BERKSHIRE HATHAWAY INC.

1992
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 1992 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, approximately 7% of the capital stock of The Coca-Cola Company, approximately 15% of the capital stock of The Washington Post Company, approximately 11% of the common stock of Wells Fargo & Company, approximately 14% of the common stock of General Dynamics Corporation and convertible preferred stock of Salomon Inc having approximately 14% of the total voting power of that 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.

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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's Corporate Performance vs. the S&P 500

Year	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7

Notes: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.

Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules.

4-Year Periods	Average Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Average Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
9/30/64-12/31/68	17.3	8.4	8.9
12/31/68-12/31/72	16.5	6.7	9.8
12/31/72-12/31/76	21.0	1.5	19.5
12/31/76-12/31/80	27.6	11.4	16.2
12/31/80-12/31/84	29.0	10.6	18.4
12/31/84-12/31/88	28.0	17.6	10.4
12/31/88-12/31/92	27.0	15.7	11.3

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Our per-share book value increased 20.3% during 1992. Over the last 28 years (that is, since present management took over) book value has grown from $19 to $7,745, or at a rate of 23.6% compounded annually.

During the year, Berkshire's net worth increased by $1.52 billion. More than 98% of this gain came from earnings and appreciation of portfolio securities, with the remainder coming from the issuance of new stock. These shares were issued as a result of our calling our convertible debentures for redemption on January 4, 1993, and of some holders electing to receive common shares rather than the cash that was their alternative. Most holders of the debentures who converted into common waited until January to do it, but a few made the move in December and therefore received shares in 1992. To sum up what happened to the $476 million of bonds we had outstanding: $25 million were converted into shares before yearend; $46 million were converted in January; and $405 million were redeemed for cash. The conversions were made at $11,719 per share, so altogether we issued 6,106 shares.

Berkshire now has 1,152,547 shares outstanding. That compares, you will be interested to know, to 1,137,778 shares outstanding on October 1, 1964, the beginning of the fiscal year during which Buffett Partnership, Ltd. acquired control of the company.

We have a firm policy about issuing shares of Berkshire, doing so only when we receive as much value as we give. Equal value, however, has not been easy to obtain, since we have always valued our shares highly. So be it: We wish to increase Berkshire's size only when doing that also increases the wealth of its owners.

Those two objectives do not necessarily go hand-in-hand as an amusing but value-destroying experience in our past illustrates. On that occasion, we had a significant investment in a bank whose management was hell-bent on expansion. (Aren't they all?) When our bank wooed a smaller bank, its owner demanded a stock swap on a basis that valued the acquiree's net worth and earning power at over twice that of the acquirer's. Our management — visibly in heat — quickly capitulated. The owner of the acquiree then insisted on one other condition: "You must promise me," he said in effect, "that once our merger is done and I have become a major shareholder, you'll never again make a deal this dumb."

You will remember that our goal is to increase our per-share intrinsic value — for which our book value is a conservative, but useful, proxy — at a 15% annual rate. This objective, however, cannot be attained in a smooth manner. Smoothness is particularly elusive because of the accounting rules that apply to the common stocks owned by our insurance companies, whose portfolios represent a high proportion of Berkshire's net worth. Since 1979, generally accepted accounting principles (GAAP) have required that these securities be valued at their market prices (less an adjustment for tax on any net unrealized appreciation) rather than at the lower of cost or market. Run-of-the-mill fluctuations in equity prices therefore cause our annual results to gyrate, especially in comparison to those of the typical industrial company.

To illustrate just how volatile our progress has been — and to indicate the impact that market movements have on short-term results — we show on the facing page our annual change in per-share net worth and compare it with the annual results (including dividends) of the S&P 500.

You should keep at least three points in mind as you evaluate this data. The first point concerns the many businesses we operate whose annual earnings are unaffected by changes in stock market valuations. The impact of these businesses on both our absolute and relative performance has changed over the years. Early on, returns from our textile operation, which then represented a significant portion of our net worth, were a major drag on performance, averaging far less than would have been the case if the money invested in that business had instead been invested in the S&P 500. In more recent years, as we assembled our

collection of exceptional businesses run by equally exceptional managers, the returns from our operating businesses have been high — usually well in excess of the returns achieved by the S&P.

A second important factor to consider — and one that significantly hurts our relative performance — is that both the income and capital gains from our securities are burdened by a substantial corporate tax liability whereas the S&P returns are pre-tax. To comprehend the damage, imagine that Berkshire had owned nothing other than the S&P index during the 28-year period covered. In that case, the tax bite would have caused our corporate performance to be appreciably below the record shown in the table for the S&P. Under present tax laws, a gain for the S&P of 18% delivers a corporate holder of that index a return well short of 13%. And this problem would be intensified if corporate tax rates were to rise. This is a structural disadvantage we simply have to live with; there is no antidote for it.

The third point incorporates two predictions: Charlie Munger, Berkshire's Vice Chairman and my partner, and I are virtually certain that the return over the next decade from an investment in the S&P index will be far less than that of the past decade, and we are dead certain that the drag exerted by Berkshire's expanding capital base will substantially reduce our historical advantage relative to the index.

Making the first prediction goes somewhat against our grain: We've long felt that the only value of stock forecasters is to make fortune tellers look good. Even now, Charlie and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave in the market like children. However, it is clear that stocks cannot forever overperform their underlying businesses, as they have so dramatically done for some time, and that fact makes us quite confident of our forecast that the rewards from investing in stocks over the next decade will be significantly smaller than they were in the last. Our second conclusion — that an increased capital base will act as an anchor on our relative performance — seems incontestable. The only open question is whether we can drag the anchor along at some tolerable, though slowed, pace.

We will continue to experience considerable volatility in our annual results. That's assured by the general volatility of the stock market, by the concentration of our equity holdings in just a few companies, and by certain business decisions we have made, most especially our move to commit large resources to super-catastrophe insurance. We not only accept this volatility but welcome it: A tolerance for short-term swings improves our long-term prospects. In baseball lingo, our performance yardstick is slugging percentage, not batting average.

The Salomon Interlude

Last June, I stepped down as Interim Chairman of Salomon Inc after ten months in the job. You can tell from Berkshire's 1991-92 results that the company didn't miss me while I was gone. But the reverse isn't true: I missed Berkshire and am delighted to be back full-time. There is no job in the world that is more fun than running Berkshire and I count myself lucky to be where I am.

The Salomon post, though far from fun, was interesting and worthwhile: In Fortune's annual survey of America's Most Admired Corporations, conducted last September, Salomon ranked second among 311 companies in the degree to which it improved its reputation. Additionally, Salomon Brothers, the securities subsidiary of Salomon Inc, reported record pre-tax earnings last year — 34% above the previous high.

Many people helped in the resolution of Salomon's problems and the righting of the firm, but a few clearly deserve special mention. It is no exaggeration to say that without the combined efforts of Salomon executives Deryck Maughan, Bob Denham, Don Howard, and John Macfarlane, the firm very probably would not have survived. In their work, these men were tireless, effective, supportive and selfless, and I will forever be grateful to them.

Salomon's lead lawyer in its Government matters, Ron Olson of Munger, Tolles & Olson, was also key to our success in getting through this trouble. The firm's problems were not only severe, but complex. At least five authorities — the SEC, the Federal Reserve Bank of New York, the U.S. Treasury, the U.S.

Attorney for the Southern District of New York, and the Antitrust Division of the Department of Justice — had important concerns about Salomon. If we were to resolve our problems in a coordinated and prompt manner, we needed a lawyer with exceptional legal, business and human skills. Ron had them all.

Acquisitions

Of all our activities at Berkshire, the most exhilarating for Charlie and me is the acquisition of a business with excellent economic characteristics and a management that we like, trust and admire. Such acquisitions are not easy to make but we look for them constantly. In the search, we adopt the same attitude one might find appropriate in looking for a spouse: It pays to be active, interested and open-minded, but it does not pay to be in a hurry.

In the past, I've observed that many acquisition-hungry managers were apparently mesmerized by their childhood reading of the story about the frog-kissing princess. Remembering her success, they pay dearly for the right to kiss corporate toads, expecting wondrous transfigurations. Initially, disappointing results only deepen their desire to round up new toads. ("Fanaticism," said Santyana, "consists of redoubling your effort when you've forgotten your aim.") Ultimately, even the most optimistic manager must face reality. Standing knee-deep in unresponsive toads, he then announces an enormous "restructuring" charge. In this corporate equivalent of a Head Start program, the CEO receives the education but the stockholders pay the tuition.

In my early days as a manager I, too, dated a few toads. They were cheap dates — I've never been much of a sport — but my results matched those of acquirers who courted higher-priced toads. I kissed and they croaked.

After several failures of this type, I finally remembered some useful advice I once got from a golf pro (who, like all pros who have had anything to do with my game, wishes to remain anonymous). Said the pro: "Practice doesn't make perfect; practice makes permanent." And thereafter I revised my strategy and tried to buy good businesses at fair prices rather than fair businesses at good prices.

Last year, in December, we made an acquisition that is a prototype of what we now look for. The purchase was 82% of Central States Indemnity, an insurer that makes monthly payments for credit-card holders who are unable themselves to pay because they have become disabled or unemployed. Currently the company's annual premiums are about $90 million and profits about $10 million. Central States is based in Omaha and managed by Bill Kizer, a friend of mine for over 35 years. The Kizer family — which includes sons Bill, Dick and John — retains 18% ownership of the business and will continue to run things just as it has in the past. We could not be associated with better people.

Coincidentally, this latest acquisition has much in common with our first, made 26 years ago. At that time, we purchased another Omaha insurer, National Indemnity Company (along with a small sister company) from Jack Ringwalt, another long-time friend. Jack had built the business from scratch and, as was the case with Bill Kizer, thought of me when he wished to sell. (Jack's comment at the time: "If I don't sell the company, my executor will, and I'd rather pick the home for it.") National Indemnity was an outstanding business when we bought it and continued to be under Jack's management. Hollywood has had good luck with sequels; I believe we, too, will.

Berkshire's acquisition criteria are described on page 23. Beyond purchases made by the parent company, however, our subsidiaries sometimes make small "add-on" acquisitions that extend their product lines or distribution capabilities. In this manner, we enlarge the domain of managers we already know to be outstanding — and that's a low-risk and high-return proposition. We made five acquisitions of this type in 1992, and one was not so small: At yearend, H. H. Brown purchased Lowell Shoe Company, a business with $90 million in sales that makes Nursemates, a leading line of shoes for nurses, and other kinds of shoes as well. Our operating managers will continue to look for add-on opportunities, and we would expect these to contribute modestly to Berkshire's value in the future.

Then again, a trend has emerged that may make further acquisitions difficult. The parent company made one purchase in 1991, buying H. H. Brown, which is run by Frank Rooney, who has eight children. In 1992 our only deal was with Bill Kizer, father of nine. It won't be easy to keep this string going in 1993.

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 GAAP, which requires 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.

	(000s omitted)			
	Pre-Tax Earnings		*Berkshire's Share of Net Earnings (after taxes and minority interests)*	
	1992	*1991*	*1992*	*1991*
Operating Earnings:				
Insurance Group:				
Underwriting	$(108,961)	$(119,593)	$ (71,141)	$ (77,229)
Net Investment Income	355,067	331,846	305,763	285,173
H. H. Brown (acquired 7/1/91)	27,883	13,616	17,340	8,611
Buffalo News	47,863	37,113	28,163	21,841
Fechheimer	13,698	12,947	7,267	6,843
Kirby	35,653	35,726	22,795	22,555
Nebraska Furniture Mart	17,110	14,384	8,072	6,993
Scott Fetzer Manufacturing Group	31,954	26,123	19,883	15,901
See's Candies	42,357	42,390	25,501	25,575
Wesco - other than Insurance	15,153	12,230	9,195	8,777
World Book	29,044	22,483	19,503	15,487
Amortization of Goodwill	(4,702)	(4,113)	(4,687)	(4,098)
Other Purchase-Price Accounting Charges	(7,385)	(6,021)	(8,383)	(7,019)
Interest Expense*	(98,643)	(89,250)	(62,899)	(57,165)
Shareholder-Designated Contributions	(7,634)	(6,772)	(4,913)	(4,388)
Other	72,223	77,399	36,267	47,896
Operating Earnings	460,680	400,508	347,726	315,753
Sales of Securities	89,937	192,478	59,559	124,155
Total Earnings - All Entities	$ 550,617	$ 592,986	$ 407,285	$ 439,908

**Excludes interest expense of Scott Fetzer Financial Group and Mutual Savings & Loan. Includes $22.5 million in 1992 and $5.7 million in 1991 of premiums paid on the early redemption of debt.*

A large amount of additional information about these businesses is given on pages 37-47, where you will also find our segment earnings reported on a GAAP basis. Our goal is to give you all of the financial information that Charlie and I consider significant in making our own evaluation of Berkshire.

"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. Though no single figure can be perfect, we believe that the look-through number more accurately portrays the earnings of Berkshire than does the GAAP number.

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. Our look-through earnings in 1992 were $604 million, and they will need to grow to more than $1.8 billion by the year 2000 if we are to meet that 15% goal. For us to get there, our operating subsidiaries and investees must deliver excellent performances, and we must exercise some skill in capital allocation as well.

We cannot promise to achieve the $1.8 billion target. Indeed, we may not even come close to it. But it does guide our decision-making: When we allocate capital today, we are thinking about what will maximize look-through earnings in 2000.

We do not, however, see this long-term focus as eliminating the need for us to achieve decent short-term results as well. After all, we were thinking long-range thoughts five or ten years ago, and the moves we made then should now be paying off. If plantings made confidently are repeatedly followed by disappointing harvests, something is wrong with the farmer. (Or perhaps with the farm: Investors should understand that for certain companies, and even for some industries, there simply is *no* good long-term strategy.) Just as you should be suspicious of managers who pump up short-term earnings by accounting maneuvers, asset sales and the like, so also should you be suspicious of those managers who fail to deliver for extended periods and blame it on their long-term focus. (Even Alice, after listening to the Queen lecture her about "jam tomorrow," finally insisted, "It must come sometimes to jam today.")

The following table shows you how we calculate look-through earnings, though 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 8, 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)	
	1992	1991	1992	1991
Capital Cities/ABC, Inc.	18.2%	18.1%	$ 70	$ 61
The Coca-Cola Company	7.1%	7.0%	82	69
Federal Home Loan Mortgage Corp.	8.2%(1)	3.4%(1)	29(2)	15
GEICO Corp.	48.1%	48.2%	34(3)	69(3)
General Dynamics Corp.	14.1%	—	11(2)	—
The Gillette Company	10.9%	11.0%	38	23(2)
Guinness PLC	2.0%	1.6%	7	—
The Washington Post Company	14.6%	14.6%	11	10
Wells Fargo & Company	11.5%	9.6%	16(2)	(17)(2)
Berkshire's share of undistributed earnings of major investees			$298	$230
Hypothetical tax on these undistributed investee earnings			(42)	(30)
Reported operating earnings of Berkshire			348	316
Total look-through earnings of Berkshire			$604	$516

(1) Net of minority interest at Wesco
(2) Calculated on average ownership for the year
(3) Excludes realized capital gains, which have been both recurring and significant

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*
1981	3.8	106.0
1982	3.7	109.6
1983	5.0	112.0
1984	8.5	118.0
1985	22.1	116.3
1986	22.2	108.0
1987	9.4	104.6
1988	4.5	105.4
1989	3.2	109.2
1990	4.5	109.6
1991 (Revised)	2.4	108.8
1992 (Est.)	2.7	114.8

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 106 - 110 range typically produces an overall break-even result, exclusive of earnings on the funds provided by shareholders.

About four points in the industry's 1992 combined ratio can be attributed to Hurricane Andrew, which caused the largest insured loss in history. Andrew destroyed a few small insurers. Beyond that, it awakened some larger companies to the fact that their reinsurance protection against catastrophes was far from adequate. (It's only when the tide goes out that you learn who's been swimming naked.) One major insurer escaped insolvency solely because it had a wealthy parent that could promptly supply a massive transfusion of capital.

Bad as it was, however, Andrew could easily have been far more damaging if it had hit Florida 20 or 30 miles north of where it actually did and had hit Louisiana further east than was the case. All in all, many companies will rethink their reinsurance programs in light of the Andrew experience.

As you know we are a large writer — perhaps the largest in the world — of "super-cat" coverages, which are the policies that other insurance companies buy to protect themselves against major catastrophic losses. Consequently, we too took our lumps from Andrew, suffering losses from it of about $125 million, an amount roughly equal to our 1992 super-cat premium income. Our other super-cat losses, though, were negligible. This line of business therefore produced an overall loss of only $2 million for the year. (In addition, our investee, GEICO, suffered a net loss from Andrew, after reinsurance recoveries and tax savings, of about $50 million, of which our share is roughly $25 million. This loss did not affect our operating earnings, but did reduce our look-through earnings.)

In last year's report I told you that I hoped that our super-cat business would over time achieve a 10% profit margin. But I also warned you that in any given year the line was likely to be "either enormously profitable or enormously unprofitable." Instead, both 1991 and 1992 have come in close to a break-even level. Nonetheless, I see these results as aberrations and stick with my prediction of huge annual swings in profitability from this business.

Let me remind you of some characteristics of our super-cat policies. Generally, they are activated only when two things happen. First, the direct insurer or reinsurer we protect must suffer losses of a

given amount — that's the policyholder's "retention" — from a catastrophe; and second, industry-wide insured losses from the catastrophe must exceed some minimum level, which usually is $3 billion or more. In most cases, the policies we issue cover only a specific geographical area, such as a portion of the U.S., the entire U.S., or everywhere other than the U.S. Also, many policies are not activated by the first super-cat that meets the policy terms, but instead cover only a "second-event" or even a third- or fourth-event. Finally, some policies are triggered only by a catastrophe of a specific type, such as an earthquake. Our exposures are large: We have one policy that calls for us to pay $100 million to the policyholder if a specified catastrophe occurs. (Now you know why I suffer eyestrain: from watching The Weather Channel.)

Currently, Berkshire is second in the U.S. property-casualty industry in net worth (the leader being State Farm, which neither buys nor sells reinsurance). Therefore, we have the capacity to assume risk on a scale that interests virtually no other company. We have the appetite as well: As Berkshire's net worth and earnings grow, our willingness to write business increases also. But let me add that means *good* business. The saying, "a fool and his money are soon invited everywhere," applies in spades in reinsurance, and we actually reject more than 98% of the business we are offered. Our ability to choose between good and bad proposals reflects a management strength that matches our financial strength: Ajit Jain, who runs our reinsurance operation, is simply the best in this business. In combination, these strengths guarantee that we will stay a major factor in the super-cat business so long as prices are appropriate.

What constitutes an appropriate price, of course, is difficult to determine. Catastrophe insurers can't simply extrapolate past experience. If there is truly "global warming," for example, the odds would shift, since tiny changes in atmospheric conditions can produce momentous changes in weather patterns. Furthermore, in recent years there has been a mushrooming of population and insured values in U.S. coastal areas that are particularly vulnerable to hurricanes, the number one creator of super-cats. A hurricane that caused x dollars of damage 20 years ago could easily cost $10x$ now.

Occasionally, also, the unthinkable happens. Who would have guessed, for example, that a major earthquake could occur in Charleston, S.C.? (It struck in 1886, registered an estimated 6.6 on the Richter scale, and caused 60 deaths.) And who could have imagined that our country's most serious quake would occur at New Madrid, Missouri, which suffered an estimated 8.7 shocker in 1812. By comparison, the 1989 San Francisco quake was a 7.1 — and remember that each one-point Richter increase represents a ten-fold increase in strength. Someday, a U.S. earthquake occurring far from California will cause enormous losses for insurers.

When viewing our quarterly figures, you should understand that our accounting for super-cat premiums differs from our accounting for other insurance premiums. Rather than recording our super-cat premiums on a pro-rata basis over the life of a given policy, we defer recognition of revenue until a loss occurs or until the policy expires. We take this conservative approach because the likelihood of super-cats causing us losses is particularly great toward the end of the year. It is then that weather tends to kick up: Of the ten largest insured losses in U.S. history, nine occurred in the last half of the year. In addition, policies that are not triggered by a first event are unlikely, by their very terms, to cause us losses until late in the year.

The bottom-line effect of our accounting procedure for super-cats is this: Large losses may be reported in any quarter of the year, but significant profits will only be reported in the fourth quarter.

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As I've told you in each of the last few years, what counts in our insurance business 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. 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	119.59	1,895.0	6.31%	7.40%
1992	108.96	2,290.4	4.76%	7.39%

Last year, our insurance operation again generated funds at a cost below that incurred by the U.S. Government on its newly-issued long-term bonds. This means that in 21 years out of the 26 years we have been in the insurance business we have beaten the Government's rate, and often we have done so by a wide margin. (If, on average, we didn't beat the Government's rate, there would be no economic reason for us to be in the business.)

In 1992, as in previous years, National Indemnity's commercial auto and general liability business, led by Don Wurster, and our homestate operation, led by Rod Eldred, made excellent contributions to our low cost of float. Indeed, both of these operations recorded an underwriting profit last year, thereby generating float at a less-than-zero cost. The bulk of our float, meanwhile, comes from large transactions developed by Ajit. His efforts are likely to produce a further growth in float during 1993.

Charlie and I continue to like the insurance business, which we expect to be our main source of earnings for decades to come. The industry is huge; in certain sectors we can compete world-wide; and Berkshire possesses an important competitive advantage. We will look for ways to expand our participation in the business, either indirectly as we have done through GEICO or directly as we did by acquiring Central States Indemnity.

Common Stock Investments

Below 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%.

Shares	*Company*	*12/31/92* *Cost*	*Market*
		(000s omitted)	
3,000,000	Capital Cities/ABC, Inc.	$ 517,500	$1,523,500
93,400,000	The Coca-Cola Company	1,023,920	3,911,125
16,196,700	Federal Home Loan Mortgage Corp. ("Freddie Mac")	414,257	783,515
34,250,000	GEICO Corp.	45,713	2,226,250
4,350,000	General Dynamics Corp.	312,438	450,769
24,000,000	The Gillette Company	600,000	1,365,000
38,335,000	Guinness PLC	333,019	299,581
1,727,765	The Washington Post Company	9,731	396,954
6,358,418	Wells Fargo & Company	380,983	485,624

Leaving aside splits, the number of shares we held in these companies changed during 1992 in only four cases: We added moderately to our holdings in Guinness and Wells Fargo, we more than doubled our position in Freddie Mac, and we established a new holding in General Dynamics. We like to buy.

Selling, however, is a different story. There, our pace of activity resembles that forced upon a traveler who found himself stuck in tiny Podunk's only hotel. With no T.V. in his room, he faced an evening of boredom. But his spirits soared when he spied a book on the night table entitled "Things to do in Podunk." Opening it, he found just a single sentence: "You're doing it."

We were lucky in our General Dynamics purchase. I had paid little attention to the company until last summer, when it announced it would repurchase about 30% of its shares by way of a Dutch tender. Seeing an arbitrage opportunity, I began buying the stock for Berkshire, expecting to tender our holdings for a small profit. We've made the same sort of commitment perhaps a half-dozen times in the last few years, reaping decent rates of return for the short periods our money has been tied up.

But then I began studying the company and the accomplishments of Bill Anders in the brief time he'd been CEO. And what I saw made my eyes pop: Bill had a clearly articulated and rational strategy; he had been focused and imbued with a sense of urgency in carrying it out; and the results were truly remarkable.

In short order, I dumped my arbitrage thoughts and decided that Berkshire should become a long-term investor with Bill. We were helped in gaining a large position by the fact that a tender greatly swells the volume of trading in a stock. In a one-month period, we were able to purchase 14% of the General Dynamics shares that remained outstanding after the tender was completed.

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Our equity-investing strategy remains little changed from what it was fifteen years ago, when we said in the 1977 annual report: "We select our marketable equity securities in much the way we would evaluate a business for acquisition in its entirety. We want the business to be one (a) that we can understand; (b) with favorable long-term prospects; (c) operated by honest and competent people; and (d) available at a very attractive price." We have seen cause to make only one change in this creed: Because of both market conditions and our size, we now substitute "an attractive price" for "a very attractive price."

But how, you will ask, does one decide what's "attractive"? In answering this question, most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and

"growth." Indeed, many investment professionals see any mixing of the two terms as a form of intellectual cross-dressing.

We view that as fuzzy thinking (in which, it must be confessed, I myself engaged some years ago). In our opinion, the two approaches are joined at the hip: Growth is *always* a component in the calculation of value, constituting a variable whose importance can range from negligible to enormous and whose impact can be negative as well as positive.

In addition, we think the very term "value investing" is redundant. What is "investing" if it is not the act of seeking value at least sufficient to justify the amount paid? Consciously paying more for a stock than its calculated value — in the hope that it can soon be sold for a still-higher price — should be labeled speculation (which is neither illegal, immoral nor — in our view — financially fattening).

Whether appropriate or not, the term "value investing" is widely used. Typically, it connotes the purchase of stocks having attributes such as a low ratio of price to book value, a low price-earnings ratio, or a high dividend yield. Unfortunately, such characteristics, even if they appear in combination, are far from determinative as to whether an investor is indeed buying something for what it is worth and is therefore truly operating on the principle of obtaining value in his investments. Correspondingly, opposite characteristics — a high ratio of price to book value, a high price-earnings ratio, and a low dividend yield — are in no way inconsistent with a "value" purchase.

Similarly, business growth, per se, tells us little about value. It's true that growth often has a positive impact on value, sometimes one of spectacular proportions. But such an effect is far from certain. For example, investors have regularly poured money into the domestic airline business to finance profitless (or worse) growth. For these investors, it would have been far better if Orville had failed to get off the ground at Kitty Hawk: The more the industry has grown, the worse the disaster for owners.

Growth benefits investors only when the business in point can invest at incremental returns that are enticing — in other words, only when each dollar used to finance the growth creates over a dollar of long-term market value. In the case of a low-return business requiring incremental funds, growth hurts the investor.

In The Theory of Investment Value, written over 50 years ago, John Burr Williams set forth the equation for value, which we condense here: *The value of any stock, bond or business today is determined by the cash inflows and outflows — discounted at an appropriate interest rate — that can be expected to occur during the remaining life of the asset.* Note that the formula is the same for stocks as for bonds. Even so, there is an important, and difficult to deal with, difference between the two: A bond has a coupon and maturity date that define future cash flows; but in the case of equities, the investment analyst must himself estimate the future "coupons." Furthermore, the quality of management affects the bond coupon only rarely — chiefly when management is so inept or dishonest that payment of interest is suspended. In contrast, the ability of management can dramatically affect the equity "coupons."

The investment shown by the discounted-flows-of-cash calculation to be the cheapest is the one that the investor should purchase — irrespective of whether the business grows or doesn't, displays volatility or smoothness in its earnings, or carries a high price or low in relation to its current earnings and book value. Moreover, though the value equation has usually shown equities to be cheaper than bonds, that result is not inevitable: When bonds are calculated to be the more attractive investment, they should be bought.

Leaving the question of price aside, the best business to own is one that over an extended period can employ large amounts of incremental capital at very high rates of return. The worst business to own is one that must, or *will*, do the opposite — that is, consistently employ ever-greater amounts of capital at very low rates of return. Unfortunately, the first type of business is very hard to find: Most high-return businesses need relatively little capital. Shareholders of such a business usually will benefit if it pays out most of its earnings in dividends or makes significant stock repurchases.

Though the mathematical calculations required to evaluate equities are not difficult, an analyst — even one who is experienced and intelligent — can easily go wrong in estimating future "coupons." At Berkshire,

we attempt to deal with this problem in two ways. First, we try to stick to businesses we believe we understand. That means they must be relatively simple and stable in character. If a business is complex or subject to constant change, we're not smart enough to predict future cash flows. Incidentally, that shortcoming doesn't bother us. What counts for most people in investing is not how much they know, but rather how realistically they define what they don't know. An investor needs to do very few things right as long as he or she avoids big mistakes.

Second, and equally important, we insist on a margin of safety in our purchase price. If we calculate the value of a common stock to be only slightly higher than its price, we're not interested in buying. We believe this margin-of-safety principle, so strongly emphasized by Ben Graham, to be the cornerstone of investment success.

Fixed-Income Securities

Below we list our largest holdings of fixed-income securities:

	(000s omitted)	
Issuer	Cost of Preferreds and Amortized Value of Bonds	Market
ACF Industries Debentures	$133,065[1]	$163,327
American Express "Percs"	300,000	309,000[1][2]
Champion International Conv. Pfd.	300,000[1]	309,000[2]
First Empire State Conv. Pfd.	40,000	68,000[1][2]
Salomon Conv. Pfd.	700,000[1]	756,000[2]
USAir Conv. Pfd.	358,000[1]	268,500[2]
Washington Public Power Systems Bonds...	58,768[1]	81,002

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

During 1992 we added to our holdings of ACF debentures, had some of our WPPSS bonds called, and sold our RJR Nabisco position.

Over the years, we've done well with fixed-income investments, having realized from them both large capital gains (including $80 million in 1992) and exceptional current income. Chrysler Financial, Texaco, Time-Warner, WPPSS and RJR Nabisco were particularly good investments for us. Meanwhile, our fixed-income losses have been negligible: We've had thrills but so far no spills.

Despite the success we experienced with our Gillette preferred, which converted to common stock in 1991, and despite our reasonable results with other negotiated purchases of preferreds, our overall performance with such purchases has been inferior to that we have achieved with purchases made in the secondary market. This is actually the result we expected. It corresponds with our belief that an intelligent investor in common stocks will do better in the secondary market than he will do buying new issues.

The reason has to do with the way prices are set in each instance. The secondary market, which is periodically ruled by mass folly, is constantly setting a "clearing" price. No matter how foolish that price may be, it's what counts for the holder of a stock or bond who needs or wishes to sell, of whom there are always going to be a few at any moment. In many instances, shares worth *x* in business value have sold in the market for ½*x* or less.

The new-issue market, on the other hand, is ruled by controlling stockholders and corporations, who can usually select the timing of offerings or, if the market looks unfavorable, can avoid an offering altogether. Understandably, these sellers are not going to offer any bargains, either by way of a public offering or in a negotiated transaction: It's rare you'll find *x* for ½*x* here. Indeed, in the case of common-stock offerings, selling shareholders are often motivated to unload *only* when they feel the market is

overpaying. (These sellers, of course, would state that proposition somewhat differently, averring instead that they simply resist selling when the market is underpaying for their goods.)

To date, our negotiated purchases, as a group, have fulfilled but not exceeded the expectation we set forth in our 1989 Annual Report: "Our preferred stock investments should produce returns modestly above those achieved by most fixed-income portfolios." In truth, we would have done better if we could have put the money that went into our negotiated transactions into open-market purchases of the type we like. But both our size and the general strength of the markets made that difficult to do.

There was one other memorable line in the 1989 Annual Report: "We have no ability to forecast the economics of the investment banking business, the airline industry, or the paper industry." At the time some of you may have doubted this confession of ignorance. Now, however, even my mother acknowledges its truth.

In the case of our commitment to USAir, industry economics had soured before the ink dried on our check. As I've previously mentioned, it was I who happily jumped into the pool; no one pushed me. Yes, I knew the industry would be ruggedly competitive, but I did not expect its leaders to engage in prolonged kamikaze behavior. In the last two years, airline companies have acted as if they are members of a competitive tontine, which they wish to bring to its conclusion as rapidly as possible.

Amidst this turmoil, Seth Schofield, CEO of USAir, has done a truly extraordinary job in repositioning the airline. He was particularly courageous in accepting a strike last fall that, had it been lengthy, might well have bankrupted the company. Capitulating to the striking union, however, would have been equally disastrous: The company was burdened with wage costs and work rules that were considerably more onerous than those encumbering its major competitors, and it was clear that over time any high-cost producer faced extinction. Happily for everyone, the strike was settled in a few days.

A competitively-beset business such as USAir requires far more managerial skill than does a business with fine economics. Unfortunately, though, the near-term reward for skill in the airline business is simply survival, not prosperity.

In early 1993, USAir took a major step toward assuring survival — and eventual prosperity — by accepting British Airways' offer to make a substantial, but minority, investment in the company. In connection with this transaction, Charlie and I were asked to join the USAir board. We agreed, though this makes five outside board memberships for me, which is more than I believe advisable for an active CEO. Even so, if an investee's management and directors believe it particularly important that Charlie and I join its board, we are glad to do so. We expect the managers of our investees to work hard to increase the value of the businesses they run, and there are times when large owners should do their bit as well.

Two New Accounting Rules and a Plea for One More

A new accounting rule having to do with deferred taxes becomes effective in 1993. It undoes a dichotomy in our books that I have described in previous annual reports and that relates to the accrued taxes carried against the unrealized appreciation in our investment portfolio. At yearend 1992, that appreciation amounted to $7.6 billion. Against $6.4 billion of that, we carried taxes at the current 34% rate. Against the remainder of $1.2 billion, we carried an accrual of 28%, the tax rate in effect when that portion of the appreciation occurred. The new accounting rule says we must henceforth accrue all deferred tax at the current rate, which to us seems sensible.

The new marching orders mean that in the first quarter of 1993 we will apply a 34% rate to all of our unrealized appreciation, thereby increasing the tax liability and reducing net worth by $70 million. The new rule also will cause us to make other minor changes in our calculation of deferred taxes.

Future changes in tax rates will be reflected immediately in the liability for deferred taxes and, correspondingly, in net worth. The impact could well be substantial. Nevertheless, what is important in the end is the tax rate at the time we sell securities, when unrealized appreciation becomes realized.

Another major accounting change, whose implementation is required by January 1, 1993, mandates that businesses recognize their present-value liability for post-retirement health benefits. Though GAAP has previously required recognition of pensions to be paid in the future, it has illogically ignored the costs that companies will then have to bear for health benefits. The new rule will force many companies to record a huge balance-sheet liability (and a consequent reduction in net worth) and also henceforth to recognize substantially higher costs when they are calculating annual profits.

In making acquisitions, Charlie and I have tended to avoid companies with significant post-retirement liabilities. As a result, Berkshire's present liability and future costs for post-retirement health benefits — though we now have 22,000 employees — are inconsequential. I need to admit, though, that we had a near miss: In 1982 I made a huge mistake in committing to buy a company burdened by extraordinary post-retirement health obligations. Luckily, though, the transaction fell through for reasons beyond our control. Reporting on this episode in the 1982 annual report, I said: "If we were to introduce graphics to this report, illustrating favorable business developments of the past year, two blank pages depicting this blown deal would be the appropriate centerfold." Even so, I wasn't expecting things to get as bad as they did. Another buyer appeared, the business soon went bankrupt and was shut down, and thousands of workers found those bountiful health-care promises to be largely worthless.

In recent decades, no CEO would have dreamed of going to his board with the proposition that his company become an insurer of uncapped post-retirement health benefits that other corporations chose to install. A CEO didn't need to be a medical expert to know that lengthening life expectancies and soaring health costs would guarantee an insurer a financial battering from such a business. Nevertheless, many a manager blithely committed his own company to a self-insurance plan embodying precisely the same promises — and thereby doomed his shareholders to suffer the inevitable consequences. In health-care, open-ended promises have created open-ended liabilities that in a few cases loom so large as to threaten the global competitiveness of major American industries.

I believe part of the reason for this reckless behavior was that accounting rules did not, for so long, require the booking of post-retirement health costs as they were incurred. Instead, the rules allowed cash-basis accounting, which vastly understated the liabilities that were building up. In effect, the attitude of both managements and their accountants toward these liabilities was "out-of-sight, out-of-mind." Ironically, some of these same managers would be quick to criticize Congress for employing "cash-basis" thinking in respect to Social Security promises or other programs creating future liabilities of size.

Managers thinking about accounting issues should never forget one of Abraham Lincoln's favorite riddles: "How many legs does a dog have if you call his tail a leg?" The answer: "Four, because calling a tail a leg does not make it a leg." It behooves managers to remember that Abe's right even if an auditor is willing to certify that the tail is a leg.

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The most egregious case of let's-not-face-up-to-reality behavior by executives and accountants has occurred in the world of stock options. In Berkshire's 1985 annual report, I laid out my opinions about the use and misuse of options. But even when options are structured properly, they are accounted for in ways that make no sense. The lack of logic is not accidental: For decades, much of the business world has waged war against accounting rulemakers, trying to keep the costs of stock options from being reflected in the profits of the corporations that issue them.

Typically, executives have argued that options are hard to value and that therefore their costs should be ignored. At other times managers have said that assigning a cost to options would injure small start-up businesses. Sometimes they have even solemnly declared that "out-of-the-money" options (those with an exercise price equal to or above the current market price) have no value when they are issued.

Oddly, the Council of Institutional Investors has chimed in with a variation on that theme, opining that options should not be viewed as a cost because they "aren't dollars out of a company's coffers." I see this line of reasoning as offering exciting possibilities to American corporations for instantly improving

their reported profits. For example, they could eliminate the cost of insurance by paying for it with options. So if you're a CEO and subscribe to this "no cash-no cost" theory of accounting, I'll make you an offer you can't refuse: Give us a call at Berkshire and we will happily sell you insurance in exchange for a bundle of long-term options on your company's stock.

Shareholders should understand that companies incur costs when they deliver something of value to another party and not just when cash changes hands. Moreover, it is both silly and cynical to say that an important item of cost should not be recognized simply because it can't be quantified with pinpoint precision. Right now, accounting abounds with imprecision. After all, no manager or auditor knows how long a 747 is going to last, which means he also does not know what the yearly depreciation charge for the plane should be. No one knows with any certainty what a bank's annual loan loss charge ought to be. And the estimates of losses that property-casualty companies make are notoriously inaccurate.

Does this mean that these important items of cost should be ignored simply because they can't be quantified with absolute accuracy? Of course not. Rather, these costs should be estimated by honest and experienced people and then recorded. When you get right down to it, what other item of major but hard-to-precisely-calculate cost — other, that is, than stock options — does the accounting profession say should be ignored in the calculation of earnings?

Moreover, options are just not that difficult to value. Admittedly, the difficulty is increased by the fact that the options given to executives are restricted in various ways. These restrictions affect value. They do not, however, eliminate it. In fact, since I'm in the mood for offers, I'll make one to any executive who is granted a restricted option, even though it may be out of the money: On the day of issue, Berkshire will pay him or her a substantial sum for the right to any future gain he or she realizes on the option. So if you find a CEO who says his newly-issued options have little or no value, tell him to try us out. In truth, we have far more confidence in our ability to determine an appropriate price to pay for an option than we have in our ability to determine the proper depreciation rate for our corporate jet.

It seems to me that the realities of stock options can be summarized quite simply: If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?

The accounting profession and the SEC should be shamed by the fact that they have long let themselves be muscled by business executives on the option-accounting issue. Additionally, the lobbying that executives engage in may have an unfortunate by-product: In my opinion, the business elite risks losing its credibility on issues of significance to society — about which it may have much of value to say — when it advocates the incredible on issues of significance to itself.

Miscellaneous

We have two pieces of regrettable news this year. First, Gladys Kaiser, my friend and assistant for twenty-five years, will give up the latter post after the 1993 annual meeting, though she will certainly remain my friend forever. Gladys and I have been a team, and though I knew her retirement was coming, it is still a jolt.

Secondly, in September, Verne McKenzie relinquished his role as Chief Financial Officer after a 30-year association with me that began when he was the outside auditor of Buffett Partnership, Ltd. Verne is staying on as a consultant, and though that job description is often a euphemism, in this case it has real meaning. I expect Verne to continue to fill an important role at Berkshire but to do so at his own pace. Marc Hamburg, Verne's understudy for five years, has succeeded him as Chief Financial Officer.

I recall that one woman, upon being asked to describe the perfect spouse, specified an archeologist: "The older I get," she said, "the more he'll be interested in me." She would have liked my tastes: I treasure those extraordinary Berkshire managers who are working well past normal retirement age and who concomitantly are achieving results much superior to those of their younger competitors. While I

understand and empathize with the decision of Verne and Gladys to retire when the calendar says it's time, theirs is not a step I wish to encourage. It's hard to teach a new dog old tricks.

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I am a moderate in my views about retirement compared to Rose Blumkin, better known as Mrs. B. At 99, she continues to work seven days a week. And about her, I have some particularly good news.

You will remember that after her family sold 80% of Nebraska Furniture Mart (NFM) to Berkshire in 1983, Mrs. B continued to be Chairman and run the carpet operation. In 1989, however, she left because of a managerial disagreement and opened up her own operation next door in a large building that she had owned for several years. In her new business, she ran the carpet section but leased out other home-furnishings departments.

At the end of last year, Mrs. B decided to sell her building and land to NFM. She'll continue, however, to run her carpet business at its current location (no sense slowing down just when you're hitting full stride). NFM will set up shop alongside her, in that same building, thereby making a major addition to its furniture business.

I am delighted that Mrs. B has again linked up with us. Her business story has no parallel and I have always been a fan of hers, whether she was a partner or a competitor. But believe me, partner is better.

This time around, Mrs. B graciously offered to sign a non-compete agreement — and I, having been incautious on this point when she was 89, snapped at the deal. Mrs. B belongs in the Guinness Book of World Records on many counts. Signing a non-compete at 99 merely adds one more.

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

Ralph Schey, CEO of Scott Fetzer and a manager who I hope is with us at 99 also, hit a grand slam last year when that company earned a record $110 million pre-tax. What's even more impressive is that Scott Fetzer achieved such earnings while employing only $116 million of equity capital. This extraordinary result is not the product of leverage: The company uses only minor amounts of borrowed money (except for the debt it employs — appropriately — in its finance subsidiary).

Scott Fetzer now operates with a significantly smaller investment in both inventory and fixed assets than it had when we bought it in 1986. This means the company has been able to distribute more than 100% of its earnings to Berkshire during our seven years of ownership while concurrently increasing its earnings stream — which was excellent to begin with — by a lot. Ralph just keeps on outdoing himself, and Berkshire shareholders owe him a great deal.

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

Those readers with particularly sharp eyes will note that our corporate expense fell from $5.6 million in 1991 to $4.2 million in 1992. Perhaps you will think that I have sold our corporate jet, The Indefensible. Forget it! I find the thought of retiring the plane even more revolting than the thought of retiring the Chairman. (In this matter I've demonstrated uncharacteristic flexibility: For years I argued passionately against corporate jets. But finally my dogma was run over by my karma.)

Our reduction in corporate overhead actually came about because those expenses were especially high in 1991, when we incurred a one-time environmental charge relating to alleged pre-1970 actions of our textile operation. Now that things are back to normal, our after-tax overhead costs are under 1% of our reported operating earnings and less than 1/2 of 1% of our look-through earnings. We have no legal, personnel, public relations, investor relations, or strategic planning departments. In turn this means we don't need support personnel such as guards, drivers, messengers, etc. Finally, except for Verne, we

employ no consultants. Professor Parkinson would like our operation — though Charlie, I must say, still finds it outrageously fat.

At some companies, corporate expense runs 10% or more of operating earnings. The tithing that operations thus makes to headquarters not only hurts earnings, but more importantly slashes capital values. If the business that spends 10% on headquarters' costs achieves earnings at its operating levels identical to those achieved by the business that incurs costs of only 1%, shareholders of the first enterprise suffer a 9% loss in the value of their holdings simply because of corporate overhead. Charlie and I have observed no correlation between high corporate costs and good corporate performance. In fact, we see the simpler, low-cost operation as more likely to operate effectively than its bureaucratic brethren. We're admirers of the Wal-Mart, Nucor, Dover, GEICO, Golden West Financial and Price Co. models.

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

Late last year Berkshire's stock price crossed $10,000. Several shareholders have mentioned to me that the high price causes them problems: They like to give shares away each year and find themselves impeded by the tax rule that draws a distinction between annual gifts of $10,000 or under to a single individual and those above $10,000. That is, those gifts no greater than $10,000 are completely tax-free; those above $10,000 require the donor to use up a portion of his or her lifetime exemption from gift and estate taxes, or, if that exemption has been exhausted, to pay gift taxes.

I can suggest three ways to address this problem. The first would be useful to a married shareholder, who can give up to $20,000 annually to a single recipient, as long as the donor files a gift tax return containing his or her spouse's written consent to gifts made during the year.

Secondly, a shareholder, married or not, can make a bargain sale. Imagine, for example, that Berkshire is selling for $12,000 and that one wishes to make only a $10,000 gift. In that case, sell the stock to the giftee for $2,000. (Caution: You will be taxed on the amount, if any, by which the sales price to your giftee exceeds your tax basis.)

Finally, you can establish a partnership with people to whom you are making gifts, fund it with Berkshire shares, and simply give percentage interests in the partnership away each year. These interests can be for any value that you select. If the value is $10,000 or less, the gift will be tax-free.

We issue the customary warning: Consult with your own tax advisor before taking action on any of the more esoteric methods of gift-making.

We hold to the view about stock splits that we set forth in the 1983 Annual Report. Overall, we believe our owner-related policies — including the no-split policy — have helped us assemble a body of shareholders that is the best associated with any widely-held American corporation. Our shareholders think and behave like rational long-term owners and view the business much as Charlie and I do. Consequently, our stock consistently trades in a price range that is sensibly related to intrinsic value.

Additionally, we believe that our shares turn over far less actively than do the shares of any other widely-held company. The frictional costs of trading — which act as a major "tax" on the owners of many companies — are virtually non-existent at Berkshire. (The market-making skills of Jim Maguire, our New York Stock Exchange specialist, definitely help to keep these costs low.) Obviously a split would not change this situation dramatically. Nonetheless, there is no way that our shareholder group would be upgraded by the new shareholders enticed by a split. Instead we believe that modest degradation would occur.

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

As I mentioned earlier, on December 16th we called our zero-coupon, convertible debentures for payment on January 4, 1993. These obligations bore interest at 5½%, a low cost for funds when they were issued in 1989, but an unattractive rate for us at the time of call.

The debentures could have been redeemed at the option of the holder in September 1994, and 5½% money available for no longer than that is not now of interest to us. Furthermore, Berkshire shareholders are disadvantaged by having a conversion option outstanding. At the time we issued the debentures, this disadvantage was offset by the attractive interest rate they carried; by late 1992, it was not.

In general, we continue to have an aversion to debt, particularly the short-term kind. But we are willing to incur modest amounts of debt when it is both properly structured and of significant benefit to shareholders.

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

About 97% of all eligible shares participated in Berkshire's 1992 shareholder-designated contributions program. Contributions made through the program were $7.6 million, and 2,810 charities were recipients. I'm considering increasing these contributions in the future at a rate greater than the increase in Berkshire's book value, and I would be glad to hear from you as to your thinking about this idea.

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, 1993 will be ineligible for the 1993 program.

In addition to the shareholder-designated contributions that Berkshire distributes, managers of our operating businesses make contributions, including merchandise, averaging about $2.0 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.

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

This year the Annual Meeting will be held at the Orpheum Theater in downtown Omaha at 9:30 a.m. on Monday, April 26, 1993. A record 1,700 people turned up for the meeting last year, but that number 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 (89 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, which is 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.

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 Charlie and I are a good bit wider than we were back in 1972 when we bought See's.

Borsheim's normally is closed on Sunday but will be open for shareholders and their guests from noon to 6 p.m. on Sunday, April 25. Charlie and I will be in attendance, sporting our jeweler's loupes, and ready to give advice about gems to anyone foolish enough to listen. Also available will be plenty of Cherry Cokes, See's candies, and other lesser goodies. I hope you will join us.

March 1, 1993

Warren E. Buffett
Chairman of the Board

BERKSHIRE HATHAWAY INC.

Acquisition Criteria

We are eager to hear about businesses that meet all of the following criteria:

(1) Large purchases (at least $10 million of after-tax earnings),
(2) Demonstrated consistent earning power (future projections are of no 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).

The larger the company, the greater will be our interest: We would like to make an acquisition in the $2-3 billion range.

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. 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, Borsheim's and Central States Indemnity. 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.*

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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, 1992 and 1991, and the related statements of earnings and cash flows for each of the three years in the period ended December 31, 1992. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

Deloitte & Touche

March 8, 1993

Deloitte Touche
Tohmatsu
International

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

	December 31, 1992	December 31, 1991
ASSETS		
Cash and cash equivalents	$ 1,192,363	$ 762,000
Investments:		
Obligations with fixed maturities	2,102,614	2,337,954
Marketable equity securities	11,652,654	9,182,524
Loans and accounts receivable	690,628	904,471
Inventories	282,141	256,473
Properties and equipment	224,510	222,139
Other assets	799,868	796,341
	$16,944,778	$14,461,902
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 2,978,481	$ 2,849,089
Unearned premiums	227,808	152,490
Accounts payable, accruals and other liabilities	895,639	779,081
Income taxes	2,517,186	1,929,074
Term debt and other borrowings	1,299,810	1,255,068
	7,918,924	6,964,802
Minority shareholders' interests	129,523	117,182
Shareholders' equity:		
Common stock of $5 par value. Authorized 1,500,000 shares; Issued 1,377,364 shares, in 1992; 1,375,202 shares, in 1991	6,887	6,876
Capital in excess of par value	182,264	157,377
Unrealized appreciation of marketable equity securities, net	5,047,219	3,962,989
Retained earnings	3,702,254	3,294,969
	8,938,624	7,422,211
Less common stock in treasury, at cost (228,761 shares)	42,293	42,293
Total shareholders' equity	8,896,331	7,379,918
	$16,944,778	$14,461,902

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1992	1991	1990
Revenues:			
Sales and service revenues	$1,774,436	$1,651,134	$1,580,074
Insurance premiums earned	664,293	776,413	591,540
Interest and dividend income	495,409	481,793	450,295
Realized investment gain	89,937	192,478	33,989
Sundry income	5,265	4,178	3,574
	3,029,340	3,105,996	2,659,472
Cost and expenses:			
Cost of products and services sold	1,049,721	939,011	871,073
Insurance losses and loss adjustment expenses	687,625	827,169	534,261
Insurance underwriting expenses	85,628	68,837	83,926
Selling, general and administrative expenses	531,253	556,146	541,054
Interest expense	124,496	121,847	112,692
	2,478,723	2,513,010	2,143,006
Earnings before income taxes	550,617	592,986	516,466
Income taxes	138,089	142,058	112,047
	412,528	450,928	404,419
Minority interest	5,243	11,020	10,326
Net earnings	$ 407,285	$ 439,908	$ 394,093
Average shares outstanding	1,146,492	1,146,441	1,146,441
Net earnings per share	$355	$384	$344

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1992	**1991**	**1990**
Cash flows from operating activities:			
Net income	$ 407,285	$ 439,908	$ 394,093
Adjustments to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	41,074	37,175	34,083
Realized investment gain	(89,937)	(192,478)	(33,989)
Investment purchase price discount accretion less premium amortization	(3,629)	(26,931)	(58,648)
Accretion of issue discount on zero coupon notes	25,329	23,881	22,618
Minority interests	5,243	11,020	10,326
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	102,789	798,784	613,994
Deferred charges re reinsurance assumed	46,931	(178,328)	(350,787)
Unearned premiums	75,274	26,109	(17,250)
Accounts receivable	239,428	(177,043)	(133,809)
Accounts payable, accruals and other liabilities	150,615	(6,067)	32,271
Income taxes	29,004	(41,039)	(1,813)
Other	(32,221)	(5,818)	11,479
Net cash flows from operating activities	997,185	709,173	522,568
Cash flows from investing activities:			
Purchases of fixed maturity investments	(258,617)	(377,332)	(287,700)
Purchases of marketable equity securities	(913,037)	(809,633)	(729,352)
Proceeds from sales of fixed maturity investments	284,301	292,010	61,035
Proceeds from redemptions and maturities of fixed maturity investments	371,514	399,120	21,457
Proceeds from sales of marketable equity securities	100,270	522,701	261,923
Acquisition of businesses	(119,948)	(161,043)	—
Loans originated in finance businesses	(160,261)	(163,803)	(132,313)
Principal collection on loans	127,913	124,760	110,415
Other	(5,294)	(11,266)	11,762
Net cash flows from investing activities	(573,159)	(184,486)	(682,773)
Cash flows from financing activities:			
Proceeds from borrowings	1,000,427	455,972	785,818
Repayments of borrowings	(955,464)	(464,913)	(576,634)
Other	(38,626)	(770)	(7,082)
Net cash flows from financing activities	6,337	(9,711)	202,102
Increase in cash and cash equivalents	430,363	514,976	41,897
Cash and cash equivalents at beginning of year	762,000	247,024	205,127
Cash and cash equivalents at end of year	$1,192,363	$ 762,000	$ 247,024

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1992

(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, 1992 and 1991, deferred charges re reinsurance assumed in the amounts of $482,184,000 and $529,115,000 respectively are included in other assets.

(h) Losses and loss adjustment expenses

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 expenses (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, 1992 was $1,232,162,000 and at December 31, 1991 was $1,296,875,000 of which, respectively $482,184,000 and $529,115,000 were established for financial reporting purposes as deferred charges re reinsurance assumed. 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, 1992 and December 31, 1991 liabilities of $939,568,000 and $911,829,000. Underwriting losses reported with respect to these contracts in the accompanying financial statements were $44 million for 1992, $26 million for 1991 and zero for 1990, whereas for statutory reporting purposes the corresponding figures were $89 million, $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, 1992 was $265,887,000. For statutory 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 $345,517,000.

(j) Insurance premiums

Insurance premiums for prospective insurance and non-property catastrophe reinsurance policies are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Premiums for catastrophe excess of loss reinsurance contracts are deferred until the earlier of a loss occurrence or policy expiration. Consideration received for indemnification of risk under retroactive reinsurance contracts, including structured settlements, is 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.

(m) Impact of new accounting rules effective in 1993

In December, 1990, the Financial Accounting Standards Board ("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 provisions of this statement will not have a material effect on Berkshire's financial position.

In February, 1992 the FASB issued Statement No. 109 "Accounting for Income Taxes". The statement requires the "liability method" of accounting for income taxes. The Company has not yet implemented the statement's provisions. See Note 4.

In December, 1992 the FASB issued Statement No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". This statement establishes conditions for a contract with a reinsurer to be accounted for as reinsurance and prescribes new accounting and reporting standards for those contracts. The Company believes that the provisions of this statement will not have a material effect on its financial position.

Notes to Consolidated Financial Statements *(Continued)*

(2) Investments in obligations with fixed maturities

The amortized cost and estimated market values as of December 31, 1992 and 1991 of investments in obligations with fixed maturities are as follows:

December 31, 1992

	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	$ 39,084,000	$ 887,000	$ (30,000)	$ 39,941,000
Obligations of states, municipalities and political subdivisions	453,277,000	56,432,000	(350,000)	509,359,000
Corporate bonds	133,566,000	30,317,000	—	163,883,000
Redeemable preferred stocks	1,368,648,000	65,357,000	(89,701,000)	1,344,304,000
Mortgage-backed securities	108,039,000	2,820,000	(80,000)	110,779,000
	$2,102,614,000	$155,813,000	$ (90,161,000)	$2,168,266,000

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

Shown below are the amortized cost and estimated market values of the above obligations at December 31, 1992, 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	$ 26,235,000	$ 26,597,000
Due after one year through five years	850,048,000	952,188,000
Due after five years through ten years	1,064,718,000	1,019,892,000
Due after ten years	53,574,000	58,810,000
	1,994,575,000	2,057,487,000
Mortgage-backed securities	108,039,000	110,779,000
	$2,102,614,000	$2,168,266,000

Gross gains and gross losses realized on sales and redemptions of obligations with fixed maturities were as follows:

	1992	1991	1990
Gross realized gains	$80,076,000	$139,700,000	$3,098,000
Gross realized losses	(563,000)	—	(1,468,000)

(3) Investments in marketable equity securities

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

December 31, 1992

	Cost	*Unrealized Gain*	*Market*	*Carrying Value*
Common stock of:				
Capital Cities/ABC, Inc. [(a)]	$ 517,500,000	$1,005,750,000	$ 1,523,250,000	$ 1,506,487,000
The Coca-Cola Company	1,023,919,000	2,887,206,000	3,911,125,000	3,903,918,000
GEICO Corporation [(b)]	45,713,000	2,180,537,000	2,226,250,000	2,226,250,000
The Gillette Company	600,000,000	765,000,000	1,365,000,000	1,365,000,000
All other marketable equity securities	1,893,163,000	1,040,409,000 [(c)]	2,933,572,000	2,650,999,000
	$4,080,295,000	$7,878,902,000	$11,959,197,000	$11,652,654,000

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	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

(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, 1992. 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 owned shares of common stock of GEICO Corporation that possessed approximately 48% of the voting rights of all GEICO shares outstanding at December 31, 1992. 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) *Represents gross unrealized gains $1,101,038,000, less gross unrealized losses $60,629,000.*

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

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, 1992	*Dec. 31, 1991*
Payable currently	$ 92,534,000	$ 18,499,000
Deferred, relating to unrealized appreciation of marketable equity securities	2,503,547,000	1,944,311,000
Net prepaid arising from timing differences	(78,895,000)	(33,736,000)
	$2,517,186,000	$1,929,074,000

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

	1992	*1991*	*1990*
Federal	$110,276,000	$120,121,000	$ 94,713,000
State	24,430,000	20,281,000	16,779,000
Foreign	3,383,000	1,656,000	555,000
	$138,089,000	$142,058,000	$112,047,000
Current provision	$183,248,000	$152,563,000	$126,626,000
Increase in prepaid taxes	(45,159,000)	(10,505,000)	(14,579,000)
	$138,089,000	$142,058,000	$112,047,000

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

Applicable to:	*1992*	*1991*	*1990*
Deferred insurance premium acquisition costs	$ 7,371,000	$ 3,392,000	$ (549,000)
Losses and loss adjustment expenses, net	(61,522,000)	(4,940,000)	(5,719,000)
Unearned premiums	(1,309,000)	(5,414,000)	(3,679,000)
Other, net	10,301,000	(3,543,000)	(4,632,000)
	$(45,159,000)	$(10,505,000)	$(14,579,000)

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

	1992	*1991*	*1990*
Net earnings before income taxes	$550,617,000	$592,986,000	$516,466,000
Hypothetical amounts applicable to above computed at the Federal statutory rate	$187,210,000	$201,615,000	$175,598,000
Decreases, resulting from:			
Tax-exempt interest income	(14,727,000)	(18,637,000)	(19,744,000)
Dividends received deduction	(62,085,000)	(54,923,000)	(53,901,000)
State income taxes, less Federal income tax benefit	16,128,000	13,385,000	11,073,000
Net other differences	11,563,000	618,000	(979,000)
Total income taxes	$138,089,000	$142,058,000	$112,047,000

In 1993, the Company will adopt the provisions of FASB Statement No. 109 "Accounting for Income Taxes". Statement No. 109 requires a change from the "deferred method" with an earnings statement focus to the "liability method" with a balance sheet focus. Under the liability method of Statement No. 109, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Under Statement No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The provisions of Statement No. 109 may be applied without restating prior years' financial statements or may be applied retroactively by restating any number of consecutive prior years' financial statements. The Company plans to apply the provisions of Statement No. 109 without restating prior years' financial statements. It is estimated that adoption of Statement No. 109 will result in an increase of the net deferred tax liability by approximately $70 million and that this amount will be charged to first quarter 1993 earnings and reported as the cumulative effect of a change in the method of accounting.

(5) Term debt and other borrowings

Liabilities reflected for this balance sheet caption are as follows:

	Dec. 31, 1992	Dec. 31, 1991
Term debt	$ 650,465,000	$ 861,153,000
Borrowings under investment agreements	649,345,000	393,915,000
	$1,299,810,000	$1,255,068,000

Payments of amounts outstanding at December 31, 1992 are expected to be required no earlier than as follows:

	Term debt	Borrowings under investment agreements	Total
1993	$459,856,000	$ 91,352,000	$551,208,000
1994	17,985,000	15,408,000	33,393,000
1995	822,000	23,620,000	24,442,000
1996	120,107,000	16,672,000	136,779,000
1997	797,000	19,244,000	20,041,000
After 1997	50,898,000	483,049,000	533,947,000

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 fixed rates ranging from 2 1/2% to 9% per annum, are senior unsecured debt obligations of the Company.

Term debt

	Dec. 31, 1992	Dec. 31, 1991
Company		
Zero Coupon Convertible Subordinated Notes	$ 451,945,000	$ 452,182,000
10% Debentures, issued in 1988. The issue was redeemed at the company's option in 1992	—	100,000,000
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 1992, an additional $68,000,000 was optionally redeemed	10,000,000	78,000,000
Other notes	778,000	5,554,000
	462,723,000	635,736,000
Subsidiaries		
8.125% Notes, payable in 1996	120,000,000	120,000,000
10% Notes, redeemed in 1992	—	18,500,000
9 1/2% Notes, redeemed in 1992	—	17,500,000
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	20,842,000	22,517,000
Total term debt	$ 650,465,000	$ 861,153,000

The Zero Coupon Convertible Subordinated Notes, originally issued on September 28, 1989, were redeemed on January 4, 1993 at 52.9126% of their face value. Each $10,000 face amount note was convertible at any time prior to redemption into 0.4515 shares of common stock. Prior to the redemption, certain note holders exercised their right to convert their notes into shares of Berkshire common stock. The Company issued 2,162 shares to holders electing to convert during 1992 and an additional 3,944 shares to holders electing conversion subsequent to December 31, 1992. On January 4, 1993 holders not electing to convert received $404,750,000 in redemption proceeds for all remaining outstanding notes.

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:

	Common Stock of $5 Par Value	*Capital in excess of par value*	*Net Unrealized Appreciation*	*Retained Earnings*
Balance December 31, 1989	$ 6,876,000	$ 157,377,000	$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	6,876,000	157,377,000	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	6,876,000	157,377,000	3,962,989,000	3,294,969,000
Increase during 1992 in unrealized appreciation included in carrying value of marketable equity securities			1,644,810,000	
Change during 1992 in deemed applicable income taxes			(559,235,000)	
Increase in minority shareholders' interest in unrealized appreciation			(1,345,000)	
Common stock (2,162 shares) issued upon conversion of Zero Coupon Convertible Subordinated Notes	11,000	24,887,000		
Net earnings 1992				407,285,000
Balance December 31, 1992	$ 6,887,000	$ 182,264,000	$5,047,219,000	$3,702,254,000

(7) Interest and dividend income

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

	1992	*1991*	*1990*
Interest earned with respect to:			
Investment securities	$136,529,000	$164,894,000	$132,694,000
Loans and financed receivables	56,464,000	56,398,000	53,985,000
Dividends with respect to:			
Fixed maturity preferred stocks	135,106,000	138,900,000	176,742,000
Marketable equity securities	167,310,000	121,601,000	86,874,000
	$495,409,000	$481,793,000	$450,295,000

(8) Interest expense

Interest expense for 1992 and 1991 includes premiums paid and related costs to permit redemption prior to maturity date of certain term debt (See Note 5). Premiums paid and related costs for such redemptions were $22,525,000 for 1992 and $5,661,000 for 1991. Interest expense is comprised of interest on savings accounts of Mutual Savings and Loan Association "Mutual" plus interest on debt, including the aforementioned early redemption premiums and related costs, as follows:

	1992	*1991*	*1990*
Savings accounts of Mutual	$ 11,986,000	$ 18,311,000	$ 21,975,000
Debt of Mutual	1,475,000	1,475,000	1,475,000
Debt of Scott Fetzer Financial Group	12,392,000	12,811,000	12,868,000
Other debt and borrowings	98,643,000	89,250,000	76,374,000
	$124,496,000	$121,847,000	$112,692,000

(9) Dividend restrictions - Insurance subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1993, Berkshire can receive up to approximately $109 million as dividends from insurance subsidiaries.

Combined shareholders' equity of insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $10.4 billion at December 31, 1992. This amount exceeded by approximately $1.9 billion the corresponding amount determined on the basis of generally accepted accounting principles; the difference is principally represented by deferred income taxes recognized for financial reporting purposes but not for statutory reporting purposes.

(10) Fair values of financial instruments

FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," requires fair value disclosures as of December 31, 1992. Fair value disclosures are required for most investment securities as well as other contractual assets and liabilities. Certain financial instruments, including insurance contracts, were excluded from Statement No. 107 disclosure requirements due to perceived difficulties in measuring fair value. Accordingly, an estimation of fair value was not made with respect to the Company's liabilities for unpaid losses and loss expenses.

In determining fair value, the Company used quoted market prices when available. For instruments where quoted market prices were not available, the Company used independent pricing services or appraisals by the Company's management. Those services and appraisals reflected the estimated present values utilizing current risk adjusted market rates of similar instruments.

Considerable judgement is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The carrying values of cash and cash equivalents, accounts receivable and accounts payable, accruals and other liabilities are deemed to be reasonable estimates of their fair values. The estimated fair values of the Company's other financial instruments as of December 31, 1992 are as follows:

	Carrying Value	Estimated Fair Value
Investments in obligations with fixed maturities	$ 2,102,614,000	$ 2,168,266,000
Investments in marketable equity securities	11,652,654,000	11,959,197,000
Loans receivable	286,479,000	306,652,000
Term debt and other borrowings	1,299,810,000	1,330,317,000

Notes to Consolidated Financial Statements *(Continued)*

(11) Supplemental cash flow information

A summary of supplemental cash flow information is presented in the following table:

	1992	*1991*	*1990*
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisition of businesses...	$ 45,735,000	$ 11,390,000	$ —
Common shares issued upon conversions of Zero Coupon Convertible Subordinated Notes	24,898,000	—	—
Cash paid during the year for:			
Income taxes	121,027,000	183,097,000	113,860,000
Interest	95,730,000	93,951,000	79,857,000

(12) 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	
	1992	1991	1992	1991	1992	1991	1992	1991
Revenues	$640,778	$694,419	$655,876	$673,781	$827,734	$662,006	$904,952	$1,075,790
Earnings excluding realized investment gain (loss)	$ 66,682	$ 85,668	$ 98,619	$ 71,609	$ 26,247	$ 75,182	$156,178	$ 83,294
- per share	58.17	74.72	86.02	62.46	22.90	65.58	136.20	72.65
Realized investment gain (loss)	$ 747	$ 59,336	$ (575)	$ 46,015	$ 12,086	$ 18,062	$ 47,301	$ 742
- per share	0.65	51.76	(0.50)	40.14	10.54	15.75	41.25	0.65
Net earnings	$ 67,429	$145,004	$ 98,044	$117,624	$ 38,333	$ 93,244	$203,479	$ 84,036
- per share	58.82	126.48	85.52	102.60	33.44	81.33	177.45	73.30

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.

(13) Business segment data

See following pages.

BERKSHIRE HATHAWAY INC.
Business Segment Data

Berkshire identified eight business segments for purposes of 1992 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, Douglas and Cleveland Wood 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 1992 for 78% of Berkshire's consolidated revenues. Other businesses activities that contributed for 1992, in the aggregate, 20% of Berkshire's consolidated revenues, were as follows:

Business identity	Product/Service/Activity
Adalet	Conduit fittings, explosion proof junction boxes, couplings and terminators
BHR	Real estate management
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Campbell Hausfeld	Air compressors, air tools and painting systems
Carefree	Sun and shade control products and accessories for RVs
France	Appliance controls, ignition and sign transformers
Halex	Zinc and aluminum die cast electrical 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	Cutlery
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scott Fetzer Financial Group	Consumer finance companies
Scot Labs	Cleaning and maintenance chemicals
Stahl	Custom steel service bodies and tool boxes for trucks
Wayne	Furnace burners; sump, utility and sewage pumps
Wesco Financial	Real estate management
Western Enterprises	Compressed gas fittings and regulators
Western Plastics	Molded plastic components

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		
	1992	*1991*	*1990*	*1992*	*1991*	*1990*
Identified Segments:						
Insurance	$1,078,419	$1,230,608	$ 943,277	$ 298,715	$ 323,006	$316,207
Non-insurance businesses	1,284,523	1,204,755	1,120,755	209,871	176,134	170,640
	2,362,942	2,435,363	2,064,032	508,586	499,140	486,847
Other than identified segments	666,398	670,633	595,440	140,674	183,096	105,993
Interest expense *				(98,643)	(89,250)	(76,374)
Aggregate consolidated total	$3,029,340	$3,105,996	$2,659,472	$ 550,617	$ 592,986	$516,466

* *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		
	1992	*1991*	*1990*	*1992*	*1991*	*1990*
Premiums earned:						
Primary or direct	$ 152,772	$ 141,014	$ 154,015			
Reinsurance assumed	511,521	635,399	437,525			
Underwriting (loss)				$(108,961)	$(119,593)	$ (26,647)
Investment income	361,517	343,442	335,930	355,067	331,846	327,047
Realized investment gain	52,609	110,753	15,807	52,609	110,753	15,807
	$1,078,419	$1,230,608	$ 943,277	$ 298,715	$ 323,006	$316,207

Non-Insurance Business Segments

	Revenues			Operating profit before taxes		
	1992	*1991*	*1990*	*1992*	*1991*	*1990*
Candy	$ 197,186	$ 195,978	$ 196,119	$ 41,382	$ 41,416	$ 38,605
Newspaper	139,764	130,259	135,211	47,291	36,527	43,382
Home furnishings	186,096	171,002	163,709	16,665	13,939	16,802
Encyclopedias, other reference material	246,107	311,509	342,870	28,228	22,232	31,645
Home cleaning systems	190,072	192,001	188,292	37,744	37,332	28,479
Uniforms	110,292	99,961	94,554	12,975	12,224	11,727
Shoes	215,006	104,045	—	25,586	12,464	—
	$1,284,523	$1,204,755	$1,120,755	$ 209,871	$ 176,134	$170,640

Other Than Identified Segments

	Revenues			Operating profit before taxes		
	1992	*1991*	*1990*	*1992*	*1991*	*1990*
Other businesses	$ 567,719	$ 524,395	$ 535,941	$ 54,321	$ 49,355	$ 56,404
Not identified with specific businesses:						
Interest and dividend income	61,011	63,686	40,907	61,011	63,686	40,907
Realized investment gain	37,328	81,725	18,182	37,328	81,725	18,182
All other except interest expense	340	827	410	(11,986)	(11,670)	(9,500)
	$ 666,398	$ 670,633	$ 595,440	$ 140,674	$ 183,096	$105,993

Business Segment Data (continued)

	Capital expenditures *			Deprec. & amort. of tangible assets		
	1992	*1991*	*1990*	*1992*	*1991*	*1990*
Insurance	$ 1,071	$ 1,437	$ 601	$ 840	$ 992	$ 708
Candy	4,167	4,687	6,970	4,061	3,882	3,752
Newspaper	3,370	817	2,229	2,373	2,949	2,909
Home furnishings	8,528	2,552	1,397	2,210	1,613	1,792
Encyclopedias, other reference material	184	3,107	7,705	1,379	1,449	1,124
Home cleaning systems	769	1,104	3,859	4,942	5,092	5,285
Uniforms	2,660	1,482	1,330	1,833	1,411	1,736
Shoes	2,171	1,050	—	3,027	1,580	—
Other	8,881	13,648	9,832	14,692	14,094	13,236
	$31,801	$29,884	$33,923	$35,357	$33,062	$30,542

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

	Identifiable assets at year-end		
	1992	*1991*	*1990*
Insurance	$14,601,017	$12,406,654	$ 8,884,393
Candy	65,880	68,300	69,833
Newspaper	43,751	44,061	48,286
Home furnishings	88,331	76,396	75,714
Encyclopedias, other reference material	83,778	94,927	107,913
Home cleaning systems	50,692	51,929	66,388
Uniforms	85,392	74,190	71,572
Shoes	208,218	157,902	—
Other	1,717,719	1,487,543	1,346,324
	$16,944,778	$14,461,902	$10,670,423

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

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.

	(dollars in millions)		
	1992	1991	1990
Insurance Segment:			
Underwriting	$(71.1)	$(77.2)	$(14.9)
Investment income	305.8	285.1	282.6
Realized investment gain	36.1	73.8	11.8
Total - Insurance Segment	270.8	281.7	279.5
Non-Insurance business segments	123.4	104.2	100.1
Other businesses	30.7	27.6	31.9
Realized investment gain not included above	23.4	50.3	11.5
All other except interest expense	21.9	33.3	20.8
Interest expense	(62.9)	(57.2)	(49.7)
Net earnings	$407.3	$439.9	$394.1

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)		
	1992	1991	1990
Underwriting gain (loss):			
Primary or Direct Insurance	$ 8.0	$ (2.5)	$ 0.5
Reinsurance Assumed	(117.0)	(117.1)	(27.2)
Underwriting loss — pre-tax	(109.0)	(119.6)	(26.7)
Applicable income tax credit	37.7	42.2	11.6
Applicable minority interest	0.2	0.2	0.2
After-tax underwriting loss	$ (71.1)	$ (77.2)	$ (14.9)

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.

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 $10.4 billion at year-end 1992. 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.

Insurance Underwriting (continued)

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)					
	1992		1991		1990	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 607.2		$ 667.0		$ 435.2	
Premiums earned	$ 511.5	100.0	$ 635.4	100.0	$ 437.5	100.0
Losses and loss expenses	589.7	115.3	731.9	115.2	432.2	98.8
Underwriting expenses	38.8	7.6	20.6	3.2	32.5	7.4
Total losses and expenses	628.5	122.9	752.5	118.4	464.7	106.2
Underwriting loss — pre-tax	$(117.0)		$(117.1)		$ (27.2)	

Disaggregated data follows for these activities.

	(dollars in millions)								
	Premiums Earned			Underwriting Loss			Year-End Reserves*		
	1992	1991	1990	1992	1991	1990	1992	1991	1990
Retroactive reinsurance and structured settlements	$145.5	$363.2	$423.7	$(66.0)	$(49.0)	$(21.7)	$1,498.0	$1,573.9	$1,002.2
Other reinsurance	366.0	272.2	13.8	(51.0)	(68.1)	(5.5)	917.2	708.3	461.5
	$511.5	$635.4	$437.5	$(117.0)	$(117.1)	$(27.2)	$2,415.2	$2,282.2	$1,463.7

**Unpaid losses and loss adjustment expenses*

Premiums Earned

As shown above, premiums earned in 1992 from retroactive reinsurance and structured settlements activities were much less than either of the previous two years. Premiums earned from retroactive reinsurance — coverages of past loss events — amounted to $144 million in 1992, $362 million in 1991 and $370 million in 1990. These contracts were few in number but produced sizable premiums. Increasing competition in the retroactive reinsurance markets, together with the anticipation by ceding companies of new accounting standards to be effective in 1993, resulted in fewer opportunities to write such business during 1992. Further premium decline may occur in 1993.

Premium amounts shown above as "other reinsurance" include amounts earned from "finite risk" type policies — principally excess of loss coverages of sizable but limited amounts — and catastrophe excess of loss policies. Premiums earned from finite risk coverages totalled about $183 million in 1992 and $197 million in 1991. Premiums earned from catastrophe excess of loss contracts totalled about $130 million in 1992 and $48 million in 1991. Other reinsurance premiums earned also include amounts earned from quota share reinsurance contracts.

Underwriting Loss

The underwriting loss from retroactive reinsurance coverages amounted to $44 million for 1992, $26 million for 1991 and none for 1990 reflecting amortization of deferred charges re reinsurance assumed. See Note 1(h) to the Consolidated Financial Statements for information with respect to these charges. Underwriting losses from structured settlement activities were about $22 million for each of the past three years. These losses reflect accounting procedures which employ time-value-of-money concepts — amortization of deferred charges re reinsurance assumed and accretion of discounted structured settlement liabilities. The amortization and accretion are accounted for as losses incurred, and thus, because there is no related premium income, as underwriting losses, over the expected claim settlement periods. Amortization and accretion charges are expected to total nearly $70 million in 1993.

Management's Discussion *(continued)*

Insurance Underwriting (continued)

Reinsurance Assumed (continued)

Underwriting losses in 1992 and 1991 in other reinsurance included $55 million and $98 million, respectively from finite risk type coverage. In pricing most reinsurance products, the concept of the time-value-of-money is an important consideration due to the anticipated extended claim payment period — or "tail". This is especially true with respect to pricing of finite risk coverages, the premiums for which are based in significant part on time discounting of expected losses. Losses and loss expenses are established for these contracts on an undiscounted basis. However, because these coverages, when written, related to future loss events, no deferred charges were established. This business is accepted, nonetheless, because of the large amounts of investable policyholder funds (or "float") that it produces.

The catastrophe excess of loss reinsurance business produced a net underwriting loss for 1992 of about $2 million. This compares to an underwriting gain of about $8 million for 1991. Aggregate exposures to loss from a single event now approach $300 million and a given year may have losses from several events. In each of the past two years, the vast majority of losses incurred under catastrophe reinsurance treaties resulted from a single loss event. Losses incurred in 1992 related to Hurricane Andrew totalled about $125 million and losses incurred in 1991 due to Typhoon Mireille were about $38 million.

Favorable development of about $30 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 either 1992 or 1990.

The estimated liability for unpaid losses and loss expenses from reinsurance assumed businesses, as shown in the preceding table, totalled about $2.4 billion at the end of 1992, an increase of about $1.6 billion since the end of 1989. Subsequent loss development with respect to a liability of this magnitude may cause substantial volatility in future periodic earnings. In addition, the potential for such earnings volatility is greatly enhanced by the Group's increasing presence in the catastrophe reinsurance business. Berkshire's management, however, is willing to accept such short term volatility provided that the prospects for long term profitability are favorable.

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)					
	1992		1991		1990	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 132.4		$ 135.5		$ 139.1	
Premiums earned	$ 152.8	100.0	$ 141.0	100.0	$ 154.0	100.0
Losses and loss expenses	98.0	64.1	95.2	67.5	102.0	66.2
Underwriting expenses	46.8	30.7	48.3	34.3	51.5	33.4
Total losses and expenses	144.8	94.8	143.5	101.8	153.5	99.6
Underwriting gain (loss) — pre-tax	$ 8.0		$ (2.5)		$ 0.5	

Favorable loss development, discussed on page 44, of beginning-of-the-year loss reserves represented respectively, 23.8%, 16.9%, and 11.9% of premiums earned in 1992, 1991 and 1990. Without such credits, total losses and expenses as a percentage of premiums earned were: 1992 — 118.6%, 1991 — 118.7%, and 1990 — 111.5%.

The comparative improvement in the 1992 underwriting expense ratio over 1991 and 1990 for the primary or direct insurance business was due to a higher percentage of premiums earned in 1992 from specialty risk operations. Such business incurs considerably lower underwriting expenses than either the traditional motor vehicle/general liability or Homestate companies/Cypress Insurance Company units.

Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting (continued)

The premiums earned for the past five years by each of the underwriting units that produce the Group's direct business are reflected in the following table:

Underwriting Unit	(dollars in millions) 1992	1991	1990	1989	1988
Traditional motor vehicle/general liability operations	$ 85	$ 89	$ 94	$113	$168
Commercial casualty/professional liability/specialty risk operations	27	14	18	20	54
Homestate companies/Cypress Insurance Co.	41	38	42	56	70
Total premiums earned	$153	$141	$154	$189	$292

The "traditional" business, written through general agents located nationwide directed from National Indemnity Company's Omaha offices, represents principally casualty coverages for commercial accounts. The operations are termed internally as those of the "National Indemnity Primary Group." The commercial casualty/professional liability/specialty risk operations located in Stamford, Connecticut, enter into "tailored" insurance contracts for insureds presenting risks unusual in nature and/or especially large in amount. The Homestate companies underwrite multiple lines of principally casualty coverages for standard risks located predominantly in their "homestates" — Nebraska, Kansas and Colorado. In 1992, the Homestate units began to expand their operations by underwriting similar risks located outside their homestates. Cypress Insurance Company underwrites primarily workers' compensation risks in a highly competitive market environment in California.

As reflected in the table above, premiums earned by each of these units has, almost without exception, declined steadily over the past several years. Each of the units employ disciplined underwriting approaches. Members are encouraged to reject underpriced risks without regard to volume considerations. As a result of this strategy, during periods of adequate or excessive industry insuring capacity, as have prevailed since 1986, competitors write increasing amounts of primary or direct insurance by charging lower prices than those of the Group. Historically, these lower prices have led competitors to exit the markets as a result of incurring unacceptable losses. Management believes this part of the cycle will occur again, at an unpredictable future time, leading to increases of primary or direct insurance offerings to the Group. Management does not believe that the increase in 1992 premiums earned over 1991 for two of the three direct operations of the group to be significant evidence that the upside of this cycle has already begun.

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

	(dollars in millions) 1992	1991	1990
Unpaid losses and loss expenses at beginning of year	$566.9	$586.6	$639.2
Incurred losses recorded:			
Current year occurrences	134.4	119.0	120.3
All prior years' occurrences	(36.4)	(23.8)	(18.3)
	98.0	95.2	102.0
Payments with respect to:			
Current year occurrences	42.1	23.3	21.7
All prior years' occurrences	86.1	91.6	132.9
	128.2	114.9	154.6
Unpaid losses and loss expenses at end of year	$536.7*	$566.9	$586.6

* *Excludes unpaid losses and loss expenses of Central States Indemnity Co. of Omaha — acquired by Berkshire at the end of 1992.*

Management's Discussion *(continued)*

Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting (continued)

Credits against incurred losses were recorded in each of the last three years for "all prior year 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: 1992 — 6.4%, 1991 — 4.1%, and 1990 — 2.9%. 1992 was the sixth consecutive year of favorable development, which might be viewed as somewhat comforting. But additional cases of an unknown number and magnitude for pre-1992 losses are certain to be reported. A provision for late reported cases is, of course, included in the $536.7 million 1992 year-end accrual 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 National Indemnity Primary Group.

At the end of 1992, Berkshire acquired for cash, 82% of Central States Indemnity Co. of Omaha ("CSI"). Accordingly, none of CSI's underwriting results of 1992 were included in the accompanying financial statements. During 1992 CSI produced premiums earned of about $82 million and an underwriting gain of about $8 million. CSI primarily underwrites credit insurance for individuals distributed through credit card issuers nationwide.

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.
1992	$355.1	$ 46.5	$ 2.8	$305.8
1991	331.8	43.8	2.9	285.1
1990	327.0	41.2	3.2	282.6

Invested assets increased in each of the past three years. In the three year period, Berkshire contributed approximately $200 million additional capital to the Group, and reinvested earnings of the Group for that period amounted to approximately $540 million. Contributing to a further increase in invested assets was about $1 billion increase during the past three 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 assumed. The net amount of float was approximately $1.54 billion at the end of 1989, $1.63 billion at the end of 1990, $2.07 billion at the end of 1991, and $2.51 billion at the end of 1992.

An offsetting factor which influences the comparative amounts of investment income shown above derives from the reduced amounts of dividends earned from the Group's investment in The Gillette Company. From July 1989 until April 1991, the Gillette investment was in the form of convertible preferred stock. On April 1, 1991, the preferred stock was converted into Gillette Company common stock, which carried a much lower dividend yield. Dividends earned from the Gillette investment totalled $16.7 million, $24.3 million, and $52.5 million in 1992, 1991 and 1990, respectively.

Non-Insurance Business Segments

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

	(dollars in millions)					
	1992		1991		1990	
	Amount	%	Amount	%	Amount	%
Revenues	$1,284.5	100.0	$1,204.8	100.0	$1,120.8	100.0
Cost and expenses	1,074.6	83.7	1,028.7	85.4	950.2	84.8
Operating profit	209.9	16.3	176.1	14.6	170.6	15.2
Income taxes	83.2	6.5	69.0	5.7	67.3	6.0
Minority Interest	3.3	0.2	2.9	0.2	3.2	0.3
Contribution to net earnings	$ 123.4	9.6	$ 104.2	8.7	$ 100.1	8.9

The business segments that produced the above results numbered seven in 1992 and 1991 versus six in 1990. The results of these businesses during this period are dealt with in the following sections.

1992 compared to 1991

A comparison of revenues and operating profits between 1992 and 1991 for each of the identifiable non-insurance business segments follows.

	(dollars in millions)				Operating Profit as a % of Revenues	
	Revenues		Operating Profits			
Segment — Primary Business	1992	1991	1992	1991	1992	1991
Candy — See's Candies	$ 197.2	$ 196.0	$ 41.4	$ 41.4	21.0	21.1
Encyclopedias, Other Reference Materials — World Book	246.1	311.5	28.2	22.2	11.5	7.1
Home Cleaning Systems — Kirby	190.1	192.0	37.7	37.3	19.8	19.4
Home Furnishings — Nebraska Furniture Mart	186.1	171.0	16.7	13.9	9.0	8.2
Newspaper — Buffalo News	139.7	130.3	47.3	36.6	33.8	28.0
Shoes — H. H. Brown	215.0	104.0	25.6	12.5	11.9	12.0
Uniforms — Fechheimer's	110.3	100.0	13.0	12.2	11.8	12.2
	$1,284.5	$1,204.8	$209.9	$176.1		

Revenues from the seven identifiable non-insurance business segments of $1,284.5 million increased $79.7 million (7%) from the prior year. The overall operating profit from these business segments of $209.9 million increased $33.8 million (19%) over the comparable prior year results.

The most significant revenue increase occurred within the shoe segment and arose from the fact that Berkshire acquired H. H. Brown ("Brown") on July 1, 1991 and thus full year results for 1992 are being compared to six month results for 1991. About $13 million of the operating profit increase is a result of the Brown acquisition. Brown's operating profits as a percentage of sales were relatively unchanged when comparing the full years 1992 results with the last six months of 1991. On December 30, 1992, a significant addition was made to this business segment as a result of Berkshire's acquisition of Lowell Shoe Company ("Lowell"). Lowell manufactures and markets women's casual, service and nurses footwear. It is expected that revenues from this segment will be increased by about $90 million during 1993 as a result of this acquisition. Senior management of Brown has overall responsibility for managing this business.

Revenues from the home furnishings segment increased in 1992 by $15.1 million (9%) over the prior year. Increases were achieved among all major product lines ranging from 5% in furniture to 30% in carpeting. The carpeting comparison was favorably affected by an acquisition during the third quarter of 1991 of a business that sells commercial carpeting. On December 31, 1992, the Nebraska Furniture Mart acquired a 360,000 square foot building and ten acres of land located adjacent to its existing retail store and warehouse. Along with providing additional warehousing facilities, a portion of the building will be used to operate a factory outlet store for manufacturers' closeouts and discontinued product lines. A modest increase in 1993 revenues and operating profits is anticipated as a result of this new business scheduled to begin in Spring of 1993.

Management's Discussion *(continued)*

Non-Insurance Business Segments (continued)

1992 compared to 1991 (continued)

The uniform segment's revenues increased $10.3 million (10%) in 1992. During 1992, an additional 10 retail locations were added and this segment now includes 53 retail locations. In addition, a manufacturer of specialty uniforms was acquired during the second half of 1992. These additions accounted for substantially all of the 1992 revenue increases, as wholesale distribution sales and retail same store sales were relatively unchanged between years.

The newspaper segment's 1992 revenues of $139.7 million increased $9.4 million (7%) over the prior year. After experiencing declines during the first three quarters of 1991, advertising revenues stabilized during 1991's fourth quarter and increased throughout 1992. In addition to the impact of increased advertising revenues, operating profits were enhanced by a continued slide in the cost of newsprint. The average cost of newsprint declined 20% in 1992 as compared to 1991. This decline has reversed and since the beginning of 1993 newsprint costs have increased 21%. Further increases are likely later in 1993. Somewhat offsetting the favorable factors was a special charge during 1992 of $2.9 million to buy out employees with lifetime job guarantees. A similar, but lesser, charge of $1.4 million was incurred during 1991. While these buy outs have had a negative impact on operating results for the past two years, the News should derive long term benefits from the reduced size of the work force.

Sales of the candy segment were relatively unchanged between years. See's experienced a decline in volume as pounds of candy sold decreased 4% from the prior year. However, a 5% price increase effective January 1, 1992 offset the impact of reduced volume. On December 1, 1992, the state of California abolished the 8.5% sales tax it had imposed, effective July 15, 1991, on "candy and snack foods". Because of See's heavy presence in California, this tax had applied to 80% of its sales. Sales volume from equivalent shops increased during December 1992 as compared to the comparable 1991 period.

Revenues from the home cleaning system segment declined 1% from the prior year. The decrease was primarily the result of reduced Kirby cleaner unit sales in foreign markets. Foreign market unit sales, which account for about 20% of this segment's business, declined 27% versus 1991 levels. The introduction into foreign markets of the Generation 3 model, with its additional features and higher price, helped to negate the impact on revenues of reduced foreign unit sales. The same model was successfully introduced domestically during 1990.

During 1992, revenues from the "encyclopedia, other reference material" segment declined $65.4 million (21%). About one half of the decline resulted from the discontinuance during December 1991 of the syndication business. This business consisted of direct mail marketing of primarily non-educational products. The remainder of the decline in revenues resulted from a further reduction, which began during 1991, in *World Book* and *Childcraft* unit sales. During 1991 a major restructuring of the encyclopedia sales force began. This restructuring continued during 1992 and necessitated major management changes including some terminations. A replacement hiring program has begun but it has not yet achieved its objectives of increasing the size of the sales force.

In spite of the reduced encyclopedia sales at World Book, 1992 operating profits as compared to 1991 increased rather significantly. Overall operating profits of $28.2 million represent an increase of $6.0 million over 1991. The discontinuance of the syndication business which incurred an operating loss of $3.4 million during 1991 accounts for slightly over 50% of the improvement in 1992 operating profits. Also accounting for the improvement in 1992 was a reduction of reserves which had been previously established against salespersons advances and draws. Both of these factors are of a one time nature and in order to further enhance profits during 1993 and beyond, it will be necessary for this segment's management to strengthen its sales force by successfully implementing the sales force restructuring program.

Non-Insurance Business Segments (continued)

1991 compared to 1990

Revenues from the non-insurance business segments increased $84 million (7.5%) in 1991 as compared to 1990. The Brown acquisition on July 1, 1991 more than accounted for the increase as revenues from this business were $104 million during the second half of 1991. Offsetting this increase was a reduction in World Book revenues of $32 million (9%). World Book's reduced revenues resulted from a significant decline in unit sales of encyclopedias. This decline resulted from recessionary pressures as well as the aforementioned sales force restructuring which began during 1991. Revenues from Berkshire's other five segments were $789.3 million during 1991 compared to $777.9 million during 1990. None of the five segments had increases in excess of 6% and only the Buffalo News with a decline of 4% had lower revenues during 1991 as compared to 1990. Operating profits of $176.1 million during 1991 were $5.5 million (3%) greater than in 1990. The inclusion of Brown's results during the last six months of 1991 more than accounted for the increase.

Business Other Than Identified Segments

	(dollars in millions)		
	1992	1991	1990
Revenues	$567.7	$524.4	$535.9
Operating profit	$ 54.3	$ 49.3	$ 56.4
Income taxes	21.8	19.3	21.6
Minority interest	1.8	2.4	2.9
Contribution to net earnings	$ 30.7	$ 27.6	$ 31.9

The above represent aggregate data for businesses that numbered 24 in 1992. 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.

Interest Expense

Interest expense in both 1992 and 1991 includes premiums paid to redeem certain term debt (redemptions were $204 million in 1992 and $72 million in 1991) prior to scheduled maturity. Premiums charged to interest expense related to such redemptions were $16.2 million during 1992 and $5.7 million during 1991. Interest expense for 1992 also includes a charge of $6.3 million representing the writeoff of deferred financing costs related to Berkshire's Zero Coupon Convertible Subordinated Notes which were due to mature in 2004. On December 16, 1992 Berkshire announced that it would call this issue for redemption on January 4, 1993. On that date all outstanding notes which had not previously been converted into shares of Berkshire common stock were redeemed for cash (See Note 5 to the Consolidated Financial Statements).

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 unrealized price appreciation now existing in Berkshire's consolidated investment portfolio.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1992, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $4.9 billion at December 31, 1989 to approximately $8.9 billion at December 31, 1992. 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 about $1 billion.

BERKSHIRE HATHAWAY INC.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past twelve 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
1992	$8	97.0%	$7,634,784	2,810

* *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 1993, 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, 1993**, 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.

BERKSHIRE HATHAWAY INC.

COMBINED FINANCIAL STATEMENTS
BUSINESS GROUPS

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. Principal 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.

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Berkshire's insurance business is conducted by 13 separate subsidiaries. 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, 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 provides treaty reinsurance to other property/casualty insurers and reinsurers. This division is currently one of the leading providers in the world of property/catastrophe retrocessional protection (i.e., reinsurance for reinsurers).

In late December, 1992 a new subsidiary was added to the Group as a result of the acquisition by Berkshire of 82% of Central States Indemnity ("CSI"). The primary product line of CSI is credit insurance distributed through credit card issuers nationwide. The Insurance Group financial statements which follow, include CSI's 1992 year-end balance sheet but exclude the 1992 earnings of CSI. During 1992 CSI's written premiums were about $90 million and its earnings from operations before income taxes were approximately $14 million.

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 1992 were approximately 8.1% of the Group's year-end statutory surplus. That compares to an industry average premiums-to-surplus ratio of about 141% (for 1991). 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.

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Balance Sheets
(dollars in millions)

	December 31, 1992	December 31, 1991
Assets		
Investments:		
Fixed maturities at amortized cost:		
Bonds:		
Wash. Pub. Power Supply System	$ 58.8	$ 158.6
RJR Nabisco	—	98.9
Other	479.2	367.0
Preferred stocks:		
Champion International	279.0	279.0
Salomon Inc	650.0	650.0
USAir	348.0	348.0
Other	10.6	0.5
Equity Securities at market:		
Common stocks:		
Capital Cities/ABC, Inc.	1,497.9	1,278.8
Coca-Cola Company	3,901.1	3,738.0
FHLMC	435.2	13.1
GEICO	2,226.2	1,363.2
General Dynamics	450.8	—
Gillette	1,365.0	1,347.0
Guinness PLC	299.5	296.8
Washington Post	396.9	336.0
Wells Fargo & Company	471.5	279.3
Other	86.9	91.9
Preferred stocks:		
American Express Company	290.5	247.5
First Empire State Corp.	68.0	50.0
Other	53.2	31.1
	13,368.3	10,974.7
Cash and cash equivalents	471.2	458.5
Receivables	188.1	414.1
Deferred costs	529.2	552.5
Other	8.0	2.8
	$14,564.8	$12,402.6
Liabilities		
Losses and loss adjustment expenses	$ 2,978.5	$ 2,849.1
Unearned premiums	227.8	152.5
Accounts payable, accruals and other	379.9	222.1
Income taxes, principally deferred	2,476.3	1,908.2
	$ 6,062.5	$ 5,131.9
Equity		
Minority shareholders'	70.4	56.5
Berkshire shareholders'	8,431.9	7,214.2
	8,502.3	7,270.7
	$14,564.8	$12,402.6

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)

	1992	1991	1990
Premiums written	$ 739.6	$ 802.5	$ 574.3
Premiums earned	$ 664.3	$ 776.4	$ 591.5
Losses and loss expenses	687.6	827.2	534.2
Underwriting expenses	85.7	68.8	83.9
Total losses and expenses	773.3	896.0	618.1
Underwriting loss - pre-tax	(109.0)	(119.6)	(26.6)
Net investment income	355.1	331.8	327.0
Realized investment gain	52.6	110.8	15.8
Earnings from operations before income taxes	298.7	323.0	316.2
Income tax expense	25.4	38.4	34.1
	273.3	284.6	282.1
Minority interest	2.6	2.8	3.0
Net earnings	$ 270.7	$ 281.8	$ 279.1

Statements of Net Investment Income
(dollars in millions)

	1992	1991	1990
Interest:			
Substantially exempt from Federal income taxes:			
Wash. Pub. Power Supply System	$ 15.5	$ 25.0	$ 27.1
Other	27.6	29.6	30.5
Taxable:			
RJR Nabisco	16.1	21.7	27.0
Other	14.8	22.4	6.6
	74.0	98.7	91.2
Dividends:			
American Express Company	24.9	9.2	—
Capital Cities/ABC, Inc	0.6	0.6	0.6
Champion International	25.8	25.8	25.8
Coca-Cola Company	52.2	44.7	37.3
FHLMC	4.4	0.2	—
First Empire State Corp.	3.6	2.9	—
GEICO	20.6	15.6	13.7
General Dynamics	2.4	—	—
Gillette	16.7	24.3	52.5
Guinness PLC	7.4	1.2	—
Salomon Inc.	58.5	58.1	56.1
USAir	32.2	32.2	32.2
Washington Post	7.3	7.3	6.9
Wells Fargo & Company	7.7	16.8	10.8
Other	23.2	5.8	8.8
	361.5	343.4	335.9
Investment expenses	(6.4)	(11.6)	(8.9)
Net investment income	$ 355.1	$ 331.8	$ 327.0

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

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 junction boxes, couplings and terminators
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Buffalo News	Daily and Sunday newspaper
Campbell Hausfeld	Air compressors, air tools and painting systems
Carefree	Sun and shade control products and accessories for RVs
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 electrical 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 service center
Quikut	Cutlery
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scot Labs	Cleaning and maintenance chemicals
See's Candies	Boxed chocolates and other confectionery products
Stahl	Custom steel service bodies and tool boxes for trucks
Wayne	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

BERKSHIRE HATHAWAY INC.

MANUFACTURING, PUBLISHING AND RETAILING BUSINESSES

Balance Sheets
(dollars in millions)

	December 31, 1992	December 31, 1991
Assets		
Cash and cash equivalents	$ 62.7	$ 67.3
Accounts receivable	230.9	211.3
Inventories	253.7	227.0
Properties and equipment	163.9	154.7
Other	29.9	18.7
	$ 741.1	$ 679.0
Liabilities		
Accounts payable, accruals and other	$ 223.3	$ 211.2
Income taxes	40.6	37.0
Term debt and other borrowings	28.1	40.9
	292.0	289.1
Equity		
Minority shareholders'	33.2	31.1
Berkshire shareholders'	415.9	358.8
	449.1	389.9
	$ 741.1	$ 679.0

Statements of Earnings
(dollars in millions)

	1992	1991	1990
Revenues:			
Sales and service revenues	$1,774.4	$1,651.1	$1,580.1
Interest income	7.5	8.5	6.7
Sundry income	3.0	2.1	1.4
	1,784.9	1,661.7	1,588.2
Costs and expenses:			
Costs of products and services sold	1,043.6	933.7	865.6
Selling, general and administrative	486.3	508.6	499.3
Interest on debt	4.6	4.9	6.5
	1,534.5	1,447.2	1,371.4
Earnings from operations before income taxes	250.4	214.5	216.8
Income tax expense	96.8	82.3	83.9
	153.6	132.2	132.9
Minority interest	4.2	4.6	5.4
Net earnings	$ 149.4	$ 127.6	$ 127.5

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

BERKSHIRE HATHAWAY INC.

FINANCE-TYPE BUSINESSES

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

Balance Sheets
(dollars in millions)

	December 31, 1992	December 31, 1991
Assets		
Cash and cash equivalents	$ 64.4	$ 32.7
Investments at cost:		
Bonds	—	14.2
Mortgage-backed securities	68.9	129.5
FHLMC common stock	71.7	71.7
Collateralized loans receivable	101.9	100.9
Installment and other receivables	181.1	177.7
Prepaid income taxes	4.9	7.3
Other	26.3	28.9
	$ 519.2	$ 562.9
Liabilities		
Savings accounts	$ 250.9	$ 289.0
Accounts payable, accruals and other	27.8	26.2
Income taxes	0.7	1.5
Term debt and other borrowings	145.1	154.6
	424.5	471.3
Equity		
Minority shareholders'	12.5	11.8
Berkshire shareholders'	82.2	79.8
	94.7	91.6
	$ 519.2	$ 562.9

Statements of Earnings
(dollars in millions)

	1992	1991	1990
Revenues:			
Interest and fees on loans and financed receivables	$ 51.5	$ 53.2	$ 51.9
Interest and dividends on investment securities	16.4	18.3	18.3
Sundry income	0.4	1.3	0.3
	68.3	72.8	70.5
Expenses:			
Interest on savings accounts	12.0	18.3	22.0
Interest on debt	13.9	14.3	14.3
General and administrative	20.8	20.7	20.7
	46.7	53.3	57.0
Earnings from operations before income taxes	21.6	19.5	13.5
Income tax expense	7.0	4.6	1.7
	14.6	14.9	11.8
Minority interest	0.7	0.9	0.8
Earnings before realized investment gain	13.9	14.0	11.0
Realized investment gain — mandated divest. of pref. stocks	—	4.5	—
Net earnings	$ 13.9	$ 18.5	$ 11.0

These statements do not conform to GAAP in all respects
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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, 1992	December 31, 1991
Assets		
Cash and cash equivalents	$ 595.3	$ 205.6
Investments:		
Fixed maturities:		
Bonds:		
ACF Industries	127.1	87.9
RJR Nabisco	—	123.3
Preferred stocks	81.0	81.0
Equity securities	38.1	38.1
Property account adjustments *	70.8	78.2
Unamortized goodwill *	206.9	179.0
Prepaid income taxes	6.0	7.0
Other	22.5	40.9
	$1,147.7	$ 841.0
Liabilities		
Accounts payable, accruals and other	$ 16.5	$ 34.5
Income taxes	10.5	(3.3)
Term debt and other borrowings	1,141.0	1,065.0
	1,168.0	1,096.2
Equity		
Minority shareholders'	13.4	17.7
Berkshire shareholders'	(33.7)	(272.9)
	(20.3)	(255.2)
	$1,147.7	$ 841.0

Statements of Earnings
(dollars in millions)

	1992	1991	1990
Revenues:			
Interest and dividend income	$ 58.9	$ 60.1	$ 41.1
Realized investment gain	37.3	69.5	18.2
Sundry income	3.3	4.4	2.0
	99.5	134.0	61.3
Expenses:			
Corporate administration	4.2	5.6	4.1
Shareholder designated contributions	7.6	6.8	5.8
Amortization of goodwill *	4.6	4.0	3.5
Property account adjustments *	7.4	6.0	6.0
Interest on debt	94.5	84.5	71.3
Other costs and expenses	1.3	0.9	0.6
	119.6	107.8	91.3
Earnings (loss) before income taxes	(20.1)	26.2	(30.0)
Income tax credit (expense)	(8.9)	(12.7)	7.6
	(29.0)	13.5	(22.4)
Minority interest	(2.3)	1.5	1.1
Net earnings (loss)	$ (26.7)	$ 12.0	$ (23.5)

* *"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

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 7,100 record holders of its common stock at March 9, 1993. Record owners included nominees holding at least 175,000 shares on behalf of beneficial-but-not-of-record owners. Management believes that the Company has more than 16,000 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:

1992	High	Low
First Quarter	$9,000	$8,575
Second Quarter	9,300	8,850
Third Quarter	9,950	9,050
Fourth Quarter	11,750	9,150

1991	High	Low
First Quarter	$8,275	$6,550
Second Quarter	8,750	7,760
Third Quarter	9,000	8,325
Fourth Quarter	9,125	8,150

Dividends

Berkshire has not declared a cash dividend since 1967.

BERKSHIRE HATHAWAY INC.

Selected Financial Data for the Past Five Years

(dollars in thousands, except per share data)

	1992	1991	1990	1989	1988
Revenues:					
Sales and service revenues	$ 1,774,436	$ 1,651,134	$ 1,580,074	$1,526,459	$1,407,642
Insurance premiums earned	664,293	776,413	591,540	394,279	584,235
Interest and dividend income	495,409	481,793	450,295	331,452	314,251
Realized investment gain	89,937	192,478	33,989	223,810	131,671
Sundry	5,265	4,178	3,574	7,892	27,094
Total revenues	$ 3,029,340	$ 3,105,996	$ 2,659,472	$2,483,892	$2,464,893
Earnings:					
Before realized investment gain	$ 347,726	$ 315,753	$ 370,745	$ 299,902	$ 313,441
Realized investment gain	59,559	124,155	23,348	147,575	85,829
Net earnings	$ 407,285	$ 439,908	$ 394,093	$ 447,477	$ 399,270
Earnings per share:					
Before realized investment gain	$ 303.29	$ 275.42	$ 323.39	$ 262.46	$ 273.37
Realized investment gain	51.95	108.30	20.36	127.55	74.86
Net earnings	$ 355.24	$ 383.72	$ 343.75	$ 390.01	$ 348.23
Year-end data:					
Total assets	$16,944,778	$14,461,902	$10,670,423	$9,459,594	$6,816,848
Term debt and other borrowings	1,299,810	1,255,068	1,239,358	1,007,516	480,009
Shareholders' equity	8,896,331	7,379,918	5,287,454	4,925,126	3,410,108
Common shares outstanding, in thousands	1,149	1,146	1,146	1,146	1,146
Shareholders' equity per outstanding share	$ 7,745	$ 6,437	$ 4,612	$ 4,296	$ 2,975

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, III

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*

MARC D. HAMBURG, *Vice President, Treasurer*

STANFORD LIPSEY, *Vice President*

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.

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