Berkshire Hathaway Inc.

March 15, 1971

To the Stockholders of
Berkshire Hathaway Inc.:

The past year witnessed dramatically diverse earnings results among our various operating units. The Illinois National Bank & Trust reported record earnings and continued to rank right at the top, nationally, among banks in terms of earnings as a percentage of average resources. Our insurance operations had some deterioration in underwriting results, but increased investment income produced a continued excellent return. The textile business became progressively more difficult throughout the year and the final break-even result is understandable, considering the industry environment.

The combination of these factors produced a return of approximately 10% on average shareholder's investment. While this figure is only about average for American industry, it is considerably in excess of what would have been achieved had resources continued to be devoted exclusively to the textile business, as was the pattern until five years ago.

Textile Operations

Sales in both menswear linings and home fabrics declined significantly during the year. Thus we were continuously forced to modify production plans to prevent inventories from mounting. Such production curtailments were costly to the Company and disruptive to the lives of our employees.

Prices continue at poor levels and demand has not strengthened. Inventory levels, while reduced from a year ago through great effort, continue high in relation to current sales levels. We continue to work at making the changes required in manufacturing and marketing areas that will result in profitable operations with more stable employment.

Led by Ken Chace, the effort, attitude and enterprise manifested by management and labor in this operation have been every bit the equal of their counterparts in our much more profitable businesses. But in the past year they have been swimming against a strong tide and, at this writing, that situation still prevails.

Insurance Operations

We enjoyed an outstanding year for growth in our insurance business, accompanied by a somewhat poorer underwriting picture. Our traditional operation experienced a surge in volume as conventional auto insurance markets became more restricted. This is in line with our history as a non-conventional carrier which receives volume gains on a “wave” basis when standard markets are experiencing capacity or underwriting problems. Although our combined loss and expense ratio on the traditional business rose to approximately 100% during the year, our management, led by Jack Ringwalt and Phil Liesche, has the ability and determination to return it to an underwriting profit.

Our new reinsurance division, managed by George Young, made substantial progress during the year. While an evaluation of this division’s underwriting will take some years, initial signs are encouraging. We are producing significant volume in diverse areas of reinsurance and developing a more complete staff in order to handle a much larger volume of business in the future.

The surety business, referred to in last year’s report, operated at a significant underwriting loss during 1970. The contractor’s bond field was a disappointment and we are restricting our writing to the miscellaneous bond area. This will mean much less volume but, hopefully, underwriting profits.

Our “home-state” operations—Cornhusker Casualty Company, formed in early 1970 as a 100% owned subsidiary of National Indemnity, writing standard business through Nebraska agents only—is off to a strong start. The combination of big-company capability and small-company accessibility is providing to be a strong marketing tool with first class agents. John Ringwalt deserves credit for translating the concept into reality. Our present plans envision extension of the home-state approach and we plan to have another company in operation later this year.

Banking Operations

Eugene Abegg had the problem in 1970 of topping a banner year in 1969—and in the face of an unchanged level of deposits, managed to do it. While maintaining a position of above average liquidity, net operating earnings before security gains came to well over 2% of average deposits. This record reflects an exceptionally well-managed banking business.

Bob Kline became President of the Illinois National Bank in January, 1971, with Mr. Abegg continuing as Chairman and Chief Executive Officer. Illinois is a unit banking start, and deposit growth is hard to come by. In the year he has been with the bank, Mr. Kline has demonstrated effort and initiative in generating new deposits. Such deposit growth, in line with national trends, will largely be in the consumer savings area with attendant high costs. With generally lower interest rates prevailing on loans throughout the country, it will be a challenge to management to maintain earnings while utilizing a higher cost deposit mix.

In the closing days of 1970, new bank holding company legislation was passed which affects Berkshire Hathaway because of its controlling ownership of The Illinois National Bank. In effect, we have about ten years to dispose of stock in the bank (which could involve a spin-off of bank stock to our shareholders) and it will probably be some time before we decide on a course of action. In the meantime, certain activities of all entities in the Berkshire Hathaway group—including acquisitions—are subject to the provisions of the Act and Regulations of the Federal Reserve Board.

Warren E. Buffett
Chairman of the Board