

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Berkshire Hathaway Inc.

After assuming the controlling majority of the company in 1965, US investor Warren E. Buffett restructured the unsuccessful textile company as an investment company. Thanks to very clever capital allocation, Buffett grew the book value per share by an average of 20% between 1965 and 2010. In view of the sheer size of this empire, it is no longer possible to reach the early growth rates at this time. Growth has fallen to an average of 9% per year during the last ten years.

The current market value of Berkshire Hathaway is USD 170 billion. Considering disclosed equity (including minority shareholdings) of USD 163 billion, this only corresponds with 104% of the company's balance sheet book value. Such low valuations have been very rare during the last 25 years, as they usually range from 150% to 200%. The premium is based on the intrinsic value, which is clearly above that of the equity. In the 2010 annual report, Buffett himself provides instructions for approximately calculating this value.

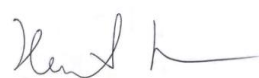
The first component corresponds with the market value of the investments (shares, bonds and liquidity). It is USD 158 billion. USD 66 billion of this amount is financed with the "float" from the insurance business. These are collected premiums, some of which the insurer can invest over the years to his benefit, until he is required to pay for damages in-

curred. This segment retains its value, since the historic damage and cost ratio is less than 100%. The costs of the float (insurance losses) are therefore not only lower than the costs associated with alternative refinancing, but also correspond with permanent refinancing with a negative interest rate. Hence the entire market value of the investments is a component of the going shareholder value. The second component corresponds with the results from the 68 unlisted subsidiaries, which are not active in the insurance business. Buffett estimates their normalized profits at USD 10 billion a year, which would appear to make a valuation of USD 120 billion very reasonable. The third component is the effectiveness with which Berkshire Hathaway invests the profits it will retain in the future. We do not quantify the management factor, even though it is excellent.

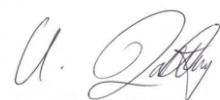
Hence the intrinsic value is likely in the range of USD 278 billion or USD 170,000/share. The market value of USD 104,000/share is a long way from that figure.

We expect that the positive operating dynamic of Berkshire Hathaway holdings along with Buffett's ability to make excellent investments during times of crisis will lead to a reduction in the undervaluation. The motto "be greedy when others are fearful" is likely to be a lucrative option for those who are willing to act courageously now.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky