Berkshire to pay a cash dividend. It puzzles them that we relish the dividends we receive from most of the stocks that Berkshire owns, but pay out nothing ourselves. So let's examine when dividends do and don't make sense for shareholders.

A profitable company can allocate its earnings in various ways (which are not mutually exclusive). A company's management should first examine reinvestment possibilities offered by its current business – projects to become more efficient, expand territorially, extend and improve product lines or to otherwise widen the economic moat separating the company from its competitors.

I ask the managers of our subsidiaries to unendingly focus on moat-widening opportunities, and they find many that make economic sense. But sometimes our managers misfire. The usual cause of failure is that they start with the answer they want and then work backwards to find a supporting rationale. Of course, the process is subconscious; that's what makes it so dangerous.

Your chairman has not been free of this sin. In Berkshire's 1986 annual report, I described how twenty years of management effort and capital improvements in our original textile business were an exercise in futility. I *wanted* the business to succeed and *wished* my way into a series of bad decisions. (I even bought *another* New England textile company.) But wishing makes dreams come true only in Disney movies; it's poison in business.

Despite such past miscues, our first priority with available funds will always be to examine whether they can be *intelligently* deployed in our various businesses. Our record $12.1 billion of fixed-asset investments and bolt-on acquisitions in 2012 demonstrate that this is a fertile field for capital allocation at Berkshire. And here we have an advantage: Because we operate in so many areas of the economy, we enjoy a range of choices far wider than that open to most corporations. In deciding what to do, we can water the flowers and skip over the weeds.

Even after we deploy hefty amounts of capital in our current operations, Berkshire will regularly generate a lot of additional cash. Our next step, therefore, is to search for acquisitions unrelated to our current businesses. Here our test is simple: Do Charlie and I think we can effect a transaction that is likely to leave our shareholders wealthier on a per-share basis than they were prior to the acquisition?

I have made plenty of mistakes in acquisitions and will make more. Overall, however, our record is satisfactory, which means that our shareholders are *far* wealthier today than they would be if the funds we used for acquisitions had instead been devoted to share repurchases or dividends.

But, to use the standard disclaimer, past performance is no guarantee of future results. That's particularly true at Berkshire: Because of our present size, making acquisitions that are both meaningful and sensible is now more difficult than it has been during most of our years.

Nevertheless, a large deal still offers us possibilities to add materially to per-share intrinsic value. BNSF is a case in point: It is now worth considerably more than our carrying value. Had we instead allocated the funds required for this purchase to dividends or repurchases, you and I would have been worse off. Though large transactions of the BNSF kind will be rare, there are still some whales in the ocean.

The third use of funds – repurchases – is sensible for a company when its shares sell at a meaningful discount to conservatively calculated intrinsic value. Indeed, disciplined repurchases are the *surest* way to use funds intelligently: It's hard to go wrong when you're buying dollar bills for 80¢ or less. We explained our criteria for repurchases in last year's report and, if the opportunity presents itself, we will buy large quantities of our stock. We originally said we would not pay more than 110% of book value, but that proved unrealistic. Therefore, we increased the limit to 120% in December when a large block became available at about 116% of book value.

But never forget: In repurchase decisions, price is all-important. Value is *destroyed* when purchases are made above intrinsic value. The directors and I believe that continuing shareholders are benefitted in a meaningful way by purchases up to our 120% limit.

And that brings us to dividends. Here we have to make a few assumptions and use some math. The numbers will require careful reading, but they are essential to understanding the case for and against dividends. So bear with me.

We'll start by assuming that you and I are the equal owners of a business with $2 million of net worth. The business earns 12% on tangible net worth – $240,000 – and can reasonably expect to earn the same 12% on reinvested earnings. Furthermore, there are outsiders who always wish to buy into our business at 125% of net worth. Therefore, the value of what we each own is now $1.25 million.

You would like to have the two of us shareholders receive one-third of our company's annual earnings and have two-thirds be reinvested. That plan, you feel, will nicely balance your needs for both current income and capital growth. So you suggest that we pay out $80,000 of current earnings and retain $160,000 to increase the future earnings of the business. In the first year, your dividend would be $40,000, and as earnings grew and the one-third payout was maintained, so too would your dividend. In total, dividends and stock value would increase 8% each year (12% earned on net worth less 4% of net worth paid out).

After ten years our company would have a net worth of $4,317,850 (the original $2 million compounded at 8%) and your dividend in the upcoming year would be $86,357. Each of us would have shares worth $2,698,656 (125% of our half of the company's net worth). And we would live happily ever after – with dividends and the value of our stock continuing to grow at 8% annually.

There is an alternative approach, however, that would leave us even happier. Under this scenario, we would leave *all* earnings in the company and each sell 3.2% of our shares annually. Since the shares would be sold at 125% of book value, this approach would produce the same $40,000 of cash initially, a sum that would grow annually. Call this option the "sell-off" approach.

Under this "sell-off" scenario, the net worth of our company increases to $6,211,696 after ten years ($2 million compounded at 12%). Because we would be selling shares each year, our *percentage* ownership would have declined, and, after ten years, we would each own 36.12% of the business. Even so, your share of the net worth of the company at that time would be $2,243,540. And, remember, every dollar of net worth attributable to each of us can be sold for $1.25. Therefore, the market value of your remaining shares would be $2,804,425, about 4% greater than the value of your shares if we had followed the dividend approach.

Moreover, your annual cash receipts from the sell-off policy would now be running 4% more than you would have received under the dividend scenario. Voila! – you would have both more cash to spend annually *and* more capital value.

This calculation, of course, assumes that our hypothetical company can earn an average of 12% annually on net worth and that its shareholders can sell their shares for an average of 125% of book value. To that point, the S&P 500 earns considerably more than 12% on net worth and sells at a price far above 125% of that net worth. Both assumptions also seem reasonable for Berkshire, though certainly not assured.

Moreover, on the plus side, there also is a possibility that the assumptions will be exceeded. If they are, the argument for the sell-off policy becomes even stronger. Over Berkshire's history – admittedly one that won't come close to being repeated – the sell-off policy would have produced results for shareholders *dramatically* superior to the dividend policy.

Aside from the favorable math, there are two further – *and important* – arguments for a sell-off policy. First, dividends impose a specific cash-out policy upon all shareholders. If, say, 40% of earnings is the policy, those who wish 30% or 50% will be thwarted. Our 600,000 shareholders cover the waterfront in their desires for cash. It is safe to say, however, that a great many of them – perhaps even most of them – are in a net-savings mode and logically should prefer no payment at all.

The sell-off alternative, on the other hand, lets each shareholder make his own choice between cash receipts and capital build-up. One shareholder can elect to cash out, say, 60% of annual earnings while other shareholders elect 20% or nothing at all. Of course, a shareholder in our dividend-paying scenario could turn around and use his dividends to purchase more shares. But he would take a beating in doing so: He would both incur taxes and also pay a 25% premium to get his dividend reinvested. (Keep remembering, open-market purchases of the stock take place at 125% of book value.)

The second disadvantage of the dividend approach is of equal importance: The tax consequences for *all* taxpaying shareholders are inferior – usually *far* inferior – to those under the sell-off program. Under the dividend program, all of the cash received by shareholders each year is taxed whereas the sell-off program results in tax on only the gain portion of the cash receipts.

Let me end this math exercise – and I can hear you cheering as I put away the dentist drill – by using my own case to illustrate how a shareholder's regular disposals of shares can be accompanied by an *increased* investment in his or her business. For the last seven years, I have annually given away about 4¼% of my Berkshire shares. Through this process, my original position of 712,497,000 B-equivalent shares (split-adjusted) has decreased to 528,525,623 shares. Clearly my ownership *percentage* of the company has significantly decreased.

Yet my investment in the business has actually increased: The book value of my current interest in Berkshire considerably exceeds the book value attributable to my holdings of seven years ago. (The actual figures are $28.2 billion for 2005 and $40.2 billion for 2012.) In other words, I now have *far* more money working for me at Berkshire even though my ownership of the company has materially decreased. It's also true that my share of both Berkshire's intrinsic business value and the company's normal earning power is far greater than it was in 2005. Over time, I expect this accretion of value to continue – albeit in a decidedly irregular fashion – even as I now annually give away more than 4½% of my shares (the increase having occurred because I've recently doubled my lifetime pledges to certain foundations).

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

Above all, dividend policy should always be clear, consistent and rational. A capricious policy will confuse owners and drive away would-be investors. Phil Fisher put it wonderfully 54 years ago in Chapter 7 of his *Common Stocks and Uncommon Profits*, a book that ranks behind only *The Intelligent Investor* and the 1940 edition of *Security Analysis* in the all-time-best list for the serious investor. Phil explained that you can successfully run a restaurant that serves hamburgers or, alternatively, one that features Chinese food. But you can't switch capriciously between the two and retain the fans of either.

Most companies pay consistent dividends, generally trying to increase them annually and cutting them very reluctantly. Our "Big Four" portfolio companies follow this sensible and understandable approach and, in certain cases, also repurchase shares quite aggressively.

We applaud their actions and hope they continue on their present paths. We like increased dividends, and we love repurchases at appropriate prices.

At Berkshire, however, we have consistently followed a different approach that we know has been sensible and that we hope has been made understandable by the paragraphs you have just read. We will stick with this policy as long as we believe our assumptions about the book-value buildup and the market-price premium seem reasonable. If the prospects for either factor change materially for the worse, we will reexamine our actions.

The Annual Meeting

The annual meeting will be held on Saturday, May 4th at the CenturyLink Center. Carrie Sova will be in charge. (Though that's a new name, it's the same wonderful Carrie as last year; she got married in June to a very lucky guy.) All of our headquarters group pitches in to help her; the whole affair is a homemade production, and I couldn't be more proud of those who put it together.

The doors will open at 7 a.m., and at 7:30 we will have our second International Newspaper Tossing Challenge. The target will be the porch of a Clayton Home, precisely 35 feet from the throwing line. Last year I successfully fought off all challengers. But now Berkshire has acquired a large number of newspapers and with them came much tossing talent (or so the throwers claim). Come see whether their talent matches their talk. Better yet, join in. The papers will be 36 to 42 pages and you must fold them yourself (no rubber bands).

At 8:30, a new Berkshire movie will be shown. An hour later, we will start the question-and-answer period, which (with a break for lunch at the CenturyLink's stands) will last until 3:30. After a short recess, Charlie and I will convene the annual meeting at 3:45. If you decide to leave during the day's question periods, please do so while *Charlie* is talking.

The best reason to exit, of course, is to *shop*. We will help you do so by filling the 194,300-square-foot hall that adjoins the meeting area with products from dozens of Berkshire subsidiaries. Last year, you did your part, and most locations racked up record sales. In a nine-hour period, we sold 1,090 pairs of Justin boots, (that's a pair every 30 seconds), 10,010 pounds of See's candy, 12,879 Quikut knives (24 knives per minute) and 5,784 pairs of Wells Lamont gloves, always a hot item. But you can do better. Remember: Anyone who says money can't buy happiness simply hasn't shopped at our meeting.

Last year, Brooks, our running shoe company, exhibited for the first time and ran up sales of $150,000. Brooks is on fire: Its volume in 2012 grew 34%, and that was on top of a similar 34% gain in 2011. The company's management expects another jump of 23% in 2013. We will again have a special commemorative shoe to offer at the meeting.

On Sunday at 8 a.m., we will initiate the "Berkshire 5K," a race starting at the CenturyLink. Full details for participating will be included in the Visitor's Guide that you will receive with your credentials for the meeting. We will have plenty of categories for competition, including one for the media. (It will be fun to report on *their* performance.) Regretfully, I will forego running; *someone* has to man the starting gun.

I should warn you that we have a lot of home-grown talent. Ted Weschler has run the marathon in 3:01. Jim Weber, Brooks' dynamic CEO, is another speedster with a 3:31 best. Todd Combs specializes in the triathlon, but has been clocked at 22 minutes in the 5K.

That, however, is just the beginning: Our directors are also fleet of foot (that is, *some* of our directors are). Steve Burke has run an amazing 2:39 Boston marathon. (It's a family thing; his wife, Gretchen, finished the New York marathon in 3:25.) Charlotte Guyman's best is 3:37, and Sue Decker crossed the tape in New York in 3:36. Charlie did not return his questionnaire.

GEICO will have a booth in the shopping area, staffed by a number of its top counselors from around the country. Stop by for a quote. In most cases, GEICO will be able to give you a shareholder discount (usually 8%). This special offer is permitted by 44 of the 51 jurisdictions in which we operate. (One supplemental point: The discount is not additive if you qualify for another, such as that given certain groups.) Bring the details of your existing insurance and check out whether we can save you money. For at least half of you, I believe we can.

Be sure to visit the Bookworm. It will carry about 35 books and DVDs, including a couple of new ones. Carol Loomis, who has been invaluable to me in editing this letter since 1977, has recently authored *Tap Dancing to Work: Warren Buffett on Practically Everything*. She and I have cosigned 500 copies, available exclusively at the meeting.

The Outsiders, by William Thorndike, Jr., is an outstanding book about CEOs who excelled at capital allocation. It has an insightful chapter on our director, Tom Murphy, overall the best business manager I've ever met. I also recommend *The Clash of the Cultures* by Jack Bogle and Laura Rittenhouse's *Investing Between the Lines*. Should you need to ship your book purchases, a shipping service will be available nearby.

The *Omaha World-Herald* will again have a booth, offering a few books it has recently published. Red-blooded Husker fans – is there any Nebraskan who isn't one? – will surely want to purchase *Unbeatable*. It tells the story of Nebraska football during 1993-97, a golden era in which Tom Osborne's teams went 60-3.

If you are a big spender – or aspire to become one – visit Signature Aviation on the east side of the Omaha airport between noon and 5:00 p.m. on Saturday. There we will have a fleet of NetJets aircraft that will get your pulse racing. Come by bus; leave by private jet. Live a little.

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. Airlines have sometimes jacked up prices for the Berkshire weekend. If you are coming from far away, compare the cost of flying to Kansas City versus Omaha. The drive between the two cities is about 2½ hours, and it may be that you can save significant money, particularly if you had planned to rent a car in Omaha. Spend the savings with us.

At Nebraska Furniture Mart, located on a 77-acre site on 72nd Street between Dodge and Pacific, we will again be having "Berkshire Weekend" discount pricing. Last year the store did $35.9 million of business during its annual meeting sale, an all-time record that makes other retailers turn green. To obtain the Berkshire discount, you must make your purchases between Tuesday, April 30th and Monday, May 6th inclusive, 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 which, 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. Monday through Saturday, and 10 a.m. to 6 p.m. on Sunday. On Saturday this year, from 5:30 p.m. to 8 p.m., NFM is having a picnic to which you are all invited.

At Borsheims, we will again have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 9 p.m. on Friday, May 3rd. The second, the main gala, will be held on Sunday, May 5th, from 9 a.m. to 4 p.m. On Saturday, we will be open until 6 p.m. In recent years, our three-day volume has far exceeded sales in all of December, normally a jeweler's best month.

Around 1 p.m. on Sunday, I will begin clerking at Borsheims. Last year my sales totaled $1.5 million. This year I won't quit until I hit $2 million. Because I need to leave well before sundown, I will be desperate to do business. Come take advantage of me. Ask for my "Crazy Warren" price.

We will have huge crowds at Borsheims throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, April 29th through Saturday, May 11th. During that period, please identify yourself as a shareholder by presenting your meeting credentials or a brokerage statement that shows you are a Berkshire holder.

On Sunday, in the mall outside of Borsheims, a blindfolded Patrick Wolff, twice U.S. chess champion, will take on all comers – who will have their eyes wide open – in groups of six. Nearby, Norman Beck, a remarkable magician from Dallas, will bewilder onlookers. Additionally, we will have Bob Hamman and Sharon Osberg, two of the world's top bridge experts, available to play bridge with our shareholders on Sunday afternoon. Don't play them for money.

Gorat's and Piccolo's will again be open exclusively for Berkshire shareholders on Sunday, May 5th. Both will be serving until 10 p.m., with Gorat's opening at 1 p.m. and Piccolo's opening at 4 p.m. These restaurants are my favorites, and I will eat at both of them on Sunday evening. Remember: To make a reservation at Gorat's, call 402-551-3733 on April 1st (*but not before*) and at Piccolo's call 402-342-9038. At Piccolo's, order a giant root beer float for dessert. Only sissies get the small one. (I once saw Bill Gates polish off two of the giant variety *after* a full-course dinner; that's when I knew he would make a great director.)

We will again have the same three financial journalists lead the question-and-answer period at the meeting, asking Charlie and me questions that shareholders have submitted to them by e-mail. The journalists and their e-mail addresses are: Carol Loomis, of Fortune, who may be emailed at cloomis@fortunemail.com; Becky Quick, of CNBC, at BerkshireQuestions@cnbc.com, and Andrew Ross Sorkin, of The New York Times, at arsorkin@nytimes.com.

From the questions submitted, each journalist will choose the six he or she decides are the most interesting and important. The journalists have told me your question has the best chance of being selected if you keep it concise, avoid sending it in at the last moment, make it Berkshire-related and include no more than two questions in any email you send them. (In your email, let the journalist know if you would like your name mentioned if your question is selected.)

Last year we had a second panel of three analysts who follow Berkshire. All were insurance specialists, and shareholders subsequently indicated they wanted a little more variety. Therefore, this year we will have one insurance analyst, Cliff Gallant of Nomura Securities. Jonathan Brandt of Ruane, Cunniff & Goldfarb will join the analyst panel to ask questions that deal with our non-insurance operations.

Finally – to spice things up – we would like to add to the panel a credentialed bear on Berkshire, preferably one who is short the stock. Not yet having a bear identified, we would like to hear from applicants. The only requirement is that you be an investment professional and negative on Berkshire. The three analysts will bring their own Berkshire-specific questions and alternate with the journalists and the audience in asking them.

Charlie and I believe that all shareholders should have access to new Berkshire information simultaneously and should also have adequate time to analyze it, which is why we try to issue financial information after the market close on a Friday and why our annual meeting is held on Saturdays. We do not talk one-on-one to large institutional investors or analysts. Our hope is that the journalists and analysts will ask questions that will further educate shareholders about their investment.

Neither Charlie nor I will get so much as a clue about the questions to be asked. We know the journalists and analysts will come up with some tough ones, and that's the way we like it. All told, we expect at least 54 questions, which will allow for six from each analyst and journalist and 18 from the audience. If there is some extra time, we will take more from the audience. Audience questioners will be determined by drawings that will take place at 8:15 a.m. at each of the 11 microphones located in the arena and main overflow room.

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For good reason, I regularly extol the accomplishments of our operating managers. They are truly All-Stars, who run their businesses as if they were the only asset owned by their families. I believe their mindset to be as shareholder-oriented as can be found in the universe of large publicly-owned companies. Most have no financial need to work; the joy of hitting business "home runs" means as much to them as their paycheck.

Equally important, however, are the 23 men and women who work with me at our corporate office (all on one floor, which is the way we intend to keep it!).

This group efficiently deals with a multitude of SEC and other regulatory requirements, files a 21,500-page Federal income tax return as well as state and foreign returns, responds to countless shareholder and media inquiries, gets out the annual report, prepares for the country's largest annual meeting, coordinates the Board's activities – and the list goes on and on.

They handle all of these business tasks cheerfully and with unbelievable efficiency, making my life easy and pleasant. Their efforts go beyond activities strictly related to Berkshire: Last year they dealt with 48 universities (selected from 200 applicants) who sent students to Omaha for a Q&A day with me. They also handle all kinds of requests that I receive, arrange my travel, and even get me hamburgers for lunch. No CEO has it better; I truly do feel like tap dancing to work every day.

This home office crew, along with our operating managers, has my deepest thanks and deserves yours as well. Come to Omaha – the cradle of capitalism – on May 4th and chime in.

March 1, 2013

Warren E. Buffett
Chairman of the Board

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 $75 million of pre-tax earnings unless the business will fit into one of our existing units),
(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. *We don't participate in auctions*.

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."

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Berkshire Hathaway Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012 as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, we used the criteria set forth in the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears on page 27.

Berkshire Hathaway Inc.
March 1, 2013

BERKSHIRE HATHAWAY INC.
and Subsidiaries
Selected Financial Data for the Past Five Years
(dollars in millions except per-share data)

	2012	2011	2010	2009	2008
Revenues:					
Insurance premiums earned	$ 34,545	$ 32,075	$ 30,749	$ 27,884	$ 25,525
Sales and service revenues	83,268	72,803	67,225	62,555	65,854
Revenues of railroad, utilities and energy businesses [1]	32,582	30,839	26,364	11,443	13,971
Interest, dividend and other investment income	4,534	4,792	5,215	5,531	5,140
Interest and other revenues of finance and financial products businesses	4,109	4,009	4,286	4,293	4,757
Investment and derivative gains/losses [2]	3,425	(830)	2,346	787	(7,461)
Total revenues	$162,463	$143,688	$136,185	$112,493	$107,786
Earnings:					
Net earnings attributable to Berkshire Hathaway [2]	$ 14,824	$ 10,254	$ 12,967	$ 8,055	$ 4,994
Net earnings per share attributable to Berkshire Hathaway shareholders [3]	$ 8,977	$ 6,215	$ 7,928	$ 5,193	$ 3,224
Year-end data:					
Total assets	$427,452	$392,647	$372,229	$297,119	$267,399
Notes payable and other borrowings:					
Insurance and other businesses	13,535	13,768	12,471	4,561	5,149
Railroad, utilities and energy businesses [1]	36,156	32,580	31,626	19,579	19,145
Finance and financial products businesses	13,045	14,036	14,477	13,769	12,588
Berkshire Hathaway shareholders' equity	187,647	164,850	157,318	131,102	109,267
Class A equivalent common shares outstanding, in thousands	1,643	1,651	1,648	1,552	1,549
Berkshire Hathaway shareholders' equity per outstanding Class A equivalent common share	$114,214	$ 99,860	$ 95,453	$ 84,487	$ 70,530

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[1] *On February 12, 2010, BNSF became a wholly-owned subsidiary of Berkshire and BNSF's accounts are consolidated in Berkshire's financial statements beginning on that date. From December 31, 2008 to February 12, 2010, Berkshire's investment in BNSF common stock was accounted for pursuant to the equity method.*

[2] *Investment gains/losses include realized gains and losses and non-cash other-than-temporary impairment losses. Derivative gains/losses include significant amounts related to non-cash changes in the fair value of long-term contracts arising from short-term changes in equity prices, interest rates and foreign currency rates, among other factors. After-tax investment and derivative gains/losses were $2.2 billion in 2012, $(521) million in 2011, $1.87 billion in 2010, $486 million in 2009 and $(4.65) billion in 2008.*

[3] *Represents net earnings per equivalent Class A common share. Net earnings per Class B common share is equal to 1/1,500 of such amount.*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Berkshire Hathaway Inc.
Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of Berkshire Hathaway Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
March 1, 2013

BERKSHIRE HATHAWAY INC.
and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(dollars in millions)

	December 31, 2012	December 31, 2011
ASSETS		
Insurance and Other:		
Cash and cash equivalents	$ 42,358	$ 33,513
Investments:		
Fixed maturity securities	31,449	31,222
Equity securities	86,467	76,063
Other	16,057	13,111
Receivables	21,753	19,012
Inventories	9,675	8,975
Property, plant and equipment	19,188	18,177
Goodwill	33,274	32,125
Other	17,875	18,121
	278,096	250,319
Railroad, Utilities and Energy:		
Cash and cash equivalents	2,570	2,246
Property, plant and equipment	87,684	82,214
Goodwill	20,213	20,056
Other	13,441	12,861
	123,908	117,377
Finance and Financial Products:		
Cash and cash equivalents	2,064	1,540
Investments in fixed maturity securities	842	966
Other investments	4,952	3,810
Loans and finance receivables	12,809	13,934
Goodwill	1,036	1,032
Other	3,745	3,669
	25,448	24,951
	$427,452	$392,647
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance and Other:		
Losses and loss adjustment expenses	$ 64,160	$ 63,819
Unearned premiums	10,237	8,910
Life, annuity and health insurance benefits	10,943	9,924
Accounts payable, accruals and other liabilities	21,149	18,466
Notes payable and other borrowings	13,535	13,768
	120,024	114,887
Railroad, Utilities and Energy:		
Accounts payable, accruals and other liabilities	13,113	13,016
Notes payable and other borrowings	36,156	32,580
	49,269	45,596
Finance and Financial Products:		
Accounts payable, accruals and other liabilities	1,099	1,224
Derivative contract liabilities	7,933	10,139
Notes payable and other borrowings	13,045	14,036
	22,077	25,399
Income taxes, principally deferred	44,494	37,804
Total liabilities	235,864	223,686
Shareholders' equity:		
Common stock	8	8
Capital in excess of par value	37,230	37,807
Accumulated other comprehensive income	27,500	17,654
Retained earnings	124,272	109,448
Treasury stock, at cost	(1,363)	(67)
Berkshire Hathaway shareholders' equity	187,647	164,850
Noncontrolling interests	3,941	4,111
Total shareholders' equity	191,588	168,961
	$427,452	$392,647

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,		
	2012	2011	2010
Revenues:			
Insurance and Other:			
Insurance premiums earned	$ 34,545	$ 32,075	$ 30,749
Sales and service revenues	83,268	72,803	67,225
Interest, dividend and other investment income	4,534	4,792	5,215
Investment gains/losses	1,327	1,973	4,044
Other-than-temporary impairment losses on investments	(337)	(908)	(1,973)
	123,337	110,735	105,260
Railroad, Utilities and Energy:			
Operating revenues	32,383	30,721	26,186
Other	199	118	178
	32,582	30,839	26,364
Finance and Financial Products:			
Interest, dividend and other investment income	1,572	1,618	1,683
Investment gains/losses	472	209	14
Derivative gains/losses	1,963	(2,104)	261
Other	2,537	2,391	2,603
	6,544	2,114	4,561
	162,463	143,688	136,185
Costs and expenses:			
Insurance and Other:			
Insurance losses and loss adjustment expenses	20,113	20,829	18,087
Life, annuity and health insurance benefits	5,114	4,879	4,453
Insurance underwriting expenses	7,693	6,119	6,196
Cost of sales and services	67,536	59,839	55,585
Selling, general and administrative expenses	10,503	8,670	7,704
Interest expense	397	308	278
	111,356	100,644	92,303
Railroad, Utilities and Energy:			
Cost of sales and operating expenses	23,816	22,736	19,637
Interest expense	1,745	1,703	1,577
	25,561	24,439	21,214
Finance and Financial Products:			
Interest expense	602	653	703
Other	2,708	2,638	2,914
	3,310	3,291	3,617
	140,227	128,374	117,134
Earnings before income taxes	22,236	15,314	19,051
Income tax expense	6,924	4,568	5,607
Earnings from equity method investments	—	—	50
Net earnings	15,312	10,746	13,494
Less: Earnings attributable to noncontrolling interests	488	492	527
Net earnings attributable to Berkshire Hathaway shareholders	$ 14,824	$ 10,254	$ 12,967
Average common shares outstanding *	1,651,294	1,649,891	1,635,661
Net earnings per share attributable to Berkshire Hathaway shareholders *	$ 8,977	$ 6,215	$ 7,928

* *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 attributable to Berkshire Hathaway shown above represents net earnings per equivalent Class A common share. Net earnings per Class B common share is equal to one-fifteen-hundredth (1/1,500) of such amount or $5.98 per share for 2012, $4.14 per share for 2011 and $5.29 per share for 2010.*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in millions)

	2012	2011	2010
Net earnings	$15,312	$10,746	$13,494
Other comprehensive income:			
Net change in unrealized appreciation of investments	15,700	(2,146)	5,398
Applicable income taxes	(5,434)	811	(1,866)
Reclassification of investment appreciation in net earnings	(953)	(1,245)	(1,068)
Applicable income taxes	334	436	374
Foreign currency translation	276	(126)	(172)
Applicable income taxes	(9)	(18)	(21)
Prior service cost and actuarial gains/losses of defined benefit plans	5	(1,121)	(76)
Applicable income taxes	(26)	401	25
Other, net	(32)	(104)	204
Other comprehensive income, net	9,861	(3,112)	2,798
Comprehensive income	25,173	7,634	16,292
Comprehensive income attributable to noncontrolling interests	503	385	536
Comprehensive income attributable to Berkshire Hathaway shareholders	$24,670	$ 7,249	$15,756

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in millions)

	Berkshire Hathaway shareholders' equity					
	Common stock and capital in excess of par value	Accumulated other comprehensive income	Retained earnings	Treasury stock	Non-controlling interests	Total
Balance at December 31, 2009	$27,082	$17,793	$ 86,227	$ —	$ 4,683	$135,785
Net earnings	—	—	12,967	—	527	13,494
Other comprehensive income, net	—	2,789	—	—	9	2,798
Issuance of common stock and other transactions	11,096	—	—	—	—	11,096
Changes in noncontrolling interests:						
Interests acquired and other transactions	(637)	1	—	—	397	(239)
Balance at December 31, 2010	37,541	20,583	99,194	—	5,616	162,934
Net earnings	—	—	10,254	—	492	10,746
Other comprehensive income, net	—	(3,005)	—	—	(107)	(3,112)
Issuance and repurchase of common stock	355	—	—	(67)	—	288
Changes in noncontrolling interests:						
Interests acquired and other transactions	(81)	76	—	—	(1,890)	(1,895)
Balance at December 31, 2011	37,815	17,654	109,448	(67)	4,111	168,961
Net earnings	—	—	14,824	—	488	15,312
Other comprehensive income, net	—	9,846	—	—	15	9,861
Issuance and repurchase of common stock	118	—	—	(1,296)	—	(1,178)
Changes in noncontrolling interests:						
Interests acquired and other transactions	(695)	—	—	—	(673)	(1,368)
Balance at December 31, 2012	$37,238	$27,500	$124,272	$(1,363)	$ 3,941	$191,588

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net earnings	$ 15,312	$ 10,746	$ 13,494
Adjustments to reconcile net earnings to operating cash flows:			
Investment (gains) losses and other-than-temporary impairment losses	(1,462)	(1,274)	(2,085)
Depreciation	5,146	4,683	4,279
Other	795	811	255
Changes in operating assets and liabilities before business acquisitions:			
Losses and loss adjustment expenses	(421)	3,063	1,009
Deferred charges reinsurance assumed	121	(329)	147
Unearned premiums	1,134	852	110
Receivables and originated loans	(1,610)	(1,159)	(1,979)
Derivative contract assets and liabilities	(2,183)	1,881	(880)
Income taxes	1,710	1,493	2,348
Other assets	185	(1,601)	(1,070)
Other liabilities	2,223	1,310	2,267
Net cash flows from operating activities	20,950	20,476	17,895
Cash flows from investing activities:			
Purchases of fixed maturity securities	(8,250)	(7,362)	(9,819)
Purchases of equity securities	(7,376)	(15,660)	(4,265)
Purchases of other investments	—	(5,000)	—
Sales of fixed maturity securities	2,982	3,353	5,435
Redemptions and maturities of fixed maturity securities	6,064	6,872	6,517
Sales of equity securities	8,088	1,518	5,886
Redemptions of other investments	—	12,645	—
Purchases of loans and finance receivables	(650)	(1,657)	(3,149)
Collections of loans and finance receivables	1,714	2,915	3,498
Acquisitions of businesses, net of cash acquired	(3,188)	(8,685)	(15,924)
Purchases of property, plant and equipment	(9,775)	(8,191)	(5,980)
Other	(183)	63	(476)
Net cash flows from investing activities	(10,574)	(19,189)	(18,277)
Cash flows from financing activities:			
Proceeds from borrowings of insurance and other businesses	1,820	2,091	8,204
Proceeds from borrowings of railroad, utilities and energy businesses	4,707	2,290	1,731
Proceeds from borrowings of finance businesses	2,352	1,562	1,539
Repayments of borrowings of insurance and other businesses	(2,078)	(2,307)	(430)
Repayments of borrowings of railroad, utilities and energy businesses	(2,119)	(2,335)	(777)
Repayments of borrowings of finance businesses	(3,131)	(1,959)	(2,417)
Changes in short term borrowings, net	(309)	301	370
Acquisitions of treasury stock	(1,296)	(67)	—
Acquisitions of noncontrolling interests and other	(752)	(1,793)	(95)
Net cash flows from financing activities	(806)	(2,217)	8,125
Effects of foreign currency exchange rate changes	123	2	(74)
Increase (decrease) in cash and cash equivalents	9,693	(928)	7,669
Cash and cash equivalents at beginning of year	37,299	38,227	30,558
Cash and cash equivalents at end of year *	$ 46,992	$ 37,299	$ 38,227
** Cash and cash equivalents at end of year are comprised of the following:*			
Insurance and Other	*$ 42,358*	*$ 33,513*	*$ 34,767*
Railroad, Utilities and Energy	*2,570*	*2,246*	*2,557*
Finance and Financial Products	*2,064*	*1,540*	*903*
	$ 46,992	*$ 37,299*	*$ 38,227*

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") is a holding company owning subsidiaries engaged in a number of diverse business activities, including insurance and reinsurance, freight rail transportation, utilities and energy, finance, manufacturing, service and retailing. In these notes the terms "us," "we," or "our" refer to Berkshire and its consolidated subsidiaries. Further information regarding our reportable business segments is contained in Note 22. Significant business acquisitions completed over the past three years are discussed in Note 2.

The accompanying Consolidated Financial Statements include the accounts of Berkshire consolidated with the accounts of all subsidiaries and affiliates in which we hold a controlling financial interest as of the financial statement date. Normally a controlling financial interest reflects ownership of a majority of the voting interests. We consolidate a variable interest entity ("VIE") when we possess both the power to direct the activities of the VIE that most significantly impact its economic performance and we are either obligated to absorb the losses that could potentially be significant to the VIE or we hold the right to receive benefits from the VIE that could potentially be significant to the VIE.

Intercompany accounts and transactions have been eliminated. Certain immaterial amounts in prior year presentations have been reclassified to conform with the current year presentation.

(b) Use of estimates in preparation of financial statements

The preparation of our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts 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. In addition, estimates and assumptions associated with the amortization of deferred charges reinsurance assumed, determinations of fair values of certain financial instruments and evaluations of goodwill for impairment require considerable judgment. Actual results may differ from the estimates used in preparing our Consolidated Financial Statements.

(c) Cash and cash equivalents

Cash equivalents consist of funds invested in U.S. Treasury Bills, money market accounts, demand deposits and other investments with a maturity of three months or less when purchased.

(d) Investments

We determine the appropriate classification of investments in fixed maturity and equity securities at the acquisition date and re-evaluate the classification at each balance sheet date. Held-to-maturity investments are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. Trading investments are carried at fair value and include securities acquired with the intent to sell in the near term. All other securities are classified as available-for-sale and are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income. Substantially all of our investments in equity and fixed maturity securities are classified as available-for-sale.

We utilize the equity method to account for investments when we possess the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. The ability to exercise significant influence is presumed when an investor possesses more than 20% of the voting interests of the investee. This presumption may be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted. We apply the equity method to investments in common stock and to other investments when such other investments possess substantially identical subordinated interests to common stock. In applying the equity method with respect to investments previously accounted for at cost or fair value, the carrying value of the investment is adjusted on a step-by-step basis as if the equity method had been applied from the time the investment was first acquired.

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

(d) Investments (Continued)

In applying the equity method, we record our investment at cost and subsequently increase or decrease the carrying amount of the investment by our proportionate share of the net earnings or losses and other comprehensive income of the investee. We record dividends or other equity distributions as reductions in the carrying value of the investment. In the event that net losses of the investee reduce the carrying amount to zero, additional net losses may be recorded if other investments in the investee are at-risk even if we have not committed to provide financial support to the investee. Such additional equity method losses, if any, are based upon the change in our claim on the investee's book value.

Investment gains and losses arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If a decline in the value of an investment below cost is deemed other than temporary, the cost of the investment is written down to fair value, with a corresponding charge to earnings. Factors considered in judging whether an impairment is other than temporary include: the financial condition, business prospects and creditworthiness of the issuer, the relative amount of the decline, our ability and intent to hold the investment until the fair value recovers and the length of time that fair value has been less than cost. With respect to an investment in a debt security, we recognize an other-than-temporary impairment if we (a) intend to sell or expect to be required to sell before amortized cost is recovered or (b) do not expect to ultimately recover the amortized cost basis even if we do not intend to sell the security. We recognize losses under (a) in earnings and under (b) we recognize the credit loss component in earnings and the difference between fair value and the amortized cost basis net of the credit loss in other comprehensive income.

(e) Receivables, loans and finance receivables

Receivables of the insurance and other businesses are stated at the outstanding principal amounts, net of estimated allowances for uncollectible balances. Allowances for uncollectible balances are provided when it is probable counterparties or customers will be unable to pay all amounts due based on the contractual terms and the loss amounts can be reasonably estimated. Receivables are generally written off against allowances after all reasonable collection efforts are exhausted.

Loans and finance receivables primarily consist of manufactured housing and other real estate loans originated or purchased. Loans and finance receivables are stated at amortized cost based on our ability and intent to hold such loans and receivables to maturity and are stated net of allowances for uncollectible accounts. Amortized cost represents acquisition cost, plus or minus origination and commitment costs paid or fees received, which together with acquisition premiums or discounts, are deferred and amortized as yield adjustments over the life of the loan. Loans and finance receivables include loan securitizations issued when we have the power to direct and the right to receive residual returns. Substantially all of these loans are secured by real or personal property.

Allowances for credit losses from manufactured housing and other real estate loans include estimates of losses on loans currently in foreclosure and losses on loans not currently in foreclosure. Estimates of losses on loans in foreclosure are based on historical experience and collateral recovery rates. Estimates of losses on loans not currently in foreclosure consider historical default rates, collateral recovery rates and existing economic conditions. Allowances for credit losses also incorporate the historical average time elapsed from the last payment until foreclosure.

Loans in which payments are delinquent (with no grace period) are considered past due. Loans which are over 90 days past due or in foreclosure are placed on nonaccrual status and interest previously accrued but not collected is reversed. Subsequent amounts received on the loans are first applied to the principal and interest owed for the most delinquent amount. Interest income accruals are resumed once a loan is less than 90 days delinquent.

Loans in the foreclosure process are considered non-performing. Once a loan is in foreclosure, interest income is not recognized unless the foreclosure is cured or the loan is modified. Once a modification is complete, interest income is recognized based on the terms of the new loan. Loans that have gone through foreclosure are charged off when the collateral is sold. Loans not in foreclosure are evaluated for charge off based on individual circumstances that indicate future collectability of the loan, including the condition of the collateral securing the loan.

(f) Derivatives

We carry derivative contracts at estimated fair value. Such balances reflect reductions permitted under master netting agreements with counterparties. The changes in fair value of derivative contracts that do not qualify as hedging instruments for financial reporting purposes are recorded in earnings.

Cash collateral received from or paid to counterparties to secure derivative contract assets or liabilities is included in other liabilities or other assets. Securities received from counterparties as collateral are not recorded as assets and securities delivered to counterparties as collateral continue to be reflected as assets in our Consolidated Balance Sheets.

(g) Fair value measurements

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Alternative valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not acting under duress. Nonperformance or credit risk is considered in determining the fair value of liabilities. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

(h) Inventories

Inventories consist of manufactured goods and goods acquired for resale. Manufactured inventory costs include raw materials, direct and indirect labor and factory overhead. Inventories are stated at the lower of cost or market. As of December 31, 2012, approximately 38% of our consolidated inventory cost was determined using the last-in-first-out ("LIFO") method, 31% using the first-in-first-out ("FIFO") method, with the remainder using the specific identification method or average cost methods. With respect to inventories carried at LIFO cost, the aggregate difference in value between LIFO cost and cost determined under FIFO methods was $793 million and $759 million as of December 31, 2012 and 2011, respectively.

(i) Property, plant and equipment

Additions to property, plant and equipment are recorded at cost. The cost of major additions, improvements and betterments are capitalized. With respect to constructed assets, all construction related material, direct labor and contract services as well as certain indirect costs are capitalized. Indirect costs include interest over the construction period. With respect to constructed assets of certain of our regulated utility and energy subsidiaries that are subject to authoritative guidance for regulated operations, capitalized costs also include an equity allowance for funds used during construction, which represents the equity funds necessary to finance the construction of the domestic regulated facilities. Also see Note 1(p).

Normal repairs and maintenance and other costs that do not improve the property, extend the useful life or otherwise do not meet capitalization criteria are charged to expense as incurred. Rail grinding costs related to our railroad properties are expensed as incurred.

Depreciation is provided principally on the straight-line method over estimated useful lives or mandated recovery periods as prescribed by regulatory authorities. Depreciation of assets of our regulated utilities and railroad is generally provided using group depreciation methods where rates are based on periodic depreciation studies approved by the applicable regulator. Under group depreciation, a single depreciation rate is applied to the gross investment in a particular class of property, despite differences in the service life or salvage value of individual property units within the same class. When our regulated utilities or railroad retires or sells a component of the assets accounted for using group depreciation methods, no gain or loss is recognized. Gains or losses on disposals of all other assets are recorded through earnings.

Our businesses evaluate property, plant and equipment for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable or the assets are being held for sale. Upon the

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

(i) Property, plant and equipment (Continued)

occurrence of a triggering event, we review the asset to assess whether the estimated undiscounted cash flows expected from the use of the asset plus residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, we write down the asset to the estimated fair value. Impairment losses are included in earnings, except with respect to impairment of assets of our regulated utility and energy subsidiaries when such impairment losses are offset by the establishment of a regulatory asset to the extent recovery in future rates is probable.

(j) Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business acquisitions. We evaluate goodwill for impairment at least annually. When evaluating goodwill for impairment we estimate the fair value of the reporting unit. There are several methods that may be used to estimate a reporting unit's fair value, including market quotations, asset and liability fair values and other valuation techniques, including, but not limited to, discounted projected future net earnings or net cash flows and multiples of earnings. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then the identifiable assets and liabilities of the reporting unit are estimated at fair value as of the current testing date. The excess of the estimated fair value of the reporting unit over the current estimated fair value of net assets establishes the implied value of goodwill. The excess of the recorded goodwill over the implied goodwill value is charged to earnings as an impairment loss. A significant amount of judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests.

(k) Revenue recognition

Insurance premiums for prospective property/casualty and health insurance and reinsurance are earned over the loss exposure or coverage period, in proportion to the level of protection provided. In most cases, premiums are recognized as revenues ratably over the term of the contract with unearned premiums computed on a monthly or daily pro rata basis. Premiums for retroactive property/casualty reinsurance policies are earned at the inception of the contracts, as all of the underlying loss events covered by these policies occurred in the past. Premiums for life reinsurance contracts are earned when due. Premiums earned are stated net of amounts ceded to reinsurers. For contracts containing experience rating provisions, premiums are based upon estimated loss experience under the contracts.

Sales revenues derive from the sales of manufactured products and goods acquired for resale. Revenues from sales are recognized upon passage of title to the customer, which generally coincides with customer pickup, product 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. Revenues related to the sales of fractional ownership interests in aircraft are recognized ratably over the term of the related management services agreement as the transfer of ownership interest in the aircraft is inseparable from the management services agreement.

Operating revenues of utilities and energy businesses resulting from the distribution and sale of natural gas and electricity to customers is recognized when the service is rendered or the energy is delivered. Amounts recognized include unbilled as well as billed amounts. Rates charged are generally subject to federal and state regulation or established under contractual arrangements. When preliminary rates are permitted to be billed prior to final approval by the applicable regulator, certain revenue collected may be subject to refund and a liability for estimated refunds is accrued.

Railroad transportation revenues are recognized based upon the proportion of service provided as of the balance sheet date. Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a pro-rata reduction to revenue based on actual or projected future customer shipments. When using projected shipments, we rely on historic trends as well as economic and other indicators to estimate the liability for customer incentives.

Interest income from investments in fixed maturity securities and loans is earned under the constant yield method and includes accrual of interest due under terms of the agreement as well as amortization of acquisition premiums, accruable discounts and capitalized loan origination fees, as applicable. In determining the constant yield for mortgage-backed

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

(k) Revenue recognition (Continued)

securities, anticipated prepayments are estimated and evaluated periodically. Dividends from equity securities are recognized when earned, which is on the ex-dividend date or the declaration date, when there is no ex-dividend date.

(l) 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 issued by our insurance subsidiaries 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 workers' compensation reinsurance business are discounted as discussed below. Estimated ultimate payment amounts are based upon (1) reports of losses from policyholders, (2) individual case estimates and (3) estimates of incurred but not reported losses.

Provisions for losses and loss adjustment expenses are charged to earnings after deducting amounts recovered and estimates of recoverable amounts under ceded 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.

The estimated liabilities of workers' compensation claims assumed under certain reinsurance contracts are carried at discounted amounts. Discounted amounts are based upon an annual discount rate of 4.5% for claims arising prior to January 1, 2003 and 1% for claims arising thereafter, consistent with discount rates used under insurance statutory accounting principles. The change in such reserve discounts, including the periodic discount accretion is included in earnings as a component of losses and loss adjustment expenses.

(m) Deferred charges reinsurance assumed

The excess, if any, of the estimated ultimate liabilities for claims and claim costs over the premiums earned with respect to retroactive property/casualty reinsurance contracts are established as deferred charges at inception of such contracts. Deferred charges are subsequently amortized using the interest method over the expected claim settlement periods. Changes to the estimated timing or amount of loss payments produce changes in periodic amortization. Changes in such estimates are applied retrospectively and are included in insurance losses and loss adjustment expenses in the period of the change. The unamortized balances are included in other assets and were $4,019 million and $4,139 million at December 31, 2012 and 2011, respectively.

(n) Insurance policy acquisition costs

With regards to insurance policies issued or renewed on or after January 1, 2012, incremental costs that are directly related to the successful acquisition of new or renewal of insurance contracts are capitalized, subject to ultimate recoverability, and are subsequently amortized to underwriting expenses as the related premiums are earned. Direct incremental acquisition costs include commissions, premium taxes, and certain other costs associated with successful efforts. Prior to January 1, 2012, in addition to these direct incremental costs, capitalized costs also included certain advertising and other costs that are no longer eligible to be capitalized. All other underwriting costs are expensed as incurred. The recoverability of capitalized insurance policy acquisition costs generally reflects anticipation of investment income. The unamortized balances are included in other assets and were $1,682 million and $1,890 million at December 31, 2012 and 2011, respectively.

(p) Regulated utilities and energy businesses

Certain domestic energy subsidiaries prepare their financial statements in accordance with authoritative guidance for regulated operations, reflecting the economic effects of regulation from the ability to recover certain costs from customers and the requirement to return revenues to customers in the future through the regulated rate-setting process. Accordingly, certain costs are deferred as regulatory assets and obligations are accrued as regulatory liabilities which will be amortized into operating expenses and revenues over various future periods. At December 31, 2012, our Consolidated Balance Sheet includes $2,909 million in regulatory assets and $1,813 million in regulatory liabilities. At December 31, 2011, our Consolidated Balance Sheet includes $2,918 million in regulatory assets and $1,731 million in regulatory liabilities. Regulatory assets and liabilities are components of other assets and other liabilities of utilities and energy businesses.

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

(p) Regulated utilities and energy businesses (Continued)

Regulatory assets and liabilities are continually assessed for probable future inclusion in regulatory rates by considering factors such as applicable regulatory or legislative changes and recent rate orders received by other regulated entities. If future inclusion in regulatory rates ceases to be probable, the amount no longer probable of inclusion in regulatory rates is charged to earnings or reflected as an adjustment to rates.

(q) Life, annuity and health insurance benefits

The liability for insurance benefits under life contracts has been computed based upon estimated future investment yields, expected mortality, morbidity, and lapse or withdrawal rates and reflects estimates for future premiums and expenses under the contracts. These assumptions, as applicable, also include a margin for adverse deviation and may vary with the characteristics of the reinsurance contract's date of issuance, policy duration and country of risk. The interest rate assumptions used may vary by reinsurance contract or jurisdiction and generally range from approximately 3% to 7%. Annuity contracts are discounted based on the implicit rate of return as of the inception of the contracts and such interest rates range from approximately 1% to 7%.

(r) Foreign currency

The accounts of our non-U.S. based subsidiaries are measured in most instances using the local currency of the subsidiary as the functional currency. Revenues and expenses of these businesses are generally 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 transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in earnings.

(s) Income taxes

Berkshire files a consolidated federal income tax return in the United States, which includes our eligible subsidiaries. In addition, we file income tax returns in state, local and foreign jurisdictions as applicable. Provisions for current income tax liabilities are calculated and accrued on income and expense amounts expected to be included in the income tax returns for the current year. Income taxes reflected in earnings also include deferred income tax provisions for the temporary differences between income and expense amounts includable in current income tax returns and amounts reported for financial reporting purposes.

Deferred income taxes are calculated under the liability method. Deferred income tax assets and liabilities are computed on differences between the financial statement bases 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 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, as deferred income tax expense. The effect on deferred income tax assets and liabilities attributable to changes in enacted tax rates are charged or credited to income tax expense in the period of enactment. Valuation allowances are established for certain deferred tax assets where realization is not likely.

Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax positions are generally included as a component of income tax expense.

(t) New accounting pronouncements

As of January 1, 2012, we adopted ASU 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts", which specifies that only direct incremental costs associated with successful efforts in acquiring or renewing of insurance contracts should be capitalized and amortized over the policy term. All other costs are required to be expensed as incurred. Capitalized costs include certain advertising costs if the primary purpose of the advertising is to elicit sales to customers who could be shown to have responded directly to the advertising and the probable future revenues generated are in excess of expected future costs to be incurred in realizing those revenues.

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

(t) New accounting pronouncements (Continued)

Berkshire adopted ASU 2010-26 on a prospective basis. The impact of the adoption of this new standard primarily relates to certain advertising costs of GEICO, which were capitalized prior to the adoption of ASU 2010-26, but are no longer eligible to be capitalized. The adoption of this new standard did not have a material effect on our Consolidated Financial Statements.

As of January 1, 2012, we also adopted ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." As a result of adopting ASU 2011-04, we have expanded our fair value disclosures.

In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities" and in January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU 2011-11, as c1arified, enhances disclosures surrounding offsetting (netting) assets and liabilities. The clarified standard applies to derivatives, repurchase agreements and securities lending transactions and requires companies to disclose gross and net information about financial instruments and derivatives eligible for offset and to disclose financial instruments and derivatives subject to master netting arrangements in financial statements. The clarified standard is effective for fiscal years beginning on or after January 1, 2013 and is required to be applied retrospectively.

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 allows an entity to first assess qualitative factors in determining whether events and circumstances indicate that it is more-likely-than not that an indefinite-lived intangible asset is impaired. If an entity determines that it is not more-likely-than not that the indefinite-lived intangible asset is impaired, then the entity is not required to perform a quantitative impairment test. ASU 2012-02 is effective for fiscal years beginning after September 15, 2012.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 requires disclosure by component of other comprehensive income of the amounts reclassified out of accumulated other comprehensive income by component and into net earnings for the reporting period. ASU 2013-02 is effective for reporting periods beginning on or after December 15, 2012.

We do not believe that the adoption of these new pronouncements will have a material effect on our Consolidated Financial Statements.

(2) Significant business acquisitions

Our long-held acquisition strategy is to acquire businesses with consistent earning power, good returns on equity and able and honest management at sensible prices. In 2012, we completed several smaller-sized business acquisitions, most of which we consider as "bolt-on" acquisitions to several of our existing business operations. Aggregate consideration paid in 2012 for acquisitions was approximately $3.2 billion, which included $438 million for entities that will develop, construct and subsequently operate renewable energy generation facilities. We do not believe that these acquisitions are material, individually or in the aggregate, to our Consolidated Financial Statements.

On September 16, 2011, Berkshire completed the acquisition of The Lubrizol Corporation ("Lubrizol") pursuant to a merger agreement, under which Berkshire acquired all of the outstanding shares of Lubrizol common stock for cash of $135 per share (approximately $8.7 billion in the aggregate). Lubrizol, based in Cleveland, Ohio, is an innovative specialty chemical company that produces and supplies technologies to customers in the global transportation, industrial and consumer markets. These technologies include additives for engine oils, other transportation-related fluids and industrial lubricants, as well as additives for gasoline and diesel fuel. In addition, Lubrizol makes ingredients and additives for personal care products and pharmaceuticals; specialty materials, including plastics; and performance coatings. Lubrizol's industry-leading technologies in additives, ingredients and compounds enhance the quality, performance and value of customers' products, while reducing their environmental impact. We accounted for the Lubrizol acquisition pursuant to the acquisition method. The valuation of the identified assets and liabilities and the resulting excess amount recorded as goodwill as of the acquisition date was completed as of December 31, 2011. Lubrizol's financial results are included in our Consolidated Financial Statements beginning as of September 16, 2011.

On February 12, 2010, we acquired all of the outstanding common stock of the Burlington Northern Santa Fe Corporation ("BNSF") that we did not already own (about 264.5 million shares or 77.5% of the outstanding shares) for aggregate

(2) Significant business acquisitions *(Continued)*

consideration of $26.5 billion that consisted of cash of approximately $15.9 billion with the remainder in Berkshire common stock (80,931 Class A shares and 20,976,621 Class B shares). BNSF is based in Fort Worth, Texas, and through its wholly-owned subsidiary, BNSF Railway Company, currently operates one of the largest railroad systems in North America with approximately 32,500 route miles of track (including 23,000 route miles of track owned by BNSF) in 28 states and two Canadian provinces.

We accounted for the BNSF acquisition pursuant to the acquisition method and our valuation of the identified assets and liabilities and the resulting excess amount recorded as goodwill as of the acquisition date was completed as of December 31, 2010. BNSF's financial results are consolidated in our financial statements beginning on February 12, 2010. Prior to February 12, 2010, we owned 76.8 million shares of BNSF (22.5% of the outstanding shares), which we acquired between August 2006 and January 2009. We accounted for those shares pursuant to the equity method and as of February 12, 2010, our investment had a carrying value of approximately $6.6 billion. Upon completion of the acquisition of the remaining BNSF shares, we re-measured our previously owned investment in BNSF at fair value. Accordingly, in 2010, we recognized a one-time holding gain of $979 million representing the difference between the fair value of the BNSF shares that we acquired prior to February 12, 2010 and our carrying value under the equity method.

We have owned a controlling interest in Marmon Holdings, Inc. ("Marmon") since 2008. In the fourth quarter of 2012, pursuant to the terms of the 2008 Marmon acquisition agreement, we acquired an additional 10% of the outstanding shares of Marmon held by noncontrolling interests for aggregate consideration of approximately $1.4 billion. Approximately $800 million of the consideration was paid in the fourth quarter of 2012, and the remainder is payable in March 2013. In the fourth quarter of 2010, we acquired 16.6% of Marmon's outstanding common stock for approximately $1.5 billion. As a result of these acquisitions, our ownership interest in Marmon has increased to approximately 90%. These purchases were accounted for as acquisitions of noncontrolling interests. The differences between the consideration paid or payable and the carrying amounts of the noncontrolling interests acquired were recorded as reductions in Berkshire's shareholders equity of approximately $700 million in 2012 and $614 million in 2010. We are contractually required to acquire substantially all of the remaining noncontrolling interests of Marmon no later than March 31, 2014, for an amount that will be based on Marmon's future operating results.

(3) Investments in fixed maturity securities

Investments in securities with fixed maturities as of December 31, 2012 and 2011 are summarized by type below (in millions).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2012				
U.S. Treasury, U.S. government corporations and agencies	$ 2,742	$ 33	$ —	$ 2,775
States, municipalities and political subdivisions	2,735	178	—	2,913
Foreign governments	11,098	302	(45)	11,355
Corporate bonds	10,410	2,254	(3)	12,661
Mortgage-backed securities	2,276	318	(7)	2,587
	$29,261	$3,085	$ (55)	$32,291
December 31, 2011				
U.S. Treasury, U.S. government corporations and agencies	$ 2,894	$ 41	$ —	$ 2,935
States, municipalities and political subdivisions	2,862	208	—	3,070
Foreign governments	10,608	283	(48)	10,843
Corporate bonds	11,120	1,483	(155)	12,448
Mortgage-backed securities	2,564	343	(15)	2,892
	$30,048	$2,358	$(218)	$32,188

(3) Investments in fixed maturity securities *(Continued)*

Investments in fixed maturity securities are reflected in our Consolidated Balance Sheets as follows (in millions).

	December 31, 2012	December 31, 2011
Insurance and other	$31,449	$31,222
Finance and financial products	842	966
	$32,291	$32,188

Investments in foreign government securities include securities issued by national and provincial government entities as well as instruments that are unconditionally guaranteed by such entities. As of December 31, 2012, approximately 96% of foreign government holdings were rated AA or higher by at least one of the major rating agencies and securities issued or guaranteed by Germany, the United Kingdom, Canada, Australia and The Netherlands represented approximately 80% of these investments. Unrealized losses on all fixed maturity investments in a continuous unrealized loss position for more than twelve consecutive months were $9 million as of December 31, 2012 and $20 million as of December 31, 2011.

The amortized cost and estimated fair value of securities with fixed maturities at December 31, 2012 are summarized below 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.

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Mortgage-backed securities	Total
Amortized cost	$5,878	$13,851	$4,792	$2,464	$2,276	$29,261
Fair value	5,994	15,161	5,576	2,973	2,587	32,291

(4) Investments in equity securities

Investments in equity securities as of December 31, 2012 and 2011 are summarized based on the primary industry of the investee in the table below (in millions).

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2012				
Banks, insurance and finance	$18,600	$14,753	$ (2)	$33,351
Consumer products	7,546	14,917	—	22,463
Commercial, industrial and other	24,361	7,687	(200)	31,848
	$50,507	$37,357	$ (202)	$87,662
December 31, 2011				
Banks, insurance and finance	$16,697	$ 9,480	$(1,269)	$24,908
Consumer products	12,390	14,320	—	26,710
Commercial, industrial and other	20,523	4,973	(123)	25,373
	$49,610	$28,773	$(1,392)	$76,991

As of December 31, 2012 and 2011, we concluded that there were no unrealized losses that were other-than-temporary. Our conclusions were based on: (a) our ability and intent to hold the securities to recovery; (b) our assessment that the underlying business and financial condition of each of these issuers was favorable; (c) our opinion that the relative price declines were not significant; and (d) our belief that it was reasonably possible that market prices will increase to and exceed our cost in a relatively short period of time. As of December 31, 2012, unrealized losses on equity securities in a continuous unrealized loss position for more than twelve consecutive months were $45 million. There were none as of December 31, 2011.

(4) Investments in equity securities *(Continued)*

Investments in equity securities are reflected in our Consolidated Balance Sheets as follows (in millions).

	December 31, 2012	December 31, 2011
Insurance and other	$86,467	$76,063
Railroad, utilities and energy *	675	488
Finance and financial products *	520	440
	$87,662	$76,991

* *Included in other assets.*

(5) Other investments

Other investments include fixed maturity and equity securities of The Goldman Sachs Group, Inc. ("GS"), General Electric Company ("GE"), Wm. Wrigley Jr. Company ("Wrigley"), The Dow Chemical Company ("Dow") and Bank of America Corporation ("BAC"). A summary of other investments follows (in millions).

	Cost	Net Unrealized Gains	Fair Value	Carrying Value
December 31, 2012				
Other fixed maturity and equity securities:				
Insurance and other	$13,109	$3,823	$16,932	$16,057
Finance and financial products	3,148	1,804	4,952	4,952
	$16,257	$5,627	$21,884	$21,009
December 31, 2011				
Other fixed maturity and equity securities:				
Insurance and other	$13,051	$1,055	$14,106	$13,111
Finance and financial products	3,198	623	3,821	3,810
	$16,249	$1,678	$17,927	$16,921

In 2008, we acquired 50,000 shares of 10% Cumulative Perpetual Preferred Stock of GS ("GS Preferred") and warrants to purchase 43,478,260 shares of common stock of GS ("GS Warrants") for a combined cost of $5 billion. The GS Preferred was redeemable at any time by GS at a price of $110,000 per share ($5.5 billion in aggregate). On April 18, 2011, GS fully redeemed our GS Preferred investment. We continue to hold the GS Warrants, which expire on October 1, 2013. The GS Warrants are exercisable for an aggregate cost of $5 billion ($115/share).

In 2008, we acquired 30,000 shares of 10% Cumulative Perpetual Preferred Stock of GE ("GE Preferred") and warrants to purchase 134,831,460 shares of common stock of GE ("GE Warrants") for a combined cost of $3 billion. The GE Preferred was redeemable by GE beginning in October 2011 at a price of $110,000 per share ($3.3 billion in aggregate). On October 17, 2011, GE fully redeemed our GE Preferred investment. We continue to hold the GE Warrants, which expire on October 16, 2013. The GE Warrants are exercisable for an aggregate cost of $3 billion ($22.25/share).

In 2008, we acquired $4.4 billion par amount of 11.45% Wrigley subordinated notes maturing in 2018 and $2.1 billion of 5% Wrigley preferred stock. The subordinated notes may be called prior to maturity at par plus the prepayment premium applicable at that time. In 2009, we also acquired $1.0 billion par amount of Wrigley senior notes maturing in 2013 and 2014. We currently own $800 million of the Wrigley senior notes and an unconsolidated joint venture in which we hold a 50% economic interest owns $200 million. The Wrigley subordinated and senior notes are classified as held-to-maturity and we carry these investments at cost, adjusted for foreign currency exchange rate changes that apply to certain of the senior notes. The Wrigley preferred stock is classified as available-for-sale and recorded in our financial statements at fair value.

(5) Other investments *(Continued)*

In 2009, we acquired 3,000,000 shares of Series A Cumulative Convertible Perpetual Preferred Stock of Dow ("Dow Preferred") for a cost of $3 billion. Under certain conditions, we can convert each share of the Dow Preferred into 24.201 shares of Dow common stock (equivalent to a conversion price of $41.32 per share). Beginning in April 2014, if Dow's common stock price exceeds $53.72 per share for any 20 trading days in a consecutive 30-day window, Dow, at its option, at any time, in whole or in part, may convert the Dow Preferred into Dow common stock at the then applicable conversion rate. The Dow Preferred is entitled to dividends at a rate of 8.5% per annum.

On September 1, 2011, we acquired 50,000 shares of 6% Cumulative Perpetual Preferred Stock of BAC ("BAC Preferred") and warrants to purchase 700,000,000 shares of common stock of BAC ("BAC Warrants") for a combined cost of $5 billion. The BAC Preferred is redeemable at any time by BAC at a price of $105,000 per share ($5.25 billion in aggregate). The BAC Warrants expire in 2021 and are exercisable for an additional aggregate cost of $5 billion ($7.142857/share).

(6) Investment gains/losses and other-than-temporary investment losses

Investment gains/losses for each of the three years ending December 31, 2012 are summarized below (in millions).

	2012	2011	2010
Fixed maturity securities —			
Gross gains from sales and other disposals	$ 188	$ 310	$ 720
Gross losses from sales and other disposals	(354)	(10)	(16)
Equity securities and other investments —			
Gross gains from sales and other disposals	1,468	1,889	2,603
Gross losses from sales and other disposals	(12)	(36)	(266)
Other	509	29	1,017
	$1,799	$2,182	$4,058

Investment gains/losses for each of the three years ending December 31, 2012 are reflected in our Consolidated Statements of Earnings as follows (in millions).

	2012	2011	2010
Insurance and other	$1,327	$1,973	$4,044
Finance and financial products	472	209	14
	$1,799	$2,182	$4,058

Investment gains from equity securities and other investments in 2011 included $1,775 million with respect to the redemptions of our GS and GE Preferred investments and $1.3 billion in 2010 from the redemption of the Swiss Re perpetual capital instrument. In 2010, other gains included a one-time holding gain of $979 million related to our BNSF acquisition.

Other-than-temporary investment ("OTTI") losses for each of the three years ending December 31, 2012 were as follows (in millions).

	2012	2011	2010
Equity securities	$—	$506	$ 953
Fixed maturity securities	337	402	1,020
	$337	$908	$1,973

We record investments in equity and fixed maturity securities classified as available-for-sale at fair value and record the difference between fair value and cost in other comprehensive income. OTTI losses recognized in earnings represent reductions in the cost basis of the investment, but not the fair value. Accordingly, such losses that are included in earnings are generally offset by a corresponding credit to other comprehensive income and therefore have no net effect on shareholders' equity as of the balance sheet date.

(6) Investment gains/losses and other-than-temporary investment losses *(Continued)*

In 2012, we recorded OTTI losses of $337 million on bonds issued by Texas Competitive Electric Holdings (“TCEH”). In addition, substantially all of the OTTI losses on fixed maturity securities in 2011 and 2010 were related to TCEH. In recognizing the OTTI losses related to our TCEH investments, we concluded that we were unlikely to receive all remaining contractual principal and interest payments when due.

In 2011, OTTI losses included $337 million with respect to 103.6 million shares of our investment in Wells Fargo & Company (“Wells Fargo”) common stock. These shares had an aggregate original cost of $3,621 million. On March 31, 2011, when we recorded the losses, we also held an additional 255.4 million shares of Wells Fargo which were acquired at an aggregate cost of $4,394 million and which had unrealized gains of $3,704 million. Due to the length of time that certain of these shares were in a continuous unrealized loss position and because we account for realized gains and losses from dispositions on a specific identification basis, accounting regulations required us to record the unrealized losses in earnings. However, the unrealized gains were not reflected in earnings but were instead recorded directly in shareholders’ equity as a component of accumulated other comprehensive income. In 2010, we recorded OTTI losses of $953 million related to equity securities. The OTTI losses averaged about 20% of the original cost of the securities.

(7) Receivables

Receivables of insurance and other businesses are comprised of the following (in millions).

	December 31,	
	2012	2011
Insurance premiums receivable	$ 7,845	$ 6,663
Reinsurance recoverable on unpaid losses	2,925	2,953
Trade and other receivables	11,369	9,772
Allowances for uncollectible accounts	(386)	(376)
	$21,753	$19,012

Loans and finance receivables of finance and financial products businesses are comprised of the following (in millions).

	December 31,	
	2012	2011
Consumer installment loans and finance receivables	$12,701	$13,463
Commercial loans and finance receivables	469	860
Allowances for uncollectible loans	(361)	(389)
	$12,809	$13,934

Allowances for uncollectible loans predominantly relate to consumer installment loans. Provisions for consumer loan losses were $312 million in 2012 and $337 million in 2011. Loan charge-offs, net of recoveries, were $339 million in 2012 and $321 million in 2011. Consumer loan amounts are net of unamortized acquisition discounts of $459 million at December 31, 2012 and $500 million at December 31, 2011. At December 31, 2012, approximately 97% of consumer installment loan balances were evaluated collectively for impairment, whereas about 64% of commercial loan balances were evaluated individually for impairment. As a part of the evaluation process, credit quality indicators are reviewed and loans are designated as performing or non-performing. At December 31, 2012, approximately 98% of consumer installment and commercial loan balances were determined to be performing and approximately 93% of those balances were current as to payment status.

(8) Inventories

Inventories are comprised of the following (in millions).

	December 31, 2012	December 31, 2011
Raw materials	$1,699	$1,598
Work in process and other	883	897
Finished manufactured goods	3,187	3,114
Goods acquired for resale	3,906	3,366
	$9,675	$8,975

(9) Goodwill and other intangible assets

A reconciliation of the change in the carrying value of goodwill is as follows (in millions).

	December 31, 2012	December 31, 2011
Balance at beginning of year	$53,213	$49,006
Acquisitions of businesses	1,442	4,179
Other, including foreign currency translation	(132)	28
Balance at end of year	$54,523	$53,213

Intangible assets other than goodwill are included in other assets and are summarized by type as follows (in millions).

	December 31, 2012		December 31, 2011	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Insurance and other	$11,737	$2,994	$11,016	$2,319
Railroad, utilities and energy	2,163	913	2,088	623
	$13,900	$3,907	$13,104	$2,942
Trademarks and trade names	$ 2,819	$ 278	$ 2,655	$ 219
Patents and technology	5,014	2,059	4,900	1,496
Customer relationships	4,565	1,155	4,060	840
Other	1,502	415	1,489	387
	$13,900	$3,907	$13,104	$2,942

Intangible assets with definite lives are amortized based on the estimated pattern in which the economic benefits are expected to be consumed or on a straight-line basis over their estimated economic lives. Amortization expense was $1,008 million in 2012, $809 million in 2011 and $692 million in 2010. Estimated amortization expense over the next five years is as follows (in millions): 2013 – $1,190; 2014 – $1,076; 2015 – $733; 2016 – $639 and 2017 – $539. Intangible assets with indefinite lives as of December 31, 2012 and 2011 were $2,328 million and $2,250 million, respectively. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

(10) Property, plant and equipment

Property, plant and equipment of our insurance and other businesses is comprised of the following (in millions).

	Ranges of estimated useful life	December 31, 2012	December 31, 2011
Land	—	$ 1,048	$ 940
Buildings and improvements	2 – 40 years	6,074	5,429
Machinery and equipment	3 – 20 years	15,436	13,589
Furniture, fixtures and other	2 – 20 years	2,736	2,397
Assets held for lease	12 – 30 years	6,731	5,997
		32,025	28,352
Accumulated depreciation		(12,837)	(10,175)
		$ 19,188	$ 18,177

Assets held for lease consist primarily of railroad tank cars, intermodal tank containers and other equipment in the transportation and equipment services businesses. As of December 31, 2012, the minimum future lease rentals to be received on the equipment lease fleet (including rail cars leased from others) were as follows (in millions): 2013 – $730; 2014 – $574; 2015 – $436; 2016 – $314; 2017 – $193; and thereafter – $245.

Property, plant and equipment of our railroad and our utilities and energy businesses is comprised of the following (in millions).

	Ranges of estimated useful life	December 31, 2012	December 31, 2011
Railroad:			
Land	—	$ 5,950	$ 5,925
Track structure and other roadway	5 – 100 years	38,255	36,760
Locomotives, freight cars and other equipment	5 – 37 years	6,528	5,533
Construction in progress	—	963	885
Utilities and energy:			
Utility generation, distribution and transmission system	5 – 80 years	42,682	40,180
Interstate pipeline assets	3 – 80 years	6,354	6,245
Independent power plants and other assets	3 – 30 years	1,860	1,106
Construction in progress	—	2,647	1,559
		105,239	98,193
Accumulated depreciation		(17,555)	(15,979)
		$ 87,684	$ 82,214

Railroad property, plant and equipment includes the land, other roadway, track structure and rolling stock (primarily locomotives and freight cars) of BNSF. The utility generation, distribution and transmission system and interstate pipeline assets are the regulated assets of public utility and natural gas pipeline subsidiaries.

(11) Derivative contracts

Derivative contracts are used primarily in our finance and financial products and energy businesses. Substantially all of the derivative contracts of our finance and financial products businesses are not designated as hedges for financial reporting purposes. Changes in the fair values of such contracts are reported in earnings as derivative gains/losses. We entered into these

(11) Derivative contracts *(Continued)*

contracts with the expectation that the premiums received would exceed the amounts ultimately paid to counterparties. A summary of derivative contracts of our finance and financial products businesses follows (in millions).

	December 31, 2012			December 31, 2011		
	Assets [3]	Liabilities	Notional Value	Assets [3]	Liabilities	Notional Value
Equity index put options	$—	$7,502	$33,357[1]	$—	$ 8,499	$34,014[1]
Credit default	41	429	11,691[2]	55	1,527	24,194[2]
Other, principally interest rate and foreign currency	130	2		268	156	
Counterparty netting	—	—		(67)	(43)	
	$171	$7,933		$256	$10,139	

[1] *Represents the aggregate undiscounted amount payable at the contract expiration dates assuming that the value of each index is zero at the contract expiration date.*

[2] *Represents the maximum undiscounted future value of losses payable under the contracts, if all underlying issuers default and the residual value of the obligations is zero.*

[3] *Included in other assets of finance and financial products businesses.*

Derivative gains/losses of our finance and financial products businesses included in our Consolidated Statements of Earnings for each of the three years ending December 31, 2012 were as follows (in millions).

	2012	2011	2010
Equity index put options	$ 997	$(1,787)	$ 172
Credit default	894	(251)	250
Other, principally interest rate and foreign currency	72	(66)	(161)
	$1,963	$(2,104)	$ 261

The equity index put option contracts are European style options written on four major equity indexes. Future payments, if any, under these contracts will be required if the underlying index value is below the strike price at the contract expiration dates. We received the premiums on these contracts in full at the contract inception dates and therefore have no counterparty credit risk. We have written no new contracts since February 2008.

At December 31, 2012, the aggregate intrinsic value (which is the undiscounted liability assuming the contracts are settled on their future expiration dates based on the December 31, 2012 index values and foreign currency exchange rates) was approximately $3.9 billion. At December 31, 2011, the aggregate intrinsic value of these contracts, assuming the contracts were settled on that date, was approximately $6.2 billion. However, these contracts may not be unilaterally terminated or fully settled before the expiration dates which occur between June 2018 and January 2026. Therefore, the ultimate amount of cash basis gains or losses on these contracts will not be determined for many years. The remaining weighted average life of all contracts was approximately 8 years at December 31, 2012.

Our credit default contracts were written on various indexes of non-investment grade (or "high yield") corporate issuers, as well as investment grade corporate and state/municipal debt issuers. These contracts cover the loss in value of specified debt obligations of the issuers arising from default events, which are usually from their failure to make payments or bankruptcy. Loss amounts are subject to contract limits. We have written no new contracts since February 2009.

At December 31, 2012, state/municipality credit contract exposures relate to more than 500 debt issues with maturities ranging from 2019 to 2054. The aggregate notional value of these issues is approximately $7.8 billion and the debt issues have a weighted average maturity of approximately 19 years. Pursuant to the contract terms, future loss payments, if any, cannot be settled before the maturity dates of the underlying obligations. In August 2012, state/municipality credit contracts with notional values of $8.25 billion were terminated. We have no further obligations with respect to the terminated contracts.

(11) Derivative contracts *(Continued)*

Individual investment grade and high-yield corporate contracts in-force as of December 31, 2012 had an aggregate notional value of approximately $3.9 billion. All of these contracts will expire in 2013. Premiums under individual corporate credit default contracts are, generally, due from counterparties on a quarterly basis over the terms of the contracts. Otherwise, we have no counterparty credit risk under our credit default contracts because all premiums were received at the inception of the contracts.

With limited exceptions, our equity index put option and credit default contracts contain no collateral posting requirements with respect to changes in the fair value or intrinsic value of the contracts and/or a downgrade of Berkshire's credit ratings. As of December 31, 2012, our collateral posting requirement under contracts with collateral provisions was $40 million compared to $238 million at December 31, 2011. If Berkshire's credit ratings (currently AA+ from Standard & Poor's and Aa2 from Moody's) are downgraded below either A- by Standard & Poor's or A3 by Moody's, additional collateral of up to $1.1 billion could be required to be posted.

Our regulated utility subsidiaries are exposed to variations in the prices of fuel required to generate electricity, wholesale electricity purchased and sold and natural gas supplied for customers. Derivative instruments, including forward purchases and sales, futures, swaps and options, are used to manage a portion of these price risks. Derivative contract assets are included in other assets of railroad, utilities and energy businesses and were $49 million and $71 million as of December 31, 2012 and December 31, 2011, respectively. Derivative contract liabilities are included in accounts payable, accruals and other liabilities of railroad, utilities and energy businesses and were $234 million and $336 million as of December 31, 2012 and December 31, 2011, respectively. Unrealized gains and losses under the contracts of our regulated utilities that are probable of recovery through rates are recorded as regulatory assets or liabilities. Unrealized gains or losses on contracts accounted for as cash flow or fair value hedges are recorded in accumulated other comprehensive income or in net earnings, as appropriate.

(12) Supplemental cash flow information

A summary of supplemental cash flow information for each of the three years ending December 31, 2012 is presented in the following table (in millions).

	2012	2011	2010
Cash paid during the period for:			
Income taxes	$4,695	$2,885	$ 3,547
Interest:			
Insurance and other businesses	352	243	185
Railroad and utilities and energy businesses	1,829	1,821	1,667
Finance and financial products businesses	620	662	708
Non-cash investing and financing activities:			
Liabilities assumed in connection with business acquisitions	1,751	5,836	31,406
Common stock issued in the acquisition of BNSF	—	—	10,577
Common stock issued in the acquisition of noncontrolling interests in Wesco Financial Corporation	—	245	—
Borrowings assumed in connection with certain property, plant and equipment additions	406	647	—

(13) Unpaid losses and loss adjustment expenses

The liabilities for unpaid losses and loss adjustment expenses are based upon estimates of the ultimate claim costs associated with property and casualty 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. A

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

reconciliation of the changes in liabilities for unpaid losses and loss adjustment expenses of our property/casualty insurance subsidiaries for each of the three years ending December 31, 2012 is as follows (in millions).

	2012	2011	2010
Unpaid losses and loss adjustment expenses:			
Gross liabilities at beginning of year	$ 63,819	$ 60,075	$ 59,416
Ceded losses and deferred charges at beginning of year	(7,092)	(6,545)	(6,879)
Net balance at beginning of year	56,727	53,530	52,537
Incurred losses recorded during the year:			
Current accident year	22,239	23,031	20,357
Prior accident years	(2,126)	(2,202)	(2,270)
Total incurred losses	20,113	20,829	18,087
Payments during the year with respect to:			
Current accident year	(9,667)	(9,269)	(7,666)
Prior accident years	(10,628)	(8,854)	(9,191)
Total payments	(20,295)	(18,123)	(16,857)
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	56,545	56,236	53,767
Ceded losses and deferred charges at end of year	6,944	7,092	6,545
Foreign currency translation adjustment	186	(100)	(312)
Business acquisitions	485	591	75
Gross liabilities at end of year	$ 64,160	$ 63,819	$ 60,075

Incurred losses recorded during the current year but attributable to a prior accident year ("prior accident years") reflects the amount of estimation error charged or credited to earnings in each calendar year with respect to the liabilities established as of the beginning of that year. We reduced the beginning of the year net losses and loss adjustment expenses liability by $2,507 million in 2012, $2,780 million in 2011 and $2,793 million in 2010, which excludes the effects of the changes in reserve discount and deferred charge balances referred to below. In each of the past three years, the reductions reflected lower than expected private passenger auto, medical malpractice and casualty reinsurance losses. In 2011, we also recorded a sizable reduction in unpaid losses associated with retroactive reinsurance contracts. Accident year loss estimates are regularly adjusted to consider emerging loss development patterns of prior years' losses, whether favorable or unfavorable.

Incurred losses for prior accident years also include charges associated with the changes in deferred charge balances related to retroactive reinsurance contracts incepting prior to the beginning of the year and net discounts recorded on liabilities for certain workers' compensation claims. The aggregate charges included in prior accident years' incurred losses were $381 million in 2012, $578 million in 2011 and $523 million in 2010. Net discounted workers' compensation liabilities at December 31, 2012 and 2011 were $2,155 million and $2,250 million, respectively, reflecting net discounts of $1,990 million and $2,130 million, respectively.

We are exposed to environmental, asbestos and other latent injury claims arising from insurance and reinsurance contracts. Liability estimates for environmental and asbestos exposures include case basis reserves and also reflect reserves for legal and other loss adjustment expenses and IBNR reserves. IBNR reserves are determined based upon our historic general liability exposure base and policy language, previous environmental 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 $14.0 billion at December 31, 2012 and $13.9 billion at December 31, 2011. These liabilities included approximately $12.4 billion at December 31, 2012 and $12.3 billion at December 31, 2011 of liabilities assumed under retroactive reinsurance contracts. Liabilities arising from retroactive contracts with exposure to claims of this nature are generally subject to aggregate policy limits. Thus, our exposure to environmental and latent injury claims under these contracts is, likewise, limited. We monitor evolving case law and its effect on environmental and latent injury claims. Changing

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

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 our results of operations. We are unable to reliably estimate the amount of additional net loss or the range of net loss that is reasonably possible.

(14) Notes payable and other borrowings

Notes payable and other borrowings are summarized below (in millions). The weighted average interest rates and maturity date ranges shown in the following tables are based on borrowings as of December 31, 2012.

	Weighted Average Interest Rate	December 31, 2012	December 31, 2011
Insurance and other:			
Issued by Berkshire due 2013-2047	2.3%	$ 8,323	$ 8,287
Short-term subsidiary borrowings	0.4%	1,416	1,490
Other subsidiary borrowings due 2013-2035	5.9%	3,796	3,991
		$13,535	$13,768

In January 2012, Berkshire issued $1.1 billion of 1.9% senior notes due in 2017 and $600 million of 3.4% senior notes due in 2022 and in February 2012 repaid maturing debt of $1.7 billion. In January 2013, Berkshire issued $2.6 billion of senior notes with interest rates ranging from 0.8% to 4.5% and maturities that range from 2016 to 2043. In February 2013, Berkshire repaid $2.6 billion of maturing senior notes.

	Weighted Average Interest Rate	December 31, 2012	December 31, 2011
Railroad, utilities and energy:			
Issued by MidAmerican Energy Holdings Company ("MidAmerican") and its subsidiaries:			
MidAmerican senior unsecured debt due 2014-2037	6.3%	$ 4,621	$ 5,363
Subsidiary and other debt due 2013-2042	4.9%	17,002	14,552
Issued by BNSF due 2013-2097	5.5%	14,533	12,665
		$36,156	$32,580

MidAmerican subsidiary debt represents amounts issued pursuant to separate financing agreements. All, or substantially all, of the assets of certain MidAmerican subsidiaries are, or may be, pledged or encumbered to support or otherwise secure the debt. These borrowing arrangements generally contain various covenants including, but not limited to, leverage ratios, interest coverage ratios and debt service coverage ratios. In 2012, MidAmerican and subsidiaries issued or acquired approximately $3.1 billion of new term debt with interest rates from 1.43% to 5.75% and maturities ranging from 2013 to 2042 and repaid existing term debt of approximately $1.6 billion. In March and August 2012, BNSF issued $2.5 billion in new debentures in the aggregate with interest rates ranging from 3.05% to 4.4% and maturities ranging from 2022 to 2042. In 2012, BNSF repaid approximately $500 million of existing term debt. BNSF's borrowings are primarily unsecured. As of December 31, 2012, BNSF and MidAmerican and their subsidiaries were in compliance with all applicable covenants. Berkshire does not guarantee any debt or other borrowings of BNSF, MidAmerican or their subsidiaries.

	Weighted Average Interest Rate	December 31, 2012	December 31, 2011
Finance and financial products:			
Issued by Berkshire Hathaway Finance Corporation ("BHFC") due 2013-2042	4.1%	$11,186	$11,531
Issued by other subsidiaries due 2013-2036	5.0%	1,859	2,505
		$13,045	$14,036

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

The borrowings of BHFC, a wholly owned finance subsidiary of Berkshire, are fully and unconditionally guaranteed by Berkshire. In May and September 2012, BHFC issued in the aggregate $2.35 billion of senior notes with interest rates ranging from 1.6% to 4.4% and maturities ranging from 2017 to 2042. In 2012, BHFC repaid $2.7 billion of maturing senior notes. In January 2013, BHFC issued $500 million of new senior notes and repaid $500 million of maturing senior notes.

Certain of our subsidiaries have approximately $4.1 billion in the aggregate of unused lines of credit and commercial paper capacity at December 31, 2012, to support short-term borrowing programs and provide additional liquidity. In addition to borrowings of BHFC, Berkshire guarantees approximately $4 billion of other subsidiary borrowings as of December 31, 2012. Generally, Berkshire's guarantee of a subsidiary's debt obligation is an absolute, unconditional and irrevocable guarantee for the full and prompt payment when due of all present and future payment obligations.

Principal repayments expected during each of the next five years are as follows (in millions).

	2013	2014	2015	2016	2017
Insurance and other	$ 4,160	$1,341	$1,981	$ 875	$1,418
Railroad, utilities and energy	2,477	1,638	1,190	751	1,176
Finance and financial products	3,874	1,301	1,625	155	1,558
	$10,511	$4,280	$4,796	$1,781	$4,152

(15) Income taxes

The liabilities for income taxes reflected in our Consolidated Balance Sheets are as follows (in millions).

	December 31,	
	2012	2011
Currently payable (receivable)	$ (255)	$ (229)
Deferred	43,883	37,105
Other	866	928
	$44,494	$37,804

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

	December 31,	
	2012	2011
Deferred tax liabilities:		
Investments – unrealized appreciation and cost basis differences	$16,075	$ 11,404
Deferred charges reinsurance assumed	1,392	1,449
Property, plant and equipment	29,715	28,414
Other	6,485	6,378
	53,667	47,645
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(924)	(967)
Unearned premiums	(660)	(572)
Accrued liabilities	(3,466)	(3,698)
Derivative contract liabilities	(1,131)	(1,676)
Other	(3,603)	(3,627)
	(9,784)	(10,540)
Net deferred tax liability	$43,883	$ 37,105

(15) Income taxes *(Continued)*

We have not established deferred income taxes with respect to undistributed earnings of certain foreign subsidiaries. Earnings expected to remain reinvested indefinitely were approximately $7.9 billion as of December 31, 2012. Upon distribution as dividends or otherwise, such amounts would be subject to taxation in the U.S. as well as foreign countries. However, U.S. income tax liabilities would be offset, in whole or in part, by allowable tax credits deriving from income taxes previously paid to foreign jurisdictions. Further, repatriation of all earnings of foreign subsidiaries would be impracticable to the extent that such earnings represent capital needed to support normal business operations in those jurisdictions. As a result, we currently believe that any incremental U.S. income tax liabilities arising from the repatriation of distributable earnings of foreign subsidiaries would not be material.

Income tax expense reflected in our Consolidated Statements of Earnings for each of the three years ending December 31, 2012 is as follows (in millions).

	2012	2011	2010
Federal	$5,695	$3,474	$4,546
State	384	444	337
Foreign	845	650	724
	$6,924	$4,568	$5,607
Current	$4,711	$2,897	$3,668
Deferred	2,213	1,671	1,939
	$6,924	$4,568	$5,607

Income tax expense is reconciled to hypothetical amounts computed at the U.S. federal statutory rate for each of the three years ending December 31, 2012 in the table below (in millions).

	2012	2011	2010
Earnings before income taxes	$22,236	$15,314	$19,051
Hypothetical amounts applicable to above computed at the federal statutory rate	$ 7,783	$ 5,360	$ 6,668
Dividends received deduction and tax exempt interest	(518)	(497)	(504)
State income taxes, less federal income tax benefit	250	289	219
Foreign tax rate differences	(280)	(208)	(154)
U.S. income tax credits	(319)	(241)	(182)
BNSF holding gain	—	—	(342)
Other differences, net	8	(135)	(98)
	$ 6,924	$ 4,568	$ 5,607

We file income tax returns in the United States and in state, local and foreign jurisdictions. We are under examination by the taxing authorities in many of these jurisdictions. We have settled tax return liabilities with U.S. federal taxing authorities for years before 2005. During 2012, Berkshire and the U.S. Internal Revenue Service ("IRS") tentatively resolved all proposed adjustments for the 2005 through 2009 tax years at the IRS Appeals level. In 2012, the IRS commenced auditing Berkshire's consolidated U.S. federal income tax returns for the 2010 and 2011 tax years. We are also under audit or subject to audit with respect to income taxes in many state and foreign jurisdictions. It is reasonably possible that certain of our income tax examinations will be settled within the next twelve months. We currently do not believe that the outcome of unresolved issues or claims is likely to be material to our Consolidated Financial Statements.

At December 31, 2012 and 2011, net unrecognized tax benefits were $866 million and $928 million, respectively. Included in the balance at December 31, 2012, are $616 million of tax positions that, if recognized, would impact the effective tax rate. The remaining balance in net unrecognized tax benefits principally relates to tax positions for which the ultimate recognition is highly certain but for which there is uncertainty about the timing of such recognition. Because of the impact of deferred tax accounting, other than interest and penalties, the difference in recognition period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. As of December 31, 2012, we do not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months.

(16) Dividend restrictions – Insurance subsidiaries

Payments of dividends by our insurance subsidiaries are restricted by insurance statutes and regulations. Without prior regulatory approval, our principal insurance subsidiaries may declare up to approximately $10.6 billion as ordinary dividends before the end of 2013.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $106 billion at December 31, 2012 and $95 billion at December 31, 2011. Statutory surplus differs from the corresponding amount determined on the basis of GAAP due to differences in accounting for certain assets and liabilities. For instance, deferred charges reinsurance assumed, deferred policy acquisition costs, certain unrealized gains and losses on investments in fixed maturity securities and related deferred income taxes are recognized for GAAP but not for statutory reporting purposes. In addition, under statutory reporting, goodwill is amortized over 10 years, whereas under GAAP, goodwill is not amortized and is subject to periodic tests for impairment.

(17) Fair value measurements

Our financial assets and liabilities are summarized below according to the fair value hierarchy. The carrying values of cash and cash equivalents, accounts receivable and accounts payable, accruals and other liabilities are considered to be reasonable estimates of their fair values. As of December 31, 2012 and 2011, the carrying values and fair values of financial assets and liabilities were as follows (in millions).

	Carrying Value	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012—Assets and liabilities carried at fair value:					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	$ 2,775	$ 2,775	$ 1,225	$ 1,549	$ 1
States, municipalities and political subdivisions	2,913	2,913	—	2,912	1
Foreign governments	11,355	11,355	4,571	6,784	—
Corporate bonds	12,661	12,661	—	12,011	650
Mortgage-backed securities	2,587	2,587	—	2,587	—
Investments in equity securities	87,662	87,662	87,563	64	35
Other investments	15,750	15,750	—	—	15,750
Derivative contract assets (1)	220	220	1	128	91
Derivative contract liabilities:					
Railroad, utilities and energy (2)	234	234	10	217	7
Finance and financial products:					
Equity index put options	7,502	7,502	—	—	7,502
Credit default	429	429	—	—	429
Other	2	2	—	2	—
December 31, 2012—Assets and liabilities not carried at fair value:					
Other investments	$ 5,259	$ 6,134	$ —	$ —	$ 6,134
Loans and finance receivables	12,809	11,991	—	304	11,687
Notes payable and other borrowings:					
Insurance and other	13,535	14,284	—	14,284	—
Railroad, utilities and energy	36,156	42,074	—	42,074	—
Finance and financial products	13,045	14,005	—	13,194	811

(17) Fair value measurements *(Continued)*

	Carrying Value	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011—Assets and liabilities carried at fair value:					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	$ 2,935	$ 2,935	$ 843	$ 2,090	$ 2
States, municipalities and political subdivisions	3,070	3,070	—	3,069	1
Foreign governments	10,843	10,843	4,444	6,265	134
Corporate bonds	12,448	12,448	—	11,801	647
Mortgage-backed securities	2,892	2,892	—	2,892	—
Investments in equity securities	76,991	76,991	76,906	63	22
Other investments	11,669	11,669	—	—	11,669
Derivative contract assets [(1)]	327	327	—	205	122
Derivative contract liabilities:					
Railroad, utilities and energy [(2)]	336	336	12	320	4
Finance and financial products:					
Equity index put options	8,499	8,499	—	—	8,499
Credit default	1,527	1,527	—	—	1,527
Other	113	113	—	113	—

(1) *Included in other assets.*

(2) *Included in accounts payable, accruals and other liabilities.*

As of December 31, 2011, the carrying values and fair values of financial assets and liabilities that are not carried at fair value were as follows (in millions).

	Carrying Value	Fair Value
Other investments	$ 5,252	$ 6,258
Loans and finance receivables	13,934	13,126
Notes payable and other borrowings:		
Insurance and other	13,768	14,334
Railroad, utilities and energy	32,580	38,257
Finance and financial products	14,036	14,959

The fair values of substantially all of our financial instruments were measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of alternative market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets. Substantially all of our investments in equity securities are traded on an exchange in active markets and fair values are based on the closing prices as of the balance sheet date.

Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that may be considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values of investments in fixed maturity securities and notes payable and other borrowings are primarily based on price

(17) Fair value measurements *(Continued)*

evaluations which incorporate market prices for identical instruments in inactive markets and market data available for instruments with similar characteristics. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit rating, estimated duration and yields for other instruments of the issuer or entities in the same industry sector.

Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities and we may be unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. Fair value measurements of non-exchange traded derivative contracts and certain other investments are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants.

Reconciliations of assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) for each of the three years ending December 31, 2012 follow (in millions).

	Investments in fixed maturity securities	Investments in equity securities	Other investments	Net derivative contract liabilities
Balance at December 31, 2009	$ 918	$ 304	$20,614	$(9,196)
Gains (losses) included in:				
Earnings	—	—	1,305	471
Other comprehensive income	16	(8)	(358)	—
Regulatory assets and liabilities	—	—	—	(33)
Acquisitions, dispositions and settlements	9	(1)	(3,972)	533
Transfers into (out of) Level 3	(142)	(260)	—	3
Balance at December 31, 2010	801	35	17,589	(8,222)
Gains (losses) included in:				
Earnings	—	—	—	(2,035)
Other comprehensive income	5	(13)	(2,120)	(3)
Regulatory assets and liabilities	—	—	—	144
Acquisitions	17	—	5,000	(68)
Dispositions	(39)	—	—	—
Settlements, net	—	—	—	275
Transfers into (out of) Level 3	—	—	(8,800)	1
Balance at December 31, 2011	784	22	11,669	(9,908)
Gains (losses) included in:				
Earnings	—	—	—	1,873
Other comprehensive income	5	13	4,081	—
Regulatory assets and liabilities	—	—	—	(2)
Dispositions	(8)	—	—	—
Settlements, net	—	—	—	190
Transfers out of Level 3	(129)	—	—	—
Balance at December 31, 2012	$ 652	$ 35	$15,750	$(7,847)

During 2011, we transferred our investments in GS Preferred Stock and GE Preferred Stock from Level 3 to Level 2 given the then pending redemptions of the investments which occurred on April 18, 2011 and October 17, 2011, respectively. On September 1, 2011, we acquired preferred stock and common stock warrants of the Bank of America Corporation at an aggregate cost of $5 billion.

Gains and losses included in earnings are included as components of investment gains/losses, derivative gains/losses and other revenues, as appropriate and are related to changes in valuations of derivative contracts and settlement transactions. Gains and losses included in other comprehensive income are included as components of the net change in unrealized appreciation of

(17) Fair value measurements *(Continued)*

investments and the reclassification of investment appreciation in earnings, as appropriate in the Consolidated Statements of Comprehensive Income.

Quantitative information as of December 31, 2012, with respect to assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows (in millions).

	Fair value	Principal valuation techniques	Unobservable Input	Weighted Average
Other investments:				
Preferred stocks	$11,860	Discounted cash flow	Expected duration	10 years
			Discount for transferability restrictions and subordination	97 basis points
Common stock warrants	3,890	Warrant pricing model	Discount for transferability and hedging restrictions	19%
Net derivative liabilities:				
Equity index put options	7,502	Option pricing model	Volatility	21%
Credit default-states/municipalities	421	Discounted cash flow	Credit spreads	85 basis points

For certain credit default and other derivative contracts where we could not corroborate that the fair values or the inputs were observable in the market, fair values were based on non-binding price indications obtained from third party sources. Management reviewed these values relative to the terms of the contracts, the current facts, circumstances and market conditions, and concluded they were reasonable. We did not adjust these prices and therefore, they have been excluded from the preceding table.

Our other investments that are carried at fair value consist of a few relatively large private placement transactions and include perpetual preferred stocks and common stock warrants. These investments are subject to contractual restrictions on transferability and/or provisions that prevent us from economically hedging our investments. In applying discounted estimated cash flow techniques in valuing the perpetual preferred stocks, we made assumptions regarding the expected durations of the investments, as the issuers may have the right to redeem or convert these investments. We also made estimates regarding the impact of subordination, as the preferred stocks have a lower priority in liquidation than the investment grade debt instruments of the issuers, which affected the discount rates. In valuing the common stock warrants, we used a warrant valuation model. While most of the inputs to the model are observable, we are subject to the aforementioned contractual restrictions. We have applied discounts with respect to the contractual restrictions. Increases or decreases to these inputs would result in decreases or increases to the fair values.

Our equity index put option and credit default contracts are not exchange traded and certain contract terms are not standard in derivatives markets. For example, we are not required to post collateral under most of our contracts and many contracts have long durations, and therefore are illiquid. For these and other reasons, we classified these contracts as Level 3. The methods we use to value these contracts are those that we believe market participants would use in determining exchange prices with respect to our contracts.

We value equity index put option contracts based on the Black-Scholes option valuation model. Inputs to this model include current index price, contract duration, dividend and interest rate inputs (which include a Berkshire non-performance input) which are observable. However, the valuation of long-duration options is inherently subjective, given the lack of observable transactions and prices, and acceptable values may be subject to wide ranges. Expected volatility inputs represent our expectations after considering the remaining duration of each contract and that the contracts will remain outstanding until the expiration dates without offsetting transactions occurring in the interim. Increases or decreases in the volatility inputs will produce increases or decreases in the fair values.

Our state and municipality credit default contract values reflect credit spreads, contract durations, interest rates, bond prices and other inputs believed to be used by market participants in estimating fair value. We utilize discounted cash flow valuation models, which incorporate the aforementioned inputs as well as our own estimates of credit spreads for states and municipalities where there is no observable input. Increases or decreases to the credit spreads will produce increases or decreases in the fair values.

(18) Common stock

Changes in Berkshire's issued and outstanding common stock during the three years ending December 31, 2012 are shown in the table below.

	Class A, $5 Par Value (1,650,000 shares authorized)			Class B, $0.0033 Par Value (3,225,000,000 shares authorized)		
	Issued	Treasury	Outstanding	Issued	Treasury	Outstanding
Balance at December 31, 2009	1,055,281	—	1,055,281	744,701,300	—	744,701,300
Shares issued in the acquisition of BNSF	80,931	—	80,931	20,976,621	—	20,976,621
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(188,752)	—	(188,752)	285,312,547	—	285,312,547
Balance at December 31, 2010	947,460	—	947,460	1,050,990,468	—	1,050,990,468
Shares issued to acquire noncontrolling interests of Wesco Financial Corporation	—	—	—	3,253,472	—	3,253,472
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(9,118)	—	(9,118)	15,401,421	—	15,401,421
Treasury shares acquired	—	(98)	(98)	—	(801,985)	(801,985)
Balance at December 31, 2011	938,342	(98)	938,244	1,069,645,361	(801,985)	1,068,843,376
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(33,814)	—	(33,814)	53,748,595	—	53,748,595
Treasury shares acquired	—	(9,475)	(9,475)	—	(606,499)	(606,499)
Balance at December 31, 2012	904,528	(9,573)	894,955	1,123,393,956	(1,408,484)	1,121,985,472

Each Class A common share is entitled to one vote per share. Class B common stock possesses dividend and distribution rights equal to one-fifteen-hundredth (1/1,500) of such rights of Class A common stock. Each Class B common share possesses voting rights equivalent to one-ten-thousandth (1/10,000) of the voting rights of a Class A share. Unless otherwise required under Delaware General Corporation Law, Class A and Class B common shares vote as a single class. Each share of Class A common stock is convertible, at the option of the holder, into 1,500 shares of Class B common stock. Class B common stock is not convertible into Class A common stock. On an equivalent Class A common stock basis, there were 1,642,945 shares outstanding as of December 31, 2012 and 1,650,806 shares outstanding as of December 31, 2011. In addition to our common stock, 1,000,000 shares of preferred stock are authorized, but none are issued and outstanding.

In September 2011, Berkshire's Board of Directors ("Berkshire's Board") approved a common stock repurchase program under which Berkshire may repurchase its Class A and Class B shares at prices no higher than a 10% premium over the book value of the shares. In December 2012, Berkshire's Board amended the repurchase program by raising the price limit to no higher than a 20% premium over book value. Berkshire may repurchase shares in the open market or through privately negotiated transactions. Berkshire's Board authorization does not specify a maximum number of shares to be repurchased. However, repurchases will not be made if they would reduce Berkshire's consolidated cash equivalent holdings below $20 billion. The repurchase program is expected to continue indefinitely and the amount of repurchases will depend entirely upon the level of cash available, the attractiveness of investment and business opportunities either at hand or on the horizon, and the degree of discount of the market price relative to management's estimate of intrinsic value. The repurchase program does not obligate Berkshire to repurchase any dollar amount or number of Class A or Class B shares. In December 2012, Berkshire repurchased 9,475 Class A shares and 606,499 Class B shares for approximately $1.3 billion through a privately negotiated transaction and market purchases.

Notes to Consolidated Financial Statements *(Continued)*

(19) Accumulated other comprehensive income

A summary of the net changes in after-tax accumulated comprehensive income attributable to Berkshire Hathaway shareholders' for each of the three years ending December 31, 2012 follows (in millions).

	Unrealized appreciation of investments	Foreign currency translation	Prior service and actuarial gains/losses of defined benefit plans	Other	Accumulated other comprehensive income
Balance at December 31, 2009	$18,785	$ (30)	$ (824)	$(138)	$17,793
Other comprehensive income (loss)	2,838	(193)	(51)	195	2,789
Transactions with noncontrolling interests	15	(17)	22	(19)	1
Balance at December 31, 2010	21,638	(240)	(853)	38	20,583
Other comprehensive income (loss)	(2,144)	(144)	(720)	3	(3,005)
Transactions with noncontrolling interests	132	1	(16)	(41)	76
Balance at December 31, 2011	19,626	(383)	(1,589)	—	17,654
Other comprehensive income (loss)	9,647	267	(21)	(47)	9,846
Transactions with noncontrolling interests	(19)	(4)	9	14	—
Balance at December 31, 2012	$29,254	$(120)	$(1,601)	$ (33)	$27,500

(20) Pension plans

Several of our subsidiaries individually sponsor defined benefit pension plans covering certain 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. Our subsidiaries make contributions to the plans, generally, to meet regulatory requirements. Additional amounts may be contributed on a discretionary basis.

The components of net periodic pension expense for each of the three years ending December 31, 2012 are as follows (in millions).

	2012	2011	2010
Service cost	$ 247	$ 191	$ 165
Interest cost	583	568	543
Expected return on plan assets	(610)	(579)	(528)
Other, primarily amortization of actuarial losses	220	102	69
Net pension expense	$ 440	$ 282	$ 249

The accumulated benefit obligation is the actuarial present value of benefits earned based on service and compensation prior to the valuation date. As of December 31, 2012 and 2011, the accumulated benefit obligation was $12,915 million and $11,947 million, respectively. The projected benefit obligation ("PBO") is the actuarial present value of benefits earned based upon service and compensation prior to the valuation date and, if applicable, includes assumptions regarding future compensation levels. A reconciliation of the changes in the PBOs for each of the years ending December 31, 2012 and 2011 is shown in the table that follows (in millions).

	2012	2011
Projected benefit obligation, beginning of year	$12,992	$10,598
Service cost	247	191
Interest cost	583	568
Benefits paid	(879)	(579)
Business acquisitions	8	1,017
Actuarial (gains) or losses and other	1,122	1,197
Projected benefit obligation, end of year	$14,073	$12,992

(20) Pension plans *(Continued)*

Benefit obligations under qualified U.S. defined benefit pension plans are funded through assets held in trusts. Pension obligations under certain non-U.S. plans and non-qualified U.S. plans are unfunded. As of December 31, 2012, PBOs of non-qualified U.S. plans and non-U.S. plans which are not funded through assets held in trusts were $1,048 million. A reconciliation of the changes in assets of all plans for each of the years ending December 31, 2012 and 2011 is presented in the table that follows (in millions).

	2012	2011
Plan assets at beginning of year	$ 9,150	$8,246
Employer contributions	649	523
Benefits paid	(879)	(579)
Actual return on plan assets	1,429	361
Business acquisitions	6	632
Other	81	(33)
Plan assets at end of year	$10,436	$9,150

Fair value measurements for pension assets as of December 31, 2012 and 2011 follow (in millions).

	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Cash and equivalents	$ 900	$ 345	$ 555	$ —
Government obligations	899	529	370	—
Investment funds	2,069	413	1,650	6
Corporate debt obligations	689	86	603	—
Equity securities	5,444	5,211	233	—
Other	435	12	97	326
	$10,436	$6,596	$3,508	$332
December 31, 2011				
Cash and equivalents	$ 830	$ 797	$ 33	$ —
Government obligations	915	534	380	1
Investment funds	1,872	402	1,465	5
Corporate debt obligations	1,180	95	1,085	—
Equity securities	3,618	3,432	186	—
Other	735	37	314	384
	$ 9,150	$5,297	$3,463	$390

Refer to Note 17 for a discussion of the three levels in the hierarchy of fair values. Pension assets measured at fair value with significant unobservable inputs (Level 3) for the years ending December 31, 2012 and 2011 consisted primarily of real estate and limited partnership interests. Pension plan assets are generally invested with the long-term objective of earning amounts sufficient to cover expected benefit obligations, while assuming a prudent level of risk. Allocations may change as a result of changing market conditions and investment opportunities. The expected rates of return on plan assets reflect subjective assessments of expected invested asset returns over a period of several years. Generally, past investment returns are not given significant consideration when establishing assumptions for expected long-term rates of returns on plan assets. Actual experience will differ from the assumed rates.

Benefits payments expected over the next ten years are as follows (in millions): 2013 – $704; 2014 – $708; 2015 – $719; 2016 – $701; 2017 – $750; and 2018 to 2022 – $3,877. Sponsoring subsidiaries expect to contribute $377 million to defined benefit pension plans in 2013.

(20) Pension plans *(Continued)*

The net funded status of the defined benefit pension plans is summarized in the table that follows (in millions).

	December 31,	
	2012	2011
Amounts recognized in the Consolidated Balance Sheets:		
Accounts payable, accruals and other liabilities	$3,441	$3,686
Losses and loss adjustment expenses	256	214
Other assets	(60)	(58)
	$3,637	$3,842

A reconciliation of the pre-tax accumulated other comprehensive income (loss) related to defined benefit pension plans for each of the two years ending December 31, 2012 follows (in millions). We estimate that $221 million of the balance at December 31, 2012 will be included in pension expense in 2013.

	2012	2011
Balance at beginning of year	$(2,521)	$(1,395)
Amount included in net periodic pension expense	130	76
Gains (losses) current period and other	(125)	(1,202)
Balance at end of year	$(2,516)	$(2,521)

Weighted average interest rate assumptions used in determining projected benefit obligations and net periodic pension expense were as follows.

	2012	2011
Applicable to pension benefit obligations:		
Discount rate	4.0%	4.6%
Expected long-term rate of return on plan assets	6.6	6.9
Rate of compensation increase	3.6	3.7
Discount rate applicable to pension expense	4.5	5.3

Several of our subsidiaries also sponsor defined contribution retirement plans, such as 401(k) or profit sharing plans. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. Several of the plans provide that the subsidiary match these contributions up to levels specified in the plans and provide for additional discretionary contributions as determined by management. Employer contributions expensed with respect to these plans were $637 million, $572 million and $567 million for the years ending December 31, 2012, 2011 and 2010, respectively.

(21) Contingencies and Commitments

We are parties in a variety of legal actions arising out of the normal course of business. In particular, such legal actions affect our 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. We do not believe that such normal and routine litigation will have a material effect on our financial condition or results of operations. Berkshire and certain of its subsidiaries are also involved in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines and penalties. We believe that any liability that may arise as a result of other pending legal actions will not have a material effect on our consolidated financial condition or results of operations.

On February 13, 2013, Berkshire and an affiliate of the global investment firm 3G Capital (“3G”), through a newly formed holding company (“Holdco”) entered into a definitive merger agreement to acquire H.J. Heinz Company (“Heinz”). Under the terms of the agreement, Heinz shareholders will receive $72.50 in cash for each outstanding share of common stock (approximately $23.25 billion in the aggregate.) Berkshire and 3G have committed to make equity investments in Holdco, which together with debt financing to be obtained by Holdco will be used to acquire Heinz. Berkshire’s commitment is for the purchase of $4.12 billion of Holdco common stock and $8 billion of its preferred stock that will pay a 9% dividend. 3G has committed to purchase $4.12 billion of Holdco common stock. Berkshire and 3G will each possess a 50% voting interest in

(21) Contingencies and Commitments *(Continued)*

Holdco and following the acquisition, a 50% voting interest in Heinz. The acquisition is subject to approval by Heinz shareholders, receipt of regulatory approvals and other customary closing conditions, and is expected to close in the third quarter of 2013.

Heinz Company is one of the world's leading marketers and producers of healthy, convenient and affordable foods specializing in ketchup, sauces, meals, soups, snacks and infant nutrition. Heinz is a global family of leading branded products, including Heinz® Ketchup, sauces, soups, beans, pasta and infant foods (representing over one third of Heinz's total sales), Ore-Ida® potato products, Weight Watchers® Smart Ones® entrées, T.G.I. Friday's® snacks, and Plasmon infant nutrition.

We lease certain manufacturing, warehouse, retail and office facilities as well as certain equipment. Rent expense for all operating leases was $1,401 million in 2012, $1,288 million in 2011 and $1,204 million in 2010. Future minimum rental payments for operating leases having initial or remaining non-cancelable terms in excess of one year are as follows. Amounts are in millions.

2013	2014	2015	2016	2017	After 2017	Total
$1,186	$1,060	$930	$841	$716	$3,894	$8,627

Our subsidiaries regularly make commitments in the ordinary course of business to purchase goods and services used in their businesses. The most significant of these commitments relate to our railroad, utilities and energy and fractional aircraft ownership businesses. As of December 31, 2012, future purchase commitments under all subsidiary arrangements are expected to be paid as follows: $13.1 billion in 2013, $5.4 billion in 2014, $4.1 billion in 2015, $3.0 billion in 2016, $2.5 billion in 2017 and $10.6 billion after 2017.

Pursuant to the terms of our Marmon acquisition agreement we are required to acquire substantially all remaining Marmon noncontrolling interests in March 2014. The consideration to be paid will be contingent upon future operating results of Marmon. Pursuant to the terms of shareholder agreements with noncontrolling shareholders in certain of our other less than wholly-owned subsidiaries, we may be obligated to acquire their equity ownership interests. If we acquired all outstanding noncontrolling interests, including Marmon, as of December 31, 2012, we estimate the cost would have been approximately $6 billion. However, the timing and the amount of any such future payments that might be required are contingent on future actions of the noncontrolling owners and/or future operating results of the related subsidiaries.

Berkshire has a 50% interest in a joint venture, Berkadia Commercial Mortgage ("Berkadia"), with Leucadia National Corporation ("Leucadia") having the other 50% interest. Berkadia is a servicer of commercial real estate loans in the U.S., performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions, banks, insurance companies and other financial institutions. A significant source of funding for Berkadia's operations is through the issuance of commercial paper. Repayment of the commercial paper is supported by a $2.5 billion surety policy issued by a Berkshire insurance subsidiary. Leucadia has agreed to indemnify Berkshire for one-half of any losses incurred under the policy. As of December 31, 2012, the aggregate amount of commercial paper outstanding was $2.47 billion.

(22) Business segment data

Our reportable business segments are organized in a manner that reflects how management views those business activities. Certain businesses have been grouped together for segment reporting based upon similar products or product lines, marketing, selling and distribution characteristics, even though those business units are operated under separate local management.

The tabular information that follows shows data of reportable segments reconciled to amounts reflected in our Consolidated Financial Statements. Intersegment transactions are not eliminated in instances where management considers those transactions in assessing the results of the respective segments. Furthermore, our management does not consider investment and derivative gains/losses or amortization of purchase accounting adjustments related to Berkshire's acquisition in assessing the performance of reporting units. Collectively, these items are included in reconciliations of segment amounts to consolidated amounts.

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 insurers and reinsurers
Berkshire Hathaway Primary Group	Underwriting multiple lines of property and casualty insurance policies for primarily commercial accounts
BNSF	Operates one of the largest railroad systems in North America
Clayton Homes, XTRA, CORT and other financial services ("Finance and financial products")	Proprietary investing, manufactured housing and related consumer financing, transportation equipment leasing and furniture leasing
Marmon	An association of approximately 150 manufacturing and service businesses that operate within 11 diverse business sectors
McLane Company	Wholesale distribution of groceries and non-food items
MidAmerican	Regulated electric and gas utility, including power generation and distribution activities in the U.S. and internationally; domestic real estate brokerage

(22) Business segment data *(Continued)*

Other businesses not specifically identified with reportable business segments consist of a large, diverse group of manufacturing, service and retailing businesses. A disaggregation of our consolidated data for each of the three most recent years is presented in the tables which follow on this and the following two pages (in millions).

	Revenues			Earnings before income taxes		
	2012	2011	2010	2012	2011	2010
Operating Businesses:						
Insurance group:						
Underwriting:						
GEICO	$ 16,740	$ 15,363	$ 14,283	$ 680	$ 576	$ 1,117
General Re	5,870	5,816	5,693	355	144	452
Berkshire Hathaway Reinsurance Group	9,672	9,147	9,076	304	(714)	176
Berkshire Hathaway Primary Group	2,263	1,749	1,697	286	242	268
Investment income	4,474	4,746	5,186	4,454	4,725	5,145
Total insurance group	39,019	36,821	35,935	6,079	4,973	7,158
BNSF [1]	20,835	19,548	15,059	5,377	4,741	3,611
Finance and financial products	4,110	4,014	4,264	848	774	689
Marmon	7,171	6,925	5,967	1,137	992	813
McLane Company	37,437	33,279	32,687	403	370	369
MidAmerican	11,747	11,291	11,305	1,644	1,659	1,539
Other businesses [2]	38,647	32,202	27,956	4,591	3,675	3,092
	158,966	144,080	133,173	20,079	17,184	17,271
Reconciliation of segments to consolidated amount:						
Investment and derivative gains/losses	3,425	(830)	2,346	3,425	(830)	2,346
Interest expense, not allocated to segments	—	—	—	(271)	(221)	(208)
Eliminations and other	72	438	666	(997)	(819)	(358)
	$162,463	$143,688	$136,185	$22,236	$15,314	$19,051

(1) *From acquisition date of February 12, 2010.*

(2) *Includes Lubrizol from the acquisition date of September 16, 2011.*

	Capital expenditures			Depreciation of tangible assets		
	2012	2011	2010	2012	2011	2010
Operating Businesses:						
Insurance group	$ 61	$ 40	$ 40	$ 57	$ 56	$ 66
BNSF [1]	3,548	3,325	1,829	1,573	1,480	1,221
Finance and financial products	367	331	233	184	180	204
Marmon	817	514	307	479	484	507
McLane Company	225	188	166	149	129	129
MidAmerican	3,380	2,684	2,593	1,440	1,333	1,262
Other businesses [2]	1,377	1,109	812	1,264	1,021	890
	$9,775	$8,191	$5,980	$5,146	$4,683	$4,279

(1) *From acquisition date of February 12, 2010.*

(2) *Includes Lubrizol from the acquisition date of September 16, 2011.*

Notes to Consolidated Financial Statements *(Continued)*

(22) Business segment data *(Continued)*

	Goodwill at year-end		Identifiable assets at year-end		
	2012	**2011**	**2012**	**2011**	**2010**
Operating Businesses:					
Insurance group:					
GEICO	$ 1,372	$ 1,372	$ 30,986	$ 27,253	$ 25,631
General Re	13,532	13,532	30,477	28,442	29,196
Berkshire Hathaway Reinsurance and Primary Groups	607	607	118,819	104,913	104,383
Total insurance group	15,511	15,511	180,282	160,608	159,210
BNSF	14,836	14,803	56,839	55,282	53,476
Finance and financial products	1,036	1,032	24,412	23,919	24,692
Marmon	814	727	11,230	10,597	10,047
McLane Company	705	155	5,090	4,107	4,018
MidAmerican	5,377	5,253	46,856	42,039	40,045
Other businesses *	16,244	15,732	36,875	34,994	24,144
	$54,523	$53,213	361,584	331,546	315,632
Reconciliation of segments to consolidated amount:					
Corporate and other			11,345	7,888	7,591
Goodwill			54,523	53,213	49,006
			$427,452	$392,647	$372,229

* *Includes Lubrizol, acquired in 2011.*

Insurance premiums written by geographic region (based upon the domicile of the insured or reinsured) are summarized below. Dollars are in millions.

	Property/Casualty			Life/Health		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
United States	$23,186	$22,253	$21,539	$3,504	$3,100	$3,210
Western Europe	4,387	4,495	3,377	1,114	880	945
All other	2,319	1,089	918	1,217	1,090	927
	$29,892	$27,837	$25,834	$5,835	$5,070	$5,082

In 2012, 2011 and 2010, premiums written and earned attributable to Western Europe were primarily in the United Kingdom, Germany, Switzerland and Luxembourg. In 2012, 2011 and 2010, property/casualty insurance premiums earned included approximately $3.4 billion, $2.9 billion and $2.4 billion, respectively, from Swiss Reinsurance Company Ltd. and its affiliates. Life/health insurance premiums written and earned in the United States included approximately $1.5 billion in 2012 and 2011 and $2.1 billion in 2010 from a single contract with Swiss Re Life & Health America Inc., an affiliate of Swiss Reinsurance Company Ltd.

Consolidated sales and service revenues in 2012, 2011 and 2010 were $83.3 billion, $72.8 billion and $67.2 billion, respectively. Approximately 84% of such amounts in 2012 were in the United States compared with approximately 86% in 2011 and 88% in 2010. The remainder of sales and service revenues were primarily in Europe and Canada. In each of the three years ending December 31, 2012, consolidated sales and service revenues included approximately $12 billion of sales to Wal-Mart Stores, Inc., which were primarily related to McLane's wholesale distribution business.

Approximately 96% of our revenues in 2012 and 2011 from railroad, utilities and energy businesses were in the United States versus 97% in 2010. In each year, most of the remainder was attributed to the United Kingdom. At December 31, 2012, 91% of our consolidated net property, plant and equipment was located in the United States with the remainder primarily in Europe and Canada.

(22) Business segment data *(Continued)*

Premiums written and earned by the property/casualty and life/health insurance businesses are summarized below (in millions).

	Property/Casualty			Life/Health		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Premiums Written:						
Direct	$20,796	$18,512	$17,128	$ 554	$ 67	$ 3
Assumed	9,668	9,867	9,171	5,391	5,133	5,203
Ceded	(572)	(542)	(465)	(110)	(130)	(124)
	$29,892	$27,837	$25,834	$5,835	$5,070	$5,082
Premiums Earned:						
Direct	$20,204	$18,038	$16,932	$ 554	$ 67	$ 3
Assumed	9,142	9,523	9,266	5,356	5,099	5,208
Ceded	(600)	(522)	(536)	(111)	(130)	(124)
	$28,746	$27,039	$25,662	$5,799	$5,036	$5,087

(23) 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.

	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
2012				
Revenues	$38,147	$38,546	$41,050	$44,720
Net earnings attributable to Berkshire *	3,245	3,108	3,920	4,551
Net earnings attributable to Berkshire per equivalent Class A common share	1,966	1,882	2,373	2,757
2011				
Revenues	$33,720	$38,274	$33,739	$37,955
Net earnings attributable to Berkshire *	1,511	3,417	2,278	3,048
Net earnings attributable to Berkshire per equivalent Class A common share	917	2,072	1,380	1,846

* *Includes realized investment gains/losses, other-than-temporary impairment losses on investments and derivative gains/losses. Derivative gains/losses include significant amounts related to non-cash changes in the fair value of long-term contracts arising from short-term changes in equity prices, interest rates and foreign currency rates, among other factors. After-tax investment and derivative gains/losses for the periods presented above are as follows (in millions):*

	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Investment and derivative gains/losses – 2012	$580	$(612)	$ 521	$1,738
Investment and derivative gains/losses – 2011	(82)	713	(1,534)	382

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

Results of Operations

Net earnings attributable to Berkshire Hathaway shareholders for each of the past three years are disaggregated in the table that follows. Amounts are after deducting income taxes and exclude earnings attributable to noncontrolling interests. Amounts are in millions.

	2012	2011	2010
Insurance – underwriting	$ 1,046	$ 154	$ 1,301
Insurance – investment income	3,397	3,555	3,860
Railroad	3,372	2,972	2,235[1]
Utilities and energy	1,323	1,204	1,131
Manufacturing, service and retailing	3,699	3,039[2]	2,462
Finance and financial products	557	516	441
Other	(797)	(665)	(337)
Investment and derivative gains/losses	2,227	(521)	1,874
Net earnings attributable to Berkshire Hathaway shareholders	$14,824	$10,254	$12,967

(1) *Includes earnings of BNSF from February 12.*

(2) *Includes earnings of Lubrizol from September 16.*

Through our subsidiaries, we engage in a number of diverse business activities. Our operating businesses are managed on an unusually decentralized basis. There are essentially no centralized or integrated business functions (such as sales, marketing, purchasing, legal or human resources) and there is minimal involvement by our corporate headquarters in the day-to-day business activities of the operating businesses. Our senior corporate management team participates in and is ultimately responsible for significant capital allocation decisions, investment activities and the selection of the Chief Executive to head each of the operating businesses. It also is responsible for establishing and monitoring Berkshire's corporate governance efforts, including, but not limited to, communicating the appropriate "tone at the top" messages to its employees and associates, monitoring governance efforts, including those at the operating businesses, and participating in the resolution of governance-related issues as needed. The business segment data (Note 22 to the Consolidated Financial Statements) should be read in conjunction with this discussion.

Insurance underwriting results in 2012 included after-tax losses of approximately $725 million from Hurricane Sandy. In 2011 and 2010, underwriting results included after-tax losses of approximately $1.7 billion and $600 million, respectively, from catastrophe events occurring in those years. Our railroad and utilities and energy businesses continued to generate significant earnings in 2012. Earnings from our manufacturing, service and retailing businesses in 2012 increased significantly over 2011 due primarily to the acquisition of The Lubrizol Corporation ("Lubrizol"), which was completed on September 16, 2011. Excluding the impact of Lubrizol, earnings from our manufacturing, service and retailing businesses were mixed, reflecting significant improvements in our carpet business, modest improvements in our other building products businesses in the U.S., and earnings declines in several foreign markets of our manufacturing and service operations.

In 2012, after-tax investment and derivative gains were approximately $2.2 billion, which included reductions in estimated liabilities under equity index put option contracts, settlements and expirations of credit default contracts and net gains from investment disposals. In 2011, after-tax investment and derivative losses were $521 million, reflecting after-tax losses of $1.2 billion related to increases in liabilities under our equity index put option contracts and other-than-temporary impairment ("OTTI") losses of $590 million related to certain equity and fixed maturity securities, partially offset by after-tax investment gains of $1.2 billion from the redemptions of our Goldman Sachs and General Electric Preferred Stock investments. In 2010, after-tax investment and derivative gains were $1,874 million, and included a one-time holding gain of $979 million related to our acquisition of BNSF, net gains from the dispositions of investments and net gains from derivative contracts, partially offset by OTTI losses recorded with respect to certain fixed maturity and equity securities. We believe that investment gains/losses are often meaningless in terms of understanding our reported results or evaluating our economic performance. The timing and magnitude of investment and derivative gains and losses has caused and will likely continue to cause significant volatility in our periodic earnings.

Insurance—Underwriting

We engage in both primary insurance and reinsurance of property/casualty, life and health risks. In primary insurance activities, we assume defined portions of the risks of loss from persons or organizations that are directly subject to the risks. In reinsurance activities, we assume defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities. Our insurance and reinsurance businesses are: (1) GEICO, (2) General Re, (3) Berkshire Hathaway Reinsurance Group ("BHRG") and (4) Berkshire Hathaway Primary Group.

Our management views insurance businesses as possessing two distinct operations – underwriting and investing. Underwriting decisions are the responsibility of the unit managers; investing decisions, with limited exceptions, are the responsibility of Berkshire's Chairman and CEO, Warren E. Buffett. Accordingly, we evaluate performance of underwriting operations without any allocation of investment income.

The timing and amount of catastrophe losses can produce significant volatility in our periodic underwriting results. In 2012, we recorded aggregate pre-tax losses of approximately $1.1 billion attributable to Hurricane Sandy. In 2011, we recorded pre-tax losses of approximately $2.6 billion, arising primarily from the earthquakes in Japan and New Zealand in the first quarter, as well as weather related events in the Pacific Rim and the U.S.

Our periodic underwriting results are regularly affected by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years. In 2011, we reduced estimated liabilities related to certain retroactive reinsurance contracts which resulted in an increase in pre-tax underwriting earnings of approximately $875 million. These reductions were primarily due to lower than expected loss experience of one ceding company. Actual claim settlements and revised loss estimates will develop over time, which will likely differ from the liability estimates recorded as of year-end (approximately $64 billion). Accordingly, the unpaid loss estimates recorded as of December 31, 2012 may develop upward or downward in future periods with a corresponding decrease or increase, respectively, to pre-tax earnings.

Our periodic underwriting results may also include significant foreign currency transaction gains and losses arising from the changes in the valuation of certain non-U.S. Dollar denominated reinsurance liabilities of our U.S. based subsidiaries as a result of foreign currency exchange rate fluctuations. In recent years, currency exchange rates have been volatile and the resulting impact on our underwriting earnings has been significant.

A key marketing strategy followed by all of our insurance businesses is the maintenance of extraordinary capital strength. Statutory surplus of our insurance businesses was approximately $106 billion at December 31, 2012. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into insurance and reinsurance contracts specially designed to meet the unique needs of insurance and reinsurance buyers.

Underwriting results from our insurance businesses are summarized below. Amounts are in millions.

	2012	2011	2010
Underwriting gain (loss) attributable to:			
GEICO	$ 680	$ 576	$1,117
General Re	355	144	452
Berkshire Hathaway Reinsurance Group	304	(714)	176
Berkshire Hathaway Primary Group	286	242	268
Pre-tax underwriting gain	1,625	248	2,013
Income taxes and noncontrolling interests	579	94	712
Net underwriting gain	$1,046	$ 154	$1,301

Insurance—Underwriting *(Continued)*

GEICO

Through GEICO, we primarily write private passenger automobile insurance, offering coverages to insureds in all 50 states and the District of Columbia. GEICO's policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company via the Internet or over the telephone. This is a significant element in our strategy to be a low-cost auto insurer. In addition, we strive to provide excellent service to customers, with the goal of establishing long-term customer relationships. GEICO's underwriting results are summarized below. Dollars are in millions.

	2012		2011		2010	
	Amount	%	Amount	%	Amount	%
Premiums written	$17,129		$15,664		$14,494	
Premiums earned	$16,740	100.0	$15,363	100.0	$14,283	100.0
Losses and loss adjustment expenses	12,700	75.9	12,013	78.2	10,631	74.4
Underwriting expenses	3,360	20.0	2,774	18.1	2,535	17.8
Total losses and expenses	16,060	95.9	14,787	96.3	13,166	92.2
Pre-tax underwriting gain	$ 680		$ 576		$ 1,117	

Premiums earned in 2012 were approximately $16.7 billion, an increase of $1,377 million (9.0%) over 2011. The growth in premiums earned for voluntary auto was 9.0% as a result of a 6.5% increase in policies-in-force and an increase in average premium per policy over the past twelve months. Voluntary auto new business sales in 2012 increased slightly compared with 2011. Voluntary auto policies-in-force at December 31, 2012 were approximately 704,000 greater than at December 31, 2011.

Losses and loss adjustment expenses incurred in 2012 were $12.7 billion, an increase of $687 million (5.7%) over 2011. Our loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) was 75.9% in 2012 and 78.2% in 2011. We incurred losses (net of estimated salvage) of $490 million from Hurricane Sandy in the fourth quarter of 2012. For the year, catastrophe losses were $638 million (3.8 loss ratio points) in 2012 compared to $252 million (1.6 loss ratio points) in 2011. Our loss ratio declined in 2012 as compared to 2011. Claims frequencies for property damage and collision coverages were down about one percent, comprehensive coverage frequencies were down about ten percent, excluding Hurricane Sandy, and frequencies for bodily injury coverages were relatively unchanged. In 2012, frequencies were lower in the second half of the year than they were in the first half. Physical damage severities increased in the two to four percent range and bodily injury severities increased in the one to three percent range from 2011.

Underwriting expenses incurred in 2012 increased $586 million (21.1%) compared with 2011. The increase was primarily the result of a change in U.S. GAAP concerning deferred policy acquisition costs ("DPAC"). DPAC represents the underwriting costs that are eligible to be capitalized and expensed as premiums are earned over the policy period. Upon adoption of the new accounting standard as of January 1, 2012, GEICO ceased deferring a large portion of its advertising costs. The new accounting standard was adopted on a prospective basis and as a result, DPAC recorded as of December 31, 2011 was amortized to expense over the remainder of the related policy periods in 2012. Policy acquisition costs related to policies written and renewed after December 31, 2011 are being deferred at lower levels than in the past. The new accounting standard for DPAC does not impact the cash basis periodic underwriting costs or our assessment of GEICO's underwriting performance. However, the new accounting standard accelerates the timing of when certain underwriting costs are recognized in earnings. We estimate that GEICO's underwriting expenses in 2012 would have been about $410 million less had we computed DPAC under the prior accounting standard and that, as a result, GEICO's expense ratio (the ratio of underwriting expenses to premiums earned) in 2012 would have been less than in 2011.

Premiums earned in 2011 increased $1,080 million (7.6%) over 2010. Voluntary auto policies-in-force increased approximately 7.0% as compared to 2010. The increase in policies-in-force in 2011 reflected an increase of 9.4% in voluntary auto new business sales. Voluntary auto policies-in-force at December 31, 2011 were approximately 709,000 greater than at December 31, 2010.

Losses and loss adjustment expenses incurred in 2011 increased $1,382 million (13.0%) as compared to 2010, increasing at a greater rate than premiums earned. As a result, the loss ratio increased from 74.4% in 2010 to 78.2% in 2011. The increase in the loss ratio in 2011 was primarily due to higher average injury and physical damage severities estimates and increased

catastrophe losses incurred. In 2011, bodily injury severities estimates generally increased in the three to six percent range over 2010, while physical damage severities increased in the three to five percent range. In 2011, catastrophe losses were $252 million compared with $109 million in 2010. In 2011, underwriting expenses increased $239 million (9.4%) over 2010. The increase reflected additional advertising and increased payroll costs related to generating new business and servicing existing business.

General Re

Through General Re, we conduct a reinsurance business offering property and casualty and life and health coverages to clients worldwide. We write property and casualty reinsurance in North America on a direct basis through General Reinsurance Corporation and internationally through Germany-based General Reinsurance AG and other wholly-owned affiliates. Property and casualty reinsurance is also written through brokers with respect to Faraday in London. Life and health reinsurance is written in North America through General Re Life Corporation and internationally through General Reinsurance AG. General Re strives to generate underwriting profits in essentially all of its product lines. Our management does not evaluate underwriting performance based upon market share and our underwriters are instructed to reject inadequately priced risks. General Re's underwriting results are summarized in the following table. Amounts are in millions.

	Premiums written			Premiums earned			Pre-tax underwriting gain		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Property/casualty	$2,982	$2,910	$2,923	$2,904	$2,941	$2,979	$399	$ 7	$289
Life/health	3,002	2,909	2,709	2,966	2,875	2,714	(44)	137	163
	$5,984	$5,819	$5,632	$5,870	$5,816	$5,693	$355	$144	$452

Property/casualty

Property/casualty premiums written in 2012 increased $72 million (2.5%), while premiums earned declined $37 million (1.3%) from 2011. Excluding the effects of foreign currency exchange rate changes, premiums written increased $158 million (5.4%) compared to 2011, which reflected increased volume in most of our major markets around the globe. Before the effects of currency exchange, premiums earned in 2012 increased $61 million (2.1%) over 2011, which was primarily attributable to an increase in European property treaty business. Price competition in most property and casualty lines persists and the volume of business written in recent years has been less than our capacity. Our underwriters continue to exercise discipline by not accepting offers to write business where prices are deemed inadequate. We remain prepared to increase premium volumes should market conditions improve.

Property/casualty operations produced net underwriting gains of $399 million in 2012 which consisted of $352 million of gains from our property business and $47 million of gains from casualty/workers' compensation business. Our property results included $266 million of catastrophe losses primarily attributable to Hurricane Sandy, the earthquake in Northern Italy and various tornadoes in the Midwest. The timing and magnitude of catastrophe and large individual losses has produced and is expected to continue to produce significant volatility in periodic underwriting results. The underwriting gains from casualty/workers' compensation business included favorable run-off of prior years' business, offset in part by $105 million of recurring accretion of discounted workers' compensation liabilities and deferred charge amortization on retroactive reinsurance contracts written many years ago.

Premiums written in 2011 were relatively unchanged from 2010, while premiums earned in 2011 declined $38 million (1.3%) from 2010. Excluding the effects of foreign currency exchange rate changes, premiums written and earned in 2011 declined $94 million (3.2%) and $132 million (4.4%), respectively, compared with 2010. The declines reflected lower premium volume in North American property treaty business, substantially offset by higher premiums in European property lines and broker market motor liability business.

Underwriting gains were $7 million in 2011 and consisted of a net underwriting gain of $127 million from casualty/workers' compensation business substantially offset by a net underwriting loss of $120 million from property business. Our property results included $861 million of catastrophe losses. The catastrophe losses were primarily attributable to the earthquakes in New Zealand and Japan, as well as to weather related loss events in the United States, Europe and Australia. The underwriting gain of $127 million from casualty/workers' compensation business reflected overall reductions in prior years' loss reserve estimates, due generally to lower than expected claim reports from cedants, which was partially offset by $111 million of accretion of discounted workers' compensation liabilities and deferred charge amortization.

Underwriting gains were $289 million in 2010 and consisted of gains of $236 million from property business and $53 million from casualty/workers' compensation business. The property results included $339 million of catastrophe losses incurred primarily from the Chilean and New Zealand earthquakes and weather related losses in Europe, Australia and New England, offset by reductions in liability estimates for prior years' losses. The underwriting gains of $53 million from casualty/workers' compensation business reflected overall reductions in estimated prior years' loss reserves, offset in part by $125 million of accretion of discounted workers' compensation liabilities and amortization of deferred charges.

Life/health

In 2012, written premiums increased $93 million (3.2%) and earned premiums increased $91 million (3.2%) from 2011. Excluding the effects of foreign currency exchange rate changes, premiums written and earned increased $239 million (8.2%) and $236 million (8.2%), respectively, compared to 2011. The increases in premiums written and earned can be primarily attributed to increased writings in non-U.S. life business. Life/health operations produced a net underwriting loss of $44 million in 2012. The underwriting results were negatively impacted by a premium deficiency reserve we established on our U.S. long-term care book of business which has been in run-off for almost a decade. In addition, underwriting results were negatively impacted in 2012 by greater than expected claims frequency and duration in the individual and group disability business in Australia.

Premiums earned in 2011 were $2,875 million, an increase of 5.9% over 2010. Adjusting for the effects of foreign currency exchange rate changes, premiums earned increased 2.2% over 2010. The increase in premiums earned was primarily due to higher volumes of international life business, which represented about 60% of aggregate life/health premiums earned. The life/health operations produced net underwriting gains of $137 million in 2011 and $163 million in 2010. Underwriting results for 2011 included losses of $15 million attributable to the earthquake in Japan. Underwriting results in 2011 and 2010 were impacted by generally lower than expected mortality in the life business.

Berkshire Hathaway Reinsurance Group

Through BHRG, we underwrite excess-of-loss reinsurance and quota-share coverages on property and casualty risks for insurers and reinsurers worldwide. BHRG's business includes catastrophe excess-of-loss reinsurance and excess primary insurance and facultative reinsurance for large or otherwise unusual property risks referred to as individual risk. BHRG also writes retroactive reinsurance, which provides indemnification of losses and loss adjustment expenses with respect to past loss events. Other multi-line property/casualty refers to various coverages written on both a quota-share and excess basis and includes a 20% quota-share contract with Swiss Reinsurance Company Ltd. ("Swiss Re") covering substantially all of Swiss Re's property/casualty risks incepting between January 1, 2008 and December 31, 2012. The Swiss Re quota-share contract was not renewed in 2013. BHRG's underwriting activities also include life reinsurance and annuity businesses. BHRG's underwriting results are summarized in the table below. Amounts are in millions.

	Premiums earned			Pre-tax underwriting gain/loss		
	2012	2011	2010	2012	2011	2010
Catastrophe and individual risk	$ 816	$ 751	$ 623	$ 400	$(321)	$ 260
Retroactive reinsurance	717	2,011	2,621	(201)	645	(90)
Other multi-line property/casualty	5,306	4,224	3,459	295	(338)	203
Life and annuity	2,833	2,161	2,373	(190)	(700)	(197)
	$9,672	$9,147	$9,076	$ 304	$(714)	$ 176

Catastrophe and individual risk contracts may provide exceptionally large limits of indemnification and cover catastrophe risks (such as hurricanes, earthquakes or other natural disasters) or other property and liability risks. The timing and magnitude of losses produces extraordinary volatility in periodic underwriting results of this business.

Catastrophe and individual risk premiums written approximated $785 million in 2012, $720 million in 2011 and $584 million in 2010. The level of business written in a given period will vary significantly due to changes in market conditions and management's assessment of the adequacy of premium rates. We have constrained the volume of business written in recent years as premium rates have not been attractive enough to warrant significantly increasing volume. However, we have the

capacity and desire to write substantially more business when appropriate pricing can be obtained. Premiums earned in 2012 from catastrophe and individual risk contracts exceeded 2011 by $65 million (9%), which increased 21% compared with 2010.

In 2012, catastrophe and individual risk underwriting results reflected estimated losses of $96 million in connection with Hurricane Sandy. In 2011, we incurred estimated losses of approximately $800 million attributable to the earthquakes in Japan and New Zealand, while in 2010 we incurred estimated losses of $322 million arising from several loss events. Changes in estimated losses attributable to prior years' events were relatively insignificant in 2012 and 2011. In 2010, underwriting results were favorably impacted from the reductions of estimated unpaid losses for prior years' loss events due to lower than expected reported claims.

Retroactive reinsurance policies provide indemnification of unpaid losses and loss adjustment expenses with respect to past loss events, and related claims are generally expected to be paid over long periods of time. Premiums and limits of indemnification are often very large in amount. Coverages are generally subject to policy limits. Premiums earned in 2012 derived from several relatively small contracts. Premiums earned under retroactive reinsurance contracts in 2011 included approximately $1.7 billion from a reinsurance contract with Eaglestone Reinsurance Company, a subsidiary of American International Group, Inc. ("AIG"). Under the contract, we agreed to reinsure the bulk of AIG's U.S. asbestos liabilities. The agreement provides for a maximum limit of indemnification of $3.5 billion. Premiums earned in 2010 included approximately $2.25 billion from a contract with Continental Casualty Company, a subsidiary of CNA Financial Corporation, and several of its other insurance subsidiaries (collectively the "CNA Companies"). Under the terms of the reinsurance agreement, BHRG assumed certain asbestos and environmental pollution liabilities of the CNA Companies subject to an aggregate limit of indemnification of $4 billion.

Underwriting results attributable to retroactive reinsurance include the recurring periodic amortization of deferred charges that are established with respect to these contracts. At the inception of a contract, deferred charge assets are recorded as the excess, if any, of the estimated ultimate losses payable over the premiums earned. Deferred charge balances are subsequently amortized over the estimated claims payment period using the interest method, which reflects estimates of the timing and amount of loss payments. Deferred charge balances are also adjusted to reflect changes in the timing and amount of actual and re-estimated future loss payments. The recurring periodic amortization of deferred charges and deferred charge adjustments resulting from changes to the estimated timing and amount of loss payments are included in earnings as a component of losses and loss adjustment expenses. At December 31, 2012 and 2011, unamortized deferred charges for all of BHRG's retroactive reinsurance contracts were approximately $3.9 billion and $4.0 billion, respectively.

In 2012, the underwriting loss from retroactive reinsurance contracts was $201 million, which was primarily attributable to deferred charge amortization. In 2012, changes in estimated ultimate unpaid losses with respect to prior years' contracts were not significant. In 2011, the net underwriting gain from retroactive reinsurance contracts was $645 million. The net gain reflected the favorable impact of a reduction of approximately $865 million in the estimated liability originally established under an adverse loss development contract with Swiss Re, which was attributable to better than expected loss experience. In 2010, underwriting results benefitted from reductions in liabilities for prior years' contracts and slower than expected loss payments. Gross unpaid losses from retroactive reinsurance contracts were approximately $18.0 billion at December 31, 2012, $18.8 billion at December 31, 2011 and $18.7 billion as of December 31, 2010.

Premiums earned from other multi-line property and casualty business included $3.4 billion in 2012, $2.9 billion in 2011 and $2.4 billion in 2010 from the Swiss Re 20% quota-share contract. As previously noted, the Swiss Re quota-share contract expired on December 31, 2012. Unearned premiums as of December 31, 2012 ($1.4 billion) will be earned as the contract runs off, with a majority of that amount to be earned in 2013. Accordingly, multi-line premium volume is expected to decline significantly in 2013. Underwriting results of our other multi-line property/casualty business can be significantly impacted by the timing and magnitude of catastrophe losses. In 2012, we incurred estimated losses of $268 million from Hurricane Sandy. In 2011 and 2010, other multi-line property and casualty business included estimated catastrophe losses of approximately $933 million and $308 million, respectively. In 2011, the losses were primarily from the earthquakes in Japan and New Zealand and from floods in Thailand, while the losses in 2010 related to the Chilean and New Zealand earthquakes, the Gulf of Mexico BP Deepwater Horizon oil rig explosion and Australian floods. The catastrophe losses in all three years arose primarily under the Swiss Re quota-share contract.

Insurance—Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group (Continued)

Multi-line property/casualty underwriting results regularly include foreign currency transaction gains or losses associated with the changes in the valuation of certain reinsurance liabilities of U.S. based subsidiaries (including liabilities arising under retroactive reinsurance contracts) denominated in foreign currencies as a result of foreign currency exchange rate fluctuations. Underwriting results included foreign currency transaction losses of $123 million in 2012, gains of $140 million in 2011 and losses of $168 million in 2010.

Life and annuity premiums earned in 2012 increased $672 million (31%) over 2011, which was attributable to new annuity contracts. Premiums earned in 2011 and 2010 primarily derived from a life reinsurance contract entered into in January 2010 with Swiss Re Life & Health America Inc. ("SRLHA") and a life reinsurance business acquired as of December 31, 2010 from Sun Life Assurance Company of Canada.

In 2012, the life reinsurance business produced underwriting losses of $12 million versus $582 million in 2011 and $83 million in 2010. In 2011, we recorded a pre-tax underwriting loss of $642 million with respect to the SRLHA contract. Mortality rates under that contract have persistently exceeded the assumptions we made at the inception of the contract. During the fourth quarter of 2011, after considerable internal actuarial analysis, our management concluded that future mortality rates are expected to be greater than our original assumptions. As a result, we increased our estimated liabilities for future policyholder benefits to reflect the new assumptions. The liabilities established in connection with the SRLHA contract reflect our best estimates for expected mortality, lapse rates, future premiums on the underlying policies and discount rates. We do not currently believe significant additional net underwriting losses under this contract are likely.

The annuity business generated underwriting losses of $178 million in 2012, $118 million in 2011 and $114 million in 2010. Annuity underwriting losses reflect the periodic discount accretion of the discounted liabilities established for such contracts as well as adjustments for mortality experience. At December 31, 2012, annuity liabilities were approximately $3.8 billion, an increase of approximately $1.7 billion since December 31, 2011, reflecting the aforementioned increase in new business in 2012.

Berkshire Hathaway Primary Group

Our primary insurance group consists of a wide variety of independently managed insurance businesses that principally write liability coverages for commercial accounts. These businesses include: Medical Protective Company ("MedPro") and Princeton Insurance Company (acquired effective December 31, 2011), providers of healthcare malpractice insurance to physicians, dentists and other healthcare providers and healthcare facilities; National Indemnity Company's primary group, writers of commercial motor vehicle and general liability coverages; U.S. Investment Corporation, whose subsidiaries underwrite specialty insurance coverages; a group of companies referred to internally as "Berkshire Hathaway Homestate Companies," providers of commercial multi-line insurance, including workers' compensation; Central States Indemnity Company, a provider of credit and disability insurance to individuals nationwide through financial institutions; Applied Underwriters, a provider of integrated workers' compensation solutions; and BoatU.S., a writer of insurance for owners of boats and small watercraft. In the fourth quarter of 2012, we acquired Clal U.S. Holdings, which owns GUARD Insurance Group ("GUARD"), a provider of commercial property and casualty insurance coverage to small and mid-sized businesses.

Premiums earned in 2012 by our various primary insurers were $2,263 million, an increase of $514 million (29%), over 2011. The increase was primarily due to increased volume of workers' compensation insurance from the Berkshire Hathaway Homestate Companies and premiums from Princeton Insurance Company and GUARD. Premium volume of certain of our other primary insurers continues to be constrained by market conditions. We have the capacity and desire to write substantially more volume when market conditions improve. In 2012, our primary insurers produced underwriting gains of $286 million, an increase of $44 million (18%) over 2011. Underwriting gains as percentages of premiums earned were approximately 13% in 2012 and 14% in 2011.

Earned premiums by our primary insurance businesses in 2011 were approximately $1.7 billion, which was relatively unchanged from 2010. The underwriting gain in 2011 reflects favorable loss experience at MedPro and Applied Underwriters, including overall reductions of estimated liabilities for prior years' losses, partially offset by increased underwriting losses of the Berkshire Hathaway Homestate Companies.

Insurance—Investment Income

A summary of net investment income of our insurance operations follows. Amounts are in millions.

	2012	2011	2010
Investment income before taxes and noncontrolling interests [(1)]	$4,454	$4,725	$5,195
Income taxes and noncontrolling interests	1,057	1,170	1,335
Net investment income	$3,397	$3,555	$3,860

(1) *Includes equity method earnings of $50 million in 2010 related to BNSF.*

Investment income consists of interest and dividends earned on cash and investments of our insurance businesses. Pre-tax investment income in 2012 declined $271 million (6%) compared to 2011. The decline reflected the redemptions in 2011 of our investments in Goldman Sachs 10% Preferred Stock (insurance subsidiaries held 87% of the $5 billion aggregate investment) and in General Electric 10% Preferred Stock ($3 billion aggregate investment). Dividends earned by our insurance subsidiaries from these investments were $420 million in 2011. Investment income in 2012 reflected increased dividends earned from our investment in Bank of America 6% Preferred Stock (insurance subsidiaries hold 80% of the $5 billion aggregate investment), which was acquired in September of 2011, and increased dividend rates with respect to several of our common stock holdings. We continue to hold significant cash and cash equivalent balances currently earning near zero yields. However, our management believes that maintaining ample liquidity is paramount and strongly insists on safety over yield with respect to cash and cash equivalents.

Pre-tax investment income in 2011 declined $470 million (9%) compared to 2010. Investment income in 2011 was negatively impacted by redemptions at the end of 2010 and in 2011 of certain investments we made in 2008 and 2009, including the aforementioned investments in Goldman Sachs and General Electric Preferred Stock, as well as the Swiss Re 12% capital instrument (CHF 3 billion). Our insurance subsidiaries earned dividends from these three investments of $420 million in 2011 compared with approximately $1.0 billion in 2010. In 2011, investment income was favorably impacted by increased dividend rates with respect to several of our common stock holdings.

Invested assets derive from shareholder capital and reinvested earnings as well as net liabilities under insurance contracts or "float." The major components of float are unpaid losses, life, annuity and health benefit liabilities, unearned premiums and other liabilities to policyholders less premium and reinsurance receivables, deferred charges assumed under retroactive reinsurance contracts and deferred policy acquisition costs. Float approximated $73 billion at December 31, 2012, $70 billion at December 31, 2011 and $66 billion at December 31, 2010. The cost of float, as represented by the ratio of underwriting gain or loss to average float, was negative for the last three years, as our insurance business generated underwriting gains in each year.

A summary of cash and investments held in our insurance businesses as of December 31, 2012 and 2011 follows. Other investments include investments in Wrigley, Goldman Sachs, General Electric, Dow Chemical and Bank of America (See Note 5 to the Consolidated Financial Statements). Amounts are in millions.

	December 31,	
	2012	2011
Cash and cash equivalents	$ 26,458	$ 21,571
Equity securities	86,080	75,759
Fixed maturity securities	29,984	29,899
Other	16,057	13,111
	$158,579	$140,340

Insurance—Investment Income *(Continued)*

Fixed maturity investments as of December 31, 2012 were as follows. Amounts are in millions.

	Amortized cost	Unrealized gains/losses	Fair value
U.S. Treasury, U.S. government corporations and agencies	$ 2,742	$ 33	$ 2,775
States, municipalities and political subdivisions	2,735	178	2,913
Foreign governments	9,634	258	9,892
Corporate bonds, investment grade	5,849	810	6,659
Corporate bonds, non-investment grade	4,083	1,415	5,498
Mortgage-backed securities	1,981	266	2,247
	$27,024	$2,960	$29,984

U.S. government obligations are rated AA+ or Aaa by the major rating agencies and approximately 86% of all state, municipal and political subdivisions, foreign government obligations and mortgage-backed securities were rated AA or higher. Non-investment grade securities represent securities that are rated below BBB- or Baa3. Foreign government securities include obligations issued or unconditionally guaranteed by national or provincial government entities.

Railroad ("Burlington Northern Santa Fe")

We acquired control of Burlington Northern Santa Fe Corporation ("BNSF") in February 2010, and its results are included in our consolidated results thereafter. BNSF operates one of the largest railroad systems in North America with approximately 32,500 route miles of track in 28 states and two Canadian provinces. BNSF's major business groups are classified by product shipped and include consumer products, coal, industrial products and agricultural products. Earnings of BNSF since we acquired control are summarized below, and earnings for the year ending December 31, 2010 is provided for comparison (in millions).

	2012	2011	Feb. 13, 2010 – Dec. 31, 2010	2010
Revenues	$20,835	$19,548	$15,059	$16,850
Operating expenses:				
Compensation and benefits	4,505	4,315	3,562	4,004
Fuel	4,459	4,267	2,687	3,016
Purchased services	2,374	2,218	1,890	2,169
Depreciation and amortization	1,889	1,807	1,532	1,724
Equipment rents	810	779	670	767
Materials and other	798	861	672	675
Total operating expenses	14,835	14,247	11,013	12,355
Interest expense	623	560	435	507
	15,458	14,807	11,448	12,862
Pre-tax earnings	5,377	4,741	3,611	3,988
Income taxes	2,005	1,769	1,376	1,529
Net earnings	$ 3,372	$ 2,972	$ 2,235	$ 2,459

Revenues in 2012 were approximately $20.8 billion, an increase of $1.3 billion (7%) over 2011. Overall, the revenue increase in 2012 reflected higher average revenues per car/unit of approximately 4% as well as a 2% increase in cars/units handled ("volume"). Revenues in each period include fuel surcharges to customers under programs intended to recover incremental fuel costs when fuel prices exceed threshold fuel prices. Fuel surcharges in 2012 increased 6% over 2011, and are reflected in average revenue per car/unit.

The increase in overall volume during 2012 included increases in consumer products (4%) and industrial products (13%), partially offset by declines in coal (6%) and agricultural products (3%). The consumer products volume increase was primarily

Railroad ("Burlington Northern Santa Fe") *(Continued)*

attributable to higher domestic intermodal and automotive volume. Industrial products volume increased primarily as a result of increased shipments of petroleum and construction products. The decline in coal unit volume in 2012 was attributed to lower coal demand as a result of low natural gas prices and high utility stockpiles. Agricultural product volume declined in 2012 compared to 2011, reflecting lower wheat and corn shipments for export partially offset by higher soybean and U.S. corn shipments.

Operating expenses in 2012 increased $588 million (4%) compared to 2011. Compensation and benefits expenses in 2012 increased $190 million (4%) over 2011 due to the increased volume as well as wage inflation, partially offset by increased productivity and lower weather-related costs. Fuel expenses in 2012 increased $192 million (4.5%) due to higher fuel prices and increased volume, partially offset by improved fuel efficiency. Fuel efficiency in 2011 was negatively impacted by severe weather conditions. Purchased services costs in 2012 increased $156 million (7%) compared to 2011 due primarily to increased volume, increased purchased transportation services of BNSF Logistics, a wholly-owned third party logistics company, and increased equipment maintenance costs, partially offset by lower weather-related costs. Interest expense in 2012 increased $63 million (11%) versus 2011, due principally to higher average outstanding debt balances.

Revenues for 2011 were approximately $19.5 billion, representing an increase of approximately $2.7 billion (16%) over 2010. Revenues from each of the four business groups increased between 8% and 19% as compared to 2010. Overall, the increases in revenues in 2011 reflected a 12% increase in average revenues per car/unit across all four business groups, as well as a 3% increase in the volume of cars/units handled. Revenues in each period include fuel surcharges. Average revenues per car/unit in 2011 included the effects of fuel surcharge increases of 35% in 2011 as compared to 2010.

The volume increase in 2011 is comprised of increases of 7% in cars/units handled in the consumer products and industrial products groups combined with a 4% decrease in volume for coal products. The consumer products volume increase was attributable primarily to higher domestic intermodal and international volume. The decline in coal unit volume was partially attributable to the impacts of severe flooding along key coal routes. Industrial products volume increased primarily as a result of increased steel and sand shipments, as well as increased demand in petroleum products. Agricultural product volume remained relatively unchanged, as higher wheat exports and U.S. corn shipments were mostly offset by declining soybean exports.

Operating expenses in 2011 were $14.2 billion, representing an increase of $1.9 billion (15%) over 2010. Fuel expenses increased $1.3 billion in 2011 primarily due to higher fuel prices. The remainder of the increase in fuel costs was driven by higher overall freight volumes and severe weather conditions, which negatively impacted efficiency. Compensation and benefits expenses increased $311 million, reflecting increased volume, as well as salaries and benefits inflation, increased personnel training costs and flood-related costs. Purchased services expenses increased $49 million due primarily to increased volume and flood-related costs, offset by lower locomotive maintenance costs. Materials and other expenses increased $186 million, reflecting higher locomotive and freight car material costs and increased crew transportation, travel and casualty costs offset by lower environmental costs.

Utilities and Energy ("MidAmerican")

We hold an 89.8% ownership interest in MidAmerican Energy Holdings Company ("MidAmerican"), which operates an international energy business. MidAmerican's domestic regulated energy interests are comprised of two regulated utility companies, PacifiCorp and MidAmerican Energy Company ("MEC"). MidAmerican also owns two interstate natural gas pipeline companies. In Great Britain, MidAmerican operates two electricity distribution businesses, owned by Northern Powergrid Holdings Company ("Northern Powergrid"). The rates that utility and natural gas pipeline companies charge customers for energy and other services are generally subject to regulatory approval. Rates are based in large part on the costs of business operations, including a return on capital. To the extent these operations are not allowed to include such costs in the approved rates, operating results will be adversely affected. In addition, MidAmerican also operates a diversified portfolio of independent power projects, including recently-acquired solar and wind projects, and the second-largest residential real estate brokerage firm in the United States.

Utilities and Energy ("MidAmerican") *(Continued)*

Revenues and earnings of MidAmerican are summarized below. Amounts are in millions.

	Revenues			Earnings		
	2012	2011	2010	2012	2011	2010
PacifiCorp	$ 4,950	$ 4,639	$ 4,518	$ 737	$ 771	$ 783
MidAmerican Energy Company	3,275	3,530	3,824	236	279	279
Natural gas pipelines	978	993	994	383	388	378
Northern Powergrid	1,036	1,016	804	429	469	333
Real estate brokerage	1,333	1,007	1,046	82	39	42
Other	175	106	119	91	36	47
	$11,747	$11,291	$11,305			
Earnings before corporate interest and income taxes				1,958	1,982	1,862
Corporate interest				(314)	(336)	(353)
Income taxes and noncontrolling interests				(321)	(442)	(378)
Earnings attributable to Berkshire				$1,323	$1,204	$1,131

In 2012, PacifiCorp's revenues increased $311 million (7%) over revenues in 2011. The increase was primarily due to higher retail revenues of $244 million, which were due to higher prices approved by regulators across most of PacifiCorp's jurisdictions of $222 million, as well as to increased revenues from renewable energy credits. The comparative increase in renewable energy credit revenues in 2012 was attributable in part to higher deferrals of credits in 2011 as a result of a rate case settlement. In 2012, PacifiCorp also experienced generally higher customer load in Utah, which was offset by lower industrial customer load in Wyoming and Oregon, attributable to certain large customers electing to self-generate their own power and by lower residential customer load in Oregon as a result of unfavorable weather.

PacifiCorp's earnings before corporate interest and taxes ("EBIT") in 2012 declined $34 million (4%) compared to the corresponding 2011 period. EBIT in 2012 reflected increased operating earnings from higher revenues (from rates and customer loads), which was more than offset by higher energy costs and other operating expenses, as well as increased depreciation and amortization from higher plant in service. In 2012, operating expenses included charges of $165 million related to litigation, fire and other damage claims.

PacifiCorp's revenues in 2011 were $4,639 million, an increase of $121 million (3%) over 2010. The increase was primarily attributable to an increase of $350 million in retail operating revenues, partially offset by a decrease of $196 million in wholesale and other operating revenues. The increase in retail revenues was due to higher prices approved by regulators and higher customer load. The decrease in wholesale and other revenues was due to a 24% decrease in average prices and a 6% decrease in volumes. Additionally, wholesale and other revenues decreased $57 million due to lower sales and higher deferrals of renewable energy credits. PacifiCorp's EBIT in 2011 was $771 million, a decrease of $12 million (2%) from 2010. Increased revenues were more than offset by an overall increase in energy and operating costs, as well as higher net interest expense.

MEC's revenues in 2012 declined $255 million (7%) compared to 2011. In 2012, MEC's regulated electric revenues increased 2% to approximately $1.7 billion, while regulated natural gas revenues declined $110 million to $659 million. The decline in natural gas revenues reflected lower average per-unit cost of natural gas sold and lower volumes, which was attributable to unseasonably warm weather and other usage factors. Nonregulated and other operating revenues declined $178 million in 2012 compared to 2011, due to generally lower electricity and natural gas prices. MEC's EBIT in 2012 declined $43 million (15%) compared to 2011, which reflected lower operating earnings, partially offset by lower interest expense. In 2012, MEC's overall operating earnings reflected increased depreciation expense of $56 million and higher general and administrative expenses.

MEC's revenues of $3,530 million in 2011 declined $294 million (8%) from 2010 due to lower regulated electric and gas revenues as well as lower nonregulated and other operating revenues. Regulated retail and wholesale electric revenues declined $117 million (7%), primarily due to a 19% reduction in wholesale volume and due to lower average wholesale prices. Regulated natural gas revenues declined $83 million (10%), primarily due to a 30% decline in wholesale volume. Nonregulated and other operating revenues decreased $112 million (9%), due principally to lower electricity volumes and prices. MEC's EBIT of $279

Utilities and Energy ("MidAmerican") *(Continued)*

million in 2011 was unchanged from 2010. The effect of the declines in revenues were essentially offset by lower energy costs, which was driven by lower sales volumes, and to a lesser degree, by lower net interest expense.

In 2012, natural gas pipelines' revenues and EBIT declined $15 million and $5 million, respectively, compared to 2011. In 2012, natural gas revenues increased from expansion projects and from higher transportation and storage rates in certain markets, which were more than offset by lower volumes of gas and condensate liquids sales (which are offset in cost of sales) and the impact of contract expirations. In 2012, EBIT also reflected increased depreciation expense, partially offset by lower interest expense. Natural gas pipelines' revenues and EBIT in 2011 were relatively unchanged from 2010.

Northern Powergrid's revenues in 2012 increased $20 million (2%) while EBIT declined $40 million (9%) compared to 2011. In 2012, revenues were negatively impacted by currency-related declines from a stronger U.S. Dollar. Excluding currency related impacts, distribution revenues increased $28 million in 2012, reflecting higher tariff rates ($76 million), partially offset by the impact of higher regulatory provisions in 2011 ($55 million). Northern Powergrid's EBIT in 2012 was negatively affected by increases in pension expense ($44 million) and distribution operating expenses ($21 million), which more than offset the increase in distribution revenues.

Revenues of Northern Powergrid were $1,016 million in 2011, an increase of $212 million (26%) from 2010. The increase was primarily due to an increase of $197 million in distribution revenues, and to a lesser degree to a weaker U.S. Dollar. EBIT in 2011 was $469 million, an increase of $136 million (41%) over 2010. The increase in EBIT was also primarily due to higher distribution revenues and the weaker U.S. Dollar, partially offset by the impact of a $45 million gain on the sale of a subsidiary in 2010.

Real estate brokerage revenues in 2012 increased $326 million (32%) and EBIT increased $43 million (110%) over 2011. The revenue increase included $123 million from businesses acquired in 2012. The increase in revenues also reflected a 16% increase in closed sales transactions and higher average home sale prices from existing businesses. The increase in real estate brokerage EBIT in 2012 reflected the impact of business acquisitions in 2012 as well as the aforementioned increase in closed sales transactions.

Revenues of the real estate brokerage business were $1,007 million in 2011, down 4% from $1,046 million in 2010, primarily due to a 4% decrease in average home sale prices. EBIT of the real estate brokerage business of $39 million was 7% lower than the $42 million in 2010.

Manufacturing, Service and Retailing

A summary of revenues and earnings of our manufacturing, service and retailing businesses follows. Amounts are in millions.

	Revenues			Earnings		
	2012	2011	2010	2012	2011	2010
Marmon	$ 7,171	$ 6,925	$ 5,967	$1,137	$ 992	$ 813
McLane Company	37,437	33,279	32,687	403	370	369
Other manufacturing	26,757	21,191	17,664	3,319	2,397	1,911
Other service	8,175	7,438	6,852	966	977	905
Retailing	3,715	3,573	3,440	306	301	276
	$83,255	$72,406	$66,610			
Pre-tax earnings				6,131	5,037	4,274
Income taxes and noncontrolling interests				2,432	1,998	1,812
				$3,699	$3,039	$2,462

Manufacturing, Service and Retailing *(Continued)*

Marmon

Through Marmon, we operate approximately 150 manufacturing and service businesses that operate independently within eleven diverse business sectors. Marmon's revenues in 2012 were approximately $7.2 billion, an increase of 3.6% over 2011. Revenue increases attributable to bolt-on acquisitions in the Crane Services, Highway Technologies, Engineered Wire & Cable and Distribution Services sectors were substantially offset by the impact of lower copper prices in the Building Wire and Flow Products sectors. However, significant organic growth occurred within the Distribution Services, Transportation Services & Engineered Products ("TSEP"), Highway Technologies and Water Treatment sectors. Despite falling steel prices, Distribution Services increased market share in their market niches, driving annual revenues up 5% over 2011. Higher rail fleet utilization and higher rental rates, offset by lower external sales of railroad tank cars, provided most of the TSEP growth and sulfur equipment installations in the Middle East provided the balance. Commercial and heavy haul trailers have driven the increase in Highway Technologies, while projects for the Canadian Tar Sands area provided growth in Water Treatment. These increases were somewhat offset by revenue declines in the Flow Products and Building Wire sectors due to the persistent slowdown in commercial construction. Retail Store Fixtures continued to suffer from a reduction in volume from its major customer, which resulted in a 14% decline in revenues for 2012.

Pre-tax earnings in 2012 were $1.1 billion, an increase of 14.6% over 2011. Approximately 25% of the overall increase in pre-tax earnings was attributable to bolt-on acquisitions. Excluding the effects of these acquisitions, eight of the eleven Marmon business sectors produced increased pre-tax earnings in 2012 compared to 2011. Among the sectors reporting the largest dollar increases in pre-tax earnings were the TSEP, Highway Technologies, Distribution Services and Water Treatment sectors reflecting the aforementioned revenue growth. In addition, Engineered Wire & Cable sector's pre-tax earnings rose 24% attributable to restructuring actions taken in 2011 in the utility and commodity-driven businesses, along with growth in that sector's specialty wire niches. Flow Products, Building Wire and Retail Store Fixtures sectors reported lower 2012 pre-tax earnings consistent with the revenue declines previously discussed. In 2012, consolidated pre-tax earnings as a percentage of revenues were 15.9% compared to 14.3% in 2011.

The improvement in operating results in 2012 reflects the continued emphasis of Marmon's business model, which fosters margin growth. Consistent with this model, most of the growth in 2012 was in higher margin sectors that focus on niche markets. In addition, improvements in revenues and pre-tax earnings also generally reflected continued strength in some of Marmon's end markets, recent new product introductions and ongoing efforts to control overhead costs.

Revenues in 2011 were $6.9 billion, an increase of approximately 16% over 2010. An estimated 25% of the aggregate revenue increase was attributed to increased copper prices affecting the Building Wire and Flow Products sectors, where copper cost increases are passed on to customers with little or no margin. Ten of the eleven business sectors produced comparative revenue increases. The only sector reporting a comparative revenue decrease was the Retail Store Fixtures sector, where its largest customer significantly reduced its purchases. Pre-tax earnings in 2011 were $992 million, an increase of approximately 22% over 2010. Pre-tax earnings in 2011 increased in all sectors except Retail Store Fixtures consistent with the revenue decline previously discussed. Pre-tax earnings as a percent of revenues were 14.3% in 2011 and 13.6% in 2010.

McLane Company

Through McLane, we operate a wholesale distribution business that provides grocery and non-food products to retailers, convenience stores and restaurants. McLane's business is marked by high sales volume and very low profit margins. McLane's significant customers include Wal-Mart, 7-Eleven and Yum! Brands. In 2010, McLane acquired Empire Distributors ("Empire"), based in Georgia and North Carolina, and Horizon Wine and Spirits Inc. ("Horizon"), based in Tennessee. Empire and Horizon are wholesale distributors of distilled spirits, wine and beer. On August 24, 2012, McLane acquired Meadowbrook Meat Company, Inc. ("MBM"). MBM, based in Rocky Mount, North Carolina, is a large customized foodservice distributor for national restaurant chains with annual revenues of approximately $6 billion. MBM's revenues and earnings were included in McLane's results beginning as of the acquisition date. Approximately 28% of McLane's consolidated revenues in 2012 were attributable to Wal-Mart. A curtailment of purchasing by Wal-Mart or another of its significant customers could have a material adverse impact on McLane's periodic revenues and earnings.

McLane's revenues were approximately $37.4 billion in 2012, an increase of about $4.2 billion (12.5%) over 2011. The increase in revenues was attributable to the MBM acquisition, as well as 6% to 8% revenue increases in McLane's grocery,

McLane Company (Continued)

foodservice and beverage business units. The increases in grocery and foodservice revenues reflected manufacturer price increases as well as increased volume. Pre-tax earnings in 2012 were $403 million, an increase of $33 million (9%) over 2011. The overall increase in earnings reflected the increases in revenues as pre-tax margin rates were relatively unchanged.

McLane's revenues of $33.3 billion in 2011 increased approximately $600 million (2%) over 2010. The increase in revenues in 2011 was partially attributable to the inclusion of the full-year results of Empire and Horizon. Otherwise, revenues in 2011 from the grocery business were relatively unchanged from 2010, while revenues from the foodservice business increased approximately 7% over 2010. Pre-tax earnings in 2011 were essentially unchanged from 2010 which reflected the inclusion of Empire and Horizon and increased earnings from the grocery business, offset by lower earnings from the foodservice business. In 2011, McLane benefitted from a slight increase in its consolidated gross sales margin, which was offset by increased fuel, trucking and legal and professional costs.

Other manufacturing

Our other manufacturing businesses include several manufacturers of building products (Acme Building Brands, Benjamin Moore, Johns Manville, Shaw and MiTek) and apparel (led by Fruit of the Loom which includes Russell athletic apparel and Vanity Fair Brands women's intimate apparel). Also included in this group are Forest River, a leading manufacturer of leisure vehicles, IMC Metalworking Companies ("Iscar"), an industry leader in the metal cutting tools business with operations worldwide and CTB, a manufacturer of equipment and systems for the livestock and agricultural industries. Other manufacturing businesses also include The Lubrizol Corporation ("Lubrizol"), a specialty chemical manufacturer that we acquired on September 16, 2011. Lubrizol's revenues and earnings are included in other manufacturing revenues and earnings beginning as of that date.

Revenues of our other manufacturing businesses in 2012 were approximately $26.8 billion, an increase of approximately $5.6 billion (26%) over 2011. Excluding Lubrizol, revenues in 2012 grew 6% over 2011. In 2012, we experienced a revenue increase of 27% from Forest River, which was attributable to increased volume and average sales prices. In 2012, revenues from building products and apparel increased 4% and 5%, respectively, as compared with 2011. However, revenues in 2012 of Iscar and CTB (before the impact of bolt-on acquisitions) declined compared to 2011 as a result of weakness in demand, particularly in non-U.S. markets.

In 2012, pre-tax earnings of our other manufacturing businesses were approximately $3.3 billion, an increase of $922 million (38%) over earnings in 2011. Excluding the impact of Lubrizol, earnings of our other manufacturing businesses in 2012 increased 6% compared to 2011. The increase was primarily attributable to increased earnings from building products, apparel and Forest River, partially offset by lower earnings from Iscar, CTB and Scott Fetzer. In 2012, our Shaw carpet and flooring business benefited from the impact of price increases at the end of 2011 and beginning of 2012, as well as from relatively stable raw material costs in 2012, that resulted in higher margins. Our apparel businesses benefitted from past pricing actions and stabilizing raw material costs. On the other hand, our other businesses that manufacture products that are primarily for commercial and industrial customers, particularly those with significant business in overseas markets, such as CTB and Iscar, were negatively impacted in 2012 by slowing economic conditions in certain of those markets.

Other manufacturing revenues increased $3.5 billion (20%) in 2011 to $21.2 billion compared with 2010. In 2011, Lubrizol accounted for approximately $1.7 billion of the increase. Otherwise, revenues of our other manufacturing businesses increased 10%. Iscar and CTB in particular experienced strong demand for their products.

Pre-tax earnings of our other manufacturing businesses were $2.4 billion in 2011, an increase of $486 million (25%) over 2010. Excluding the impact of Lubrizol, earnings increased 10% compared to 2010. Increased earnings were generated by Iscar and CTB, which were partially offset by lower earnings of the apparel group and, particularly from the Fruit of the Loom group of businesses, which were negatively impacted by significantly higher cotton costs. Our building products businesses were negatively impacted by slow residential housing construction activity.

Manufacturing, Service and Retailing *(Continued)*

Other service

Our other service businesses include NetJets, the world's leading provider of fractional ownership programs for general aviation aircraft and FlightSafety, a provider of high technology training to operators of aircraft. Among the other businesses included in this group are: TTI, a leading electronic components distributor; Business Wire, a leading distributor of corporate news, multimedia and regulatory filings; Dairy Queen, which licenses and services a system of over 6,200 stores that offer prepared dairy treats and food; Buffalo News and the BH Media Group, which includes the Omaha World-Herald acquired at the end of 2011, as well as 26 other daily newspapers and numerous other publications; and businesses that provide management and other services to insurance companies.

Revenues of our other service businesses in 2012 were approximately $8.2 billion, an increase of $737 million (10%) over 2011. The increase in revenues in 2012 was primarily attributable to the inclusion of the BH Media Group and a comparative revenue increase from TTI, principally due to its bolt-on business acquisitions in 2012. Pre-tax earnings of $966 million in 2012 declined $11 million (1%) from earnings in 2011. Earnings of NetJets and FlightSafety in 2012 were relatively unchanged from 2011. Earnings of other service businesses in 2012 included earnings of the BH Media Group, which were more than offset by lower earnings from TTI due primarily to weaker customer demand and intensifying price competition over the past year.

Revenues of our other service businesses were approximately $7.4 billion in 2011, an increase of $586 million (9%) over 2010. The revenue increase was primarily attributable to stronger demand for electronic components (TTI) and pilot training (FlightSafety) and from higher revenues at NetJets. TTI revenues increased 12% as customer demand increased rapidly during the first half of 2011, and then moderated over the second half. FlightSafety's revenues increased approximately 8% due primarily to increases in training demand within the business aviation and regional airline markets, partially offset by lower revenues from government customers. The comparative revenue increases of NetJets reflected revenues related to aircraft operating cost increases that are passed through to customers (with little or no margin), and slight increases in rates. Revenue hours flown in 2011 were essentially unchanged from 2010.

Pre-tax earnings were $977 million in 2011, which exceeded 2010 by $72 million (8%). The increase in earnings was driven by higher earnings of FlightSafety, NetJets and TTI, partially offset by lower earnings from Buffalo News. FlightSafety's earnings increased approximately 16%, reflecting increased revenues and ongoing cost containment efforts. NetJets' earnings increased 10% primarily attributable to higher revenues and lower aircraft maintenance costs due to a 10% reduction in the size of the fleet, partially offset by comparatively higher impairment charges related to the planned disposition of certain aircraft and fees incurred to cancel certain aircraft purchase commitments. Over the past few years, NetJets has reduced the number of aircraft in its fleet by approximately 20% and lowered its operating cost structure to better match customer demand.

Retailing

Our retailing operations consist of four home furnishings businesses (Nebraska Furniture Mart, R.C. Willey, Star Furniture and Jordan's), three jewelry businesses (Borsheims, Helzberg and Ben Bridge), See's Candies; Pampered Chef, a direct seller of high quality kitchen tools; and Oriental Trading Company ("OTC"), a direct retailer of party supplies, school supplies and toys and novelties, which we acquired on November 27, 2012.

Revenues and pre-tax earnings in 2012 from the retailing businesses increased $142 million (4%) and $5 million (2%), respectively, over revenues and earnings in 2011. Increased revenues from the home furnishings and jewelry businesses as well as the inclusion of OTC since November 27 were partially offset by lower revenues from Pampered Chef. Increased earnings of our home furnishings retailers were substantially offset by lower earnings from our jewelry businesses and Pampered Chef.

Revenues of our retailing businesses were $3.6 billion in 2011, an increase of $133 million (4%) over 2010. Pre-tax earnings were $301 million, an increase of $25 million (9%) over 2010. With the exception of Pampered Chef, each of our retailing businesses generated comparatively higher revenues and pre-tax earnings in 2011.

Finance and Financial Products

Our finance and financial products businesses include manufactured housing and finance (Clayton Homes), transportation equipment leasing (XTRA), furniture leasing (CORT) as well as various miscellaneous financing activities. A summary of revenues and earnings from our finance and financial products businesses follows. Amounts are in millions.

	Revenues			Earnings		
	2012	2011	2010	2012	2011	2010
Manufactured housing and finance	$3,014	$2,932	$3,256	$255	$154	$176
Furniture/transportation equipment leasing	753	739	660	148	155	53
Other	343	343	348	445	465	460
	$4,110	$4,014	$4,264			
Pre-tax earnings				848	774	689
Income taxes and noncontrolling interests				291	258	248
				$557	$516	$441

Clayton Homes' revenues in 2012 increased $82 million (3%) over 2011. Revenues from home sales increased $129 million (9%), due primarily to a 14% increase in units sold partially offset by slightly lower average selling prices. Financial services revenues declined $47 million (3%) as a result of lower interest income. Installment loan and finance receivable balances as of December 31, 2012, were approximately $12.3 billion, a decline of approximately $550 million from December 31, 2011. Clayton Homes' pre-tax earnings in 2012 increased $101 million (66%) over earnings in 2011. Earnings in 2012 were impacted by the increased unit sales which improved manufacturing and other operating efficiencies. Earnings also benefited from reduced insurance claims and a decline in credit losses. The decline in interest income on loan portfolios was more than offset by interest expense attributable to a decline in borrowings and lower interest rates.

Revenues of Clayton Homes were $2.9 billion in 2011, a decline of $324 million (10%) from 2010. Revenues from home sales declined approximately 17%, as unit sales declined about 14%. Home sales in 2010 benefitted from the U.S. federal tax credit program offered to homebuyers, which expired on June 30, 2010. In addition, the average price per home sold declined slightly in 2011, as a larger percentage of homes sold were lower priced single section units. Clayton Homes' financial services income in 2011 also declined slightly, due primarily to lower interest income from installment loans. Net consumer loan balances at December 31, 2011 declined by approximately $600 million from December 31, 2010 to approximately $12.9 billion. The decline reflects runoff of the loan portfolio and fewer new loans. Pre-tax earnings of Clayton Homes were $154 million in 2011, a decline of $22 million (12.5%) versus 2010. Earnings in 2011 were negatively impacted by lower revenues and a $27 million increase in insurance claims (primarily from severe storms in the spring and summer), partially offset by lower selling, general and administrative and interest expenses.

While manufactured homes sold were higher in 2012 compared to 2011, Clayton Homes' manufactured housing business continues to operate at a competitive disadvantage compared to traditional single family housing markets, which receive significant interest rate subsidies from the U.S. government through government agency insured mortgages. For the most part, these subsidies are not available to factory built homes. Nevertheless, Clayton Homes remains the largest manufactured housing business in the United States and we believe that it will continue to operate profitably, even under the prevailing conditions.

In 2012, revenues of CORT and XTRA increased $14 million (2%), while pre-tax earnings declined $7 million (5%) versus 2011. In 2012, CORT's earnings increased over 2011 due to a 5% increase in rental income and relatively stable selling, general and administrative expenses, which improved operating margins. In 2012, earnings from XTRA declined primarily due to increased depreciation expense and lower foreign currency exchange gains.

Revenues of CORT and XTRA increased $79 million in 2011 compared to 2010, while earnings increased $102 million. The increases in revenues and earnings were primarily attributable to an increased proportion of assets on lease (utilization rates) and lower depreciation expense. A significant portion of the expenses of our leasing businesses, such as depreciation and facilities expenses, do not change significantly with rental volume, so the impact of revenue changes can have a disproportionate impact on earnings.

Finance and Financial Products *(Continued)*

Earnings from our other finance business activities include investment income from a portfolio of fixed maturity and equity investments, a commercial mortgage servicing business in which we own 50% and from a small portfolio of long-held commercial real estate loans, which during the third and fourth quarters of 2012 were repaid in full. In addition, other earnings include income from interest rate spreads charged to Clayton Homes on borrowings (approximately $11.2 billion as of December 31, 2012) by a Berkshire financing subsidiary. The borrowings are used to fund loans to Clayton Homes. Corresponding charges for this interest spread (approximately $90 million in 2012, $100 million in 2011 and $110 million in 2010) are reflected in Clayton Homes' earnings. In addition, other earnings include guaranty fee income of $30 million in 2012, $41 million in 2011 and $38 million in 2010 from NetJets. Corresponding expenses are included in NetJets' results.

Investment and Derivative Gains/Losses

A summary of investment and derivative gains and losses and other-than-temporary impairment losses on investments follows. Amounts are in millions.

	2012	2011	2010
Investment gains/losses:			
Sales and other disposals			
Insurance and other	$1,288	$ 1,991	$ 3,032
Finance and financial products	2	162	9
Other-than-temporary impairment losses	(337)	(908)	(1,973)
Other	509	29	1,017
	1,462	1,274	2,085
Derivative gains/losses:			
Credit default contracts	894	(251)	250
Equity index put option contracts	997	(1,787)	172
Other derivative contracts	72	(66)	(161)
	1,963	(2,104)	261
Gains/losses before income taxes and noncontrolling interests	3,425	(830)	2,346
Income taxes and noncontrolling interests	1,198	(309)	472
Net gains/losses	$2,227	$ (521)	$ 1,874

Investment gains/losses arise primarily from the sale or redemption of investments. The timing of gains or losses from sales or redemptions can have a material effect on periodic earnings. Investment gains and losses usually have minimal impact on the periodic changes in our consolidated shareholders' equity since most of our investments are regularly recorded at fair value with the unrealized gains and losses included in shareholders' equity as a component of accumulated other comprehensive income.

We believe the amount of investment gains/losses included in earnings in any given period typically has little analytical or predictive value. Our decisions to sell securities are not motivated by the impact that the resulting gains or losses will have on our reported earnings. Although our management does not consider investment gains and losses in a given period as necessarily meaningful or useful in evaluating periodic earnings, we are providing information to explain the nature of such gains and losses when they are reflected in earnings.

Pre-tax investment gains from sales and other disposals of investments were approximately $1.3 billion in 2012 and were primarily attributable to sales of equity securities. Investment gains from sales and other disposals in 2011 included an aggregate pre-tax gain of $1.8 billion from the redemptions of our Goldman Sachs and General Electric preferred stock investments. In 2010, investment gains from sales and other disposals were derived principally from dispositions of equity securities and a $1.3 billion gain from the redemption of the Swiss Re capital instrument. Other investment gains in 2010 included a one-time holding gain of $979 million that arose in connection with our acquisition of BNSF as a result of the application of acquisition accounting under GAAP.

Investment and Derivative Gains/Losses *(Continued)*

In each of the three years ending December 31, 2012, we recognized OTTI losses on certain of our equity and fixed maturity investments. OTTI losses on fixed maturity investments were $337 million in 2012, $402 million in 2011 and $1,020 million in 2010. In each year, substantially all of the losses related to our investments in Texas Competitive Electric Holdings ("TCEH") bonds. In each year, we recognized losses after reevaluating expected cash flows likely to be received. While we do not currently anticipate further OTTI losses on our TCEH investments, additional losses may be required in the future if the company's financial condition deteriorates further or it pursues bankruptcy reorganization. In 2011 and 2010, we also recognized aggregate OTTI losses of $506 million and $953 million, respectively, related to our investments in equity securities. Such OTTI losses in 2011 and 2010 averaged about 7.5% and 20%, respectively, of the original cost of the impaired securities. In each case, the issuer had been profitable in recent periods and in some cases highly profitable. In 2011, a portion of the OTTI losses related to certain components of our Wells Fargo common stock investments.

Although we have periodically recorded OTTI losses in earnings in each of the past three years, we continue to hold positions in certain of the related securities. In cases where the market values of these investments have increased since the dates the OTTI losses were recorded in earnings, these increases are not reflected in earnings but are instead included in shareholders' equity as a component of accumulated other comprehensive income. When recorded, OTTI losses have no impact whatsoever on the asset values otherwise recorded in our Consolidated Balance Sheets or on our consolidated shareholders' equity. In addition, the recognition of such losses in earnings rather than in accumulated other comprehensive income does not necessarily indicate that sales are imminent or planned and sales ultimately may not occur for a number of years. Furthermore, the recognition of OTTI losses does not necessarily indicate that the loss in value of the security is permanent or that the market price of the security will not subsequently increase to and ultimately exceed our original cost.

As of December 31, 2012, unrealized losses on our investments in equity and fixed maturity securities (determined on an individual purchase lot basis) were $257 million. We consider several factors in determining whether or not impairments are deemed to be other than temporary, including the current and expected long-term business prospects and if applicable, the creditworthiness of the issuer, our ability and intent to hold the investment until the price recovers and the length of time and relative magnitude of the price decline. Security prices may remain below cost for a period of time that may be deemed excessive from the standpoint of interpreting existing accounting rules, even though other factors suggest that the prices will eventually recover. As a result, accounting regulations may require that we recognize OTTI losses in earnings in instances where we may strongly believe that the market price of the impaired security will recover to at least our original cost and where we possess the ability and intent to hold the security until, at least, that time.

Derivative gains/losses primarily represent the changes in fair value of our credit default and equity index put option contracts. Periodic changes in the fair values of these contracts are reflected in earnings and can be significant, reflecting the volatility of underlying credit and equity markets. We have not actively traded into and out of credit default and equity index put option contracts. Under many of the contracts, no settlements will occur until the contract expiration dates, which may occur many years from now.

In 2012, we recorded pre-tax gains from derivative contracts of approximately $2.0 billion, which included gains from our equity index put option contracts of approximately $1.0 billion. The gains from equity index put option contracts were due to increased index values, foreign currency exchange rate changes and valuation adjustments on a small number of contracts where contractual settlements are determined differently than the standard determination of intrinsic value, partially offset by lower interest rate assumptions. Our ultimate payment obligations, if any, under our remaining equity index put option contracts will be determined as of the contract expiration dates, which begin in 2018, based on the intrinsic value as defined under the contracts as of those dates. Our recorded liability for these contracts was approximately $7.5 billion as of December 31, 2012.

In 2011, we recorded pre-tax losses of approximately $1.8 billion on our equity index put option contracts. The losses reflected declines ranging from about 5.5% to 17% with respect to three of the four equity indexes covered under our contracts and lower interest rate assumptions. In 2010, gains on equity index put option contracts were $172 million. In 2010, we settled certain equity index put option contracts early at the request of the counterparty and recorded a gain of $561 million, which is the difference between the recorded fair values of these contracts at the beginning of 2010 and the settlement payment amounts. Otherwise, we recognized pre-tax losses of $389 million under our remaining equity index put option contracts reflecting generally lower interest rate assumptions and the effect of foreign currency exchange rate changes. There were no new equity contracts entered into or other settlements during the three year period ending December 31, 2012.

Investment and Derivative Gains/Losses *(Continued)*

In 2012, we recognized pre-tax gains of $894 million on credit default contracts. Such gains were attributable to narrower spreads and the passage of time (reduced time exposure), as well as from settlements of certain contracts. No new credit default contracts were written during the past three years. A significant portion of our risks related to non-investment grade corporate issuers expired in the fourth quarter of 2012, and all remaining exposures related to corporate issuers expire in 2013.

We recorded pre-tax losses of $251 million on our credit default contracts in 2011 and gains of $250 million in 2010. The losses in 2011 were primarily related to our contracts involving non-investment grade corporate issuers due to widening credit default spreads and loss events. The gains in 2010 reflected the overall narrowing of credit default spreads for corporate issuers and were somewhat offset by losses due to the widening of spreads for municipalities.

Financial Condition

Our balance sheet continues to reflect significant liquidity and a strong capital base. Our consolidated shareholders' equity at December 31, 2012 was $187.6 billion, an increase of $22.8 billion from December 31, 2011. Consolidated cash and investments of our insurance and other businesses approximated $176.3 billion at December 31, 2012 including cash and cash equivalents of $42.4 billion, of which about $10.6 billion was held by the parent company. Otherwise, invested assets are held predominantly in our insurance businesses. On January 31, 2012, we issued $1.7 billion of parent company senior unsecured notes, the proceeds of which were used to fund the repayment of $1.7 billion of notes that matured in February 2012. In January 2013, we issued $2.6 billion of parent company senior unsecured notes with maturities ranging from 2016 to 2043, the proceeds of which were used to fund the repayment of $2.6 billion of notes that matured in February 2013.

In September 2011, our Board of Directors authorized Berkshire Hathaway to repurchase Class A and Class B shares of Berkshire at prices no higher than a 10% premium over the book value of the shares. In the fourth quarter of 2012, the Board of Directors increased the 10% premium limitation to 20%. Berkshire may repurchase shares at management's discretion. The repurchase program is expected to continue indefinitely, but does not obligate Berkshire to repurchase any dollar amount or number of Class A or Class B shares. Repurchases will not be made if they would reduce Berkshire's consolidated cash equivalent holdings below $20 billion. Financial strength and redundant liquidity will always be of paramount importance at Berkshire. In December 2012, Berkshire acquired 9,475 Class A shares and 606,499 Class B shares for approximately $1.3 billion.

In the fourth quarter of 2012, we acquired 10% of the outstanding shares of Marmon held by noncontrolling interests for aggregate consideration of approximately $1.4 billion. Approximately $800 million of the consideration was paid in the fourth quarter, and the remainder is payable in March 2013. As a result of these acquisitions, our ownership interest in Marmon increased to approximately 90%.

As discussed in Note 21 to the Consolidated Financial Statements, on February 13, 2013, we committed to invest $12.12 billion in a newly formed holding company that entered into a definitive merger agreement to acquire H.J. Heinz Company ("Heinz"). Our investment will consist of common and preferred stock and we will hold 50% of the voting interests in the holding company. The acquisition of Heinz is subject to approval by Heinz shareholders, receipt of regulatory approvals and other customary closing conditions, and is expected to close in the third quarter of 2013. We expect to use cash on hand to fund our investments.

Our railroad, utilities and energy businesses (conducted by BNSF and MidAmerican) maintain very large investments in capital assets (property, plant and equipment) and will regularly make capital expenditures in the normal course of business. In 2012, MidAmerican's capital expenditures were $3.4 billion and BNSF's capital expenditures were $3.5 billion. BNSF and MidAmerican forecast aggregate capital expenditures of approximately $8.3 billion in 2013. Future capital expenditures are expected to be funded from cash flows from operations and debt issuances. In 2012, BNSF issued debt of $2.5 billion with maturities in 2022 and 2042, and its outstanding debt increased approximately $1.9 billion to $14.5 billion as of December 31, 2012. In 2012, MidAmerican issued or acquired new term debt of approximately $3.1 billion and its aggregate outstanding borrowings increased approximately $1.7 billion to $21.6 billion as of December 31, 2012. BNSF and MidAmerican have aggregate debt and capital lease maturities in 2013 of about $2.5 billion. Berkshire has committed until February 28, 2014 to provide up to $2 billion of additional capital to MidAmerican to permit the repayment of its debt obligations or to fund its regulated utility subsidiaries. Berkshire does not guarantee the repayment of debt issued by BNSF, MidAmerican or any of their subsidiaries.

Financial Condition *(Continued)*

Assets of the finance and financial products businesses, which consisted primarily of loans and finance receivables, cash and cash equivalents, other fixed maturity and equity investments, were approximately $25.4 billion as of December 31, 2012 and $25.0 billion at December 31, 2011. Liabilities were approximately $22.1 billion as of December 31, 2012 and $25.4 billion as of December 31, 2011. As of December 31, 2012, notes payable and other borrowings of finance businesses were $13.0 billion and included approximately $11.2 billion of notes issued by Berkshire Hathaway Finance Corporation ("BHFC"). In 2012, $2.7 billion of BHFC notes matured. In May and September 2012, BHFC issued $2.35 billion of new notes with maturities in 2017, 2022 and 2042. In 2013, $3.45 billion of BHFC notes will mature, including $500 million that matured in January 2013. BHFC issued new debt of $500 million in January 2013 with maturities in 2017 and 2022. We currently intend to issue additional new debt through BHFC to replace some or all of the upcoming debt maturities. The proceeds from the BHFC notes are used to finance originated and acquired loans of Clayton Homes. The full and timely payment of principal and interest on the BHFC notes is guaranteed by Berkshire.

We regularly access the credit markets, particularly through our railroad, utilities and energy and finance and financial products businesses. Restricted access to credit markets at affordable rates in the future could have a significant negative impact on our operations.

We are party to several equity index put option and credit default contracts as described in Note 11 to the Consolidated Financial Statements. With limited exception, these contracts contain no collateral posting requirements under any circumstances, including changes in either the fair value or intrinsic value of the contracts or a downgrade in Berkshire's credit ratings. Substantially all of these contracts were entered into prior to December 31, 2008. At December 31, 2012, the net liabilities recorded for such contracts were approximately $7.9 billion and our collateral posting requirements were $40 million.

On July 21, 2010, President Obama signed into law financial regulatory reform legislation, known as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"). The Reform Act reshapes financial regulations in the United States by creating new regulators, regulating new markets and market participants and providing new enforcement powers to regulators. Virtually all major areas of the Reform Act are subject to extensive rulemaking proceedings being conducted both jointly and independently by multiple regulatory agencies, some of which have been completed and others that are expected to be finalized in 2013. Although the Reform Act may adversely affect some of our business activities, it is not currently expected to have a material impact on our consolidated financial results or financial condition.

Contractual Obligations

We are party to contracts associated with ongoing business and financing activities, which will result in cash payments to counterparties in future periods. Certain obligations reflected in our Consolidated Balance Sheets, such as notes payable, require future payments on contractually specified dates and in fixed and determinable amounts. Other obligations pertain to the acquisition of goods or services in the future, which are not currently reflected in the financial statements, such as minimum rentals under operating leases. Such obligations will be reflected in future periods as the goods are delivered or services provided. Amounts due as of the balance sheet date for purchases where the goods and services have been received and a liability incurred are not included to the extent that such amounts are due within one year of the balance sheet date.

The timing and/or amount of the payments under certain contracts are contingent upon the outcome of future events. Actual payments will likely vary, perhaps significantly, from estimates reflected in the table that follows. Most significantly, the timing and amount of payments arising under property and casualty insurance contracts are contingent upon the outcome of claim settlement activities or events that may occur over many years. In addition, obligations arising under life, annuity and health insurance benefits are estimated based on assumptions as to future premium payments, allowances, mortality, morbidity, expenses and policy lapse rates. The amounts presented in the following table are based on the liability estimates reflected in our Consolidated Balance Sheet as of December 31, 2012. Although certain insurance losses and loss adjustment expenses and

Contractual Obligations *(Continued)*

life, annuity and health benefits are ceded to and receivable from others under reinsurance contracts, such receivables are not reflected in the table below. A summary of contractual obligations as of December 31, 2012 follows. Amounts are in millions.

	Estimated payments due by period				
	Total	2013	2014-2015	2016-2017	After 2017
Notes payable and other borrowings [(1)]	$ 96,497	$13,070	$13,554	$ 9,935	$ 59,938
Operating leases	8,627	1,186	1,990	1,557	3,894
Purchase obligations	38,702	13,096	9,508	5,500	10,598
Losses and loss adjustment expenses [(2)]	66,189	14,086	15,656	9,145	27,302
Life, annuity and health insurance benefits [(3)]	19,600	1,516	55	225	17,804
Other [(4)]	34,263	15,345	3,115	1,250	14,553
Total	$263,878	$58,299	$43,878	$27,612	$134,089

(1) *Includes interest.*

(2) *Before reserve discounts of $1,990 million.*

(3) *Amounts represent estimated undiscounted benefit obligations net of estimated future premiums.*

(4) *Includes commitment to invest in Heinz and derivative contract liabilities.*

Critical Accounting Policies

Certain accounting policies require us to make estimates and judgments that affect the amounts reflected in the Consolidated Financial Statements. Such estimates are necessarily based on assumptions about numerous factors involving varying, and possibly significant, degrees of judgment and uncertainty. Accordingly, certain amounts currently recorded in the financial statements, with the benefit of hindsight, will likely be adjusted in the future based on additional information made available and changes in other facts and circumstances.

Property and casualty losses

A summary of our consolidated liabilities for unpaid property and casualty losses is presented in the table below. Except for certain workers' compensation liabilities, all liabilities for unpaid property and casualty losses (referred to in this section as "gross unpaid losses") are reflected in the Consolidated Balance Sheets without discounting for time value, regardless of the length of the claim-tail. Amounts are in millions.

	Gross unpaid losses		Net unpaid losses *	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
GEICO	$10,300	$10,167	$ 9,791	$ 9,705
General Re	15,961	16,288	14,740	15,267
BHRG	31,186	31,489	26,328	26,413
Berkshire Hathaway Primary Group	6,713	5,875	6,171	5,442
Total	$64,160	$63,819	$57,030	$56,827

* *Net of reinsurance recoverable and deferred charges on reinsurance assumed and before foreign currency translation effects.*

We record 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 with respect to losses occurring on or before the balance sheet date. The timing and amount of loss payments is subject to a great degree of variability and is contingent upon, among other things, the timing of claim reporting from insureds and cedants and the determination of the ultimate loss amount through the loss adjustment process. A variety of techniques are used in establishing the liabilities for unpaid losses. Regardless of the techniques used, significant judgments and assumptions are necessary in projecting the ultimate amounts payable in the future. As a result, uncertainties are imbedded in and permeate the actuarial loss reserving techniques and processes used.

Property and casualty losses *(Continued)*

As of any balance sheet date, not all claims that have occurred have been reported and not all reported claims have been settled. Loss and loss adjustment expense reserves include provisions for reported claims (referred to as "case reserves") and for claims that have not been reported (referred to as incurred but not yet reported ("IBNR") reserves). The time period between the loss occurrence date and settlement payment date is referred to as the "claim-tail." Property claims usually have fairly short claim-tails and, absent litigation, are reported and settled within a few years of occurrence. Casualty losses usually have very long claim-tails, occasionally extending for decades. Casualty claims are more susceptible to litigation and can be significantly affected by changing contract interpretations. The legal environment further contributes to extending claim-tails.

Receivables are recorded with respect to losses ceded to other reinsurers and are estimated in a manner similar to liabilities for insurance losses. In addition, reinsurance receivables 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.

We utilize processes and techniques to establish liability estimates that are believed to best fit the particular business. Additional information regarding those processes and techniques of our significant insurance businesses (GEICO, General Re and BHRG) follows.

GEICO

GEICO's gross unpaid losses and loss adjustment expense liabilities as of December 31, 2012 were $10.3 billion, which included $7.5 billion of reported average, case and case development reserves and $2.8 billion of IBNR reserves. GEICO predominantly writes private passenger auto insurance. Auto insurance claims generally have a relatively short claim-tail. The key assumptions affecting our reserve estimates include projections of ultimate claim counts ("frequency") and average loss per claim ("severity").

Our reserving methodologies produce reserve estimates based upon the individual claims (or a "ground-up" approach), which yields an aggregate estimate of the ultimate losses and loss adjustment expenses. Ranges of loss estimates are not determined in the aggregate.

Our actuaries establish and evaluate unpaid loss reserves using recognized standard actuarial loss development methods and techniques. The significant reserve components (and percentage of gross reserves as of December 31, 2012) are: (1) average reserves (15%), (2) case and case development reserves (60%) and (3) IBNR reserves (25%). Each component of loss reserves is affected by the expected frequency and average severity of claims. Reserves are analyzed using statistical techniques on historical claims data and adjusted when appropriate to reflect perceived changes in loss patterns. Data is analyzed by policy coverage, rated state, reporting date and occurrence date, among other ways. A brief discussion of each reserve component follows.

We establish average reserve amounts for reported auto damage claims and new liability claims prior to the development of an individual case reserve. The average reserves are intended to represent a reasonable estimate for incurred claims for claims when adjusters have insufficient time and information to make specific claim estimates and for a large number of minor physical damage claims that are paid within a relatively short time after being reported. Average reserve amounts are driven by the estimated average severity per claim and the number of new claims opened.

Our claims adjusters generally establish individual liability claim case loss and loss adjustment expense reserve estimates as soon as the specific facts and merits of each claim can be evaluated. Case reserves represent the amounts that in the judgment of the adjusters are reasonably expected to be paid in the future to completely settle the claim, including expenses. Individual case reserves are revised as more information becomes known.

For most liability coverages, case reserves alone are an insufficient measure of the ultimate cost due in part to the longer claim-tail, the greater chance of protracted litigation and the incompleteness of facts available at the time the case reserve is established. Therefore, we establish additional case development reserve estimates, which are usually percentages of the case reserve. As of December 31, 2012, case development reserves averaged approximately 25% of total established case reserves. In

general, case development factors are selected by a retrospective analysis of the overall adequacy of historical case reserves. Case development factors are reviewed and revised periodically.

For unreported claims, IBNR reserve estimates are calculated by first projecting the ultimate number of claims expected (reported and unreported) for each significant coverage by using historical quarterly and monthly claim counts in order to develop age-to-age projections of the ultimate counts by accident quarter. Reported claims are subtracted from the ultimate claim projections to produce an estimate of the number of unreported claims. The number of unreported claims is multiplied by an estimate of the average cost per unreported claim to produce the IBNR reserve amount. Actuarial techniques are difficult to apply reliably in certain situations, such as to new legal precedents, class action suits or recent catastrophes. Consequently, supplemental IBNR reserves for these types of events may be established through the collaborative effort of actuarial, claims and other management personnel.

For each significant coverage, we test the adequacy of the total loss reserves using one or more actuarial projections based on claim closure models, paid loss triangles and incurred loss triangles. Each type of projection analyzes loss occurrence data for claims occurring in a given period and projects the ultimate cost.

Unpaid loss and loss adjustment expense estimates recorded at the end of 2011 developed downward by $736 million when reevaluated through December 31, 2012, producing a corresponding increase to pre-tax earnings in 2012. These downward reserve developments represented approximately 4.4% of earned premiums in 2012 and approximately 7.2% of prior year-end recorded liabilities. Reserving assumptions at December 31, 2012 were modified appropriately to reflect the most recent frequency and severity results. Future reserve development will depend on whether actual frequency and severity are more or less than anticipated.

Within the automobile line of business, reserves for liability coverages are more uncertain due to the longer claim-tails. Approximately 92% of GEICO's reserves as of December 31, 2012 were for automobile liability, of which bodily injury ("BI") coverage accounted for approximately 55%. We believe it is reasonably possible that the average BI severity will change by at least one percentage point from the severity used. If actual BI severity changes one percentage point from what was used in establishing the reserves, our reserves would develop up or down by approximately $154 million resulting in a corresponding decrease or increase in pre-tax earnings. Many of the same economic forces that would likely cause BI severity to be different from expected would likely also cause severities for other injury coverages to differ in the same direction.

GEICO's exposure to highly uncertain losses is believed to be limited to certain commercial excess umbrella policies written during a period from 1981 to 1984. Remaining liabilities associated with such exposure are currently a relatively insignificant component of GEICO's total reserves (approximately 1.5%) and there is minimal apparent asbestos or environmental liability exposure. Related claim activity over the past year was insignificant.

General Re and BHRG

Liabilities for unpaid property and casualty losses and loss adjustment expenses of our General Re and BHRG underwriting units derive primarily from assumed reinsurance. Additional uncertainties are unique to the processes used in estimating such reinsurance liabilities. The nature, extent, timing and perceived reliability of information received from ceding companies varies widely depending on the type of coverage, the contractual reporting terms (which are affected by market conditions and practices) and other factors. Contract terms and conditions tend to lack standardization and contract terms, conditions and coverages may evolve more rapidly than under primary insurance policies. We are unable to reliably measure the ongoing economic impact of such uncertainties.

The nature and extent of loss information provided under many facultative, per occurrence excess or retroactive contracts may not differ significantly from the information received under a primary insurance contract. This occurs when our personnel either works closely with the ceding company in settling individual claims or manages the claims themselves. However, loss information related to aggregate excess-of-loss contracts, including catastrophe losses and quota-share treaties, is often less detailed. Occasionally, loss information is reported in a summary format rather than on an individual claim basis. Loss data is usually provided through periodic reports and may include the amount of ceded losses paid where reimbursement is sought as well as case loss reserve estimates. Ceding companies infrequently provide IBNR estimates to reinsurers.

Property and casualty losses *(Continued)*

General Re and BHRG (Continued)

Each of our reinsurance businesses has established practices to identify and gather needed information from clients. These practices include, for example, comparison of expected premiums to reported premiums to help identify delinquent client reports and claim reviews to facilitate loss reporting and identify inaccurate or incomplete claim reporting. We periodically evaluate and modify these practices as conditions, risk factors and unanticipated areas of exposures are identified.

The timing of claim reporting to reinsurers is typically delayed in comparison with claim reporting to primary insurers. In some instances, multiple reinsurers assume and cede parts of an underlying risk thereby causing multiple contractual intermediaries between us and the primary insured. In these instances, the claim reporting delays are compounded. The relative impact of reporting delays on the reinsurer varies depending on the type of coverage, contractual reporting terms and other factors. Contracts covering casualty losses on a per occurrence excess basis may experience longer delays in reporting due to the length of the claim-tail as regards to the underlying claim. In addition, ceding companies may not report claims until they conclude it is reasonably possible that the reinsurer will be affected, usually determined as a function of its estimate of the claim amount as a percentage of the reinsurance contract retention. However, the timing of reporting large per occurrence excess property losses or property catastrophe losses may not vary significantly from primary insurance.

Under contracts where periodic premium and claims reports are required from ceding companies, such reports are generally required at quarterly intervals which in the U.S. range from 30 to 90 days after the end of the accounting period. Outside the U.S., reinsurance reporting practices vary. In certain countries, clients report annually, often 90 to 180 days after the end of the annual period. The different client reporting practices generally do not result in a significant increase in risk or uncertainty as the actuarial reserving methodologies are adjusted to compensate for the delays.

Premium and loss data is provided to us through at least one intermediary (the primary insurer), so there is a risk that the loss data provided is incomplete, inaccurate or the claim is outside the coverage terms. Information provided by ceding companies is reviewed for completeness and compliance with the contract terms. Generally, we are permitted under the contracts to access the cedant's books and records with respect to the subject business, thus providing us the ability to conduct audits to determine the accuracy and completeness of information. Audits are conducted as we deem appropriate.

In the normal course of business, disputes with clients occasionally arise concerning whether certain claims are covered under our reinsurance policies. We resolve most coverage disputes through the involvement of our claims department personnel and the appropriate client personnel or through independent outside counsel. If disputes cannot be resolved, our contracts generally specify whether arbitration, litigation, or alternative dispute resolution process will be invoked. There are no coverage disputes at this time for which an adverse resolution would likely have a material impact on our consolidated results of operations or financial condition.

General Re

General Re's gross and net unpaid losses and loss adjustment expenses and gross reserves by major line of business as of December 31, 2012 are summarized below. Amounts are in millions.

Type		Line of business	
Reported case reserves	$ 8,258	Workers' compensation [1]	$ 2,887
IBNR reserves	7,703	Mass tort-asbestos/environmental	1,598
Gross reserves	15,961	Auto liability	3,349
Ceded reserves and deferred charges	(1,221)	Other casualty [2]	2,765
Net reserves	$14,740	Other general liability	2,590
		Property	2,772
		Total	$15,961

(1) *Net of discounts of $1,990 million.*

(2) *Includes directors and officers, errors and omissions, medical malpractice and umbrella coverage.*

Property and casualty losses *(Continued)*

General Re (Continued)

General Re's loss reserve estimation process is based upon a ground-up approach, beginning with case estimates and supplemented by additional case reserves ("ACRs") and IBNR reserves. The critical processes in establishing loss reserves involve the establishment of ACRs by claim examiners, the determination of expected ultimate loss ratios which drive IBNR reserve amounts and the comparison of case reserve reporting trends to the expected loss reporting patterns. Recorded reserve amounts are subject to "tail risk" where reported losses develop beyond the maximum expected loss emergence time period.

We do not routinely determine loss reserve ranges. We believe that the techniques necessary to make such determinations have not sufficiently developed and that the myriad of assumptions required render such resulting ranges to be unreliable. In addition, claim counts or average amounts per claim are not utilized because clients do not consistently provide reliable data in sufficient detail.

Upon notification of a reinsurance claim from a ceding company, our claim examiners make independent evaluations of loss amounts. In some cases, examiners' estimates differ from amounts reported by ceding companies. If the examiners' estimates are significantly greater than the ceding company's estimates, the claims are further investigated. If deemed appropriate, ACRs are established above the amount reported by the ceding company. As of December 31, 2012, ACRs aggregated approximately $2.5 billion before discounts and were concentrated in workers' compensation reserves, and to a lesser extent in professional liability reserves. Our examiners also periodically conduct detailed claim reviews of individual clients and case reserves are often increased as a result. In 2012, we conducted 270 claim reviews.

Our actuaries classify all loss and premium data into segments ("reserve cells") primarily based on product (e.g., treaty, facultative and program) and line of business (e.g., auto liability, property, etc.). For each reserve cell, premiums and losses are aggregated by accident year, policy year or underwriting year (depending on client reporting practices) and analyzed over time. We internally refer to these loss aggregations as loss triangles, which serve as the primary basis for our IBNR reserve calculations. We review over 300 reserve cells for our North American business and approximately 900 reserve cells with respect to our international business.

We use loss triangles to determine the expected case loss emergence patterns for most coverages and, in conjunction with expected loss ratios by accident year, loss triangles are further used to determine IBNR reserves. While additional calculations form the basis for estimating the expected loss emergence pattern, the determination of the expected loss emergence pattern is not strictly a mechanical process. In instances where the historical loss data is insufficient, we use estimation formulas along with reliance on other loss triangles and judgment. Factors affecting our loss development triangles include but are not limited to the following: changes in client claims practices, changes in claim examiners' use of ACRs or the frequency of client company claim reviews, changes in policy terms and coverage (such as client loss retention levels and occurrence and aggregate policy limits), changes in loss trends and changes in legal trends that result in unanticipated losses, as well as other sources of statistical variability. Collectively, these factors influence the selection of the expected loss emergence patterns.

We select expected loss ratios by reserve cell, by accident year, based upon reviewing forecasted losses and indicated ultimate loss ratios that are predicted from aggregated pricing statistics. Indicated ultimate loss ratios are calculated using the selected loss emergence pattern, reported losses and earned premium. If the selected emergence pattern is not accurate, then the indicated ultimate loss ratios may not be accurate, which can affect the selected loss ratios and hence the IBNR reserve. As with selected loss emergence patterns, selecting expected loss ratios is not a strictly mechanical process and judgment is used in the analysis of indicated ultimate loss ratios and department pricing loss ratios.

We estimate IBNR reserves by reserve cell, by accident year, using the expected loss emergence patterns and the expected loss ratios. The expected loss emergence patterns and expected loss ratios are the critical IBNR reserving assumptions and are updated annually. Once the annual IBNR reserves are determined, our actuaries calculate expected case loss emergence for the upcoming calendar year. These calculations do not involve new assumptions and use the prior year-end expected loss emergence patterns and expected loss ratios. The expected losses are then allocated into interim estimates that are compared to actual reported losses in the subsequent year. This comparison provides a test of the adequacy of prior year-end IBNR reserves and forms the basis for possibly changing IBNR reserve assumptions during the course of the year.

Property and casualty losses *(Continued)*

General Re (Continued)

In 2012, our reported claims for prior years' workers' compensation losses were less than expected by $192 million. However, further analysis of the workers' compensation reserve cells by segment indicated the need for maintaining IBNR reserves. These developments precipitated a net increase of $118 million in nominal IBNR reserve estimates for unreported occurrences. After adjusting for the $142 million net increase in liabilities from changes in net reserve discounts during the year, the net increase in workers' compensation losses from prior years' occurrences reduced pre-tax earnings in 2012 by $68 million. To illustrate the sensitivity of changes in expected loss emergence patterns and expected loss ratios for our significant excess-of-loss workers' compensation reserve cells, an increase of ten points in the tail of the expected emergence pattern and an increase of ten percent in the expected loss ratios would produce a net increase in our nominal IBNR reserves as of December 31, 2012 of approximately $776 million and $411 million on a discounted basis. The increase in discounted reserves would produce a corresponding decrease in pre-tax earnings. We believe it is reasonably possible for the tail of the expected loss emergence patterns and expected loss ratios to increase at these rates.

Our other casualty and general liability reported losses (excluding mass tort losses) developed downward in 2012 relative to expectations. Casualty losses tend to be long-tail and it should not be assumed that favorable loss experience in a given year means that loss reserve amounts currently established will continue to develop favorably. For our significant other casualty and general liability reserve cells (including medical malpractice, umbrella, auto and general liability), an increase of five points in the tails of the expected emergence patterns and an increase of five percent in expected loss ratios (one percent for large international proportional reserve cells) would produce a net increase in our nominal IBNR reserves and a corresponding reduction in pre-tax earnings of approximately $943 million. We believe it is reasonably possible for the tail of the expected loss emergence patterns and expected loss ratios to increase at these rates in any of the individual aforementioned reserve cells. However, given the diversification in worldwide business, more likely outcomes are believed to be less than $943 million.

Overall, our property losses were lower than expected in 2012 as a result of fewer catastrophe losses during the year. Our reported claims for prior years' property losses were less than expected by $402 million from December 31, 2011. However, the nature of property loss experience tends to be more volatile because of the effect of catastrophes and large individual property losses.

In certain reserve cells within excess directors and officers and errors and omissions ("D&O and E&O") coverages, IBNR reserves are based on estimated ultimate losses without consideration of expected emergence patterns. These cells often involve a spike in loss activity arising from recent industry developments making it difficult to select an expected loss emergence pattern. For our large D&O and E&O reserve cells, an increase of ten points in the tail of the expected emergence pattern (for those cells where emergence patterns are considered) and an increase of ten percent in the expected loss ratios would produce a net increase in nominal IBNR reserves and a corresponding reduction in pre-tax earnings of approximately $173 million. We believe it is reasonably possible for the tail of the expected loss emergence patterns and expected loss ratios to increase at these rates.

Overall industry-wide loss experience data and informed judgment are used when internal loss data is of limited reliability, such as in setting the estimates for mass tort, asbestos and hazardous waste (collectively, "mass tort") claims. Gross unpaid mass tort liabilities at December 31, 2012 and 2011 were approximately $1.6 billion. At December 31, 2012 and 2011, mass tort liabilities, net of reinsurance, were approximately $1.2 billion. Mass tort net claims paid were $79 million in 2012. In 2012, ultimate loss estimates for asbestos and environmental claims were increased by $37 million. In addition to the previously described methodologies, we consider "survival ratios" based on net claim payments in recent years versus net unpaid losses as a rough guide to reserve adequacy. The survival ratio based on claim payments made over the last three years was approximately 15 years as of December 31, 2012. The reinsurance industry's survival ratio for asbestos and pollution reserves was approximately 8.8 years based on the three years ending December 31, 2011. Estimating mass tort losses is very difficult due to the changing legal environment. Although such reserves are believed to be adequate, significant reserve increases may be required in the future if new exposures or claimants are identified, new claims are reported or new theories of liability emerge.

Property and casualty losses *(Continued)*

BHRG

BHRG's unpaid losses and loss adjustment expenses as of December 31, 2012 are summarized as follows. Amounts are in millions.

	Property	Casualty	Total
Reported case reserves	$1,962	$ 3,365	$ 5,327
IBNR reserves	2,824	5,044	7,868
Retroactive	—	17,991	17,991
Gross reserves	$4,786	$26,400	31,186
Deferred charges and ceded reserves			(4,858)
Net reserves			$26,328

In general, the methodologies we use to establish loss reserves vary widely and encompass many of the common methodologies employed in the actuarial field today. Certain traditional methodologies such as paid and incurred loss development techniques, incurred and paid loss Bornhuetter-Ferguson techniques and frequency and severity techniques are utilized, as well as ground-up techniques where appropriate. Additional judgments must also be employed to consider changes in contract conditions and terms as well as the incidence of litigation or legal and regulatory change.

As of December 31, 2012, our gross loss reserves related to retroactive reinsurance policies were predominately for casualty or liability losses. Our retroactive policies include excess-of-loss contracts, in which losses (relating to loss events occurring before a specified date on or before the contract date) above a contractual retention are indemnified or contracts that indemnify all losses paid by the counterparty after the policy effective date. We paid retroactive reinsurance losses and loss adjustment expenses of approximately $1.6 billion in 2012. The classification "reported case reserves" has no practical analytical value with respect to retroactive policies since the amount is often derived from reports in bulk from ceding companies, who may have inconsistent definitions of "case reserves." We review and establish loss reserve estimates, including estimates of IBNR reserves, in the aggregate by contract.

In establishing retroactive reinsurance reserves, we often analyze historical aggregate loss payment patterns and project losses into the future under various scenarios. The claim-tail is expected to be very long for many policies and may last several decades. We assign judgmental probability factors to these aggregate loss payment scenarios and an expectancy outcome is determined. We monitor claim payment activity and review ceding company reports and other information concerning the underlying losses. Since the claim-tail is expected to be very long for such contracts, we reassess expected ultimate losses as significant events related to the underlying losses are reported or revealed during the monitoring and review process. In 2012, changes in retroactive reserves related to contracts written in prior years were not significant.

BHRG's liabilities for environmental, asbestos and latent injury losses and loss adjustment expenses were approximately $12.4 billion at December 31, 2012 and $12.3 billion at December 31, 2011 and were concentrated within retroactive reinsurance contracts. We paid losses in 2012 attributable to these exposures of approximately $862 million. BHRG, as a reinsurer, does not receive consistently reliable information regarding asbestos, environmental and latent injury claims from all ceding companies, particularly with respect to multi-line treaty or aggregate excess-of-loss policies. Periodically, we conduct a ground-up analysis of the underlying loss data of the reinsured to make an estimate of ultimate reinsured losses. When detailed loss information is unavailable, our estimates can only be developed by applying recent industry trends and projections to aggregate client data. Judgments in these areas necessarily include the stability of the legal and regulatory environment under which these claims will be adjudicated. Potential legal reform and legislation could also have a significant impact on establishing loss reserves for mass tort claims in the future.

The maximum losses payable under our retroactive policies is not expected to exceed approximately $35 billion as of December 31, 2012, which is based on aggregate contract limits applicable to most of the contracts. Absent significant judicial or legislative changes affecting asbestos, environmental or latent injury exposures, we currently believe it unlikely that gross unpaid losses as of December 31, 2012 ($18.0 billion) will develop upward to the maximum loss payable or downward by more than 15%.

Property and casualty losses *(Continued)*

BHRG (Continued)

A significant number of our reinsurance contracts are expected to have a low frequency of claim occurrence combined with a potential for high severity of claims. These include property losses from catastrophes and aviation risks under catastrophe and individual risk contracts. Loss reserves related to catastrophe and individual risk contracts were approximately $1.6 billion at December 31, 2012, a decrease of about $400 million from December 31, 2011. In 2012, changes in estimated losses for prior years' events had an insignificant effect on pre-tax earnings. Reserving techniques for catastrophe and individual risk contracts generally rely more on a per-policy assessment of the ultimate cost associated with the individual loss event rather than with an analysis of the historical development patterns of past losses. Catastrophe loss reserves are provided when it is probable that an insured loss has occurred and the amount can be reasonably estimated. Absent litigation affecting the interpretation of coverage terms, the expected claim-tail is relatively short and thus the estimation error in the initial reserve estimates usually emerges within 24 months after the loss event.

Other reinsurance reserve amounts are generally based upon loss estimates reported by ceding companies and IBNR reserves that are primarily a function of reported losses from ceding companies and anticipated loss ratios established on an individual contract basis, supplemented by management's judgment of the impact on each contract of major catastrophe events as they become known. Anticipated loss ratios are based upon management's judgment considering the type of business covered, analysis of each ceding company's loss history and evaluation of that portion of the underlying contracts underwritten by each ceding company, which are in turn ceded to BHRG. A range of reserve amounts as a result of changes in underlying assumptions is not prepared.

Derivative contract liabilities

Our Consolidated Balance Sheets include significant amounts of derivative contract liabilities that are measured at fair value. As of December 31, 2012 our most significant derivative contract exposures relate to equity index put option contracts written between 2004 and 2008. These contracts were entered into in over-the-counter markets and certain elements in the terms and conditions of such contracts are not standard. In particular, we are not required to post collateral under most of our contracts. Furthermore, there is no source of independent data available to us showing trading volume and actual prices of completed transactions. As a result, the values of these liabilities are based on valuation models that are believed to be used by market participants. Such models or other valuation techniques may use inputs that are observable in the marketplace, while others are unobservable. Unobservable inputs require us to make certain projections and assumptions about the information that would be used by market participants in establishing prices. Changes in assumptions may have a significant effect on values.

We determine the estimated fair value of equity index put option contracts using a Black-Scholes based option valuation model. Inputs to the model include the current index value, strike price, interest rate, dividend rate and contract expiration date. The weighted average interest and dividend rates used as of December 31, 2012 were 2.1% and 3.3%, respectively, and were approximately 3.3% and 3.0%, respectively, as of December 31, 2011. The interest rates as of December 31, 2012 and 2011 were approximately 95 basis points and 153 basis points (on a weighted average basis), respectively, over benchmark interest rates and represented our estimate of our nonperformance risk. We believe, however, that the most significant economic risks under these contracts relate to changes in the index value component and to a lesser degree to the foreign currency component.

The Black-Scholes based model also incorporates volatility estimates that measure potential price changes over time. Our contracts have an average remaining maturity of about 8 years. The weighted average volatility used as of December 31, 2012 was approximately 20.9%, compared to 21.4% as of December 31, 2011. The weighted average volatilities are based on the volatility input for each equity index put option contract weighted by the notional value of each equity index put option contract as compared to the aggregate notional value of all equity index put option contracts. The volatility input for each equity index put option contract reflects our expectation of future price volatility. The impact on fair value as of December 31, 2012 ($7.5 billion) from changes in the volatility assumption is summarized in the table that follows. The values of contracts in an

Derivative contract liabilities *(Continued)*

actual exchange are affected by market conditions and perceptions of the buyers and sellers. Actual values in an exchange may differ significantly from the values produced by any mathematical model. Dollars are in millions.

Hypothetical change in volatility (percentage points)	Hypothetical fair value
Increase 2 percentage points	$7,955
Increase 4 percentage points	8,414
Decrease 2 percentage points	7,057
Decrease 4 percentage points	6,625

In addition, we have exposures relating to a number of credit default contracts written involving corporate and state/ municipality issuers. As of December 31, 2012, all credit default contracts involving corporate issuers will expire in 2013. Values associated with these contracts are no longer significant, as the risks of loss are no longer significant. Our states/ municipalities exposures begin to expire in 2019. The fair values of our state/municipality issuer credit default contracts are generally based on bond pricing data on the underlying bond issues and credit spread estimates. We monitor and review pricing data and spread estimates for consistency as well as reasonableness with respect to current market conditions. We make no significant adjustments to the pricing data or inputs obtained.

Prices in a current market trade involving identical (or sufficiently similar) risks and contract terms as our equity index put option or credit default contracts could differ significantly from the fair values used in the financial statements. We do not operate as a derivatives dealer and currently do not utilize offsetting strategies to hedge these contracts. We intend to allow these contracts to run off to their respective expiration dates.

Other Critical Accounting Policies

We record deferred charges with respect to liabilities assumed under retroactive reinsurance contracts. At the inception of these contracts, the deferred charges represent the excess, if any, of the estimated ultimate liability for unpaid losses over the consideration received. Deferred charges are amortized using the interest method over an estimate of the ultimate claim payment period with the periodic amortization reflected in earnings as a component of losses and loss adjustment expenses. Deferred charge balances are adjusted periodically to reflect new projections of the amount and timing of remaining loss payments. Adjustments to deferred charge balances resulting from changes to these assumptions are determined retrospectively from the inception of the contract. Unamortized deferred charges were approximately $4.0 billion at December 31, 2012. Significant changes in the estimated amount and payment timing of unpaid losses may have a significant effect on unamortized deferred charges and the amount of periodic amortization.

Our Consolidated Balance Sheet as of December 31, 2012 includes goodwill of acquired businesses of $54.5 billion, which includes $1.4 billion arising from our various acquisitions in 2012. We evaluate goodwill for impairment at least annually and conducted our most recent annual review during the fourth quarter of 2012. Such tests include determining the estimated fair values of our reporting units. There are several methods of estimating a reporting unit's fair value, including market quotations, underlying asset and liability fair value determinations and other valuation techniques, such as discounted projected future net earnings or net cash flows and multiples of earnings. We primarily use discounted projected future earnings or cash flow methods. The key assumptions and inputs used in such methods may include forecasting revenues and expenses, operating cash flows and capital expenditures, as well as an appropriate discount rate and other inputs. A significant amount of judgment is required in estimating the fair value of a reporting unit and performing goodwill impairment tests. Due to the inherent uncertainty in forecasting cash flows and earnings, actual future results may vary significantly from the forecasts. 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.

Market Risk Disclosures

Our Consolidated Balance Sheets include a substantial amount of assets and liabilities whose fair values are subject to market risks. Our significant market risks are primarily associated with interest rates, equity prices, foreign currency exchange rates and commodity prices. The fair values of our investment portfolios and equity index put option contracts remain subject to considerable volatility. The following sections address the significant market risks associated with our business activities.

Interest Rate Risk

We regularly invest in bonds, loans or other interest rate sensitive instruments. Our strategy is to acquire such securities that are attractively priced in relation to the perceived credit risk. Management recognizes and accepts that losses may occur with respect to assets. We also strive to maintain high credit ratings so that the cost of our debt is minimized. We rarely utilize derivative products, such as interest rate swaps, to manage interest rate risks.

The fair values of our fixed maturity investments and notes payable and other borrowings will fluctuate in response to changes in market interest rates. In addition, changes in interest rate assumptions used in our equity index put option contract models cause changes in reported liabilities with respect to those contracts. 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 fair values of fixed interest rate instruments may be more sensitive to interest rate changes than variable rate instruments.

The following table summarizes the estimated effects of hypothetical changes in interest rates on our assets and liabilities that are subject to interest rate risk. It is assumed that the interest rate changes occur immediately and uniformly to each category of instrument containing interest rate risk, and that there are no significant changes to other factors used to determine the value of the instrument. The hypothetical changes in interest rates do not reflect what could be deemed best or worst case scenarios. Variations in 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)			
	Fair Value	**100 bp decrease**	**100 bp increase**	**200 bp increase**	**300 bp increase**
December 31, 2012					
Assets:					
Investments in fixed maturity securities	$32,291	$33,095	$31,456	$30,653	$29,937
Other investments [(1)]	14,740	15,241	14,206	13,683	13,189
Loans and finance receivables	11,991	12,410	11,598	11,229	10,883
Liabilities:					
Notes payable and other borrowings:					
Insurance and other	14,284	14,794	13,815	13,398	13,018
Railroad, utilities and energy	42,074	46,268	38,519	35,495	32,902
Finance and financial products	14,005	14,597	13,432	12,950	12,519
Equity index put option contracts	7,502	8,980	6,226	5,131	4,198
December 31, 2011					
Assets:					
Investments in fixed maturity securities	$32,188	$32,966	$31,371	$30,569	$29,859
Other investments [(1)]	13,927	14,501	13,382	12,863	12,374
Loans and finance receivables	13,126	13,584	12,696	12,292	11,913
Liabilities:					
Notes payable and other borrowings:					
Insurance and other	14,334	14,810	13,908	13,525	13,176
Railroad, utilities and energy	38,257	42,023	35,096	32,403	30,097
Finance and financial products	14,959	15,541	14,513	14,106	13,732
Equity index put option contracts	8,499	10,238	7,007	5,733	4,655

[(1)] *Includes other investments that are subject to a significant level of interest rate risk.*

Equity Price Risk

Historically, we have maintained large amounts of invested assets in exchange traded equity securities. Strategically, we strive to invest in businesses that possess excellent economics, with able and honest management and at sensible prices and

Equity Price Risk *(Continued)*

prefer to invest a meaningful amount in each investee. Consequently, equity investments are concentrated in relatively few investees. At December 31, 2012, approximately 63% of the total fair value of equity investments was concentrated in five investees.

We often hold equity investments for long periods of time so we are not troubled by short-term price volatility with respect to our investments provided that the underlying business, economic and management characteristics of the investees remain favorable. We strive to maintain above average levels of shareholder capital to provide a margin of safety against short-term price volatility.

Market prices for equity securities 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.

We are also subject to equity price risk with respect to our equity index put option contracts. While our ultimate potential loss with respect to these contracts is determined from the movement of the underlying stock index between the contract inception date and expiration date, fair values of these contracts are also affected by changes in other factors such as interest rates, expected dividend rates and the remaining duration of the contract. These contracts expire between 2018 and 2026 and may not be unilaterally settled before their respective expiration dates.

The following table summarizes our equity and other investments and derivative contract liabilities with equity price risk as of December 31, 2012 and 2011. The effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates are also shown. The selected 30% hypothetical changes do 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 our equity investment portfolio. Dollar amounts are in millions.

	Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
December 31, 2012				
Assets:				
Equity securities	$87,662	30% increase	$113,961	9.1
		30% decrease	61,363	(9.1)
Other investments [1]	10,820	30% increase	15,171	1.5
		30% decrease	7,709	(1.1)
Liabilities:				
Equity index put option contracts	7,502	30% increase	5,009	0.9
		30% decrease	11,482	(1.4)
December 31, 2011				
Assets:				
Equity securities	$76,991	30% increase	$100,088	9.1
		30% decrease	53,894	(9.1)
Other investments [1]	7,432	30% increase	9,679	0.9
		30% decrease	5,708	(0.7)
Liabilities:				
Equity index put option contracts	8,499	30% increase	6,156	0.9
		30% decrease	11,949	(1.4)

[1] *Includes other investments that possess significant equity price risk.*

Foreign Currency Risk

We generally do not use derivative contracts to hedge foreign currency price changes primarily because of the natural hedging that occurs between assets and liabilities denominated in foreign currencies in our Consolidated Financial Statements. In addition, we hold investments in major multinational companies that have significant foreign business and foreign currency risk of their own, such as The Coca-Cola Company. Our net assets subject to translation are primarily in our insurance and utilities and energy businesses, and to a lesser extent in our manufacturing and services businesses. The translation impact is somewhat offset by transaction gains or losses on net reinsurance liabilities of certain U.S. subsidiaries that are denominated in foreign currencies as well as the equity index put option liabilities of U.S. subsidiaries relating to contracts that would be settled in foreign currencies.

Commodity Price Risk

Our diverse group of operating businesses use commodities in various ways in manufacturing and providing services. As such, we are subject to price risks related to various commodities. In most instances, we attempt to manage these risks through the pricing of our products and services to customers. To the extent that we are unable to sustain price increases in response to commodity price increases, our operating results will likely be adversely affected. We utilize derivative contracts to a limited degree in managing commodity price risks, most notably at MidAmerican. MidAmerican's exposures to commodities include variations in the price of fuel required to generate electricity, wholesale electricity that is purchased and sold and natural gas supply for customers. Commodity prices are subject to wide price swings as supply and demand are impacted by, among many other unpredictable items, weather, market liquidity, generating facility availability, customer usage, storage and transmission and transportation constraints. To mitigate a portion of the risk, MidAmerican uses derivative instruments, including forwards, futures, options, swaps and other agreements, to effectively secure future supply or sell future production generally at fixed prices. The settled cost of these contracts is generally recovered from customers in regulated rates. Financial results would be negatively impacted if the costs of wholesale electricity, fuel or natural gas are higher than what is permitted to be recovered in rates. MidAmerican also uses futures, options and swap agreements to economically hedge gas and electric commodity prices for physical delivery to non-regulated customers. The table that follows summarizes our commodity price risk on energy derivative contracts of MidAmerican as of December 31, 2012 and 2011 and shows the effects of a hypothetical 10% increase and a 10% decrease in forward market prices by the expected volumes for these contracts as of each date. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Dollars are in millions.

	Fair Value Net Assets (Liabilities)	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Price
December 31, 2012	$(235)	10% increase	$(187)
		10% decrease	(285)
December 31, 2011	$(445)	10% increase	$(348)
		10% decrease	(542)

FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this document as well as some statements in periodic press releases and some oral statements of Berkshire officials during presentations about Berkshire or its subsidiaries 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 Berkshire 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 Berkshire and its subsidiaries, economic and market factors and the industries in which we do business, among other things. These statements are not guaranties of future performance and we have 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 our 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 our investments in fixed maturity and equity securities, losses realized from derivative contracts, the occurrence of one or more catastrophic events, such as an earthquake, hurricane or act of terrorism that causes losses insured by our insurance subsidiaries, changes in laws or regulations affecting our insurance, railroad, utilities and energy and finance subsidiaries, 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 we do business.

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. An updated version is reproduced on this and the following pages.

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.

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 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 American Express 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 80% or more of its net worth in Berkshire shares; I have more than 98%. 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.*

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.*

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In recent years we have made a number of acquisitions. Though there will be dry years, we expect to make many more 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, the large majority of our businesses have exceeded our expectations. But sometimes 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.

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 $117 billion.

Better yet, this funding to date has often been cost-free. Deferred tax liabilities bear no interest. And as long as we can break even in our insurance underwriting 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.

In our present configuration (2012) we expect additional borrowings to be concentrated in our utilities and railroad businesses, loans that are non-recourse to Berkshire. Here, we will favor long-term, fixed-rate loans.

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.*

   I should have written the "five-year rolling basis" sentence differently, an error I didn't realize until I received a question about this subject at the 2009 annual meeting.

   When the stock market has declined sharply over a five-year stretch, our market-price premium to book value has sometimes shrunk. And when that happens, we fail the test as I improperly formulated it. In fact, we fell far short as early as 1971-75, well before I wrote this principle in 1983.

   The five-year test should be: (1) during the period did our book-value gain exceed the performance of the S&P; and (2) did our stock consistently sell at a premium to book, meaning that every $1 of retained earnings was always worth more than $1? If these tests are met, retaining earnings has made sense.

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 the quarterly reports we post on the internet, 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.

TWO ADDED PRINCIPLES

14. *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.*

15. *We regularly compare the gain in Berkshire's per-share book value to the performance of the S&P 500. Over time, we hope to outpace this yardstick. Otherwise, why do our investors need us? The measurement, however, has certain shortcomings that are described in the next section. Moreover, it now is less meaningful on a year-to-year basis than was formerly the case. That is because our equity holdings, whose value tends to move with the S&P 500, are a far smaller portion of our net worth than they were in earlier years. Additionally, gains in the S&P stocks are counted in full in calculating that index, whereas gains in Berkshire's equity holdings are counted at 65% because of the federal tax we incur. We, therefore, expect to outperform the S&P in lackluster years for the stock market and underperform when the market has a strong year.*

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 288,000 employees, only 24 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: None of my stock will have to be sold to take care of the cash bequests I have made or for taxes. Other assets of mine will take care of these requirements. All Berkshire shares will be left to foundations that will likely receive the stock in roughly equal installments over a dozen or so years.

At my death, the Buffett family will not be involved in managing the business but, as very substantial shareholders, will help 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. One executive will become CEO and responsible for operations. The responsibility for investments will be given to one or more executives. If the acquisition of new businesses is in prospect, these executives will cooperate in making the decisions needed, subject, of course, to board approval. We will continue to have an extraordinarily shareholder-minded board, one whose interests are solidly aligned with yours.

Were we to need the management structure I have just described on an immediate basis, our directors know my recommendations for both posts. All candidates currently work for or are available to Berkshire and are people in whom I have total confidence. Our managerial roster has never been stronger.

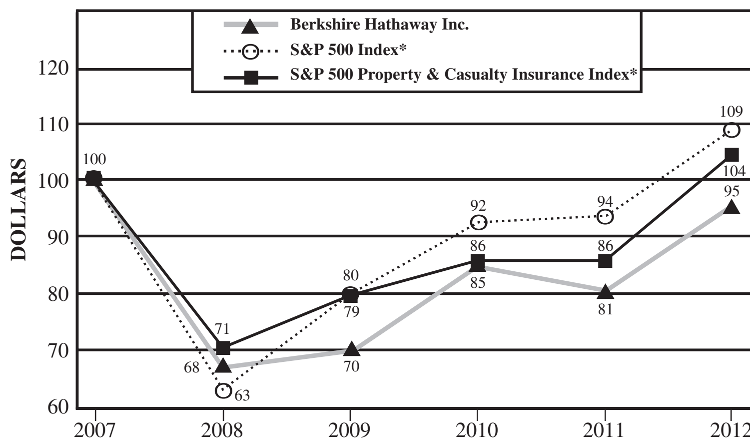
I will continue to keep the directors posted on the succession issue. Since Berkshire stock will make up virtually my entire estate and will account for a similar portion of the assets of various foundations for a considerable period after my death, you can be sure that the directors and I have thought through the succession question carefully and that we are well prepared. 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 and that our unusually strong and well-defined culture will remain intact. As an added assurance that this will be the case, I believe it would be wise when I am no longer CEO to have a member of the Buffett family serve as the non-paid, non-executive Chairman of the Board. That decision, however, will be the responsibility of the then Board of Directors.

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

STOCK PERFORMANCE GRAPH

The following chart compares the subsequent value of $100 invested in Berkshire common stock on December 31, 2007 with a similar investment in the Standard and Poor's 500 Stock Index and in the Standard and Poor's Property—Casualty Insurance Index.**



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* *Cumulative return for the Standard and Poor's indices based on reinvestment of dividends.*

** *It would be difficult to develop a peer group of companies similar to Berkshire. The Corporation owns subsidiaries engaged in a number of diverse business activities of which the most important is the property and casualty insurance business and, accordingly, management has used the Standard and Poor's Property—Casualty Insurance Index for comparative purposes.*

Berkshire's Corporate Performance vs. the S&P 500 by Five-Year Periods

Five-Year Period	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965-1969	17.2	5.0	12.2
1966-1970	14.7	3.9	10.8
1967-1971	13.9	9.2	4.7
1968-1972	16.8	7.5	9.3
1969-1973	17.7	2.0	15.7
1970-1974	15.0	(2.4)	17.4
1971-1975	13.9	3.2	10.7
1972-1976	20.8	4.9	15.9
1973-1977	23.4	(0.2)	23.6
1974-1978	24.4	4.3	20.1
1975-1979	30.1	14.7	15.4
1976-1980	33.4	13.9	19.5
1977-1981	29.0	8.1	20.9
1978-1982	29.9	14.1	15.8
1979-1983	31.6	17.3	14.3
1980-1984	27.0	14.8	12.2
1981-1985	32.6	14.6	18.0
1982-1986	31.5	19.8	11.7
1983-1987	27.4	16.4	11.0
1984-1988	25.0	15.2	9.8
1985-1989	31.1	20.3	10.8
1986-1990	22.9	13.1	9.8
1987-1991	25.4	15.3	10.1
1988-1992	25.6	15.8	9.8
1989-1993	24.4	14.5	9.9
1990-1994	18.6	8.7	9.9
1991-1995	25.6	16.5	9.1
1992-1996	24.2	15.2	9.0
1993-1997	26.9	20.2	6.7
1994-1998	33.7	24.0	9.7
1995-1999	30.4	28.5	1.9
1996-2000	22.9	18.3	4.6
1997-2001	14.8	10.7	4.1
1998-2002	10.4	(0.6)	11.0
1999-2003	6.0	(0.6)	6.6
2000-2004	8.0	(2.3)	10.3
2001-2005	8.0	0.6	7.4
2002-2006	13.1	6.2	6.9
2003-2007	13.3	12.8	0.5
2004-2008	6.9	(2.2)	9.1
2005-2009	8.6	0.4	8.2
2006-2010	10.0	2.3	7.7
2007-2011	7.3	(0.2)	7.5
2008-2012	7.9	1.7	6.2

Notes: The first two periods cover the five years beginning September 30 of the previous year. The third period covers 63 months beginning September 30, 1966 to December 31, 1971. All other periods involve calendar years.

The other notes on page 2 also apply to this table.

BERKSHIRE HATHAWAY INC.
INTRINSIC VALUE – TODAY AND TOMORROW *

Though Berkshire's intrinsic value cannot be precisely calculated, two of its three key pillars can be measured. Charlie and I rely heavily on these measurements when we make our own estimates of Berkshire's value.

The first component of value is our investments: stocks, bonds and cash equivalents. At yearend these totaled $158 billion at market value.

Insurance float – money we temporarily hold in our insurance operations that does not belong to us – funds $66 billion of our investments. This float is "free" as long as insurance underwriting breaks even, meaning that the premiums we receive equal the losses and expenses we incur. Of course, underwriting results are volatile, swinging erratically between profits and losses. Over our entire history, though, we've been significantly profitable, and I also expect us to average breakeven results or better in the future. If we do that, all of our investments – those funded both by float and by retained earnings – can be viewed as an element of value for Berkshire shareholders.

Berkshire's second component of value is earnings that come from sources other than investments and insurance underwriting. These earnings are delivered by our 68 non-insurance companies, itemized on page 106. In Berkshire's early years, we focused on the investment side. During the past two decades, however, we've increasingly emphasized the development of earnings from non-insurance businesses, a practice that will continue.

The following tables illustrate this shift. In the first table, we present per-share investments at decade intervals beginning in 1970, three years after we entered the insurance business. We exclude those investments applicable to minority interests.

Yearend	*Per-Share Investments*	*Period*	*Compounded Annual Increase in Per-Share Investments*
1970	$ 66		
1980	754	1970-1980	27.5%
1990	7,798	1980-1990	26.3%
2000	50,229	1990-2000	20.5%
2010	94,730	2000-2010	6.6%

Though our compounded annual increase in per-share investments was a healthy 19.9% over the 40-year period, our rate of increase has slowed sharply as we have focused on using funds to buy operating businesses.

The payoff from this shift is shown in the following table, which illustrates how earnings of our non-insurance businesses have increased, again on a per-share basis and after applicable minority interests.

Year	*Per-Share Pre-Tax Earnings*	*Period*	*Compounded Annual Increase in Per-Share Pre-Tax Earnings*
1970	$ 2.87		
1980	19.01	1970-1980	20.8%
1990	102.58	1980-1990	18.4%
2000	918.66	1990-2000	24.5%
2010	5,926.04	2000-2010	20.5%

For the forty years, our compounded annual gain in pre-tax, non-insurance earnings per share is 21.0%. During the same period, Berkshire's stock price increased at a rate of 22.1% annually. Over time, you can expect our stock price to move in rough tandem with Berkshire's investments and earnings. Market price and intrinsic value often follow very different paths – sometimes for extended periods – but eventually they meet.

There is a third, more subjective, element to an intrinsic value calculation that can be either positive or negative: the efficacy with which retained earnings will be deployed in the future. We, as well as many other businesses, are likely to retain earnings over the next decade that will equal, or even exceed, the capital we presently employ. Some companies will turn these retained dollars into fifty-cent pieces, others into two-dollar bills.

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* *Reproduced from Berkshire Hathaway Inc. 2010 Annual Report.*

This "what-will-they-do-with-the-money" factor must always be evaluated along with the "what-do-we-have-now" calculation in order for us, or anybody, to arrive at a sensible estimate of a company's intrinsic value. That's because an outside investor stands by helplessly as management reinvests his share of the company's earnings. If a CEO can be expected to do this job well, the reinvestment prospects add to the company's current value; if the CEO's talents or motives are suspect, today's value must be discounted. The difference in outcome can be huge. A dollar of then-value in the hands of Sears Roebuck's or Montgomery Ward's CEOs in the late 1960s had a far different destiny than did a dollar entrusted to Sam Walton.

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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 1,500 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, 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 3,200 record holders of its Class A common stock and 18,400 record holders of its Class B common stock at February 15, 2013. Record owners included nominees holding at least 465,000 shares of Class A common stock and 1,120,000,000 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:

	2012				2011			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$123,578	$113,855	$82.47	$75.86	$131,463	$118,792	$87.65	$79.14
Second Quarter	124,950	117,551	83.33	78.21	126,100	109,925	84.09	73.23
Third Quarter	134,892	123,227	89.95	82.12	117,250	98,952	78.19	65.35
Fourth Quarter	136,345	125,950	90.93	83.85	120,755	104,701	80.58	69.07

Dividends

Berkshire has not declared a cash dividend since 1967.

BERKSHIRE HATHAWAY INC.

OPERATING COMPANIES

INSURANCE BUSINESSES

Company	Employees
Applied Underwriters	507
Berkshire Hathaway Homestate Companies	670
Berkshire Hathaway Reinsurance Group	699
BoatU.S.	388
Central States Indemnity	156
GEICO	27,128
General Re	2,322
Guard Insurance Group	332
Kansas Bankers Surety	14
Medical Protective	541
National Indemnity Primary Group	425
United States Liability Insurance Group	614
Insurance total	33,796

NON-INSURANCE BUSINESSES

Company	Employees
Acme	2,117
Adalet [1]	262
Altaquip [1]	366
Ben Bridge Jeweler	806
Benjamin Moore	2,240
BH Media Group	3,660
Borsheims	170
Brooks Sports	437
BNSF	41,500
The Buffalo News	732
Business Wire	488
CalEnergy Philippines [2]	62
Campbell Hausfeld [1]	378
Carefree of Colorado [1]	234
Clayton Homes	10,575
Cleveland Wood Products [1]	50
CORT	2,154
CTB	2,670
Dairy Queen	473
Douglas/Quikut [1]	34
Fechheimer	426
FlightSafety	3,876
Forest River	7,653
France [1]	167
Fruit of the Loom [3]	26,820
Garan	3,713
H. H. Brown Shoe Group	1,183
Halex [1]	89
Helzberg Diamonds	2,327
HomeServices of America [2]	2,481
Iscar	11,933
Johns Manville	6,841
Jordan's Furniture	942
Justin Brands	1,086
Kern River Gas [2]	153
Kirby [1]	483
Larson-Juhl	1,544
Lubrizol	6,624
The Marmon Group [4]	17,491
McLane Company	20,545
MidAmerican Energy [2]	3,479
MidAmerican Energy Holdings [2]	26
MidAmerican Renewables [2]	307
MiTek Inc.	2,037
Nebraska Furniture Mart	2,614
NetJets	6,466
Northern Natural Gas [2]	844
Northern Powergrid Holdings [2]	2,405
Oriental Trading	1,477
PacifiCorp [2]	3,166
Pacific Power [2]	1,669
The Pampered Chef	691
Precision Steel Warehouse	159
Richline Group	2,635
Rocky Mountain Power [2]	1,416
Russell [3]	3,393
Other Scott Fetzer Companies [1]	176
See's Candies	3,000
Shaw Industries	22,312
Stahl [1]	93
Star Furniture	681
TTI, Inc.	3,804
United Consumer Financial Services [1]	206
Vanity Fair Brands [3]	2,472
Wayne Water Systems [1]	157
Western Enterprises [1]	253
R. C. Willey Home Furnishings	2,333
World Book [1]	165
XTRA	421
Non-insurance total	254,642
Corporate Office	24
	288,462

(1) A Scott Fetzer Company

(2) A MidAmerican Energy Holdings Company

(3) A Fruit of the Loom, Inc. Company

(4) The Marmon Group consists of approximately 150 manufacturing and service businesses that operate within 11 business sectors.

BERKSHIRE HATHAWAY INC.

REAL ESTATE BROKERAGE BUSINESSES

Brand	Major Cities Served	Number of Agents
Alabama		
RealtySouth	Birmingham	667
Roberts Brothers Inc.	Mobile	147
Arizona		
Long Companies	Tucson	721
California		
Guarantee Real Estate	Fresno	400
Prudential California Realty	San Diego/Los Angeles	2,438
Connecticut		
Prudential Connecticut Realty	Hartford	1,264
Florida		
EWM REALTORS®	Miami	727
Georgia		
Harry Norman, REALTORS®	Atlanta	791
Illinois		
Koenig & Strey Real Living	Chicago	619
Iowa		
Iowa Realty	Des Moines	663
Prudential First Realty	Des Moines	77
Kentucky		
Rector-Hayden REALTORS®	Lexington	221
Semonin REALTORS®	Louisville	465
Maryland		
Champion Realty Inc.	Annapolis	203
Minnesota		
Edina Realty	Minneapolis/St. Paul	2,131
Missouri		
Carol Jones REALTORS®	Springfield/Branson	210
Reece & Nichols	Kansas City	1,798
Nebraska		
CBSHOME Real Estate	Omaha	411
HOME Real Estate	Lincoln	189
Woods Bros. Realty	Lincoln	213
North Carolina		
Prudential Carolinas Realty	Charlotte/Winston-Salem	220
Prudential York Simpson Underwood Realty	Raleigh	216
Prudential Yost & Little	Greensboro	161
Ohio		
Huff Realty	Cincinnati	417
Oregon		
Prudential Northwest Realty Associates	Portland	343
Rhode Island		
Prudential Rhode Island Realty	Westerly	24
Washington		
Prudential Northwest Properties	Seattle	314

BERKSHIRE HATHAWAY INC.

DAILY NEWSPAPERS

Publication	City	Circulation Daily	Circulation Sunday
Alabama			
Enterprise Ledger	Enterprise	8,289	8,979
Opelika Auburn News	Opelika/Auburn	13,605	13,621
Dothan Eagle	Dothan	26,143	26,721
Florida			
Jackson County Floridan	Marianna	4,963	4,813
Iowa			
The Daily Nonpareil	Council Bluffs	11,347	13,138
Nebraska			
York News-Times	York	3,253	—
The North Platte Telegraph	North Platte	9,790	9,821
Kearney Hub	Kearney	10,724	—
Star-Herald	Scottsbluff	12,151	12,831
The Grand Island Independent	Grand Island	17,601	19,144
Omaha World-Herald	Omaha	130,001	162,905
New York			
Buffalo News	Buffalo	142,750	227,395
North Carolina			
The (Marion) McDowell News	Marion	4,108	4,676
The (Morganton) News Herald	Morganton	6,993	7,982
Statesville Record and Landmark	Statesville	10,000	12,233
Hickory Daily Record	Hickory	18,662	22,407
Winston-Salem Journal	Winston-Salem	55,013	70,464
Greensboro News & Record *	Greensboro	55,081	82,095
South Carolina			
(Florence) Morning News	Florence	22,077	27,074
Texas			
The Eagle	Bryan/College Station	16,673	19,229
Tribune-Herald	Waco	31,282	36,566
Virginia			
Culpeper Star Exponent	Culpeper	5,355	5,626
The (Waynesboro) News Virginian	Waynesboro	5,773	5,635
Danville Register and Bee	Danville	14,388	17,136
The (Charlottesville) Daily Progress	Charlottesville	21,274	24,050
Bristol Herald Courier	Bristol	23,466	29,375
The (Lynchburg) News and Advance	Lynchburg	25,287	31,819
Richmond Times-Dispatch	Richmond	107,226	156,623

* Acquired January 2013

BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT,
Chairman and CEO of Berkshire

CHARLES T. MUNGER,
Vice Chairman of Berkshire

HOWARD G. BUFFETT,
President of Buffett Farms

STEPHEN B. BURKE,
Chief Executive Officer of NBCUniversal, a media and entertainment company.

SUSAN L. DECKER,
Former President of Yahoo! Inc., an internet company.

WILLIAM H. GATES III,
Co-Chair of the Bill and Melinda Gates Foundation

DAVID S. GOTTESMAN,
Senior Managing Director of First Manhattan Company, an investment advisory firm.

CHARLOTTE GUYMAN,
Former Chairman of the Board of Directors of UW Medicine, an academic medical center.

DONALD R. KEOUGH,
Chairman of Allen and Company Incorporated, an investment banking firm.

THOMAS S. MURPHY,
Former Chairman of the Board and CEO of Capital Cities/ABC

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

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CHARLES T. MUNGER, *Vice Chairman*

MARC D. HAMBURG, *Senior Vice President and CFO*

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MARK D. MILLARD, *Vice President*

KERBY S. HAM, *Treasurer*

FORREST N. KRUTTER, *Secretary*

REBECCA K. AMICK, *Director of Internal Auditing*

Letters from Annual Reports (1977 through 2012), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at www.berkshirehathaway.com.

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