BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

This letter comes to you as part of Berkshire's annual *report*. As a public company, we are required to periodically tell you many specific facts and figures.

"Report," however, implies a greater responsibility. In addition to the mandated data, we believe we owe you additional commentary about what you own and how we think. Our goal is to communicate with you in a manner that we would wish you to use if our positions were reversed – that is, if you were Berkshire's CEO while I and my family were passive investors, trusting *you* with our savings.

This approach leads us to an annual recitation of both good and bad developments at the many businesses you indirectly own through your Berkshire shares. When discussing problems at specific subsidiaries, we do, however, try to follow the advice Tom Murphy gave to me 60 years ago: "praise by name, criticize by category."

Mistakes – Yes, We Make Them at Berkshire

Sometimes I've made mistakes in assessing the future economics of a business I've purchased for Berkshire – each a case of capital allocation gone wrong. That happens with both judgments about marketable equities – we view these as *partial* ownership of businesses – and the 100% acquisitions of companies.

At other times, I've made mistakes when assessing the abilities or fidelity of the managers Berkshire is hiring. The fidelity disappointments can hurt beyond their financial impact, a pain that can approach that of a failed marriage.

A decent batting average in personnel decisions is all that can be hoped for. The cardinal sin is delaying the correction of mistakes or what Charlie Munger called "thumb-sucking." Problems, he would tell me, cannot be wished away. They require action, however uncomfortable that may be.

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During the 2019-23 period, I have used the words "mistake" or "error" 16 times in my letters to you. Many other huge companies have *never* used either word over that span. Amazon, I should acknowledge, made some brutally candid observations in its 2021 letter. Elsewhere, it has generally been happy talk and pictures.

I have also been a director of large public companies at which "mistake" or "wrong" were forbidden words at board meetings or analyst calls. That taboo, implying managerial perfection, always made me nervous (though, at times, there could be legal issues that make limited discussion advisable. We live in a very litigious society.)

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At 94, it won't be long before Greg Abel replaces me as CEO and will be writing the annual letters. Greg shares the Berkshire creed that a "report" is what a Berkshire CEO annually owes to owners. And he also understands that if you start fooling your shareholders, you will soon believe your own baloney and be fooling yourself as well.

Pete Liegl – One of a Kind

Let me pause to tell you the remarkable story of Pete Liegl, a man unknown to most Berkshire shareholders but one who contributed many billions to their aggregate wealth. Pete died in November, still working at 80.

I first heard of Forest River – the Indiana company Pete founded and managed – on June 21, 2005. On that day I received a letter from an intermediary detailing relevant data about the company, a recreational vehicle ("RV") manufacturer. The writer said that Pete, the 100% owner of Forest River, specifically wanted to sell to Berkshire. He also told me the price that Pete expected to receive. I liked this no-nonsense approach.

I did some checking with RV dealers, liked what I learned and arranged a June 28th meeting in Omaha. Pete brought along his wife, Sharon, and daughter, Lisa. When we met, Pete assured me that he wanted to keep running the business but would feel more comfortable if he could assure financial security for his family.

Pete next mentioned that he owned some real estate that was leased to Forest River and had not been covered in the June 21 letter. Within a few minutes, we arrived at a price for those assets as I expressed no need for appraisal by Berkshire but would simply accept his valuation.

Then we arrived at the other point that needed clarity. I asked Pete what his compensation should be, adding that whatever he said, I would accept. (This, I should add, is *not* an approach I recommend for general use.)

Pete paused as his wife, daughter and I leaned forward. Then he surprised us: "Well, I looked at Berkshire's proxy statement and I wouldn't want to make more than my boss, so pay me $100,000 per year." After I picked myself off the floor, Pete added: "But we will earn X (he named a number) this year, and I would like an annual bonus of 10% of any earnings above what the company is now delivering." I replied: "OK Pete, but if Forest River makes any significant acquisitions we will make an appropriate adjustment for the additional capital thus employed." I didn't define "appropriate" or "significant," but those vague terms never caused a problem.

The four of us then went to dinner at Omaha's Happy Hollow Club and lived happily ever after. During the next 19 years, Pete shot the lights out. No competitor came close to his performance.

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Every company doesn't have an easy-to-understand business and there are *very* few owners or managers like Pete. And, of course, I expect to make my share of mistakes about the businesses Berkshire buys and sometimes err in evaluating the sort of person with whom I'm dealing.

But I've also had many pleasant surprises in both the potential of the business as well as the ability and fidelity of the manager. And our experience is that a *single* winning decision can make a breathtaking difference over time. (Think GEICO as a business decision, Ajit Jain as a managerial decision and my luck in finding Charlie Munger as a one-of-a-kind partner, personal advisor and steadfast friend.) Mistakes fade away; winners can forever blossom.

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One further point in our CEO selections: I never look at where a candidate has gone to school. Never!

Of course, there are great managers who attended the most famous schools. But there are plenty such as Pete who may have benefitted by attending a less prestigious institution or even by not bothering to finish school. Look at my friend, Bill Gates, who decided that it was far more important to get underway in an exploding industry that would change the world than it was to stick around for a parchment that he could hang on the wall. (Read his new book, *Source Code*.)

Not long ago, I met – by phone – Jessica Toonkel, whose step-grandfather, Ben Rosner, long ago ran a business for Charlie and me. Ben was a retailing genius and, in preparing for this report, I checked with Jessica to confirm Ben's schooling, which I remembered as limited. Jessica's reply: "Ben never went past 6th grade."

I was lucky enough to get an education at three fine universities. And I avidly believe in lifelong learning. I've observed, however, that a very large portion of business talent is innate with nature swamping nurture.

Pete Liegl was a natural.