Berkshire Hathaway inc.

2014
ANNUAL REPORT

BERKSHIRE HATHAWAY INC.

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Berkshire's Performance vs. the S&P 500

Year	Annual Percentage Change: in Per-Share Book Value of Berkshire	Annual Percentage Change: in Per-Share Market Value of Berkshire	Annual Percentage Change: in S&P 500 with Dividends Included
1965	23.8	49.5	10.0
1966	20.3	(3.4)	(11.7)
1967	11.0	13.3	30.9
1968	19.0	77.8	11.0
1969	16.2	19.4	(8.4)
1970	12.0	(4.6)	3.9
1971	16.4	80.5	14.6
1972	21.7	8.1	18.9
1973	4.7	(2.5)	(14.8)
1974	5.5	(48.7)	(26.4)
1975	21.9	2.5	37.2
1976	59.3	129.3	23.6
1977	31.9	46.8	(7.4)
1978	24.0	14.5	6.4
1979	35.7	102.5	18.2
1980	19.3	32.8	32.3
1981	31.4	31.8	(5.0)
1982	40.0	38.4	21.4
1983	32.3	69.0	22.4
1984	13.6	(2.7)	6.1
1985	48.2	93.7	31.6
1986	26.1	14.2	18.6
1987	19.5	4.6	5.1
1988	20.1	59.3	16.6
1989	44.4	84.6	31.7
1990	7.4	(23.1)	(3.1)
1991	39.6	35.6	30.5
1992	20.3	29.8	7.6
1993	14.3	38.9	10.1
1994	13.9	25.0	1.3
1995	43.1	57.4	37.6
1996	31.8	6.2	23.0
1997	34.1	34.9	33.4
1998	48.3	52.2	28.6
1999	0.5	(19.9)	21.0
2000	6.5	26.6	(9.1)
2001	(6.2)	6.5	(11.9)
2002	10.0	(3.8)	(22.1)
2003	21.0	15.8	28.7
2004	10.5	4.3	10.9
2005	6.4	0.8	4.9
2006	18.4	24.1	15.8
2007	11.0	28.7	5.5
2008	(9.6)	(31.8)	(37.0)
2009	19.8	2.7	26.5
2010	13.0	21.4	15.1
2011	4.6	(4.7)	2.1
2012	14.4	16.8	16.0
2013	18.2	32.7	32.4
2014	8.3	27.0	13.7
Compounded Annual Gain – 1965-2014	19.4%	21.6%	9.9%
Overall Gain – 1964-2014	751,113%	1,826,163%	11,196%

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.

A note to readers: Fifty years ago, today's management took charge at Berkshire. For this Golden Anniversary, Warren Buffett and Charlie Munger each wrote his views of what has happened at Berkshire during the past 50 years and what each expects during the next 50. Neither changed a word of his commentary after reading what the other had written. Warren's thoughts begin on page 24 and Charlie's on page 39. Shareholders, particularly new ones, may find it useful to read those letters before reading the report on 2014, which begins below.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Berkshire's gain in net worth during 2014 was $18.3 billion, which increased the per-share book value of both our Class A and Class B stock by 8.3%. Over the last 50 years (that is, since present management took over), per-share book value has grown from $19 to $146,186, a rate of 19.4% compounded annually.*

During our tenure, we have consistently compared the yearly performance of the S&P 500 to the change in Berkshire's per-share book value. We've done that because book value has been a crude, but useful, *tracking device* for the number that really counts: intrinsic business value.

In our early decades, the relationship between book value and intrinsic value was much closer than it is now. That was true because Berkshire's assets were then largely securities whose values were continuously restated to reflect their current market prices. In Wall Street parlance, most of the assets involved in the calculation of book value were "marked to market."

Today, our emphasis has shifted in a major way to owning and operating large businesses. Many of these are worth far more than their cost-based carrying value. But that amount is *never* revalued upward no matter how much the value of these companies has increased. Consequently, the gap between Berkshire's intrinsic value and its book value has materially widened.

With that in mind, we have added a new set of data – the historical record of Berkshire's stock price – to the performance table on the facing page. Market prices, let me stress, have their limitations in the short term. Monthly or yearly movements of stocks are often erratic and not indicative of changes in intrinsic value. Over time, however, stock prices and intrinsic value almost invariably converge. Charlie Munger, Berkshire Vice Chairman and my partner, and I believe that has been true at Berkshire: In our view, the increase in Berkshire's per-share intrinsic value over the past 50 years is roughly equal to the 1,826,163% gain in market price of the company's shares.

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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.

The Year at Berkshire

It was a good year for Berkshire on all major fronts, except one. Here are the important developments:

- Our "Powerhouse Five" – a collection of Berkshire's largest non-insurance businesses – had a record $12.4 billion of pre-tax earnings in 2014, up $1.6 billion from 2013.* The companies in this sainted group are Berkshire Hathaway Energy (formerly MidAmerican Energy), BNSF, IMC (I've called it Iscar in the past), Lubrizol and Marmon.

  Of the five, only Berkshire Hathaway Energy, then earning $393 million, was owned by us a decade 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 Berkshire shares that increased the number outstanding by 6.1%. In other words, the $12 billion gain in annual earnings delivered Berkshire by the five companies over the ten-year span has been accompanied by only minor dilution. That satisfies our goal of not simply increasing earnings, but making sure we also increase *per-share* results.

  If the U.S. economy continues to improve in 2015, we expect earnings of our Powerhouse Five to improve as well. The gain could reach $1 billion, in part because of bolt-on acquisitions by the group that have already closed or are under contract.

- Our bad news from 2014 comes from our group of five as well and is unrelated to earnings. During the year, BNSF disappointed many of its customers. These shippers depend on us, and service failures can badly hurt their businesses.

  BNSF is, by far, Berkshire's most important non-insurance subsidiary and, to improve its performance, we will spend $6 billion on plant and equipment in 2015. That sum is nearly 50% more than any other railroad has spent in a single year and is a truly extraordinary amount, whether compared to revenues, earnings or depreciation charges.

  Though weather, which was particularly severe last year, will always cause railroads a variety of operating problems, our responsibility is to do *whatever it takes* to restore our service to industry-leading levels. That can't be done overnight: The extensive work required to increase system capacity sometimes disrupts operations while it is underway. Recently, however, our outsized expenditures are beginning to show results. During the last three months, BNSF's performance metrics have materially improved from last year's figures.

- Our many dozens of smaller non-insurance businesses earned $5.1 billion last year, up from $4.7 billion in 2013. Here, as with our Powerhouse Five, we expect further gains in 2015. Within this group, we have two companies that last year earned between $400 million and $600 million, six that earned between $250 million and $400 million, and seven that earned between $100 million and $250 million. This collection of businesses will increase in both number and earnings. Our ambitions have no finish line.

- Berkshire's huge and growing insurance operation again operated at an underwriting profit in 2014 – that makes 12 years in a row – and increased its float. During that 12-year stretch, our float – money that doesn't belong to us but that we can invest for Berkshire's benefit – has grown from $41 billion to $84 billion. Though neither that gain nor the size of our float is reflected in Berkshire's earnings, float generates significant investment income because of the assets it allows us to hold.

* Throughout this letter, as well as in the "Golden Anniversary" letters included later in this report, all earnings are stated on a pre-tax basis unless otherwise designated.

Meanwhile, our underwriting profit totaled \$24 billion during the twelve-year period, including \$2.7 billion earned in 2014. And all of this began with our 1967 purchase of National Indemnity for \$8.6 *million*.

- While Charlie and I search for new businesses to buy, our many subsidiaries are regularly making bolt-on acquisitions. Last year was particularly fruitful: We contracted for 31 bolt-ons, scheduled to cost \$7.8 billion in aggregate. The size of these transactions ranged from \$400,000 to \$2.9 billion. However, the largest acquisition, Duracell, will not close until the second half of this year. It will then be placed under Marmon's jurisdiction.

  Charlie and I encourage bolt-ons, *if* they are sensibly-priced. (Most deals offered us aren't.) They deploy capital in activities that fit with our existing businesses and that will be managed by our corps of expert managers. This means no more work for us, yet more earnings, a combination we find particularly appealing. We will make many more of these bolt-on deals in future years.

- Two years ago my friend, Jorge Paulo Lemann, asked Berkshire to join his 3G Capital group in the acquisition of Heinz. My affirmative response was a no-brainer: I knew immediately that this partnership would work well from both a personal and financial standpoint. And it most definitely has.

  I'm not embarrassed to admit that Heinz is run far better under Alex Behring, Chairman, and Bernardo Hees, CEO, than would be the case if I were in charge. They hold themselves to extraordinarily high performance standards and are never satisfied, even when their results far exceed those of competitors.

  We expect to partner with 3G in more activities. Sometimes our participation will only involve a financing role, as was the case in the recent acquisition of Tim Hortons by Burger King. Our favored arrangement, however, will usually be to link up as a *permanent* equity partner (who, in some cases, contributes to the financing of the deal as well). Whatever the structure, we feel good when working with Jorge Paulo.

  Berkshire also has fine partnerships with Mars and Leucadia, and we may form new ones with them or with other partners. Our participation in any joint activities, whether as a financing or equity partner, will be limited to friendly transactions.

- In October, we contracted to buy Van Tuyl Automotive, a group of 78 automobile dealerships that is exceptionally well-run. Larry Van Tuyl, the company's owner, and I met some years ago. He then decided that if he were ever to sell his company, its home should be Berkshire. Our purchase was recently completed, and we are now "car guys."

  Larry and his dad, Cecil, spent 62 years building the group, following a strategy that made owner-partners of all local managers. Creating this mutuality of interests proved over and over to be a winner. Van Tuyl is now the fifth-largest automotive group in the country, with per-dealership sales figures that are outstanding.

  In recent years, Jeff Rachor has worked alongside Larry, a successful arrangement that will continue. There are about 17,000 dealerships in the country, and ownership transfers always require approval by the relevant auto manufacturer. Berkshire's job is to perform in a manner that will cause manufacturers to welcome further purchases by us. If we do this – and if we can buy dealerships at sensible prices – we will build a business that before long will be multiples the size of Van Tuyl's \$9 billion of sales.

  With the acquisition of Van Tuyl, Berkshire now owns 9½ companies that would be listed on the Fortune 500 were they independent (Heinz is the ½). That leaves 490½ fish in the sea. Our lines are out.

- Our subsidiaries spent a record $15 billion on plant and equipment during 2014, well over twice their depreciation charges. About 90% of that money was spent in the United States. Though we will always invest abroad as well, the mother lode of opportunities runs through America. The treasures that have been uncovered up to now are dwarfed by those still untapped. Through dumb luck, Charlie and I were born in the United States, and we are forever grateful for the staggering advantages this accident of birth has given us.

- Berkshire's yearend employees – including those at Heinz – totaled a record 340,499, up 9,754 from last year. The increase, I am proud to say, included no gain at headquarters (where 25 people work). No sense going crazy.

- Berkshire increased its ownership interest last year in each of its "Big Four" investments – American Express, Coca-Cola, IBM and Wells Fargo. We purchased additional shares of IBM (increasing our ownership to 7.8% versus 6.3% at yearend 2013). Meanwhile, stock repurchases at Coca-Cola, American Express and Wells Fargo raised our percentage ownership of each. Our equity in Coca-Cola grew from 9.1% to 9.2%, our interest in American Express increased from 14.2% to 14.8% and our ownership of Wells Fargo grew from 9.2% to 9.4%. And, if you think tenths of a percent aren't important, ponder this math: For the four companies in aggregate, each increase of one-tenth of a percent in our ownership raises Berkshire's portion of their annual earnings by $50 million.

  These four investees possess excellent 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 company to owning 100% of a so-so business. It's better to have a partial interest in the Hope Diamond than to own all of a rhinestone.

  If Berkshire's yearend holdings are used as the marker, our portion of the "Big Four's" 2014 earnings before discontinued operations amounted to $4.7 billion (compared to $3.3 billion only three years ago). In the earnings we report to you, however, we include only the dividends we receive – about $1.6 billion last year. (Again, three years ago the dividends were $862 million.) But make no mistake: The $3.1 billion of these companies' earnings we don't report are every bit as valuable to us as the portion Berkshire records.

  The earnings these investees retain are often used for repurchases of their own stock – a move that enhances Berkshire's share of future earnings without requiring us to lay out a dime. Their retained earnings also fund business opportunities that usually turn out to be advantageous. All that leads us to expect that the per-share earnings of these four investees, in aggregate, will grow substantially over time (though 2015 will be a tough year for the group, in part because of the strong dollar). If the expected gains materialize, dividends to Berkshire will increase and, even more important, so will our unrealized capital gains. (For the package of four, our unrealized gains already totaled $42 billion at yearend.)

  Our flexibility in capital allocation – our willingness to invest large sums passively in non-controlled businesses – gives us a significant advantage over companies that limit themselves to acquisitions they can operate. Our appetite for *either* operating businesses or passive investments doubles our chances of finding sensible uses for Berkshire's endless gusher of cash.

- I've mentioned in the past that my experience in business helps me as an investor and that my investment experience has made me a better businessman. Each pursuit teaches lessons that are applicable to the other. And some truths can only be fully learned through experience. (In Fred Schwed's wonderful book, *Where Are the Customers' Yachts?*, a Peter Arno cartoon depicts a puzzled Adam looking at an eager Eve, while a caption says, "There are certain things that cannot be adequately explained to a virgin either by words or pictures." If you haven't read Schwed's book, buy a copy at our annual meeting. Its wisdom and humor are truly priceless.)

Among Arno's "certain things," I would include two separate skills, the evaluation of investments and the management of businesses. I therefore think it's worthwhile for Todd Combs and Ted Weschler, our two investment managers, to each have oversight of at least one of our businesses. A sensible opportunity for them to do so opened up a few months ago when we agreed to purchase two companies that, though smaller than we would normally acquire, have excellent economic characteristics. Combined, the two earn $100 million annually on about $125 million of net tangible assets.

I've asked Todd and Ted to each take on one as Chairman, in which role they will function in the very limited way that I do with our larger subsidiaries. This arrangement will save me a minor amount of work and, more important, make the two of them even better investors than they already are (which is to say among the best).

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Late in 2009, amidst the gloom of the Great Recession, we agreed to buy BNSF, the largest purchase in Berkshire's history. At the time, I called the transaction an "all-in wager on the economic future of the United States."

That kind of commitment was nothing new for us. We've been making similar wagers ever since Buffett Partnership Ltd. acquired control of Berkshire in 1965. For good reason, too: Charlie and I have always considered a "bet" on ever-rising U.S. prosperity to be very close to a sure thing.

Indeed, who has ever benefited during the past 238 years by betting *against* America? If you compare our country's present condition to that existing in 1776, you have to rub your eyes in wonder. In my lifetime alone, *real* per-capita U.S. output has *sextupled*. My parents could not have dreamed in 1930 of the world their son would see. Though the preachers of pessimism prattle endlessly about America's problems, I've never seen one who wishes to emigrate (though I can think of a few for whom I would happily buy a one-way ticket).

The dynamism embedded in our market economy will continue to work its magic. Gains won't come in a smooth or uninterrupted manner; they never have. And we will regularly grumble about our government. But, most assuredly, America's best days lie ahead.

With this tailwind working for us, Charlie and I hope to build Berkshire's per-share intrinsic value by (1) constantly improving the basic earning power of our many subsidiaries; (2) further increasing their earnings through bolt-on acquisitions; (3) benefiting from 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 Berkshire Hathaway Energy will still be playing vital roles in our economy. Homes and autos will remain central to the lives of most families. Insurance will continue to be essential for both businesses and individuals. Looking ahead, Charlie and I see a world made to order for Berkshire. We feel fortunate to be entrusted with its management.

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 (nor, in fact, for any other stock). In our 2010 annual report, however, we laid out the three elements – one of them qualitative – that we believe are the keys to a sensible estimate of Berkshire's intrinsic value. That discussion is reproduced in full on pages 123-124.

Here is an update of the two quantitative factors: In 2014 our per-share investments increased 8.4% to $140,123, and our earnings from businesses other than insurance and investments increased 19% to $10,847 per share.

Since 1970, our per-share investments have increased at a rate of 19% compounded annually, and our earnings figure has grown at a 20.6% clip. It is no coincidence that the price of Berkshire stock over the ensuing 44 years has increased at a rate very similar to that of our two measures of value. Charlie and I like to see gains in both sectors, but our main focus is to build operating earnings. That's why we were pleased to exchange our Phillips 66 and Graham Holdings stock for operating businesses last year and to contract with Procter and Gamble to acquire Duracell by means of a similar exchange set to close in 2015.

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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. So we'll present them as four separate businesses, which is how Charlie and I view them (though there are important and *enduring* advantages to having them all under one roof). Our goal is to provide you with the information we would wish to have if our positions were reversed, with you being the reporting manager and we the absentee shareholders. (But don't get any ideas!)

Insurance

Let's look first at insurance, Berkshire's core operation. That industry has been the engine that has propelled our expansion since 1967, when we acquired National Indemnity and its sister company, National Fire & Marine, for $8.6 million. Though that purchase had monumental consequences for Berkshire, its execution was simplicity itself.

Jack Ringwalt, a friend of mine who was the controlling shareholder of the two companies, came to my office saying he would like to sell. Fifteen minutes later, we had a deal. Neither of Jack's companies had ever had an audit by a public accounting firm, and I didn't ask for one. My reasoning: (1) Jack was honest and (2) He was also a bit quirky and likely to walk away if the deal became at all complicated.

On pages 128-129, we reproduce the 1½-page purchase agreement we used to finalize the transaction. That contract was homemade: Neither side used a lawyer. Per page, this has to be Berkshire's best deal: National Indemnity today has GAAP (generally accepted accounting principles) net worth of $111 billion, which exceeds that of any other insurer in the world.

One reason we were attracted to the property-casualty business was its financial characteristics: 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 many decades. This collect-now, pay-later model leaves P/C companies holding large sums – money we call "float" – that will eventually go to others. Meanwhile, insurers get to invest this float for their benefit. Though individual policies and claims come and go, the amount of float an insurer holds usually remains fairly 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
2014	83,921

Further gains in float will be tough to achieve. On the plus side, GEICO and our new commercial insurance operation are almost certain to grow at a good clip. National Indemnity's reinsurance division, however, is party to a number of run-off contracts whose float drifts downward. If we do in time experience a decline in float, it will be *very* gradual – at the outside no more than 3% in any year. The nature of our insurance contracts is such that we can *never* be subject to immediate demands for sums that are large compared to our cash resources. This strength is a key pillar in Berkshire's economic fortress.

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.

Unfortunately, the wish of all insurers to achieve this happy result creates intense competition, so vigorous indeed that it frequently 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. Competitive dynamics almost guarantee that the insurance industry, despite the float income all its companies enjoy, will continue its dismal record of earning subnormal returns on tangible net worth as compared to other American businesses. The prolonged period of low interest rates our country is now dealing with causes earnings on float to decrease, thereby exacerbating the profit problems of the industry.

As noted in the first section of this report, Berkshire has now operated at an underwriting profit for twelve consecutive years, our pre-tax gain for the period having totaled $24 billion. Looking ahead, I believe we will continue to underwrite profitably in most years. Doing so is the daily focus of *all* of our insurance managers, who know that while float is valuable, its benefits can be drowned by poor underwriting results. That message is given at least lip service by all insurers; at Berkshire it is a religion.

So how does our float affect 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 could not replenish it. But to think of float as strictly a liability is incorrect; it should instead be viewed as a revolving fund. Daily, we pay old claims and related expenses – a huge $22.7 billion to more than six million claimants in 2014 – and that reduces float. Just as surely, we each day write new business and thereby generate new claims that add to float.

If our revolving float is both costless and long-enduring, which I believe it will be, the true value of this liability is *dramatically* less than the accounting liability. Owing $1 that in effect will never leave the premises – because new business is almost certain to deliver a substitute – is worlds different from owing $1 that will go out the door tomorrow and not be replaced. The two types of liabilities are treated as equals, however, under GAAP.

A partial offset to this overstated liability is a $15.5 billion "goodwill" asset that we incurred in buying our insurance companies and that increases book value. In very large part, 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 company sustains large and prolonged underwriting losses, *any* goodwill asset carried on the books should be deemed valueless, whatever its original cost.

Fortunately, that does not describe Berkshire. Charlie and I believe the true economic value of our insurance goodwill – what we would happily pay for float *of similar quality* were we to purchase an insurance operation possessing it – to be *far* in excess of its historic carrying value. Under present accounting rules (with which we agree) this excess value will *never* be entered on our books. But I can assure you that it's real. That's one reason – a huge reason – why we believe Berkshire's intrinsic business value substantially exceeds its book value.

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Berkshire's attractive insurance economics exist only because we have some terrific managers running disciplined operations that possess hard-to-replicate business models. Let me tell you about the major units.

First by float size is the Berkshire Hathaway Reinsurance Group, managed 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 of its many streams of earnings. We would also remain awash in cash and be looking for large opportunities in a market that might well have gone into shock. Meanwhile, other major insurers and reinsurers would be far in the red, if not facing insolvency.

Ajit's underwriting skills are unmatched. His mind, moreover, is an idea factory that is always looking for more lines of business he can add to his current assortment. Last year I told you about his formation of Berkshire Hathaway Specialty Insurance ("BHSI"). This initiative took us into commercial insurance, where we were instantly welcomed by both major insurance brokers and corporate risk managers throughout America. Previously, we had written only a few specialized lines of commercial insurance.

BHSI is led by Peter Eastwood, an experienced underwriter who is widely respected in the insurance world. During 2014, Peter expanded his talented group, moving into both international business and new lines of insurance. We repeat last year's prediction that BHSI will be a major asset for Berkshire, one that will generate volume in the billions within a few years.

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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 in 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 considerably better than cost-free under his leadership, and we expect that, on average, to continue. We are particularly enthusiastic about General Re's international life reinsurance business, which has grown consistently and profitably since we acquired the company in 1998.

It can be remembered that soon after we purchased General Re, it was beset by problems that caused commentators – and me as well, briefly – to believe I had made a huge mistake. That day is long gone. General Re is now a gem.

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Finally, there is GEICO, the insurer on which I cut my teeth 64 years ago. GEICO is managed by Tony Nicely, who joined the company at 18 and completed 53 years of service in 2014. Tony became CEO in 1993, and since then the company has been flying. There is *no* better manager than Tony.

When I was first introduced to GEICO in January 1951, I was blown away by the huge cost advantage the company enjoyed compared to the expenses borne by the giants of the industry. It was clear to me that GEICO would succeed because it *deserved* to succeed. No one *likes* to buy auto insurance. Almost everyone, though, likes to drive. The insurance consequently needed is a major expenditure for most families. Savings matter to them – and *only* a low-cost operation can deliver these. Indeed, at least 40% of the people reading this letter can save money by insuring with GEICO. So stop reading and go to geico.com or call 800-368-2734.

GEICO's cost advantage is the factor that has enabled the company to gobble up market share year after year. (We ended 2014 at 10.8% compared to 2.5% in 1995, when Berkshire acquired control of GEICO.) The company's low costs create a moat – an *enduring* one – that competitors are unable to cross. Our gecko never tires of telling Americans how GEICO can save them important money. The gecko, I should add, has one particularly endearing quality – he works without pay. Unlike a human spokesperson, he never gets a swelled head from his fame nor does he have an agent to constantly remind us how valuable he is. I love the little guy.

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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 are a growing operation that consistently delivers an underwriting profit. Indeed, over the past decade, they have earned $2.95 billion from underwriting while growing their float from $1.7 billion to $8.6 billion. Charlie and I treasure these companies and their managers.

	Underwriting Profit		*Yearend Float*	
	(in millions)			
Insurance Operations	*2014*	*2013*	*2014*	*2013*
BH Reinsurance	$ 606	$1,294	$42,454	$37,231
General Re	277	283	19,280	20,013
GEICO	1,159	1,127	13,569	12,566
Other Primary	626	385	8,618	7,430
	$2,668	$3,089	$83,921	$77,240

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Simply put, insurance is the sale of promises. The "customer" pays money now; the insurer promises to pay money in the future should certain unwanted events occur.

Sometimes, the promise will not be tested for decades. (Think of life insurance bought by people in their 20s.) Therefore, both the ability and willingness of the insurer to pay, even if economic chaos prevails when payment time arrives, is all-important.

Berkshire's promises have no equal, a fact affirmed in recent years by certain of the world's largest and most sophisticated P/C insurers, who wished to shed themselves of huge and exceptionally long-lived liabilities. That is, these insurers wished to "cede" these liabilities – most of them potential losses from asbestos claims – to a reinsurer. They needed the right one, though: If a reinsurer fails to pay a loss, the original insurer is still on the hook for it. Choosing a reinsurer, therefore, that down the road proves to be financially strapped or a bad actor threatens the original insurer with getting huge liabilities right back in its lap.

Last year, our premier position in reinsurance was reaffirmed by our writing a policy carrying a $3 billion single premium. I believe that the policy's size has only been exceeded by our 2007 transaction with Lloyd's, in which the premium was $7.1 billion.

In fact, I know of only eight P/C policies in history that had a single premium exceeding $1 billion. And, yes, all eight were written by Berkshire. Certain of these contracts will require us to make substantial payments 50 years or more from now. When major insurers have needed an unquestionable promise that payments of this type will be made, Berkshire has been the party – the *only* party – to call.

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Berkshire's great managers, premier financial strength and a variety of business models protected by wide moats amount to something unique in the insurance world. This assemblage of strengths is a huge asset for Berkshire shareholders that will only get more valuable with time.

Regulated, Capital-Intensive Businesses

We have two major operations, BNSF and Berkshire Hathaway Energy ("BHE"), that share important 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 company has earning power that even under terrible economic conditions will far exceed its interest requirements. Last year, for example, BNSF's interest coverage was more than 8:1. (Our definition of coverage is pre-tax earnings/interest, *not* EBITDA/interest, a commonly used measure we view as seriously flawed.)

At BHE, meanwhile, two factors ensure the company's ability to service its debt under all circumstances. The first is common to all utilities: recession-resistant earnings, which result from these companies offering an essential service on an exclusive basis. The second is enjoyed by few other utilities: a great diversity of earnings streams, which shield us from being seriously harmed by any single regulatory body. Recently, we have further broadened that base through our $3 billion (Canadian) acquisition of AltaLink, an electric transmission system serving 85% of Alberta's population. This multitude of profit streams, supplemented by the inherent advantage of being owned by a strong parent, has enabled BHE and its utility subsidiaries to significantly lower their cost of debt. This economic fact benefits both us *and* our customers.

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 establishing BNSF as the most important artery in our economy's circulatory system.

  BNSF, like all railroads, 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.

- BHE's utilities serve regulated retail customers in eleven states. No utility company stretches further. In addition, we are a leader in renewables: From a standing start ten years ago, BHE now accounts for 6% of the country's wind generation capacity and 7% of its solar generation capacity. Beyond these businesses, BHE owns two large pipelines that deliver 8% of our country's natural gas consumption; the recently-purchased electric transmission operation in Canada; and major electric businesses in the U.K. and Philippines. And the beat goes on: We will continue to buy and build utility operations throughout the world for decades to come.

  BHE can make these investments because it retains *all* of its earnings. In fact, last year the company retained more dollars of earnings – by far – than any other American electric utility. We and our regulators see this 100% retention policy as an important advantage – one almost certain to distinguish BHE from other utilities for many years to come.

When BHE completes certain renewables projects that are underway, the company's renewables portfolio will have cost $15 billion. In addition, we have conventional projects in the works that will also cost many billions. We relish making such commitments as long as 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 investments 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. It is concomitantly in our self-interest to conduct our operations in a way that earns the approval of our regulators and the people they represent.

Last year we fully met this objective at BHE, just as we have in every year of our ownership. Our rates remain low, our customer satisfaction is high and our record for employee safety is among the best in the industry.

The story at BNSF, however – as I noted earlier – was not good in 2014, a year in which the railroad disappointed many of its customers. This problem occurred despite the record capital expenditures that BNSF has made in recent years, with those having far exceeded the outlays made by Union Pacific, our principal competitor.

The two railroads are of roughly equal size measured by revenues, though we carry considerably more freight (measured either by carloads or ton-miles). But our service problems exceeded Union Pacific's last year, and we lost market share as a result. Moreover, U.P.'s earnings beat ours by a record amount. Clearly, we have a lot of work to do.

We are wasting no time: As I also mentioned earlier, we will spend $6 billion in 2015 on improving our railroad's operation. That will amount to about 26% of estimated revenues (a calculation that serves as the industry's yardstick). Outlays of this magnitude are largely unheard of among railroads. For us, this percentage compares to our average of 18% in 2009-2013 and to U.P.'s projection for the near future of 16-17%. Our huge investments will soon lead to a system with greater capacity and much better service. Improved profits should follow.

Here are the key figures for Berkshire Hathaway Energy and BNSF:

Berkshire Hathaway Energy (89.9% owned)	*Earnings (in millions)*		
	2014	*2013*	*2012*
U.K. utilities	$ 527	$ 362	$ 429
Iowa utility	298	230	236
Nevada utilities	549	—	—
PacifiCorp (primarily Oregon and Utah)	1,010	982	737
Gas Pipelines (Northern Natural and Kern River)	379	385	383
HomeServices	139	139	82
Other (net)	236	4	91
Operating earnings before corporate interest and taxes	3,138	2,102	1,958
Interest	427	296	314
Income taxes	616	170	172
Net earnings	$ 2,095	$ 1,636	$ 1,472
Earnings applicable to Berkshire	$ 1,882	$ 1,470	$ 1,323

BNSF	*Earnings (in millions)*		
	2014	*2013*	*2012*
Revenues	$23,239	$22,014	$20,835
Operating expenses	16,237	15,357	14,835
Operating earnings before interest and taxes	7,002	6,657	6,000
Interest (net)	833	729	623
Income taxes	2,300	2,135	2,005
Net earnings	$ 3,869	$ 3,793	$ 3,372

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 12/31/14 (in millions)

Assets		*Liabilities and Equity*	
Cash and equivalents	$ 5,765	Notes payable	$ 965
Accounts and notes receivable	8,264	Other current liabilities	9,734
Inventory	10,236	Total current liabilities	10,699
Other current assets	1,117		
Total current assets	25,382		
		Deferred taxes	3,801
Goodwill and other intangibles	28,107	Term debt and other liabilities	4,269
Fixed assets	13,806	Non-controlling interests	492
Other assets	3,793	Berkshire equity	51,827
	$71,088		$71,088

Earnings Statement (in millions)

	2014	*2013**	*2012**
Revenues	$97,689	$93,472	$81,432
Operating expenses	90,788	87,208	75,734
Interest expense	109	104	112
Pre-tax earnings	6,792	6,160	5,586
Income taxes and non-controlling interests	2,324	2,283	2,229
Net earnings	$ 4,468	$ 3,877	$ 3,357

*Earnings for 2012 and 2013 have been restated to exclude Marmon's leasing operations, which are now included in the Finance and Financial Products section.

Our income and expense data conforming to GAAP is on page 49. In contrast, the operating expense figures above are non-GAAP and 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 true economic expenses and profits of the businesses aggregated in the table than do GAAP figures.

I won't explain all of the adjustments – some are tiny and arcane – but serious investors should understand the disparate nature of intangible assets. Some truly deplete over time, while others *in no way* lose value. For software, as a big example, amortization charges are very real expenses. The concept of making charges against other intangibles, such as the amortization of customer relationships, however, arises through purchase-accounting rules and clearly does not reflect reality. GAAP accounting draws no distinction between the two types of charges. Both, that is, are recorded as expenses when earnings are calculated – even though from an investor's viewpoint they could not be more different.

In the GAAP-compliant figures we show on page 49, amortization charges of $1.15 billion have been deducted as expenses. We would call about 20% of these "real," the rest not. The "non-real" charges, once non-existent at Berkshire, have become significant because of the many acquisitions we have made. Non-real amortization charges will almost certainly rise further as we acquire more companies.

The GAAP-compliant table on page 67 gives you the current status of our intangible assets. We now have $7.4 billion left to amortize, of which $4.1 billion will be charged over the next five years. Eventually, of course, every dollar of non-real costs becomes entirely charged off. When that happens, reported earnings increase even if true earnings are flat.

Depreciation charges, we want to emphasize, are different: Every dime of depreciation expense we report is a real cost. That's true, moreover, at most other companies. When CEOs tout EBITDA as a valuation guide, wire them up for a polygraph test.

Our public reports of earnings will, of course, continue to conform to GAAP. To embrace reality, however, you should remember to add back most of the amortization charges we report.

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To get back to our many manufacturing, service and retailing operations, they sell products ranging from lollipops to jet airplanes. Some of this sector's businesses, measured by earnings on unleveraged net *tangible* assets, enjoy terrific economics, producing profits that run from 25% after-tax to far more than 100%. Others generate good returns in the area of 12% to 20%. A few, however, have very poor returns, the result of some serious mistakes I made in my job of capital allocation. I was not misled: I simply was wrong in my evaluation of the economic dynamics of the company or the industry in which it operates.

Fortunately, my blunders normally involved relatively small acquisitions. Our large buys have generally worked out well and, in a few cases, more than well. I have not, nonetheless, made my last mistake in purchasing either businesses or stocks. Not everything works out as planned.

Viewed as a single entity, the companies in this group are an excellent business. They employed an average of $24 billion of net tangible assets during 2014 and, despite their holding large quantities of excess cash and using little leverage, earned 18.7% after-tax on that capital.

Of course, a business with terrific economics can be a bad investment if it is bought for too high a price. 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 goodwill. Overall, however, we are getting a decent return on the capital we have deployed in this sector. Furthermore, the intrinsic value of these businesses, in aggregate, exceeds their carrying value by a good margin, and that premium is likely to widen. Even so, the difference between intrinsic value and carrying value in both the insurance and regulated-industry segments is *far* greater. It is there that the truly big winners reside.

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We have far too many companies in this group to comment on them individually. Moreover, their competitors – both current and potential – read this report. In a few of our businesses we might be disadvantaged if others knew our numbers. In some of our operations that are not of a size material to an evaluation of Berkshire, therefore, we only disclose what is required. You can find a good bit of detail about many of our operations, however, on pages 97-100.

Finance and Financial Products

This year we include in this section Marmon's very sizable leasing operations, whose wares are railcars, containers and cranes. We have also restated the previous two years to reflect that change. Why have we made it? At one time there was a large minority ownership at Marmon, and I felt it was more understandable to include all of the company's operations in one place. Today we own virtually 100% of Marmon, which makes me think you will gain more insight into our various businesses if we include Marmon's leasing operations under this heading. (The figures for the many dozens of Marmon's other businesses remain in the previous section.)

Our other leasing and rental operations are conducted by CORT (furniture) and XTRA (semi-trailers). These companies are industry leaders and have substantially increased their earnings as the American economy has gained strength. Both companies have invested more money in new equipment than have many of their competitors, and that's paying off.

Kevin Clayton has again delivered an industry-leading performance at Clayton Homes, the largest home builder in America. Last year, Clayton sold 30,871 homes, about 45% of the manufactured homes bought by Americans. When we purchased Clayton in 2003 for $1.7 billion, its share was 14%.

Key to Clayton's earnings is the company's $13 billion mortgage portfolio. During the financial panic of 2008 and 2009, when funding for the industry dried up, Clayton was able to keep lending because of Berkshire's backing. In fact, we continued during that period to finance our competitors' retail sales as well as our own.

Many of Clayton's borrowers have low incomes and mediocre FICO scores. But thanks to the company's sensible lending practices, its portfolio performed well during the recession, meaning a very high percentage of our borrowers kept their homes. Our blue-collar borrowers, in many cases, proved much better credit risks than their higher-income brethren.

At Marmon's railroad-car operation, lease rates have improved substantially over the past few years. The nature of this business, however, is that only 20% or so of our leases expire annually. Consequently, improved pricing only gradually works its way into our revenue stream. The trend, though, is strong. Our 105,000-car fleet consists largely of tank cars, but only 8% of those transport crude oil.

One further fact about our rail operation is important for you to know: Unlike many other lessors, we manufacture our own tank cars, about 6,000 of them in a good year. We do not book *any* profit when we transfer cars from our manufacturing division to our leasing division. Our fleet is consequently placed on our books at a "bargain" price. The difference between that figure and a "retail" price is only slowly reflected in our earnings through smaller annual depreciation charges that we enjoy over the 30-year life of the car. Because of that fact as well as others, Marmon's rail fleet is worth considerably more than the $5 billion figure at which it is carried on our books.

Here's the earnings recap for this sector:

	2014	*2013*	*2012*
		(in millions)	
Berkadia (our 50% share)	$ 122	$ 80	$ 35
Clayton	558	416	255
CORT	36	40	42
Marmon – Containers and Cranes	238	226	246
Marmon – Railcars	442	353	299
XTRA	147	125	106
Net financial income*	296	324	410
	$ 1,839	$ 1,564	$ 1,393

* Excludes capital gains or losses

Investments

Below we list our fifteen common stock investments that at yearend had the largest market value.

*Shares***	*Company*	*Percentage of Company Owned*	*12/31/14 Cost**	*12/31/14 Market*
			(in millions)	
151,610,700	American Express Company	14.8	$ 1,287	$ 14,106
400,000,000	The Coca-Cola Company	9.2	1,299	16,888
18,513,482	DaVita HealthCare Partners Inc.	8.6	843	1,402
15,430,586	Deere & Company	4.5	1,253	1,365
24,617,939	DIRECTV	4.9	1,454	2,134
13,062,594	The Goldman Sachs Group, Inc.	3.0	750	2,532
76,971,817	International Business Machines Corp.	7.8	13,157	12,349
24,669,778	Moody's Corporation	12.1	248	2,364
20,060,390	Munich Re	11.8	2,990	4,023
52,477,678	The Procter & Gamble Company	1.9	336	4,683 ***
22,169,930	Sanofi	1.7	1,721	2,032
96,890,665	U.S. Bancorp	5.4	3,033	4,355
43,387,980	USG Corporation	30.0	836	1,214
67,707,544	Wal-Mart Stores, Inc.	2.1	3,798	5,815
483,470,853	Wells Fargo & Company	9.4	11,871	26,504
	Others		10,180	15,704
	Total Common Stocks Carried at Market		$55,056	$ 117,470

*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 under GAAP rules.

**Excludes shares held by pension funds of Berkshire subsidiaries.

***Held under contract of sale for this amount.

Berkshire has one major equity position that is not included in the table: We can buy 700 million shares of Bank of America at any time prior to September 2021 for $5 billion. At yearend these shares were worth $12.5 billion. We are likely to purchase the shares just before expiration of our option. In the meantime, it is important for you to realize that Bank of America is, in effect, our fourth largest equity investment – and one we value highly.

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Attentive readers will notice that Tesco, which last year appeared in the list of our largest common stock investments, is now absent. An attentive *investor*, I'm embarrassed to report, would have sold Tesco shares earlier. I made a big mistake with this investment by dawdling.

At the end of 2012 we owned 415 million shares of Tesco, then and now the leading food retailer in the U.K. and an important grocer in other countries as well. Our cost for this investment was $2.3 billion, and the market value was a similar amount.

In 2013, I soured somewhat on the company's then-management and sold 114 million shares, realizing a profit of $43 million. My leisurely pace in making sales would prove expensive. Charlie calls this sort of behavior "thumb-sucking." (Considering what my delay cost us, he is being kind.)

During 2014, Tesco's problems worsened by the month. The company's market share fell, its margins contracted and accounting problems surfaced. In the world of business, bad news often surfaces serially: You see a cockroach in your kitchen; as the days go by, you meet his relatives.

We sold Tesco shares throughout the year and are now out of the position. (The company, we should mention, has hired new management, and we wish them well.) Our after-tax loss from this investment was $444 million, about 1/5 of 1% of Berkshire's net worth. In the past 50 years, we have only once realized an investment loss that at the time of sale cost us 2% of our net worth. Twice, we experienced 1% losses. All three of these losses occurred in the 1974-1975 period, when we sold stocks that were very cheap in order to buy others we believed to be even cheaper.

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Our investment results have been helped by a terrific tailwind. During the 1964-2014 period, the S&P 500 rose from 84 to 2,059, which, with reinvested dividends, generated the overall return of 11,196% shown on page 2. Concurrently, the purchasing power of the dollar declined a staggering 87%. That decrease means that it now takes $1 to buy what could be bought for 13¢ in 1965 (as measured by the Consumer Price Index).

There is an important message for investors in that disparate performance between stocks and dollars. Think back to our 2011 annual report, in which we defined investing as "the transfer to others of purchasing power now with the reasoned expectation of receiving more purchasing power – *after taxes have been paid on nominal gains* – in the future."

The unconventional, but inescapable, conclusion to be drawn from the past fifty years is that it has been *far* safer to invest in a diversified collection of American businesses than to invest in securities – Treasuries, for example – whose values have been tied to American currency. That was also true in the preceding half-century, a period including the Great Depression and two world wars. Investors should heed this history. To one degree or another it is almost certain to be repeated during the next century.

Stock prices will always be far more *volatile* than cash-equivalent holdings. *Over the long term*, however, currency-denominated instruments are *riskier* investments – *far* riskier investments – than widely-diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions. That lesson has not customarily been taught in business schools, where volatility is almost universally used as a proxy for risk. Though this pedagogic assumption makes for easy teaching, it is dead wrong: Volatility is *far* from synonymous with risk. Popular formulas that equate the two terms lead students, investors and CEOs astray.

It is true, of course, that owning equities for a day or a week or a year is far riskier (in both nominal and purchasing-power terms) than leaving funds in cash-equivalents. That is relevant to certain investors – say, investment banks – whose viability can be threatened by declines in asset prices and which might be forced to sell securities during depressed markets. Additionally, any party that might have meaningful near-term needs for funds should keep appropriate sums in Treasuries or insured bank deposits.

For the great majority of investors, however, who can – and *should* – invest with a multi-decade horizon, quotational declines are unimportant. Their focus should remain fixed on attaining significant gains in purchasing power over their investing lifetime. For them, a diversified equity portfolio, *bought over time*, will prove far less risky than dollar-based securities.

If the investor, instead, fears price volatility, erroneously viewing it as a measure of risk, he may, ironically, end up doing some very risky things. Recall, if you will, the pundits who six years ago bemoaned falling stock prices and advised investing in "safe" Treasury bills or bank certificates of deposit. People who heeded this sermon are now earning a pittance on sums they had previously expected would finance a pleasant retirement. (The S&P 500 was then below 700; now it is about 2,100.) If not for their fear of meaningless price volatility, these investors could have assured themselves of a good income for life by simply buying a very low-cost index fund whose dividends would trend upward over the years and whose principal would grow as well (with many ups and downs, to be sure).

Investors, of course, can, *by their own behavior*, make stock ownership highly risky. And many do. Active trading, attempts to "time" market movements, inadequate diversification, the payment of high and unnecessary fees to managers and advisors, and the use of borrowed money can destroy the decent returns that a life-long owner of equities would otherwise enjoy. Indeed, borrowed money has *no* place in the investor's tool kit: *Anything* can happen *anytime* in markets. And no advisor, economist, or TV commentator – and definitely not Charlie nor I – can tell you when chaos will occur. Market forecasters will fill your ear but will never fill your wallet.

The commission of the investment sins listed above is not limited to "the little guy." Huge institutional investors, viewed as a group, have long underperformed the unsophisticated index-fund investor who simply sits tight for decades. A major reason has been fees: Many institutions pay substantial sums to consultants who, in turn, recommend high-fee managers. And that is a fool's game.

There are a few investment managers, of course, who are very good – though in the short run, it's difficult to determine whether a great record is due to luck or talent. Most advisors, however, are far better at generating high fees than they are at generating high returns. In truth, their core competence is salesmanship. Rather than listen to their siren songs, investors – large and small – should instead read Jack Bogle's *The Little Book of Common Sense Investing*.

Decades ago, Ben Graham pinpointed the blame for investment failure, using a quote from Shakespeare: "The fault, dear Brutus, is not in our stars, but in ourselves."

The Annual Meeting

The annual meeting will be held on Saturday, May 2nd at the CenturyLink Center. Last year's attendance of 39,000 set a record, and we expect a further increase this year as we celebrate our Golden Anniversary. Be there when the doors open at 7 a.m.

Berkshire's talented Carrie Sova will again be in charge. Carrie joined us six years ago at the age of 24 as a secretary. Then, four years ago, I asked her to take charge of the meeting – a huge undertaking, requiring a multitude of skills – and she jumped at the chance. Carrie is unflappable, ingenious and expert at bringing out the best in the hundreds who work with her. She is aided by our entire home office crew who enjoy pitching in to make the weekend fun and informative for our owners.

And, yes, we also try to sell our visiting shareholders our products while they're here. In fact, this year we will substantially increase the hours available for purchases, opening for business at the CenturyLink on Friday, May 1st, from noon to 5 p.m. as well as the usual 7 a.m. to 4 p.m. on meeting day. So bring a smile to Charlie's face and do some serious shopping.

Get up early on Saturday morning. At 6:20 a.m., Norman and Jake, two Texas longhorns each weighing about a ton, will proceed down 10th Street to the CenturyLink. Aboard them will be a couple of our Justin Boot executives, who do double duty as cowboys. Following the steers will be four horses pulling a Wells Fargo stagecoach. Berkshire already markets planes, trains and automobiles. Adding steers and stagecoaches to our portfolio should seal our reputation as America's all-purpose transportation company.

At about 7:30 a.m. on Saturday, we will have our fourth International Newspaper Tossing Challenge. Our target again will be a Clayton Home porch, located precisely 35 feet from the throwing line. When I was a teenager – in my one brief flirtation with honest labor – I tossed about 500,000 papers. So I think I'm pretty good. Challenge me! Humiliate me! Knock me down a peg! I'll buy a Dilly Bar for anyone who lands his or her throw closer to the doorstep than I do. The papers will run 36 to 42 pages, and you must fold them yourself (no rubber bands allowed). I'll present a special prize to the 12-or-under contestant who makes the best toss. Deb Bosanek will be the judge.

At 8:30 a.m., 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 CenturyLink's stands) will last until 3:30 p.m. After a short recess, Charlie and I will convene the annual meeting at 3:45 p.m. This business session typically lasts only a half hour or so.

Your venue for shopping will be the 194,300-square-foot hall that adjoins the meeting and in which products from dozens of Berkshire subsidiaries will be for sale. If you don't get your shopping done on Friday, slip out while Charlie's talking on Saturday and binge on our bargains. Check the terrific BNSF railroad layout also. Even though I'm 84, it still excites me.

Last year you did your part as a shopper, and most of our businesses racked up record sales. In a nine-hour period on Saturday, we sold 1,385 pairs of Justin boots (that's a pair every 23 seconds), 13,440 pounds of See's candy, 7,276 pairs of Wells Lamont work gloves and 10,000 bottles of Heinz ketchup. Heinz has a new mustard product, so both mustard and ketchup will be available this year. (Buy both!) Now that we are open for business on Friday as well, we expect new records in every precinct.

Brooks, our running-shoe company, will again have a special commemorative shoe to offer at the meeting. After you purchase a pair, wear them the next day at our third annual "Berkshire 5K," an 8 a.m. race starting at the CenturyLink. Full details for participating will be included in the Visitor's Guide that will be sent to you with your credentials for the meeting. Entrants in the race will find themselves running alongside many of Berkshire's managers, directors and associates. (Charlie and I, however, will sleep in.)

A GEICO booth in the shopping area will be staffed by a number of the company's 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 discount, such as that available to certain groups.) Bring the details of your existing insurance and check out our price. We can save many of you real money.

Be sure to visit the Bookworm. It will carry about 35 books and DVDs, among them a couple of new titles. Last year, many shareholders purchased Max Olson's compilation of Berkshire letters going back to 1965, and he has produced an updated edition for the meeting. We also expect to be selling an inexpensive book commemorating our fifty years. It's currently a work in process, but I expect it to contain a wide variety of historical material, including documents from the 19th Century.

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 both 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 vs. Omaha. The drive between the two cities is about 2½ hours, and it may be that Kansas City can save you significant money, particularly if you had planned to rent a car in Omaha. The savings for a couple could run to $1,000 or more. Spend that money 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 in the week surrounding the meeting, the store did a record $40,481,817 of business. (An average week for NFM's Omaha store is about $9 million.)

To obtain the Berkshire discount at NFM, you must make your purchases between Tuesday, April 28th and Monday, May 4th 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 Friday, 10 a.m. to 9:30 p.m. on Saturday and 10 a.m. to 8 p.m. on Sunday. From 5:30 p.m. to 8 p.m. on Saturday, 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 1st. The second, the main gala, will be held on Sunday, May 3rd, from 9 a.m. to 4 p.m. On Saturday, we will remain open until 6 p.m. In recent years, our three-day volume has far exceeded our sales in all of December, normally a jeweler's best month.

We will have huge crowds at Borsheims throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, April 27th through Saturday, May 9th. 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, 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.

My friend, Ariel Hsing, will be in the mall as well on Sunday, taking on challengers at table tennis. I met Ariel when she was nine and even then I was unable to score a point against her. Now, she's a sophomore at Princeton, having already represented the United States in the 2012 Olympics. If you don't mind embarrassing yourself, test your skills against her, beginning at 1 p.m. Bill Gates and I will lead off and try to soften her up.

Gorat's and Piccolo's will again be open exclusively for Berkshire shareholders on Sunday, May 3rd. 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*); for Piccolo's, call 402-346-2865. At Piccolo's, order a giant root beer float for dessert. Only sissies get the small one.

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, who retired last year after sixty years at Fortune, but remains *the* expert on business and financial matters, and who may be e-mailed at loomisbrk@gmail.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 e-mail you send them. (In your e-mail, let the journalist know if you would like your name mentioned if your question is asked.)

We will also have a panel of three analysts who follow Berkshire. This year the insurance specialist will be Gary Ransom of Dowling & Partners. Questions that deal with our non-insurance operations will come from Jonathan Brandt of Ruane, Cunniff & Goldfarb and Gregg Warren of Morningstar. Our hope is that the analysts and journalists will ask questions that add to our owners' understanding and knowledge of their investment.

Neither Charlie nor I will get so much as a clue about the questions headed our way. Some will be tough, for sure, 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 for 18 from the audience. (Last year we had 62 in total.) The questioners from the audience will be chosen by means of 11 drawings that will take place at 8:15 a.m. on the morning of the annual meeting. Each of the 11 microphones installed in the arena and main overflow room will host, so to speak, a drawing.

While I'm on the subject of our owners' gaining knowledge, let me remind you that Charlie and I believe all shareholders should simultaneously have access to new information that Berkshire releases and should also have adequate time to analyze it. That's why we try to issue financial data late on Fridays or early on Saturdays and why our annual meeting is always held on a Saturday. We do not talk one-on-one to large institutional investors or analysts, treating them instead as we do all other shareholders.

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We get terrific help at meeting time from literally thousands of Omaha residents and businesses who want you to enjoy yourselves. This year, because we expect record attendance, we have worried about a shortage of hotel rooms. To deal with that possible problem, Airbnb is making a special effort to obtain listings for the period around meeting time and is likely to have a wide array of accommodations to offer. Airbnb's services may be especially helpful to shareholders who expect to spend only a single night in Omaha and are aware that last year a few hotels required guests to pay for a minimum of three nights. That gets expensive. Those people on a tight budget should check the Airbnb website.

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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 the mindset of our managers also to be as shareholder-oriented as can be found in the universe of large publicly-owned companies. Most of our managers 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 24 men and women who work with me at our corporate office. This group efficiently deals with a multitude of SEC and other regulatory requirements, files a 24,100-page Federal income tax return and oversees the filing of 3,400 state tax 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 the 40 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 and french fries (smothered in Heinz ketchup, of course) for lunch. No CEO has it better; I truly do feel like tap dancing to work every day.

Last year, for the annual report, we dropped our 48-year-old "no pictures" policy – who says I'm not flexible? – and ran a photo of our remarkable home-office crew that was taken at our Christmas lunch. I didn't warn the gang of the public exposure they were to receive, so they didn't have on their Sunday best. This year was a different story: On the facing page you will see what our group looks like when they think someone will be noticing. However they dress, their performance is mind-boggling.

Come meet them on May 2nd and enjoy our Woodstock for Capitalists.

February 27, 2015

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.”

Berkshire – Past, Present and Future

In the Beginning

On May 6, 1964, Berkshire Hathaway, then run by a man named Seabury Stanton, sent a letter to its shareholders offering to buy 225,000 shares of its stock for $11.375 per share. I had expected the letter; I was surprised by the price.

Berkshire then had 1,583,680 shares outstanding. About 7% of these were owned by Buffett Partnership Ltd. ("BPL"), an investing entity that I managed and in which I had virtually all of my net worth. Shortly before the tender offer was mailed, Stanton had asked me at what price BPL would sell its holdings. I answered $11.50, and he said, "Fine, we have a deal." Then came Berkshire's letter, offering an eighth of a point less. I bristled at Stanton's behavior and didn't tender.

That was a monumentally stupid decision.

Berkshire was then a northern textile manufacturer mired in a terrible business. The industry in which it operated was heading south, both metaphorically and physically. And Berkshire, for a variety of reasons, was unable to change course.

That was true even though the industry's problems had long been widely understood. Berkshire's own Board minutes of July 29, 1954, laid out the grim facts: "The textile industry in New England started going out of business forty years ago. During the war years this trend was stopped. The trend must continue until supply and demand have been balanced."

About a year after that board meeting, Berkshire Fine Spinning Associates and Hathaway Manufacturing – both with roots in the 19th Century – joined forces, taking the name we bear today. With its fourteen plants and 10,000 employees, the merged company became the giant of New England textiles. What the two managements viewed as a merger agreement, however, soon morphed into a suicide pact. During the seven years following the consolidation, Berkshire operated at an overall loss, and its net worth shrunk by 37%.

Meanwhile, the company closed nine plants, sometimes using the liquidation proceeds to repurchase shares. And that pattern caught my attention.

I purchased BPL's first shares of Berkshire in December 1962, anticipating more closings and more repurchases. The stock was then selling for $7.50, a wide discount from per-share working capital of $10.25 and book value of $20.20. Buying the stock at that price was like picking up a discarded cigar butt that had one puff remaining in it. Though the stub might be ugly and soggy, the puff would be free. Once that momentary pleasure was enjoyed, however, no more could be expected.

Berkshire thereafter stuck to the script: It soon closed another two plants, and in that May 1964 move, set out to repurchase shares with the shutdown proceeds. The price that Stanton offered was 50% above the cost of our original purchases. There it was – my free puff, just waiting for me, after which I could look elsewhere for other discarded butts.

Instead, irritated by Stanton's chiseling, I ignored his offer and began to aggressively buy more Berkshire shares.

By April 1965, BPL owned 392,633 shares (out of 1,017,547 then outstanding) and at an early-May board meeting we formally took control of the company. Through Seabury's and my childish behavior – after all, what was an eighth of a point to either of us? – he lost his job, and I found myself with more than 25% of BPL's capital invested in a terrible business about which I knew very little. I became the dog who caught the car.

Because of Berkshire's operating losses and share repurchases, its net worth at the end of fiscal 1964 had fallen to $22 million from $55 million at the time of the 1955 merger. The full $22 million was required by the textile operation: The company had no excess cash and owed its bank $2.5 million. (Berkshire's 1964 annual report is reproduced on pages 130-142.)

For a time I got lucky: Berkshire immediately enjoyed two years of good operating conditions. Better yet, its earnings in those years were free of income tax because it possessed a large loss carry-forward that had arisen from the disastrous results in earlier years.

Then the honeymoon ended. During the 18 years following 1966, we struggled unremittingly with the textile business, all to no avail. But stubbornness – stupidity? – has its limits. In 1985, I finally threw in the towel and closed the operation.

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Undeterred by my first mistake of committing much of BPL's resources to a dying business, I quickly compounded the error. Indeed, my second blunder was far more serious than the first, eventually becoming the most costly in my career.

Early in 1967, I had Berkshire pay $8.6 million to buy National Indemnity Company ("NICO"), a small but promising Omaha-based insurer. (A tiny sister company was also included in the deal.) Insurance was in my sweet spot: I understood and liked the industry.

Jack Ringwalt, the owner of NICO, was a long-time friend who wanted to sell to me – me, personally. In no way was his offer intended for Berkshire. So why did I purchase NICO for Berkshire rather than for BPL? I've had 48 years to think about that question, and I've yet to come up with a good answer. I simply made a colossal mistake.

If BPL had been the purchaser, my partners and I would have owned 100% of a fine business, destined to form the base for building the company Berkshire has become. Moreover, our growth would not have been impeded for nearly two decades by the unproductive funds imprisoned in the textile operation. Finally, our subsequent acquisitions would have been owned in their entirety by my partners and me rather than being 39%-owned by the legacy shareholders of Berkshire, to whom we had no obligation. Despite these facts staring me in the face, I opted to marry 100% of an excellent business (NICO) to a 61%-owned terrible business (Berkshire Hathaway), a decision that eventually diverted $100 billion or so from BPL partners to a collection of strangers.

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One more confession and then I'll go on to more pleasant topics: Can you believe that in 1975 I bought Waumbec Mills, another New England textile company? Of course, the purchase price was a "bargain" based on the assets we received and the *projected* synergies with Berkshire's existing textile business. Nevertheless – surprise, surprise – Waumbec was a disaster, with the mill having to be closed down not many years later.

And now some good news: The northern textile industry is finally extinct. You need no longer panic if you hear that I've been spotted wandering around New England.

Charlie Straightens Me Out

My cigar-butt strategy worked very well while I was managing small sums. Indeed, the many dozens of free puffs I obtained in the 1950s made that decade by far the best of my life for both relative and absolute investment performance.

Even then, however, I made a few exceptions to cigar butts, the most important being GEICO. Thanks to a 1951 conversation I had with Lorimer Davidson, a wonderful man who later became CEO of the company, I learned that GEICO was a terrific business and promptly put 65% of my $9,800 net worth into its shares. Most of my gains in those early years, though, came from investments in mediocre companies that traded at bargain prices. Ben Graham had taught me that technique, and it worked.

But a major weakness in this approach gradually became apparent: Cigar-butt investing was scalable only to a point. With large sums, it would never work well.

In addition, though marginal businesses purchased at cheap prices may be attractive as short-term investments, they are the wrong foundation on which to build a large and enduring enterprise. Selecting a marriage partner clearly requires more demanding criteria than does dating. (Berkshire, it should be noted, would have been a highly satisfactory "date": If we had taken Seabury Stanton's $11.375 offer for our shares, BPL's weighted annual return on its Berkshire investment would have been about 40%.)

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It took Charlie Munger to break my cigar-butt habits and set the course for building a business that could combine huge size with satisfactory profits. Charlie had grown up a few hundred feet from where I now live and as a youth had worked, as did I, in my grandfather's grocery store. Nevertheless, it was 1959 before I met Charlie, long after he had left Omaha to make Los Angeles his home. I was then 28 and he was 35. The Omaha doctor who introduced us predicted that we would hit it off – and we did.

If you've attended our annual meetings, you know Charlie has a wide-ranging brilliance, a prodigious memory, and some firm opinions. I'm not exactly wishy-washy myself, and we sometimes don't agree. In 56 years, however, we've never had an argument. When we differ, Charlie usually ends the conversation by saying: "Warren, think it over and you'll agree with me because you're smart and I'm right."

What most of you do *not* know about Charlie is that architecture is among his passions. Though he began his career as a practicing lawyer (with his time billed at $15 per hour), Charlie made his first real money in his 30s by designing and building five apartment projects near Los Angeles. Concurrently, he designed the house that he lives in today – some 55 years later. (Like me, Charlie can't be budged if he is happy in his surroundings.) In recent years, Charlie has designed large dorm complexes at Stanford and the University of Michigan and today, at age 91, is working on another major project.

From my perspective, though, Charlie's most important architectural feat was the design of today's Berkshire. The blueprint he gave me was simple: Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices.

Altering my behavior is not an easy task (ask my family). I had enjoyed reasonable success without Charlie's input, so why should I listen to a lawyer who had never spent a day in business school (when – ahem – *I* had attended *three*). But Charlie never tired of repeating his maxims about business and investing to me, and his logic was irrefutable. Consequently, Berkshire has been built to Charlie's blueprint. My role has been that of general contractor, with the CEOs of Berkshire's subsidiaries doing the real work as sub-contractors.

The year 1972 was a turning point for Berkshire (though not without occasional backsliding on my part – remember my 1975 purchase of Waumbec). We had the opportunity then to buy See's Candy for Blue Chip Stamps, a company in which Charlie, I and Berkshire had major stakes, and which was later merged into Berkshire.

See's was a legendary West Coast manufacturer and retailer of boxed chocolates, then annually earning about $4 million pre-tax while utilizing only $8 million of net tangible assets. Moreover, the company had a huge asset that did not appear on its balance sheet: a broad and durable competitive advantage that gave it significant pricing power. That strength was virtually certain to give See's major gains in earnings over time. Better yet, these would materialize with only minor amounts of incremental investment. In other words, See's could be expected to gush cash for decades to come.

The family controlling See's wanted $30 million for the business, and Charlie rightly said it was worth that much. But I didn't want to pay more than $25 million and wasn't all that enthusiastic even at that figure. (A price that was three times net tangible assets made me gulp.) My misguided caution could have scuttled a terrific purchase. But, luckily, the sellers decided to take our $25 million bid.

To date, See's has earned $1.9 billion pre-tax, with its growth having required added investment of only $40 million. See's has thus been able to distribute huge sums that have helped Berkshire buy other businesses that, in turn, have themselves produced large distributable profits. (Envision rabbits breeding.) Additionally, through watching See's in action, I gained a business education about the value of powerful brands that opened my eyes to many other profitable investments.

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Even with Charlie's blueprint, I have made plenty of mistakes since Waumbec. The most gruesome was Dexter Shoe. When we purchased the company in 1993, it had a terrific record and in no way looked to me like a cigar butt. Its competitive strengths, however, were soon to evaporate because of foreign competition. And I simply didn't see that coming.

Consequently, Berkshire paid $433 million for Dexter and, rather promptly, its value went to zero. GAAP accounting, however, doesn't come close to recording the magnitude of my error. The fact is that I gave Berkshire stock to the sellers of Dexter rather than cash, and the shares I used for the purchase are now worth about $5.7 billion. As a financial disaster, this one deserves a spot in the Guinness Book of World Records.

Several of my subsequent errors also involved the use of Berkshire shares to purchase businesses whose earnings were destined to simply limp along. Mistakes of that kind are deadly. Trading shares of a wonderful business – which Berkshire most certainly is – for ownership of a so-so business irreparably destroys value.

We've also suffered financially when this mistake has been committed by companies whose shares Berkshire has owned (with the errors sometimes occurring while I was serving as a director). Too often CEOs seem blind to an elementary reality: The intrinsic value of the shares you give in an acquisition must not be greater than the intrinsic value of the business you receive.

I've yet to see an investment banker quantify this all-important math when he is presenting a stock-for-stock deal to the board of a potential acquirer. Instead, the banker's focus will be on describing "customary" premiums-to-market-price that are currently being paid for acquisitions – an absolutely asinine way to evaluate the attractiveness of an acquisition – or whether the deal will increase the acquirer's earnings-per-share (which in itself should be far from determinative). In striving to achieve the desired per-share number, a panting CEO and his "helpers" will often conjure up fanciful "synergies." (As a director of 19 companies over the years, I've never heard "dis-synergies" mentioned, though I've witnessed plenty of these once deals have closed.) Post mortems of acquisitions, in which reality is honestly compared to the original projections, are rare in American boardrooms. They should instead be standard practice.

I can promise you that long after I'm gone, Berkshire's CEO and Board will carefully make intrinsic value calculations before issuing shares in any acquisitions. You can't get rich trading a hundred-dollar bill for eight tens (even if your advisor has handed you an expensive "fairness" opinion endorsing that swap).

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Overall, Berkshire's acquisitions have worked out well – and *very* well in the case of a few large ones. So, too, have our investments in marketable securities. The latter are always valued on our balance sheet at their market prices so any gains – including those unrealized – are immediately reflected in our net worth. But the businesses we buy outright are never revalued upward on our balance sheet, even when we could sell them for many billions of dollars more than their carrying value. The unrecorded gains in the value of Berkshire's subsidiaries have become huge, with these growing at a particularly fast pace in the last decade.

Listening to Charlie has paid off.

Berkshire Today

Berkshire is now a sprawling conglomerate, constantly trying to sprawl further.

Conglomerates, it should be acknowledged, have a terrible reputation with investors. And they richly deserve it. Let me first explain why they are in the doghouse, and then I will go on to describe why the conglomerate form brings huge and enduring advantages to Berkshire.

Since I entered the business world, conglomerates have enjoyed several periods of extreme popularity, the silliest of which occurred in the late 1960s. The drill for conglomerate CEOs then was simple: By personality, promotion or dubious accounting – and often by all three – these managers drove a fledgling conglomerate's stock to, say, 20 times earnings and then issued shares as fast as possible to acquire another business selling at ten-or-so times earnings. They immediately applied "pooling" accounting to the acquisition, which – with not a dime's worth of change in the underlying businesses – automatically increased per-share earnings, and used the rise as proof of managerial genius. They next explained to investors that this sort of talent justified the maintenance, or even the enhancement, of the acquirer's p/e multiple. And, finally, they promised to endlessly repeat this procedure and thereby create ever-increasing per-share earnings.

Wall Street's love affair with this hocus-pocus intensified as the 1960s rolled by. The Street's denizens are always ready to suspend disbelief when dubious maneuvers are used to manufacture rising per-share earnings, particularly if these acrobatics produce mergers that generate huge fees for investment bankers. Auditors willingly sprinkled their holy water on the conglomerates' accounting and sometimes even made suggestions as to how to further juice the numbers. For many, gushers of easy money washed away ethical sensitivities.

Since the per-share earnings gains of an expanding conglomerate came from exploiting p/e differences, its CEO had to search for businesses selling at low multiples of earnings. These, of course, were characteristically mediocre businesses with poor long-term prospects. This incentive to bottom-fish usually led to a conglomerate's collection of underlying businesses becoming more and more junky. That mattered little to investors: It was deal velocity and pooling accounting they looked to for increased earnings.

The resulting firestorm of merger activity was fanned by an adoring press. Companies such as ITT, Litton Industries, Gulf & Western, and LTV were lionized, and their CEOs became celebrities. (These once-famous conglomerates are now long gone. As Yogi Berra said, "Every Napoleon meets his Watergate.")

Back then, accounting shenanigans of all sorts – many of them ridiculously transparent – were excused or overlooked. Indeed, having an accounting wizard at the helm of an expanding conglomerate was viewed as a huge plus: Shareholders in those instances could be sure that *reported* earnings would never disappoint, no matter how bad the operating realities of the business might become.

In the late 1960s, I attended a meeting at which an acquisitive CEO bragged of his "bold, imaginative accounting." Most of the analysts listening responded with approving nods, seeing themselves as having found a manager whose forecasts were certain to be met, whatever the business results might be.

Eventually, however, the clock struck twelve, and everything turned to pumpkins and mice. Once again, it became evident that business models based on the serial issuances of overpriced shares – just like chain-letter models – most assuredly redistribute wealth, but in no way create it. Both phenomena, nevertheless, periodically blossom in our country – they are every promoter's dream – though often they appear in a carefully-crafted disguise. The ending is always the same: Money flows from the gullible to the fraudster. And with stocks, unlike chain letters, the sums hijacked can be staggering.

At both BPL and Berkshire, we have *never* invested in companies that are hell-bent on issuing shares. That behavior is one of the surest indicators of a promotion-minded management, weak accounting, a stock that is overpriced and – all too often – outright dishonesty.

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So what do Charlie and I find so attractive about Berkshire's conglomerate structure? To put the case simply: If the conglomerate form is used judiciously, it is an ideal structure for maximizing long-term capital growth.

One of the heralded virtues of capitalism is that it efficiently allocates funds. The argument is that markets will direct investment to promising businesses and deny it to those destined to wither. That is true: With all its excesses, market-driven allocation of capital is usually far superior to any alternative.

Nevertheless, there are often obstacles to the rational movement of capital. As those 1954 Berkshire minutes made clear, capital withdrawals within the textile industry that should have been obvious were delayed for decades because of the vain hopes and self-interest of managements. Indeed, I myself delayed abandoning our obsolete textile mills for far too long.

A CEO with capital employed in a declining operation seldom elects to massively redeploy that capital into unrelated activities. A move of that kind would usually require that long-time associates be fired and mistakes be admitted. Moreover, it's unlikely *that* CEO would be the manager you would wish to handle the redeployment job even if he or she was inclined to undertake it.

At the shareholder level, taxes and frictional costs weigh heavily on individual investors when they attempt to reallocate capital among businesses and industries. Even tax-free institutional investors face major costs as they move capital because they usually need intermediaries to do this job. A lot of mouths with expensive tastes then clamor to be fed – among them investment bankers, accountants, consultants, lawyers and such capital-reallocators as leveraged buyout operators. Money-shufflers don't come cheap.

In contrast, a conglomerate such as Berkshire is perfectly positioned to allocate capital rationally and at minimal cost. Of course, form itself is no guarantee of success: We have made plenty of mistakes, and we will make more. Our structural advantages, however, are formidable.

At Berkshire, we can – without incurring taxes or much in the way of other costs – move huge sums from businesses that have limited opportunities for incremental investment to other sectors with greater promise. Moreover, we are free of historical biases created by lifelong association with a given industry and are not subject to pressures from colleagues having a vested interest in maintaining the status quo. That's important: If horses had controlled investment decisions, there would have been no auto industry.

Another major advantage we possess is the ability to buy *pieces* of wonderful businesses – a.k.a. common stocks. That's not a course of action open to most managements. Over our history, this strategic alternative has proved to be very helpful; a broad range of options always sharpens decision-making. The businesses we are offered by the stock market every day – in small pieces, to be sure – are often far more attractive than the businesses we are concurrently being offered in their entirety. Additionally, the gains we've realized from marketable securities have helped us make certain large acquisitions that would otherwise have been beyond our financial capabilities.

In effect, the world is Berkshire's oyster – a world offering us a range of opportunities far beyond those realistically open to most companies. We are limited, of course, to businesses whose economic prospects we can evaluate. And that's a serious limitation: Charlie and I have no idea what a great many companies will look like ten years from now. But that limitation is much smaller than that borne by an executive whose experience has been confined to a single industry. On top of that, we can profitably scale to a *far* larger size than the many businesses that are constrained by the limited potential of the single industry in which they operate.

I mentioned earlier that See's Candy had produced huge earnings compared to its modest capital requirements. We would have loved, of course, to intelligently use those funds to expand our candy operation. But our many attempts to do so were largely futile. So, without incurring tax inefficiencies or frictional costs, we have used the excess funds generated by See's to help purchase other businesses. If See's had remained a stand-alone company, its earnings would have had to be distributed to investors to redeploy, sometimes after being heavily depleted by large taxes and, almost always, by significant frictional and agency costs.

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Berkshire has one further advantage that has become increasingly important over the years: We are now the home of choice for the owners and managers of many outstanding businesses.

Families that own successful businesses have multiple options when they contemplate sale. Frequently, the best decision is to do nothing. There are worse things in life than having a prosperous business that one understands well. But sitting tight is seldom recommended by Wall Street. (Don't ask the barber whether you need a haircut.)

When one part of a family wishes to sell while others wish to continue, a public offering often makes sense. But, when owners wish to cash out entirely, they usually consider one of two paths.

The first is sale to a competitor who is salivating at the possibility of wringing "synergies" from the combining of the two companies. This buyer invariably contemplates getting rid of large numbers of the seller's associates, the very people who have helped the owner build his business. A caring owner, however – and there are plenty of them – usually does not want to leave his long-time associates sadly singing the old country song: "*She got the goldmine, I got the shaft.*"

The second choice for sellers is the Wall Street buyer. For some years, these purchasers accurately called themselves "leveraged buyout firms." When that term got a bad name in the early 1990s – remember RJR and *Barbarians at the Gate*? – these buyers hastily relabeled themselves "private-equity."

The name may have changed but that was all: Equity is dramatically *reduced* and debt is piled on in virtually all private-equity purchases. Indeed, the amount that a private-equity purchaser offers to the seller is in part determined by the buyer assessing the *maximum* amount of debt that can be placed on the acquired company.

Later, if things go well and equity begins to build, leveraged buy-out shops will often seek to re-leverage with new borrowings. They then typically use part of the proceeds to pay a huge dividend that drives equity sharply downward, sometimes even to a negative figure.

In truth, "equity" is a dirty word for many private-equity buyers; what they love is debt. And, because debt is currently so inexpensive, these buyers can frequently pay top dollar. Later, the business will be resold, often to another leveraged buyer. In effect, the business becomes a piece of merchandise.

Berkshire offers a third choice to the business owner who wishes to sell: a permanent home, in which the company's people and culture will be retained (though, occasionally, management changes will be needed). Beyond that, any business we acquire dramatically increases its financial strength and ability to grow. Its days of dealing with banks and Wall Street analysts are also forever ended.

Some sellers don't care about these matters. But, when sellers do, Berkshire does not have a lot of competition.

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Sometimes pundits propose that Berkshire spin-off certain of its businesses. These suggestions make no sense. Our companies are worth more as part of Berkshire than as separate entities. One reason is our ability to move funds between businesses or into new ventures instantly and without tax. In addition, certain costs duplicate themselves, in full or part, if operations are separated. Here's the most obvious example: Berkshire incurs nominal costs for its single board of directors; were our dozens of subsidiaries to be split off, the overall cost for directors would soar. So, too, would regulatory and administration expenditures.

Finally, there are sometimes important tax efficiencies for Subsidiary A because we own Subsidiary B. For example, certain tax credits that are available to our utilities are currently realizable only because we generate huge amounts of taxable income at other Berkshire operations. That gives Berkshire Hathaway Energy a major advantage over most public-utility companies in developing wind and solar projects.

Investment bankers, being paid as they are for action, constantly urge acquirers to pay 20% to 50% premiums over market price for publicly-held businesses. The bankers tell the buyer that the premium is justified for "control value" and for the wonderful things that are going to happen once the acquirer's CEO takes charge. (What acquisition-hungry manager will challenge *that* assertion?)

A few years later, bankers – bearing straight faces – again appear and just as earnestly urge spinning off the earlier acquisition in order to "unlock shareholder value." Spin-offs, of course, strip the owning company of its purported "control value" without any compensating payment. The bankers explain that the spun-off company will flourish because its management will be more entrepreneurial, having been freed from the smothering bureaucracy of the parent company. (So much for that talented CEO we met earlier.)

If the divesting company later wishes to reacquire the spun-off operation, it presumably would again be urged by its bankers to pay a hefty "control" premium for the privilege. (Mental "flexibility" of this sort by the banking fraternity has prompted the saying that fees too often lead to transactions rather than transactions leading to fees.)

It's possible, of course, that someday a spin-off or sale at Berkshire would be required by regulators. Berkshire carried out such a spin-off in 1979, when new regulations for bank holding companies forced us to divest a bank we owned in Rockford, Illinois.

Voluntary spin-offs, though, make no sense for us: We would lose control value, capital-allocation flexibility and, in some cases, important tax advantages. The CEOs who brilliantly run our subsidiaries now would have difficulty in being as effective if running a spun-off operation, given the operating and financial advantages derived from Berkshire's ownership. Moreover, the parent and the spun-off operations, once separated, would likely incur moderately greater costs than existed when they were combined.

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Before I depart the subject of spin-offs, let's look at a lesson to be learned from a conglomerate mentioned earlier: LTV. I'll summarize here, but those who enjoy a good financial story should read the piece about Jimmy Ling that ran in the October 1982 issue of *D Magazine*. Look it up on the Internet.

Through a lot of corporate razzle-dazzle, Ling had taken LTV from sales of only $36 million in 1965 to number 14 on the Fortune 500 list just two years later. Ling, it should be noted, had never displayed any managerial skills. But Charlie told me long ago to never underestimate the man who overestimates himself. And Ling had no peer in that respect.

Ling's strategy, which he labeled "project redeployment," was to buy a large company and then partially spin off its various divisions. In LTV's 1966 annual report, he explained the magic that would follow: "Most importantly, acquisitions must meet the test of the 2 plus 2 equals 5 (or 6) formula." The press, the public and Wall Street loved this sort of talk.

In 1967 Ling bought Wilson & Co., a huge meatpacker that also had interests in golf equipment and pharmaceuticals. Soon after, he split the parent into three businesses, Wilson & Co. (meatpacking), Wilson Sporting Goods and Wilson Pharmaceuticals, each of which was to be partially spun off. These companies quickly became known on Wall Street as Meatball, Golf Ball and Goof Ball.

Soon thereafter, it became clear that, like Icarus, Ling had flown too close to the sun. By the early 1970s, Ling's empire was melting, and he himself had been spun off from LTV . . . that is, *fired*.

Periodically, financial markets will become divorced from reality – you can count on that. More Jimmy Lings will appear. They will look and sound authoritative. The press will hang on their every word. Bankers will fight for their business. What they are saying will recently have "worked." Their early followers will be feeling very clever. Our suggestion: Whatever their line, never forget that 2+2 will always equal 4. And when someone tells you how old-fashioned that math is --- zip up your wallet, take a vacation and come back in a few years to buy stocks at cheap prices.

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Today Berkshire possesses (1) an unmatched collection of businesses, most of them now enjoying favorable economic prospects; (2) a cadre of outstanding managers who, with few exceptions, are unusually devoted to both the subsidiary they operate *and* to Berkshire; (3) an extraordinary diversity of earnings, premier financial strength and oceans of liquidity that we will maintain under *all* circumstances; (4) a first-choice ranking among many owners and managers who are contemplating sale of their businesses and (5) in a point related to the preceding item, a culture, distinctive in many ways from that of most large companies, that we have worked 50 years to develop and that is now rock-solid.

These strengths provide us a wonderful foundation on which to build.

The Next 50 Years at Berkshire

Now let's take a look at the road ahead. Bear in mind that if I had attempted 50 years ago to gauge what was coming, certain of my predictions would have been far off the mark. With that warning, I will tell you what I would say to my family today if they asked me about Berkshire's future.

- First and definitely foremost, I believe that the chance of permanent capital loss for patient Berkshire shareholders is as low as can be found among single-company investments. That's because our per-share *intrinsic business value* is almost certain to advance over time.

  This cheery prediction comes, however, with an important caution: If an investor's entry point into Berkshire stock is unusually high – at a price, say, approaching double book value, which Berkshire shares have occasionally reached – it may well be many years before the investor can realize a profit. In other words, a sound investment can morph into a rash speculation if it is bought at an elevated price. Berkshire is not exempt from this truth.

  Purchases of Berkshire that investors make at a price modestly above the level at which the company would repurchase its shares, however, should produce gains within a reasonable period of time. Berkshire's directors will only authorize repurchases at a price they believe to be *well below* intrinsic value. (In our view, that is an essential criterion for repurchases that is often ignored by other managements.)

  For those investors who plan to sell within a year or two after their purchase, I can offer *no* assurances, whatever the entry price. Movements of the general stock market during such abbreviated periods will likely be far more important in determining your results than the concomitant change in the intrinsic value of your Berkshire shares. As Ben Graham said many decades ago: "In the short-term the market is a voting machine; in the long-run it acts as a weighing machine." Occasionally, the voting decisions of investors – amateurs and professionals alike – border on lunacy.

  Since I know of no way to reliably predict market movements, I recommend that you purchase Berkshire shares *only* if you expect to hold them for at least five years. Those who seek short-term profits should look elsewhere.

  Another warning: Berkshire shares should not be purchased with borrowed money. There have been three times since 1965 when our stock has fallen about 50% from its high point. Someday, something close to this kind of drop will happen again, and no one knows when. Berkshire will almost certainly be a satisfactory holding for *investors*. But it could well be a disastrous choice for speculators employing leverage.

- I believe the chance of any event causing Berkshire to experience financial problems is essentially zero. We will always be prepared for the thousand-year flood; in fact, if it occurs we will be selling life jackets to the unprepared. Berkshire played an important role as a "first responder" during the 2008-2009 meltdown, and we have since more than doubled the strength of our balance sheet and our earnings potential. Your company is the Gibraltar of American business and will remain so.

  Financial staying power requires a company to maintain three strengths under *all* circumstances: (1) a large and reliable stream of earnings; (2) massive liquid assets and (3) *no* significant near-term cash requirements. Ignoring that last necessity is what usually leads companies to experience unexpected problems: Too often, CEOs of profitable companies feel they will always be able to refund maturing obligations, however large these are. In 2008-2009, many managements learned how perilous that mindset can be.

  Here's how we will *always* stand on the three essentials. First, our earnings stream is huge and comes from a vast array of businesses. Our shareholders now own many large companies that have durable competitive advantages, and we will acquire more of those in the future. Our diversification assures Berkshire's continued profitability, even if a catastrophe causes insurance losses that far exceed any previously experienced.

Next up is cash. At a healthy business, cash is sometimes thought of as something to be minimized – as an unproductive asset that acts as a drag on such markers as return on equity. Cash, though, is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent.

American business provided a case study of that in 2008. In September of that year, many long-prosperous companies suddenly wondered whether their checks would bounce in the days ahead. Overnight, their financial oxygen disappeared.

At Berkshire, our "breathing" went uninterrupted. Indeed, in a three-week period spanning late September and early October, we supplied $15.6 *billion* of fresh money to American businesses.

We could do that because we always maintain at least $20 billion – and usually far more – in cash equivalents. And by that we mean U.S. Treasury bills, not other substitutes for cash that are claimed to deliver liquidity and actually do so, *except* when it is truly needed. When bills come due, only cash is legal tender. Don't leave home without it.

Finally – getting to our third point – we will never engage in operating or investment practices that can result in sudden demands for large sums. That means we will not expose Berkshire to short-term debt maturities of size nor enter into derivative contracts or other business arrangements that could require large collateral calls.

Some years ago, we became a party to certain derivative contracts that we believed were significantly mispriced and that had only minor collateral requirements. These have proved to be quite profitable. Recently, however, newly-written derivative contracts have required full collateralization. And that ended our interest in derivatives, regardless of what profit potential they might offer. We have not, for some years, written these contracts, except for a few needed for operational purposes at our utility businesses.

Moreover, we will not write insurance contracts that give policyholders the right to cash out at their option. Many *life* insurance products contain redemption features that make them susceptible to a "run" in times of extreme panic. Contracts of that sort, however, do not exist in the property-casualty world that we inhabit. If our premium volume should shrink, our float would decline – but only at a very slow pace.

The reason for our conservatism, which may impress some people as extreme, is that it is entirely predictable that people will occasionally panic, but not at all predictable when this will happen. Though practically all days are relatively uneventful, tomorrow is *always* uncertain. (I felt no special apprehension on December 6, 1941 or September 10, 2001.) And if you can't predict what tomorrow will bring, you must be prepared for whatever it does.

A CEO who is 64 and plans to retire at 65 may have his own special calculus in evaluating risks that have only a tiny chance of happening in a given year. He may, in fact, be "right" 99% of the time. Those odds, however, hold no appeal for us. We will never play financial Russian roulette with the funds you've entrusted to us, even if the metaphorical gun has 100 chambers and only one bullet. In our view, it is madness to risk losing what you *need* in pursuing what you simply *desire*.

- Despite our conservatism, I think we will be able *every* year to build the underlying per-share earning power of Berkshire. That does *not* mean operating earnings will increase each year – far from it. The U.S. economy will ebb and flow – though mostly flow – and, when it weakens, so will our current earnings. But we will continue to achieve organic gains, make bolt-on acquisitions and enter new fields. I believe, therefore, that Berkshire will annually add to its *underlying* earning power.

In some years the gains will be substantial, and at other times they will be minor. Markets, competition, and chance will determine when opportunities come our way. Through it all, Berkshire will keep moving forward, powered by the array of solid businesses we now possess and the new companies we will purchase. In most years, moreover, our country's economy will provide a strong tailwind for business. We are blessed to have the United States as our home field.

- The bad news is that Berkshire's long-term gains – measured by percentages, not by dollars – cannot be dramatic and *will not come close* to those achieved in the past 50 years. The numbers have become too big. I think Berkshire will outperform the average American company, but our advantage, if any, won't be great.

  Eventually – probably between ten and twenty years from now – Berkshire's earnings and capital resources will reach a level that will not allow management to intelligently reinvest all of the company's earnings. At that time our directors will need to determine whether the best method to distribute the excess earnings is through dividends, share repurchases or both. If Berkshire shares are selling below intrinsic business value, massive repurchases will almost certainly be the best choice. You can be comfortable that your directors will make the right decision.

- No company will be more shareholder-minded than Berkshire. For more than 30 years, we have annually reaffirmed our Shareholder Principles (see page 117), always leading off with: "Although our form is corporate, our attitude is partnership." This covenant with you is etched in stone.

  We have an extraordinarily knowledgeable and business-oriented board of directors ready to carry out that promise of partnership. None took the job for the money: In an arrangement almost non-existent elsewhere, our directors are paid only token fees. They receive their rewards instead through ownership of Berkshire shares and the satisfaction that comes from being good stewards of an important enterprise.

  The shares that they and their families own – which, in many cases, are worth very substantial sums – were *purchased* in the market (rather than their materializing through options or grants). In addition, unlike almost all other sizable public companies, we carry no directors and officers liability insurance. At Berkshire, directors walk in your shoes.

  To further ensure continuation of our culture, I have suggested that my son, Howard, succeed me as a *non-executive* Chairman. My only reason for this wish is to make change easier if the wrong CEO should ever be employed and there occurs a need for the Chairman to move forcefully. I can assure you that this problem has a *very* low probability of arising at Berkshire – likely as low as at any public company. In my service on the boards of nineteen public companies, however, I've seen how hard it is to replace a mediocre CEO if that person is also Chairman. (The deed usually gets done, but almost always very late.)

  If elected, Howard will receive no pay and will spend no time at the job other than that required of all directors. He will simply be a safety valve to whom any director can go if he or she has concerns about the CEO and wishes to learn if other directors are expressing doubts as well. Should multiple directors be apprehensive, Howard's chairmanship will allow the matter to be promptly and properly addressed.

- Choosing the right CEO is all-important and is a subject that commands much time at Berkshire board meetings. Managing Berkshire is primarily a job of capital allocation, coupled with the selection and retention of outstanding managers to captain our operating subsidiaries. Obviously, the job also requires the replacement of a subsidiary's CEO when that is called for. These duties require Berkshire's CEO to be a rational, calm and decisive individual who has a broad understanding of business and good insights into human behavior. It's important as well that he knows his limits. (As Tom Watson, Sr. of IBM said, "I'm no genius, but I'm smart in spots and I stay around those spots.")

  Character is crucial: A Berkshire CEO must be "all in" for the company, not for himself. (I'm using male pronouns to avoid awkward wording, but gender should never decide who becomes CEO.) He can't help but earn money far in excess of any possible need for it. But it's important that neither ego nor avarice motivate him to reach for pay matching his most lavishly-compensated peers, even if his achievements far exceed theirs. A CEO's behavior has a huge impact on managers down the line: If it's clear to them that shareholders' interests are paramount to him, they will, with few exceptions, also embrace that way of thinking.

My successor will need one other particular strength: the ability to fight off the ABCs of business decay, which are arrogance, bureaucracy and complacency. When these corporate cancers metastasize, even the strongest of companies can falter. The examples available to prove the point are legion, but to maintain friendships I will exhume only cases from the distant past.

In their glory days, General Motors, IBM, Sears Roebuck and U.S. Steel sat atop huge industries. Their strengths seemed unassailable. But the destructive behavior I deplored above eventually led each of them to fall to depths that their CEOs and directors had not long before thought impossible. Their one-time financial strength and their historical earning power proved no defense.

Only a vigilant and determined CEO can ward off such debilitating forces as Berkshire grows ever larger. He must never forget Charlie's plea: "Tell me where I'm going to die, so I'll never go there." If our non-economic values were to be lost, much of Berkshire's economic value would collapse as well. "Tone at the top" will be key to maintaining Berkshire's special culture.

Fortunately, the structure our future CEOs will need to be successful is firmly in place. The extraordinary delegation of authority now existing at Berkshire is the ideal antidote to bureaucracy. In an operating sense, Berkshire is not a giant company but rather a collection of large companies. At headquarters, we have never had a committee nor have we ever required our subsidiaries to submit budgets (though many use them as an important internal tool). We don't have a legal office nor departments that other companies take for granted: human relations, public relations, investor relations, strategy, acquisitions, you name it.

We do, of course, have an active audit function; no sense being a dammed fool. To an unusual degree, however, we trust our managers to run their operations with a keen sense of stewardship. After all, they were doing exactly that before we acquired their businesses. With only occasional exceptions, furthermore, our trust produces better results than would be achieved by streams of directives, endless reviews and layers of bureaucracy. Charlie and I try to interact with our managers in a manner consistent with what we would wish for, if the positions were reversed.

- Our directors believe that our future CEOs should come from internal candidates whom the Berkshire board has grown to know well. Our directors also believe that an incoming CEO should be relatively young, so that he or she can have a long run in the job. Berkshire will operate best if its CEOs average well over ten years at the helm. (It's hard to teach a new dog old tricks.) And they are not likely to retire at 65 either (or have you noticed?).

  In both Berkshire's business acquisitions and large, tailored investment moves, it is important that our counterparties be both familiar with and feel comfortable with Berkshire's CEO. Developing confidence of that sort and cementing relationships takes time. The payoff, though, can be huge.

  Both the board and I believe we now have the right person to succeed me as CEO – a successor ready to assume the job the day after I die or step down. In certain important respects, this person will do a better job than I am doing.

- Investments will always be of great importance to Berkshire and will be handled by several specialists. They will report to the CEO because their investment decisions, in a broad way, will need to be coordinated with Berkshire's operating and acquisition programs. Overall, though, our investment managers will enjoy great autonomy. In this area, too, we are in fine shape for decades to come. Todd Combs and Ted Weschler, each of whom has spent several years on Berkshire's investment team, are first-rate in all respects and can be of particular help to the CEO in evaluating acquisitions.

  All told, Berkshire is ideally positioned for life after Charlie and I leave the scene. We have the right people in place – the right directors, managers and prospective successors to those managers. Our culture, furthermore, is embedded throughout their ranks. Our system is also regenerative. To a large degree, both good and bad cultures self-select to perpetuate themselves. For very good reasons, business owners and operating managers with values similar to ours will continue to be attracted to Berkshire as a one-of-a-kind and *permanent* home.

- I would be remiss if I didn't salute another key constituency that makes Berkshire special: our shareholders. Berkshire truly has an owner base unlike that of any other giant corporation. That fact was demonstrated in spades at last year's annual meeting, where the shareholders were offered a proxy resolution:

  > RESOLVED: Whereas the corporation has more money than it needs and since the owners unlike Warren are not multi billionaires, the board shall consider paying a meaningful annual dividend on the shares.

  The sponsoring shareholder of that resolution never showed up at the meeting, so his motion was not officially proposed. Nevertheless, the proxy votes had been tallied, and they were enlightening.

  Not surprisingly, the A shares – owned by relatively few shareholders, each with a large economic interest – voted "no" on the dividend question by a margin of 89 to 1.

  The remarkable vote was that of our B shareholders. They number in the hundreds of thousands – perhaps even totaling one million – and they voted 660,759,855 "no" and 13,927,026 "yes," a ratio of about 47 to 1.

  Our directors recommended a "no" vote but the company did not otherwise attempt to influence shareholders. Nevertheless, 98% of the shares voting said, in effect, "Don't send us a dividend but instead reinvest all of the earnings." To have our fellow owners – large and small – be so in sync with our managerial philosophy is both remarkable and rewarding.

  I am a lucky fellow to have you as partners.

Warren E. Buffett

Vice Chairman's Thoughts – Past and Future

To the shareholders of Berkshire Hathaway Inc.:

I closely watched the 50-year history of Berkshire's uncommon success under Warren Buffett. And it now seems appropriate that I independently supplement whatever celebratory comment comes from him. I will try to do five things.

(1) Describe the management system and policies that caused a small and unfixably-doomed commodity textile business to morph into the mighty Berkshire that now exists,

(2) Explain how the management system and policies came into being,

(3) Explain, to some extent, why Berkshire did so well,

(4) Predict whether abnormally good results would continue if Buffett were soon to depart, and

(5) Consider whether Berkshire's great results over the last 50 years have implications that may prove useful elsewhere.

The management system and policies of Berkshire under Buffett (herein together called "the Berkshire system") were fixed early and are described below:

(1) Berkshire would be a diffuse conglomerate, averse only to activities about which it could not make useful predictions.
(2) Its top company would do almost all business through separately incorporated subsidiaries whose CEOs would operate with very extreme autonomy.
(3) There would be almost nothing at conglomerate headquarters except a tiny office suite containing a Chairman, a CFO, and a few assistants who mostly helped the CFO with auditing, internal control, etc.
(4) Berkshire subsidiaries would always prominently include casualty insurers. Those insurers as a group would be expected to produce, in due course, dependable underwriting gains while also producing substantial "float" (from unpaid insurance liabilities) for investment.
(5) There would be no significant system-wide personnel system, stock option system, other incentive system, retirement system, or the like, because the subsidiaries would have their own systems, often different.
(6) Berkshire's Chairman would reserve only a few activities for himself.

(i) He would manage almost all security investments, with these normally residing in Berkshire's casualty insurers.

(ii) He would choose all CEOs of important subsidiaries, and he would fix their compensation and obtain from each a private recommendation for a successor in case one was suddenly needed.

(iii) He would deploy most cash not needed in subsidiaries after they had increased their competitive advantage, with the ideal deployment being the use of that cash to acquire new subsidiaries.

(iv) He would make himself promptly available for almost any contact wanted by any subsidiary's CEO, and he would require almost no additional contact.

(v) He would write a long, logical, and useful letter for inclusion in his annual report, designed as he would wish it to be if he were only a passive shareholder, and he would be available for hours of answering questions at annual shareholders' meetings.

(vi) He would try to be an exemplar in a culture that would work well for customers, shareholders, and other incumbents for a long time, both before and after his departure.

(vii) His first priority would be reservation of much time for quiet reading and thinking, particularly that which might advance his determined learning, no matter how old he became; and

(viii) He would also spend much time in enthusiastically admiring what others were accomplishing.

(7) New subsidiaries would usually be bought with cash, not newly issued stock.

(8) Berkshire would not pay dividends so long as more than one dollar of market value for shareholders was being created by each dollar of retained earnings.

(9) In buying a new subsidiary, Berkshire would seek to pay a fair price for a good business that the Chairman could pretty well understand. Berkshire would also want a good CEO in place, one expected to remain for a long time and to manage well without need for help from headquarters.

(10) In choosing CEOs of subsidiaries, Berkshire would try to secure trustworthiness, skill, energy, and love for the business and circumstances the CEO was in.

(11) As an important matter of preferred conduct, Berkshire would almost never sell a subsidiary.

(12) Berkshire would almost never transfer a subsidiary's CEO to another unrelated subsidiary.

(13) Berkshire would never force the CEO of a subsidiary to retire on account of mere age.

(14) Berkshire would have little debt outstanding as it tried to maintain (i) virtually perfect creditworthiness under all conditions and (ii) easy availability of cash and credit for deployment in times presenting unusual opportunities.

(15) Berkshire would always be user-friendly to a prospective seller of a large business. An offer of such a business would get prompt attention. No one but the Chairman and one or two others at Berkshire would ever know about the offer if it did not lead to a transaction. And they would never tell outsiders about it.

Both the elements of the Berkshire system and their collected size are quite unusual. No other large corporation I know of has half of such elements in place.

How did Berkshire happen to get a corporate personality so different from the norm?

Well, Buffett, even when only 34 years old, controlled about 45% of Berkshire's shares and was completely trusted by all the other big shareholders. He could install whatever system he wanted. And he did so, creating the Berkshire system.

Almost every element was chosen because Buffett believed that, under him, it would help maximize Berkshire's achievement. He was not trying to create a one-type-fits-all system for other corporations. Indeed, Berkshire's subsidiaries were not required to use the Berkshire system in their own operations. And some flourished while using different systems.

What was Buffett aiming at as he designed the Berkshire system?

Well, over the years I diagnosed several important themes:

(1) He particularly wanted continuous maximization of the rationality, skills, and devotion of the most important people in the system, starting with himself.
(2) He wanted win/win results everywhere--in gaining loyalty by giving it, for instance.
(3) He wanted decisions that maximized long-term results, seeking these from decision makers who usually stayed long enough in place to bear the consequences of decisions.
(4) He wanted to minimize the bad effects that would almost inevitably come from a large bureaucracy at headquarters.
(5) He wanted to personally contribute, like Professor Ben Graham, to the spread of wisdom attained.

When Buffett developed the Berkshire system, did he foresee all the benefits that followed? No. Buffett stumbled into some benefits through practice evolution. But, when he saw useful consequences, he strengthened their causes.

Why did Berkshire under Buffett do so well?

Only four large factors occur to me:

(1) The constructive peculiarities of Buffett,
(2) The constructive peculiarities of the Berkshire system,
(3) Good luck, and
(4) The weirdly intense, contagious devotion of some shareholders and other admirers, including some in the press.

I believe all four factors were present and helpful. But the heavy freight was carried by the constructive peculiarities, the weird devotion, and their interactions.

In particular, Buffett's decision to limit his activities to a few kinds and to maximize his attention to them, and to keep doing so for 50 years, was a lollapalooza. Buffett succeeded for the same reason Roger Federer became good at tennis.

Buffett was, in effect, using the winning method of the famous basketball coach, John Wooden, who won most regularly after he had learned to assign virtually all playing time to his seven best players. That way, opponents always faced his best players, instead of his second best. And, with the extra playing time, the best players improved more than was normal.

And Buffett much out-Woodened Wooden, because in his case the exercise of skill was concentrated in one person, not seven, and his skill improved and improved as he got older and older during 50 years, instead of deteriorating like the skill of a basketball player does.

Moreover, by concentrating so much power and authority in the often-long-serving CEOs of important subsidiaries, Buffett was also creating strong Wooden-type effects there. And such effects enhanced the skills of the CEOs and the achievements of the subsidiaries.

Then, as the Berkshire system bestowed much-desired autonomy on many subsidiaries and their CEOs, and Berkshire became successful and well known, these outcomes attracted both more and better subsidiaries into Berkshire, and better CEOs as well.

And the better subsidiaries and CEOs then required less attention from headquarters, creating what is often called a "virtuous circle."

How well did it work out for Berkshire to always include casualty insurers as important subsidiaries?

Marvelously well. Berkshire's ambitions were unreasonably extreme and, even so, it got what it wanted.

Casualty insurers often invest in common stocks with a value amounting roughly to their shareholders' equity, as did Berkshire's insurance subsidiaries. And the S&P 500 Index produced about 10% per annum, pre-tax, during the last 50 years, creating a significant tailwind.

And, in the early decades of the Buffett era, common stocks within Berkshire's insurance subsidiaries greatly outperformed the index, exactly as Buffett expected. And, later, when both the large size of Berkshire's stockholdings and income tax considerations caused the index-beating part of returns to fade to insignificance (perhaps not forever), other and better advantage came. Ajit Jain created out of nothing an immense reinsurance business that produced both a huge "float" and a large underwriting gain. And all of GEICO came into Berkshire, followed by a quadrupling of GEICO's market share. And the rest of Berkshire's insurance operations hugely improved, largely by dint of reputational advantage, underwriting discipline, finding and staying within good niches, and recruiting and holding outstanding people.

Then, later, as Berkshire's nearly unique and quite dependable corporate personality and large size became well known, its insurance subsidiaries got and seized many attractive opportunities, not available to others, to buy privately issued securities. Most of these securities had fixed maturities and produced outstanding results.

Berkshire's marvelous outcome in insurance was not a natural result. Ordinarily, a casualty insurance business is a producer of mediocre results, even when very well managed. And such results are of little use. Berkshire's better outcome was so astoundingly large that I believe that Buffett would now fail to recreate it if he returned to a small base while retaining his smarts and regaining his youth.

Did Berkshire suffer from being a diffuse conglomerate? No, its opportunities were usefully enlarged by a widened area for operation. And bad effects, common elsewhere, were prevented by Buffett's skills.

Why did Berkshire prefer to buy companies with cash, instead of its own stock? Well, it was hard to get anything in exchange for Berkshire stock that was as valuable as what was given up.

Why did Berkshire's acquisition of companies outside the insurance business work out so well for Berkshire shareholders when the normal result in such acquisitions is bad for shareholders of the acquirer?

Well, Berkshire, by design, had methodological advantages to supplement its better opportunities. It never had the equivalent of a "department of acquisitions" under pressure to buy. And it never relied on advice from "helpers" sure to be prejudiced in favor of transactions. And Buffett held self-delusion at bay as he underclaimed expertise while he knew better than most corporate executives what worked and what didn't in business, aided by his long experience as a passive investor. And, finally, even when Berkshire was getting much better opportunities than most others, Buffett often displayed almost inhuman patience and seldom bought. For instance, during his first ten years in control of Berkshire, Buffett saw one business (textiles) move close to death and two new businesses come in, for a net gain of one.

What were the big mistakes made by Berkshire under Buffett? Well, while mistakes of commission were common, almost all huge errors were in not making a purchase, including not purchasing Walmart stock when that was sure to work out enormously well. The errors of omission were of much importance. Berkshire's net worth would now be at least $50 billion higher if it had seized several opportunities it was not quite smart enough to recognize as virtually sure things.

The next to last task on my list was: Predict whether abnormally good results would continue at Berkshire if Buffett were soon to depart.

The answer is yes. Berkshire has in place in its subsidiaries much business momentum grounded in much durable competitive advantage.

Moreover, its railroad and utility subsidiaries now provide much desirable opportunity to invest large sums in new fixed assets. And many subsidiaries are now engaged in making wise "bolt-on" acquisitions.

Provided that most of the Berkshire system remains in place, the combined momentum and opportunity now present is so great that Berkshire would almost surely remain a better-than-normal company for a very long time even if (1) Buffett left tomorrow, (2) his successors were persons of only moderate ability, and (3) Berkshire never again purchased a large business.

But, under this Buffett-soon-leaves assumption, his successors would not be "of only moderate ability." For instance, Ajit Jain and Greg Abel are proven performers who would probably be under-described as "world-class." "World-leading" would be the description I would choose. In some important ways, each is a better business executive than Buffett.

And I believe neither Jain nor Abel would (1) leave Berkshire, no matter what someone else offered or (2) desire much change in the Berkshire system.

Nor do I think that desirable purchases of new businesses would end with Buffett's departure. With Berkshire now so large and the age of activism upon us, I think some desirable acquisition opportunities will come and that Berkshire's $60 billion in cash will constructively decrease.

My final task was to consider whether Berkshire's great results over the last 50 years have implications that may prove useful elsewhere.

The answer is plainly yes. In its early Buffett years, Berkshire had a big task ahead: turning a tiny stash into a large and useful company. And it solved that problem by avoiding bureaucracy and relying much on one thoughtful leader for a long, long time as he kept improving and brought in more people like himself.

Compare this to a typical big-corporation system with much bureaucracy at headquarters and a long succession of CEOs who come in at about age 59, pause little thereafter for quiet thought, and are soon forced out by a fixed retirement age.

I believe that versions of the Berkshire system should be tried more often elsewhere and that the worst attributes of bureaucracy should much more often be treated like the cancers they so much resemble. A good example of bureaucracy fixing was created by George Marshall when he helped win World War II by getting from Congress the right to ignore seniority in choosing generals.

Sincerely,

Charles T. Munger

BERKSHIRE HATHAWAY INC.

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 second 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 Companies, Medical Protective Company, Applied Underwriters, U.S. Liability Insurance Company, Central States Indemnity Company, BoatU.S., Berkshire Hathaway Guard Insurance Companies and Berkshire Hathaway Specialty Insurance Company.

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. Berkshire Hathaway Energy Company ("BHE") is an international energy holding company owning a wide variety of operating companies engaged in the generation, transmission and distribution of energy. BHE's principal operating energy companies are: MidAmerican Energy Company, PacifiCorp and NV Energy; Northern Powergrid; AltaLink; Kern River Gas Transmission Company and Northern Natural Gas; and BHE Renewables. In addition, BHE 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 185 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* 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 *(UTLX, 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 28 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 6,500 stores that offer prepared dairy treats and food; *The Pampered Chef,* a premier direct seller of kitchen tools in the U.S.; *Forest River,* a leading manufacturer of leisure vehicles in the U.S.; *Business Wire,* a leading global distributor of corporate news, multimedia and regulatory filings; *TTI, Inc.,* a leading distributor of electronic components; *Richline Group,* a leading jewelry manufacturer; *Oriental Trading Company*, a direct retailer of party supplies, school supplies and toys and novelties; and *Charter Brokerage*, a leading provider of global trade services. Berkshire also has a major economic interest in *Heinz*, one of the world's leading marketers and producers of food products.

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

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

	2014	2013	2012	2011	2010
Revenues:					
Insurance premiums earned	$ 41,253	$ 36,684	$ 34,545	$ 32,075	$ 30,749
Sales and service revenues	97,097	92,993	81,447	71,226	65,942
Railroad, utilities and energy revenues	40,690	34,757	32,582	30,839	26,364
Interest, dividend and other investment income	5,026	4,934	4,532	4,788	5,213
Finance and financial products sales and service revenues and interest and dividend income	6,526	6,109	5,932	5,590	5,571
Investment and derivative gains/losses [1]	4,081	6,673	3,425	(830)	2,346
Total revenues	$194,673	$182,150	$162,463	$143,688	$136,185
Earnings:					
Net earnings attributable to Berkshire Hathaway [1]	$ 19,872	$ 19,476	$ 14,824	$ 10,254	$ 12,967
Net earnings per share attributable to Berkshire Hathaway shareholders [2]	$ 12,092	$ 11,850	$ 8,977	$ 6,215	$ 7,928
Year-end data:					
Total assets	$526,186	$484,931	$427,452	$392,647	$372,229
Notes payable and other borrowings:					
Insurance and other	11,894	12,440	12,988	13,179	11,803
Railroad, utilities and energy	55,579	46,655	36,156	32,580	31,626
Finance and financial products	12,736	13,129	13,592	14,625	15,145
Berkshire Hathaway shareholders' equity	240,170	221,890	187,647	164,850	157,318
Class A equivalent common shares outstanding, in thousands	1,643	1,644	1,643	1,651	1,648
Berkshire Hathaway shareholders' equity per outstanding Class A equivalent common share	$146,186	$134,973	$114,214	$ 99,860	$ 95,453

(1) Investment gains/losses include realized gains and losses and 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 market factors. After-tax investment and derivative gains/losses were $3.3 billion in 2014, $4.3 billion in 2013, $2.2 billion in 2012, $(521) million in 2011 and $1.9 billion in 2010.

(2) 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.

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, 2014 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* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework* (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears on page 47.

Berkshire Hathaway Inc.
February 27, 2015

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, 2014 and 2013, 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, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Omaha, Nebraska
February 27, 2015

BERKSHIRE HATHAWAY INC.
and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	December 31, 2014	December 31, 2013
ASSETS		
Insurance and Other:		
Cash and cash equivalents	$ 57,974	$ 42,433
Investments:		
Fixed maturity securities	27,397	28,785
Equity securities	115,529	115,464
Other	16,346	12,334
Investments in H.J. Heinz Holding Corporation	11,660	12,111
Receivables	21,852	20,280
Inventories	10,236	9,860
Property, plant and equipment	14,153	13,623
Goodwill	34,959	33,067
Other	23,763	19,113
	333,869	307,070
Railroad, Utilities and Energy:		
Cash and cash equivalents	3,001	3,400
Property, plant and equipment	115,054	102,482
Goodwill	24,418	22,603
Other	16,343	16,149
	158,816	144,634
Finance and Financial Products:		
Cash and cash equivalents	2,294	2,353
Investments in equity and fixed maturity securities	1,299	1,506
Other investments	5,978	5,617
Loans and finance receivables	12,566	12,826
Property, plant and equipment and assets held for lease	8,037	7,700
Goodwill	1,337	1,341
Other	1,990	1,884
	33,501	33,227
	$526,186	$484,931
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance and Other:		
Losses and loss adjustment expenses	$ 71,477	$ 64,866
Unearned premiums	11,944	10,770
Life, annuity and health insurance benefits	13,261	11,681
Accounts payable, accruals and other liabilities	23,307	21,979
Notes payable and other borrowings	11,894	12,440
	131,883	121,736
Railroad, Utilities and Energy:		
Accounts payable, accruals and other liabilities	15,595	14,557
Notes payable and other borrowings	55,579	46,655
	71,174	61,212
Finance and Financial Products:		
Accounts payable, accruals and other liabilities	1,321	1,299
Derivative contract liabilities	4,810	5,331
Notes payable and other borrowings	12,736	13,129
	18,867	19,759
Income taxes, principally deferred	61,235	57,739
Total liabilities	283,159	260,446
Shareholders' equity:		
Common stock	8	8
Capital in excess of par value	35,573	35,472
Accumulated other comprehensive income	42,732	44,025
Retained earnings	163,620	143,748
Treasury stock, at cost	(1,763)	(1,363)
Berkshire Hathaway shareholders' equity	240,170	221,890
Noncontrolling interests	2,857	2,595
Total shareholders' equity	243,027	224,485
	$526,186	$484,931

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,		
	2014	2013	2012
Revenues:			
Insurance and Other:			
Insurance premiums earned	$ 41,253	$ 36,684	$ 34,545
Sales and service revenues	97,097	92,993	81,447
Interest, dividend and other investment income	5,026	4,934	4,532
Investment gains/losses	3,503	3,881	990
	146,879	138,492	121,514
Railroad, Utilities and Energy:			
Revenues	40,690	34,757	32,582
Finance and Financial Products:			
Sales and service revenues	5,094	4,635	4,358
Interest, dividend and other investment income	1,432	1,474	1,574
Investment gains/losses	72	184	472
Derivative gains/losses	506	2,608	1,963
	7,104	8,901	8,367
	194,673	182,150	162,463
Costs and expenses:			
Insurance and Other:			
Insurance losses and loss adjustment expenses	26,406	21,275	20,113
Life, annuity and health insurance benefits	5,181	5,072	5,114
Insurance underwriting expenses	6,998	7,248	7,693
Cost of sales and services	78,873	75,953	66,419
Selling, general and administrative expenses	12,198	11,732	10,307
Interest expense	419	395	363
	130,075	121,675	110,009
Railroad, Utilities and Energy:			
Cost of sales and operating expenses	29,378	25,157	23,816
Interest expense	2,378	1,865	1,745
	31,756	27,022	25,561
Finance and Financial Products:			
Cost of sales and services	2,758	2,566	2,458
Selling, general and administrative expenses	1,523	1,550	1,563
Interest expense	456	541	636
	4,737	4,657	4,657
	166,568	153,354	140,227
Earnings before income taxes	28,105	28,796	22,236
Income tax expense	7,935	8,951	6,924
Net earnings	20,170	19,845	15,312
Less: Earnings attributable to noncontrolling interests	298	369	488
Net earnings attributable to Berkshire Hathaway shareholders	$ 19,872	$ 19,476	$ 14,824
Average common shares outstanding *	1,643,456	1,643,613	1,651,294
Net earnings per share attributable to Berkshire Hathaway shareholders *	$ 12,092	$ 11,850	$ 8,977

* *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 $8.06 per share for 2014, $7.90 per share for 2013 and $5.98 per share for 2012.*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in millions)

	Year Ended December 31,		
	2014	2013	2012
Net earnings	$20,170	$19,845	$15,312
Other comprehensive income:			
Net change in unrealized appreciation of investments	5,831	25,111	15,700
Applicable income taxes	(2,062)	(8,691)	(5,434)
Reclassification of investment appreciation in net earnings	(3,360)	(2,447)	(953)
Applicable income taxes	1,176	856	334
Foreign currency translation	(2,032)	(82)	276
Applicable income taxes	183	34	(9)
Prior service cost and actuarial gains/losses of defined benefit pension plans	(1,703)	2,602	5
Applicable income taxes	624	(950)	(26)
Other, net	8	138	(32)
Other comprehensive income, net	(1,335)	16,571	9,861
Comprehensive income	18,835	36,416	25,173
Comprehensive income attributable to noncontrolling interests	256	394	503
Comprehensive income attributable to Berkshire Hathaway shareholders	$18,579	$36,022	$24,670

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, 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 (repurchase) of common stock	118	—	—	(1,296)	—	(1,178)
Transactions with noncontrolling interests	(695)	—	—	—	(673)	(1,368)
Balance at December 31, 2012	37,238	27,500	124,272	(1,363)	3,941	191,588
Net earnings	—	—	19,476	—	369	19,845
Other comprehensive income, net	—	16,546	—	—	25	16,571
Issuance of common stock	92	—	—	—	—	92
Transactions with noncontrolling interests	(1,850)	(21)	—	—	(1,740)	(3,611)
Balance at December 31, 2013	35,480	44,025	143,748	(1,363)	2,595	224,485
Net earnings	—	—	19,872	—	298	20,170
Other comprehensive income, net	—	(1,293)	—	—	(42)	(1,335)
Issuance (acquisition) of common stock	118	—	—	(400)	—	(282)
Transactions with noncontrolling interests	(17)	—	—	—	6	(11)
Balance at December 31, 2014	$35,581	$42,732	$163,620	$(1,763)	$ 2,857	$243,027

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net earnings	$ 20,170	$ 19,845	$ 15,312
Adjustments to reconcile net earnings to operating cash flows:			
Investment gains/losses	(3,575)	(4,065)	(1,462)
Depreciation and amortization	7,370	6,508	6,154
Other	(341)	373	(213)
Changes in operating assets and liabilities before business acquisitions:			
Losses and loss adjustment expenses	7,404	578	(421)
Deferred charges reinsurance assumed	(3,413)	(340)	121
Unearned premiums	1,159	519	1,134
Receivables and originated loans	(1,890)	1,035	(1,610)
Derivative contract assets and liabilities	(520)	(2,430)	(2,183)
Income taxes	4,905	3,514	1,710
Other	741	2,167	2,408
Net cash flows from operating activities	32,010	27,704	20,950
Cash flows from investing activities:			
Purchases of fixed maturity securities	(7,774)	(7,546)	(8,250)
Purchases of equity securities	(7,014)	(8,558)	(7,376)
Investments in H.J. Heinz Holding Corp. and other investments	(3,000)	(12,250)	—
Sales of fixed maturity securities	1,697	4,311	2,982
Redemptions and maturities of fixed maturity securities	6,795	11,203	6,064
Sales and redemptions of equity securities	8,896	3,869	8,088
Purchases of loans and finance receivables	(181)	(490)	(650)
Collections of loans and finance receivables	885	654	1,714
Acquisitions of businesses, net of cash acquired	(4,824)	(6,431)	(3,188)
Purchases of property, plant and equipment	(15,185)	(11,087)	(9,775)
Other	336	(1,210)	(183)
Net cash flows from investing activities	(19,369)	(27,535)	(10,574)
Cash flows from financing activities:			
Proceeds from borrowings of insurance and other businesses	845	2,622	1,820
Proceeds from borrowings of railroad, utilities and energy businesses	5,765	7,491	4,707
Proceeds from borrowings of finance businesses	1,148	3,462	2,352
Repayments of borrowings of insurance and other businesses	(1,289)	(2,750)	(1,999)
Repayments of borrowings of railroad, utilities and energy businesses	(1,862)	(1,596)	(2,119)
Repayments of borrowings of finance businesses	(1,543)	(3,927)	(3,210)
Changes in short term borrowings, net	932	(1,317)	(309)
Acquisitions of noncontrolling interests and treasury stock	(1,287)	(2,890)	(2,096)
Other	22	(134)	48
Net cash flows from financing activities	2,731	961	(806)
Effects of foreign currency exchange rate changes	(289)	64	123
Increase in cash and cash equivalents	15,083	1,194	9,693
Cash and cash equivalents at beginning of year	48,186	46,992	37,299
Cash and cash equivalents at end of year *	$ 63,269	$ 48,186	$ 46,992
** Cash and cash equivalents at end of year are comprised of the following:*			
Insurance and Other	*$ 57,974*	*$ 42,433*	*$ 42,186*
Railroad, Utilities and Energy	*3,001*	*3,400*	*2,570*
Finance and Financial Products	*2,294*	*2,353*	*2,236*
	$ 63,269	*$ 48,186*	*$ 46,992*

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

(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, manufacturing, service, retailing and finance. 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 23. 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. In 2014, we began including the transportation equipment manufacturing and leasing businesses of Marmon Holdings, Inc. ("Marmon") as part of our finance and financial products businesses. Prior period amounts in these financial statements have been reclassified to conform to the current year presentation. On April 30, 2014, MidAmerican Energy Holdings Company's name was changed to Berkshire Hathaway Energy Company ("BHE").

(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 on retroactive reinsurance contracts, determinations of fair values of certain financial instruments and evaluations of goodwill and identifiable intangible assets 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 securities acquired with the intent to sell in the near term and are carried at fair value. 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.

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

(d) Investments (Continued)

In applying the equity method, we record the 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 determining 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 fixed maturity security, we recognize an other-than-temporary impairment if we (a) intend to sell or expect to be required to sell the security before its 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. Under scenario (a), we recognize losses in earnings and under scenario (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 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. Receivables are generally written off against allowances after all reasonable collection efforts are exhausted.

Loans and finance receivables of the finance and financial products businesses are predominantly manufactured housing installment loans. 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. The carrying value of acquired loans represents acquisition costs, 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 loans. 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 or other assets of the borrower.

Allowances for credit losses from manufactured housing 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 are 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 concerning the future collectability of the loan and the condition of the collateral securing the loan.

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

(f) Derivatives

We carry derivative contracts in our Consolidated Balance Sheets at fair value, net of 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. Our 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, 2014, approximately 43% of our consolidated inventory cost was determined using the last-in-first-out (“LIFO”) method, 33% using the first-in-first-out (“FIFO”) method, and the remainder primarily using the average cost method. With respect to inventories carried at LIFO cost, the aggregate difference in value between LIFO cost and cost determined under the FIFO method was $857 million and $796 million as of December 31, 2014 and 2013, respectively.

(i) Property, plant and equipment and leased assets

Additions to property, plant and equipment used in operations and leased assets are recorded at cost and consist of major additions, improvements and betterments. 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 cost of equity funds used to finance the construction of the regulated facilities. Also see Note 1(q).

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.

Property, plant and equipment and leased assets are depreciated to estimated salvage value primarily 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.

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

(i) Property, plant and equipment and leased assets (Continued)

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 occurrence of a triggering event, we assess whether the estimated undiscounted cash flows expected from the use of the asset and the residual value from the ultimate disposal of the asset exceeds the carrying value. 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 the impacts of regulation are considered in evaluating the carrying value of regulated assets.

(j) Goodwill and other intangible assets

Goodwill represents the excess of the acquisition price of a business over the fair value of identifiable net assets of that business. 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. Significant judgment is required in estimating the fair value of the reporting unit and performing goodwill impairment tests.

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. Intangible assets with definite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite lives are tested for impairment at least annually and when events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

(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 and annuity contracts are earned when due. Premiums earned are stated net of amounts ceded to reinsurers. For contracts containing experience rating provisions, premiums earned reflect 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.

Leasing revenue is generally recognized ratably over the term of the lease, as a substantial portion of our leases are classified as operating leases.

Operating revenues from the distribution and sale of electricity and natural gas to customers are recognized when the services are rendered or the energy is delivered. Revenues 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 recorded.

(k) Revenue recognition (Continued)

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 pro-rata reductions 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 recorded liability for customer incentives.

Interest income from investments in fixed maturity securities and loans is earned under the interest method, which reflects accrual of interest due under terms of the agreements as well as amortization of acquisition premiums, accruable discounts and capitalized loan origination fees, as applicable. Dividends from equity securities are recognized when earned, which is usually on the ex-dividend date.

(l) Losses and loss adjustment expenses

Liabilities for losses and loss adjustment expenses are established under property/casualty insurance and reinsurance contracts issued by our insurance subsidiaries for 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. 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 discounted 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 settlement costs over the premiums earned with respect to retroactive property/casualty reinsurance contracts is recorded as a deferred charge at inception of the contract. 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 deferred charge balances are included in other assets and were $7,772 million and $4,359 million at December 31, 2014 and 2013, respectively.

(n) Insurance policy acquisition costs

Incremental costs that are directly related to the successful acquisition 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. 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 $1,722 million and $1,601 million at December 31, 2014 and 2013, respectively.

(p) Life, annuity and health insurance benefits

Liabilities for insurance benefits under life contracts are 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

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

(p) Life, annuity and health insurance benefits (Continued)

the characteristics of the contract's date of issuance, policy duration and country of risk. The interest rate assumptions used may vary by contract or jurisdiction and generally range from less than 1% to 7%. Annuity contracts are discounted based on the implicit rate of return as of the inception of the contracts and such interest rates generally range from less than 1% to 7%.

(q) Regulated utilities and energy businesses

Certain 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. These assets and liabilities will be amortized into operating expenses and revenues over various future periods.

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 or credited to earnings (or other comprehensive income, if applicable) or returned to customers. At December 31, 2014, regulatory assets were $4,253 million and regulatory liabilities were $2,832 million. At December 31, 2013, regulatory assets were $3,515 million and regulatory liabilities were $2,665 million. Regulatory assets and liabilities are components of other assets and other liabilities of utilities and energy businesses.

(r) Foreign currency

The accounts of our non-U.S. based subsidiaries are measured, in most instances, using the local currencies of the subsidiaries as the functional currencies. 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 reporting entity 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 reported in earnings also include deferred income tax provisions.

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. 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, in our judgment, do not meet a "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 adopted in 2014

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the

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

(t) New accounting pronouncements adopted in 2014 (Continued)

Obligation Is Fixed at the Reporting Date." ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the amount the reporting entity agreed to pay plus additional amounts the reporting entity expects to pay on behalf of its co-obligors. We adopted ASU 2013-04 on January 1, 2014.

In January 2014, the FASB issued ASU 2014-01 "Accounting for Investments in Qualified Affordable Housing Projects." ASU 2014-01 permits an entity to elect the proportional amortization method of accounting for limited liability investments in qualified affordable housing projects if certain criteria are met. Under the proportional amortization method, the investment is amortized in proportion to the tax benefits received and the amortization charge is reported as a component of income tax expense. We adopted ASU 2014-01 for eligible investments as of January 1, 2014. The adoption of ASU 2013-04 and ASU 2014-01 had an immaterial effect on our Consolidated Financial Statements.

(u) New accounting pronouncements to be adopted subsequent to December 31, 2014

In April 2014, the FASB issued ASU 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 provides a narrower definition of discontinued operations than under previous U.S. GAAP. ASU 2014-08 requires that a disposal of components of an entity (or groups of components) be reported as discontinued operations if the disposal represents a strategic shift that will have a major effect on the reporting entity's operations and financial results. ASU 2014-08 is effective prospectively for disposals (or classifications of businesses as held-for-sale) of components of an entity that occur in annual or interim periods beginning after December 15, 2014. We do not expect that the adoption of ASU 2014-08 will have a material effect on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." ASU 2014-09 applies to most contracts with customers. However, insurance and leasing contracts are excluded from the scope of this pronouncement. ASU 2014-09 prescribes a five step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligations under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligations and (e) recognition of revenues as the identified performance obligations are satisfied. ASU 2014-09 also prescribes additional disclosures and financial statement presentations. ASU 2014-09 is effective for public entities in annual reporting periods beginning after December 15, 2016. Early application is not permitted. ASU 2014-09 may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. We are currently evaluating the effect the adoption of this standard will have on our Consolidated Financial Statements.

(2) Significant business acquisitions

Our long-held acquisition strategy is to acquire businesses at sensible prices that have consistent earning power, good returns on equity and able and honest management.

On December 19, 2013, we acquired NV Energy, Inc. ("NV Energy") through our 89.9% owned subsidiary, Berkshire Hathaway Energy Company ("BHE"), for cash consideration of approximately $5.6 billion. NV Energy is an energy holding company serving approximately 1.2 million electric and 0.2 million retail natural gas customers in Nevada. NV Energy's principal operating subsidiaries, Nevada Power Company and Sierra Pacific Power Company, are regulated utilities. NV Energy's financial results are included in our Consolidated Financial Statements beginning on the acquisition date.

On December 1, 2014, BHE acquired AltaLink, L.P. ("AltaLink") for a cash purchase price of C$3.1 billion (approximately $2.7 billion). AltaLink is a regulated electric transmission-only business, headquartered in Calgary, Alberta. AltaLink's financial results are included in our Consolidated Financial Statements beginning on the acquisition date.

(2) Significant business acquisitions *(Continued)*

NV Energy's and AltaLink's assets acquired, liabilities assumed and residual goodwill at their respective acquisition dates are summarized as follows (in millions).

	AltaLink as of December 1, 2014	NV Energy as of December 19, 2013
Property, plant and equipment	$5,610	$ 9,511
Goodwill	1,700	2,369
Other assets, including cash and cash equivalents	294	2,506
Assets acquired	$7,604	$14,386
Accounts payable, accruals and other liabilities	$1,025	$ 3,456
Notes payable and other borrowings	3,851	5,334
Liabilities assumed	$4,876	$ 8,790
Net assets acquired	$2,728	$ 5,596

On January 1, 2014, we acquired the beverage dispensing equipment manufacturing and merchandising operations of British engineering company, IMI plc for approximately $1.12 billion. On February 25, 2014, we acquired 100% of the outstanding common stock of Phillips Specialty Products Inc. ("PSPI") from Phillips 66 ("PSX") in exchange for 17,422,615 shares of PSX common stock with an aggregate fair value of $1.35 billion. PSPI, which has been renamed as Lubrizol Specialty Products Inc. ("LSPI"), provides flow improver products to customers worldwide. Assets of PSPI included cash of approximately $450 million. On June 30, 2014, we acquired WPLG, Inc. ("WPLG") from Graham Holding Company ("GHC") in exchange for 1,620,190 shares of GHC common stock with an aggregate fair value of $1.13 billion. At the date of the acquisition, the assets of WPLG, which operates a Miami, Florida, ABC affiliated television station, included 2,107 shares of Berkshire Hathaway Class A common stock, 1,278 shares of Berkshire Hathaway Class B common stock and cash of $328 million. At their respective acquisition dates, the aggregate fair value of the identified net assets related to these acquisitions was approximately $2.2 billion and the residual goodwill was approximately $1.4 billion.

The following table sets forth certain unaudited pro forma consolidated earnings data for 2014 and 2013, as if the acquisitions discussed previously were consummated on the same terms at the beginning of the year preceding their respective acquisition dates (in millions, except per share amounts).

	December 31,	
	2014	2013
Revenues	$195,298	$186,664
Net earnings attributable to Berkshire Hathaway shareholders	19,975	19,845
Net earnings per equivalent Class A common share attributable to Berkshire Hathaway shareholders	12,154	12,074

During the last three years, we also completed several smaller-sized business acquisitions, most of which were considered as "bolt-on" acquisitions to several of our existing business operations. Aggregate consideration paid for these other business acquisitions was approximately $1.8 billion in 2014; $1.1 billion in 2013; and $3.2 billion in 2012, which included $438 million for entities that develop, construct and subsequently operate renewable energy generation facilities. We do not believe that these acquisitions were material, individually or in the aggregate, to our Consolidated Financial Statements.

(3) Investments in fixed maturity securities

Investments in securities with fixed maturities as of December 31, 2014 and 2013 are summarized by type below (in millions).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014				
U.S. Treasury, U.S. government corporations and agencies	$ 2,921	$ 14	$ (5)	$ 2,930
States, municipalities and political subdivisions	1,820	93	(1)	1,912
Foreign governments	12,023	373	(126)	12,270
Corporate bonds	7,704	1,072	(5)	8,771
Mortgage-backed securities	1,555	202	(4)	1,753
	$26,023	$1,754	$(141)	$27,636
December 31, 2013				
U.S. Treasury, U.S. government corporations and agencies	$ 2,650	$ 16	$ (8)	$ 2,658
States, municipalities and political subdivisions	2,221	129	(5)	2,345
Foreign governments	11,001	182	(110)	11,073
Corporate bonds	10,062	1,190	(15)	11,237
Mortgage-backed securities	1,830	218	(8)	2,040
	$27,764	$1,735	$(146)	$29,353

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

	December 31,	
	2014	2013
Insurance and other	$27,397	$28,785
Finance and financial products	239	568
	$27,636	$29,353

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, 2014, approximately 93% of foreign government holdings were rated AA or higher by at least one of the major rating agencies. Approximately 77% of foreign government holdings were issued or guaranteed by the United Kingdom, Germany, Australia, Canada or The Netherlands. Unrealized losses on all fixed maturity investments in a continuous unrealized loss position for more than twelve consecutive months were $15 million as of December 31, 2014 and $26 million as of December 31, 2013.

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

The amortized cost and estimated fair value of securities with fixed maturities at December 31, 2014 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	$7,650	$11,341	$2,782	$2,695	$1,555	$26,023
Fair value	7,585	11,994	3,009	3,295	1,753	27,636

(4) Investments in equity securities

Investments in equity securities as of December 31, 2014 and 2013 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, 2014 **				
Banks, insurance and finance	$22,495	$33,170	$ —	$ 55,665
Consumer products	6,951	18,389	(1)	25,339
Commercial, industrial and other	28,924	8,578	(1,036)	36,466
	$58,370	$60,137	$(1,037)	$117,470

* *Approximately 59% of the aggregate fair value was concentrated in the equity securities of four companies (American Express Company – $14.1 billion; Wells Fargo & Company – $26.5 billion; International Business Machines Corporation – $12.3 billion; and The Coca-Cola Company – $16.9 billion).*

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
*December 31, 2013 **				
Banks, insurance and finance	$22,420	$28,021	$ —	$ 50,441
Consumer products	7,082	17,854	—	24,936
Commercial, industrial and other	29,949	12,322	(143)	42,128
	$59,451	$58,197	$(143)	$117,505

* *Approximately 55% of the aggregate fair value was concentrated in the equity securities of four companies (American Express Company – $13.8 billion; Wells Fargo & Company – $21.9 billion; International Business Machines Corporation – $12.8 billion; and The Coca-Cola Company – $16.5 billion).*

As of December 31, 2014 and 2013, 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 market prices will increase to and exceed our cost. As of December 31, 2014 and 2013, unrealized losses on equity securities in a continuous unrealized loss position for more than twelve consecutive months were $65 million and $52 million, respectively.

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

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

	December 31, 2014	December 31, 2013
Insurance and other	$115,529	$115,464
Railroad, utilities and energy *	881	1,103
Finance and financial products	1,060	938
	$117,470	$117,505

* *Included in other assets.*

(5) Other investments

Other investments include preferred stock of Wm. Wrigley Jr. Company ("Wrigley"), The Dow Chemical Company ("Dow") and Bank of America Corporation ("BAC"), as well as warrants to purchase common stock of BAC and our investments in Restaurant Brands International, Inc. ("RBI"). Other investments are classified as available-for-sale and carried at fair value and are shown in our Consolidated Balance Sheets as follows (in millions).

	Cost		Fair Value	
	December 31,		December 31,	
	2014	2013	2014	2013
Insurance and other	$ 9,970	$ 6,970	$16,346	$12,334
Finance and financial products	3,052	3,052	5,978	5,617
	$13,022	$10,022	$22,324	$17,951

In 2008, we acquired $2.1 billion liquidation amount of Wrigley preferred stock in conjunction with the Mars Incorporated ("Mars") acquisition of Wrigley. The Wrigley preferred stock is entitled to dividends at a rate of 5% per annum and is subject to certain put and call arrangements in 2016 and then annually beginning in 2021. The redemption amount will be based upon the earnings of Wrigley.

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. Each share of the Dow Preferred is convertible into 24.201 shares of Dow common stock (equivalent to a conversion price of $41.32 per share). Beginning in April 2014, Dow has the option to cause some or all of the Dow Preferred to be converted into Dow common stock at the then applicable conversion rate, if the closing price on the New York Stock Exchange of Dow's common stock price exceeds $53.72 per share for any 20 trading days within a period of 30 consecutive trading days ending on the day before Dow exercises its option. The Dow Preferred is entitled to dividends at a rate of 8.5% per annum.

In 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. When issued, the BAC Preferred was redeemable at any time by BAC at a price of $105,000 per share ($5.25 billion in aggregate) and dividends were payable on a cumulative basis. At the end of 2013, Berkshire agreed to a proposed amendment to the BAC Preferred and on May 7, 2014, BAC's common stock shareholders approved the amendment. Pursuant to the amendment, the BAC Preferred may not be redeemed at the option of BAC before May 7, 2019 and dividends payable on the BAC Preferred are no longer cumulative. The BAC Warrants expire in 2021 and are exercisable for an additional aggregate cost of $5 billion ($7.142857/share).

On December 12, 2014, we acquired Class A 9% Cumulative Compounding Perpetual Preferred Shares of RBI having a stated value of $3 billion ("RBI Preferred") and common stock of RBI for an aggregate purchase price of $3 billion. RBI, domiciled in Canada, is a newly formed entity that is the ultimate parent company of Burger King and Tim Hortons. As of the acquisition date, our combined investment in RBI possessed approximately 14.4% of the voting interests of RBI. The RBI Preferred is entitled to dividends on a cumulative basis of 9% per annum plus an additional amount that is intended to produce an after-tax yield to Berkshire as if the dividends were paid by a U.S. based company.

(6) Investments in H.J. Heinz Holding Corporation

On June 7, 2013, Berkshire and an affiliate of the global investment firm 3G Capital (such affiliate, "3G"), through a newly formed holding company, H.J. Heinz Holding Corporation ("Heinz Holding"), acquired H.J. Heinz Company ("Heinz"). Berkshire and 3G each made equity investments in Heinz Holding, which, together with debt financing obtained by Heinz Holding, was used to acquire Heinz for approximately $23.25 billion in the aggregate.

Heinz 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, infant foods, Ore-Ida® potato products, Weight Watchers® Smart Ones® entrées and T.G.I. Friday's® snacks.

Berkshire's investments in Heinz Holding consist of 425 million shares of common stock, warrants to acquire approximately 46 million additional shares of common stock, and cumulative compounding preferred stock ("Preferred Stock") with a liquidation preference of $8 billion. The aggregate cost of these investments was $12.25 billion. 3G acquired 425 million shares of Heinz Holding common stock for $4.25 billion. In addition, Heinz Holding reserved 39.6 million shares of common stock for issuance under stock options.

The Preferred Stock possesses no voting rights except as required by law or for certain matters specified in the Heinz Holding charter. The Preferred Stock is entitled to dividends at 9% per annum whether or not declared, is senior in priority to the common stock and is callable after June 7, 2016 at the liquidation value plus an applicable premium and any accrued and unpaid dividends. Under the Heinz Holding charter and a shareholders' agreement entered into as of the acquisition date (the "shareholders' agreement"), after June 7, 2021, Berkshire can cause Heinz Holding to attempt to sell shares of common stock through public offerings or other issuances ("redemption offerings"), the proceeds of which would be required to be used to redeem any outstanding shares of Preferred Stock. The warrants are exercisable for one cent per share and expire on June 7, 2018.

Berkshire and 3G each own 50% of the outstanding shares of common stock and possess equal voting interests in Heinz Holding. Under the shareholders' agreement, unless and until Heinz Holding engages in a public offering, Berkshire and 3G each must approve all significant transactions and governance matters involving Heinz Holding and Heinz so long as Berkshire and 3G each continue to hold at least 66% of their initial common stock investments, except for (i) the declaration and payment of dividends on the Preferred Stock, and actions related to a Heinz Holding call of the Preferred Stock, for which Berkshire does not have a vote or approval right, and (ii) redemption offerings and redemptions resulting therefrom, which may only be triggered by Berkshire. No dividends may be paid on the common stock if there are any unpaid dividends on the Preferred Stock.

We are accounting for our investments in Heinz Holding common stock and common stock warrants on the equity method. Accordingly, we included our proportionate share of net earnings attributable to common stockholders and other comprehensive income in our Consolidated Statements of Earnings and Comprehensive Income beginning as of the acquisition date. We account for our investment in Preferred Stock as an equity investment and it is carried at cost in our Consolidated Balance Sheets. Dividends earned in connection with the Preferred Stock and our share of Heinz Holding's net earnings or loss attributable to common stockholders are included in interest, dividend and other investment income of Insurance and Other in our Consolidated Statements of Earnings.

Summarized consolidated financial information of Heinz Holding and its subsidiaries follows (in millions).

	December 28, 2014	December 29, 2013
Assets	$36,763	$38,972
Liabilities	21,077	22,429

	Fiscal Year ending December 28, 2014	June 7, 2013 through December 29, 2013
Sales	$10,922	$ 6,240
Net earnings (loss)	$ 657	$ (77)
Preferred stock dividends earned by Berkshire	(720)	(408)
Net earnings (loss) attributable to common stockholders	$ (63)	$ (485)
Earnings attributable to Berkshire Hathaway Shareholders *	$ 687	$ 153

* *Includes dividends earned and Berkshire's share of net earnings (loss) attributable to common stockholders.*

(7) Investment gains/losses

Investment gains/losses, including other-than-temporary impairment ("OTTI") losses, for each of the three years ending December 31, 2014 are summarized below (in millions).

	2014	2013	2012
Fixed maturity securities—			
Gross gains from sales and other disposals	$ 360	$1,783	$ 188
Gross losses from sales and other disposals	(89)	(139)	(354)
Equity securities—			
Gross gains from sales and redemptions	4,016	1,253	1,468
Gross losses from sales and redemptions	(125)	(62)	(12)
OTTI losses	(697)	(228)	(337)
Other	110	1,458	509
	$3,575	$4,065	$1,462

Gains from disposals of equity securities in 2014 included non-cash gains of approximately $2.1 billion in the aggregate from the exchanges of PSX common stock in connection with the acquisition of PSPI and of GHC common stock in connection with the acquisition of WPLG. The PSX/PSPI exchange was completed February 25, 2014 and the GHC/WPLG exchange was completed on June 30, 2014. The non-cash gains represented the excess of the respective fair value of the net assets of PSPI and WPLG received over the respective cost basis of the PSX and GHC shares exchanged.

In 2008, we acquired $4.4 billion par amount of 11.45% Wrigley subordinated notes due in 2018 in conjunction with the Mars acquisition of Wrigley. In 2013, the subordinated note agreement was amended to permit a repurchase of all of the Wrigley subordinated notes on October 1, 2013 at a price of 115.45% of par. On that date, the subordinated notes were repurchased for $5.08 billion, plus accrued interest and we realized a gain of $680 million. We also realized additional gains from the dispositions and conversions of corporate bonds in 2013. Other investment gains/losses in 2013 included $1.4 billion related to the changes in the valuations of warrants of General Electric Company and The Goldman Sachs Group, which were acquired in 2008 and exercised in October 2013.

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 credit to other comprehensive income, producing no net effect on shareholders' equity as of the balance sheet date. In 2014, we recorded an OTTI charge of $678 million related to our investment in equity securities of Tesco PLC. We recorded OTTI losses on bonds issued by Texas Competitive Electric Holdings of $228 million in 2013 and $337 million in 2012.

(8) Receivables

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

	December 31, 2014	December 31, 2013
Insurance premiums receivable	$ 7,914	$ 7,474
Reinsurance recoverable on unpaid losses	3,116	3,055
Trade and other receivables	11,133	10,111
Allowances for uncollectible accounts	(311)	(360)
	$21,852	$20,280

Loans and finance receivables of finance and financial products businesses are summarized as follows (in millions).

	December 31, 2014	December 31, 2013
Loans and finance receivables before allowances and discounts	$13,150	$13,576
Allowances for uncollectible loans	(303)	(344)
Unamortized acquisition discounts	(281)	(406)
	$12,566	$12,826

(8) Receivables *(Continued)*

Loans and finance receivables are predominantly installment loans originated or acquired by our manufactured housing business. Provisions for loan losses for 2014 and 2013 were $173 million and $249 million, respectively. Loan charge-offs, net of recoveries, were $214 million in 2014 and $266 million in 2013. At December 31, 2014, approximately 97% of the loan balances were evaluated collectively 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, 2014, approximately 98% of the loan balances were determined to be performing and approximately 94% of the loan balances were current as to payment status.

(9) Inventories

Inventories are comprised of the following (in millions).

	December 31,	
	2014	2013
Raw materials	$ 1,881	$1,755
Work in process and other	850	842
Finished manufactured goods	3,333	3,206
Goods acquired for resale	4,172	4,057
	$10,236	$9,860

(10) Property, plant and equipment

A summary of property, plant and equipment of our insurance and other businesses follows (in millions).

	Ranges of estimated useful life	December 31,	
		2014	2013
Land	—	$ 1,171	$ 1,098
Buildings and improvements	2 – 40 years	6,600	6,244
Machinery and equipment	3 – 25 years	16,413	15,984
Furniture, fixtures and other	2 – 18 years	3,136	2,748
		27,320	26,074
Accumulated depreciation		(13,167)	(12,451)
		$ 14,153	$ 13,623

(10) Property, plant and equipment *(Continued)*

A summary of property, plant and equipment of our railroad and our utilities and energy businesses follows (in millions).

	Ranges of estimated useful life	December 31, 2014	December 31, 2013
Railroad:			
Land	—	$ 5,983	$ 5,973
Track structure and other roadway	5 – 100 years	42,588	40,098
Locomotives, freight cars and other equipment	5 – 40 years	9,493	7,551
Construction in progress	—	1,292	973
Utilities and energy:			
Utility generation, distribution and transmission system	5 – 80 years	64,645	57,490
Interstate pipeline assets	3 – 80 years	6,660	6,448
Independent power plants and other assets	3 – 30 years	5,035	2,516
Construction in progress	—	5,194	4,217
		140,890	125,266
Accumulated depreciation		(25,836)	(22,784)
		$115,054	$102,482

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.

Assets held for lease and property, plant and equipment of our finance and financial products businesses are summarized below (in millions).

	Ranges of estimated useful life	December 31, 2014	December 31, 2013
Assets held for lease	5 – 30 years	$ 9,810	$ 9,509
Land	—	227	233
Buildings, machinery and other	3 – 50 years	1,179	1,146
		11,216	10,888
Accumulated depreciation		(3,179)	(3,188)
		$ 8,037	$ 7,700

Assets held for lease includes railcars, intermodal tank containers, cranes, over-the-road trailers, storage units and furniture. As of December 31, 2014, the minimum future lease rentals to be received on assets held for lease (including rail cars leased from others) were as follows (in millions): 2015 – $982; 2016 – $822; 2017 – $643; 2018 – $461; 2019 – $311; and thereafter – $385.

(11) Goodwill and other intangible assets

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

	December 31, 2014	December 31, 2013
Balance at beginning of year	$57,011	$54,523
Acquisitions of businesses	4,006	2,732
Other, including foreign currency translation	(303)	(244)
Balance at end of year	$60,714	$57,011

(11) Goodwill and other intangible assets *(Continued)*

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

	December 31, 2014		December 31, 2013	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Insurance and other	$13,714	$4,476	$11,923	$3,723
Railroad, utilities and energy	2,254	1,551	2,214	1,231
	$15,968	$6,027	$14,137	$4,954
Trademarks and trade names	$ 3,117	$ 599	$ 2,750	$ 340
Patents and technology	5,425	3,133	5,173	2,626
Customer relationships	5,603	1,768	4,690	1,518
Other	1,823	527	1,524	470
	$15,968	$6,027	$14,137	$4,954

Amortization expense was $1,155 million in 2014, $1,090 million in 2013 and $1,008 million in 2012. Estimated amortization expense over the next five years is as follows (in millions): 2015 – $927; 2016 – $870; 2017 – $856, 2018 – $759 and 2019 – $684. Intangible assets with indefinite lives as of December 31, 2014 and 2013 were $2,586 million and $2,221 million, respectively.

(12) Derivative contracts

Derivative contracts have been entered into primarily by our finance and financial products and our energy businesses. A summary of derivative contract liabilities and notional values as of December 31, 2014 and 2013 related to our finance and financial products businesses follows (in millions).

	December 31, 2014		December 31, 2013	
	Liabilities	Notional Value	Liabilities	Notional Value
Equity index put options	$4,560	$29,469[(1)]	$4,667	$32,095[(1)]
Credit default	250	7,792[(2)]	648	7,792[(2)]
Other, principally interest rate and foreign currency	—		16	
	$4,810		$5,331	

(1) *Represents the aggregate undiscounted amount payable at the contract expiration dates assuming that the value of each index is zero at each contract's 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 specified obligations is zero.*

The derivative contracts of our finance and financial products businesses are recorded at fair value and the changes in the fair values of such contracts are reported in earnings as derivative gains/losses. We entered into these contracts with the expectation that the premiums received would exceed the amounts ultimately paid to counterparties. A summary of the derivative gains/losses included in our Consolidated Statements of Earnings in each of the three years ending December 31, 2014 follows (in millions).

	2014	2013	2012
Equity index put options	$ 108	$2,843	$ 997
Credit default	397	(213)	894
Other, principally interest rate and foreign currency	1	(22)	72
	$ 506	$2,608	$1,963

The equity index put option contracts were written between 2004 and 2008. These contracts are European style options written on four major equity indexes and will expire between June 2018 and January 2026. Future payments, if any, under any given contract will be required if the underlying index value is below the strike price at the contract expiration date. We received the premiums on these contracts in full at the contract inception dates and therefore have no counterparty credit risk.

(12) Derivative contracts *(Continued)*

The aggregate intrinsic value (which is the undiscounted liability assuming the contracts are settled based on the index values and foreign currency exchange rates as of the balance sheet date) of our equity index put option contracts was approximately $1.4 billion at December 31, 2014 and $1.7 billion at December 31, 2013. However, these contracts may not be unilaterally terminated or fully settled before the expiration dates. Therefore, the ultimate amount of cash basis gains or losses on these contracts will not be determined for several years. The remaining weighted average life of all contracts was approximately 6 years at December 31, 2014.

Our remaining credit default contract was written in 2008 and relates to approximately 500 zero-coupon municipal debt issues with maturities ranging from 2019 to 2054. The underlying debt issues have a weighted average maturity of approximately 16.75 years. Pursuant to the contract terms, future loss payments would be required in the event of non-payment by the issuer and non-performance by the primary financial guarantee insurers under their contracts. Payments under our contract, if any, are not required prior to the maturity dates of the underlying obligations. Our premium under this contract was received at the inception of this contract and therefore we have no counterparty credit risk.

A limited number of our equity index put option contracts contain 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, 2014 and 2013, we did not have any collateral posting requirements. 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 $108 million and $87 million as of December 31, 2014 and December 31, 2013, respectively. Derivative contract liabilities are included in accounts payable, accruals and other liabilities of railroad, utilities and energy businesses and were $230 million and $208 million as of December 31, 2014 and December 31, 2013, 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 other comprehensive income or in net earnings, as appropriate.

(13) Supplemental cash flow information

A summary of supplemental cash flow information for each of the three years ending December 31, 2014 is presented in the following table (in millions).

	2014	2013	2012
Cash paid during the period for:			
Income taxes	$4,014	$5,401	$4,695
Interest:			
Insurance and other businesses	360	343	319
Railroad, utilities and energy businesses	2,487	1,958	1,829
Finance and financial products businesses	465	573	653
Non-cash investing and financing activities:			
Liabilities assumed in connection with business acquisitions	6,334	9,224	1,751
Equity securities exchanged in connection with business acquisitions	2,478	—	—
Borrowings assumed in connection with certain property, plant and equipment additions	—	—	406
Treasury stock acquired in connection with business acquisition	400	—	—

(14) 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 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, 2014 is as follows (in millions).

	2014	2013	2012
Unpaid losses and loss adjustment expenses:			
Gross liabilities at beginning of year	$ 64,866	$ 64,160	$ 63,819
Ceded losses and deferred charges at beginning of year	(7,414)	(6,944)	(7,092)
Net balance at beginning of year	57,452	57,216	56,727
Incurred losses recorded during the year:			
Current accident year	27,771	23,027	22,239
Prior accident years	(1,365)	(1,752)	(2,126)
Total incurred losses	26,406	21,275	20,113
Payments during the year with respect to:			
Current accident year	(11,289)	(10,154)	(9,667)
Prior accident years	(11,381)	(10,978)	(10,628)
Total payments	(22,670)	(21,132)	(20,295)
Foreign currency translation adjustment	(666)	93	186
Business acquisitions	67	—	485
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	60,589	57,452	57,216
Ceded losses and deferred charges at end of year	10,888	7,414	6,944
Gross liabilities at end of year	$ 71,477	$ 64,866	$ 64,160

Incurred losses shown in the preceding table represent loss and loss adjustment expenses recorded in earnings in each year. Such losses pertain to loss events occurring during the year ("current accident year") and losses pertaining to prior year events ("prior accident years"). We present incurred losses related to our retroactive reinsurance contracts based on the inception dates of the contracts. Incurred losses that are attributable to prior accident years reflect the amount of estimation error charged or credited to earnings during the year with respect to estimated liabilities as of the beginning of that year. Incurred losses include the impact of changes in deferred charge assets established in connection with retroactive reinsurance contracts and discounting of certain assumed workers' compensation liabilities. Deferred charges and loss reserve discounts represent time value discounting of the related ultimate estimated claim liabilities.

Incurred losses for prior accident years included charges of $128 million in 2014, $186 million in 2013 and $381 million in 2012 associated with the changes in deferred charges and discounts related to certain workers' compensation claims. Discounted workers' compensation liabilities at December 31, 2014 and 2013 were $2,035 million and $2,066 million, respectively, reflecting net discounts of $1,745 million and $1,866 million, respectively. Unamortized deferred charges on retroactive reinsurance contracts were $7,772 million at December 31, 2014, which included $3,428 million from contracts written in 2014, and $4,359 million at December 31, 2013.

Before the effects of deferred charges and discounting, we reduced the beginning of the year net losses and loss adjustment expenses liability by $1,493 million in 2014, $1,938 million in 2013 and $2,507 million in 2012. In each of the years, the reduction primarily derived from assumed reinsurance and from primary private passenger auto and medical malpractice insurance. The reductions in liabilities related to assumed reinsurance, excluding retroactive reinsurance, were attributable to generally lower than expected reported losses from ceding companies with respect to both property and casualty coverages. Individual underlying claim counts and average amounts per claim are not utilized by our reinsurance assumed businesses because clients do not consistently provide reliable data in sufficient detail. The reductions in private passenger auto liabilities reflected lower than previously anticipated bodily injury and personal injury protection severities. The reductions in medical malpractice liabilities reflected lower than anticipated claims frequencies and severities. We also increased liabilities under retroactive reinsurance contracts by approximately $825 million in 2014 and $300 million in 2013, primarily due to net increases in estimated asbestos and environmental liabilities. Accident year loss estimates are regularly adjusted to consider emerging loss development patterns of prior years' losses, whether favorable or unfavorable.

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

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 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 other latent injury claims and claims expenses, net of reinsurance recoverables, were approximately $14.4 billion at December 31, 2014 and $13.7 billion at December 31, 2013. These liabilities included approximately $12.7 billion at December 31, 2014 and $11.9 billion at December 31, 2013 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 other latent injury claims under these contracts is, likewise, limited. We monitor evolving case law and its effect on environmental and other latent injury claims. Changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could result in significant increases in these liabilities. Such development could be material to 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.

(15) 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, 2014.

	Weighted Average Interest Rate	December 31, 2014	December 31, 2013
Insurance and other:			
Issued by Berkshire due 2015-2047	2.8%	$ 8,354	$ 8,311
Short-term subsidiary borrowings	0.6%	839	949
Other subsidiary borrowings due 2015-2035	6.1%	2,701	3,180
		$11,894	$12,440

	Weighted Average Interest Rate	December 31, 2014	December 31, 2013
Railroad, utilities and energy:			
Issued by Berkshire Hathaway Energy Company (“BHE”) and its subsidiaries:			
BHE senior unsecured debt due 2017-2045	5.1%	$ 7,860	$ 6,616
Subsidiary and other debt due 2015-2064	5.1%	28,439	23,033
Issued by BNSF due 2015-2097	5.0%	19,280	17,006
		$55,579	$46,655

In December 2014, BHE issued $1.5 billion in senior unsecured notes consisting of $350 million of 2.4% notes due in 2020, $400 million of 3.5% notes due in 2025 and $750 million of 4.5% notes due in 2045. BHE subsidiary debt at December 31, 2014, included borrowings of approximately $4.0 billion of AltaLink, which was acquired by BHE on December 1, 2014. BHE subsidiary debt represents amounts issued pursuant to separate financing agreements. Substantially all of the assets of certain BHE 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. BNSF’s borrowings are primarily senior unsecured debentures. In 2014, BNSF issued $3.0 billion of debentures consisting of $500 million of 3.75% debentures due in 2024, $700 million of 3.4% debentures due in 2024, $1.0 billion of 4.9% debentures due in 2044 and $800 million of 4.55% debentures due in 2044. As of December 31, 2014, BNSF and BHE and their subsidiaries were in compliance with all applicable debt covenants. Berkshire does not guarantee any debt, borrowings or lines of credit of BNSF, BHE or their subsidiaries.

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

	Weighted Average Interest Rate	December 31, 2014	2013
Finance and financial products:			
Issued by Berkshire Hathaway Finance Corporation ("BHFC") due 2015-2043	3.1%	$11,178	$11,178
Issued by other subsidiaries due 2015-2036	5.3%	1,558	1,951
		$12,736	$13,129

In 2014, BHFC issued $1.15 billion of new senior notes consisting of $1.05 billion of floating rate notes due in 2017 and $100 million of 2% notes due in 2018. These issuances replaced a corresponding aggregate amount of senior notes that matured in 2014.

Our subsidiaries have unused lines of credit and commercial paper capacity aggregating approximately $7.8 billion at December 31, 2014, to support short-term borrowing programs and provide additional liquidity. Such unused lines of credit included about $4.6 billion related to BHE and its subsidiaries. The borrowings of BHFC, a wholly owned finance subsidiary of Berkshire, are fully and unconditionally guaranteed by Berkshire. In addition to BHFC's borrowings, Berkshire has guaranteed other subsidiary borrowings, aggregating approximately $3.4 billion at December 31, 2014. 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).

	2015	2016	2017	2018	2019
Insurance and other	$2,676	$1,094	$1,428	$1,088	$ 804
Railroad, utilities and energy	3,043	1,642	1,677	4,241	2,885
Finance and financial products	1,725	1,204	2,924	2,365	107
	$7,444	$3,940	$6,029	$7,694	$3,796

(16) Income taxes

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

	December 31, 2014	2013
Currently payable (receivable)	$ (1,346)	$ (395)
Deferred	61,936	57,442
Other	645	692
	$61,235	$57,739

(16) Income taxes *(Continued)*

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, 2014	December 31, 2013
Deferred tax liabilities:		
Investments – unrealized appreciation and cost basis differences	$26,633	$25,660
Deferred charges reinsurance assumed	2,721	1,526
Property, plant and equipment	34,618	32,409
Other	6,396	6,278
	70,368	65,873
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(933)	(817)
Unearned premiums	(773)	(682)
Accrued liabilities	(3,575)	(3,398)
Derivative contract liabilities	(206)	(374)
Other	(2,945)	(3,160)
	(8,432)	(8,431)
Net deferred tax liability	$61,936	$57,442

We have not established deferred income taxes on accumulated undistributed earnings of certain foreign subsidiaries. Such earnings were approximately $10.0 billion as of December 31, 2014 and are expected to remain reinvested indefinitely. 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, 2014 is as follows (in millions).

	2014	2013	2012
Federal	$6,447	$8,155	$5,695
State	560	258	384
Foreign	928	538	845
	$7,935	$8,951	$6,924
Current	$3,302	$5,168	$4,711
Deferred	4,633	3,783	2,213
	$7,935	$8,951	$6,924

(16) Income taxes *(Continued)*

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, 2014 in the table below (in millions).

	2014	2013	2012
Earnings before income taxes	$28,105	$28,796	$22,236
Hypothetical amounts applicable to above computed at the U.S. federal statutory rate	$ 9,837	$10,079	$ 7,783
Dividends received deduction and tax exempt interest	(820)	(514)	(518)
State income taxes, less U.S. federal income tax benefit	364	168	250
Foreign tax rate differences	(252)	(256)	(280)
U.S. income tax credits	(333)	(457)	(319)
Non-taxable exchange of investments	(679)	—	—
Other differences, net	(182)	(69)	8
	$ 7,935	$ 8,951	$ 6,924

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. The U.S. Internal Revenue Service ("IRS") has completed the exams of the 2005 though 2009 tax years. Berkshire and the IRS have informally resolved all proposed adjustments in connection with these years with the IRS Appeals Division and we expect formal settlements within the next twelve months. The IRS continues to audit 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, 2014 and 2013, net unrecognized tax benefits were $645 million and $692 million, respectively. Included in the balance at December 31, 2014, were $505 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 where the ultimate recognition is highly certain but there is uncertainty about the timing of such recognition. Because of the impact of deferred tax accounting, the differences in recognition periods 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, 2014, we do not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months.

(17) 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 $17 billion as ordinary dividends during 2015.

Combined shareholders' equity of U.S. based insurance subsidiaries determined pursuant to statutory accounting rules (Surplus as Regards Policyholders) was approximately $129 billion at December 31, 2014 and 2013. 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.

(18) Fair value measurements

Our financial assets and liabilities are summarized below as of December 31, 2014 and December 31, 2013 with fair values shown according to the fair value hierarchy (in millions). 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.

	Carrying Value	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	$ 2,930	$ 2,930	$ 2,264	$ 666	$ —
States, municipalities and political subdivisions	1,912	1,912	—	1,912	—
Foreign governments	12,270	12,270	7,981	4,289	—
Corporate bonds	8,771	8,771	—	8,763	8
Mortgage-backed securities	1,753	1,753	—	1,753	—
Investments in equity securities	117,470	117,470	117,424	45	1
Investment in Heinz Holding Preferred Stock	7,710	8,416	—	—	8,416
Other investments	22,324	22,324	329	—	21,995
Loans and finance receivables	12,566	12,891	—	33	12,858
Derivative contract assets (1)	108	108	1	13	94
Derivative contract liabilities:					
Railroad, utilities and energy (1)	230	230	18	169	43
Finance and financial products:					
Equity index put options	4,560	4,560	—	—	4,560
Credit default	250	250	—	—	250
Notes payable and other borrowings:					
Insurance and other	11,894	12,484	—	12,484	—
Railroad, utilities and energy	55,579	62,802	—	62,802	—
Finance and financial products	12,736	13,417	—	12,846	571
December 31, 2013					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	$ 2,658	$ 2,658	$ 2,184	$ 473	$ 1
States, municipalities and political subdivisions	2,345	2,345	—	2,345	—
Foreign governments	11,073	11,073	7,467	3,606	—
Corporate bonds	11,237	11,254	—	10,187	1,067
Mortgage-backed securities	2,040	2,040	—	2,040	—
Investments in equity securities	117,505	117,505	117,438	60	7
Investment in Heinz Holding Preferred Stock	7,710	7,971	—	—	7,971
Other investments	17,951	17,951	—	—	17,951
Loans and finance receivables	12,826	12,002	—	454	11,548
Derivative contract assets (1)	87	87	3	15	69
Derivative contract liabilities:					
Railroad, utilities and energy (1)	208	208	1	198	9
Finance and financial products:					
Equity index put options	4,667	4,667	—	—	4,667
Credit default	648	648	—	—	648
Notes payable and other borrowings:					
Insurance and other	12,440	12,655	—	12,655	—
Railroad, utilities and energy	46,655	49,879	—	49,879	—
Finance and financial products	13,129	13,505	—	12,846	659

(1) *Assets are included in other assets and liabilities are included in accounts payable, accruals and other liabilities.*

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 fair values 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.

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. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit ratings, estimated durations 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.

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 three years ending December 31, 2014 follow (in millions).

	Investments in fixed maturity securities	Investments in equity securities and other investments	Net derivative contract liabilities
Balance at December 31, 2011	$ 784	$11,691	$(9,908)
Gains (losses) included in:			
Earnings	—	—	1,873
Other comprehensive income	5	4,094	—
Regulatory assets and liabilities	—	—	(2)
Acquisitions, dispositions and settlements	(8)	—	190
Transfers into (out of) Level 3	(129)	—	—
Balance at December 31, 2012	652	15,785	(7,847)
Gains (losses) included in:			
Earnings	312	522	2,652
Other comprehensive income	(14)	3,177	(1)
Regulatory assets and liabilities	—	—	1
Dispositions and settlements	(578)	(31)	(60)
Transfers into (out of) Level 3	—	(1,495)	—
Balance at December 31, 2013	372	17,958	(5,255)
Gains (losses) included in:			
Earnings	—	—	524
Other comprehensive income	13	1,373	—
Regulatory assets and liabilities	—	—	5
Acquisitions	—	3,000	1
Dispositions and settlements	(2)	—	1
Transfers into (out of) Level 3	(375)	(335)	(35)
Balance at December 31, 2014	$ 8	$21,996	$(4,759)

(18) Fair value measurements *(Continued)*

Gains and losses included in earnings are included as components of investment gains/losses, derivative gains/losses and other revenues, as appropriate and are primarily related to changes in the values 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 investments and the reclassification of investment appreciation in earnings, as appropriate in our Consolidated Statements of Comprehensive Income. In 2013, we transferred the fair value measurements of the GS Warrants and GE Warrants out of Level 3 because we concluded that the unobservable inputs were no longer significant.

Quantitative information as of December 31, 2014, 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 Inputs	Weighted Average
Other investments:				
Preferred stocks	$14,819	Discounted cash flow	Expected duration	7 years
			Discount for transferability restrictions and subordination	147 basis points
Common stock warrants	7,175	Warrant pricing model	Discount for transferability and hedging restrictions	7%
Net derivative liabilities:				
Equity index put options	4,560	Option pricing model	Volatility	21%
Credit default municipalities	250	Discounted cash flow	Credit spreads	36 basis points

Other investments currently consist of preferred stocks and common stock warrants that we acquired in a few relatively large private placement transactions. 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 debt instruments of the issuers, which affected the discount rates used. 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 and we have applied discounts with respect to such restrictions. Increases or decreases to these inputs would result in decreases or increases to the fair values of the investments.

Our equity index put option and credit default contracts are illiquid and contain contract terms that are not standard in derivatives markets. For example, we are not required to post collateral under most of our contracts and many contracts have relatively long durations. 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 (including a Berkshire non-performance input) which are observable. However, we believe that the valuation of long-duration options using any model is inherently subjective and, given the lack of observable transactions and prices, acceptable values may be subject to wide ranges. Expected volatility inputs represent our expectations, which consider the remaining duration of each contract and assume 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 of the liabilities.

Notes to Consolidated Financial Statements *(Continued)*

(19) Common stock

Changes in Berkshire's issued, treasury and outstanding common stock during the three years ending December 31, 2014 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, 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
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(35,912)	—	(35,912)	55,381,136	—	55,381,136
Balance at December 31, 2013	868,616	(9,573)	859,043	1,178,775,092	(1,408,484)	1,177,366,608
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(30,597)	—	(30,597)	47,490,158	—	47,490,158
Treasury shares acquired	—	(2,107)	(2,107)	—	(1,278)	(1,278)
Balance at December 31, 2014	838,019	(11,680)	826,339	1,226,265,250	(1,409,762)	1,224,855,488

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 1,642,909 shares outstanding as of December 31, 2014 and 1,643,954 shares outstanding as of December 31, 2013. In addition to our common stock, 1,000,000 shares of preferred stock are authorized, but none are issued and outstanding.

Berkshire's Board of Directors ("Berkshire's Board") has approved a common stock repurchase program under which Berkshire may repurchase its Class A and Class B shares at prices no higher than a 20% premium over the book value of the shares. 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 and cash equivalent holdings below $20 billion. The repurchase program does not obligate Berkshire to repurchase any dollar amount or number of Class A or Class B shares and there is no expiration date to the program. There were no share repurchases under the program in 2014. However, on June 30, 2014, we exchanged approximately 1.62 million shares of GHC common stock for WPLG, whose assets included 2,107 shares of Berkshire Hathaway Class A Common Stock and 1,278 shares of Class B Common Stock. The Berkshire shares are reflected as treasury stock in our Consolidated Financial Statements.

Notes to Consolidated Financial Statements *(Continued)*

(20) Accumulated other comprehensive income

A summary of the net changes in after-tax accumulated other comprehensive income attributable to Berkshire Hathaway shareholders for each of the three years ending December 31, 2014 and significant amounts reclassified out of accumulated other comprehensive income for each of the years ending December 31, 2014 and 2013 follows (in millions).

	Unrealized appreciation of investments, net	Foreign currency translation	Prior service and actuarial gains/losses of defined benefit pension plans	Other	Accumulated other comprehensive income
Balance at December 31, 2011	$19,626	$ (383)	$(1,589)	$—	$17,654
Other comprehensive income, net	9,647	267	(21)	(47)	9,846
Transactions with noncontrolling interests	(19)	(4)	9	14	—
	9,628	263	(12)	(33)	9,846
Balance at December 31, 2012	29,254	(120)	(1,601)	(33)	27,500
Other comprehensive income, net before reclassifications	16,379	25	1,534	106	18,044
Reclassifications from accumulated other comprehensive income	(1,591)	(31)	114	10	(1,498)
Transactions with noncontrolling interests	—	(20)	(1)	—	(21)
	14,788	(26)	1,647	116	16,525
Balance at December 31, 2013	44,042	(146)	46	83	44,025
Other comprehensive income, net before reclassifications	3,778	(1,877)	(1,130)	31	802
Reclassifications from accumulated other comprehensive income	(2,184)	66	45	(22)	(2,095)
	1,594	(1,811)	(1,085)	9	(1,293)
Balance at December 31, 2014	$45,636	$(1,957)	$(1,039)	$ 92	$42,732
Reclassifications from other comprehensive income into net earnings are included on the following line items:					
Year ending December 31, 2013:					
Investment gains/losses:					
Insurance and other	$ (2,382)	$ —	$ —	$—	$ (2,382)
Finance and financial products	(65)	—	—	—	(65)
Other	—	(31)	167	17	153
Reclassifications before income taxes	(2,447)	(31)	167	17	(2,294)
Applicable income taxes	(856)	—	53	7	(796)
	$ (1,591)	$ (31)	$ 114	$ 10	$ (1,498)
Year ending December 31, 2014:					
Investment gains/losses:					
Insurance and other	$ (3,288)	$ —	$ —	$—	$ (3,288)
Finance and financial products	(72)	—	—	—	(72)
Other	—	75	58	(39)	94
Reclassifications before income taxes	(3,360)	75	58	(39)	(3,266)
Applicable income taxes	(1,176)	9	13	(17)	(1,171)
	$ (2,184)	$ 66	$ 45	$ (22)	$ (2,095)

(21) 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 may make contributions to the plans to meet regulatory requirements and may also make discretionary contributions.

The components of net periodic pension expense for each of the three years ending December 31, 2014 are as follows (in millions).

	2014	2013	2012
Service cost	$ 230	$ 254	$ 247
Interest cost	629	547	583
Expected return on plan assets	(772)	(634)	(610)
Amortization of actuarial losses and other	102	225	220
Net periodic pension expense	$ 189	$ 392	$ 440

The accumulated benefit obligation is the actuarial present value of benefits earned based on service and compensation prior to the valuation date. 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. 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. The aggregate PBO of non-qualified U.S. plans and non-U.S. plans which are not funded by assets held in trusts was approximately $1.2 billion and $1.0 billion as of December 31, 2014 and 2013, respectively.

Reconciliations of the changes in plan assets and PBOs related to BHE's pension plans and all other pension plans for each of the two years ending December 31, 2014 are in the following tables (in millions). BHE's pension plans cover employees of its various regulated subsidiaries. The costs associated with these regulated operations are generally recoverable through the regulated rate making process.

	2014			2013		
	BHE	All other	Consolidated	BHE	All other	Consolidated
Benefit obligations						
Accumulated benefit obligation at end of year	$5,105	$ 9,522	$14,627	$4,664	$8,101	$12,765
PBO at beginning of year	$5,006	$ 8,892	$13,898	$4,284	$9,789	$14,073
Service cost	60	170	230	46	208	254
Interest cost	226	403	629	172	375	547
Benefits paid	(310)	(524)	(834)	(275)	(505)	(780)
Business acquisitions	—	11	11	823	—	823
Actuarial (gains) or losses and other	416	1,537	1,953	(44)	(975)	(1,019)
PBO at end of year	$5,398	$10,489	$15,887	$5,006	$8,892	$13,898
Plan assets						
Plan assets at beginning of year	$4,888	$ 8,389	$13,277	$3,651	$6,785	$10,436
Employer contributions	126	122	248	150	274	424
Benefits paid	(310)	(524)	(834)	(275)	(505)	(780)
Actual return on plan assets	525	338	863	497	1,849	2,346
Business acquisitions	—	1	1	818	—	818
Other	(143)	(46)	(189)	47	(14)	33
Plan assets at end of year	$5,086	$ 8,280	$13,366	$4,888	$8,389	$13,277
Net funded status – net liability	$ 312	$ 2,209	$ 2,521	$ 118	$ 503	$ 621

(21) Pension plans *(Continued)*

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

	2014	2013
Applicable to pension benefit obligations:		
Discount rate	3.8%	4.6%
Expected long-term rate of return on plan assets	6.7	6.7
Rate of compensation increase	3.4	3.5
Discount rate applicable to net periodic pension expense	4.6	4.1

Benefits payments expected over the next ten years are as follows (in millions): 2015 – $840; 2016 – $847; 2017 – $861; 2018 – $868; 2019 – $889; and 2020 to 2024 – $4,511. Sponsoring subsidiaries expect to contribute $211 million to defined benefit pension plans in 2015.

The net funded status is recognized in our Consolidated Balance Sheets as follows (in millions).

	December 31, 2014	December 31, 2013
Accounts payable, accruals and other liabilities	$2,550	$1,287
Losses and loss adjustment expenses	332	309
Other assets	(361)	(975)
	$2,521	$ 621

Fair value measurements of plan assets as of December 31, 2014 and 2013 follow (in millions).

	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Cash and equivalents	$ 482	$ 250	$ 232	$—
Equity securities	7,950	7,739	211	—
Government obligations	811	701	110	—
Other fixed maturity securities	908	67	841	—
Investment funds and other	3,215	595	2,287	333
	$13,366	$9,352	$3,681	$333
December 31, 2013				
Cash and equivalents	$ 595	$ 355	$ 240	$—
Equity securities	7,844	7,684	160	—
Government obligations	891	607	284	—
Other fixed maturity securities	901	81	820	—
Investment funds and other	3,046	577	2,156	313
	$13,277	$9,304	$3,660	$313

Refer to Note 18 for a discussion of the three levels in the hierarchy of fair values. Plan assets measured at fair value with significant unobservable inputs (Level 3) for the years ending December 31, 2014 and 2013 consisted primarily of real estate and limited partnership interests. 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 return on plan assets. Actual experience will differ from the assumed rates.

(21) Pension plans *(Continued)*

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, 2014 follows (in millions).

	2014	2013
Balance at beginning of year	$ 86	$(2,516)
Amount included in net periodic pension expense	55	167
Gains (losses) current period and other	(1,755)	2,435
Balance at end of year	$(1,614)	$ 86

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 $737 million, $690 million and $637 million for the years ending December 31, 2014, 2013 and 2012, respectively.

(22) 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.

We lease certain manufacturing, warehouse, retail and office facilities as well as certain equipment. Rent expense for all operating leases was $1,484 million in 2014, $1,396 million in 2013 and $1,401 million in 2012. Future minimum rental payments or operating leases having initial or remaining non-cancellable terms in excess of one year are as follows. Amounts are in millions.

2015	2016	2017	2018	2019	After 2019	Total
$1,279	$1,159	$1,001	$847	$751	$3,605	$8,642

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, 2014, future purchase commitments under such arrangements are expected to be paid as follows: $14.6 billion in 2015, $4.9 billion in 2016, $4.2 billion in 2017, $3.6 billion in 2018, $3.0 billion in 2019 and $13.7 billion after 2019.

Pursuant to the terms of shareholder agreements with noncontrolling shareholders in our less than wholly-owned subsidiaries, we may be obligated to acquire their equity ownership interests. If we had acquired all outstanding noncontrolling interests as of December 31, 2014, we estimate the cost would have been approximately $4.2 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.

During 2012 and 2013, we acquired substantially all of the outstanding common stock of Marmon that was held by noncontrolling shareholders for aggregate consideration of approximately $1.4 billion in 2012 and approximately $1.47 billion in 2013, of which $1.2 billion was paid in March 2014. On April 29, 2013, we acquired all of the common stock of IMC International Metalworking Companies B.V. held by the noncontrolling shareholders for $2.05 billion. These transactions were accounted for as acquisitions of noncontrolling interests. The differences between the consideration paid and the carrying amounts of these noncontrolling interests were recorded as reductions in Berkshire’s shareholders’ equity and aggregated approximately $1.8 billion in 2013 and $700 million in 2012.

On October 1, 2014, Berkshire and Van Tuyl Group entered into a definitive agreement pursuant to which Berkshire will acquire a controlling interest in the Van Tuyl Group, the nation’s largest privately-owned auto dealership group and fifth largest among all U.S. auto dealership groups, as well as 100% of related insurance and real estate businesses. The auto dealership group consists of 78 dealers, with locations in 10 states. The transaction is expected to be completed in the first quarter of 2015 and is subject to obtaining approvals from the major auto manufacturers as well as certain customary closing conditions, including various regulatory approvals.

(22) Contingencies and Commitments *(Continued)*

On November 13, 2014 Berkshire entered into a definitive agreement with Procter & Gamble Company ("P&G") whereby it will acquire the Duracell battery business from P&G. Pursuant to the agreement, in exchange for a recapitalized Duracell Company, which will include approximately $1.7 billion in cash at closing, P&G will receive shares of its common stock currently held by Berkshire subsidiaries having a fair value at December 31, 2014 of approximately $4.8 billion. The transaction is expected to close in the second half of 2015 and is subject to obtaining various regulatory approvals as well as certain other customary closing conditions.

We own a 50% interest in a joint venture, Berkadia Commercial Mortgage LLC ("Berkadia"), with Leucadia National Corporation ("Leucadia") owning 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 us for one-half of any losses incurred under the policy. As of December 31, 2014, the aggregate amount of Berkadia commercial paper outstanding was $2.47 billion.

(23) Business segment data

Our operating businesses include a large and diverse group of insurance, finance, manufacturing, service and retailing businesses. 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 when 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
Berkshire Hathaway Energy	Regulated electric and gas utility, including power generation and distribution activities, and domestic real estate brokerage and brokerage franchisor
McLane Company	Wholesale distribution of groceries and non-food items
Manufacturing	Manufacturers of numerous products including industrial and end-user products, building products and apparel
Service and retailing	Providers of numerous services including fractional aircraft ownership programs, aviation pilot training, electronic components distribution and retailing
Finance and financial products	Manufactured housing and related consumer financing; transportation equipment, manufacturing and leasing; and furniture leasing

(23) Business segment data *(Continued)*

A disaggregation of our consolidated data for each of the three most recent years is presented in the tables which follow (in millions).

	Revenues			Earnings before income taxes		
	2014	2013	2012	2014	2013	2012
Operating Businesses:						
Insurance group:						
Underwriting:						
GEICO	$ 20,496	$ 18,572	$ 16,740	$ 1,159	$ 1,127	$ 680
General Re	6,264	5,984	5,870	277	283	355
Berkshire Hathaway Reinsurance Group	10,116	8,786	9,672	606	1,294	304
Berkshire Hathaway Primary Group	4,377	3,342	2,263	626	385	286
Investment income	4,370	4,735	4,474	4,357	4,713	4,454
Total insurance group	45,623	41,419	39,019	7,025	7,802	6,079
BNSF	23,239	22,014	20,835	6,169	5,928	5,377
Berkshire Hathaway Energy	17,614	12,743	11,747	2,711	1,806	1,644
McLane Company	46,640	45,930	37,437	435	486	403
Manufacturing	36,773	34,258	32,105	4,811	4,205	3,911
Service and retailing	14,276	13,284	11,890	1,546	1,469	1,272
Finance and financial products	6,526	6,110	5,933	1,839	1,564	1,393
	190,691	175,758	158,966	24,536	23,260	20,079
Reconciliation of segments to consolidated amount:						
Investment and derivative gains/losses	4,081	6,673	3,425	4,081	6,673	3,425
Interest expense, not allocated to segments	—	—	—	(313)	(303)	(271)
Eliminations and other	(99)	(281)	72	(199)	(834)	(997)
	$194,673	$182,150	$162,463	$28,105	$28,796	$22,236

	Capital expenditures			Depreciation of tangible assets		
	2014	2013	2012	2014	2013	2012
Operating Businesses:						
Insurance group	$ 94	$ 89	$ 61	$ 69	$ 58	$ 57
BNSF	5,243	3,918	3,548	1,804	1,655	1,573
Berkshire Hathaway Energy	6,555	4,307	3,380	2,177	1,577	1,440
McLane Company	241	225	225	159	159	149
Manufacturing	1,324	1,037	1,062	943	1,061	1,068
Service and retailing	591	488	381	461	413	379
Finance and financial products	1,137	1,023	1,118	602	495	480
	$15,185	$11,087	$9,775	$6,215	$5,418	$5,146

(23) Business segment data *(Continued)*

	Goodwill at year-end		Identifiable assets at year-end		
	2014	2013	2014	2013	2012
Operating Businesses:					
Insurance group:					
GEICO	$ 1,370	$ 1,372	$ 45,439	$ 39,568	$ 30,986
General Re	13,527	13,532	28,692	29,956	30,477
Berkshire Hathaway Reinsurance and Primary Groups	650	607	151,301	138,480	118,819
Total insurance group	15,547	15,511	225,432	208,004	180,282
BNSF	14,819	14,819	62,916	59,842	56,839
Berkshire Hathaway Energy	9,599	7,784	71,482	62,189	46,856
McLane Company	657	701	5,419	5,209	5,090
Manufacturing	14,818	13,341	34,509	34,100	32,097
Service and retailing	3,937	3,514	11,303	10,051	9,566
Finance and financial products	1,337	1,341	32,164	31,886	30,854
	$60,714	$57,011	443,225	411,281	361,584
Reconciliation of segments to consolidated amount:					
Corporate and other			22,247	16,639	11,345
Goodwill			60,714	57,011	54,523
			$526,186	$484,931	$427,452

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		
	2014	2013	2012	2014	2013	2012
United States	$31,362	$25,704	$23,186	$3,402	$3,934	$3,504
Western Europe	2,424	2,234	4,387	1,135	1,339	1,114
All other	2,805	2,973	2,319	1,305	1,026	1,217
	$36,591	$30,911	$29,892	$5,842	$6,299	$5,835

In 2014 and 2013, premiums written and earned attributable to Western Europe were primarily in the United Kingdom and Germany. In 2012, premiums written and earned also included meaningful amounts attributable to Switzerland and Luxembourg. Life/health insurance premiums written and earned in the United States included approximately $1.5 billion in 2012 from a single contract with Swiss Re Life & Health America Inc., an affiliate of Swiss Reinsurance Company Ltd. This contract was amended in 2013 which resulted in a significant return of premiums.

Consolidated sales and service revenues in 2014, 2013 and 2012 were $102.2 billion, $97.6 billion and $85.8 billion, respectively. In each year, approximately 85% of such revenues were attributable to the United States. The remainder of sales and service revenues were primarily in the Europe, Canada and Asia-Pacific regions. In each of the three years ending December 31, 2014, consolidated sales and service revenues included sales of approximately $13 billion in 2014 and 2013 and $12 billion in 2012 to Wal-Mart Stores, Inc.

Approximately 96% of our revenues in 2014, 2013 and 2012 from railroad, utilities and energy businesses were in the United States. At December 31, 2014, 88% of our consolidated net property, plant and equipment was located in the United States with the remainder primarily in Europe and Canada.

(23) 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		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
Premiums Written:						
Direct	$27,541	$24,292	$20,796	$ 879	$ 931	$ 554
Assumed	9,889	7,339	9,668	5,030	5,437	5,391
Ceded	(839)	(720)	(572)	(67)	(69)	(110)
	$36,591	$30,911	$29,892	$5,842	$6,299	$5,835
Premiums Earned:						
Direct	$26,389	$23,267	$20,204	$ 879	$ 931	$ 554
Assumed	9,872	7,928	9,142	5,030	5,425	5,356
Ceded	(850)	(797)	(600)	(67)	(70)	(111)
	$35,411	$30,398	$28,746	$5,842	$6,286	$5,799

(24) 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
2014				
Revenues	$45,453	$49,762	$51,199	$48,259
Net earnings attributable to Berkshire shareholders *	4,705	6,395	4,617	4,155
Net earnings attributable to Berkshire shareholders per equivalent Class A common share	2,862	3,889	2,811	2,529
2013				
Revenues	$43,867	$44,693	$46,541	$47,049
Net earnings attributable to Berkshire shareholders *	4,892	4,541	5,053	4,990
Net earnings attributable to Berkshire shareholders per equivalent Class A common share	2,977	2,763	3,074	3,035

* *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 – 2014	$ 1,172	$ 2,064	$ (107)	$ 192
Investment and derivative gains/losses – 2013	1,110	622	1,391	1,214

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.

	2014	2013	2012
Insurance – underwriting	$ 1,692	$ 1,995	$ 1,046
Insurance – investment income	3,542	3,708	3,397
Railroad	3,869	3,793	3,372
Utilities and energy	1,882	1,470	1,323
Manufacturing, service and retailing	4,468	3,877	3,357
Finance and financial products	1,243	1,008	899
Investment and derivative gains/losses	3,321	4,337	2,227
Other	(145)	(712)	(797)
Net earnings attributable to Berkshire Hathaway shareholders	$19,872	$19,476	$14,824

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 practices, 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 23 to the accompanying Consolidated Financial Statements) should be read in conjunction with this discussion.

Our insurance businesses generated after-tax earnings from underwriting in each of the last three years, including $1.7 billion in 2014. Periodic earnings from insurance underwriting are significantly impacted by the magnitude of catastrophe loss events occurring during the period. In 2014, we did not incur any losses from significant catastrophe events, compared to after-tax losses of approximately $285 million in 2013 and $725 million in 2012.

Our railroad business earnings increased 2.0% in 2014, although earnings were negatively impacted by various service-related challenges during the year. Earnings from our railroad business in 2013 exceeded 2012 by 12.5% driven by increased volume over the network. Earnings of our utilities and energy businesses in 2014 exceeded 2013 by 28.0%, due to the acquisition of NV Energy in December 2013 and higher earnings from several of our other energy businesses. Earnings from utility and energy businesses in 2013 exceeded 2012 by 11.1%. Earnings from our manufacturing, service and retailing businesses in 2014 increased 15.2% over 2013, which increased 15.5% over 2012. These increases reflected the impact of bolt-on business acquisitions, earnings growth in certain operations and reductions in earnings attributable to noncontrolling interests. "Other" in the preceding table includes after-tax earnings from our investments in Heinz Holdings of $652 million in 2014 and $95 million in 2013.

After-tax investment and derivative gains were approximately $3.3 billion in 2014, $4.3 billion in 2013 and $2.2 billion in 2012. In each year, after-tax gains included gains from the reductions in estimated liabilities under equity index put option contracts and dispositions of investments, partially offset by other-than-temporary impairment charges. In 2014, after-tax gains included approximately $2.0 billion related to the exchanges of Phillips 66 (in the first quarter) and Graham Holdings Company (in the second quarter) common stocks for a specified subsidiary of each of those companies. After-tax investment gains in 2013 included gains associated with the fair value increases of certain investment securities where unrealized gains or losses were reflected in periodic earnings. In 2012, after-tax investment and derivative gains also included gains from settlements and expirations of credit default contracts. We believe that investment and derivatives gains/losses are often meaningless in terms of understanding our reported results or evaluating our economic performance. These gains and losses have 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 or investment gains.

The timing and amount of catastrophe losses can produce significant volatility in our periodic underwriting results, particularly with respect to BHRG and General Re. For the purpose of this discussion, we consider catastrophe losses significant if the pre-tax losses incurred from a single event (or series of related events such as tornadoes) exceed $100 million on a consolidated basis. In 2014, we did not incur any significant catastrophe losses. In 2013, we incurred pre-tax losses of $436 million related to two catastrophe events in Europe. In 2012, we incurred pre-tax losses of approximately $1.1 billion attributable to Hurricane Sandy. Our periodic underwriting results may be affected significantly by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years. 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 $71.5 billion). Accordingly, the unpaid loss estimates recorded as of December 31, 2014 may develop upward or downward in future periods, producing a corresponding decrease or increase 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 non-U.S. Dollar denominated reinsurance liabilities of our U.S. based insurance subsidiaries as a result of foreign currency exchange rate fluctuations. Foreign currency exchange rate changes produced pre-tax gains in 2014 and losses in 2013 and 2012. Historically, currency exchange rates have been volatile and the resulting impact on our underwriting earnings has been relatively significant. These gains and losses are included in underwriting expenses.

A key marketing strategy of our insurance businesses is the maintenance of extraordinary capital strength. A measure of capital strength is combined shareholders' equity determined pursuant to statutory accounting rules ("Statutory Surplus"). Statutory Surplus of our insurance businesses was approximately $129 billion at December 31, 2014. 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.

	2014	2013	2012
Underwriting gain attributable to:			
GEICO	$1,159	$1,127	$ 680
General Re	277	283	355
Berkshire Hathaway Reinsurance Group	606	1,294	304
Berkshire Hathaway Primary Group	626	385	286
Pre-tax underwriting gain	2,668	3,089	1,625
Income taxes and noncontrolling interests	976	1,094	579
Net underwriting gain	$1,692	$1,995	$1,046

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.

	2014		2013		2012	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Premiums written	$20,962		$19,083		$17,129	
Premiums earned	$20,496	100.0	$18,572	100.0	$16,740	100.0
Losses and loss adjustment expenses	15,924	77.7	14,255	76.7	12,700	75.9
Underwriting expenses	3,413	16.6	3,190	17.2	3,360	20.0
Total losses and expenses	19,337	94.3	17,445	93.9	16,060	95.9
Pre-tax underwriting gain	$ 1,159		$ 1,127		$ 680	

Premiums written and earned in 2014 were approximately $21.0 billion and $20.5 billion, respectively, which represented increases of 9.8% and 10.4%, respectively compared to premiums written and earned in 2013. These increases were attributable to an increase in voluntary auto policies-in-force of 6.6% during the past twelve months and increased average premium per policy. Voluntary auto new business sales increased about 1.8% in 2014 as compared to 2013. Voluntary auto policies-in-force at December 31, 2014 were approximately 821,000 higher than at December 31, 2013.

Losses and loss adjustment expenses incurred in 2014 increased $1.7 billion (11.7%) to $15.9 billion. The ratio of losses and loss adjustment expenses incurred to premiums earned (the "loss ratio") was 77.7% in 2014 compared to 76.7% in 2013. In 2014, claims frequencies for property damage and collision coverages increased in the three to four percent range over 2013, partially due to more severe winter weather in the first quarter of 2014. Claims frequencies for bodily injury coverage increased about one percent, while frequencies for personal injury protection decreased three to four percent. Physical damage severities increased one to two percent in 2014 and bodily injury severities decreased in the one to two percent range from severities in 2013. Overall, personal injury protection severities were relatively flat although we experienced relatively large, but offsetting, changes by jurisdiction. In both 2014 and 2013, losses and loss adjustment expenses incurred were favorably impacted by reductions of estimates for prior years' losses.

Underwriting expenses in 2014 increased $223 million (7.0%) to $3.4 billion. The increase reflected the increased policy acquisition costs to generate the growth in policies-in-force and increased other operating expenses. The ratio of underwriting expenses to premiums earned (the "expense ratio") was 16.6% in 2014 and 17.2% in 2013.

Premiums written in 2013 were $19.1 billion, an increase of 11.4% over premiums written in 2012. Premiums earned in 2013 increased approximately $1.8 billion (10.9%) to approximately $18.6 billion. The growth in premiums reflected an increase in voluntary auto policies-in-force of 7.8% and to a lesser degree, higher average premiums per policy. The increase in policies-in-force reflected a 12.1% increase in voluntary auto new business sales. Voluntary auto policies-in-force at December 31, 2013 were approximately 898,000 greater than at December 31, 2012.

Losses and loss adjustment expenses incurred in 2013 increased $1.6 billion (12.2%) to $14.3 billion. The loss ratio was 76.7% in 2013 compared to 75.9% in 2012. In 2013, claims frequencies for property damage and collision coverages generally increased in the two to four percent range and physical damage claims severities increased in the three to four percent range as compared to 2012. In addition, average bodily injury claims frequencies increased in the one to two percent range. Bodily injury claims severities increased in the one to three percent range, although severities for personal injury protection coverage declined, primarily in Florida. In 2012, we incurred losses of approximately $490 million related to Hurricane Sandy. In both 2013 and 2012, losses and loss adjustment expenses incurred were favorably impacted by reductions of estimates for prior years' losses.

Underwriting expenses incurred in 2013 declined $170 million (5.1%) to $3.2 billion. Underwriting expenses in 2012 were impacted by a change in U.S. GAAP concerning deferred policy acquisition costs. Excluding the effects of the accounting change, the expense ratio in 2013 declined by approximately 0.4 percentage points from 2012.

Insurance—Underwriting *(Continued)*

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 in broker markets through 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 (loss)		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Property/casualty	$3,257	$2,972	$2,982	$3,103	$3,007	$2,904	$170	$148	$399
Life/health	3,161	2,991	3,002	3,161	2,977	2,966	107	135	(44)
	$6,418	$5,963	$5,984	$6,264	$5,984	$5,870	$277	$283	$355

Property/casualty

Property/casualty premiums written and earned in 2014 increased $285 million (9.6%) and $96 million (3.2%), respectively, compared to 2013. Adjusting for changes in foreign currency exchange rates, the increases in premiums written and earned in 2014 were $246 million (8.3%) and $100 million (3.3%), respectively. The increases were primarily due to treaty participations as well as growth in our facultative and primary casualty businesses. Our underwriters continue to exercise discipline by declining business where prices are deemed inadequate and remain prepared to increase premium volume when appropriate prices are attained relative to the risks assumed.

Our combined property/casualty business produced pre-tax underwriting gains in 2014 of $170 million compared to $148 million in 2013. In 2014 and 2013, our property business generated pre-tax underwriting gains of $466 million and $153 million, respectively. Underwriting results in 2014 reflected no significant catastrophe events as compared to 2013 which included $400 million of catastrophe losses primarily attributable to a hailstorm ($280 million) and floods ($120 million) in Europe. 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. In both periods, property results also benefitted from reductions of estimated ultimate losses for prior years' exposures. The favorable development in each period was primarily attributable to lower than expected losses reported from ceding companies.

Our casualty/workers' compensation business produced pre-tax underwriting losses of $296 million in 2014 as compared to $5 million in 2013. Casualty/workers' compensation underwriting results included gains from reductions of estimated ultimate losses on prior years' business of $123 million in 2014 and $354 million in 2013. Casualty losses tend to be long-tail and it should not be assumed that favorable loss experience in a given period means that the ultimate liability estimates currently established will continue to develop favorably. The pre-tax underwriting losses in each year also reflected recurring charges related to discount accretion on workers' compensation liabilities and amortization of deferred charges pertaining to retroactive reinsurance contracts. These charges aggregated $138 million in 2014 and $141 million in 2013.

Property/casualty premiums written in 2013 were relatively unchanged while premiums earned increased $103 million (3.5%) when compared to 2012. Excluding the effects of foreign currency exchange rate changes, premiums written and earned in 2013 increased $8 million (0.3%) and $83 million (2.9%), respectively, versus 2012. This was primarily due to increases in European treaty business.

Our combined property/casualty operations generated pre-tax underwriting gains of $148 million in 2013 and $399 million in 2012. Property underwriting gains in 2013 were $153 million, a decline of $199 million from 2012. Property results in 2013 included $400 million of catastrophe losses primarily from a storm and floods in Europe while results in 2012 included $266 million of catastrophe losses, which were primarily attributable to Hurricane Sandy ($226 million). In each year, property results also benefitted from reductions of estimated ultimate losses for prior years' business.

In 2013, casualty/workers' compensation business generated an underwriting loss of $5 million compared to an underwriting gain of $47 million in 2012. In each year, results benefitted from lower than expected losses from prior years' casualty business. Underwriting results also included charges for discount accretion on workers' compensation liabilities and deferred charge amortization of $141 million in 2013 and $158 million in 2012.

Insurance—Underwriting (Continued)

General Re (Continued)

Life/health

Premiums written and earned in 2014 increased $170 million (5.7%) and $184 million (6.2%), respectively, compared to 2013. Adjusting for changes in foreign currency exchange rates, premiums written in 2014 increased $217 million (7.3%) over 2013 and premiums earned were $234 million (7.9%) higher than 2013. These increases primarily derived from life business across a number of non-U.S. markets. Premiums written in 2013 decreased $11 million (0.4%), while premiums earned increased $11 million (0.4%) compared with 2012. Adjusting for the effects of currency exchange rate changes, premiums written in 2013 increased $9 million (0.3%) over 2012 and premiums earned in 2013 were $32 million (1.1%) greater than 2012. The increases were primarily attributable to increased non-U.S. life business.

Our life/health operations produced pre-tax underwriting gains of $107 million in 2014 compared to $135 million in 2013. In 2014, we increased reserves by approximately $50 million as a result of reducing discount rates for certain European long-term care and disability business. In 2014, we also experienced increased frequency and severity of claims in Australian disability business.

Life/health pre-tax underwriting gains in 2013 were driven by lower than expected mortality. Underwriting results for 2012 were negatively impacted by a premium deficiency reserve that was established on the run-off of the U.S. long-term care business as well as greater than expected claims on Australian disability business. Underwriting results in all three years also reflected charges attributable to the periodic discount accretion on U.S. long-term care liabilities.

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, including property catastrophe insurance and reinsurance. The timing and magnitude of catastrophe losses can produce extraordinary volatility in the periodic underwriting results. BHRG also writes retroactive reinsurance, which provides indemnification of losses and loss adjustment expenses with respect to past loss events arising under property/casualty coverages. 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		
	2014	2013	2012	2014	2013	2012
Property/casualty	$ 4,064	$5,149	$6,122	$1,684	$1,236	$ 695
Retroactive reinsurance	3,371	328	717	(905)	(321)	(201)
Life and annuity	2,681	3,309	2,833	(173)	379	(190)
	$10,116	$8,786	$9,672	$ 606	$1,294	$ 304

Property/casualty

Premiums earned in 2014 were $4,064 million, a decline of $1,085 million (21%) compared to 2013. Premiums earned in 2014 with respect to a 20% quota-share contract with Swiss Reinsurance Company Ltd. ("Swiss Re") declined $1.3 billion from premiums earned in 2013. This contract expired at the end of 2012 and is in run-off. Property catastrophe premiums earned in 2014 were $688 million, a decline of $113 million (14%) as compared to 2013. Our volume with respect to these coverages continues to be constrained, as rates, in our view, are inadequate. However, we have the capacity and desire to write substantially more business when appropriate pricing can be obtained. These declines were partially offset by increased premiums earned from property quota-share contracts.

The property/casualty business generated pre-tax underwriting gains of $1.7 billion in 2014 compared to $1.2 billion in 2013. There were no losses from significant catastrophe events during 2014. Our property business, including property catastrophe business, generated pre-tax underwriting gains of approximately $700 million in 2014 compared to underwriting gains of about $800 million in 2013. The Swiss Re quota-share contract produced pre-tax underwriting gains of $283 million in 2014 and $351 million in 2013, primarily attributable to reductions in estimates of ultimate liabilities for prior years' losses. BHRG's underwriting results can be significantly impacted by foreign currency transaction gains or losses associated with certain reinsurance liabilities of U.S.-based subsidiaries (primarily arising under retroactive reinsurance contracts), which are denominated in foreign currencies. Underwriting results included foreign currency exchange rate gains of $315 million in 2014 compared to losses of $28 million in 2013.

Insurance—Underwriting (Continued)

Berkshire Hathaway Reinsurance Group (Continued)

Property/casualty (Continued)

Premiums earned from property/casualty business in 2013 declined $973 million (16%) compared to 2012. Premiums earned in 2013 from the Swiss Re quota-share contract were approximately $1.5 billion in 2013 compared to $3.4 billion in 2012. Property catastrophe premiums earned in 2013 aggregated $801 million, a decline of 2% versus 2012. Premiums earned in 2013 from other property/casualty business, increased $981 million (52%) over 2012, which was primarily attributable to increased property quota-share business.

BHRG's property/casualty business generated a pre-tax underwriting gain of $695 million in 2012. Underwriting results in 2012 included losses incurred of $364 million attributable to Hurricane Sandy. Underwriting results in 2012 also included foreign currency transaction losses of $123 million.

Retroactive reinsurance

Retroactive reinsurance policies provide indemnification of 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. At the inception of a contract, deferred charge assets are recorded for the excess, if any, of the estimated ultimate losses payable over the premiums earned. Deferred charges are subsequently amortized over the estimated claims payment period using the interest method, which reflects estimates of the timing and amount of loss payments. The original estimates of the timing and amount of loss payments are periodically analyzed against actual experience and revised based on an actuarial evaluation of the expected remaining losses. Amortization charges and deferred charge adjustments resulting from changes to the estimated timing and amount of future loss payments are included in periodic earnings.

On July 17, 2014, National Indemnity Company ("NICO"), the lead insurance entity of BHRG, entered into a retroactive reinsurance agreement with Liberty Mutual Insurance Company ("LMIC"). The agreement provides that NICO reinsure substantially all of LMIC's unpaid losses and allocated loss adjustment expense liabilities related to (a) asbestos and environmental claims from policies incepting prior to 2005 and (b) workers' compensation claims occurrences arising prior to January 1, 2014, in excess of an aggregate retention of approximately $12.5 billion and subject to an aggregate limit of $6.5 billion. The premiums earned in 2014 and the consideration paid to NICO with respect to this contract was approximately $3.0 billion.

Underwriting losses from retroactive reinsurance policies were $905 million in 2014, $321 million in 2013 and $201 million in 2012. In each year, underwriting losses included deferred charge amortization. In addition, underwriting results were impacted in 2014 and 2013 by increases in the estimated ultimate liabilities related to these policies, partially offset by increases in related deferred charge balances. In 2014, we increased estimated ultimate liabilities for contracts written in prior years by approximately $825 million, substantially all of which was recorded in the fourth quarter. In the fourth quarter of 2014, we increased ultimate liability estimates on remaining asbestos claims and re-estimated the timing of future payments of such liabilities as a result of actuarial analysis. The increase in ultimate liabilities, net of related deferred charge adjustments, produced incremental pre-tax underwriting losses in the fourth quarter of approximately $500 million.

Gross unpaid losses from retroactive reinsurance contracts were approximately $24.3 billion at December 31, 2014, $17.7 billion at December 31, 2013 and $18.0 billion at December 31, 2012. Unamortized deferred charges related to BHRG's retroactive reinsurance contracts were approximately $7.7 billion at December 31, 2014, $4.25 billion at December 31, 2013 and $3.9 billion at December 31, 2012. The increases in unpaid losses and unamortized deferred charges during 2014 were primarily related to the LMIC contract. As previously indicated, deferred charge balances will be charged to pre-tax earnings in the future.

Life and annuity

Life and annuity premiums earned in 2014 declined $628 million (19%) compared to premiums earned in 2013. The decline was primarily attributable to a 22% decline in premiums earned from annuity contracts and also from two unusually large transactions in 2013 which produced net premiums of approximately $400 million. The two transactions were as follows: (1) a new variable annuity guarantee contract, which produced premiums earned of $1.7 billion, and (2) an amendment of an existing yearly renewable term life reinsurance contract with Swiss Re Life & Health America Inc. ("SRLHA"), which resulted in return premiums of about $1.3 billion. The SRLHA contract amendment essentially commuted coverage with respect to a number of the underlying contracts in exchange for payments to SRLHA of approximately $675 million.

Insurance—Underwriting (Continued)

Berkshire Hathaway Reinsurance Group (Continued)

Life and annuity (Continued)

Life and annuity premiums earned in 2013 increased $476 million (17%) over premiums earned in 2012. The increase in 2013 was primarily attributable to the aforementioned new variable annuity guarantee reinsurance contract and the reversal of premiums under the SRLHA contract as a result of the contract amendment. Premiums earned in 2013 and 2012 also included $1.4 billion and $794 million, respectively, from traditional annuity insurance and reinsurance contracts.

The life and annuity business produced a pre-tax loss of $173 million in 2014, a pre-tax gain of $379 million in 2013 and a pre-tax loss in 2012 of $190 million. Before foreign currency exchange rate gains and losses, this business generated a pre-tax loss of $275 million in 2014, a pre-tax gain of $442 million in 2013 and a pre-tax loss of $174 million in 2012.

Structured settlement and traditional annuity contracts generated underwriting losses of $299 million in 2014, $151 million in 2013, and $143 million in 2012 before foreign currency effects. Generally, all of the premiums under these contracts are received at inception and payments are made over time, often extending for decades. These underwriting losses were primarily attributable to the recurring impact of the accretion of discounted annuity liabilities. Aggregate annuity liabilities were approximately $7.1 billion at December 31, 2014, $5.7 billion at December 31, 2013 and $3.8 billion at December 31, 2012.

The life and annuity business also included pre-tax gains of $47 million in 2014 and $256 million in 2013 from variable annuity guarantee contracts. The gains were primarily attributable to the impact of rising equity markets which lowered estimates of liabilities for guaranteed minimum benefits. Periodic results from these contracts can be volatile reflecting changes in returns in investment markets, which impact the underlying insured exposures. In 2013, life and annuity underwriting results included a one-time pre-tax gain of $255 million related to the aforementioned amendment to the SRLHA reinsurance contract. This one-time gain occurred as the reversal of premiums earned was more than offset by the reversal of life benefits incurred.

Berkshire Hathaway Primary Group

The Berkshire Hathaway Primary Group ("BH Primary") consists of a wide variety of independently managed insurance businesses. These businesses include: Medical Protective Company and Princeton Insurance Company, providers of healthcare malpractice insurance coverages; National Indemnity Company's primary group ("NICO Primary"), 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 as Berkshire Hathaway Homestate Companies ("BHHC"), providers of commercial multi-line insurance, including workers' compensation; Central States Indemnity Company, a provider of credit and Medicare Supplement insurance; Applied Underwriters, a provider of integrated workers' compensation solutions; BoatU.S., a writer of insurance for owners of boats and small watercraft; and Berkshire Hathaway Guard Insurance Companies ("Guard"), providers of workers' compensation and commercial property and casualty insurance coverage to small and mid-sized businesses. In the second quarter of 2013, we formed Berkshire Hathaway Specialty Insurance ("BH Specialty"), which concentrates on providing large scale insurance solutions for commercial property and casualty risks.

Premiums earned in 2014 and 2013 aggregated $4.4 billion and $3.3 billion, respectively. The increase in premiums was primarily attributable to volume increases from BH Specialty, NICO Primary, BHHC and Guard. Premiums earned in 2013 by BH Primary increased $1,079 million (48%) over 2012. The comparative increase in 2013 reflected the impact of the Guard acquisition in 2012. In addition, BHHC's premiums earned increased $301 million in 2013 as compared to 2012, due primarily to significantly higher workers' compensation insurance volume. The BH Primary insurers produced aggregate pre-tax underwriting gains of $626 million in 2014, $385 million in 2013 and $286 million in 2012. Combined loss ratios were 60% in 2014 and in 2013 and 58% in 2012. Overall, the claim environment over the past three years has been favorable. However, these primary insurers write sizable amounts of liability and workers' compensation business, which can have extended claim tails. It should not be assumed that the current claim experience or underwriting results will continue into the future.

Insurance—Investment Income

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

	2014	2013	2012
Investment income before taxes and noncontrolling interests	$4,357	$4,713	$4,454
Income taxes and noncontrolling interests	815	1,005	1,057
Net investment income	$3,542	$3,708	$3,397

Insurance—Investment Income *(Continued)*

Investment income consists of interest and dividends earned on investments held by our insurance businesses. Pre-tax investment income in 2014 was $4,357 million, representing a decline of $356 million (8%) versus 2013. The decline was attributable to lower interest income from fixed maturity securities, partially offset by increased dividend income from equity securities. The reduction in interest income reflected the maturities and dispositions during the last two years of several fixed maturity securities with higher interest rates, including $4.4 billion par amount of Wrigley 11.45% subordinated notes as a result of the repurchase of those notes by the issuer in 2013. Our insurance businesses continue to hold significant cash and cash equivalent balances (approximately $42.8 billion as of December 31, 2014) earning very low yields. We believe that maintaining ample liquidity is paramount and we insist on safety over yield with respect to cash and cash equivalents. The increase in dividends earned reflected higher dividend rates for certain of our equity holdings. Beginning in 2015, investment income will include dividends from our investment in Restaurant Brands International, Inc. Preferred Stock ($3 billion stated value).

Pre-tax investment income in 2013 increased $259 million (5.8%) compared to 2012. The increase was primarily attributable to increased dividend income on equity investments, which reflected increased dividend rates for certain of our larger equity holdings as well as increased overall investments in equity securities.

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 $84 billion at December 31, 2014, $77 billion at December 31, 2013, and $73 billion at December 31, 2012. The cost of float was negative over the last three years as our insurance business generated pre-tax underwriting gains in each year.

A summary of cash and investments held in our insurance businesses as of December 31, 2014 and 2013 follows. Other investments include investments in The Dow Chemical Company, Bank of America Corporation and Restaurant Brands International, Inc. See Note 5 to the accompanying Consolidated Financial Statements. Amounts are in millions.

	December 31, 2014	December 31, 2013
Cash and cash equivalents	$ 42,760	$ 32,572
Equity securities	114,876	114,832
Fixed maturity securities	26,010	27,059
Other investments	16,346	12,334
	$199,992	$186,797

Fixed maturity investments as of December 31, 2014 were as follows. Amounts are in millions.

	Amortized cost	Unrealized gains/losses	Carrying value
U.S. Treasury, U.S. government corporations and agencies	$ 2,921	$ 9	$ 2,930
States, municipalities and political subdivisions	1,820	92	1,912
Foreign governments	10,620	247	10,867
Corporate bonds, investment grade	5,826	639	6,465
Corporate bonds, non-investment grade	1,878	428	2,306
Mortgage-backed securities	1,360	170	1,530
	$24,425	$1,585	$26,010

U.S. government obligations are rated AA+ or Aaa by the major rating agencies and approximately 87% 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")

Burlington Northern Santa Fe Corporation ("BNSF") operates one of the largest railroad systems in North America with approximately 32,500 route miles of track in 28 states and also operates in three Canadian provinces. BNSF's major business groups are classified by type of product shipped and include consumer products, coal, industrial products and agricultural products. Earnings of BNSF are summarized below (in millions).

	2014	2013	2012
Revenues	$23,239	$22,014	$20,835
Operating expenses:			
Compensation and benefits	5,023	4,651	4,505
Fuel	4,478	4,503	4,459
Purchased services	2,592	2,418	2,374
Depreciation and amortization	2,123	1,973	1,889
Equipment rents, materials and other	2,021	1,812	1,608
Total operating expenses	16,237	15,357	14,835
Interest expense	833	729	623
	17,070	16,086	15,458
Pre-tax earnings	6,169	5,928	5,377
Income taxes	2,300	2,135	2,005
Net earnings	$ 3,869	$ 3,793	$ 3,372

Consolidated revenues in 2014 were approximately $23.2 billion, representing an increase of $1.2 billion (5.6%) over 2013. The overall year-to-date increase in revenues reflected a 1.8% increase in cars/units handled and a 3.5% increase in average revenue per car/unit. In 2014, our combined volume was approximately 10.3 million cars/units.

Our rail operations were negatively affected by severe winter weather conditions during the first quarter of 2014, particularly in the Northern U.S. service territory as well as from various other service issues throughout 2014. These issues resulted in slower average speeds on our system and negatively impacted volumes and revenues of each of our business groups. We experienced improvement in operating performance and freight volumes over the fourth quarter of 2014. Nevertheless, our service levels at the end of 2014 were well below our internal standards, as well as those expected by our customers. We continue to work diligently to address service issues without compromising safety. We added capacity in 2014 through capital investments for line expansion, system improvement projects, additional equipment and new employee hires. We plan to continue these initiatives in 2015 in order to meet customer demand and improve and maintain service levels.

Revenues from consumer products in 2014 were $7.0 billion, and were relatively unchanged from 2013. In 2014, unit volume and average revenues per car were relatively flat versus 2013. In 2014, our international intermodal business volume was negatively affected by congestion at U.S. West Coast ports. Should these conditions persist, our volumes in 2015 may suffer. In 2014, revenues from industrial products increased $508 million (9%) to $6.2 billion. The increase was primarily due to increases in overall unit volume, and to a lesser extent, changes in rates and product mix. Revenues from agricultural products in 2014 increased $584 million (16%) to approximately $4.2 billion. The increase was primarily attributable to increased volume, rates and product mix changes. Also, agricultural products volume in 2013 was negatively affected by the drought conditions in 2012. In 2014, coal revenues of $5.0 billion were essentially unchanged from 2013, as a 2% increase in year-to-date unit volume was offset by a 2% decline in average rates.

Operating expenses in 2014 were $16.2 billion, representing an increase of $880 million (6%) over 2013. Compensation and benefits expenses increased $372 million (8%) in 2014 as compared with 2013, primarily due to increased employment levels, and to a lesser extent, wage inflation and higher overtime. Fuel expenses were relatively unchanged compared to 2013. The favorable impact from lower average fuel prices was largely offset by higher volumes. Depreciation and amortization expense increased $150 million (8%) as a result of additional assets in service. Equipment rents, materials and other expenses increased $209 million (12%) compared to 2013 as a result of higher crew transportation and other travel costs, and increased costs of utilities.

Consolidated revenues in 2013 were approximately $22.0 billion, an increase of $1.2 billion (5.7%) over 2012. The overall increase in revenues reflected a 4.5% increase in cars/units handled and a slight increase in average revenue per car/unit, attributable to rates. In 2013, BNSF generated higher revenues from industrial products, consumer products and coal, partially offset by lower revenues from agricultural products.

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

In 2013, industrial products revenues of $5.7 billion increased 14% versus 2012, driven by an 11% increase in volume, reflecting significantly higher petroleum products volumes. Consumer products revenues were $7.0 billion, an increase of 6% over 2012 that was primarily attributable to volume increases from domestic intermodal business and higher export demand. Coal revenues were $5.0 billion, an increase of 2.6% over 2012, which was attributable to increased volume. The volume increase reflected increased coal demand as a result of higher natural gas prices and reduced utility stockpiles, partially offset by severe weather issues impacting service levels. Agricultural products revenues of $3.6 billion declined 4% versus 2012 due to volume declines, which were mainly attributable to lower grain exports as a result of the drought conditions in the U.S. in 2012 and strong global competition.

Operating expenses in 2013 were approximately $15.4 billion, an increase of $522 million (3.5%) compared to 2012. Compensation and benefits expenses increased $146 million (3.2%) as compared to 2012, reflecting volume-related cost increases and wage inflation. Fuel expenses increased $44 million (1%) versus 2012, as the impact of higher volume was partially offset by lower average fuel prices. Purchased services expenses increased 2% versus 2012, due primarily to volume-related costs, including purchased transportation for BNSF Logistics LLC, a wholly-owned, third-party logistics business. Equipment rents, materials and other expenses increased $204 million (13%) over 2012. The increase was primarily due to higher property taxes, crew travel costs, derailment-related costs and locomotive material expenses.

Interest expense in 2014 was $833 million, an increase of $104 million (14%) compared to 2013. Interest expense in 2013 increased $106 million (17%) versus 2012. BNSF funds its capital expenditures with cash flow from operations and new debt issuances. In each period, the increased interest expense resulted from higher average outstanding debt.

Utilities and Energy ("Berkshire Hathaway Energy Company")

We hold an 89.9% ownership interest in Berkshire Hathaway Energy Company ("BHE"), which operates an international energy business. BHE's domestic regulated utility interests are currently comprised of PacifiCorp, MidAmerican Energy Company ("MEC"), and NV Energy, which was acquired in December 2013. In Great Britain, BHE subsidiaries operate two regulated electricity distribution businesses referred to as Northern Powergrid. BHE also owns two domestic regulated interstate natural gas pipeline companies. BHE acquired AltaLink, L.P. ("AltaLink") on December 1, 2014. AltaLink operates a regulated electricity transmission-only business in Alberta, Canada. AltaLink's revenues and earnings for the month of December 2014 are included in other energy businesses. In addition, BHE also operates a diversified portfolio of independent power projects and the second-largest residential real estate brokerage firm and franchise network in the United States.

The rates that our regulated businesses charge customers for energy and services are based in large part on the costs of business operations, including a return on capital, and are subject to regulatory approval. To the extent these operations are not allowed to include such costs in the approved rates, operating results will be adversely affected. Revenues and earnings of BHE are summarized below. Amounts are in millions.

	Revenues			Earnings		
	2014	2013	2012	2014	2013	2012
PacifiCorp	$ 5,315	$ 5,215	$ 4,950	$1,010	$ 982	$ 737
MidAmerican Energy Company	3,818	3,453	3,275	298	230	236
NV Energy	3,279	—	—	549	—	—
Northern Powergrid	1,284	1,026	1,036	527	362	429
Natural gas pipelines	1,093	971	978	379	385	383
Other energy businesses	664	256	175	236	4	91
Real estate brokerage	2,161	1,822	1,333	139	139	82
	$17,614	$12,743	$11,747			
Earnings before corporate interest and income taxes ("EBIT")				3,138	2,102	1,958
Corporate interest				427	296	314
Income taxes and noncontrolling interests				829	336	321
Net earnings attributable to Berkshire Hathaway shareholders				$1,882	$1,470	$1,323

Utilities and Energy ("Berkshire Hathaway Energy Company") *(Continued)*

PacifiCorp

PacifiCorp operates a regulated utility business in portions of several Western states, including Utah, Oregon and Wyoming. Revenues in 2014 were $5.3 billion, an increase of $100 million (2%) compared to revenues in 2013. In 2014, revenues increased primarily due to higher rates, partially offset by lower retail customer load. PacifiCorp's EBIT were $1.0 billion, an increase of $28 million (3%) over 2013. The increase in EBIT reflected the impact of the increase in operating revenues and the recognition of estimated insurance recoveries from a fire loss as compared to a reduction in 2013 EBIT from charges related to the fire, partially offset by increased energy costs and higher depreciation expense. The increase in depreciation expense reflected the impact of changes in depreciation rates and higher plant in service, including a new generation facility.

Revenues in 2013 were $5.2 billion, an increase of $265 million (5%) compared to 2012. The increase was primarily due to higher retail revenues of $337 million, partially offset by lower renewable energy credits of $74 million. The increase in retail revenues reflected higher prices approved by regulators and higher retail customer loads. EBIT in 2013 were $982 million, an increase of $245 million (33%) compared to 2012. The comparative increase in EBIT was primarily due to charges of $165 million in 2012 related to litigation, fire and other damage claims, and, to a lesser extent, the increase in revenues. Before the impact of the aforementioned claims, EBIT in 2013 as a percentage of revenues were relatively unchanged from 2012.

MEC

MEC operates a regulated utility business primarily in Iowa and Illinois. Revenues in 2014 increased $365 million (11%) to $3.8 billion. In 2014, revenues from regulated natural gas increased $172 million compared to 2013. The increase in regulated natural gas revenues was driven by higher per-unit natural gas costs, which are recovered from customers via adjustment clauses, and higher volumes attributable to colder weather in the first quarter of 2014. Regulated electric revenues increased $55 million compared to 2013 and was primarily due to increased retail rates. Nonregulated revenues increased $122 million compared to 2013 due to higher natural gas and electricity prices and higher electricity volumes, partly offset by lower natural gas volumes. EBIT were $298 million in 2014, an increase of $68 million (30%) compared to 2013. The comparative increase in EBIT was primarily due to increased earnings from the regulated electric business, reflecting the impact of higher revenues and lower depreciation and amortization expense due to the impact of depreciation rate changes, partially offset by increased energy and operating costs.

Revenues in 2013 increased $178 million (5%) over 2012. The increase in revenues reflected higher regulated electric and natural gas revenues and lower nonregulated and other revenues. Regulated retail electric revenues increased $82 million, while regulated natural gas revenues increased $165 million compared to 2012. The increase in regulated electric revenues was primarily due to higher regulatory rates in Iowa and Illinois and increases in retail customer load. The increase in regulated natural gas revenues was primarily due to higher retail volumes and increases in recoveries through adjustment clauses as a result of a higher average per-unit cost of gas sold. Nonregulated and other operating revenues declined $67 million compared to 2012 primarily due to lower electricity volumes and prices. EBIT declined $6 million in 2013 compared to 2012, reflecting lower regulated and nonregulated electric operating earnings, partially offset by higher natural gas earnings.

NV Energy

BHE acquired NV Energy on December 19, 2013, and its results are included in our consolidated results beginning as of that date. In 2014, revenues and EBIT were $3.3 billion and $549 million, respectively. In 2013, NV Energy's results for the December 19 through 31, 2013 period were included in other energy businesses and reflected one-time customer refunds, acquisition costs and other charges arising from the acquisition. NV Energy's revenues and EBIT are normally higher in the second and third quarters due to higher electricity consumption in its service territories.

Northern Powergrid

Northern Powergrid's revenues of $1.3 billion in 2014 increased $258 million (25%) as compared to 2013. EBIT were $527 million in 2014, an increase of $165 million (46%) compared to 2013. The increases in revenues and EBIT were due mainly to increased distribution revenues from increased rates and favorable regulatory provisions and the favorable impact of foreign currency translation.

In 2013, revenues declined $10 million (1%) compared to 2012. EBIT in 2013 was $362 million, a decline of $67 million versus 2012. EBIT were negatively impacted by fourth quarter rebates to customers and higher regulatory rate provisions, which reduced revenues, and from higher distribution operating expenses and the unfavorable effect of foreign currency translation in 2013. Operating expenses in 2013 included comparatively higher pension costs and higher depreciation expenses. EBIT in 2013 also included a $9 million loss from the write-off of hydrocarbon well exploration costs.

Utilities and Energy ("Berkshire Hathaway Energy Company") *(Continued)*

Natural Gas Pipelines

Natural gas pipeline revenues increased $122 million (13%) in 2014 compared to 2013. The increase reflected comparatively higher revenues from increased natural gas rates and volumes as a result of significantly colder weather conditions in the first quarter of 2014 in Northern Natural Gas Company's service territory and system rebalancing activities over the first half of 2014. EBIT in 2014 of $379 million were relatively unchanged from 2013. Revenues and EBIT in 2013 were $971 million and $385 million, respectively, and were relatively unchanged from 2012.

Other energy businesses

Revenues and EBIT in 2014 from other energy businesses increased $408 million and $232 million, respectively, over revenues and EBIT in 2013. The increases were primarily attributable to increased revenues from new solar facilities as additional assets were placed in service and from the inclusion of revenues and EBIT of AltaLink for the month of December. The increase in revenues from other activities in 2013 was $81 million, which was primarily attributable to revenues from the new solar and wind-powered facilities, partially offset by the impact of one-time customer refunds issued by NV Energy and impairment losses associated with BHE's interests in certain geothermal electricity generation projects. EBIT from other activities declined $87 million in 2013 compared to 2012, as the impacts of the aforementioned losses associated with geothermal projects and NV Energy acquisition costs and customer refunds, more than offset the increase in earnings from the new solar and wind-powered electricity generation projects.

Real estate brokerage

Revenues of the real estate brokerage businesses increased $339 million (19%) in 2014 as compared to 2013. The increase reflected the impact of revenues from acquired businesses, partially offset by lower revenues from existing operations, due to a 6% decline in closed units and lower franchise revenues. EBIT of $139 million in 2014 were unchanged from 2013 as the increases in EBIT from acquired businesses were offset by lower EBIT from existing businesses and higher operating expenses related to "Berkshire Hathaway HomeServices" rebranding activities.

Real estate brokerage revenues in 2013 increased $489 million (37%) over 2012, while EBIT increased $57 million (70%) versus 2012. The increases in revenues and EBIT were attributable to increases in closed brokerage transactions and higher average home sales prices from existing business and the impact of businesses acquired during the previous two years.

Corporate interest and income taxes

Corporate interest includes interest on unsecured debt issued by BHE and borrowings from certain Berkshire insurance subsidiaries. In 2014, corporate interest expense increased due to new borrowings in connection with the NV Energy and AltaLink acquisitions. BHE's consolidated effective income tax rates were 23% in 2014, 7% in 2013 and 9% in 2012. In each year, BHE's income tax rates reflect significant production tax credits from wind-powered electricity generation in the United States. In addition, pre-tax earnings of Northern Powergrid are taxed at a lower statutory tax rate in the United Kingdom compared to the statutory tax rate in the United States. BHE's effective rate was reduced in 2013 due to a reduction of deferred income tax liabilities as a result of enacted statutory income tax rate decreases in the United Kingdom.

Manufacturing, Service and Retailing

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

	Revenues			Earnings		
	2014	2013	2012	2014	2013	2012
McLane Company	$46,640	$45,930	$37,437	$ 435	$ 486	$ 403
Manufacturing	36,773	34,258	32,105	4,811	4,205	3,911
Service	9,854	8,996	8,175	1,202	1,093	966
Retailing	4,422	4,288	3,715	344	376	306
	$97,689	$93,472	$81,432			
Pre-tax earnings				6,792	6,160	5,586
Income taxes and noncontrolling interests				2,324	2,283	2,229
				$4,468	$3,877	$3,357

Manufacturing, Service and Retailing *(Continued)*

McLane Company

McLane operates a wholesale distribution business that provides grocery and non-food products to retailers, convenience stores and restaurants. In 2012, McLane acquired Meadowbrook Meat Company, Inc. ("MBM"), a large foodservice distributor for national restaurant chains. Through its subsidiaries, McLane also operates as a wholesale distributor of distilled spirits, wine and beer. McLane's grocery and foodservice businesses are marked by high sales volume and very low profit margins and have several significant customers, including Wal-Mart, 7-Eleven and Yum! Brands. A curtailment of purchasing by any of its significant customers could have a significant adverse impact on McLane's periodic revenues and earnings.

Revenues in 2014 of $46.6 billion increased $710 million (1.5%) compared to 2013. The overall revenue increase reflected increased foodservice and beverage revenues, while grocery revenues were relatively flat. Pre-tax earnings in 2014 declined $51 million (10.5%) from 2013. Earnings in 2013 included a pre-tax gain of $24 million from the sale of a logistics business. Before the impact of this gain, McLane's earnings in 2014 decreased 6% compared to 2013. The decline reflected higher earnings from the grocery and beverage businesses which was more than offset by lower earnings from the foodservice business. In 2014, our foodservice operations experienced higher per unit processing costs and higher other operating costs which more than offset the increase in revenues.

McLane's revenues in 2013 were approximately $45.9 billion, representing an increase of approximately $8.5 billion (23%) over revenues in 2012. The increase in revenues reflected the impact of the MBM acquisition, as well as year-to-date revenue increases ranging from 10% to 15% in the grocery, other foodservice and beverage businesses. Revenues of each of these businesses in 2013 included the impact of new customers added in 2012 and 2013. McLane's pre-tax earnings in 2013 increased $83 million (21%) over earnings in 2012. The increase in 2013 pre-tax earnings reflected the increases in revenues, including the impact of the MBM acquisition, and a gain from the sale of a logistics business, partially offset by slightly lower operating margins.

Manufacturing

This group includes a variety of businesses that manufacture industrial and end-user products and include: The Lubrizol Corporation ("Lubrizol"), a specialty chemical manufacturer; IMC International Metalworking Companies ("IMC"), an industry leader in the metal cutting tools business with operations worldwide; Forest River, a leading manufacturer of leisure vehicles; and CTB, a manufacturer of equipment and systems for the livestock and agricultural industries. Also included are the diversified manufacturing operations of Marmon, which in prior years were presented separately with its transportation equipment manufacturing and leasing operations. In this report, Marmon's transportation equipment manufacturing and leasing businesses are included in our finance and financial products group. Our manufacturing businesses also include several building products businesses (Acme Building Brands, Benjamin Moore, Johns Manville, Shaw and MiTek) and six apparel businesses (led by Fruit of the Loom which includes Russell athletic apparel and Vanity Fair Brands women's intimate apparel).

	Revenues			Pre-tax earnings		
	2014	2013	2012	2014	2013	2012
Industrial and end-user products	$22,314	$20,325	$19,003	$3,460	$3,044	$2,912
Building products	10,124	9,640	8,953	896	846	748
Apparel	4,335	4,293	4,149	455	315	251
	$36,773	$34,258	$32,105	$4,811	$4,205	$3,911

Aggregate revenues of our manufacturers in 2014 increased $2.5 billion (7%) to $36.8 billion. Pre-tax earnings of this group of businesses were $4.8 billion in 2014, an increase of $606 million (14%) versus 2013.

Revenues in 2014 from our industrial and end-user products manufacturers increased $2.0 billion (10%) to $22.3 billion. Pre-tax earnings from these businesses in 2014 increased $416 million (14%) to $3.5 billion. Lubrizol's revenues in 2014 increased $546 million (9%) to $6.9 billion, while pre-tax earnings increased 10% compared to 2013. The increases were primarily due to the impact of bolt-on acquisitions. Forest River's revenues in 2014 increased 14% to $3.8 billion due to increased unit sales. Forest River's pre-tax earnings in 2014 increased 21% over 2013 due primarily to the aforementioned increase in unit sales and relatively lower manufacturing costs. In 2014, IMC's pre-tax earnings increased 18% over 2013 which reflected the impact of a 6% year-to-date increase in sales, as well as increased gross margin rates and lower operating expense rates.

Marmon's manufacturing revenues were $5.95 billion in 2014, an increase of $791 million (15%) compared to 2013. The revenue increase in 2014 was primarily attributable to the beverage dispensing and merchandising businesses acquired at the beginning of 2014. Excluding this acquisition's impact, revenues were relatively unchanged from 2013. In 2014, Marmon experienced volume-driven revenue growth in several business markets, including: commercial trailer and aftermarket brake drums; residential water treatment systems in China and the United States; specialty metal pipe, tubing and steel beam; specialty and utility cable products; and automotive, safety and construction fastener markets. These increases were substantially offset by revenue declines from lower copper prices and lower volumes in the electrical and plumbing products businesses and the strategic decision to exit the low margin building wire and copper tubing businesses. Marmon's manufacturing pre-tax earnings were $708 million in 2014, an increase of $111 million (19%) over earnings in 2013. The earnings increase primarily reflected the favorable impact of the acquisition of IMI plc beverage dispensing and merchandising businesses, the impact of the revenue growth discussed previously and cost savings associated with restructuring actions taken in the retail store equipment and electrical and plumbing products businesses.

Revenues in 2014 from our building products businesses were approximately $10.1 billion, an increase of 5% over 2013. In 2014, Johns Manville, Acme and MiTek produced revenue increases, which were primarily due to higher sales volume, as well as from the impact of recent MiTek bolt-on acquisitions. Revenues in 2014 from Shaw were relatively unchanged from 2013, reflecting the impact of the closure of its rugs division in early 2014 and lower carpet sales, offset by higher sales of hard flooring products. Pre-tax earnings in 2014 of the building products businesses increased 6% compared to 2013. Each of our building products businesses generated increased earnings in 2014 over 2013, with the exception of Shaw, whose earnings declined due to comparatively higher raw material costs.

Apparel revenues in 2014 were $4.3 billion, a slight increase (1%) compared to 2013. Pre-tax earnings increased $140 million (44%) over 2013. In 2014, our apparel businesses benefitted from restructuring initiatives undertaken in 2013 and 2014, which included discontinuing unprofitable business, as well as from comparatively lower manufacturing and pension costs.

Aggregate revenues of our manufacturers in 2013 were $34.3 billion, an increase of $2.15 billion (7%) versus 2012. Pre-tax earnings of this group of businesses were $4.2 billion in 2013, an increase of $294 million (8%) versus 2012. Revenues in 2013 from our industrial and end-user products manufacturers increased $1.3 billion (7%) to $20.3 billion, while pre-tax earnings increased $132 million (5%) to $3.0 billion. The increases in revenues and pre-tax earnings were primarily attributable to bolt-on acquisitions and increased revenues and earnings of Forest River.

Lubrizol's revenues in 2013 increased $267 million over 2012 to $6.4 billion, while revenues of IMC increased 10%. However, Lubrizol's and IMC's pre-tax earnings in 2013 were relatively unchanged from 2012. Forest River revenues in 2013 were $3.3 billion, an increase of 24% over 2012, which was due to a 17% increase in volume and higher average sales prices, attributable to price and product mix changes. The increase in revenues drove Forest River's 32% increase in pre-tax earnings in 2013.

Marmon's manufacturing revenues in 2013 were $5.2 billion, a decrease of 3.5% compared to 2012. The revenue decline in 2013 was primarily due to the impact of lower steel and copper costs in the electrical and plumbing products businesses, volume reductions in the specialty metal pipe, tubing and steel beam businesses, several non-recurring large prior year projects in the specialty wire and cable business, and revenue reductions from exiting low margin building wire and copper tubing businesses. These reductions more than offset the revenue gains contributed by the automotive clutch and heavy duty truck axle, store fixture display products and the residential water treatment businesses. Marmon's manufacturing pre-tax earnings in 2013 were $597 million, and were relatively unchanged from 2012. Pre-tax earnings benefitted from cost savings associated with restructuring actions taken in both the retail store equipment and electrical and plumbing products businesses.

Revenues in 2013 from our building products businesses increased 8% to about $9.6 billion. Pre-tax earnings of these businesses were $846 million, an increase of $98 million (13%) over 2012. These businesses benefitted from the generally improved residential and commercial construction markets. Apparel revenues in 2013 increased 3.5% to about $4.3 billion and pre-tax earnings increased $64 million (25%) to $315 million. Each of our apparel operations contributed to the higher earnings in 2013.

Manufacturing, Service and Retailing *(Continued)*

Service

Our 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 6,500 stores that offer prepared dairy treats and food; Buffalo News and the BH Media Group ("BH Media"), which includes the Omaha World-Herald, as well as 28 other daily newspapers and numerous other publications; and WPLG (acquired June 30, 2014), which operates a television station in Miami, Florida.

Revenues of our service businesses in 2014 were approximately $9.85 billion, representing an increase of $858 million (9.5%) over 2013. The increase in revenues was primarily attributable to comparative increases generated by NetJets, TTI, and FlightSafety. The revenue increase at NetJets reflected increased flight services revenues, which was attributable to increased flight hours as well as increased fractional aircraft sales. TTI's revenue increase was driven by higher unit volume and, to a lesser extent, by bolt-on acquisitions. FlightSafety's revenue increase was primarily due to increased simulator training hours. Pre-tax earnings of our service businesses in 2014 aggregated $1.2 billion, an increase of $109 million (10%) versus 2013. The increase in year-to-date earnings was primarily attributable to NetJets and TTI and was primarily due to the aforementioned increases in revenues. In addition, NetJets' earnings increase was also due to comparatively lower aircraft impairment and restructuring charges and financing expenses, which were partially offset by higher depreciation expense, maintenance costs and subcontracted flight expenses.

Revenues of our service businesses in 2013 were $9.0 billion, an increase of $821 million (10%) over revenues in 2012. In 2013, revenues of NetJets increased $288 million (7.5%), driven by higher sales of fractional aircraft shares, while TTI's revenues increased $255 million (11%) over 2012. Revenues of BH Media increased $207 million (66%), attributable to the impact of business acquisitions. Pre-tax earnings of $1.1 billion in 2013 increased $127 million (13%) compared to 2012. The increase in earnings was primarily attributable to BH Media, FlightSafety, TTI and NetJets. The earnings increase of BH Media was due to bolt-on acquisitions. TTI's earnings increased 10% due to higher sales and changes in product mix. FlightSafety's earnings increased 11%, reflecting increased training revenues and relatively unchanged operating expenses. NetJets' earnings increased 7% as improved flight operations margins, fractional sales margins and reduced net financing costs more than offset an increase in aircraft impairment charges.

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.

Revenues in 2014 increased $134 million (3%), while pre-tax earnings declined $32 million (8.5%) compared to 2013. The earnings declines in 2014 were primarily attributable to lower earnings from Nebraska Furniture Mart and Pampered Chef. The earnings decline at Nebraska Furniture Mart was driven by costs incurred related to the build-out of a new store and warehouse facility (approximately 1.8 million square feet) in The Colony, Texas, a suburb of Dallas. The new store will open in 2015 and we anticipate it will generate meaningful revenues and earnings in the future. The decline in earnings of Pampered Chef resulted from lower sales.

Revenues of our retailing businesses in 2013 were $4.3 billion, an increase of $573 million (15%) over 2012. Pre-tax earnings of these businesses increased $70 million (23%) as compared to earnings in 2012. The comparative increases in revenues and earnings were primarily attributable to the inclusion of OTC for the full year in 2013. Otherwise, earnings of the home furnishings and jewelry retail groups increased while earnings of Pampered Chef and See's Candies declined.

Finance and Financial Products

Our finance and financial products businesses include manufactured housing and finance (Clayton Homes), transportation equipment manufacturing and leasing businesses (UTLX and XTRA, and together, "transportation equipment leasing"), as well as other leasing and financing activities. UTLX manufactures, owns and leases railcars and intermodal tank cars, and also owns and leases cranes, while XTRA owns and leases over-the-road trailers. A summary of revenues and earnings from our finance and financial products businesses follows. Amounts are in millions.

	Revenues			Earnings		
	2014	2013	2012	2014	2013	2012
Manufactured housing and finance	$3,310	$3,199	$3,014	$ 558	$ 416	$ 255
Transportation equipment leasing	2,427	2,180	2,168	827	704	651
Other	789	731	751	454	444	487
	$6,526	$6,110	$5,933			
Pre-tax earnings				1,839	1,564	1,393
Income taxes and noncontrolling interests				596	556	494
				$1,243	$1,008	$ 899

Clayton Homes' revenues and pre-tax earnings in 2014 increased $111 million (3%) and $142 million (34%), respectively, compared to revenues and earnings in 2013. The increase in revenues was principally due to a 7% increase in homes sold, as interest and financial services revenues were relatively unchanged from 2013. Earnings continued to benefit from lower loan loss provisions on installment loan portfolios, lower interest expense on borrowings and improved manufacturing results. The declines in loan loss provisions reflected fewer delinquencies and foreclosures, while the declines in interest expense were primarily due to lower rates. Traditional single family housing markets 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. Despite this competitive disadvantage, 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.

Clayton Homes' revenues and pre-tax earnings in 2013 increased $185 million (6%) and $161 million (63%), respectively, compared to 2012. Pre-tax earnings benefitted from increased home sales, lower loan loss provisions and an increase in net interest income, as lower interest expense more than offset reductions in interest income on loan portfolios. Home unit sales increased 9%. Loan loss provisions declined, reflecting comparatively lower foreclosures volume and loss rates.

Revenues and pre-tax earnings in 2014 from our transportation equipment leasing businesses were $2.4 billion, and $827 million, respectively, which exceeded revenues and pre-tax earnings in 2013 by 11% and 17%, respectively. The earnings increase reflected a 9% increase in aggregate lease revenues, primarily due to increased units on lease and higher lease rates for railcars. A significant portion of the costs of these businesses, such as depreciation, will not vary proportionately to revenue changes and therefore changes in revenues can disproportionately impact earnings.

Pre-tax earnings in 2013 from transportation equipment leasing increased $53 million (8%) to $704 million. The increase in earnings reflected increased lease revenues and earnings of both UTLX and XTRA, which benefitted from increases in working units and average rental rates and relatively stable operating expenses.

Earnings from our other finance activities include CORT's furniture leasing business, interest and dividends from a portfolio of investments and our share of the earnings of a commercial mortgage servicing business in which we own a 50% joint venture interest. In addition, other earnings include income from interest rate spreads charged to Clayton Homes on borrowings by a Berkshire financing subsidiary that are used to fund installment loans of Clayton Homes and guarantee fees charged to NetJets. Corresponding expenses are included in Clayton Homes' and NetJets' results. Interest spreads and guarantee fees charged to Clayton and NetJets were $70 million in 2014, $89 million in 2013 and $120 million in 2012.

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.

	2014	2013	2012
Investment gains/losses	$4,272	$4,293	$1,799
Other-than-temporary impairments	(697)	(228)	(337)
Derivative gains/losses	506	2,608	1,963
Gains/losses before income taxes and noncontrolling interests	4,081	6,673	3,425
Income taxes and noncontrolling interests	760	2,336	1,198
Net gains/losses	$3,321	$4,337	$2,227

Investment gains/losses arise primarily from the sale or redemption of investments or when investments are carried at fair value with the periodic changes in fair values recorded in earnings. The timing of gains or losses from sales or redemptions can have a material effect on periodic earnings. Investment gains and losses included in earnings usually have minimal impact on the periodic changes in our consolidated shareholders' equity since most of our investments are 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 reflected in earnings.

Pre-tax investment gains in 2014 were $4.3 billion, which included gains of approximately $2.1 billion realized in connection with the exchanges of common stock of Phillips 66 and Graham Holdings Company for 100% of the common stock of a specified subsidiary of each of those companies. Each exchange transaction was structured as a tax-free reorganization under the Internal Revenue Code. As a result, no income taxes are payable on the excess of the fair value of the businesses received over the tax-basis cost of the common stock of Phillips 66 and Graham Holdings Company exchanged.

Pre-tax investment gains/losses in 2013 were $4.3 billion and included approximately $2.1 billion related to our investments in General Electric and Goldman Sachs common stock warrants and Wrigley subordinated notes. Beginning in 2013, the unrealized gains or losses associated with the warrants were included in earnings. These warrants were exercised in October 2013 on a cashless basis in exchange for shares of General Electric and Goldman Sachs common stock with an aggregate value of approximately $2.4 billion. The Wrigley subordinated notes were repurchased for cash of $5.08 billion, resulting in a pre-tax investment gain of $680 million. Pre-tax investment gains were approximately $1.5 billion in 2012 and were primarily attributable to sales of equity securities.

Other-than-temporary impairment ("OTTI") charges in 2014 were $697 million and predominantly related to our investments in equity securities of Tesco PLC. OTTI charges in 2013 and 2012 predominantly related to our investments in Texas Competitive Electric Holdings bonds. Although we have periodically recorded OTTI charges in earnings in past years, we continue to hold some of those securities. If the market values of those investments increase following the date OTTI charges are recorded in earnings, the increases are not reflected in earnings but are instead included in shareholders' equity as a component of accumulated other comprehensive income. When recorded, OTTI charges 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 planned and sales ultimately may not occur for a number of years. Furthermore, the recognition of OTTI charges 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, 2014 and 2013, consolidated gross unrealized losses on our investments in equity and fixed maturity securities determined on an individual purchase lot basis were approximately $1.2 billion and $289 million, respectively. We have concluded that as of December 31, 2014, these unrealized losses were not other than temporary. 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.

Investment and Derivative Gains/Losses *(Continued)*

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.

In 2014, derivative contracts produced pre-tax gains of $506 million. The change in the fair value of our credit default contract during 2014 produced a pre-tax gain of $397 million, and was attributable to lower credit spreads. There were no credit loss payments in 2014. Equity index put option contracts produced pre-tax gains of $108 million in 2014. Such gains reflected the favorable impact of foreign currency exchange rate changes and generally higher index values, partially offset by the negative impact of lower interest rate assumptions. As of December 31, 2014, the intrinsic value of these contracts was approximately $1.4 billion and our recorded liability at fair value was approximately $4.6 billion. 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, and will be based on the intrinsic value as defined under the contracts as of those dates.

In 2013, derivative contracts generated a pre-tax gain of $2.6 billion, including $2.8 billion gain from equity index put option contracts and pre-tax losses of $213 million from credit default contracts. The gain from equity index put option contracts was due to changes in fair values of the contracts as a result of overall higher equity index values, favorable currency movements and modestly higher interest rate assumptions. The credit default contract loss was primarily attributable to an increase in estimated liabilities of our remaining municipality issuer contract, reflecting wider credit spreads. There were no credit loss payments in 2013.

In 2012, our derivative contracts produced pre-tax gains of approximately $2.0 billion, and included pre-tax gains from equity index put option contracts of approximately $1.0 billion and gains from credit default contracts of approximately $900 million. The gains related to 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 will be determined differently than the standard determination of intrinsic value, partially offset by lower interest rate assumptions. The gains on credit default contracts were attributable to narrower spreads and reduced time exposure, as well as from settlements related to the termination of certain contracts. In 2012, credit loss payments were $68 million.

Other

Corporate income and expenses not allocated to operating businesses produced after-tax losses of $145 million in 2014, $712 million in 2013 and $797 million in 2012. Our investments in Heinz generated after-tax earnings of $652 million in 2014 and $95 million in 2013. Also included in other earnings are amortization of fair value adjustments made in connection with several prior business acquisitions (primarily related to the amortization of identifiable intangible assets) and corporate interest expense. These two charges (after-tax) aggregated $682 million in 2014, $514 million in 2013 and $630 million in 2012.

Financial Condition

Our balance sheet continues to reflect significant liquidity and a strong capital base. Our consolidated shareholders' equity at December 31, 2014 was $240.2 billion, an increase of $18.3 billion since December 31, 2013.

As of December 31, 2014, cash and investments of our insurance and other businesses approximated $217.2 billion (excludes our investments in H.J. Heinz Holding Corporation). In December 2014, an insurance subsidiary acquired common and preferred stock of Restaurant Brands International, Inc. for $3.0 billion in the aggregate. At December 31, 2014, cash and cash equivalents of insurance and other businesses were $58.0 billion, an increase of $15.5 billion since December 31, 2013.

Berkshire Hathaway parent company borrowings include $8.0 billion of senior unsecured notes, of which $1.7 billion matured in February 2015. We currently expect to issue new senior notes in 2015 to replace some or all of this maturity. In 2014, Berkshire issued $750 million of parent company senior notes maturing in 2019 and repaid $750 million of notes in August. During the first quarter of 2014, Berkshire paid approximately $1.2 billion as final payment in connection with our acquisition of substantially all outstanding shares held by Marmon non-controlling shareholders at December 31, 2013.

Berkshire's Board of Directors has authorized Berkshire to repurchase its Class A and Class B common shares at prices no higher than a 20% premium over the book value of the shares. 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 common shares. Repurchases will not be made if they would reduce Berkshire's consolidated cash and cash equivalent holdings below $20 billion. Financial strength and redundant liquidity will always be of paramount importance at Berkshire. There were no share repurchases under the program during 2014.

Financial Condition *(Continued)*

On December 1, 2014, BHE completed its acquisition of AltaLink, a regulated electric transmission-only company serving customers in Alberta, Canada. BHE purchased AltaLink for cash of approximately C$3.1 (approximately $2.7 billion). The acquisition was funded through loans from Berkshire's insurance subsidiaries and the issuance of $1.5 billion of senior unsecured notes due in 2020, 2025 and 2045.

Our railroad, utilities and energy businesses (conducted by BNSF and BHE) maintain very large investments in capital assets (property, plant and equipment) and will regularly make significant capital expenditures in the normal course of business. In 2014, aggregate capital expenditures of these businesses were approximately $11.8 billion, including $6.6 billion by BHE and $5.2 billion by BNSF. BNSF and BHE forecast aggregate capital expenditures of approximately $12.3 billion in 2015. Future capital expenditures are expected to be funded from cash flows from operations and debt issuances.

In 2014, BNSF issued $3.0 billion of senior unsecured debentures with maturities in 2024 and 2044. BNSF's outstanding debt was $19.3 billion as of December 31, 2014. Outstanding borrowings of BHE and its subsidiaries were approximately $36.3 billion as of December 31, 2014, which excludes borrowings from Berkshire insurance subsidiaries. BNSF and BHE have aggregate debt and capital lease maturities in 2015 of about $3 billion. Berkshire's commitment to provide additional capital to BHE to permit the repayment of its debt obligations or to fund its regulated utility subsidiaries expired in 2014. Berkshire does not guarantee the repayment of debt issued by BNSF, BHE or any of their subsidiaries and is not committed to provide capital to support BHE or BNSF or any of their subsidiaries.

Finance and financial products assets were approximately $33.5 billion as of December 31, 2014 and $33.2 billion as of December 31, 2013. Assets of these businesses consisted primarily of loans and finance receivables, cash and cash equivalents, a portfolio of fixed maturity and equity investments, as well as a sizable portfolio of various types of equipment and furniture held for lease. The carrying values of assets held for lease were approximately $7.3 billion at December 31, 2014 and $7.0 billion at December 31, 2013.

Finance and financial products liabilities were $18.9 billion as of December 31, 2014 and $19.8 billion as of December 31, 2013, which included notes payable and other borrowings of $12.7 billion and $13.1 billion, respectively. As of December 31, 2014, notes payable included $11.2 billion of notes issued by Berkshire Hathaway Finance Corporation ("BHFC"). In 2014, BHFC issued $1.15 billion of senior unsecured notes to replace maturing notes. The new senior notes mature in 2017 and 2018. An additional $1.0 billion of BHFC debt matured in January 2015 and at that time BHFC issued $1.0 billion of new senior notes that mature in 2017 and 2018. The proceeds from the BHFC notes are used to fund originated loans and acquired loans of Clayton Homes.

As described in Note 12 to the accompanying Consolidated Financial Statements, our finance and financial products businesses are party to equity index put option and credit default contracts. 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. At December 31, 2014, the liabilities recorded for such contracts were approximately $4.8 billion and we had no collateral posting requirements. The full and timely payment of principal and interest on the BHFC notes and payment of amounts due at the expiration of the equity index put option and credit default contracts 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.

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") was signed into law. 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 have been 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 during the next several months. 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 are reflected in our Consolidated Balance Sheets, such as notes payable, which 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, such as minimum rentals under operating leases and certain purchase obligations, and are not currently reflected in the financial statements. 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 in the following table 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 future claim settlement activities or events. In addition, obligations arising under life, annuity and health insurance benefits are contingent on future premiums, allowances, mortality, morbidity, expenses and policy lapse rates, as applicable. These amounts are based on the liability estimates reflected in our Consolidated Balance Sheet as of December 31, 2014. Although certain insurance losses and loss adjustment expenses and life, annuity and health benefits are ceded under reinsurance contracts, receivables recorded in the Consolidated Balance Sheet are not reflected in the table.

A summary of contractual obligations as of December 31, 2014 follows. Amounts are in millions.

	Estimated payments due by period				
	Total	2015	2016-2017	2018-2019	After 2019
Notes payable and other borrowings [(1)]	$128,267	$10,775	$16,157	$16,772	$ 84,563
Operating leases	8,642	1,279	2,160	1,598	3,605
Purchase obligations	43,985	14,592	9,091	6,635	13,667
Losses and loss adjustment expenses [(2)]	73,222	14,883	15,942	9,282	33,115
Life, annuity and health insurance benefits [(3)]	25,336	1,443	235	325	23,333
Other	20,635	5,107	1,280	2,158	12,090
Total	$300,087	$48,079	$44,865	$36,770	$170,373

(1) *Includes interest.*

(2) *Before reserve discounts of $1,745 million.*

(3) *Amounts represent estimated undiscounted benefits, net of estimated future premiums, as applicable.*

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 and judgments necessarily involve varying, and possibly significant, degrees of uncertainty. Accordingly, certain amounts currently recorded in the financial statements will likely be adjusted in the future based on new available information 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. Amounts are in millions.

	Gross unpaid losses		Net unpaid losses *	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
GEICO	$12,207	$11,342	$11,402	$10,644
General Re	14,790	15,668	14,006	14,757
BHRG	35,916	30,446	27,420	25,314
Berkshire Hathaway Primary Group	8,564	7,410	7,761	6,737
Total	$71,477	$64,866	$60,589	$57,452

* *Net of reinsurance recoverable and deferred charges on reinsurance assumed.*

Property and casualty losses *(Continued)*

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. 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. The timing and amount of loss payments are contingent upon, among other things, the timing of claim reporting from insureds and cedants and the final 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 liabilities payable in the future. In establishing liability estimates at our various insurance operations, we utilize processes and techniques that are believed to best suit the underlying claims and available data.

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 liabilities 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 or 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 longer 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 and judicial process 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.

Additional information regarding those processes and techniques of our significant insurance businesses (GEICO, General Re and BHRG) follows.

GEICO

GEICO predominantly writes private passenger auto insurance. GEICO's gross unpaid losses and loss adjustment expense liabilities as of December 31, 2014 were $12.2 billion compared to $11.3 billion as of December 31, 2013. Liabilities at December 31, 2014 included $8.6 billion of reported average, case and case development reserves and $3.6 billion of IBNR reserves.

GEICO's claim reserving methodologies produce liability estimates based upon the individual claims (or a "ground-up" approach), which yield an aggregate estimate of the ultimate losses and loss adjustment expenses. The key assumptions affecting our reserve estimates include projections of ultimate claim counts ("frequency") and average loss per claim ("severity").

Our actuaries establish and evaluate unpaid loss liabilities using standard actuarial loss development methods and techniques. The significant liability components (and percentage of GEICO's gross liabilities as of December 31, 2014) are: (1) average reserves (15%), (2) case and case development reserves (55%) and (3) IBNR reserves (30%). Each of these liability components is affected by the expected frequency and average severity of claims. Liabilities 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 liability component follows.

We establish average reserves 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. Aggregate average reserves are driven by the estimated average severity per claim and the number of new claims opened.

Claims adjusters generally establish individual liability claim case loss reserve estimates once the facts and merits of each claim are evaluated. Case reserves represent the amounts that in the judgment of the adjusters are reasonably expected to be paid to completely settle the claim, including expenses. Individual case reserves are revised over time as more information becomes available.

Property and casualty losses *(Continued)*

GEICO (Continued)

Within the automobile line of business, reserves for liability coverages (such as bodily injury ("BI"), uninsured motorists, and personal injury protection) are more uncertain due to the longer claim-tails, the greater chance of protracted litigation, and the incompleteness of facts available at the time the case reserve is first established. As a result case reserves alone are an insufficient measure of ultimate cost, so we establish additional case development reserve estimates, which are usually percentages of the case reserve. As of December 31, 2014, case development reserves averaged approximately 25% of the established case reserves. In general, case development factors are selected by a retrospective analysis of the overall adequacy of historical case reserves and are reviewed and revised periodically. Approximately 92% of GEICO's reserves as of December 31, 2014 were for automobile liability coverages, of which BI coverage accounted for approximately 55%.

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 to develop age-to-age projections of the ultimate counts by accident quarter. Reported claims are deducted 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 aggregate liabilities for unpaid losses 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 liability estimates recorded at the end of 2013 developed downward by $386 million when reevaluated through December 31, 2014, producing a corresponding increase to pre-tax earnings in 2014. These reserve developments represented approximately 1.9% of earned premiums in 2014 and approximately 3.6% of prior year-end recorded net liabilities. During 2013, estimated liabilities for pre-2013 occurrences developed downward $238 million or 2.4% of net liabilities as of the end of 2012. In both years, the downward development reflected overall lower than expected frequencies and severities. Reserving assumptions at December 31, 2014 were modified as appropriate 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.

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 $185 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 an immaterial component of GEICO's total reserves (approximately 1.2%) and there is minimal apparent asbestos or environmental liability exposure.

General Re and BHRG

Liabilities for unpaid property and casualty losses and loss adjustment expenses of General Re and BHRG derive primarily from reinsurance contracts. Additional uncertainties are unique to the processes used in estimating reinsurance liabilities. The nature, extent, timing and perceived reliability of information received from ceding companies varies widely depending on the type of coverage and the contractual reporting terms. Contract terms, conditions and coverages also tend to lack standardization and may evolve more rapidly than under primary insurance policies.

The nature and extent of loss information provided under many facultative (individual risk), per occurrence excess or retroactive reinsurance contracts may not differ significantly from the information received under a primary insurance contract, if reinsurer personnel either work closely with the ceding company in settling individual claims or manage the claims themselves. However, loss information related to aggregate excess-of-loss contracts, including catastrophe losses and quota-share treaties, is often less detailed. Loss information may be reported in a summary format rather than on an individual claim basis. Loss data is usually provided through periodic reports, which may include currently recoverable losses, as well as case loss 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 in order to establish adequate liability estimates. 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.

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 General Re or BHRG and the primary insured. In these instances, the claim reporting delays are compounded. The relative impact of reporting delays on the reinsurer may vary depending on the type of coverage, contractual reporting terms, and the magnitude of the claim relative to the attachment point of the reinsurance contract and for other reasons.

Periodic premium and claims reports are often required from ceding companies. In the U.S., such reports are generally required at quarterly intervals ranging 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.

Premium and loss data is provided 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, BHRG and General Re 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 an 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, 2014 are summarized below. Amounts are in millions.

Type		Line of business	
Reported case reserves	$ 7,369	Workers' compensation [(1)]	$ 2,720
IBNR reserves	7,421	Mass tort-asbestos/environmental	1,522
Gross unpaid losses and loss adjustment expenses	14,790	Auto liability	3,795
Ceded reinsurance receivables and deferred charges	(784)	Other casualty [(2)]	2,162
Net unpaid losses and loss adjustment expenses	$14,006	Other general liability	2,231
		Property	2,360
		Total	$14,790

(1) *Net of discounts of $1,745 million.*

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

General Re's loss reserve estimation process is based upon a ground-up approach, beginning with case loss 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 liabilities 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 ranges to be unreliable.

Property and casualty losses *(Continued)*

General Re (Continued)

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, 2014, ACRs aggregated approximately $2.0 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.

Our actuaries classify all loss and premium data into segments ("reserve cells") primarily based on product (e.g., treaty, facultative and program), line of business (e.g., auto liability, property, and workers' compensation), and jurisdiction. 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 basis for our IBNR reserve calculations. Globally, we review approximately 1,200 reserve cells.

We use loss triangles to determine the expected case loss emergence and development patterns for most coverages and, in conjunction with expected loss ratios by accident year, we calculate IBNR reserves. In instances where the historical loss data is insufficient, we may use loss emergence estimation formulae along with other loss triangles and actuarial judgment to determine loss emergence patterns. 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 and by accident year based upon indicated ultimate loss ratios and forecasted losses obtained from aggregated pricing statistics. Indicated ultimate loss ratios are determined from the selected loss emergence pattern, reported losses and earned premiums. If through subsequent development the selected loss emergence pattern proves to be inaccurate, then the indicated ultimate loss ratios may be inaccurate, which can then impact the selected loss ratios and the IBNR reserve. Actuarial judgment is necessary in the analysis of indicated ultimate loss ratios and department pricing statistics.

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 estimate the expected case loss emergence for the upcoming calendar year, based on 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.

Our recorded net liabilities as of December 31, 2013 and 2012 were $14.8 billion and $14.9 billion, respectively. During 2014, we reduced net losses for prior years' occurrences by $410 million and in 2013 we reduced net losses for prior years' occurrences by $728 million. These reductions produced corresponding increases in pre-tax earnings in each year.

In 2014, reported claims for prior years' workers' compensation losses were $219 million less than expected. However, further analysis of the workers' compensation reserve cells by segment indicated the need for maintaining IBNR reserves. These developments precipitated an increase of $120 million in nominal IBNR reserve estimates for unreported occurrences and after adjusting for changes in reserve discounts, the net increase in workers' compensation losses from prior years' occurrences had a minimal impact on pre-tax earnings. To illustrate the sensitivity of these assumptions on significant excess-of-loss workers' compensation reserve cells, an increase of ten points in the tail of the expected loss emergence pattern and an increase of ten percent in the expected loss ratios would produce a net increase in our nominal IBNR reserves of approximately $824 million and $471 million on a discounted basis at December 31, 2014. An increase in discounted reserves would produce a corresponding decrease in pre-tax earnings. We believe it is reasonably possible for these assumptions to increase at these rates.

Property and casualty losses *(Continued)*

General Re (Continued)

Other casualty and general liability reported losses (excluding mass tort losses) developed favorably in 2014 relative to expectations. However, casualty losses tend to be long-tail and it should not be assumed that favorable loss experience in a given year will continue in the future. For our significant other casualty and general liability reserve cells, we estimate that an increase of five points in the claim-tails of the expected loss emergence patterns and a five percent increase 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 $1.1 billion. This amount includes changes in assumptions used in certain U.K. motor annuity claims liabilities. We believe it is reasonably possible for these assumptions 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 $1.1 billion.

In 2014, reported claims for prior years' property loss events were less than expected and we reduced our estimated ultimate liabilities by $287 million. 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 loss emergence patterns. For our large D&O and E&O reserve cells, an increase of five points in the tail of the expected loss emergence pattern (for those cells where loss emergence patterns are considered) and an increase of five 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 $77 million. We believe it is reasonably possible for these assumptions 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. 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. Gross unpaid mass tort liabilities at December 31, 2014 and 2013 were approximately $1.5 billion and net of reinsurance were approximately $1.2 billion. Mass tort net claims paid were $71 million in 2014. In 2014, ultimate loss estimates for asbestos and environmental claims were increased by $72 million. In addition to the previously described methodologies, we consider "survival ratios" based on average net claim payments in recent years versus net unpaid losses as a rough guide to reserve adequacy. Our survival ratio was approximately 14.9 years as of December 31, 2014 and 15.6 years as of December 31, 2013. The reinsurance industry's survival ratio for asbestos and pollution liabilities was approximately 14.2 years as of December 31, 2013.

BHRG

BHRG's unpaid losses and loss adjustment expenses as of December 31, 2014 are summarized as follows. Amounts are in millions.

	Property	Casualty	Total
Reported case reserves	$1,909	$ 2,618	$ 4,527
IBNR reserves	2,326	4,737	7,063
Retroactive reinsurance	—	24,326	24,326
Gross unpaid losses and loss adjustment expenses	$4,235	$31,681	35,916
Deferred charges and ceded reinsurance receivables			(8,496)
Net unpaid losses and loss adjustment expenses			$27,420

Property and casualty losses *(Continued)*

BHRG (Continued)

In general, the methodologies we use to establish BHRG's unpaid losses and loss adjustment expense liabilities 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 are employed to consider changes in contract conditions and terms as well as the incidence of litigation or legal and regulatory change.

Gross unpaid losses and loss adjustment expenses related to our retroactive reinsurance policies were approximately $24.3 billion, and were predominately for casualty or liability coverages. Retroactive reinsurance policies relate to loss events occurring before a specified date on or before the contract date and include excess-of-loss contracts, in which losses above a contractual retention are indemnified and contracts that indemnify losses paid by the counterparty immediately after the policy effective date. These contracts may include significant exposures to asbestos, environmental and other latent injury claims. We do not retrocede liabilities assumed under retroactive reinsurance contracts to third party reinsurers.

The classification "reported case reserves" has no practical analytical value with respect to retroactive policies since such amounts are derived from ceding company reports which may employ varying definitions of "case reserves." We review and establish loss reserve estimates in the aggregate by individual contract, considering exposure and development trends.

In establishing retroactive reinsurance liabilities, 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.

BHRG's liabilities under retroactive reinsurance include estimated liabilities for environmental, asbestos and latent injury losses of approximately $12.7 billion at December 31, 2014 and $11.9 billion at December 31, 2013. 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.

We increased ultimate liabilities for prior years' retroactive reinsurance contracts by approximately $825 million in 2014 and $300 million in 2013. In both years, the increases primarily related to asbestos and environmental risks assumed. The increase in 2014, net of deferred charge balances adjustments related to changes in estimated timing and amount of remaining unpaid liabilities, produced charges to pre-tax earnings of approximately $450 million in 2014. In 2013, the impact of the increase on pre-tax earnings was relatively insignificant. Our aggregate net payments of retroactive reinsurance losses and loss adjustment expenses approximated $1.1 billion in 2014 and $1.3 billion in 2013.

We currently believe that maximum losses payable under our retroactive policies will not exceed approximately $40 billion due to the aggregate contract limits that are applicable to most of these contracts. Absent significant judicial or legislative changes affecting asbestos, environmental or latent injury exposures, we also believe it unlikely that our reported year end 2014 gross unpaid losses of $24.3 billion will develop upward to the maximum loss payable or downward by more than 15%.

Gross unpaid losses and loss adjustment expenses arising from BHRG's property and casualty contracts, other than retroactive reinsurance, were approximately $11.6 billion as of December 31, 2014 and consisted of traditional property and casualty coverages written primarily under excess-of-loss and quota-share treaties, and to a lesser extent, under individual risk contracts. These coverages included catastrophe and aviation contracts that periodically generate low frequency/high severity losses. 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. 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.

Property and casualty losses *(Continued)*

BHRG (Continued)

Under most of our non-catastrophe property and casualty treaties, liabilities for unpaid losses and loss adjustments expenses 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 a portfolio basis, supplemented by management's estimates of the impact 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. For BHRG's property/casualty contracts other than retroactive reinsurance, we decreased estimated ultimate losses for prior years' occurrences by approximately $889 million in 2014 and $714 million in 2013. In both years, the decreases primarily derived from lower than expected losses reported by ceding companies. These decreases produced corresponding increases in pre-tax earnings in 2014 and 2013.

Derivative contract liabilities

Our Consolidated Balance Sheets include significant derivative contract liabilities that are measured at fair value. 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. Certain elements of the terms and conditions of these contracts are not standard and we are not required to post collateral under most of these 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 we believe would be used by market participants. Such models or other valuation techniques 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. We believe that the fair values produced for long-duration options are inherently subjective. The values of contracts in an 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.

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, 2014 were 1.5% and 3.3%, respectively, and were 2.5% and 3.6%, respectively, as of December 31, 2013. The interest rates as of December 31, 2014 and 2013 were approximately 53 basis points and 64 basis points (on a weighted average basis), respectively, over benchmark interest rates and represented our estimate of our nonperformance risk. We believe that the most significant economic risks under these contracts relate to changes in the index value component and, to a lesser degree, 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 6 years. The weighted average volatility used as of December 31, 2014 was approximately 20.9%, compared to 20.7% as of December 31, 2013. 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, 2014 ($4.6 billion) from changes in the volatility assumption is summarized in the table that follows. Dollars are in millions.

Hypothetical change in volatility (percentage points)	Hypothetical fair value
Increase 2 percentage points	$4,899
Increase 4 percentage points	5,252
Decrease 2 percentage points	4,237
Decrease 4 percentage points	3,935

For several years, we also have had exposures relating to a number of credit default contracts written involving corporate and state/municipality issuers. At December 31, 2014, our remaining exposures relate to state/municipality exposures which begin to expire in 2019. The fair values of our state/municipality contracts are generally based on pricing data and current ratings 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.

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 $7.8 billion at December 31, 2014. Significant changes in the estimated amount and the timing of payments of unpaid losses may have a significant effect on unamortized deferred charges and the amount of periodic amortization.

Our Consolidated Balance Sheet includes goodwill of acquired businesses of $60.7 billion, which includes approximately $4.0 billion associated with our various acquisitions in 2014. We evaluate goodwill for impairment at least annually and we conducted our most recent annual review during the fourth quarter of 2014. Our review includes 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 in performing goodwill impairment tests. Due to the inherent uncertainty in forecasting cash flows and earnings, actual results may vary significantly from the forecasts. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then, as required by GAAP, we estimate the fair values of the individual assets (including identifiable intangible assets) and liabilities of the reporting unit. The excess of the estimated fair value of the reporting unit over the estimated fair value of its net assets establishes the implied value of goodwill. The excess of the recorded amount of goodwill over the implied value is 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 issue debt in the ordinary course of business to fund business operations, business acquisitions and for other general purposes. We 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 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.

Interest Rate Risk *(Continued)*

The following table summarizes the estimated effects of hypothetical changes in interest rates on our significant 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 to the issuer. 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, 2014					
Assets:					
Investments in fixed maturity securities	$27,636	$28,291	$26,843	$26,127	$25,529
Other investments [(1)]	11,239	11,771	10,772	10,317	9,887
Loans and finance receivables	12,891	13,369	12,444	12,026	11,633
Liabilities:					
Notes payable and other borrowings:					
Insurance and other	12,484	13,142	11,914	11,415	10,973
Railroad, utilities and energy	62,802	69,196	57,412	52,832	48,908
Finance and financial products	13,417	13,713	12,812	12,281	11,810
Equity index put option contracts	4,560	5,343	3,874	3,277	2,759
December 31, 2013					
Assets:					
Investments in fixed maturity securities	$29,370	$30,160	$28,591	$27,870	$27,259
Other investments [(1)]	8,592	9,021	8,166	7,757	7,370
Loans and finance receivables	12,002	12,412	11,617	11,255	10,915
Liabilities:					
Notes payable and other borrowings:					
Insurance and other	13,147	13,776	12,595	12,104	11,663
Railroad, utilities and energy	49,879	54,522	45,906	42,500	39,554
Finance and financial products	13,013	13,703	12,405	11,867	11,385
Equity index put option contracts	4,667	5,589	3,876	3,200	2,626

(1) *Excludes other investments that are not 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 prefer to invest a meaningful amount in each investee. Consequently, equity investments are concentrated in relatively few issuers. At December 31, 2014, approximately 59% of the total fair value of equity investments was concentrated within four companies.

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 liability 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.

Equity Price Risk *(Continued)*

The following table summarizes our equity and other investments and derivative contract liabilities with significant equity price risk as of December 31, 2014 and 2013. 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, 2014				
Assets:				
Equity securities	$117,470	30% increase	$152,711	9.6
		30% decrease	82,229	(9.6)
Other investments [(1)]	14,789	30% increase	19,389	1.2
		30% decrease	10,244	(1.2)
Liabilities:				
Equity index put option contracts	4,560	30% increase	2,802	0.5
		30% decrease	7,826	(0.9)
December 31, 2013				
Assets:				
Equity securities	$117,505	30% increase	$152,757	10.3
		30% decrease	82,254	(10.3)
Other investments [(1)]	13,226	30% increase	17,172	1.2
		30% decrease	9,359	(1.1)
Liabilities:				
Equity index put option contracts	4,667	30% increase	2,873	0.5
		30% decrease	7,987	(1.0)

(1) *Excludes other investments that do not 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 common stocks of major multinational companies such as The Coca-Cola Company that have significant foreign business and foreign currency risk of their own. Our net assets subject to translation are primarily in our insurance, utilities and energy subsidiaries, and certain manufacturing and services subsidiaries, as well as through our investments in Heinz that are accounted for under the equity method. 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 subsidiaries 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 BHE. BHE'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.

Commodity Price Risk (Continued)

To mitigate a portion of the risk, BHE 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. The table that follows summarizes commodity price risk on energy derivative contracts of BHE as of December 31, 2014 and 2013 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, 2014	$(192)	10% increase	$(111)
		10% decrease	(272)
December 31, 2013	$(140)	10% increase	$ (72)
		10% decrease	(208)

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 guarantees 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 the majority 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.*

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 $146 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 (2014) 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 340,000 employees, only 25 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.

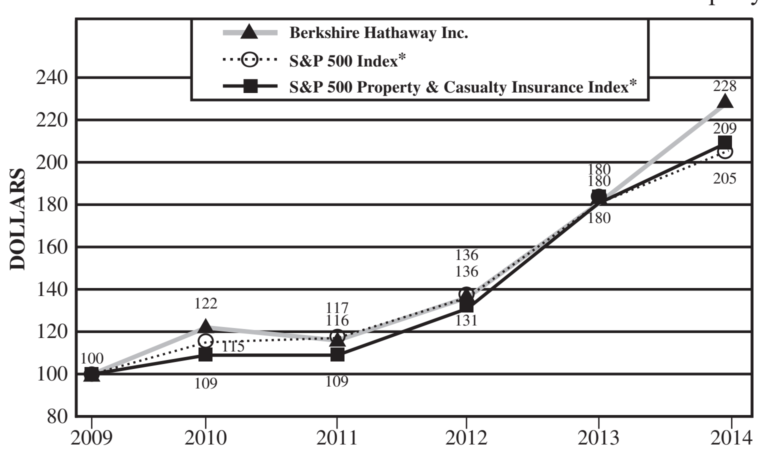
I will continue to keep the directors posted on the succession issue. Since Berkshire stock will make up virtually my entire estate and will account for a similar portion of the assets of various foundations for a considerable period after my death, you can be sure that the directors and I have thought 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, 2009 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 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.

* *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 2,700 record holders of its Class A common stock and 21,500 record holders of its Class B common stock at February 16, 2015. Record owners included nominees holding at least 445,000 shares of Class A common stock and 1,220,000,000 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:

	2014				2013			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$188,853	$163,039	$125.91	$108.12	$156,634	$136,850	$104.48	$ 91.29
Second Quarter	194,670	181,785	129.73	121.09	173,810	154,145	115.98	102.69
Third Quarter	213,612	185,005	142.45	122.72	178,900	166,168	119.30	110.72
Fourth Quarter	229,374	198,000	152.94	132.03	177,950	166,510	118.66	110.84

Dividends

Berkshire has not declared a cash dividend since 1967.

BERKSHIRE HATHAWAY INC.
OPERATING COMPANIES
INSURANCE BUSINESSES

Company	Employees	Company	Employees
Applied Underwriters	679	**GEICO**	32,295
Berkshire Hathaway Homestate Companies	833	**General Re**	2,317
Berkshire Hathaway Reinsurance Group	626	**Guard Insurance Group**	346
Berkshire Hathaway Specialty	521	**Medical Protective**	614
BoatU.S.	457	**National Indemnity Primary Group**	553
Central States Indemnity	76	**United States Liability Insurance Group**	744
		Insurance total	40,061

NON-INSURANCE BUSINESSES

Company	Employees	Company	Employees
Acme	2,257	**Iscar**	12,423
Adalet [(1)]	260	**Johns Manville**	6,852
Affordable Housing Partners, Inc.	12	**Jordan's Furniture**	937
AltaLink [(2)]	816	**Justin Brands**	1,085
Altaquip [(1)]	321	**Kern River Gas** [(2)]	155
Ben Bridge Jeweler	859	**Kirby** [(1)]	494
Benjamin Moore	1,908	**Larson-Juhl**	1,394
BH Energy [(2)]	25	**Lubrizol**	7,865
BHE Renewables [(2)]	343	**Lubrizol Specialty Products, Inc.**	151
BHE U.S. Transmission [(2)]	22	**The Marmon Group** [(4)]	19,906
BH Media Group	4,074	**McLane Company**	21,857
Borsheims	174	**Metalogic Inspection Services** [(2)]	82
Brooks Sports	625	**MidAmerican Energy** [(2)]	3,575
BNSF	48,000	**MiTek Inc.**	3,006
The Buffalo News	748	**Nebraska Furniture Mart**	3,225
Business Wire	497	**NetJets**	6,355
CalEnergy Philippines [(2)]	63	**Northern Natural Gas** [(2)]	851
Campbell Hausfeld [(1)]	323	**Northern Powergrid Holdings** [(2)]	2,509
Carefree of Colorado [(1)]	256	**NV Energy** [(2)]	2,448
Charter Brokerage	143	**Oriental Trading**	1,606
Clayton Homes	11,988	**PacifiCorp** [(2)]	5,902
Cleveland Wood Products [(1)]	46	**The Pampered Chef**	522
CORT	2,388	**Precision Steel Warehouse**	154
CTB	2,770	**Richline Group**	2,981
Dairy Queen	476	**Russell** [(3)]	1,781
Douglas/Quikut [(1)]	40	**Other Scott Fetzer Companies** [(1)]	187
Fechheimer	417	**See's Candies**	2,380
FlightSafety	4,168	**Shaw Industries**	22,074
Forest River	9,788	**Stahl** [(1)]	107
France [(1)]	149	**Star Furniture**	677
Fruit of the Loom [(3)]	27,846	**TTI, Inc.**	4,705
Garan	3,875	**United Consumer Financial Services** [(1)]	199
H. H. Brown Shoe Group	1,140	**Vanity Fair Brands** [(3)]	563
Halex [(1)]	74	**Wayne Water Systems** [(1)]	104
Heinz	24,500	**Western Enterprises** [(1)]	235
Helzberg Diamonds	2,305	**R.C.Willey Home Furnishings**	2,523
HomeServices of America [(2)]	4,078	**World Book** [(1)]	171
Intelligent Energy Solutions [(2)]	17	**WPLG, Inc.**	188
		XTRA	393
		Non-insurance total	300,413
		Corporate Office	25
			340,499

(1) A Scott Fetzer Company

(2) A Berkshire Hathaway Energy Company

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

(4) The Marmon Group consists of approximately 185 manufacturing and service businesses that operate within 13 business sectors.

BERKSHIRE HATHAWAY INC.
REAL ESTATE BROKERAGE BUSINESSES

Brand	State	Major Cities Served	Number of Agents
RealtySouth	Alabama	Birmingham	694
Roberts Brothers Inc.	Alabama	Mobile	155
Long Companies	Arizona	Tucson	703
Guarantee Real Estate	California	Fresno	468
Intero Real Estate Services	California	Silicon Valley	970
Berkshire Hathaway HomeServices California Properties	California	San Diego/Los Angeles	2,450
Berkshire Hathaway HomeServices New England Properties	Connecticut, Rhode Island	Hartford; Westerly	1,209
Berkshire Hathaway HomeServices Fox & Roach	Delaware, New Jersey, Pennsylvania	Wilmington; Ocean City; Philadelphia	4,498
EWM REALTORS®	Florida	Miami	771
Harry Norman, REALTORS®	Georgia	Atlanta	851
Berkshire Hathaway HomeServices Georgia Properties	Georgia	Atlanta	1,212
Berkshire Hathaway HomeServices KoenigRubloff Realty Group	Illinois, Michigan	Chicago; New Buffalo	1,354
Semonin REALTORS®	Indiana, Kentucky	New Albany; Louisville	523
Iowa Realty	Iowa	Des Moines	703
Berkshire Hathaway HomeServices First Realty	Iowa	Des Moines	68
Rector-Hayden REALTORS®	Kentucky	Lexington	216
Champion Realty Inc.	Maryland	Annapolis	235
Edina Realty	Minnesota, Wisconsin	Minneapolis/St. Paul; Eau Claire	2,246
Carol Jones REALTORS®	Missouri	Springfield/Branson	224
Reece Nichols	Missouri, Kansas	Kansas City	1,909
Berkshire Hathaway HomeServices Kansas City Realty	Missouri	Kansas City	67
CBSHOME Real Estate	Nebraska	Omaha	408
HOME Real Estate	Nebraska	Lincoln	205
Woods Bros. Realty	Nebraska	Lincoln	178
Berkshire Hathaway HomeServices Carolinas Realty	North Carolina	Charlotte/Winston-Salem	267
Berkshire Hathaway HomeServices York Simpson Underwood Realty	North Carolina	Raleigh	272
Berkshire Hathaway HomeServices Yost & Little	North Carolina	Greensboro	174
Huff Realty	Ohio	Cincinnati	390
Berkshire Hathaway HomeServices Northwest Real Estate	Oregon	Portland	337
Berkshire Hathaway HomeServices Northwest Real Estate	Washington	Seattle	389

BERKSHIRE HATHAWAY INC.
DAILY NEWSPAPERS

Publication	City	Circulation Daily	Circulation Sunday
Alabama			
Opelika Auburn News	Opelika/Auburn	10,444	11,286
Dothan Eagle	Dothan	20,752	23,275
Florida			
Jackson County Floridan	Marianna	3,357	3,884
Iowa			
The Daily Nonpareil	Council Bluffs	9,004	11,076
Nebraska			
York News-Times	York	2,700	—
The North Platte Telegraph	North Platte	8,730	8,551
Kearney Hub	Kearney	9,625	—
Star-Herald	Scottsbluff	10,618	11,142
The Grand Island Independent	Grand Island	15,812	17,292
Omaha World-Herald	Omaha	112,972	141,854
New Jersey			
The Press of Atlantic City	Atlantic City	56,156	65,104
New York			
Buffalo News	Buffalo	133,845	198,111
North Carolina			
The (Marion) McDowell News	Marion	3,413	3,718
The (Morganton) News Herald	Morganton	5,908	6,888
Statesville Record and Landmark	Statesville	8,058	9,998
Hickory Daily Record	Hickory	13,241	17,044
Winston-Salem Journal	Winston-Salem	45,725	59,208
Greensboro News & Record	Greensboro	49,053	68,593
Oklahoma			
Tulsa World	Tulsa	72,486	101,405
South Carolina			
(Florence) Morning News	Florence	17,464	23,578
Texas			
The Eagle	Bryan/College Station	16,075	18,329
Tribune-Herald	Waco	25,434	30,818
Virginia			
Culpeper Star Exponent	Culpeper	4,333	4,820
The (Waynesboro) News Virginian	Waynesboro	4,949	5,135
Danville Register and Bee	Danville	11,333	15,076
The (Charlottesville) Daily Progress	Charlottesville	18,113	20,447
Bristol Herald Courier	Bristol	19,843	25,233
The (Lynchburg) News and Advance	Lynchburg	21,317	28,178
Richmond Times-Dispatch	Richmond	96,118	137,890
Roanoke	Roanoke	57,399	75,876

BERKSHIRE HATHAWAY INC.

P. O. BOX C-904

NEW BEDFORD, MASSACHUSETTS 02741

February 22, 1967

Jack D. Ringwalt
Omaha, Nebraska

Dear Sir:

You have made available to Warren E. Buffett balance sheets of NATIONAL INDEMNITY COMPANY and NATIONAL FIRE AND MARINE INSURANCE COMPANY dated December 31, 1966 and January 31, 1967, respectively, together with an income account for National Indemnity Company for the year ended December 31, 1966. You have further stated that in your opinion these financial statements fairly represent the condition of the companies as of the respective dates and the results of National Indemnity Company's operation for the year ended December 31, 1966, and that no major adverse factors, not common to the industry, are known to you at this time. Based upon these representations, Berkshire Hathaway Inc. will buy shares of National Indemnity Company and National Fire and Marine Insurance Company, and you will sell all shares of these companies you own or control, on the following conditions:

1. On or before Thursday, February 23, 1967, the sum of $8,433,850 in the form of cash or United States Treasury Bills will be deposited by Berkshire Hathaway Inc. with The United States National Bank of Omaha, Omaha, Nebraska, under the terms of an Escrow Agreement, copy of which is annexed hereto as Exhibit "1". Thereafter, on February 23, 1967, a Tender Offer will be mailed to all shareholders of National Indemnity Company and National Fire and Marine Insurance Company in the forms annexed to said Escrow Agreement as Exhibits "A" and "B". The representations, terms, and conditions of said Tender Offers are by this reference made a part of this letter.

2. You will accept these offers, which acceptances will cover 83,506 shares of National Indemnity Company and 4,651 shares of National Fire and Marine Insurance Company.

3. Berkshire Hathaway Inc. will purchase your shares and all others tendered in accordance with the terms and conditions of said Tender

Offers, provided not less than 80% of the issued and outstanding shares of both companies are tendered for purchase.

4. The present agencies of National Indemnity Company and National Fire and Marine Insurance Company, including those controlled by you will continue in their present status as long as they continue to be profitable to the insurance companies.

You will agree to continue your association with the companies as long as mutually acceptable terms of employment can be made.

Yours very truly,

BERKSHIRE HATHAWAY INC.

By Warren E. Buffett

Warren E. Buffett

ACCEPTED: February 22, 1967

Jack D. Ringwalt

Jack D. Ringwalt

Berkshire Hathaway Inc.

Annual Report

TO THE STOCKHOLDERS

1964

Berkshire Hathaway Inc.

The Company had 3,823 Stockholders on
October 3, 1964

DIRECTORS

Malcolm G. Chace, Jr., *Chairman*

Abram Berkowitz
Jonathan Chace
Daniel Cowin
Linsley V. Dodge
Bradford R. Frost
Arthur Ingraham, Jr.
John K. Stanton
Otis C. Stanton
Seabury Stanton
A. N. Winslow, Jr.

EXECUTIVE COMMITTEE

Seabury Stanton, *Chairman*

Abram Berkowitz
Malcolm G. Chace, Jr.
Daniel Cowin
Bradford R. Frost
Otis C. Stanton
A. N. Winslow, Jr.

OFFICERS

Seabury Stanton, *President*

John K. Stanton, *Vice President, Treasurer and Clerk*

Linsley V. Dodge, *Vice President*
John E. Hartley, *Vice President*
William H. Potter, *Vice President*
Stanley Rubin, *Vice President*

BERKSHIRE HATHAWAY INC.

FINANCIAL HIGHLIGHTS

For Fiscal Years 1964 and 1963

	October 3, 1964	*September 28, 1963*
Sales	$49,982,830	$50,590,679
Net Earnings (Loss)	175,586	(684,811)
Earnings (Loss) per share	.15	(.43)
Depreciation	1,101,147	1,716,613
Additions to properties and equipment	$ 288,608	$ 665,813

Cash	$ 920,089	$ 660,264
Notes payable — banks	2,500,000	5,400,000
Accounts receivable (net)	7,450,564	7,670,236
Inventories	11,689,145	18,011,345
Working capital	14,502,068	17,410,503
Working capital per share	12.75	10.83
Stockholders' equity	22,138,753	30,278,890
Stockholders' equity per share	19.46	18.84
Payroll	$13,135,731	$16,093,207

BERKSHIRE HATHAWAY INC.

ANNUAL REPORT

For the Year Ended October 3, 1964

November 20, 1964

TO THE STOCKHOLDERS OF
BERKSHIRE HATHAWAY INC.:

The fiscal year ended October 3, 1964 resulted in a profit of $175,586 after depreciation of $1,101,147, and all Divisions of the Company were operating on a profitable basis at the end of the final quarter.

Our policy of closing plants which could not be operated profitably was continued, and, as a result, the Berkshire King Philip Plants A and E in Fall River, Mass. were permanently closed during the year.

The land and buildings of Plant A have been sold and those of Plant E offered for sale. A considerable amount of the machinery has also been sold, and that part of the remainder which has not been transferred to other plants has been offered for sale.

The Company now operates Berkshire King Philip Plant D in Warren, Rhode Island, and the Hathaway Synthetic, Box Loom and Home Fabrics Divisions in New Bedford, Mass.

We are continuing our program of reducing overhead and other non-operating costs in our existing facilities.

Raw material, stock in process and cloth inventories were decreased by $6,322,200 during the year, and bank loans were brought down from $5,400,000 to $2,500,000, notwithstanding the expenditure of $5,315,723 during the year for the purchase of capital stock of the Company. Since the end of the fiscal year additional payments have been made to the banks, and our outstanding loans at present amount to $1,600,000.

At the beginning of the fiscal year, there were 1,607,380 shares of stock outstanding and, in keeping with the vote of the stockholders at the 1962 Annual Meeting, 469,602 shares were purchased in the open market or through tenders, leaving a total of 1,137,778 shares outstanding at the end of the fiscal year.

Berkshire Hathaway has maintained its strong financial position and it would seem constructive to authorize the Directors, at their discretion, to purchase additional shares for retirement.

During the year the Congress passed a law permitting United States mills to purchase cotton at the same price as that paid by foreign mills under the Government subsidy, and this has corrected the inequitable burden under which United States mills have been obliged to operate since this subsidy was first put into effect in 1956.

The number of looms operating on highly competitive staple grey fabrics has been reduced, and all Divisions have a substantial backlog of unfilled orders. We anticipate that, under existing conditions, the coming year will be profitable.

We very much appreciate the cooperation of our stockholders during the difficult years of reorganization and adjustment which we believe have now been completed.

It is with deep sorrow that we record the death on June 20, 1964 of Mr. Edmund Rigby, our Executive Vice President, Treasurer and Director. Mr. Rigby had been with this corporation for forty-eight years, and is greatly missed by his colleagues and his many friends throughout the industry.

MALCOLM G. CHACE, JR.
Chairman of the Board

SEABURY STANTON
President

BERKSHIRE

REVIEW OF

EARNINGS AND SALES

Earnings for the fiscal year ended October 3, 1964 were $175,586, after depreciation of $1,101,147. This compares with a loss of $684,811 after depreciation of $1,716,613 for the year ended September 28, 1963. Sales volume for the year ended October 3, 1964 was $49,982,830, compared with $50,590,679 for the year ended September 28, 1963. Although operations at King Philip A and King Philip E Divisions were discontinued, the volume of sales remained substantially the same as last year resulting in a reduction of inventories.

FINANCIAL DEVELOPMENTS

The financial position of the Company continues strong. Net working capital on October 3, 1964 was $14,502,068, or $12.75 per share, compared with $17,410,503, or $10.83 per share on September 28, 1963 on a greater number of shares then outstanding.

The greater part of the reduction in working capital was the result of the purchase of 469,602 shares of the Company's capital stock during the fiscal year at a total cost of $5,315,723. The outstanding shares as of October 3, 1964 were 1,137,778, which compares with a total of 1,607,380 shares outstanding on September 28, 1963.

Bank loans were reduced from $5,400,000 on September 28, 1963 to $2,500,000 on October 3, 1964. During the fiscal year just ended, expenditures capitalized in connection with machinery and plant facilities amounted to $288,608. Unexpended commitments for plant and equipment at the end of the fiscal year were $287,853.

INVENTORIES

Inventories on October 3, 1964 amounted to $11,689,145, compared with $18,011,345 on September 28, 1963, or a decrease of $6,322,200 the greater part of which was due to the reduction in the number of our operating units.

EMPLOYEE RELATIONS

Wage increases were granted throughout the textile industry in the latter part of 1963 and went into effect in our plants on April 15, 1964. Under the terms of our contracts with the unions representing our employees, these contracts may be reopened for wage negotiations upon request of either party sixty days prior to April 15, 1965.

MERCHANDISING TRENDS

During the fiscal year, Congress passed legislation enabling American textile mills to purchase American cotton at the same Government established price at which it is sold to foreign countries. The market for cotton fabrics was substantially strengthened after passage of this cotton bill.

PLANTS AND EQUIPMENT

King Philip A and King Philip E Divisions continued to operate at a loss after the end of fiscal year ended September 28, 1963 and, as a result, the directors voted to discontinue these operations. The buildings and most of the machinery in King Philip A Division have been sold and we are in the process of liquidating the physical assets at King Philip E Division. The King Philip B warehouse was sold after the close of the 1964 fiscal year.

On October 3, 1964 approximately $753,000 remained in the reserve established last year to cover possible losses in the disposal of the remaining physical assets of King Philip A Division. During the fiscal year an additional $3,000,000 was charged against surplus and added to this reserve to cover possible losses in the liquidation of King Philip E Division. The remainder of the reserve represents the amounts previously established to cover possible losses in the liquidation of other divisions shut down in prior years.

OPERATIONS

The Company maintains four operating divisions — the King Philip D Division in Warren, Rhode Island, and the Hathaway Synthetic, Box Loom, and Home Fabrics Divisions in New Bedford, Massachusetts.

Berkshire

CONSOLIDATED

ASSETS

	October 3, 1964	September 28, 1963
Current assets:		
Cash	$ 920,089	$ 660,264
Accounts receivable (less allowance for doubtful accounts — 1964 — $245,354)	7,450,564	7,670,236
Inventories (*Note A*)	11,689,145	18,011,345
Prepaid insurance, taxes and other expense	190,563	237,374
Total current assets	20,250,361	26,579,219
Properties, plants and equipment (*Note B*):		
Properties comprising land, buildings, machinery and equipment	33,635,553	37,865,723
Less accumulated depreciation and amortization	21,853,689	23,035,741
	11,781,864	14,829,982
Less estimated loss on properties to be sold	4,210,621	2,005,029
	7,571,243	12,824,953
Mortgage notes receivable and other assets	65,442	43,434
Total assets	$27,887,046	$39,447,606

See accompanying notes

HATHAWAY INC.

BALANCE SHEET

—LIABILITIES AND STOCKHOLDERS' EQUITY—

	October 3, 1964	*September 28, 1963*
CURRENT LIABILITIES:		
Notes payable — banks	$ 2,500,000	$ 5,400,000
Accounts payable	2,096,726	2,415,395
Accrued wages and salaries	294,764	398,660
Accrued state and local taxes	365,112	407,106
Social security and withholding taxes payable	491,691	547,555
TOTAL CURRENT LIABILITIES	5,748,293	9,168,716
STOCKHOLDERS' EQUITY:		
Common stock ($5 par value) authorized 2,312,816 shares — issued 1,607,380 shares	8,036,900	8,036,900
Retained earnings	19,417,576	22,241,990
	27,454,476	30,278,890
Less common stock in treasury at cost — 469,602 shares	5,315,723	—0—
	22,138,753	30,278,890
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$27,887,046	$39,447,606

to financial statements.

BERKSHIRE HATHAWAY INC.

CONSOLIDATED STATEMENT OF EARNINGS

	Years Ended October 3, 1964	Years Ended September 28, 1963
SALES	$49,982,830	$50,590,679
Cost of sales, administrative and selling expenses	48,354,012	49,418,947
Depreciation	1,101,147	1,716,613
	49,455,159	51,135,560
OPERATING PROFIT (LOSS)	527,671	(544,881)
Other income	111,849	307,140
	639,520	(237,741)
Other deductions	237,909	309,733
NET EARNINGS (LOSS) BEFORE IDLE PLANT EXPENSE	401,611	(547,474)
Idle plant expense	226,025	137,337
NET EARNINGS (LOSS)	$ 175,586	$ (684,811)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

BALANCE AT BEGINNING OF YEAR	$22,241,990	$26,018,710
Net earnings (loss) for the year	175,586	(684,811)
Retirement of treasury stock	—0—	(1,591,909)
Estimated loss on properties to be sold	(3,000,000)	(1,500,000)
BALANCE AT END OF YEAR	$19,417,576	$22,241,990

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.

Notes to Consolidated Financial Statements
October 3, 1964

Basis of Consolidation

The consolidated financial statements include the accounts of the Canadian subsidiary.

Note A — Inventories

Raw materials, including materials in process, are priced at the lower of cost or market, except for the cotton content of stock in process of Berkshire King Philip D Division which is priced at a standard established in 1933, which is less than the current market. Current standard costs are used in valuing labor and manufacturing burden in stock in process. Cloth is priced at the lower of cost or market. All costs were determined generally on an average basis.

The inventory of the subsidiary is priced at the lower of cost or market on a first-in, first-out basis.

Note B — Properties, Plants and Equipment

The properties, plants and equipment at October 3, 1964 and September 28, 1963 are stated at net book values of $7,571,243 and $12,824,953, respectively. The net values used for federal income tax purposes were $12,700,092 and $15,918,135, respectively. Consistent with the practice of prior years, depreciation has been charged to operations on the book basis. The estimated loss on properties to be sold reduces the net book value of these assets to estimated realizable amount.

Note C — Taxes on Income

Federal income tax returns of the Company have been examined through the fiscal year ended September 30, 1957. The statute of limitations has expired on fiscal years ended in 1958, 1959, and 1960.

The Company has unused federal income tax loss carry-overs of approximately $5,000,000. To the extent not utilized $400,000 will expire at September 30, 1966 and $4,600,000 in the succeeding years.

Note D — Contingent Liabilities and Commitments

The Company made contributions to the trustees for the pension plans based upon payment of normal costs.

The Company is contingently liable for approximately $111,000 under the union contract of certain employees who have reached the retirement age specified with a minimum service of fifteen years and who retire voluntarily.

At the close of the fiscal year the Company had outstanding raw material commitments at prices not in excess of market. Plant improvement commitments were $287,853.

BERKSHIRE HATHAWAY INC.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
(COMBINING COMERY, DAVISON & COMPANY)
CERTIFIED PUBLIC ACCOUNTANTS
10 DORRANCE STREET
PROVIDENCE, RHODE ISLAND 02903

To the Stockholders and
Board of Directors
Berkshire Hathaway Inc.

We have examined the consolidated balance sheet of Berkshire Hathaway Inc. and its subsidiary as of October 3, 1964 and the related consolidated statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings present fairly the financial position of Berkshire Hathaway Inc. at October 3, 1964, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Providence, R. I.
November 3, 1964

Peat, Marwick, Mitchell & Co.

BERKSHIRE HATHAWAY INC.

COMPARATIVE FINANCIAL DATA

FISCAL YEARS ⟶	1964	1963	1962	1961	1960
Sales	**$49,982,830**	$50,590,679	$53,259,302	$47,722,281	$62,608,679
Net earnings (loss)	**175,586**	(684,811)	(2,151,256)	(393,054)	4,623,980
Earnings (loss) per share of common stock	**.15**	(.43)	(1.34)	(.24)	2.84
Cash dividends paid	**—0—**	—0—	160,738	1,205,535	1,715,323
Cash dividends paid per share	**—0—**	—0—	.10	.75	.95
Additions to properties, plants and equipment	**288,608**	665,813	3,454,069	4,020,542	3,818,632
Working capital	**14,502,068**	17,410,503	16,473,783	19,844,122	23,430,319
Working capital per share	**12.75**	10.83	10.25	12.35	14.41
Stockholders' equity	**22,138,753**	30,278,890	32,463,701	36,175,695	37,981,820
Stockholders' equity per share	**19.46**	18.84	20.20	22.51	23.37
Common shares outstanding	**1,137,778**	1,607,380	1,607,380	1,607,380	1,625,519

NOTE: "Common shares outstanding" represents the total shares outstanding at the close of each fiscal year.

Berkshire Hathaway Inc.

EXECUTIVE OFFICES

97 Cove Street, New Bedford, Mass. 02741

SALES OFFICES

Plain & Fancy Grey Goods
111 West 40th Street, New York, N. Y.

Hathaway Menswear Linings
1290 Avenue of the Americas, New York, N. Y.

Home Fabrics
261 Fifth Avenue, New York, N. Y.
3028 East 11th Street, Los Angeles, Calif.
100 Wellington Street, West, Toronto, Canada

PLANT LOCATIONS

Hathaway Box Loom Div., New Bedford, Mass.
Hathaway Synthetic Div., New Bedford, Mass.
Home Fabrics Div., New Bedford, Mass.
King Philip D Div., Warren, R. I.

LABORATORY

New Bedford, Mass.

TRANSFER AGENT

Old Colony Trust Company
45 Milk Street
Boston, Mass.

REGISTRAR

The First National Bank of Boston
45 Milk Street
Boston, Mass.

AUDITORS

Peat, Marwick, Mitchell & Co.
Providence, R. I.

COUNSEL

Ropes & Gray
Boston, Mass.

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

MERYL B. WITMER,
Managing member of the General Partner of Eagle Capital Partners L.P., an investment partnership.

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*

CHARLES T. MUNGER, *Vice Chairman*

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

SHARON L. HECK, *Vice President, Secretary*

DANIEL J. JAKSICH, *Vice President, Controller*

MARK D. MILLARD, *Vice President*

KERBY S. HAM, *Treasurer*

REBECCA K. AMICK, *Director of Internal Auditing*

Letters from Annual Reports (1977 through 2014), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at www.berkshirehathaway.com.

BERKSHIRE HATHAWAY INC.
Executive Offices — 3555 Farnam Street, Omaha, Nebraska 68131