WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net ''operating'' income (i.e., before realized securities gains shown in the table below) for the calendar year 2003 decreased to $39,958,000 ($5.61 per share) from $52,718,000 ($7.40 per share) in the previous year.

Consolidated net income increased to $74,711,000 ($10.49 per share) from $52,718,000 ($7.40 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''Kansas Bankers''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)(1):

	Year Ended			
	December 31, 2003		December 31, 2002	
	Amount	Per Wesco Share(2)	Amount	Per Wesco Share(2)
Operating earnings:				
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting	$15,711	$ 2.21	$ 3,829	$ .54
Investment income	30,925	4.34	45,642	6.41
CORT furniture rental business	(6,257)	(.88)	2,442	.34
Precision Steel businesses	(860)	(.12)	250	.03
All other ''normal'' net operating earnings(3)	439	.06	555	.08
	39,958	5.61	52,718	7.40
Realized investment gains	34,753	4.88	—	—
Wesco consolidated net income	$74,711	$10.49	$52,718	$7.40

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s):

	Year Ended December 31, 2003	2002
Premiums written	$ 86,962	$ 88,411
Premiums earned	$106,651	$ 64,627
Underwriting gain	$ 24,171	$ 5,891
Dividend and interest income	44,118	70,007
Income before income taxes	68,289	75,898
Income tax provision	(21,653)	(26,427)
Total operating income — insurance businesses	$ 46,636	$ 49,471

Following is a breakdown of premiums written (in 000s):

Wes-FIC —		
Aviation pools	$36,652	$40,052
Property-casualty pool	30,390	27,691
Other	70	12
Kansas Bankers	19,850	20,656
Premiums written	$86,962	$88,411

Following is a breakdown of premiums earned (in 000s):

Wes-FIC —		
Aviation pools	$ 44,316	$24,393
Property-casualty pool	42,021	20,913
Other	119	77
Kansas Bankers	20,195	19,244
Premiums earned	$106,651	$64,627

Following is a breakdown by company of after-tax results (in 000s):

Underwriting gain —		
Wes-FIC	$11,158	$ 62
Kansas Bankers	4,553	3,767
	15,711	3,829
Net investment income —		
Wes-FIC	28,998	42,042
Kansas Bankers	1,927	3,600
	30,925	45,642
Total operating income — insurance businesses	$46,636	$49,471

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes investment gains of $34.8 million, net of income taxes, realized in 2003. No investment gains were realized in 2002. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business, occasionally insuring against loss from rare but horrendous ''super-catastrophes.'' In much reinsurance sold by us, other Berkshire subsidiaries sold several times as much reinsurance to the same customers on the same terms. In certain instances but not always, such subsidiaries have taken from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs. In some cases, other Berkshire subsidiaries act as reinsurers at higher levels than the level at which Wes-FIC is reinsuring; terms of the reinsurance are considered by Wes-FIC to be fair or advantageous to Wes-FIC.

Underwriting results of Wes-FIC in 2003 were weirdly favorable, causing the underwriting gain of $15.7 million. Such weirdly favorable results are not to be expected over the long term. It should be recalled that Wes-FIC reported an underwriting loss of $8.1 million as recently as 2001. However, we do try to create some underwriting gain as results are averaged out over many years.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 28 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS offers directors and officers indemnity policies, bank employment practices policies, bank insurance agents professional errors and omissions indemnity policies and Internet banking catastrophe theft insurance.

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers. Now it reinsures only about 11%. The increased volume of business retained comes, of course, with increased irregularity in the income stream.

The combined ratio of an insurance company represents the percentage that its underwriting losses and expenses bear to its premium revenues. KBS's combined ratio has been much better than average for insurers, at 65.0% for 2003 and 71.3% for 2002. We continue to expect volatile but favorable long-term effects from increased insurance retained.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled \$360 million for calendar 2003, versus \$389 million for calendar 2002. Of these amounts, furniture rental revenues were \$276 million and \$309 million, furniture sales revenues were \$68 million and \$73 million, and apartment locator fees of Relocation Central Corporation, a subsidiary CORT started up in 2001, were \$16 million and \$7 million. CORT operated at an after-tax loss of \$6.3 million for 2003; it contributed \$2.4 million and \$13.1 million to Wesco's consolidated operating income for 2002 and 2001. These figures are significantly worse than CORT's \$29 million of after-tax operating profits for the ten months that we owned it in 2000. Recent years were terrible in the ''rent-to-rent'' segment of the furniture rental business. The figures are before (1) goodwill amortization of zero for 2003 and 2002 (see discussion below), \$6.0 million for 2001 and \$5.1 million for 2000, and (2) realized securities losses of \$.7 million in 2000, but include Relocation Central's after-tax losses, less minority interest, of \$9.0 million for 2003, \$8.3 million for 2002 and \$7.0 million for 2001. Excluding the operating losses of Relocation Central, CORT, at the parent company level, contributed \$2.7 million to Wesco's consolidated after-tax operating earnings for 2003, versus \$10.7 million for 2002 and \$20.1 million for 2001.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector. Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and continued weakness of job growth in the economy, CORT's operations have been hammered. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the ''rent-to- rent'' sector of the furniture business.

Moreover, CORT started up a new subsidiary during 2001, Relocation Central Corporation, which has developed a virtual call center and carries out an Internet-based furniture and apartment-leads operation (www.relocationcentral.com), and it markets CORT's furniture rental services to real estate investment trusts, owners of many major apartment communities. As a result of the acquisition of its largest competitor in December 2002, followed by some office closures, Relocation Central operates in 15 metropolitan cities in fourteen states. CORT is hopeful that, through Relocation Central, it will ultimately become the principal source of rental furniture to the apartment industry, but this outcome is far from certain. Its operations should be considered as still in a ''start-up'' phase. CORT has recently begun the process of reorganizing Relocation Central's operations, including relocating various of its facilities into CORT's, withdrawing from markets having unsatisfactory potential, and aggressively trimming its expenses, in an attempt to improve its operations, which so far have not been satisfactory. The results of its operations have been consolidated with those reported for CORT, shown above.

We expect to report in due course that all CORT operations have become more satisfactory. CORT has operated at a positive cash flow and the general distress in its field has permitted various small expansions. During the past three years it invested $61 million in business expansion through acquisitions of several small businesses and reduced its line-of-credit and other debt by $50 million. CORT remains the national leader in its market segment and would not be making these acquisitions if we believed its furniture rental business prospects were permanently impaired.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

Wesco's consolidated balance sheet now contains about $267 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). The Financial Accounting Standards Board adopted a rule which became effective in 2002 that no longer requires automatic amortization of acquired goodwill. (The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, in which event the intangible would be written down or written off, as appropriate.) The earnings we have reported for 2002 and 2003, without deduction of any goodwill amortization, more closely reflect microeconomic reality as we appraise it.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

CORT has long been headed by Paul Arnold, age 57, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco. We continue to expect a considerable expansion of CORT's business and earnings at some future time.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at an after-tax loss of $.9 million in 2003, versus an after-tax profit of $.3 million in 2002. The 2003 figure reflects $.7 million, after taxes, expensed in connection with environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the environmental matter or for LIFO inventory accounting adjustments, Precision Steel would have reported an operating loss of $.2 million, after taxes, for 2003, versus after-tax profits of $.1 million for 2002. We do not regard earnings changes from environmental cleanup or LIFO accounting adjustments, up or down, as material in predicting future earning power.

The U.S. steel industry has generally been a disaster since 2000, and Precision Steel has suffered worse effects than occurred for it in previous general declines in the U.S. steel business.

Precision Steel has suffered a significant reduction in demand for steel combined with intensified competition above the fierce level encountered in each prior year. Some of the sales reduction is caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States. The severity of the domestic downturn is demonstrated by the fact that Precision Steel's average annual steel service revenues for the years 2001 through 2003 were down 27% from those reported for 1998 through 2000. It has not reported satisfactory operating results in recent years; ignoring environmental-cleanup costs and LIFO adjustments, its approximately-break-even operations for 2002 and 2003 compare very unfavorably with operating profits which averaged $2.3 million, after taxes, for the years 1998 through 2000. Very recently, the cost of Precision Steel's raw materials rose sharply in price.

Supplies of steel, which have generally been available to Precision Steel, are no longer easy to obtain. The market has drifted into near chaos caused by shortages. It is not clear how this is going to work out. Early in 2004, prices and profits are higher at Precision Steel, but longer-term effects are far from clear.

Terry Piper, who became Precision Steel's President and Chief Executive Officer late in 1999, has done an excellent job in leading Precision Steel through difficult years.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets with a net book value of about $6.4 million, consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.4 million in 2003 and $.6 million in 2002. Sources were (1) rents ($3.2 million gross in 2003) from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Consolidated Balance Sheet and Related Discussion

Wesco carries its investments at market value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related taxes included in income taxes payable, in its consolidated balance sheet. As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $2.1 billion ($292 per Wesco share) at yearend 2003 from $1.96 billion ($275 per Wesco share) at yearend 2002. The main cause of increase was net income after deduction of dividends paid to shareholders.

The foregoing $292-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $32 per Wesco share at yearend 2003.

However, some day, parts of the interest-free ''loan'' may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $32 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $32 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

To progress from this point at a satisfactory rate, Wesco plainly needs more favorable investment opportunities, recognizable as such by its management, preferably in whole companies, but, alternatively, in marketable securities to be purchased by Wesco's insurance subsidiaries. Our views regarding the general prospects for investment in common stocks are unchanged one year after Warren Buffett wrote the following, in his 2002 annual report to shareholders of our parent company:

> ''We continue to do little in equities. [We] are increasingly comfortable with our holdings in [our] major investees because most of them have increased their earnings while their valuations have decreased. But we are not

inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued.

''In our view, the same conclusion fits stocks generally. Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find *very* few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.

''The aversion to equities that [we] exhibit today is far from congenital. We love owning common stocks — if they can be purchased at attractive prices. In [my] 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pre-tax returns (which translates to 6½-7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity.''

In fact, the one thing that should interest Wesco shareholders most with respect to 2003 is that, as in 2002 and 2001, Wesco found *no* new common stocks for our insurance companies to buy.

The Board of Directors recently increased Wesco's regular dividend from 33½ cents per share to 34½ cents per share, payable March 3, 2004, to shareholders of record as of the close of business on February 4, 2004.

Wesco now has a website: www.wescofinancial.com. Shareholders can there access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Charles T. Munger
Chairman of the Board

March 4, 2004