Req. S-K
Item 601
Exhibit 13

BERKSHIRE HATHAWAY INC.

1991
ANNUAL REPORT

Business Activities

Berkshire Hathaway Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these is the property and casualty insurance business conducted nationwide on both a direct and reinsurance basis through a number of subsidiaries collectively referred to in this report as the Berkshire Hathaway Insurance Group.

Investment portfolios of insurance subsidiaries include meaningful equity ownership percentages of other publicly traded companies. Such investments at the end of 1991 included approximately 48% of the outstanding capital stock of GEICO Corporation, approximately 18% of the capital stock of Capital Cities/ABC, Inc., approximately 11% of the capital stock of The Gillette Company, convertible preferred stock of Salomon Inc having approximately 14% of the total voting power of that company, approximately 7% of the capital stock of The Coca-Cola Company, approximately 15% of the capital stock of The Washington Post Company, and approximately 10% of the common stock of Wells Fargo Company. Much information about these publicly-owned companies is available, including information released from time to time by the companies themselves.

Additionally, Berkshire Hathaway Inc. publishes the *Buffalo News*, a daily and Sunday newspaper in upstate New York. Other business activities conducted by non-insurance subsidiaries include publication and distribution of encyclopedias and related educational and instructional material (*World Book* and *Childcraft* products), manufacture and marketing of home cleaning systems and related accessories (sold principally under the *Kirby* name), manufacture and sale of boxed chocolates and other confectionery products (*See's Candies*), retailing of home furnishings (*Nebraska Furniture Mart*), manufacture and distribution of uniforms (*Fechheimer Bros. Co.*) and manufacture, import and distribution of footwear (*H.H. Brown Shoe Co.*). Berkshire also owns a number of other businesses engaged in a variety of activities, as identified in this Report.

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.

1991 ANNUAL REPORT

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Certain **OWNER-RELATED BUSINESS PRINCIPLES** were included in the Chairman's letter* to Shareholders of Berkshire Hathaway Inc. in the 1983 Annual Report. Because the material remains topical, it is reproduced on this and the following page.

With so many new shareholders, it's appropriate to summarize the major business principles we follow that pertain to the manager-owner relationship:

- 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 also, are, 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.

- In line with this owner-orientation, our directors are major shareholders of Berkshire Hathaway. In the case of at least four, over 50% of family net worth is represented by holdings of Berkshire. We eat our own cooking.

- Our long-term economic goal (subject to some qualifications mentioned later) is to maximize the 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.

- Our preference would be to reach this 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.

- Because of this 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.

- 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 rarely use much debt and, when we do, we attempt to structure it 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, depositors, 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.")

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● 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.

● 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.

● 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.

● 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, and are 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 — the advocates will be 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 it.

● 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.

● 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.

BERKSHIRE HATHAWAY INC.

A management change occurred at Berkshire Hathaway early in 1965. In order to present data at even intervals following the change, this table utilizes nine-year spacing.

Selected Financial Data at Nine Year Intervals
(dollars in thousands, except per share amounts)

	1964	1973	1982	1991
Revenues:				
Sales and service revenues	$ 49,983	$ 33,411	$ 306,564	$ 1,651,134
Insurance premiums earned	—	52,929	152,945	776,413
Investment income, insurance group	—	7,310	41,791	343,442
Realized investment gain	—	1,332	38,717	192,478
Total revenues	$ 49,983	$ 95,336	$ 579,589	$ 3,105,996
Earnings (loss):				
Before realized investment gain	$ (2,824)	$ 11,930	$ 31,497	$ 315,753
Realized investment gain	—	930	14,877	124,155
Net earnings (loss)	$ (2,824)	$ 12,860	$ 46,374	$ 439,908
Earnings (loss) per share:				
Before realized investment gain	$ (2.41)	$ 12.18	$ 31.93	$ 275.42
Realized investment gain	—	.95	15.08	108.30
Net earnings (loss)	$ (2.41)	$ 13.13	$ 47.01	$ 383.72
Year-end data:				
Total assets	$ 27,887	$196,132	$1,723,993	$14,461,902
Term debt and other borrowings	2,500	20,599	169,947	1,255,068
Shareholders' equity	22,139	81,155	727,483	7,379,918
Common shares outstanding, in thousands	1,138	980	987	1,146
Shareholders' equity per outstanding share	$19	$83	$737	$6,437

The 1964 fiscal year was the 52 week period ended October 3, 1964. The years 1973, and 1982 were fiscal years that ended on Saturday nearest December 31. Data are presented as last reported.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Our gain in net worth during 1991 was $2.1 billion, or 39.6%. Over the last 27 years (that is, since present management took over) our per-share book value has grown from $19 to $6,437, or at a rate of 23.7% compounded annually.

The size of our equity capital — which now totals $7.4 billion — makes it certain that we cannot maintain our past rate of gain nor, for that matter, come close to doing so. As Berkshire grows, the universe of opportunities that can significantly influence the company's performance constantly shrinks. When we were working with capital of $20 million, an idea or business producing $1 million of profit added five percentage points to our return for the year. Now we need a $370 million idea (i.e., one contributing over $550 million of pre-tax profit) to achieve the same result. And there are many more ways to make $1 million than to make $370 million.

Charlie Munger, Berkshire's Vice Chairman, and I have set a goal of attaining a 15% average annual increase in Berkshire's intrinsic value. If our growth in *book* value is to keep up with a 15% pace, we must earn $22 billion during the next decade. Wish us luck — we'll need it.

Our outsized gain in book value in 1991 resulted from a phenomenon not apt to be repeated: a dramatic rise in the price-earnings ratios of Coca-Cola and Gillette. These two stocks accounted for nearly $1.6 billion of our $2.1 billion growth in net worth last year. When we loaded up on Coke three years ago, Berkshire's net worth was $3.4 billion; now our Coke stock alone is worth more than that.

Coca-Cola and Gillette are two of the best companies in the world and we expect their earnings to grow at hefty rates in the years ahead. Over time, also, the value of our holdings in these stocks should grow in rough proportion. Last year, however, the valuations of these two companies rose far faster than their earnings. In effect, we got a double-dip benefit, delivered partly by the excellent earnings growth and even more so by the market's reappraisal of these stocks. We believe this reappraisal was warranted. But it can't recur annually: We'll have to settle for a single dip in the future.

A Second Job

In 1989 when I — a happy consumer of five cans of Cherry Coke daily — announced our purchase of $1 billion worth of Coca-Cola stock, I described the move as a rather extreme example of putting our money where my mouth was. On August 18 of last year, when I was elected Interim Chairman of Salomon Inc, it was a different story: I put my mouth where our money was.

You've all read of the events that led to my appointment. My decision to take the job carried with it an implicit but important message: Berkshire's operating managers are so outstanding that I knew I could materially reduce the time I was spending at the company and yet remain confident that its economic progress would not skip a beat. The Blumkins, the Friedman family, Mike Goldberg, the Heldmans, Chuck Huggins, Stan Lipsey, Ralph Schey and Frank Rooney (CEO of H. H. Brown, our latest acquisition, which I will describe later) are all masters of their operations and need no help from me. My job is merely to treat them right and to allocate the capital they generate. Neither function is impeded by my work at Salomon.

The role that Charlie and I play in the success of our operating units can be illustrated by a story about George Mira, the one-time quarterback of the University of Miami, and his coach, Andy Gustafson. Playing Florida and near its goal line, Mira dropped back to pass. He spotted an open receiver but found his right shoulder in the unshakable grasp of a Florida linebacker. The right-handed Mira thereupon switched the ball to his other hand and threw the only left-handed pass of his life — for a touchdown. As the crowd erupted, Gustafson calmly turned to a reporter and declared: "Now that's what I call coaching."

Given the managerial stars we have at our operating units, Berkshire's performance is not affected if Charlie or I slip away from time to time. You should note, however, the "interim" in my Salomon title. Berkshire is my first love and one that will never fade: At the Harvard Business School last year, a student asked me when I planned to retire and I replied, "About five to ten years after I die."

Sources of Reported Earnings

The table below shows the major sources of Berkshire's reported earnings. In this presentation, amortization of Goodwill and other major purchase-price accounting adjustments are not charged against the specific businesses to which they apply, but are instead aggregated and shown separately. This procedure lets you view the earnings of our businesses as they would have been reported had we not purchased them. I've explained in past reports why this form of presentation seems to us to be more useful to investors and managers than one utilizing generally accepted accounting principles (GAAP), which require purchase-price adjustments to be made on a business-by-business basis. The total net earnings we show in the table are, of course, identical to the GAAP total in our audited financial statements.

A large amount of additional information about these businesses is given on pages 33 - 47, where you also will find our segment earnings reported on a GAAP basis. However, we will not in this letter discuss each of our non-insurance operations, as we have in the past. Our businesses have grown in number — and will continue to grow — so it now makes sense to rotate coverage, discussing one or two in detail each year.

	(000s omitted)			
	Pre-Tax Earnings		*Berkshire's Share of Net Earnings (after taxes and minority interests)*	
	1991	*1990*	*1991*	*1990*
Operating Earnings:				
Insurance Group:				
Underwriting	$(119,593)	$ (26,647)	$ (77,229)	$ (14,936)
Net Investment Income	331,846	327,047	285,173	282,613
H. H. Brown (acquired 7/1/91)	13,616	—	8,611	—
Buffalo News	37,113	43,954	21,841	25,981
Fechheimer	12,947	12,450	6,843	6,605
Kirby	35,726	27,445	22,555	17,613
Nebraska Furniture Mart	14,384	17,248	6,993	8,485
Scott Fetzer Manufacturing Group	26,123	30,378	15,901	18,458
See's Candies	42,390	39,580	25,575	23,892
Wesco - other than Insurance	12,230	12,441	8,777	9,676
World Book	22,483	31,896	15,487	20,420
Amortization of Goodwill	(4,113)	(3,476)	(4,098)	(3,461)
Other Purchase-Price Accounting Charges	(6,021)	(5,951)	(7,019)	(6,856)
Interest Expense*	(89,250)	(76,374)	(57,165)	(49,726)
Shareholder-Designated Contributions	(6,772)	(5,824)	(4,388)	(3,801)
Other	77,399	58,310	47,896	35,782
Operating Earnings	400,508	482,477	315,753	370,745
Sales of Securities	192,478	33,989	124,155	23,348
Total Earnings - All Entities	$ 592,986	$ 516,466	$ 439,908	$ 394,093

**Excludes interest expense of Scott Fetzer Financial Group and Mutual Savings & Loan.*

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"Look-Through" Earnings

We've previously discussed look-through earnings, which consist of: (1) the operating earnings reported in the previous section, plus; (2) the retained operating earnings of major investees that, under GAAP accounting, are not reflected in our profits, less; (3) an allowance for the tax that would be paid by Berkshire if these retained earnings of investees had instead been distributed to us.

I've told you that over time look-through earnings must increase at about 15% annually if our intrinsic business value is to grow at that rate. Indeed, since present management took over in 1965, our look-through earnings have grown at almost the identical 23% rate of gain recorded for book value.

Last year, however, our look-through earnings did not grow at all but rather declined by 14%. To an extent, the decline was precipitated by two forces that I discussed in last year's report and that I warned you would have a negative effect on look-through earnings.

First, I told you that our media earnings — both direct and look-through — were "sure to decline" and they in fact did. The second force came into play on April 1, when the call of our Gillette preferred stock required us to convert it into common. The after-tax earnings in 1990 from our preferred had been about $45 million, an amount somewhat higher than the combination in 1991 of three months of dividends on our preferred plus nine months of look-through earnings on the common.

Two other outcomes that I did not foresee also hurt look-through earnings in 1991. First, we had a break-even result from our interest in Wells Fargo (dividends we received from the company were offset by negative retained earnings). Last year I said that such a result at Wells was "a low-level possibility — not a likelihood." Second, we recorded significantly lower — though still excellent — insurance profits.

The following table shows you how we calculate look-through earnings, although I warn you that the figures are necessarily very rough. (The dividends paid to us by these investees have been included in the operating earnings itemized on page 6, mostly under "Insurance Group: Net Investment Income.")

Berkshire's Major Investees	Berkshire's Approximate Ownership at Yearend		Berkshire's Share of Undistributed Operating Earnings (in millions)	
	1991	1990	1991	1990
Capital Cities/ABC Inc.	18.1%	17.9%	$ 61	$ 85
The Coca-Cola Company	7.0%	7.0%	69	58
Federal Home Loan Mortgage Corp.	3.4%(1)	3.2%(1)	15	10
The Gillette Company	11.0%	—	23(2)	—
GEICO Corp.	48.2%	46.1%	69	76
The Washington Post Company	14.6%	14.6%	10	18
Wells Fargo & Company	9.6%	9.7%	(17)	19(3)
Berkshire's share of undistributed earnings of major investees			$230	$266
Hypothetical tax on these undistributed investee earnings			(30)	(35)
Reported operating earnings of Berkshire			316	371
Total look-through earnings of Berkshire			$516	$602

(1) Net of minority interest at Wesco
(2) For the nine months after Berkshire converted its preferred on April 1
(3) Calculated on average ownership for the year

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We also believe that investors can benefit by focusing on their own look-through earnings. To calculate these, they should determine the underlying earnings attributable to the shares they hold in their portfolio and total these. The goal of each investor should be to create a portfolio (in effect, a "company") that will deliver him or her the highest possible look-through earnings a decade or so from now.

An approach of this kind will force the investor to think about long-term business prospects rather than short-term stock market prospects, a perspective likely to improve results. It's true, of course, that, in the long run, the scoreboard for investment decisions is market price. But prices will be determined by future earnings. In investing, just as in baseball, to put runs on the scoreboard one must watch the playing field, not the scoreboard.

A Change in Media Economics and Some Valuation Math

In last year's report, I stated my opinion that the decline in the profitability of media companies reflected secular as well as cyclical factors. The events of 1991 have fortified that case: The economic strength of once-mighty media enterprises continues to erode as retailing patterns change and advertising and entertainment choices proliferate. In the business world, unfortunately, the rear-view mirror is always clearer than the windshield: A few years back no one linked to the media business — neither lenders, owners nor financial analysts — saw the economic deterioration that was in store for the industry. (But give me a few years and I'll probably convince myself that I did.)

The fact is that newspaper, television, and magazine properties have begun to resemble *businesses* more than *franchises* in their economic behavior. Let's take a quick look at the characteristics separating these two classes of enterprise, keeping in mind, however, that many operations fall in some middle ground and can best be described as weak franchises or strong businesses.

An economic franchise arises from a product or service that: (1) is needed or desired; (2) is thought by its customers to have no close substitute and; (3) is not subject to price regulation. The existence of all three conditions will be demonstrated by a company's ability to regularly price its product or service aggressively and thereby to earn high rates of return on capital. Moreover, franchises can tolerate mismanagement. Inept managers may diminish a franchise's profitability, but they cannot inflict mortal damage.

In contrast, "a business" earns exceptional profits only if it is the low-cost operator or if supply of its product or service is tight. Tightness in supply usually does not last long. With superior management, a company may maintain its status as a low-cost operator for a much longer time, but even then unceasingly faces the possibility of competitive attack. And a business, unlike a franchise, can be killed by poor management.

Until recently, media properties possessed the three characteristics of a franchise and consequently could both price aggressively and be managed loosely. Now, however, consumers looking for information and entertainment (their primary interest being the latter) enjoy greatly broadened choices as to where to find them. Unfortunately, demand can't expand in response to this new supply: 500 million American eyeballs and a 24-hour day are all that's available. The result is that competition has intensified, markets have fragmented, and the media industry has lost some — though far from all — of its franchise strength.

* * * * * * * * * * * * *

The industry's weakened franchise has an impact on its value that goes far beyond the immediate effect on earnings. For an understanding of this phenomenon, let's look at some much over-simplified, but relevant, math.

A few years ago the conventional wisdom held that a newspaper, television or magazine property would forever increase its earnings at 6% or so annually and would do so *without the employment of additional capital*, for the reason that depreciation charges would roughly match capital expenditures and working capital requirements would be minor. Therefore, reported earnings (before amortization of intangibles) were also freely-distributable earnings, which meant that ownership of a media property could be construed as akin to owning a perpetual annuity set to grow at 6% a year. Say, next, that a discount rate of 10% was used to determine the present value of that earnings stream. One could then calculate that it was

(85)

appropriate to pay a whopping $25 million for a property with current after-tax earnings of $1 million. (This after-tax multiplier of 25 translates to a multiplier on pre-tax earnings of about 16.)

Now change the assumption and posit that the $1 million represents "normal earning power" and that earnings will bob around this figure cyclically. A "bob-around" pattern is indeed the lot of most businesses, whose income stream grows only if their owners are willing to commit more capital (usually in the form of retained earnings). Under our revised assumption, $1 million of earnings, discounted by the same 10%, translates to a $10 million valuation. Thus a seemingly modest shift in assumptions reduces the property's valuation to 10 times after-tax earnings (or about 6½ times pre-tax earnings).

Dollars are dollars whether they are derived from the operation of media properties or of steel mills. What in the past caused buyers to value a dollar of earnings from media far higher than a dollar from steel was that the earnings of a media property were expected to constantly grow (without the business requiring much additional capital), whereas steel earnings clearly fell in the bob-around category. Now, however, expectations for media have moved toward the bob-around model. And, as our simplified example illustrates, valuations must change dramatically when expectations are revised.

We have a significant investment in media — both through our direct ownership of Buffalo News and our shareholdings in The Washington Post Company and Capital Cities/ABC — and the intrinsic value of this investment has declined materially because of the secular transformation that the industry is experiencing. (Cyclical factors have also hurt our current look-through earnings, but these factors do not reduce intrinsic value.) However, as our Business Principles on pages 2 - 3 note, one of the rules by which we run Berkshire is that we do not sell businesses — or investee holdings that we have classified as permanent — simply because we see ways to use the money more advantageously elsewhere. (We did sell certain other media holdings sometime back, but these were relatively small.)

The intrinsic value losses that we have suffered have been moderated because the Buffalo News, under Stan Lipsey's leadership, has done far better than most newspapers and because both Cap Cities and Washington Post are exceptionally well-managed. In particular, these companies stayed on the sidelines during the late 1980's period in which purchasers of media properties regularly paid irrational prices. Also, the debt of both Cap Cities and Washington Post is small and roughly offset by cash that they hold. As a result, the shrinkage in the value of their assets has not been accentuated by the effects of leverage. Among publicly-owned media companies, our two investees are about the only ones essentially free of debt. Most of the other companies, through a combination of the aggressive acquisition policies they pursued and shrinking earnings, find themselves with debt equal to five or more times their current net income.

The strong balance sheets and strong managements of Cap Cities and Washington Post leave us more comfortable with these investments than we would be with holdings in any other media companies. Moreover, most media properties continue to have far better economic characteristics than those possessed by the average American business. But gone are the days of bullet-proof franchises and cornucopian economics.

Twenty Years in a Candy Store

We've just passed a milestone: Twenty years ago, on January 3, 1972, Blue Chip Stamps (then an affiliate of Berkshire and later merged into it) bought control of See's Candy Shops, a West Coast manufacturer and retailer of boxed-chocolates. The nominal price that the sellers were asking — calculated on the 100% ownership we ultimately attained — was $40 million. But the company had $10 million of excess cash, and therefore the true offering price was $30 million. Charlie and I, not yet fully appreciative of the value of an economic franchise, looked at the company's mere $7 million of tangible net worth and said $25 million was as high as we would go (and we meant it). Fortunately, the sellers accepted our offer.

The sales of trading stamps by Blue Chip thereafter declined from $102.5 million in 1972 to $1.2 million in 1991. But See's candy sales in the same period increased from $29 million to $196 million. Moreover, profits at See's grew even faster than sales, from $4.2 million pre-tax in 1972 to $42.4 million last year.

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For an increase in profits to be evaluated properly, it must be compared with the incremental capital investment required to produce it. On this score, See's has been astounding: The company now operates comfortably with only $25 million of net worth, which means that our beginning base of $7 million has had to be supplemented by only $18 million of reinvested earnings. Meanwhile, See's remaining pre-tax profits of $410 million were distributed to Blue Chip/Berkshire during the 20 years for these companies to deploy (after payment of taxes) in whatever way made most sense.

In our See's purchase, Charlie and I had one important insight: We saw that the business had untapped pricing power. Otherwise, we were lucky twice over. First, the transaction was not derailed by our dumb insistence on a $25 million price. Second, we found Chuck Huggins, then See's executive vice-president, whom we instantly put in charge. Both our business and personal experiences with Chuck have been outstanding. One example: When the purchase was made, we shook hands with Chuck on a compensation arrangement — conceived in about five minutes and never reduced to a written contract — that remains unchanged to this day.

In 1991, See's sales volume, measured in dollars, matched that of 1990. In pounds, however, volume was down 4%. All of that slippage took place in the last two months of the year, a period that normally produces more than 80% of annual profits. Despite the weakness in sales, profits last year grew 7%, and our pre-tax profit margin was a record 21.6%.

Almost 80% of See's sales come from California and our business clearly was hurt by the recession, which hit the state with particular force late in the year. Another negative, however, was the mid-year initiation in California of a sales tax of 7%-8% (depending on the county involved) on "snack food" that was deemed applicable to our candy.

Shareholders who are students of epistemological shadings will enjoy California's classifications of "snack" and "non-snack" foods:

Taxable "Snack" Foods	Non-Taxable "Non-Snack" Foods
Ritz Crackers	Soda Crackers
Popped Popcorn	Unpopped Popcorn
Granola Bars	Granola Cereal
Slice of Pie (Wrapped)	Whole Pie
Milky Way Candy Bar	Milky Way Ice Cream Bar

What — you are sure to ask — is the tax status of a *melted* Milky Way ice cream bar? In that androgynous form, does it more resemble an ice cream bar or a candy bar that has been left in the sun? It's no wonder that Brad Sherman, Chairman of California's State Board of Equalization, who opposed the snack food bill but must now administer it, has said: "I came to this job as a specialist in tax law. Now I find my constituents should have elected Julia Child."

Charlie and I have many reasons to be thankful for our association with Chuck and See's. The obvious ones are that we've earned exceptional returns and had a good time in the process. Equally important, ownership of See's has taught us much about the evaluation of franchises. We've made significant money in certain common stocks because of the lessons we learned at See's.

H. H. Brown

We made a sizable acquisition in 1991 — the H. H. Brown Shoe Co. — and behind this business is an interesting history. In 1927 a 29-year-old businessman named Ray Heffernan purchased the company, then located in North Brookfield, Massachusetts, for $10,000 and began a 62-year career of running it. (He also found time for other pursuits: At age 90 he was still joining new golf clubs.) By Mr. Heffernan's retirement in early 1990 H. H. Brown had three plants in the United States and one in Canada; employed close to 2,000 people; and earned about $25 million annually before taxes.

Along the way, Frances Heffernan, one of Ray's daughters, married Frank Rooney, who was sternly advised by Mr. Heffernan before the wedding that he had better forget any ideas he might have about working for his father-in-law. That was one of Mr. Heffernan's few mistakes: Frank went on to become CEO of Melville Shoe (now Melville Corp.). During his 23 years as boss, from 1964 through 1986, Melville's earnings averaged more than 20% on equity and its stock (adjusted for splits) rose from $16 to $960. And a few years after Frank retired, Mr. Heffernan, who had fallen ill, asked him to run Brown.

After Mr. Heffernan died late in 1990, his family decided to sell the company — and here we got lucky. I had known Frank for a few years but not well enough for him to think of Berkshire as a possible buyer. He instead gave the assignment of selling Brown to a major investment banker, which failed also to think of us. But last spring Frank was playing golf in Florida with John Loomis, a long-time friend of mine as well as a Berkshire shareholder, who is always on the alert for something that might fit us. Hearing about the impending sale of Brown, John told Frank that the company should be right up Berkshire's alley, and Frank promptly gave me a call. I thought right away that we would make a deal and before long it was done.

Much of my enthusiasm for this purchase came from Frank's willingness to continue as CEO. Like most of our managers, he has no financial need to work but does so because he loves the game and likes to excel. Managers of this stripe cannot be "hired" in the normal sense of the word. What we must do is provide a concert hall in which business artists of this class will wish to perform.

Brown (which, by the way, has no connection to Brown Shoe of St. Louis) is the leading North American manufacturer of work shoes and boots, and it has a history of earning unusually fine margins on sales and assets. Shoes are a tough business — of the billion pairs purchased in the United States each year, about 85% are imported — and most manufacturers in the industry do poorly. The wide range of styles and sizes that producers offer causes inventories to be heavy; substantial capital is also tied up in receivables. In this kind of environment, only outstanding managers like Frank and the group developed by Mr. Heffernan can prosper.

A distinguishing characteristic of H. H. Brown is one of the most unusual compensation systems I've encountered — but one that warms my heart: A number of key managers are paid an annual salary of $7,800, to which is added a designated percentage of the profits of the company after these are reduced by a charge for capital employed. These managers therefore truly stand in the shoes of owners. In contrast, most managers talk the talk but don't walk the walk, choosing instead to employ compensation systems that are long on carrots but short on sticks (and that almost invariably treat equity capital as if it were cost-free). The arrangement at Brown, in any case, has served both the company and its managers exceptionally well, which should be no surprise: Managers eager to bet heavily on their abilities usually have plenty of ability to bet on.

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It's discouraging to note that though we have on four occasions made major purchases of companies whose sellers were represented by prominent investment banks, we were in only one of these instances contacted by the investment bank. In the other three cases, I myself or a friend initiated the transaction at some point after the investment bank had solicited its own list of prospects. We would love to see an intermediary earn its fee by thinking of us — and therefore repeat here what we're looking for:

(1) Large purchases (at least $10 million of after-tax earnings),
(2) Demonstrated consistent earning power (future projections are of little 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).

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. (With Brown, we didn't even need to take five.) We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

Our favorite form of purchase is one fitting the pattern through which we acquired Nebraska Furniture Mart, Fechheimer's and Borsheim's. In cases like these, the company's owner-managers wish to generate significant amounts of cash, sometimes for themselves, but often for their families or inactive shareholders. At the same time, these managers wish to remain significant owners who continue to run their companies just as they have in the past. We think we offer a particularly good fit for owners with such objectives and we invite potential sellers to check us out by contacting people with whom we have done business in the past.

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."

Besides being interested in the purchase of businesses as described above, we are also interested in the negotiated purchase of large, but not controlling, blocks of stock comparable to those we hold in Capital Cities, Salomon, Gillette, USAir, Champion, and American Express. We are not interested, however, in receiving suggestions about purchases we might make in the general stock market.

Insurance Operations

Shown below is an updated version of our usual table presenting key figures for the property-casualty insurance industry:

	Yearly Change in Premiums Written (%)	*Combined Ratio After Policyholder Dividends*	*Yearly Change in Incurred Losses (%)*	*Inflation Rate Measured by GDP Deflator (%)*
1981	3.8	106.0	6.5	10.0
1982	3.7	109.6	8.4	6.2
1983	5.0	112.0	6.8	4.0
1984	8.5	118.0	16.9	4.5
1985	22.1	116.3	16.1	3.7
1986	22.2	108.0	13.5	2.7
1987	9.4	104.6	7.8	3.1
1988	4.4	105.4	5.5	3.9
1989	3.2	109.2	7.7	4.4
1990 (Revised)	4.4	109.6	4.8	4.1
1991 (Est.)	3.1	109.1	2.9	3.7

The combined ratio represents total insurance costs (losses incurred plus expenses) compared to revenue from premiums: A ratio below 100 indicates an underwriting profit, and one above 100 indicates a loss. The higher the ratio, the worse the year. When the investment income that an insurer earns from holding policyholders' funds ("the float") is taken into account, a combined ratio in the 107 - 111 range typically produces an overall break-even result, exclusive of earnings on the funds provided by shareholders.

For the reasons laid out in previous reports, we expect the industry's incurred losses to grow at close to 10% annually, even in periods when general inflation runs considerably lower. (Over the last 25 years,

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incurred losses have in reality grown at a still faster rate, 11%.) If premium growth meanwhile materially lags that 10% rate, underwriting losses will mount.

However, the industry's tendency to under-reserve when business turns bad may obscure the picture for a time — and that could well describe the situation last year. Though premiums did not come close to growing 10%, the combined ratio failed to deteriorate as I had expected but instead slightly improved. Loss-reserve data for the industry indicate that there is reason to be skeptical of that outcome, and it may turn out that 1991's ratio should have been worse than was reported. In the long run, of course, trouble awaits managements that paper over operating problems with accounting maneuvers. Eventually, managements of this kind achieve the same result as the seriously-ill patient who tells his doctor: "I can't afford the operation, but would you accept a small payment to touch up the x-rays?"

Berkshire's insurance business has changed in ways that make combined ratios, our own or the industry's, largely irrelevant to our performance. What counts with us is the "cost of funds developed from insurance," or in the vernacular, "the cost of float."

Float — which we generate in exceptional amounts — is the total of loss reserves, loss adjustment expense reserves and unearned premium reserves minus agents' balances, prepaid acquisition costs and deferred charges applicable to assumed reinsurance. And the cost of float is measured by our underwriting loss.

The table below shows our cost of float since we entered the business in 1967.

	(1) Underwriting Loss	(2) Average Float	Approximate Cost of Funds	Yearend Yield on Long-Term Govt. Bonds
	(In $ Millions)		(Ratio of 1 to 2)	
1967	profit	$17.3	less than zero	5.50%
1968	profit	19.9	less than zero	5.90%
1969	profit	23.4	less than zero	6.79%
1970	$0.37	32.4	1.14%	6.25%
1971	profit	52.5	less than zero	5.81%
1972	profit	69.5	less than zero	5.82%
1973	profit	73.3	less than zero	7.27%
1974	7.36	79.1	9.30%	8.13%
1975	11.35	87.6	12.96%	8.03%
1976	profit	102.6	less than zero	7.30%
1977	profit	139.0	less than zero	7.97%
1978	profit	190.4	less than zero	8.93%
1979	profit	227.3	less than zero	10.08%
1980	profit	237.0	less than zero	11.94%
1981	profit	228.4	less than zero	13.61%
1982	21.56	220.6	9.77%	10.64%
1983	33.87	231.3	14.64%	11.84%
1984	48.06	253.2	18.98%	11.58%
1985	44.23	390.2	11.34%	9.34%
1986	55.84	797.5	7.00%	7.60%
1987	55.43	1,266.7	4.38%	8.95%
1988	11.08	1,497.7	0.74%	9.00%
1989	24.40	1,541.3	1.58%	7.97%
1990	26.65	1,637.3	1.63%	8.24%
1991	119.6	1,895.0	6.31%	7.40%

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As you can see, our cost of funds in 1991 was well below the U.S. Government's cost on newly-issued long-term bonds. We have in fact beat the government's rate in 20 of the 25 years we have been in the insurance business, often by a wide margin. We have over that time also substantially increased the amount of funds we hold, which counts as a favorable development but only because the cost of funds has been satisfactory. Our float should continue to grow; the challenge will be to garner these funds at a reasonable cost.

Berkshire continues to be a very large writer — perhaps the largest in the world — of "super-cat" insurance, which is coverage that other insurance companies buy to protect themselves against major catastrophic losses. Profits in this business are enormously volatile. As I mentioned last year, $100 million in super-cat premiums, which is roughly our annual expectation, could deliver us anything from a $100 million profit (in a year with no big catastrophe) to a $200 million loss (in a year in which a couple of major hurricanes and/or earthquakes come along).

We price this business expecting to pay out, over the long term, about 90% of the premiums we receive. In any given year, however, we are likely to appear either enormously profitable or enormously *un*profitable. That is true in part because GAAP accounting does not allow us to set up reserves in the catastrophe-free years for losses that are certain to be experienced in other years. In effect, a one-year accounting cycle is ill-suited to the nature of this business — and that is a reality you should be aware of when you assess our annual results.

Last year there appears to have been, by our definition, one super-cat, but it will trigger payments from only about 25% of our policies. Therefore, we currently estimate the 1991 underwriting profit from our catastrophe business to have been about $11 million. (You may be surprised to learn the identity of the biggest catastrophe in 1991: It was neither the Oakland fire nor Hurricane Bob, but rather a September typhoon in Japan that caused the industry an insured loss now estimated at about $4-$5 billion. At the higher figure, the loss from the typhoon would surpass that from Hurricane Hugo, the previous record-holder.)

Insurers will always need huge amounts of reinsurance protection for marine and aviation disasters as well as for natural catastrophes. In the 1980's much of this reinsurance was supplied by "innocents" — that is, by insurers that did not understand the risks of the business — but they have now been financially burned beyond recognition. (Berkshire itself was an innocent all too often when I was personally running the insurance operation.) Insurers, though, like investors, eventually repeat their mistakes. At some point — probably after a few catastrophe-scarce years — innocents will reappear and prices for super-cat policies will plunge to silly levels.

As long as apparently-adequate rates prevail, however, we will be a major participant in super-cat coverages. In marketing this product, we enjoy a significant competitive advantage because of our premier financial strength. Thinking insurers know that when "the big one" comes, many reinsurers who found it easy to write policies will find it difficult to write checks. (Some reinsurers can say what Jackie Mason does: "I'm fixed for life — as long as I don't buy anything.") Berkshire's ability to fulfill all its commitments under conditions of even extreme adversity is unquestioned.

Overall, insurance offers Berkshire its greatest opportunities. Mike Goldberg has accomplished wonders with this operation since he took charge and it has become a very valuable asset, albeit one that can't be appraised with any precision.

Marketable Common Stocks

On the next page we list our common stock holdings having a value of over $100 million. A small portion of these investments belongs to subsidiaries of which Berkshire owns less than 100%.

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Shares	*Company*	12/31/91 *Cost*	*Market*
		(000s omitted)	
3,000,000	Capital Cities/ABC, Inc.	$ 517,500	$1,300,500
46,700,000	The Coca-Cola Company	1,023,920	3,747,675
2,495,200	Federal Home Loan Mortgage Corp.	77,245	343,090
6,850,000	GEICO Corp.	45,713	1,363,150
24,000,000	The Gillette Company	600,000	1,347,000
31,247,000	Guinness PLC	264,782	296,755
1,727,765	The Washington Post Company	9,731	336,050
5,000,000	Wells Fargo & Company	289,431	290,000

As usual the list reflects our Rip Van Winkle approach to investing. Guinness is a new position. But we held the other seven stocks a year ago (making allowance for the conversion of our Gillette position from preferred to common) and in six of those we hold an unchanged number of shares. The exception is Federal Home Loan Mortgage ("Freddie Mac"), in which our shareholdings increased slightly. Our stay-put behavior reflects our view that the stock market serves as a relocation center at which money is moved from the active to the patient. (With tongue only partly in check, I suggest that recent events indicate that the much-maligned "idle rich" have received a bad rap: They have maintained or increased their wealth while many of the "energetic rich" — aggressive real estate operators, corporate acquirers, oil drillers, etc. — have seen their fortunes disappear.)

Our Guinness holding represents Berkshire's first significant investment in a company domiciled outside the United States. Guinness, however, earns its money in much the same fashion as Coca-Cola and Gillette, U.S.-based companies that garner most of their profits from international operations. Indeed, in the sense of where they earn their profits — continent-by-continent — Coca-Cola and Guinness display strong similarities. (But you'll never get their drinks confused — and your Chairman remains unmovably in the Cherry Coke camp.)

We continually search for large businesses with understandable, enduring and mouth-watering economics that are run by able and shareholder-oriented managements. This focus doesn't guarantee results: We both have to buy at a sensible price and get business performance from our companies that validates our assessment. But this investment approach — searching for the superstars — offers us our only chance for real success. Charlie and I are simply not smart enough, considering the large sums we work with, to get great results by adroitly buying and selling portions of far-from-great businesses. Nor do we think many others can achieve long-term investment success by flitting from flower to flower. Indeed, we believe that according the name "investors" to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a romantic.

If my universe of business possibilities was limited, say, to private companies in Omaha, I would, first, try to assess the long-term economic characteristics of each business; second, assess the quality of the people in charge of running it; and, third, try to buy into a few of the best operations at a sensible price. I certainly would not wish to own an equal part of every business in town. Why, then, should Berkshire take a different tack when dealing with the larger universe of public companies? And since finding great businesses and outstanding managers is so difficult, why should we discard proven products? (I was tempted to say "the real thing.") Our motto is: "If at first you do succeed, quit trying."

John Maynard Keynes, whose brilliance as a practicing investor matched his brilliance in thought, wrote a letter to a business associate, F. C. Scott, on August 15, 1934 that says it all: "As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes. It is a mistake to think that one limits one's risk by spreading too much between enterprises about which one knows little and has no reason for special confidence. . . . One's knowledge and experience are definitely limited and there are seldom more than two or three enterprises at any given time in which I personally feel myself entitled to put *full* confidence."

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Mistake Du Jour

In the 1989 annual report I wrote about "Mistakes of the First 25 Years" and promised you an update in 2015. My experiences in the first few years of this second "semester" indicate that my backlog of matters to be discussed will become unmanageable if I stick to my original plan. Therefore, I will occasionally unburden myself in these pages in the hope that public confession may deter further bumblings. (Post-mortems prove useful for hospitals and football teams; why not for businesses and investors?)

Typically, our most egregious mistakes fall in the omission, rather than the commission, category. That may spare Charlie and me some embarrassment, since you don't see these errors; but their invisibility does not reduce their cost. In this mea culpa, I am not talking about missing out on some company that depends upon an esoteric invention (such as Xerox), high-technology (Apple), or even brilliant merchandising (WalMart). We will never develop the competence to spot such businesses early. Instead I refer to business situations that Charlie and I can understand and that seem clearly attractive — but in which we nevertheless end up sucking our thumbs rather than buying.

Every writer knows it helps to use striking examples, but I wish the one I now present wasn't quite so dramatic: In early 1988, we decided to buy 30 million shares (adjusted for a subsequent split) of Federal National Mortgage Association (Fannie Mae), which would have been a $350-$400 million investment. We had owned the stock some years earlier and understood the company's business. Furthermore, it was clear to us that David Maxwell, Fannie Mae's CEO, had dealt superbly with some problems that he had inherited and had established the company as a financial powerhouse — with the best yet to come. I visited David in Washington and confirmed that he would not be uncomfortable if we were to take a large position.

After we bought about 7 million shares, the price began to climb. In frustration, I stopped buying (a mistake that, thankfully, I did not repeat when Coca-Cola stock rose similarly during our purchase program). In an even sillier move, I surrendered to my distaste for holding small positions and sold the 7 million shares we owned.

I wish I could give you a halfway rational explanation for my amateurish behavior vis-a-vis Fannie Mae. But there isn't one. What I *can* give you is an estimate as of yearend 1991 of the approximate gain that Berkshire *didn't* make because of your Chairman's mistake: about $1.4 billion.

Fixed-Income Securities

We made several significant changes in our fixed-income portfolio during 1991. As I noted earlier, our Gillette preferred was called for redemption, which forced us to convert to common stock; we eliminated our holdings of an RJR Nabisco issue that was subject to an exchange offer and subsequent call; and we purchased fixed-income securities of American Express and First Empire State Corp., a Buffalo-based bank holding company. We also added to a small position in ACF Industries that we had established in late 1990. Our largest holdings at yearend were:

	(000s omitted)	
Issuer	Cost of Preferreds and Amortized Value of Bonds	Market
ACF Industries	$ 93,918(2)	$118,683
American Express	300,000	263,265(1)(2)
Champion International	300,000(2)	300,000(1)
First Empire State	40,000	50,000(1)(2)
RJR Nabisco	222,148(2)	285,683
Salomon	700,000(2)	714,000(1)
USAir	358,000(2)	232,700(1)
Washington Public Power Systems	158,553(2)	203,071

(1) Fair value as determined by Charlie and me
(2) Carrying value in our financial statements

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Our $40 million of First Empire State preferred carries a 9% coupon, is non-callable until 1996 and is convertible at $78.91 per share. Normally I would think a purchase of this size too small for Berkshire, but I have enormous respect for Bob Wilmers, CEO of First Empire, and like being his partner on any scale.

Our American Express preferred is not a normal fixed-income security. Rather it is a "Perc," which carries a fixed dividend of 8.85% on our $300 million cost. Absent one exception mentioned later, our preferred must be converted three years after issuance, into a maximum of 12,244,898 shares. If necessary, a downward adjustment in the conversion ratio will be made in order to limit to $414 million the total value of the common we receive. Though there is thus a ceiling on the value of the common stock that we will receive upon conversion, there is no floor. The terms of the preferred, however, include a provision allowing us to extend the conversion date by one year if the common stock is below $24.50 on the third anniversary of our purchase.

Overall, our fixed-income investments have treated us well, both over the long term and recently. We have realized large capital gains from these holdings, including about $152 million in 1991. Additionally, our after-tax yields have considerably exceeded those earned by most fixed-income portfolios.

Nevertheless, we have had some surprises, none greater than the need for me to involve myself personally and intensely in the Salomon situation. As I write this letter, I am also writing a letter for inclusion in Salomon's annual report and I refer you to that report for an update on the company. (Write to: Corporate Secretary, Salomon Inc, Seven World Trade Center, New York, NY 10048.) Despite the company's travails, Charlie and I believe our Salomon preferred stock increased slightly in value during 1991. Lower interest rates and a higher price for Salomon's common produced this result.

Last year I told you that our USAir investment "should work out all right unless the industry is decimated during the next few years." Unfortunately 1991 was a decimating period for the industry, as Midway, Pan Am and America West all entered bankruptcy. (Stretch the period to 14 months and you can add Continental and TWA.)

The low valuation that we have given USAir in our table reflects the risk that the industry will remain unprofitable for virtually all participants in it, a risk that is far from negligible. The risk is heightened by the fact that the courts have been encouraging bankrupt carriers to continue operating. These carriers can temporarily charge fares that are below the industry's costs because the bankrupts don't incur the capital costs faced by their solvent brethren and because they can fund their losses — and thereby stave off shutdown — by selling off assets. This burn-the-furniture-to-provide-firewood approach to fare-setting by bankrupt carriers contributes to the toppling of previously-marginal carriers, creating a domino effect that is perfectly designed to bring the industry to its knees.

Seth Schofield, who became CEO of USAir in 1991, is making major adjustments in the airline's operations in order to improve its chances of being one of the few industry survivors. There is no tougher job in corporate America than running an airline: Despite the huge amounts of equity capital that have been injected into it, the industry, in aggregate, has posted a net loss since its birth after Kitty Hawk. Airline managers need brains, guts, and experience — and Seth possesses all three of these attributes.

Miscellaneous

About 97.7% of all eligible shares participated in Berkshire's 1991 shareholder-designated contributions program. Contributions made through the program were $6.8 million, and 2,630 charities were recipients.

We suggest that new shareholders read the description of our shareholder-designated contributions program that appears on pages 48 - 49. To participate in future programs, you must make sure your shares are registered in the name of the actual owner, not in the nominee name of a broker, bank or depository. Shares not so registered on August 31, 1992 will be ineligible for the 1992 program.

In addition to the shareholder-designated contributions that Berkshire distributes, managers of our operating businesses make contributions, including merchandise, averaging about $1.5 million annually. These contributions support local charities, such as The United Way, and produce roughly commensurate benefits for our businesses.

However, neither our operating managers nor officers of the parent company use Berkshire funds to make contributions to broad national programs or charitable activities of special personal interest to them, except to the extent they do so as shareholders. If your employees, including your CEO, wish to give to their alma maters or other institutions to which they feel a personal attachment, we believe they should use their own money, not yours.

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The faithful will notice that, for the first time in some years, Charlie's annual letter to Wesco shareholders is not reprinted in this report. Since his letter is relatively barebones this year, Charlie said he saw no point in including it in these pages; my own recommendation, however, is that you get a copy of the Wesco report. Simply write: Corporate Secretary, Wesco Financial Corporation, 315 East Colorado Boulevard, Pasadena, CA 91101.

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Malcolm G. Chace, Jr., now 88, has decided not to stand for election as a director this year. But the association of the Chace family with Berkshire will not end: Malcolm III (Kim), Malcolm's son, will be nominated to replace him.

In 1931, Malcolm went to work for Berkshire Fine Spinning Associates, which merged with Hathaway Manufacturing Co. in 1955 to form our present company. Two years later, Malcolm became Berkshire Hathaway's Chairman, a position he held as well in early 1965 when he made it possible for Buffett Partnership, Ltd. to buy a key block of Berkshire stock owned by some of his relatives. This purchase gave our partnership effective control of the company. Malcolm's immediate family meanwhile kept its Berkshire stock and for the last 27 years has had the second-largest holding in the company, trailing only the Buffett family. Malcolm has been a joy to work with and we are delighted that the long-running relationship between the Chace family and Berkshire is continuing to a new generation.

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The annual meeting this year will be held at the Orpheum Theater in downtown Omaha at 9:30 a.m. on Monday, April 27, 1992. Attendance last year grew to a record 1,550, but that still leaves plenty of room at the Orpheum.

We recommend that you get your hotel reservations early at one of these hotels: (1) The Radisson-Redick Tower, a small (88 rooms) but nice hotel across the street from the Orpheum; (2) the much larger Red Lion Hotel, located about a five-minute walk from the Orpheum; or (3) the Marriott, located in West Omaha about 100 yards from Borsheim's and a twenty minute drive from downtown. We will have buses at the Marriott that will leave at 8:30 and 8:45 for the meeting and return after it ends.

Charlie and I always enjoy the meeting, and we hope you can make it. The quality of our shareholders is reflected in the quality of the questions we get: We have never attended an annual meeting anywhere that features such a consistently high level of intelligent, owner-related questions.

An attachment to our proxy material explains how you can obtain the card you will need for admission to the meeting. With the admission card, we will enclose information about parking facilities located near the Orpheum. If you are driving, come a little early. Nearby lots fill up quickly and you may have to walk a few blocks.

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As usual, we will have buses to take you to Nebraska Furniture Mart and Borsheim's after the meeting and to take you from there to downtown hotels or the airport later. I hope that you will allow plenty of time to fully explore the attractions of both stores. Those of you arriving early can visit the Furniture Mart any day of the week; it is open from 10 a.m. to 5:30 p.m. on Saturdays and from noon to 5:30 p.m. on Sundays. While there, stop at the See's Candy Cart and find out for yourself why Americans ate 26 million pounds of See's products last year.

Borsheim's normally is closed on Sunday, but we will be open for shareholders and their guests from noon to 6 p.m. on Sunday, April 26. Borsheim's will also have a special party the previous evening at which shareholders are welcome. (You must, however, write Mrs. Gladys Kaiser at our office for an invitation.) On display that evening will be a 150-year retrospective of the most exceptional timepieces made by Patek Philippe, including watches once owned by Queen Victoria, Pope Pius IX, Rudyard Kipling, Madame Curie and Albert Einstein. The centerpiece of the exhibition will be a $5 million watch whose design and manufacture required nine years of labor by Patek Philippe craftsmen. Along with the rest of the collection, this watch will be on display at the store on Sunday — unless Charlie has by then impulsively bought it.

Nicholas Kenner nailed me — again — at last year's meeting, pointing out that I had said in the 1990 annual report that he was 11 in May 1990, when actually he was 9. So, asked Nicholas rather caustically: "If you can't get that straight, how do I know the numbers in the back [the financials] are correct?" I'm still searching for a snappy response. Nicholas will be at this year's meeting — he spurned my offer of a trip to Disney World on that day — so join us to watch a continuation of this lop-sided battle of wits.

Warren E. Buffett
Chairman of the Board

February 28, 1992

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
Berkshire Hathaway Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1991 and 1990, and the related consolidated statements of earnings and cash flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

Deloitte & Touche

DELOITTE & TOUCHE

March 9, 1992

Member
DRT International

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in thousands except per share amounts)

	December 31, 1991	December 31, 1990
ASSETS		
Cash and cash equivalents	$ 762,000	$ 247,024
Investments:		
Obligations with fixed maturities	2,337,954	3,084,802
Marketable equity securities	9,182,524	5,685,983
Loans and accounts receivable	904,471	681,922
Inventories	256,473	203,795
Properties and equipment	222,139	209,870
Other assets	796,341	557,027
	$14,461,902	$10,670,423
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 2,849,089	$ 2,050,305
Unearned premiums	152,490	126,381
Savings accounts	286,904	286,093
Accounts payable, accruals and other liabilities	492,177	475,873
Income taxes	1,929,074	1,111,783
Term debt and other borrowings	1,255,068	1,239,358
	6,964,802	5,289,793
Minority shareholders' interests	117,182	93,176
Shareholders' equity:		
Common stock of $5 par value. Authorized 1,500,000 shares; issued 1,375,202 shares, including shares held in treasury	6,876	6,876
Capital in excess of par value	157,377	157,377
Unrealized appreciation of marketable equity securities, net	3,962,989	2,310,433
Retained earnings	3,294,969	2,855,061
	7,422,211	5,329,747
Less common stock in treasury, at cost (228,761 shares)	42,293	42,293
Total shareholders' equity	7,379,918	5,287,454
	$14,461,902	$10,670,423

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in thousands except per share amounts)

	Year Ended December 31,		
	1991	1990	1989
Revenues:			
Sales and service revenues	$1,651,134	$1,580,074	$1,526,459
Insurance premiums earned	776,413	591,540	394,279
Interest and dividend income	481,793	450,295	331,452
Realized investment gain	192,478	33,989	223,810
Sundry income	4,178	3,574	7,892
	3,105,996	2,659,472	2,483,892
Cost and expenses:			
Cost of products and services sold	939,011	871,073	844,056
Insurance losses and loss adjustment expenses	827,169	534,261	309,391
Insurance underwriting expenses	68,837	83,926	109,288
Selling, general and administrative expenses	556,146	541,054	526,359
Interest expense	121,847	112,692	77,574
	2,513,010	2,143,006	1,866,668
Earnings before income taxes	592,986	516,466	617,224
Income taxes	142,058	112,047	159,287
	450,928	404,419	457,937
Minority interest	11,020	10,326	10,460
Net earnings	$ 439,908	$ 394,093	$ 447,477
Net earnings per share	$384	$344	$390

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	1991	**1990**	**1989**
Cash flows from operating activities:			
Net income	$ 439,908	$ 394,093	$ 447,477
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	37,175	34,083	32,107
Realized investment gain	(192,478)	(33,989)	(223,810)
Investment purchase price discount accretion less premium amortization	(26,931)	(58,648)	(3,663)
Accretion of issue discount on zero coupon notes	23,881	22,618	5,683
Minority interests	11,020	10,326	10,460
Increase in liability for losses and loss adjustment expenses	798,784	613,994	29,122
Increase in deferred charges re reinsurance assumed	(178,328)	(350,787)	—
Increase (decrease) in unearned premiums	26,109	(17,250)	(98,187)
(Increase) decrease in accounts receivable	(177,043)	(133,809)	8,923
Increase (decrease) in accounts payable, accruals and other liabilities	(6,067)	32,271	118,088
Increase (decrease) in income taxes currently payable	(31,173)	12,766	(9,852)
Other	(15,684)	(3,100)	13,858
Net cash flows from operating activities	709,173	522,568	330,206
Cash flows from investing activities:			
Purchases of fixed maturity investments	(377,332)	(287,700)	(1,468,157)
Purchases of marketable equity securities	(809,633)	(729,352)	(739,932)
Proceeds from sales of fixed maturity investments	292,010	61,035	519,470
Proceeds from redemptions and maturities of fixed maturity investments	399,120	21,457	28,985
Proceeds from sales of marketable equity securities	522,701	261,923	821,656
Acquisition of businesses	(161,043)	—	—
Loans originated in finance businesses	(163,803)	(132,313)	(133,546)
Principal collection on loans	124,760	110,415	109,830
Other	(11,266)	11,762	(57,174)
Net cash flows from investing activities	(184,486)	(682,773)	(918,868)
Cash flows from financing activities:			
Proceeds from borrowings	455,972	785,818	1,172,356
Repayments of borrowings	(464,913)	(576,634)	(650,019)
Other	(770)	(7,082)	6,371
Net cash flows from financing activities	(9,711)	202,102	528,708
Increase (decrease) in cash and cash equivalents	514,976	41,897	(59,954)
Cash and cash equivalents at beginning of year	247,024	205,127	265,081
Cash and cash equivalents at end of year	$ 762,000	$ 247,024	$ 205,127
Other cash flow information:			
Income taxes paid	$ 183,097	$ 113,860	$ 181,468
Interest paid	93,951	79,857	70,191

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1991

(1) Significant accounting policies and practices

(a) Basis of consolidation
The accompanying Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (the "Company" or "Berkshire") consolidated with accounts of all its subsidiaries. Intercompany accounts and transactions have been eliminated.

(b) Cash equivalents
Cash equivalents consist of funds invested in money market accounts and in investments with a maturity of three months or less when purchased.

(c) Investments
Investments in obligations with fixed maturities are carried at cost. Marketable equity securities held by members of the Berkshire Hathaway Insurance Group are carried at market value, marketable equity securities held by the Company and by non-insurance subsidiaries are carried at the lower of aggregate cost or market.

(d) Cost of investments sold
Cost of investments sold is usually determined on a first-in, first-out basis. Occasionally, when specific identification results in lower applicable income taxes, identified cost is used.

(e) Goodwill and negative goodwill of acquired businesses
The difference between purchase cost and the fair value of the net assets of acquired businesses is amortized on a straight line basis over forty years. The net unamortized balance is carried in other assets.

(f) Insurance premium acquisition costs
For financial reporting purposes, certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. With respect to premiums received under major quota-share reinsurance contracts, the computation of ultimate recoverability of the directly related acquisition cost takes into account investment income anticipated to be earned on funds held subject to the contracts. Otherwise, ultimate recoverability of premium acquisition costs is determined without regard to investment income.

(g) Deferred charges re reinsurance assumed
The excess of estimated liabilities for claims and claim costs ultimately payable by the Insurance Group over consideration received with respect to retroactive property/casualty reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, is established as a deferred charge at inception of such contracts. The deferred charges are subsequently amortized using the interest method over the periods that the liabilities for the claims and claim costs are expected to be outstanding. At December 31, 1991 and 1990, deferred charges re reinsurance assumed in the amounts of $529,115,000 and $350,787,000 are included in other assets.

(h) Losses and loss adjustment expense
Liability for losses and loss adjustment expenses represents the aggregate of such obligations of members of the Insurance Group with respect to: (a) prospective property/casualty insurance and reinsurance contracts, (b) retroactive property/casualty reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, and (c) contracts providing for periodic payments with respect to settled claims ("structured settlements"). Except for structured settlement liabilities which are stated at discounted present values, the liability for losses and loss adjustment expenses is at the aggregate of estimated ultimate payment amounts less amounts recoverable on account of reinsurance.

Ultimate payment amounts with respect to prospective contracts are determined from (i) individual case estimates, (ii) estimates of incurred but not reported losses, based on past experience, and (iii) reports of losses from ceding insurers.

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

(h) Losses and loss adjustment expense (continued)

Ultimate payment amounts with respect to retroactive reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, are established for financial reporting purposes at maximum limits of indemnification under the contracts. This liability at December 31, 1991 was $1,296,875,000 and at December 31, 1990 was $737,524,000 of which, respectively $529,115,000 and $350,787,000 were established for financial reporting purposes as deferred charges re reinsurance. See also 1(g) above. For statutory reporting purposes, liabilities under these contracts are established, not at worst-case maximum loss limits, but at best estimates of claims and claim costs ultimately payable thereunder. These "best estimates" yielded respectively as of December 31, 1991 and December 31, 1990 liabilities of $911,829,000 and $425,595,000. Underwriting losses reported with respect to these contracts in the accompanying financial statements were $26 million for 1991 (representing in its entirety, amortization of the related deferred charge re reinsurance) and zero for 1990, whereas for statutory reporting purposes the corresponding figures were $184 million and $68 million.

Liabilities under structured settlement contracts are established on a contract-by-contract basis when the contracts are entered into, at the then present value of the actuarially determined ultimate payment amount discounted at the market interest rate. Thereafter, annual accretions to the liabilities are charged to losses incurred. The aggregate of these liabilities for financial reporting purposes at December 31, 1991 was $276,996,000. For statutory and tax reporting purposes, where the liabilities are determined using discount rates mandated by Insurance Regulatory authorities (5% for contracts incepting after 1986 and 7% with respect to contracts dated prior to 1987), the aggregate of structured settlement liabilities was $361,116,000.

(j) Insurance premiums

Insurance premiums for prospective insurance and reinsurance policies are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Consideration received for indemnification of risk under retroactive reinsurance contracts, including structured settlements, are accounted for as premiums earned at the inception of the contracts. Both earned and unearned premiums are stated net of amounts ceded to reinsurers.

(k) Income taxes

Certain items of income and deductions are recognized in the financial statements in time periods that differ from those in which they are recognized in the Company's consolidated Federal income tax returns, giving rise to recognition in the financial statements to deferred and prepaid income taxes.

The liability for income taxes in the Consolidated Balance Sheets includes deferred taxes deemed applicable to unrealized appreciation included in carrying value of marketable equity securities. Such taxes were accrued at a rate of 34% relative to increases in unrealized appreciation that arose subsequent to 1986 and at the rate of 28% relative to appreciation that arose in years prior to 1987.

In February, 1992 the Financial Accounting Standards Board ("FASB") issued Statement No. 109 "Accounting for Income Taxes". The statement requires the "liability method" of accounting for income taxes with a balance sheet focus superseding requirements for the "deferred method" with an earnings statement focus. Implementation of the statement is now required in financial statements for years beginning after December 15, 1992. The Company has not yet implemented the statement's provisions. If the current provisions of Statement No. 109 were to be given effect in Berkshire's consolidated balance sheet as of December 31, 1991, a reduction to shareholders' equity of no more than $70 million would result. The precise amount of the reduction is dependent upon Berkshire's selection between alternative means of implementation.

(m) Postretirement benefits other than pensions

In December, 1990, the FASB issued Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." This statement alters generally accepted accounting principles with respect to employers' costs of providing retiree healthcare and other postretirement benefits other than pensions. The Company believes that the provisions of this statement will not have a material effect on Berkshire's financial position or results of operations.

Notes to Consolidated Financial Statements *(Continued)*

(2) Investments in obligations with fixed maturities

The amortized cost and estimated market value as of December 31, 1991 and 1990 of investments in obligations with fixed maturities are as follows:

December 31, 1991

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 2,429,000	$ 66,000	$ —	$ 2,495,000
Obligations of states, municipalities and political subdivisions	531,418,000	90,664,000	(412,000)	621,670,000
Corporate bonds	316,070,000	88,301,000	—	404,371,000
Redeemable preferred stocks	1,358,527,000	14,273,000	(125,300,000)	1,247,500,000
Mortgage-backed securities	129,510,000	2,669,000	—	132,179,000
	$2,337,954,000	$195,973,000	$(125,712,000)	$2,408,215,000

December 31, 1990

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 6,665,000	$ 84,000	$ —	$ 6,749,000
Obligations of states, municipalities and political subdivisions	576,588,000	87,622,000	(551,000)	663,659,000
Corporate bonds	514,547,000	13,787,000	(11,888,000)	516,446,000
Redeemable preferred stocks	1,963,275,000	120,141,000	(143,307,000)	1,940,109,000
Mortgage-backed securities	23,727,000	890,000	—	24,617,000
	$3,084,802,000	$222,524,000	$(155,746,000)	$3,151,580,000

Shown below are the amortized cost and estimated market values of the above obligations at December 31, 1991, by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the obligations retain early call or prepayment rights.

	Amortized Cost	Estimated Market Value
Due in one year or less	$ 134,102,000	$ 154,327,000
Due after one year through five years	572,871,000	645,362,000
Due after five years through ten years	1,466,214,000	1,433,299,000
Due after ten years	35,257,000	43,048,000
	2,208,444,000	2,276,036,000
Mortgage-backed securities	129,510,000	132,179,000
	$2,337,954,000	$2,408,215,000

During 1991 gross gains of $139,700,000 were realized and during 1990, gross gains of $3,098,000 and gross losses of $1,468,000 were realized on sales and redemptions of obligations with fixed maturities.

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(3) Investments in marketable equity securities

Aggregate data with respect to the consolidated investment in marketable equity securities is shown below as of the dates indicated. See Note 1(c) as to methods applied to determine carrying value of these securities.

December 31, 1991	*Cost*	*Unrealized Gain*	*Market*	*Carrying Value*
Common stock of:				
Capital Cities/ABC, Inc. [a]	$ 517,500,000	$ 783,000,000	$1,300,500,000	$1,287,450,000
The Coca-Cola Company	1,023,919,000	2,723,756,000	3,747,675,000	3,740,888,000
GEICO Corporation [b]	45,713,000	1,317,437,000	1,363,150,000	1,363,150,000
The Gillette Company [c]	600,000,000	747,000,000	1,347,000,000	1,347,000,000
All other marketable equity securities	1,067,842,000	634,317,000[d]	1,702,159,000	1,444,036,000
	$3,254,974,000	$6,205,510,000	$9,460,484,000	$9,182,524,000

December 31, 1990	*Cost*	*Unrealized Gain*	*Market*	*Carrying Value*
Common stock of:				
Capital Cities/ABC, Inc.	$ 517,500,000	$ 859,875,000	$1,377,375,000	$1,363,044,000
The Coca-Cola Company	1,023,919,000	1,147,631,000	2,171,550,000	2,168,812,000
GEICO Corporation	45,713,000	1,064,843,000	1,110,556,000	1,110,556,000
All other marketable equity securities	697,548,000	402,192,000[e]	1,099,740,000	1,043,571,000
	$2,284,680,000	$3,474,541,000	$5,759,221,000	$5,685,983,000

(a) *Common shares of Capital Cities/ABC, Inc. ("Capital Cities") owned by Berkshire subsidiaries possessed approximately 18% of the voting rights of all Capital Cities shares outstanding at December 31, 1991. The shares are held subject to an Agreement, the terms of which grant to Capital Cities a right of first refusal to purchase the shares and otherwise govern until January 3, 1997 the manner by which the shares may be sold or transferred. Also, Berkshire and its subsidiaries have delivered to Capital Cities irrevocable proxies with respect to these shares in favor of Thomas S. Murphy or Daniel B. Burke, so long as either shall be the chief executive officer of Capital Cities, to vote the shares at any and all meetings of shareholders of Capital Cities. The proxies expire on January 2, 1997 or at the earlier date when neither of such persons is chief executive officer of Capital Cities.*

(b) *Subsidiaries of Berkshire, at both December 31, 1991 and at December 31, 1990, owned 6,850,000 shares of common stock of GEICO Corporation. The shares possessed approximately 48% of the voting rights of all GEICO shares outstanding at December 31, 1991, but Berkshire maintains an independent proxy arrangement for voting of the shares as required by Order of GEICO's domiciliary insurance supervisory authority. The Order, dating from Berkshire subsidiaries' major purchase of the shares in 1976, prohibits Berkshire from seeking or causing to change the independent proxy. Also, under the Order, no officer or director of Berkshire or of any affiliate or subsidiary of Berkshire is permitted to serve as a director of GEICO. Because the Order divests Berkshire of its voting rights with respect to the shares, Berkshire does not use the equity method of accounting for its investment in GEICO.*

(c) *Common shares of The Gillette Company were acquired April 1, 1991 through conversion of the previously-held issue of Gillette convertible preferred shares.*

(d) *Represents gross unrealized gains $673,177,000, less gross unrealized losses $38,860,000.*

(e) *Represents gross unrealized gains $413,255,000, less gross unrealized losses $11,063,000.*

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Notes to Consolidated Financial Statements *(Continued)*

(4) Income taxes

The liability for income taxes as reflected in the accompanying Consolidated Balance Sheets represent estimates of liabilities as follows:

	Dec. 31, 1991	Dec. 31, 1990
Payable currently	$ 18,499,000	$ 49,672,000
Deferred, relating to unrealized appreciation of marketable equity securities	1,944,311,000	1,085,342,000
Net prepaid arising from timing differences	(33,736,000)	(23,231,000)
	$1,929,074,000	$1,111,783,000

The Consolidated Statements of Earnings reflect charges for income taxes as shown below:

	1991	*1990*	*1989*
Federal	$120,121,000	$ 94,713,000	$142,996,000
State	20,281,000	16,779,000	15,514,000
Foreign	1,656,000	555,000	777,000
	$142,058,000	$112,047,000	$159,287,000
Current provision	$152,563,000	$126,626,000	$171,616,000
Increase in prepaid taxes	(10,505,000)	(14,579,000)	(12,329,000)
	$142,058,000	$112,047,000	$159,287,000

The increase in prepaid taxes represents the tax effects of timing differences as follows:

Applicable to:	*1991*	*1990*	*1989*
Deferred insurance premium acquisition costs	$ 3,392,000	$ (549,000)	$ (10,363,000)
Losses and loss adjustment expenses, net	(4,940,000)	(5,719,000)	2,019,000
Unearned premiums	(5,414,000)	(3,679,000)	1,913,000
Deferred gross profit on installment receivables	—	(9,598,000)	(7,752,000)
Other, net	(3,543,000)	4,966,000	1,854,000
	$ (10,505,000)	$ (14,579,000)	$ (12,329,000)

Charges for income taxes are reconciled, in the table which follows, to hypothetical amounts computed at the Federal statutory rate:

	1991	*1990*	*1989*
Net earnings before income taxes	$592,986,000	$516,466,000	$617,224,000
Hypothetical amounts applicable to above computed at the Federal statutory rate	$201,615,000	$175,598,000	$209,856,000
Decreases, resulting from:			
Tax-exempt interest income	(18,637,000)	(19,744,000)	(26,735,000)
Dividends received deduction	(54,923,000)	(53,901,000)	(36,065,000)
State income taxes, less Federal income tax benefit	13,385,000	11,073,000	10,240,000
Net other differences	618,000	(979,000)	1,991,000
Total income taxes	$142,058,000	$112,047,000	$159,287,000

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(5) Term debt and other borrowings

Liabilities reflected for this balance sheet captions are as follows:

	Dec. 31, 1991	Dec. 31, 1990
Term debt	$ 861,153,000	$ 914,557,000
Borrowings under investment agreements	393,915,000	324,801,000
	$1,255,068,000	$1,239,358,000

Giving effect to planned issuer-optional redemptions of term debt in 1992, payments in redemption of amounts outstanding at December 31, 1991 are expected to be required no earlier than as follows:

	Term debt	Borrowings under investment agreements	Total
1992	$161,439,000	$100,415,000	$261,854,000
1993	1,924,000	3,976,000	5,900,000
1994	18,049,000	7,708,000	25,757,000
1995	872,000	9,203,000	10,075,000
1996	120,025,000	10,482,000	130,507,000
After 1996	558,844,000	262,131,000	820,975,000

Borrowings under investment agreements

These borrowings, made pursuant to contracts with terms ranging from three months to forty years and calling for interest payable, normally semiannually, at rates ranging from 3 1/2% to 9% per annum, are senior unsecured debt obligations of the Company.

Term debt

	Dec. 31, 1991	Dec. 31, 1990
Company		
Zero Coupon Convertible Subordinated Notes Due 2004	$ 452,182,000	$ 428,301,000
10% Debentures, of which $150,000,000 was issued in 1988. The issue was redeemed at the company's option - $50,000,000 at the end of 1991 and $100,000,000 in February 1992	100,000,000	150,000,000
9 3/4% Debentures, of which $100,000,000 was issued in 1988. $22,000,000 of the issue was repurchased in 1991 and in February 1992, an additional $13,000,000 was optionally redeemed	78,000,000	100,000,000
Other notes, payable through 1993	5,554,000	7,475,000
	635,736,000	685,776,000
Subsidiaries		
8.125% Notes, payable in 1996	120,000,000	120,000,000
10% Notes, for which redemption in 1992 is planned	18,500,000	21,125,000
9 1/2% Notes, for which redemption in 1992 is planned	17,500,000	20,000,000
8 7/8% Notes, payable in 1999	30,000,000	30,000,000
Federal Home Loan Bank advance, due August 1994, bearing interest at 8.73%	16,900,000	16,900,000
Other notes maturing through 2014	22,517,000	20,756,000
Total term debt	$ 861,153,000	$ 914,557,000

The Zero Coupon Convertible Subordinated Notes Due 2004 were issued on September 28, 1989 at 44.314% of their face value which totaled $902,640,000. The issue price reflected an original issue discount rate and yield to maturity of 5.5% per annum; there are no periodic payments of interest. Each $10,000 face amount note may be converted at any time prior to redemption into 0.4515 shares of common stock. A holder otherwise entitled upon conversion to a fractional share of common stock shall receive cash in lieu thereof. The Company may redeem the notes for cash at any time after September 28, 1992. A holder may require the Company to purchase any of its holdings on September 28, 1994 and again on September 28, 1999. The price at which notes will be purchased or redeemed will be issue price plus accrued original issue discount to the date of purchase or redemption.

No materially restrictive covenants are included in any of the various debt agreements.

Notes to Consolidated Financial Statements *(Continued)*

(6) Shareholders' equity accounts

Changes in Shareholders' Equity accounts during the most recent three years were as follows:

	Net Unrealized Appreciation	*Retained Earnings*
Balance at December 31, 1988	$1,274,657,000	$2,013,491,000
Increase during 1989 in unrealized appreciation included in carrying value of marketable equity securities	1,623,462,000	
Change during 1989 in deemed applicable income taxes	(552,314,000)	
Increase in minority shareholders' interest in unrealized appreciation	(3,607,000)	
Net earnings 1989		447,477,000
Balance December 31, 1989	2,342,198,000	2,460,968,000
Decrease during 1990 in unrealized appreciation included in carrying value of marketable equity securities	(45,636,000)	
Change during 1990 in deemed applicable income taxes	15,441,000	
Increase in minority shareholders' interest in unrealized appreciation	(1,570,000)	
Net earnings 1990		394,093,000
Balance December 31, 1990	2,310,433,000	2,855,061,000
Increase during 1991 in unrealized appreciation included in carrying value of marketable equity securities	2,526,248,000	
Change during 1991 in deemed applicable income taxes	(858,969,000)	
Increase in minority shareholders' interest in unrealized appreciation	(14,723,000)	
Net earnings 1991		439,908,000
Balance December 31, 1991	$3,962,989,000	$3,294,969,000

(7) Interest and dividend income

Interest and dividend income for each of the past three years were comprised of the following:

	1991	*1990*	*1989*
Interest earned with respect to:			
Investment securities	$164,894,000	$132,694,000	$114,928,000
Loans and financed receivables	56,398,000	53,985,000	50,904,000
Dividends with respect to:			
Fixed maturity preferred stocks	138,900,000	176,742,000	102,181,000
Marketable equity securities	121,601,000	86,874,000	63,439,000
	$481,793,000	$450,295,000	$331,452,000

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(8) Interest expense

Interest expense is comprised of interest on savings accounts of Mutual Savings and Loan Association ("Mutual") plus interest on debt and other borrowings as follows:

	1991	*1990*	*1989*
Savings accounts of Mutual	$ 18,311,000	$ 21,975,000	$ 21,261,000
Debt of Mutual	1,475,000	1,475,000	599,000
Debt of Scott Fetzer Financial Group	12,811,000	12,868,000	13,325,000
Other debt and borrowings	89,250,000*	76,374,000	42,389,000
	$121,847,000	$112,692,000	$ 77,574,000

* *Includes redemption premiums of $5,661,000 — see note 5.*

(9) Dividend Restrictions - Insurance Subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1992, Berkshire can receive up to approximately $292,000,000 as dividends from insurance subsidiaries.

Combined shareholders' equity of insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $8,700,000,000 at December 31, 1991. This amount exceeded by approximately $1,400,000,000 the corresponding amount determined on the basis of generally accepted accounting principles; the difference is principally represented by deferred income tax liabilities recognized for financial reporting purposes but not for statutory reporting purposes.

(10) 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 thousands, except per share amounts.

	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
	1991	1990	1991	1990	1991	1990	1991	1990
Revenues	$694,419	$590,776	$673,781	$545,310	$662,006	$525,965	$1,075,790	$997,421
Earnings excluding realized investment gain	$ 85,668	$ 84,151	$ 71,609	$ 82,917	$ 75,182	$ 81,712	$ 83,294	$121,965
- per share	74.72	73.40	62.46	72.32	65.58	71.27	72.65	106.39
Realized investment gain	$ 59,336	$ 325	$ 46,015	$ 11,041	$ 18,062	$ 8,502	$ 742	$ 3,480
- per share	51.76	0.29	40.14	9.63	15.75	7.42	0.65	3.03
Net earnings	$145,004	$ 84,476	$117,624	$ 93,958	$ 93,244	$ 90,214	$ 84,036	$125,445
- per share	126.48	73.69	102.60	81.95	81.33	78.69	73.30	109.42

In varying degree from year to year, revenues and earnings from marketing of World Book products are concentrated in the first quarter. See's Candy sales peak at Easter and more notably so in the fourth quarter when more than one-half of annual revenues for that business are normally recorded. A non-seasonal factor that may influence Berkshire's interim consolidated financial statements is that estimation error, inherent to the process of determining liabilities for unpaid losses of insurance subsidiaries, can be relatively more significant to results of interim periods than to results for a full year. Variations in amount and timing of realized securities gains or losses cause significant variations in periodic net earnings.

(11) Business segment data

See pages 33 - 35.

Selected Financial Data for the Past Five Years
(dollars in thousands, except per share data)

	1987	1988	1989	1990	1991
Revenues:					
Sales and service revenues	$1,326,829	$1,407,642	$1,526,459	$ 1,580,074	$ 1,651,134
Insurance premiums earned	824,895	584,235	394,279	591,540	776,413
Interest and dividend income	237,319	314,251	331,452	450,295	481,793
Realized investment gain	28,838	131,671	223,810	33,989	192,478
Sundry	13,901	27,094	7,892	3,574	4,178
Total revenues	$2,431,782	$2,464,893	$2,483,892	$ 2,659,472	$ 3,105,996
Earnings:					
Before realized investment gain	$ 214,746	$ 313,441	$ 299,902	$ 370,745	$ 315,753
Realized investment gain	19,806	85,829	147,575	23,348	124,155
Net earnings	$ 234,552	$ 399,270	$ 447,477	$ 394,093	$ 439,908
Earnings per share:					
Before realized investment gain	$ 187.24	$ 273.37	$ 262.46	$ 323.39	$ 275.42
Realized investment gain	17.27	74.86	127.55	20.36	108.30
Net earnings	$ 204.51	$ 348.23	$ 390.01	$ 343.75	$ 383.72
Year-end data:					
Total assets	$5,863,235	$6,816,848	$9,459,594	$10,670,423	$14,461,902
Term debt and other borrowings	289,886	480,009	1,007,516	1,239,358	1,255,068
Shareholders' equity	2,841,659	3,410,108	4,925,126	5,287,454	7,379,918
Common shares outstanding, in thousands	1,147	1,146	1,146	1,146	1,146
Shareholders' equity per outstanding share	$ 2,477	$ 2,975	$ 4,296	$ 4,612	$ 6,437

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BERKSHIRE HATHAWAY INC.
Business Segment Data

Berkshire identified eight business segments for purposes of 1991 reporting, pursuant to Financial Accounting Standards Board Statement No. 14. These include the property and casualty insurance and reinsurance business (The Insurance Segment) plus seven separately conducted non-insurance businesses as follows:

Business identity and headquarters	Product	Activity
See's Candies South San Francisco, CA	Candy	Manufacture and distribution at retail and by catalog solicitation
Buffalo News Buffalo, NY	Newspaper	Publication of a daily and Sunday newspaper.
Nebraska Furniture Mart Omaha, NE	Home furnishings	Retailing
World Book Chicago, IL	Encyclopedias and other reference materials	Publication and marketing, principally by the direct sales method.
Kirby and Douglas Products Divisions of The Scott Fetzer Company Cleveland, OH	Home cleaning systems	Manufacture and sale principally to distributors
Fechheimer Bros. Co. Cincinnati, OH	Uniforms	Manufacture and distribution at wholesale and retail.
H. H. Brown Shoe Co. Greenwich, CT	Shoes	Manufacture, importing and wholesale distribution.

The business segments identified above were responsible in 1991 for more than 78% of Berkshire's consolidated revenues and more than 84% of Berkshire's consolidated operating profits before taxes.

Other businesses activities that contributed for 1991, in the aggregate, 17% of Berkshire's consolidated revenues and 8% of Berkshire's consolidated operating profits before taxes, were as follows:

Business identity	Product/Service/Activity
Adalet	Conduit fittings, explosion proof fittings, junction boxes
BHR	Real estate management
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Campbell Hausfeld	Air compressors and accessories, painting systems
Carefree	Roll-up awnings, other RV accessories
France	Appliance controls, ignition and sign transformers
Halex	Zinc and aluminum die cast fittings
K&W Products	Automotive compounds
Meriam	Pressure and flow measurement devices
Mutual Savings	Savings & loan association
New America Electric	Electrical equipment
Northland	Fractional horsepower motors
Powerwinch	Boat winches, windlasses
Precision	Steel service center
Quikut	Varieties of cutlery
Scott Fetzer Financial Group	Consumer finance companies
Scot Labs	Cleaning and maintenance chemicals
Stahl	Custom steel services bodies and tool boxes for trucks
Wayne Home Equipment	Furnace burners; sump, utility and sewage pumps
Wesco Financial	Real estate management
Western Enterprises	Compressed gas fittings and regulators
Western Plastics	Molded plastic components

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Business Segment Data (Continued)

A disaggregation of Berkshire's consolidated data for each of the three most recent years is presented in the tables which follow on this and the following page. Amounts are in thousands.

	Revenues			Operating profit before taxes		
	1991	*1990*	*1989*	*1991*	*1990*	*1989*
Identified Segments:						
Insurance	$1,230,608	$ 943,277	$ 865,026	$ 323,006	$316,207	$439,223
Non-insurance businesses	1,204,755	1,120,755	1,069,748	176,134	170,640	158,751
	2,435,363	2,064,032	1,934,774	499,140	486,847	597,974
Other than identified segments	670,633	595,440	549,118	183,096	105,993	61,639
Interest expense *				(89,250)	(76,374)	(42,389)
Aggregate consolidated total	$3,105,996	$2,659,472	$2,483,892	$ 592,986	$516,466	$617,224

* *Amounts of interest expense represent those for term debt and other borrowings exclusive of that of Scott Fetzer Financial Group and of Mutual Savings. See note 8 to Consolidated Financial Statements.*

Insurance Segment	Revenues			Operating profit before taxes		
	1991	*1990*	*1989*	*1991*	*1990*	*1989*
Premiums earned:						
Primary or direct	$ 141,014	$ 154,015	$ 188,920			
Reinsurance assumed	635,399	437,525	205,359			
Underwriting (loss)				$(119,593)	$(26,647)	$(24,400)
Investment income	343,442	335,930	250,723	331,846	327,047	243,599
Realized investment gain	110,753	15,807	220,024	110,753	15,807	220,024
	$1,230,608	$ 943,277	$ 865,026	$ 323,006	$316,207	$439,223

Non-Insurance Business Segments	Revenues			Operating profit before taxes		
	1991	*1990*	*1989*	*1991*	*1990*	*1989*
Candy	$ 195,978	$ 196,119	$ 186,053	$ 41,416	$ 38,605	$ 33,260
Newspaper	130,259	135,211	135,647	36,527	43,382	45,448
Home furnishings	171,002	163,709	156,762	13,939	16,802	16,624
Encyclopedias, other reference material	311,509	342,870	338,397	22,232	31,645	25,332
Home cleaning systems	192,001	188,292	158,959	37,332	28,479	26,188
Uniforms	99,961	94,554	93,930	12,224	11,727	11,899
Shoes	104,045	—	—	12,464	—	—
	$1,204,755	$1,120,755	$1,069,748	$ 176,134	$170,640	$158,751

Other Than Identified Segments	Revenues			Operating profit before taxes		
	1991	*1990*	*1989*	*1991*	*1990*	*1989*
Other businesses	$ 524,395	$ 535,941	$ 531,714	$ 49,355	$ 56,404	$ 53,386
Not identified with specific businesses:						
Interest and dividend income	63,686	40,907	11,616	63,686	40,907	11,616
Realized investment gain	81,725	18,182	3,786	81,725	18,182	3,786
All other except interest expense	827	410	2,002	(11,670)	(9,500)	(7,149)
	$ 670,633	$ 595,440	$ 549,118	$ 183,096	$105,993	$ 61,639

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Business Segment Data (Continued)

	Capital expenditures *			Deprec. & amort. of tangible assets		
	1991	*1990*	*1989*	*1991*	*1990*	*1989*
Insurance	$ 1,437	$ 601	$ 525	$ 992	$ 708	$ 918
Candy	4,687	6,970	3,882	3,882	3,752	3,574
Newspaper	817	2,229	971	2,949	2,909	2,757
Home furnishings	2,552	1,397	2,247	1,613	1,792	1,745
Encyclopedias, other reference material	3,107	7,705	3,552	1,449	1,124	749
Home cleaning systems	1,104	3,859	11,191	5,092	5,285	3,274
Uniforms	1,482	1,330	2,272	1,411	1,736	2,115
Shoes	1,050	—	—	1,580	—	—
Other	13,648	9,832	17,897	14,094	13,236	13,589
	$29,884	$33,923	$42,537	$33,062	$30,542	$28,721

* *Expenditures which were part of business acquisitions are excluded.*

	Identifiable assets at year-end		
	1991	*1990*	*1989*
Insurance	$12,406,654	$ 8,884,393	$7,871,097
Candy	68,300	69,833	66,278
Newspaper	44,061	48,286	48,917
Home furnishings	76,396	75,714	71,107
Encyclopedias, other reference material	94,927	107,913	103,159
Home cleaning systems	51,929	66,388	60,147
Uniforms	74,190	71,572	70,597
Shoes	157,902	—	—
Other	1,487,543	1,346,324	1,168,292
	$14,461,902	$10,670,423	$9,459,594

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BERKSHIRE HATHAWAY INC.
Management's Discussion and Analysis of Financial Condition and Results of Operation

Results of Operations

Net earnings for each of the past three years are disaggregated in the table that follows. Amounts are after deducting minority interests and taxes.

Activity or Item	Contribution to Net Earnings					
	1991		1990		1989	
	Millions of Dollars	Dollars per Share	Millions of Dollars	Dollars per Share	Millions of Dollars	Dollars per Share
Insurance Segment:						
Underwriting	$ (77.2)	$ (67)	$ (14.9)	$ (13)	$ (12.3)	$ (11)
Investment income	285.1	249	282.6	247	213.6	186
Realized investment gain	73.8	64	11.8	10	145.5	127
Total - Insurance Segment	281.7	246	279.5	244	346.8	302
Non-Insurance business segments	104.2	91	100.1	87	93.4	81
Other businesses	27.6	24	31.9	28	30.6	27
Interest and dividend income not included above	40.9	36	27.8	24	7.1	6
Realized investment gain not included above	50.3	44	11.5	10	2.1	2
All other except interest expense	(7.6)	(7)	(7.0)	(6)	(5.4)	(5)
Interest expense	(57.2)	(50)	(49.7)	(43)	(27.1)	(23)
Net earnings	$439.9	$384	$394.1	$344	$447.5	$390

In the above table, interest expense incurred by Consumer Finance companies and by Mutual Savings and Loan Association is not reflected as "Interest expense" but instead is reflected in amounts shown for "Other businesses".

The business segment data on the preceding pages of this report should be read in conjunction with this discussion.

Insurance Underwriting

The after-tax figures shown above for Insurance underwriting derive from the following:

	(dollars in millions)		
	1991	1990	1989
Underwriting gain (loss):			
Primary or Direct Insurance	$ (2.5)	$ 0.5	$ 4.2
Reinsurance Assumed	(117.1)	(27.2)	(28.6)
Underwriting loss — pre-tax	(119.6)	(26.7)	(24.4)
Applicable income tax credit	42.2	11.6	11.8
Applicable minority interest	0.2	0.2	0.3
After-tax underwriting loss	$ (77.2)	$(14.9)	$(12.3)

The Berkshire Hathaway Insurance Group engages in both insurance and reinsurance of property/casualty risks. In its insurance activities, as distinguished from its reinsurance activities, its members assume risks of loss from persons primarily and directly subject to the risks. In its reinsurance activities, the members assume defined portions of similar or dissimilar risks to which other insurers and reinsurers have subjected themselves in their own insuring activities.

In each of the past two years, the premiums that the Berkshire Hathaway Insurance Group earned in its reinsurance business have increased significantly from the preceding year, while premiums earned in its primary or direct business have shown year-to-year decreases for each of the past 5 years.

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Insurance Underwriting (continued)

A significant marketing strategy followed by all Insurance Group members is the maintenance of above average capital strength. Statutory surplus as regards policyholders of the Berkshire Hathaway Insurance Group increased to approximately $8.7 billion at year-end 1991. This unique capital strength creates opportunities for Berkshire Group members to negotiate and enter into contracts of insurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers.

Reinsurance Assumed

Underwriting results, stated on the basis of generally accepted accounting principles ("GAAP"), with respect to the reinsurance assumed business for the past three years are summarized in the following table.

	(dollars in millions)					
	1991		1990		1989	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 667.0		$ 435.2		$ 126.4	
Premiums earned	$ 635.4	100.0	$ 437.5	100.0	$ 205.4	100.0
Losses and loss expenses	731.9	115.2	432.2	98.8	183.5	89.4
Underwriting expenses	20.6	3.2	32.5	7.4	50.5	24.5
Total losses and expenses	752.5	118.4	464.7	106.2	234.0	113.9
Underwriting (loss) — pre-tax	$(117.1)		$ (27.2)		$ (28.6)	

Disaggregated data follows for these activities.

	(dollars in millions)								
	Premiums Earned			Underwriting Gain (Loss)			Year-End Reserves*		
	1991	1990	1989	1991	1990	1989	1991	1990	1989
Retroactive reinsurance and structured settlements	$ 363.2	$423.7	$ 57.4	$ (49.0)	$(21.7)	$(16.1)	$1,573.9	$1,002.2	$246.4
Major quota share reinsurance	—	—	130.6	30.6	—	(9.0)	248.1	332.6	411.9
Other reinsurance	272.2	13.8	17.4	(98.7)	(5.5)	(3.5)	460.2	128.9	138.9
	$ 635.4	$437.5	$205.4	$(117.1)	$(27.2)	$(28.6)	$2,282.2	$1,463.7	$797.2

**Unpaid losses and loss adjustment expenses*

Premiums Earned

As shown, premiums earned from reinsurance assumed activities grew significantly from 1989 to 1990 and again from 1990 to 1991. The growth from 1989 to 1990 came from premiums earned in 1990 amounting to $370 million with respect to retroactive reinsurance — coverages for past loss events. A relatively insignificant amount of premiums were received for such business prior to 1990. Premiums earned in 1991 for such coverages amounted to $362 million. The increase in "other reinsurance" premiums earned from 1990 to 1991 came from (i) finite-risk type coverages, for which 1991 earned premium amounted to $197 million, plus (ii) premiums earned in 1991 from significantly increased issuances of catastrophe excess-of-loss coverages to other insurers and reinsurers.

Underwriting Gain (Loss)

The 1991 underwriting loss from retroactive reinsurance was $26.2 million, representing amortization of deferred charges re reinsurance, an account first established at the end of 1990. See Note 1(h) to the Consolidated Financial Statements for information with respect to this charge. The underwriting loss with respect to structured settlement liabilities was $22.8 million for 1991, $21.7 million for 1990 and $16.1 million for 1989. Such amounts represent accretion of liabilities with respect to all structured settlement contracts.

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Management's Discussion *(continued)*

Insurance Underwriting (continued)

Reinsurance Assumed (continued)

Favorable development in the amount of $30.6 million was recorded in 1991 with respect to liabilities under pre-1990 major quota share reinsurance contracts. No development with respect to those contracts was recorded in 1990. For 1989, losses under the contracts were estimated in an amount that exceeded by $9 million the premiums earned with respect thereto. It should be noted that estimated unpaid losses and loss adjustment expenses with respect to these contracts amounted to $248.1 million at December 31, 1991 and there will be additional development — which may be either favorable or unfavorable — recorded in future years as these contracts are run-off.

Gross losses and expenses of approximately $295 million were recorded for 1991 with respect to the finite-risk type contracts referred to in the third preceding paragraph. That amount exceeded by $98 million the related premiums earned, and that difference comprised virtually all of the 1991 underwriting loss from the category of "other reinsurance" shown in the disaggregated data above. These contracts provide casualty-type coverages of sizeable but limited amounts per contract.

The concept of the time-value-of-money is taken into account in pricing of virtually all insurance products, but the concept is a more important consideration in the pricing of reinsurance products than in the pricing of direct business due to the more extended claims payment period — or "tail" — attached to reinsurance business. Thus, the premium charged per dollar of expected loss and expense for reinsurance coverage is normally less than for direct coverage in the same line of business. Further, the concept of the time-value-of-money is a more important consideration in pricing of certain lines, e.g., workers' compensation and general liability, than for other lines, e.g., auto physical damage, whether it be direct insurance or reinsurance. Recognition of the concept, through discounting liabilities for unpaid losses to present value, is permitted by insurance regulatory authorities of a few states, usually only for some lines of insurance and reinsurance. Nebraska, the state of domicile for National Indemnity Company and several other members of the Berkshire Hathaway Insurance Group, permits discounting only for structured settlement liabilities. The extreme difficulty in estimating the amount of unpaid losses plus the added difficulty of projecting the time of their payment may justify the mandated, conservative approach that treats all liabilities as equal for accounting purposes, irrespective of differences in their projected payment date.

Discounting is not permitted with respect to the Group's unpaid losses and loss expenses in the category of "other reinsurance," and a large portion of this business is in long-tail lines. Thus, a large portion of the $272 million premiums earned for this category in 1991 was priced based in significant part on time-discounting of expected losses where the effects of such discounting are very meaningful. However, the related losses and loss expenses charged against those premiums in the Statement of Earnings are stated on an undiscounted basis. The resulting substantial underwriting loss does not reflect management's view of the economics of the underlying arrangements.

The (i) deferred charge and its amortization that arise from the accounting treatment afforded to retrospective reinsurance, as well as (ii) the periodic accretion of structured settlement liabilities, are accounting procedures that apply the concept of the time-value-of-money. However, the amortization and accretion are charged as losses incurred in periods subsequent to the periods when related premiums are earned, and thus reflect themselves as underwriting losses in the subsequent periods. Accretion and amortization charges referred to in this paragraph, charged as loss costs in periods when there is no directly related credit for premium income, amounted to $49 million for 1991 and are expected to approximate $70 million for 1992.

Berkshire's management is not recommending a changed accounting model for insurance companies. These comments, regarding the mismatch in the Statement of Earnings of premiums earned and related loss costs, are instead intended as an aid to shareholders' and others' understanding of the data reported above.

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Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting

A summary follows of the combined underwriting results, stated on a GAAP basis, of the Berkshire Hathaway Insurance Group's primary or direct insurance operations.

	(dollars are in millions)					
	1991		1990		1989	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 135.5		$ 139.1		$ 169.7	
Premiums earned	$ 141.0	100.0	$ 154.0	100.0	$ 188.9	100.0
Losses and loss expenses	95.2	67.5	102.0	66.2	125.9	66.6
Underwriting expenses	48.3	34.3	51.5	33.4	58.8	31.1
Total losses and expenses	143.5	101.8	153.5	99.6	184.7	97.7
Underwriting gain (loss) — pre-tax	$ (2.5)		$ 0.5		$ 4.2	

Favorable development, discussed on the following page, of beginning-of-the-year loss reserves represented respectively, 16.9%, 11.9%, and 10.6% of premiums earned in 1991, 1990 and 1989. Without such credits, total losses and expenses as a percentage of premiums earned were: 1991 — 118.7%, 1990 — 111.5%, and 1989 — 108.3%.

The number of risks accepted in Berkshire's primary or direct insurance operations peaked in 1986 and has declined each succeeding year. The declines have been shared by each of the underwriting units that produce the Group's direct business, as reflected in the following table of premiums earned for the past five years:

	(dollars in millions)				
Underwriting Unit	1991	1990	1989	1988	1987
Traditional motor vehicle/general liability operations	$ 89	$ 94	$113	$168	$268
N.Y. commercial casualty/professional liability/specialty risk operations	14	18	20	54	93
Homestate companies/Cypress Insurance Co.	38	42	56	70	80
Total premiums earned	$141	$154	$189	$292	$441

The "traditional" business, written through general agents located nationwide directed from National Indemnity's Omaha offices, represents principally casualty coverages for commercial accounts. The operations are termed internally as those of the "National Indemnity primary group." Historically from the founding of National Indemnity Company fifty years ago, the volume of business written by this group varied significantly from year to year, increasing during periods of limited industry insuring capacity and decreasing when industry capacity expanded. When capacity was adequate, much of the business was written by competing insurers (i) charging prices lower than those acceptable to National Indemnity, and/or (ii) applying less stringent underwriting guidelines than those applied by National Indemnity. Those lower prices continued until the resulting unacceptable losses caused voluntary or involuntary exits from the market. At such point in the cycle, offerings increased to National Indemnity Company and its affiliated Insurance Group members at prices they believed to be adequate. In recent years, the group has experienced the down-side of this cycle. The upside, evidenced by increased offerings meeting the Group's acceptance standards, has not yet been observed.

Disciplined underwriting is also practiced by the Group's New York City underwriting units that commenced operations in 1985. Earned premiums from policies underwritten from these offices peaked at $93 million in 1987 and then declined each year, totalling $18 million in 1990 and $14 million in 1991. The commercial casualty/professional liability and special risks underwriting units enter into "tailored" insurance contracts for insureds presenting risks unusual in nature and/or unusually large. Many standard carriers decline to provide such coverages when their capacity can be fully employed in providing standard coverages for standard risks, i.e., in tight markets such as those of 1985 and 1986, but they have increasingly competed for, and written much of this business in the 1988-1991 period.

Management's Discussion *(continued)*

Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting (continued)

The Homestate companies of the Berkshire Hathaway Insurance Group — in Colorado, Kansas and Nebraska — reduced their premium writings in each of the past three years. Their disciplined underwriting approach in a soft market environment resulted in loss of market share. Cypress Insurance Company underwrites primarily workers' compensation risks in a highly competitive market environment in California.

The preceding discussion is given to explain the downward trend in dollar amount of premiums. It should be understood that no management judgments with respect to the Insurance Group's operations are based on volume of business done. Instead, members are encouraged to reject underpriced risks without regard to volume.

Summarized below is loss and loss expense data from primary or direct insurance underwriting:

	(dollars in millions)		
	1991	1990	1989
Unpaid losses and loss expenses at beginning of year	$586.6	$639.2	$667.6
Incurred losses recorded:			
Current year occurrences	119.0	120.3	145.9
All prior years' occurrences	(23.8)	(18.3)	(20.0)
	95.2	102.0	125.9
Payments with respect to:			
Current year occurrences	23.3	21.7	27.6
All prior years' occurrences	91.6	132.9	126.7
	114.9	154.6	154.3
Unpaid losses and loss expenses at end of year	$566.9	$586.6	$639.2

Credits against incurred losses were recorded in each of the last three years for "all prior years' occurrences." They are corrections of estimation error that are credited or charged to earnings in the year made. Relating these credits for each year to the related estimated unpaid amounts at the beginning of the respective year, the "savings" were: 1991 — 4.1%, 1990 — 2.9%, and 1989 — 3.0%. 1991 was the fifth consecutive year of favorable development, which might be viewed as somewhat comforting. But additional cases of an unknowable number and magnitude for pre-1992 losses are certain to be reported. A provision for late reported cases is, of course, included in the $566.9 million 1991 year-end provision for unpaids. But, that total amount is subject to the favorable or unfavorable development that will be recorded in future years.

The favorable development recorded in each of the most recent three years related principally to the traditional commercial automobile business of the primary group.

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Insurance Segment Investment Income

Following is a summary of Insurance Group net investment income for the past three years.

	(dollars in millions)			
	Investment Income Before Taxes	Applicable Income Taxes	Applicable Minority Interest	Investment Income After Taxes and Minority Int.
1991	$331.8	$ 43.8	$ 2.9	$285.1
1990	327.0	41.2	3.2	282.6
1989	243.6	26.8	3.2	213.6

Invested assets increased in each of the past three years. In the three-year period, Berkshire contributed approximately $625 million additional capital to the Group, and reinvested earnings of the Group for that period amounted to approximately $800 million. Contributing to a further increase in invested assets was about $525 million increase during the past two year period in the amount of "float" from policyholder funds. That term denotes the sum of unpaid losses, unpaid loss adjustment expenses and unearned premiums, less the aggregate of agents' balances receivable, amounts recoverable as reinsurance on paid losses, deferred policy acquisition costs and deferred charges re reinsurance. The net amount of float was approximately $1.54 billion at the end of 1989 — unchanged during that year, $1.63 billion at the end of 1990, and $2.07 billion at the end of 1991.

The Insurance Group received dividends in the prior year of $52.5 million with respect to the Group's investment in Gillette convertible preferred stock that was converted on April 1, 1991 into common stock. 1991 dividends received from Gillette with respect to such common stock plus the 1st quarter dividend on the preferred totalled $24.3 million. The comparative decrease is one reason why the increase in 1991 investment income over 1990 was less than the 1990 increase over 1989. Another is that the timing of Berkshire capital contributions to the Group influenced the year-to-year comparison more in 1990 than in 1991.

Non-Insurance Business Segments

A summary follows of results to Berkshire from these identified business segments for the past three years.

	(dollars in millions)			
			Net after-tax earnings	
	Revenues	Operating profit before taxes	Minority share	Berkshire share
1991	$ 1,204.8	$ 176.1	$ 2.9	$ 104.2
1990	1,120.8	170.6	3.2	100.1
1989	1,069.7	158.8	3.2	93.4

The businesses that produced the above results numbered seven in 1991, versus six in both 1990 and 1989.

On July 1, 1991, Berkshire purchased for cash all of the capital stock of H. H. Brown Shoe Co. ("Brown"), the business of which is the manufacturing, importing and marketing of work, safety, outdoor, western and casual footwear. Its operations for the last six months of 1991 accounted for approximately $7.5 million of Berkshire's 1991 after-tax earnings, and that figure more than accounts for the $4.1 million increase, 1991 vs 1990, in Berkshire's aggregate net earnings from these business segments.

Operations of each of the non-insurance business segments are dealt with in the following paragraphs.

Management's Discussion *(continued)*

Non-Insurance Business Segments (continued)

Candy — See's Candies

	(dollars in millions)		
	Revenues	Operating profit before taxes	Net after-tax earnings
1991	$ 196.0	$ 41.4	$ 24.6
1990	196.1	38.6	22.9
1989	186.0	33.3	19.7

1991 vs 1990

In 1991, unit sales of See's candies at retail — stated on the basis of an equivalent number of shops — decreased from 1990 by about 5%, and the physical volume of shipments in response to quantity orders was approximately 3% lower than in the previous year. Virtually all of the year-to-year decrease was experienced in the last two months — the critical selling season for See's. Price increases that were initiated on January 1 permitted 1991 sales revenues to equal those of 1990, a year when See's highest-ever revenues were recorded. Fortunately, 1991 cost and expense increases — at a rate of just over 2% on a per-pound sold basis — were lower than anticipated by the price increase. The 1991 raw material component of cost was actually less than in 1990, and See's after-tax profits for 1991 were higher by approximately $1.7 million than for the preceding year.

See's management believes that two factors were largely responsible for its decreased unit sales volume in 1991. First, as of July 15, 1991, the State of California imposed a sales tax on "candy and snack foods". The rate of tax is 8.5% in most metropolitan areas and because of See's heavy presence in California it applies to about 80% of See's sales. A second factor in management's view was the major decline in consumer confidence that commenced in mid-1990 and then intensified through the last quarter of 1991. Those factors may continue to adversely affect the business in 1992.

1990 vs 1989

Physical volume in 1990 was up over 1989, but by less than 1%. An increase of approximately 4.5% in pounds sold in response to quantity orders was largely offset by a decrease of about 2% in pounds sold from the retail stores. A slowing in 1990 retail store volume was particularly notable in the last quarter of the year when West Coast mall stores of all types saw less traffic. A selling price increase of about 5%, initiated at the beginning of the year, together with the slight increase in physical volume of sales, resulted in a $10.1 million, 5.4% increase in sales revenue and a $3.2 million, 16% year-to-year increase in after-tax profits.

Home Furnishings — Nebraska Furniture Mart

	(dollars in millions)			
			Net after-tax earnings	
	Revenues	Operating profit before taxes	Minority share	Berkshire share
1991	$ 171.0	$ 13.9	$ 1.7	$ 6.5
1990	163.7	16.8	2.1	8.1
1989	156.8	16.6	2.1	8.0

The Nebraska Furniture Mart's sales and other revenues increased from the preceding year by just over 4% in both 1991 and 1990. The 1991 increases over 1990 were achieved in a retailing economy that was sluggish for the entire year, and in the face of some heightened competition. In 1990, the influence of a slowing economy revealed itself in the fourth quarter, when sales increases over the 1989 fourth

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Non-Insurance Business Segments (continued)

Home Furnishings — Nebraska Furniture Mart (continued)

quarter, at about 1%, were below the average increase for the year. The percentage increase in sales revenues for 1991 over 1990 came from increased sales of furniture, appliances, electronics and carpet. On the other hand, the increased 1990 sales over 1989 came primarily from electronics and appliances.

In 1991, in order to protect and reinforce its image as a low-cost supplier and to fulfil its customers' low-price expectations, the Mart's management priced its goods at levels that resulted in lower gross margins on sales. In addition to accepting lower gross margins in 1991, the Mart also increased expenditures for advertising. In both 1991 and 1990, additional payroll costs were incurred for added point-of-sale personnel.

The Mart added personal computers and 35mm cameras to its product line in the last half of 1991 and devoted space to a "new life style furniture" facility called Trends. To enlarge its position as a provider of commercial carpet, in the fourth quarter of 1991, the Nebraska Furniture Mart purchased a small business located 50 miles away in Lincoln, Nebraska, that is engaged in that line of business.

Management at the Mart are hopeful that some increase in sales can be achieved in 1992, but expect it to be at a continuing cost of lower profit margins. Lower advertising costs may offset those cost pressures and permit modestly improved earnings for 1992.

Newspaper — The Buffalo News

	(dollars in millions)		
	Revenues	Operating profit before taxes	Net after-tax earnings
1991	$ 130.3	$ 36.6	$ 21.3
1990	135.2	43.4	25.4
1989	135.6	45.4	27.2

1991 vs 1990

During the first nine months of 1991, newspaper revenues and profits continued the decline that started in the last quarter of 1990, as the demand for print advertising declined dramatically. Revenues at the News stabilized in the fourth quarter of 1991 and were at approximately the same level as for the fourth quarter of 1990. However, pre-tax profits continued to slide and for the quarter were about 5% lower than for the fourth quarter of the prior year. For the full year 1991, newspaper revenues of $130.3 million were 3.7% less than for the full year 1990, and after-tax earnings of $21.3 million were 16.4% less than for the preceding year.

1990 vs 1989

A marked decline occurred in virtually every category of advertising lineage and revenue in the fourth quarter of 1990. Largely as a result, newspaper revenues for the year declined slightly from their 1989 level and after-tax earnings declined about 6%.

1992 prospects

Downward pressure on newspaper profitability from two trends is expected to continue. They are (i) increasing competition from direct mail, and (ii) an increasing tendency on the part of the retailing sector to rely less on newspaper advertising. Also, the trend in cost of newsprint is likely to reverse in the near term from its downward direction of the past three years. A buy-out offer made to printers and pressmen in early 1992 will result in at least $2 million of additional expense for the News. Thus, some further decline in earnings from the News may be in prospect for 1992.

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Management's Discussion *(continued)*

Non-Insurance Business Segments (continued)

Encyclopedias, Other Reference Materials — World Book

	(dollars in millions)		
	Revenues	Operating profit before taxes	Net after-tax earnings
1991	$ 311.5	$ 22.2	$ 15.2
1990	342.9	31.6	20.1
1989	338.4	25.3	16.2

1991 vs 1990

Revenues for this segment in 1991 were below 1990's all time record high level by $31.4 million. The 9% decline resulted largely from a disappointing 15% drop in unit sales in the Parent & Teacher market for World Book encyclopedias, Childcraft and Early World of Learning products. A part of the decline in revenues in 1991 is believed to reflect recessionary pressures in the domestic economy; a larger part may reflect some internal inefficiencies resulting from changes made during the year in the World Book marketing organization. World Book's marketing effort is accomplished by a geographically dispersed, very sizeable group of persons. While reorganizational steps taken to date are believed to have adversely affected the immediate selling effort, management believes that after related additional planned steps are accomplished, the restructuring's influence upon longer term results will be favorable. Improved capability to serve what is believed to be an increasing market for World Book products may be demonstrated in 1993 and beyond, but meaningful improvement in 1992 financial results over 1991 is not anticipated.

The decrease in earnings in 1991 from the prior year is attributable to the lower 1991 revenues.

1990 vs 1989

Revenues were about 1% higher for 1990 than for 1989. International sales increased as did domestic sales of publications other than encyclopedias. Revenues from domestic sales of the latter declined. Response to domestic special promotions of the encyclopedias was disappointing in 1990, believed to relate to earlier inadequate recruitment of sales representatives.

Profits of the segment in 1990 increased over 1989 as shown above. Among other factors contributing to this increase were lower costs in 1990 than in 1989 relating to relocating activities of the segment away from Chicago's Merchandise Mart to suburban and other locations. Such costs incurred were $6.9 million in 1989 versus $1.5 million in 1990. Also, foreign currency exchange gains of approximately $700,000 were recorded for the segment in 1990 contrasted to foreign exchange losses of approximately $550,000 in 1989.

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Non-Insurance Business Segments (continued)

Home Cleaning Systems

	(dollars in millions)		
	Revenues	Operating profit before taxes	Net after-tax earnings
1991	$ 192.0	$ 37.3	$ 23.0
1990	188.3	28.5	17.7
1989	159.0	26.2	16.3

Revenues of this segment derive from sales to distributors of *Kirby* home cleaning systems and accessories, sales to retailers or others of specialty vacuum cleaners such as electric as well as cordless hand-held vacuum cleaners, and sales of vacuum cleaner brushes to other manufacturers.

1991 revenues were $3.7 million more than in 1990. 77% of that increase, $2.8 million, represents the year-to-year increase in sales revenues from Kirby cleaners. The remainder of the increase came from higher sales in 1991 of handheld brush vacuums, essentially resulting from a single large quantity order from a buyer that used the product as a promotional item. Kirby's new Generation III model cleaner, introduced in late 1989 as a replacement for its Legend II, represented about 99% of domestic unit sales in 1991, versus about 82% in 1990. The newer cleaner, with its power drive, is larger, is somewhat more costly to produce, commands a higher unit selling price and yields a somewhat higher profit margin than the Legend II.

In 1990, the first full introductory year for the Generation III, unit sales of Kirby cleaners increased 8% domestically and 20% internationally over 1989. In 1991, unit sales declined slightly from the prior year, both in the domestic and international market. (International sales comprised about one-third of Kirby sales in both 1991 and 1990).

The higher sales revenues mentioned above, and somewhat higher profit margin realized on sales, in both 1991 and in 1990, each as compared to the immediately preceding year, contributed largely to the earnings increases shown above. In addition, the Kirby operation was burdened with somewhat less start-up costs in 1991 than in 1990 with respect to the new product.

Uniforms — Fechheimer Bros. Co.

	(dollars in millions)			
			Net after-tax earnings	
	Revenues	Operating profit before taxes	Minority share	Berkshire share
1991	$100.0	$ 12.2	$ 1.2	$ 6.1
1990	94.6	11.7	1.1	5.9
1989	93.9	12.0	1.1	6.0

This operation achieved a 6% increase in revenues in 1991 over 1990, greater than the 1% increase in the prior year over 1989. The current year's increase came largely from growth in retail operations and in part from its new fire-protective clothing line. Sales of marching band uniforms were also higher in 1991 than in 1990.

Levels of profitability of this segment gradually improved in 1991 as problems gradually decreased in integrating into its operations store acquisitions and start-ups from the late 1980's as well as a manufacturing facility acquired in 1989. 1992 is Fechheimer's 150th anniversary, and its managers are cautiously optimistic that earnings results for the year can somewhat exceed the level of recent years.

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Management's Discussion *(continued)*

Non-Insurance Business Segments (continued)

Shoes — H. H. Brown

	(dollars in millions)		
	Revenues	Operating profit before taxes	Net after-tax earnings
1991	$ 104.0	$ 12.5	$ 7.5

H. H. Brown Shoe Co. (unrelated to another Brown Shoe operation in St. Louis) was purchased for cash by Berkshire as of July 1, 1991, and the results of its operations after that date, above, are included in Berkshire's consolidated results. The business manufactures, imports and markets work, safety, outdoor, western and casual footwear.

Brown's profit results for the last six months of the year were better than might have been projected earlier. In the domestic leather market where Brown's purchases its major raw material, prices were lower than at any time in the past seven years. Pairs of shoes and boots from this operation sold in the last six months of 1991 were somewhat fewer than in the corresponding period of 1990, when it was under previous ownership, but increased sales of western boots, combined with other changes in product mix and some increase in prices resulted in a higher dollar volume of sales from the operation than for the corresponding six month period of the prior year. That, combined with a decrease in raw material cost for manufactured products and lower promotional costs, resulted in earnings at a very respectable level for the six month 1991 period of Berkshire ownership.

The good start under Berkshire ownership means that a comparable or a better level of results should not be anticipated for 1992, particularly in view of the now-firming leather market.

Businesses Other Than Identified Segments

	(dollars in millions)			
		Operating profit	Net after-tax earnings	
	Revenues	before taxes	Minority share	Berkshire share
1991	$524.4	$ 49.3	$ 2.4	$ 27.6
1990	535.9	56.4	2.9	31.9
1989	531.7	53.4	2.5	30.6

The above represent aggregate data for businesses that numbered 23 in 1991. Berkshire management believes that narrative discussion of the results of the constituent businesses would not yield significant benefit to investors or others, particularly in view of the relative consistency of the year-to-year aggregate data.

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Interest Expense

Interest expense was higher in 1991 than in 1990 partly because the average amount of Berkshire's borrowings under investment agreements was higher in 1991 than in 1990. Also, in 1991, debt of $72 million was redeemed prior to scheduled maturity (in 2018) and the early redemption premium amounting to $5.7 million that was incurred in the redemption transactions was charged to 1991 interest expense.

Interest expense was higher in 1990 than in 1989 partly because accretion for all of 1990 amounting to $22.6 million with respect to Berkshire's zero coupon convertible subordinated notes was greater than the $5.7 million charge with respect thereto for the last quarter of 1989 following their issue. Also in 1990, borrowings by Berkshire under investment agreements were more than in 1989.

Realized Investment Gain

Realized investment gain has been a recurring element in Berkshire's net earnings for many years. The amount — recorded when appreciated securities are sold — tends to fluctuate significantly from period to period, with a meaningful effect upon Berkshire's consolidated net earnings. But, the amount of realized investment gain for any given period has no predictive value, and variations in amount from period to period have no practical analytical value, particularly in view of the billions of dollars now reflected for unrealized price appreciation in Berkshire's consolidated investment portfolio.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1991, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has more than doubled from approximately $3.41 billion at December 31, 1988 to approximately $7.38 billion at December 31, 1991. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $3 billion, and reinvested earnings, other than realized securities gains, were nearly $1 billion. The rate of increase in net worth is certain to decline in future years because of its current magnitude. But, creditors and customers can continue to benefit from Berkshire's capital adequacy.

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BERKSHIRE HATHAWAY INC.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past eleven years. On October 14, 1981, the Chairman sent to the shareholders a letter* explaining the program. Portions of that letter follow:

"On September 30, 1981 Berkshire received a tax ruling from the U.S. Treasury Department that, in most years, should produce a significant benefit for charities of your choice.

"Each Berkshire shareholder — on a basis proportional to the number of shares of Berkshire that he owns — will be able to designate recipients of charitable contributions by our company. You'll name the charity; Berkshire will write the check. The ruling states that there will be no personal tax consequences to our shareholders from making such designations.

"Thus, our approximately 1500 owners now can exercise a perquisite that, although routinely exercised by the owners in closely-held businesses, is almost exclusively exercised by the managers in more widely-held businesses.

"In a widely-held corporation the executives ordinarily arrange all charitable donations, with no input at all from shareholders, in two main categories:

(1) Donations considered to benefit the corporation directly in an amount roughly commensurate with the cost of the donation; and
(2) Donations considered to benefit the corporation indirectly through hard-to-measure, long-delayed feedback effects of various kinds.

"I and other Berkshire executives have arranged in the past, as we will arrange in the future, all charitable donations in the first category. However, the aggregate level of giving in such category has been quite low, and very likely will remain quite low, because not many gifts can be shown to produce roughly commensurate direct benefits to Berkshire.

"In the second category, Berkshire's charitable gifts have been virtually nil, because I am not comfortable with ordinary corporate practice and had no better practice to substitute. What bothers me about ordinary corporate practice is the way gifts tend to be made based more on who does the asking and how corporate peers are responding than on an objective evaluation of the donee's activities. Conventionality often overpowers rationality.

"A common result is the use of the stockholder's money to implement the charitable inclinations of the corporate manager, who usually is heavily influenced by specific social pressures on him. Frequently there is an added incongruity; many corporate managers deplore governmental allocation of the taxpayer's dollar but embrace enthusiastically their own allocation of the shareholder's dollar.

"For Berkshire, a different model seems appropriate. Just as I wouldn't want you to implement your personal judgments by writing checks on my bank account for charities of your choice, I feel it inappropriate to write checks on your corporate "bank account" for charities of my choice. Your charitable preferences are as good as mine and, for both you and me, funds available to foster charitable interests in a tax-deductible manner reside largely at the corporate level rather than in our own hands.

"Under such circumstances, I believe Berkshire should imitate more closely-held companies, not larger public companies. If you and I each own 50% of a corporation, our charitable decision making would be simple. Charities very directly related to the operations of the business would have first claim on our available charitable funds. Any balance available after the "operations-related" contributions would be divided among various charitable interests of the two of us, on a basis roughly proportional to our ownership interest. If the manager of our company had some suggestions, we would listen carefully — but the final decision would be ours. Despite our corporate form, in this aspect of the business we probably would behave as if we were a partnership.

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"Wherever feasible, I believe in maintaining such a partnership frame of mind, even though we operate through a large, fairly widely-held corporation. Our Treasury ruling will allow such partnership-like behavior in this area . . .

"I am pleased that Berkshire donations can become owner-directed. It is ironic, but understandable, that a large and growing number of major corporations have charitable policies pursuant to which they will match gifts made by their employees (and — brace yourself for this one — many even match gifts made by directors) but none, to my knowledge, has a plan matching charitable gifts by owners. I say "understandable" because much of the stock of many large corporations is owned on a "revolving door" basis by institutions that have short-term investment horizons, and that lack a long-term owner's perspective . . .

"Our own shareholders are a different breed. As I mentioned in the 1979 annual report, at the end of each year more than 98% of our shares are owned by people who were shareholders at the beginning of the year. This long-term commitment to the business reflects an owner mentality which, as your manager, I intend to acknowledge in all feasible ways. The designated contributions policy is an example of that intent."

* * *

The history of contributions made pursuant to this program since its inception follows:

Year	*Specified Amount per share*	*Percent of Eligible* Shares Participating*	*Amount Contributed*	*No. of Charities*
1981	$2	95.6%	$1,783,655	675
1982	$1	95.8%	$ 890,948	704
1983	$3	96.4%	$3,066,501	1,353
1984	$3	97.2%	$3,179,049	1,519
1985	$4	96.8%	$4,006,260	1,724
1986	$4	97.1%	$3,996,820	1,934
1987	$5	97.2%	$4,937,574	2,050
1988	$5	97.4%	$4,965,665	2,319
1989	$6	96.9%	$5,867,254	2,550
1990	$6	97.3%	$5,823,672	2,600
1991	$7	97.7%	$6,772,024	2,630

* *Shares registered in street name are not eligible to participate.*

In addition to the shareholder-designated contributions summarized above, Berkshire and its subsidiaries have made certain contributions pursuant to local level decisions of operating managers of the businesses.

* * *

The program may not be conducted in the occasional year, if any, when the contributions would produce substandard or no tax deductions. In other years Berkshire expects to inform shareholders of the amount per share that may be designated, and a reply form will accompany the notice allowing shareholders to respond with their designations. If the program is conducted in 1992, the notice will be mailed on or about September 15 **to shareholders of record reflected in our Registrar's records as of the close of business August 31, 1992**, and shareholders will be given until **November 15** to respond.

Shareholders should note the fact that shares held in street name are not eligible to participate in the program. To qualify, shares must be registered on August 31 in the owner's individual name(s) or the name of an owning trust, corporation, partnership or estate, as applicable.

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Berkshire's consolidated data is rearranged in the presentations on the following seven pages into four categories, corresponding to the way Mr. Buffett and Mr. Munger think about Berkshire's businesses. The presentations may be helpful to readers in making estimates of Berkshire's intrinsic value.

The presentations in this section do not conform in all respects to generally accepted accounting principles. Principle departures from GAAP relate to accounting treatment for assets acquired in business acquisitions, although students and practitioners of accounting will recognize others.

Opinions of Berkshire's independent auditors were not solicited for this data. The four-category presentations in no way fell within their purview.

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BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Berkshire's insurance business is conducted by 12 separate subsidiaries, headed by National Indemnity Company headquartered in Omaha, Nebraska. The members underwrite multiple lines of principally casualty coverages for primarily commercial accounts, providing, for example, liability coverages for truck and bus operators, and casualty coverages for especially large or unusual risks. The Commercial Casualty Division and the Professional Liability and Special Risk Division, each with offices in New York City, solicit and underwrite the special large risks. Member companies domiciled in the states of Colorado, Kansas and Nebraska provide standard multiple-line property/casualty insurance to "homestate" residents. A California domiciled member provides principally workers' compensation insurance to employers in that state.

A Reinsurance Division in New York City provides treaty reinsurance to other property/casualty insurers and reinsurers. This division is currently one of the leading providers in the world of finite-risk reinsurance and property/catastrophe retrocessional protection (i.e., reinsurance for reinsurers).

The Berkshire Hathaway Insurance Group maintains capital strength at unparalleled high levels, significantly higher than normal in the industry. This strength differentiates Group members from their competitors. For example, the Group's net premiums written in 1991 were approximately 10% of the Group's year-end statutory surplus. That compares to an industry average premiums-to-surplus ratio of about 157% (for 1990). The obvious margins of safety thus provided to insureds of the Group are particularly persuasive in marketing of individually negotiated insurance and reinsurance contracts.

Combined financial statements of the Berkshire Hathaway Inc. Insurance Group — unaudited and not fully adjusted to conform to Generally Accepted Accounting Principles — are presented on the following two pages.

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BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Balance Sheets
(dollars in millions)

	December 31, 1991	December 31, 1990
Assets		
Investments:		
Fixed maturities at amortized cost:		
Bonds:		
RJR Nabisco	$ 98.9	$ 187.7
Wash. Pub. Power Supply System	158.6	188.9
Other	367.0	377.4
Preferred stocks:		
Champion International	279.0	279.0
Salomon Inc	650.0	637.0
USAir	348.0	348.0
Other	0.5	0.7
Equity Securities at market:		
Common stocks:		
Capital Cities/ABC, Inc.	1,278.8	1,354.4
Coca-Cola Company	3,738.0	2,166.0
GEICO	1,363.2	1,110.6
Gillette	1,347.0	600.0
Guinness PLC	296.8	—
Washington Post	336.0	342.1
Wells Fargo Company	279.3	278.7
Other	91.9	232.9
Preferred stocks:		
American Express Company	247.5	—
First Empire State Corp.	50.0	—
Other	44.2	72.6
	10,974.7	8,176.0
Cash and cash equivalents	458.5	115.6
Receivables	414.1	222.2
Deferred costs	552.5	364.2
Other	2.8	2.3
	$12,402.6	$8,880.3
Liabilities		
Loss and loss adjustment expenses	$ 2,849.1	$2,050.3
Unearned premiums	152.5	126.4
Accounts payable, accruals and other	222.1	226.0
Income taxes, principally deferred	1,908.2	1,099.0
	$ 5,131.9	3,501.7
Equity		
Minority shareholders'	56.5	39.8
Berkshire shareholders'	7,214.2	5,338.8
	7,270.7	5,378.6
	$12,402.6	$8,880.3

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Statements of Earnings
(dollars in millions)

	1991	1990	1989
Premiums written	$ 802.5	$ 574.3	$ 296.1
Premiums earned	$ 776.4	$ 591.5	$ 394.3
Losses and loss expenses	827.2	534.2	309.4
Underwriting expenses	68.8	83.9	109.3
Total losses and expenses	896.0	618.1	418.7
Underwriting loss - pre-tax	(119.6)	(26.6)	(24.4)
Net investment income	331.8	327.0	243.9
Realized investment gain	110.8	15.8	220.6
Earnings from operations before income taxes	323.0	316.2	440.1
Income tax expense	(38.4)	(34.1)	(88.9)
	284.6	282.1	351.2
Minority interest	2.8	3.0	4.0
Net earnings	$ 281.8	$ 279.1	$ 347.2

Statements of Net Investment Income
(dollars in millions)

	1991	1990	1989
Interest:			
Substantially exempt from Federal income taxes:			
Wash. Pub. Power Supply System	$ 25.0	$ 27.1	$ 27.3
Other	29.6	30.5	51.6
Taxable:			
RJR Nabisco	21.7	27.0	3.4
Other	22.4	6.6	18.5
	98.7	91.2	100.8
Dividends:			
American Express Company	9.2	—	—
Capital Cities/ABC, Inc	0.6	0.6	0.6
Champion International	25.8	25.8	1.9
Coca-Cola Company	44.7	37.3	31.3
First Empire State Corp.	2.9	—	—
GEICO	15.6	13.7	12.3
Gillette	24.3	52.5	23.5
Guinness PLC	1.2	—	—
Salomon Inc.	58.1	56.1	56.1
USAir	32.2	32.2	12.9
Washington Post	7.3	6.9	3.2
Wells Fargo Company	16.8	10.8	2.0
Other	6.0	8.8	6.1
	343.4	335.9	250.7
Investment expenses	(11.6)	(8.9)	(6.8)
Net investment income	$ 331.8	$ 327.0	$ 243.9

These statements do not conform to GAAP in all respects
These statements are unaudited

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BERKSHIRE HATHAWAY INC.

MANUFACTURING, PUBLISHING AND RETAILING BUSINESSES

Combined financial statements of Berkshire's Manufacturing, Publishing and Retailing businesses - unaudited and not fully adjusted to conform to Generally Accepted Accounting Principles - are presented on the following page. The operations whose data have been combined in these presentations include the following:

Operation	*Product/Service/Activity*
Adalet	Conduit fittings, explosion proof fittings, junction boxes
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Buffalo News	Daily and Sunday newspaper
Campbell Hausfeld	Air compressors and accessories, painting systems
Carefree	Roll-up awnings, other RV accessories
Cleveland Wood Products	Vacuum cleaner brushes
Douglas Products	Hand-held electric and cordless vacuum cleaners
Fechheimer Bros. Co.	Uniforms and accessories
France	Appliance controls, ignition and sign transformers
H. H. Brown Shoe Co.	Work shoes, boots and casual footwear
Halex	Zinc and aluminum die cast fittings
K&W Products	Automotive compounds
Kirby	Home cleaning systems
Meriam	Pressure and flow measurement devices
Nebraska Furniture Mart	Retailing home furnishings
New America Electric	Electrical equipment
Northland	Fractional horsepower motors
Powerwinch	Boat winches, windlasses
Precision Steel Products	Steel service center
Quikut	Varieties of cutlery
See's Candies	Boxed chocolates and other confectionery products
Scot Labs	Cleaning and maintenance chemicals
Stahl	Custom steel services bodies and tool boxes for trucks
Wayne Home Equipment	Furnace burners; sump, utility and sewage pumps
Western Enterprises	Compressed gas fittings and regulators
Western Plastics	Molded plastic components
World Book	Encyclopedias and other reference materials

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BERKSHIRE HATHAWAY INC.

MANUFACTURING, PUBLISHING and RETAILING BUSINESSES

Balance Sheets
(dollars in millions)

	December 31, 1991	1990
Assets		
Cash and cash equivalents	$ 67.3	$ 28.9
Accounts receivable	211.3	184.0
Inventories	227.0	174.1
Properties and equipment	154.7	149.1
Other	18.7	19.7
	$ 679.0	$ 555.8
Liabilities		
Accounts payable, accruals and other	$ 211.2	$ 198.0
Income taxes	37.0	38.4
Term debt and other borrowings	40.9	36.1
	289.1	272.5
Equity		
Minority shareholders'	31.1	28.2
Berkshire shareholders'	358.8	255.1
	389.9	283.3
	$ 679.0	$ 555.8

Statements of Earnings
(dollars in millions)

	1991	1990	1989
Revenues:			
Sales and service revenues	$ 1,651.1	$1,580.1	$1,526.4
Interest income	8.5	6.7	8.4
Sundry income	2.1	1.4	2.6
	1,661.7	1,588.2	1,537.4
Costs and expenses:			
Costs of products and services sold	933.7	865.6	838.7
Selling, general and administrative	508.6	499.3	487.7
Interest on debt	4.9	6.5	6.2
	1,447.2	1,371.4	1,332.6
Earnings from operations before income taxes	214.5	216.8	204.8
Income tax expense	82.3	83.9	78.9
	132.2	132.9	125.9
Minority interest	4.6	5.4	5.0
Net earnings	$ 127.6	$ 127.5	$ 120.9

Purchase price accounting adjustments, including goodwill, arising from Berkshire's business acquisitions are not reflected in these statements, but instead are reflected in the statements of non-operating activities at page 58.

These statements do not conform to GAAP in all respects
These statements are unaudited

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BERKSHIRE HATHAWAY INC.

FINANCE-TYPE BUSINESSES

Mutual Savings and Loan Association and its subsidiary and *Scott Fetzer Financial Group, Inc.* and its subsidiaries make up Berkshire's finance-type operations.

Balance Sheets
(dollars in millions)

	December 31, 1991	December 31, 1990
Assets		
Cash and cash equivalents	$ 32.7	$ 72.9
Investments at cost:		
Fixed maturities:		
Bonds	14.2	17.0
Mortgage-backed securities	129.5	23.7
Preferred stocks	—	17.5
Equity securities:		
FHLMC common stock	71.7	71.7
Preferred stocks	—	36.8
Collateralized loans receivable	100.9	107.4
Installment and other receivables	177.7	169.7
Prepaid income taxes	7.3	11.1
Other	28.9	21.2
	$ 562.9	$ 549.0
Liabilities		
Savings accounts	$ 289.0	$ 286.4
Accounts payable, accruals and other	26.2	22.2
Income taxes	1.5	1.3
Term debt and other borrowings	154.6	157.1
	471.3	467.0
Equity		
Minority shareholders'	11.8	10.1
Berkshire shareholders'	79.8	71.9
	91.6	82.0
	$ 562.9	$ 549.0

Statements of Earnings
(dollars in millions)

	1991	1990	1989
Revenues:			
Interest and fees on loans and financed receivables	$ 53.2	$ 51.9	$ 49.4
Interest and dividends on investment securities	18.3	18.3	19.2
Sundry income	1.3	0.3	0.3
	72.8	70.5	68.9
Expenses:			
Interest on savings accounts	18.3	22.0	21.5
Interest on debt	14.3	14.3	13.9
General and administrative	20.7	20.7	20.8
	53.3	57.0	56.2
Earnings from operations before income taxes	19.5	13.5	12.7
Income tax expense	4.6	1.7	1.2
	14.9	11.8	11.5
Minority interest	0.9	0.8	0.8
Earnings before realized investment gain	14.0	11.0	10.7
Realized investment gain — mandated divest. of pref. stocks	4.5	—	—
Net earnings	$ 18.5	$ 11.0	$ 10.7

These statements do not conform to GAAP in all respects
These statements are unaudited

BERKSHIRE HATHAWAY INC.

NON-OPERATING ACTIVITIES

These statements reflect the consolidated financial statement values for assets, liabilities, shareholders' equity, revenues and expenses that were not assigned to any Berkshire operating group in the unaudited, and not fully GAAP-adjusted group financial statements heretofore presented (pages 51 to 57).

Statements of Net Assets
(dollars in millions)

	December 31, 1991	December 31, 1990
Assets		
Cash and cash equivalents	$ 205.6	$ 29.9
Investments:		
Fixed maturities:		
Bonds:		
RJR Nabisco	123.3	252.6
ACF Industries	87.9	58.0
Other	—	16.3
Preferred stocks	81.0	81.0
Equity securities	38.1	20.1
Property account adjustments *	78.2	73.6
Unamortized goodwill *	179.0	136.5
Prepaid income taxes	7.0	8.0
Other	40.9	32.8
	$ 841.0	$ 708.8
Liabilities		
Accounts payable, accruals and other	$ 34.5	$ 33.8
Income taxes	(3.3)	(7.8)
Term debt and other borrowings	1,065.0	1,046.2
	1,096.2	1,072.2
Equity		
Minority shareholders'	17.7	15.0
Berkshire shareholders'	(272.9)	(378.4)
	(255.2)	(363.4)
	$ 841.0	$ 708.8

Statements of Earnings
(dollars in millions)

	1991	1990	1989
Revenues:			
Interest and dividend income	$ 60.1	$ 41.1	$ 7.2
Realized investment gain	69.5	18.2	3.8
Sundry income	4.4	2.0	5.5
	134.0	61.3	16.5
Expenses:			
Corporate administration	5.6	4.1	3.4
Shareholder designated contributions	6.8	5.8	5.9
Amortization of goodwill *	4.0	3.5	3.4
Property account adjustments *	6.0	6.0	6.0
Interest on debt	84.5	71.3	37.3
Other costs and expenses	0.9	0.6	0.9
	107.8	91.3	56.9
Earnings (loss) before income taxes	26.2	(30.0)	(40.4)
Income tax credit (expense)	(12.7)	7.6	9.8
	13.5	(22.4)	(30.6)
Minority interest	1.5	1.1	0.6
Net earnings (loss)	$ 12.0	$ (23.5)	$ (31.2)

* *"Property account adjustments" and goodwill arose in accounting for business acquisitions.*

These statements do not conform to GAAP in all respects
These statements are unaudited

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COMMON STOCK

Stock Transfer Agent

The Bank of Boston Shareholder Services Division, P.O. Box 644, Boston, MA 02102 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence with the Division may be directed to Customer Service Section, Mail Stop 45-02-09. Certificates for re-issue or transfer should be directed to the Transfer Processing Section, Mail Stop 45-01-05. **Certificates should not be mailed to the Company.**

Shareholders

The Company had approximately 6,900 record holders of its common stock at March 2, 1992. Record owners included nominees holding at least 170,000 shares on behalf of beneficial-but-not-of-record owners. Management believes that the Company has more than 15,000 beneficial owners.

Price Range of Common Stock

The Company's Common Stock is listed for trading on the New York Stock Exchange, trading symbol: BRK. 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:

1991	High	Low	1990	High	Low
First Quarter	$8,275	$6,550	First Quarter	$8,725	$6,675
Second Quarter	8,750	7,760	Second Quarter	7,675	6,600
Third Quarter	9,000	8,325	Third Quarter	7,325	5,550
Fourth Quarter	9,125	8,150	Fourth Quarter	6,900	5,500

Dividends

Berkshire has not declared a cash dividend since 1967.

IKE FRIEDMAN
1924-1991

My friend and partner, Ike Friedman, CEO of Borsheim's, died last September. Ike was a business genius and showman, and these qualities enabled him to take a hole-in-the-wall store that his family purchased in 1948 and from it build a retailing phenomenon of national renown. His most outstanding attribute, however, was a big, warm heart that will forever be remembered by all who knew him.

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BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT, *Chairman*
Chief Executive Officer of Berkshire

CHARLES T. MUNGER, *Vice Chairman of Berkshire*

SUSAN T. BUFFETT

MALCOLM G. CHACE, JR.
Retired, Former Chairman of Berkshire's Board

J. VERNE McKENZIE
Chief Financial Officer of Berkshire

WALTER SCOTT, JR.
Chairman and Chief Executive Officer of Peter Kiewit Sons', Inc., engaged worldwide in construction, mining, packaging and timberlands.

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*

CHARLES T. MUNGER, *Vice Chairman*

ROBERT H. BIRD, *Vice President*

MICHAEL A. GOLDBERG, *Vice President*

STANFORD LIPSEY, *Vice President*

J. VERNE McKENZIE, *Vice President, Secretary*

MARC D. HAMBURG, *Treasurer*

DANIEL J. JAKSICH, *Controller*

ROBERT M. FITZSIMMONS,
Director of Internal Auditing

JERRY W. HUFTON,
Director of Taxes

J. WILLIAM SCOTT,
Director of Financial Assets

Two compilations of letters from earlier Annual Reports are available upon request. One is from reports for 1977 through 1986, the other, from reports for 1987 through 1990. Single copies are furnished without charge in response to requests received by the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131.

BERKSHIRE HATHAWAY INC.
Executive Offices — 1440 Kiewit Plaza, Omaha, Nebraska 68131

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