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BERKSHIRE HATHAWAY INC.

1994
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 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 1994 included approximately 50% of the outstanding capital stock of GEICO Corporation, approximately 13% of the capital stock of Capital Cities/ABC, Inc., approximately 11% of the capital stock of The Gillette Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 15% of the capital stock of The Washington Post Company, approximately 13% of the common stock of Wells Fargo & Company, and common and convertible preferred stock of Salomon Inc having approximately 20% 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 Brothers Company*), manufacture, import and distribution of footwear (*H.H. Brown Shoe Company, Lowell Shoe, Inc. and Dexter Shoe Company*) and manufacture and distribution of air compressors, air tools and painting systems (*Campbell Hausfeld* products). 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.

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Directors and Officers of the Company . . . . Inside Back Cover

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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
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6

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.

In 1993, accounting rules changed so that all common equities, including those held by non-insurance entities, are now carried at market. The entire change was credited to 1993, since the restatement of the figures for earlier years would have resulted in only minor adjustments.

The S&P 500 numbers are pre-tax whereas the Berkshire numbers are after-tax. If a corporation such as Berkshire were simply to have owned the S&P 500 and accrued the appropriate taxes, its results would have lagged the S&P 500 in years when that index showed a positive return, but would have exceeded the S&P in years when the index showed a negative return. Over the years, the tax costs would have caused the aggregate lag to be substantial.

To the Shareholders of Berkshire Hathaway Inc.:

Our gain in net worth during 1994 was $1.45 billion or 13.9%. Over the last 30 years (that is, since present management took over) our per-share book value has grown from $19 to $10,083, or at a rate of 23% compounded annually.

Charlie Munger, Berkshire's Vice Chairman and my partner, and I make few predictions. One we will confidently offer, however, is that the future performance of Berkshire won't come close to matching the performance of the past.

The problem is not that what has worked in the past will cease to work in the future. To the contrary, we believe that our formula — the purchase at sensible prices of businesses that have good underlying economics and are run by honest and able people — is certain to produce reasonable success. We expect, therefore, to keep on doing well.

A fat wallet, however, is the enemy of superior investment results. And Berkshire now has a net worth of $11.9 billion compared to about $22 million when Charlie and I began to manage the company. Though there are as many good businesses as ever, it is useless for us to make purchases that are inconsequential in relation to Berkshire's capital. (As Charlie regularly reminds me, "If something is not worth doing at all, it's not worth doing well.") We now consider a security for purchase only if we believe we can deploy at least $100 million in it. Given that minimum, Berkshire's investment universe has shrunk dramatically.

Nevertheless, we will stick with the approach that got us here and try not to relax our standards. Ted Williams, in The Story of My Life, explains why: "My argument is, to be a good hitter, you've got to get a good ball to hit. It's the first rule in the book. If I have to bite at stuff that is out of my happy zone, I'm not a .344 hitter. I might only be a .250 hitter." Charlie and I agree and will try to wait for opportunities that are well within our own "happy zone."

We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen. Thirty years ago, no one could have foreseen the huge expansion of the Vietnam War, wage and price controls, two oil shocks, the resignation of a president, the dissolution of the Soviet Union, a one-day drop in the Dow of 508 points, or treasury bill yields fluctuating between 2.8% and 17.4%.

But, surprise — none of these blockbuster events made the slightest dent in Ben Graham's investment principles. Nor did they render unsound the negotiated purchases of fine businesses at sensible prices. Imagine the cost to us, then, if we had let a fear of unknowns cause us to defer or alter the deployment of capital. Indeed, we have usually made our best purchases when apprehensions about some macro event were at a peak. Fear is the foe of the faddist, but the friend of the fundamentalist.

A different set of major shocks is sure to occur in the next 30 years. We will neither try to predict these nor to profit from them. If we can identify businesses similar to those we have purchased in the past, external surprises will have little effect on our long-term results.

What we promise you — along with more modest gains — is that during your ownership of Berkshire, you will fare just as Charlie and I do. If you suffer, we will suffer; if we prosper, so will you. And we will not break this bond by introducing compensation arrangements that give us a greater participation in the upside than the downside.

We further promise you that our personal fortunes will remain overwhelmingly concentrated in Berkshire shares: We will not ask you to invest with us and then put our own money elsewhere. In addition, Berkshire dominates both the investment portfolios of most members of our families and of a great many friends who belonged to partnerships that Charlie and I ran in the 1960's. We could not be more motivated to do our best.

Luckily, we have a good base from which to work. Ten years ago, in 1984, Berkshire's insurance companies held securities having a value of $1.7 billion, or about $1,500 per Berkshire share. Leaving aside all income and capital gains from those securities, Berkshire's pre-tax earnings that year were only about $6 million. We had earnings, yes, from our various manufacturing, retailing and service businesses, but they were almost entirely offset by the combination of underwriting losses in our insurance business, corporate overhead and interest expense.

Now we hold securities worth $18 billion, or over $15,000 per Berkshire share. If you again exclude all income from these securities, our pre-tax earnings in 1994 were about $383 million. During the decade, employment has grown from 5,000 to 22,000 (including eleven people at World Headquarters).

We achieved our gains through the efforts of a superb corps of operating managers who get extraordinary results from some ordinary-appearing businesses. Casey Stengel described managing a baseball team as "getting paid for home runs other fellows hit." That's my formula at Berkshire, also.

The businesses in which we have partial interests are equally important to Berkshire's success. A few statistics will illustrate their significance: In 1994, Coca-Cola sold about 280 billion 8-ounce servings and earned a little less than a penny on each. But pennies add up. Through Berkshire's 7.8% ownership of Coke, we have an economic interest in 21 billion of its servings, which produce "soft-drink earnings" for us of nearly $200 million. Similarly, by way of its Gillette stock, Berkshire has close to a 7% share of the world's razor and blade market (measured by revenues, not by units), a proportion according us about $250 million of sales in 1994. And, at Wells Fargo, a $53 billion bank, our 13% ownership translates into a $7 billion "Berkshire Bank" that earned about $100 million during 1994.

It's far better to own a significant portion of the Hope diamond than 100% of a rhinestone, and the companies just mentioned easily qualify as rare gems. Best of all, we aren't limited to simply a few of this breed, but instead possess a growing collection.

Stock prices will continue to fluctuate — sometimes sharply — and the economy will have its ups and downs. Over time, however, we believe it highly probable that the sort of businesses we own will continue to increase in value at a satisfactory rate.

Book Value and Intrinsic Value

We regularly report our per-share book value, an easily calculable number, though one of limited use. Just as regularly, we tell you that what counts is intrinsic value, a number that is impossible to pinpoint but essential to estimate.

For example, in 1964, we could state with certitude that Berkshire's per-share book value was $19.46. However, that figure considerably overstated the stock's intrinsic value since all of the company's resources were tied up in a sub-profitable textile business. Our textile assets had neither going-concern nor liquidation values equal to their carrying values. In 1964, then, anyone inquiring into the soundness of Berkshire's balance sheet might well have deserved the answer once offered up by a Hollywood mogul of dubious reputation: "Don't worry, the liabilities are solid."

Today, Berkshire's situation has reversed: Many of the businesses we control are worth far more than their carrying value. (Those we don't control, such as Coca-Cola or Gillette, are carried at current market values.) We continue to give you book value figures, however, because they serve as a rough, albeit

significantly understated, tracking measure for Berkshire's intrinsic value. Last year, in fact, the two measures moved in concert: Book value gained 13.9%, and that was the approximate gain in intrinsic value also.

We define intrinsic value as the discounted value of the cash that can be taken out of a business during its remaining life. Anyone calculating intrinsic value necessarily comes up with a highly subjective figure that will change both as estimates of future cash flows are revised and as interest rates move. Despite its fuzziness, however, intrinsic value is all-important and is the only logical way to evaluate the relative attractiveness of investments and businesses.

To see how historical input (book value) and future output (intrinsic value) can diverge, let's look at another form of investment, a college education. Think of the education's cost as its "book value." If it is to be accurate, the cost should include the earnings that were foregone by the student because he chose college rather than a job.

For this exercise, we will ignore the important non-economic benefits of an education and focus strictly on its economic value. First, we must estimate the earnings that the graduate will receive over his lifetime and subtract from that figure an estimate of what he would have earned had he lacked his education. That gives us an excess earnings figure, which must then be discounted, at an appropriate interest rate, back to graduation day. The dollar result equals the intrinsic economic value of the education.

Some graduates will find that the book value of their education exceeds its intrinsic value, which means that whoever paid for the education didn't get his money's worth. In other cases, the intrinsic value of an education will far exceed its book value, a result that proves capital was wisely deployed. In all cases, what is clear is that book value is meaningless as an indicator of intrinsic value.

Now let's get less academic and look at Scott Fetzer, an example from Berkshire's own experience. This account will not only illustrate how the relationship of book value and intrinsic value can change but also will provide an accounting lesson that I know you have been breathlessly awaiting. Naturally, I've chosen here to talk about an acquisition that has turned out to be a huge winner.

Berkshire purchased Scott Fetzer at the beginning of 1986. At the time, the company was a collection of 22 businesses, and today we have exactly the same line-up — no additions and no disposals. Scott Fetzer's main operations are World Book, Kirby, and Campbell Hausfeld, but many other units are important contributors to earnings as well.

We paid $315.2 million for Scott Fetzer, which at the time had $172.6 million of book value. The $142.6 million premium we handed over indicated our belief that the company's intrinsic value was close to double its book value.

In the table below we trace the book value of Scott Fetzer, as well as its earnings and dividends, since our purchase.

Year	*(1) Beginning Book Value*	*(2) Earnings*	*(3) Dividends*	*(4) Ending Book Value*
		(In Millions)		(1)+(2)-(3)
1986	$172.6	$ 40.3	$125.0	$ 87.9
1987	87.9	48.6	41.0	95.5
1988	95.5	58.0	35.0	118.5
1989	118.5	58.5	71.5	105.5
1990	105.5	61.3	33.5	133.3
1991	133.3	61.4	74.0	120.7
1992	120.7	70.5	80.0	111.2
1993	111.2	77.5	98.0	90.7
1994	90.7	79.3	76.0	94.0

Because it had excess cash when our deal was made, Scott Fetzer was able to pay Berkshire dividends of $125 million in 1986, though it earned only $40.3 million. I should mention that we have not introduced leverage into Scott Fetzer's balance sheet. In fact, the company has gone from very modest debt when we purchased it to virtually no debt at all (except for debt used by its finance subsidiary). Similarly, we have not sold plants and leased them back, nor sold receivables, nor the like. Throughout our years of ownership, Scott Fetzer has operated as a conservatively-financed and liquid enterprise.

As you can see, Scott Fetzer's earnings have increased steadily since we bought it, but book value has not grown commensurately. Consequently, return on equity, which was exceptional at the time of our purchase, has now become truly extraordinary. Just how extraordinary is illustrated by comparing Scott Fetzer's performance to that of the Fortune 500, a group it would qualify for if it were a stand-alone company.

Had Scott Fetzer been on the 1993 500 list — the latest available for inspection — the company's return on equity would have ranked fourth. But that is far from the whole story. The top three companies in return on equity were Insilco, LTV and Gaylord Container, each of which emerged from bankruptcy in 1993 and none of which achieved meaningful earnings that year except for those they realized when they were accorded debt forgiveness in bankruptcy proceedings. Leaving aside such non-operating windfalls, Scott Fetzer's return on equity would have ranked it first on the Fortune 500, well ahead of number two. Indeed, Scott Fetzer's return on equity was double that of the company ranking tenth.

You might expect that Scott Fetzer's success could only be explained by a cyclical peak in earnings, a monopolistic position, or leverage. But no such circumstances apply. Rather, the company's success comes from the managerial expertise of CEO Ralph Schey, of whom I'll tell you more later.

First, however, the promised accounting lesson: When we paid a $142.6 million premium over book value for Scott Fetzer, that figure had to be recorded on Berkshire's balance sheet. I'll spare you the details of how this worked (these were laid out in an appendix to our 1986 Annual Report) and get to the bottom line: After a premium is initially recorded, it must in almost all cases be written off over time through annual charges that are shown as costs in the acquiring company's earnings statement.

The following table shows, first, the annual charges Berkshire has made to gradually extinguish the Scott Fetzer acquisition premium and, second, the premium that remains on our books. These charges have no effect on cash or the taxes we pay, and are not, in our view, an economic cost (though many accountants would disagree with us). They are merely a way for us to reduce the carrying value of Scott Fetzer on our books so that the figure will eventually match the net worth that Scott Fetzer actually employs in its business.

Year	*Beginning Purchase Premium*	*Purchase-Premium Charge to Berkshire Earnings*	*Ending Purchase Premium*
		(In Millions)	
1986	$142.6	$ 11.6	$131.0
1987	131.0	7.1	123.9
1988	123.9	8.0	115.9
1989	115.9	7.0	108.9
1990	108.9	7.1	101.8
1991	101.8	6.9	94.9
1992	94.9	7.7	87.2
1993	87.2	28.1	59.1
1994	59.1	4.9	54.2

Note that by the end of 1994 the premium was reduced to $54.2 million. When this figure is added to Scott Fetzer's year-end book value of $94 million, the total is $148.2 million, which is the current carrying value of Scott Fetzer on Berkshire's books. That amount is less than half of our carrying value for the company when it was acquired. Yet Scott Fetzer is now earning about twice what it then did. Clearly, the intrinsic value of the business has consistently grown, even though we have just as consistently marked down its carrying value through purchase-premium charges that reduced Berkshire's earnings and net worth.

The difference between Scott Fetzer's intrinsic value and its carrying value on Berkshire's books is now huge. As I mentioned earlier — but am delighted to mention again — credit for this agreeable mismatch goes to Ralph Schey, a focused, smart and high-grade manager.

The reasons for Ralph's success are not complicated. Ben Graham taught me 45 years ago that in investing it is not necessary to do extraordinary things to get extraordinary results. In later life, I have been surprised to find that this statement holds true in business management as well. What a manager must do is handle the basics well and not get diverted. That's precisely Ralph's formula. He establishes the right goals and never forgets what he set out to do. On the personal side, Ralph is a joy to work with. He's forthright about problems and is self-confident without being self-important.

He is also experienced. Though I don't know Ralph's age, I do know that, like many of our managers, he is over 65. At Berkshire, we look to performance, not to the calendar. Charlie and I, at 71 and 64 respectively, now keep George Foreman's picture on our desks. You can make book that our scorn for a mandatory retirement age will grow stronger every year.

Intrinsic Value and Capital Allocation

Understanding intrinsic value is as important for managers as it is for investors. When managers are making capital allocation decisions — including decisions to repurchase shares — it's vital that they act in ways that increase per-share intrinsic value and avoid moves that decrease it. This principle may seem obvious but we constantly see it violated. And, when misallocations occur, shareholders are hurt.

For example, in contemplating business mergers and acquisitions, many managers tend to focus on whether the transaction is immediately dilutive or anti-dilutive to earnings per share (or, at financial institutions, to per-share book value). An emphasis of this sort carries great dangers. Going back to our college-education example, imagine that a 25-year-old first-year MBA student is considering merging his future economic interests with those of a 25-year-old day laborer. The MBA student, a non-earner, would find that a "share-for-share" merger of his equity interest in himself with that of the day laborer would enhance his near-term earnings (in a big way!). But what could be sillier for the student than a deal of this kind?

In corporate transactions, it's equally silly for the would-be purchaser to focus on current earnings when the prospective acquiree has either different prospects, a different mix of operating and non-operating assets, or a different capital structure. At Berkshire, we have rejected many merger and purchase opportunities that would have boosted current and near-term earnings but that would have reduced per-share intrinsic value. Our approach, rather, has been to follow Wayne Gretzky's advice: "Go to where the puck is going to be, not to where it is." As a result, our shareholders are now many billions of dollars richer than they would have been if we had used the standard catechism.

The sad fact is that most major acquisitions display an egregious imbalance: They are a bonanza for the shareholders of the acquiree; they increase the income and status of the acquirer's management; and they are a honey pot for the investment bankers and other professionals on both sides. But, alas, they usually

reduce the wealth of the acquirer's shareholders, often to a substantial extent. That happens because the acquirer typically gives up more intrinsic value than it receives. Do that enough, says John Medlin, the retired head of Wachovia Corp., and "you are running a chain letter in reverse."

Over time, the skill with which a company's managers allocate capital has an enormous impact on the enterprise's value. Almost by definition, a really good business generates far more money (at least after its early years) than it can use internally. The company could, of course, distribute the money to shareholders by way of dividends or share repurchases. But often the CEO asks a strategic planning staff, consultants or investment bankers whether an acquisition or two might make sense. That's like asking your interior decorator whether you need a $50,000 rug.

The acquisition problem is often compounded by a biological bias: Many CEO's attain their positions in part because they possess an abundance of animal spirits and ego. If an executive is heavily endowed with these qualities — which, it should be acknowledged, sometimes have their advantages — they won't disappear when he reaches the top. When such a CEO is encouraged by his advisors to make deals, he responds much as would a teenage boy who is encouraged by his father to have a normal sex life. It's not a push he needs.

Some years back, a CEO friend of mine — in jest, it must be said — unintentionally described the pathology of many big deals. This friend, who ran a property-casualty insurer, was explaining to his directors why he wanted to acquire a certain life insurance company. After droning rather unpersuasively through the economics and strategic rationale for the acquisition, he abruptly abandoned the script. With an impish look, he simply said: "Aw, fellas, all the other kids have one."

At Berkshire, our managers will continue to earn extraordinary returns from what appear to be ordinary businesses. As a first step, these managers will look for ways to deploy their earnings advantageously in their businesses. What's left, they will send to Charlie and me. We then will try to use those funds in ways that build per-share intrinsic value. Our goal will be to acquire either part or all of businesses that we believe we understand, that have good, sustainable underlying economics, and that are run by managers whom we like, admire and trust.

Compensation

At Berkshire, we try to be as logical about compensation as about capital allocation. For example, we compensate Ralph Schey based upon the results of Scott Fetzer rather than those of Berkshire. What could make more sense, since he's responsible for one operation but not the other? A cash bonus or a stock option tied to the fortunes of Berkshire would provide totally capricious rewards to Ralph. He could, for example, be hitting home runs at Scott Fetzer while Charlie and I rang up mistakes at Berkshire, thereby negating his efforts many times over. Conversely, why should option profits or bonuses be heaped upon Ralph if good things are occurring in other parts of Berkshire but Scott Fetzer is lagging?

In setting compensation, we like to hold out the promise of large carrots, but make sure their delivery is tied directly to results in the area that a manager controls. When capital invested in an operation is significant, we also both charge managers a high rate for incremental capital they employ and credit them at an equally high rate for capital they release.

The product of this money's-not-free approach is definitely visible at Scott Fetzer. If Ralph can employ incremental funds at good returns, it pays him to do so: His bonus increases when earnings on additional capital exceed a meaningful hurdle charge. But our bonus calculation is symmetrical: If incremental investment yields sub-standard returns, the shortfall is costly to Ralph as well as to Berkshire. The consequence of this two-way arrangement is that it pays Ralph — and pays him well — to send to Omaha any cash he can't advantageously use in his business.

It has become fashionable at public companies to describe almost every compensation plan as aligning the interests of management with those of shareholders. In our book, alignment means being a partner in both directions, not just on the upside. Many "alignment" plans flunk this basic test, being artful forms of "heads I win, tails you lose."

A common form of misalignment occurs in the typical stock option arrangement, which does not periodically increase the option price to compensate for the fact that retained earnings are building up the wealth of the company. Indeed, the combination of a ten-year option, a low dividend payout, and compound interest can provide lush gains to a manager who has done no more than tread water in his job. A cynic might even note that when payments to owners are held down, the profit to the option-holding manager increases. I have yet to see this vital point spelled out in a proxy statement asking shareholders to approve an option plan.

I can't resist mentioning that our compensation arrangement with Ralph Schey was worked out in about five minutes, immediately upon our purchase of Scott Fetzer and without the "help" of lawyers or compensation consultants. This arrangement embodies a few very simple ideas — not the kind of terms favored by consultants who cannot easily send a large bill unless they have established that you have a large problem (and one, of course, that requires an annual review). Our agreement with Ralph has never been changed. It made sense to him and to me in 1986, and it makes sense now. Our compensation arrangements with the managers of all our other units are similarly simple, though the terms of each agreement vary to fit the economic characteristics of the business at issue, the existence in some cases of partial ownership of the unit by managers, etc.

In all instances, we pursue rationality. Arrangements that pay off in capricious ways, unrelated to a manager's personal accomplishments, may well be welcomed by certain managers. Who, after all, refuses a free lottery ticket? But such arrangements are wasteful to the company and cause the manager to lose focus on what should be his real areas of concern. Additionally, irrational behavior at the parent may well encourage imitative behavior at subsidiaries.

At Berkshire, only Charlie and I have the managerial responsibility for the entire business. Therefore, we are the only parties who should logically be compensated on the basis of what the enterprise does as a whole. Even so, that is not a compensation arrangement we desire. We have carefully designed both the company and our jobs so that we do things we enjoy with people we like. Equally important, we are forced to do very few boring or unpleasant tasks. We are the beneficiaries as well of the abundant array of material and psychic perks that flow to the heads of corporations. Under such idyllic conditions, we don't expect shareholders to ante up loads of compensation for which we have no possible need.

Indeed, if we were not paid at all, Charlie and I would be delighted with the cushy jobs we hold. At bottom, we subscribe to Ronald Reagan's creed: "It's probably true that hard work never killed anyone, but I figure why take the chance."

Sources of Reported Earnings

The table on the next page shows the main sources of Berkshire's reported earnings. In this presentation, purchase-premium charges of the type we discussed in our earlier analysis of Scott Fetzer are not assigned to 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. This form of presentation seems to us to be more useful to investors and managers than one utilizing GAAP, which requires purchase premiums to be charged off, business-by-business. The total earnings we show in the table are, of course, identical to the GAAP total in our audited financial statements.

	Pre-Tax Earnings		Berkshire's Share of Net Earnings (after taxes and minority interests)	
	1994	1993	1994	1993
	(000s omitted)			
Operating Earnings:				
Insurance Group:				
Underwriting	$ 129,926	$ 30,876	$ 80,860	$ 20,156
Net Investment Income	419,422	375,401	350,453	320,776
Buffalo News	54,238	50,962	31,685	29,696
Fechheimer	14,260	13,442	7,107	6,931
Finance Businesses	22,168	23,240	14,593	14,706
Kirby	42,349	39,147	27,719	25,056
Nebraska Furniture Mart	17,356	21,540	8,652	10,398
Scott Fetzer Manufacturing Group	39,435	38,196	24,909	23,809
See's Candies	47,539	41,150	28,247	24,367
Shoe Group	85,503	43,755*	55,750	28,559
World Book	24,662	19,915	17,275	13,537
Purchase-Price Premium Charges	(22,595)	(17,033)	(19,355)	(13,996)
Interest Expense**	(60,111)	(56,545)	(37,264)	(35,614)
Shareholder-Designated Contributions	(10,419)	(9,448)	(6,668)	(5,994)
Other	35,632	28,698	22,275	15,364
Operating Earnings	839,365	643,296	606,238	477,751
Sales of Securities	91,332	546,422	61,139	356,702
Decline in Value of USAir Preferred Stock	(268,500)	—	(172,579)	—
Tax Accruals Caused by New Accounting Rules	—	—	—	(146,332)
Total Earnings - All Entities	$ 662,197	$1,189,718	$494,798	$ 688,121

* *Includes Dexter's earnings only from the date it was acquired, November 7, 1993.*

** *Excludes interest expense of Finance Businesses.*

A large amount of information about these businesses is given on pages 37-48, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 53-59, we have rearranged Berkshire's financial data into four segments on a non-GAAP basis, a presentation that corresponds to the way Charlie and I think about the company. Our intent is to supply you with the financial information that we would wish you to give us if our positions were reversed.

"Look-Through" Earnings

In past reports, we've discussed look-through earnings, which we believe more accurately portray the earnings of Berkshire than does our GAAP result. As we calculate them, look-through earnings 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. The "operating earnings" of which we speak here exclude capital gains, special accounting items and major restructuring charges.

If our intrinsic value is to grow at our target rate of 15%, our look-through earnings, over time, must also increase at about that pace. When I first explained this concept a few years back, I told you that

meeting this 15% goal would require us to generate look-through earnings of about $1.8 billion by 2000. Because we've since issued about 3% more shares, that figure has grown to $1.85 billion.

We are now modestly ahead of schedule in meeting our goal, but to a significant degree that is because our super-cat insurance business has recently delivered earnings far above trend-line expectancy (an outcome I will discuss in the next section). Giving due weight to that abnormality, we still expect to hit our target but that, of course, is no sure thing.

The following table shows 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 12, 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)	
	1994	1993	1994	1993
American Express Company	5.5%	2.4%	$ 25(2)	$ 16
Capital Cities/ABC, Inc.	13.0%	13.0%	85	83(2)
The Coca-Cola Company	7.8%	7.2%	116(2)	94
Federal Home Loan Mortgage Corp.	6.3%(1)	6.8%(1)	47(2)	41(2)
Gannett Co., Inc.	4.9%	—	4(2)	—
GEICO Corp.	50.2%	48.4%	63(3)	76(3)
The Gillette Company	10.8%	10.9%	51	44
PNC Bank Corp.	8.3%	—	10(2)	—
The Washington Post Company	15.2%	14.8%	18	15
Wells Fargo & Company	13.3%	12.2%	73	53(2)
Berkshire's share of undistributed earnings of major investees			$ 492	$ 422
Hypothetical tax on these undistributed investee earnings(4)			(68)	(59)
Reported operating earnings of Berkshire			606	478
Total look-through earnings of Berkshire			$1,030	$ 841

(1) Does not include shares allocable to the minority interest at Wesco
(2) Calculated on average ownership for the year
(3) Excludes realized capital gains, which have been both recurring and significant
(4) The tax rate used is 14%, which is the rate Berkshire pays on the dividends it receives

Insurance Operations

As we've explained in past reports, what counts in our insurance business is, first, the amount of "float" we develop and, second, its cost to us. Float is money we hold but don't own. In an insurance operation, float arises because most policies require that premiums be prepaid and, more importantly, because it usually takes time for an insurer to hear about and resolve loss claims.

Typically, the premiums that an insurer takes in do not cover the losses and expenses it must pay. That leaves it running an "underwriting loss" — and that loss is the cost of float.

An insurance business is profitable over time if its cost of float is less than the cost the company would otherwise incur to obtain funds. But the business has a negative value if the cost of its float is higher than market rates for money.

As the numbers in the following table show, Berkshire's insurance business has been an enormous winner. For the table, we have compiled our float — which we generate in exceptional amounts relative to our premium volume — by adding loss reserves, loss adjustment reserves, funds held under reinsurance

assumed and unearned premium reserves, and then subtracting agents' balances, prepaid acquisition costs, prepaid taxes and deferred charges applicable to assumed reinsurance. Our cost of float is determined by our underwriting loss or profit. In those years when we have had an underwriting profit, such as the last two, our cost of float has been negative, and we have determined our insurance earnings by adding underwriting profit to float income.

	(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%
1993	profit	2,624.7	less than zero	6.35%
1994	profit	3,056.6	less than zero	7.88%

Charlie and I are delighted that our float grew in 1994 and are even more pleased that it proved to be cost-free. But our message this year echoes the one we delivered in 1993: Though we have a fine insurance business, it is not as good as it currently looks.

The reason we must repeat this caution is that our "super-cat" business (which sells policies that insurance and reinsurance companies buy to protect themselves from the effects of mega-catastrophes) was again highly profitable. Since truly major catastrophes occur infrequently, our super-cat business can be expected to show large profits in most years but occasionally to record a huge loss. In other words, the attractiveness of our super-cat business will take many years to measure. Certainly 1994 should be regarded as close to a best-case. Our only significant losses arose from the California earthquake in January. I will add that we do not expect to suffer a major loss from the early-1995 Kobe earthquake.

Super-cat policies are small in number, large in size and non-standardized. Therefore, the underwriting of this business requires far more judgment than, say, the underwriting of auto policies, for which a mass of data is available. Here Berkshire has a major advantage: Ajit Jain, our super-cat manager, whose underwriting skills are the finest. His value to us is simply enormous.

In addition, Berkshire has a special advantage in the super-cat business because of our towering financial strength, which helps us in two ways. First, a prudent insurer will want its protection against true mega-catastrophes — such as a $50 billion windstorm loss on Long Island or an earthquake of similar cost in California — to be absolutely certain. But that same insurer knows that the disaster making it dependent on a large super-cat recovery is also the disaster that could cause many reinsurers to default. There's not much sense in paying premiums for coverage that will evaporate precisely when it is needed. So the certainty that Berkshire will be both solvent and liquid after a catastrophe of unthinkable proportions is a major competitive advantage for us.

The second benefit of our capital strength is that we can write policies for amounts that no one else can even consider. For example, during 1994, a primary insurer wished to buy a short-term policy for $400 million of California earthquake coverage, and we wrote the policy immediately. We know of no one else in the world who would take a $400 million risk, or anything close to it, for their own account.

Generally, brokers attempt to place coverage for large amounts by spreading the burden over a number of small policies. But, at best, coverage of that sort takes considerable time to arrange. In the meantime, the company desiring reinsurance is left holding a risk it doesn't want and that may seriously threaten its well-being. At Berkshire, on the other hand, we will quote prices for coverage as great as $500 million on the same day that we are asked to bid. No one else in the industry will do the same.

By writing coverages in large lumps, we obviously expose Berkshire to lumpy financial results. That's totally acceptable to us: Too often, insurers (as well as other businesses) follow sub-optimum strategies in order to "smooth" their reported earnings. By accepting the prospect of volatility, we expect to earn higher long-term returns than we would by pursuing predictability.

Given the risks we accept, Ajit and I constantly focus on our "worst case," knowing, of course, that it is difficult to judge what this is, since you could conceivably have a Long Island hurricane, a California earthquake, and Super Cat X all in the same year. Additionally, insurance losses could be accompanied by non-insurance troubles. For example, were we to have super-cat losses from a large Southern California earthquake, they might well be accompanied by a major drop in the value of our holdings in See's, Wells Fargo and Freddie Mac.

All things considered, we believe our worst-case *insurance* loss from a super-cat is now about $600 million after-tax, an amount that would slightly exceed Berkshire's annual earnings from other sources. If you are not comfortable with this level of exposure, the time to sell your Berkshire stock is now, not after the inevitable mega-catastrophe.

Our super-cat volume will probably be down in 1995. Prices for garden-variety policies have fallen somewhat, and the torrent of capital that was committed to the reinsurance business a few years ago will be inclined to chase premiums, irrespective of their adequacy. Nevertheless, we have strong relations with an important group of clients who will provide us with a substantial amount of business in 1995.

Berkshire's other insurance operations had excellent results in 1994. Our homestate operation, led by Rod Eldred; our workers' compensation business, headed by Brad Kinstler; our credit card operation, managed by the Kizer family; National Indemnity's traditional auto and general liability business, led by Don Wurster — all of these generated significant underwriting profits accompanied by substantial float.

We can conclude this section as we did last year: All in all, we have a first-class insurance business. Though its results will be highly volatile, this operation possesses an intrinsic value that exceeds its book value by a large amount — larger, in fact, than is the case at any other Berkshire business.

Common Stock Investments

Below we list our common stockholdings having a value of over $300 million. A small portion of these investments belongs to subsidiaries of which Berkshire owns less than 100%.

Shares	*Company*	12/31/94 *Cost*	12/31/94 *Market*
		(000s omitted)	
27,759,941	American Express Company	$ 723,919	$ 818,918
20,000,000	Capital Cities/ABC, Inc.	345,000	1,705,000
100,000,000	The Coca-Cola Company	1,298,888	5,150,000
12,761,200	Federal Home Loan Mortgage Corp. ("Freddie Mac")	270,468	644,441
6,854,500	Gannett Co., Inc.	335,216	365,002
34,250,000	GEICO Corp.	45,713	1,678,250
24,000,000	The Gillette Company	600,000	1,797,000
19,453,300	PNC Bank Corporation	503,046	410,951
1,727,765	The Washington Post Company	9,731	418,983
6,791,218	Wells Fargo & Company	423,680	984,727

Our investments continue to be few in number and simple in concept: The truly big investment idea can usually be explained in a short paragraph. We like a business with enduring competitive advantages that is run by able and owner-oriented people. When these attributes exist, and when we can make purchases at sensible prices, it is hard to go wrong (a challenge we periodically manage to overcome).

Investors should remember that their scorecard is not computed using Olympic-diving methods: Degree-of-difficulty doesn't count. If you are right about a business whose value is largely dependent on a single key factor that is both easy to understand and enduring, the payoff is the same as if you had correctly analyzed an investment alternative characterized by many constantly shifting and complex variables.

We try to *price*, rather than *time*, purchases. In our view, it is folly to forego buying shares in an outstanding business whose long-term future is predictable, because of short-term worries about an economy or a stock market that we know to be unpredictable. Why scrap an informed decision because of an uninformed guess?

We purchased National Indemnity in 1967, See's in 1972, Buffalo News in 1977, Nebraska Furniture Mart in 1983, and Scott Fetzer in 1986 because those are the years they became available and because we thought the prices they carried were acceptable. In each case, we pondered what the business was likely to do, not what the Dow, the Fed, or the economy might do. If we see this approach as making sense in the purchase of businesses in their entirety, why should we change tack when we are purchasing small pieces of wonderful businesses in the stock market?

Before looking at new investments, we consider adding to old ones. If a business is attractive enough to buy once, it may well pay to repeat the process. We would love to increase our economic interest in See's or Scott Fetzer, but we haven't found a way to add to a 100% holding. In the stock market, however, an investor frequently gets the chance to increase his economic interest in businesses he knows and likes. Last year we went that direction by enlarging our holdings in Coca-Cola and American Express.

Our history with American Express goes way back and, in fact, fits the pattern of my pulling current investment decisions out of past associations. In 1951, for example, GEICO shares comprised 70% of my personal portfolio and GEICO was also the first stock I sold — I was then 20 — as a security salesman (the sale was 100 shares to my Aunt Alice who, bless her, would have bought anything I suggested). Twenty-five years later, Berkshire purchased a major stake in GEICO at the time it was threatened with insolvency. In another instance, that of the Washington Post, about half of my initial investment funds came from delivering the paper in the 1940's. Three decades later Berkshire purchased a large position in the

company two years after it went public. As for Coca-Cola, my first business venture — this was in the 1930's — was buying a six-pack of Coke for 25¢ and selling each bottle for 5¢. It took only fifty years before I finally got it: The real money was in the syrup.

My American Express history includes a couple of episodes: In the mid-1960's, just after the stock was battered by the company's infamous salad-oil scandal, we put about 40% of Buffett Partnership Ltd.'s capital into the stock — the largest investment the partnership had ever made. I should add that this commitment gave us over 5% ownership in Amex at a cost of $13 million. As I write this, we own just under 10%, which has cost us $1.36 billion. (Amex earned $12.5 million in 1964 and $1.4 billion in 1994.)

My history with Amex's IDS unit, which today contributes about a third of the earnings of the company, goes back even further. I first purchased stock in IDS in 1953 when it was growing rapidly and selling at a price-earnings ratio of only 3. (There was a lot of low-hanging fruit in those days.) I even produced a long report — do I ever write a short one? — on the company that I sold for $1 through an ad in the Wall Street Journal.

Obviously American Express and IDS (recently renamed American Express Financial Advisors) are far different operations today from what they were then. Nevertheless, I find that a long-term familiarity with a company and its products is often helpful in evaluating it.

Mistake Du Jour

Mistakes occur at the time of decision. We can only make our mistake-du-jour award, however, when the foolishness of a decision becomes obvious. By this measure, 1994 was a vintage year with keen competition for the gold medal. Here, I would like to tell you that the mistakes I will describe originated with Charlie. But whenever I try to explain things that way, my nose begins to grow.

And the nominees are . . .

Late in 1993 I sold 10 million shares of Cap Cities at $63; at year-end 1994, the price was $85¼. (The difference is $222.5 million for those of you who wish to avoid the pain of calculating the damage yourself.) When we purchased the stock at $17.25 in 1986, I told you that I had previously sold our Cap Cities holdings at $4.30 per share during 1978-80, and added that I was at a loss to explain my earlier behavior. Now I've become a repeat offender. Maybe it's time to get a guardian appointed.

Egregious as it is, the Cap Cities decision earns only a silver medal. Top honors go to a mistake I made five years ago that fully ripened in 1994: Our $358 million purchase of USAir preferred stock, on which the dividend was suspended in September. In the 1990 Annual Report I correctly described this deal as an "unforced error," meaning that I was neither pushed into the investment nor misled by anyone when making it. Rather, this was a case of sloppy analysis, a lapse that may have been caused by the fact that we were buying a senior security or by hubris. Whatever the reason, the mistake was large.

Before this purchase, I simply failed to focus on the problems that would inevitably beset a carrier whose costs were both high and extremely difficult to lower. In earlier years, these life-threatening costs posed few problems. Airlines were then protected from competition by regulation, and carriers could absorb high costs because they could pass them along by way of fares that were also high.

When deregulation came along, it did not immediately change the picture: The capacity of low-cost carriers was so small that the high-cost lines could, in large part, maintain their existing fare structures. During this period, with the longer-term problems largely invisible but slowly metastasizing, the costs that were non-sustainable became further embedded.

As the seat capacity of the low-cost operators expanded, their fares began to force the old-line, high-cost airlines to cut their own. The day of reckoning for these airlines could be delayed by infusions of capital (such as ours into USAir), but eventually a fundamental rule of economics prevailed: In an unregulated commodity business, a company must lower its costs to competitive levels or face extinction. This principle should have been obvious to your Chairman, but I missed it.

Seth Schofield, CEO of USAir, has worked diligently to correct the company's historical cost problems but, to date, has not managed to do so. In part, this is because he has had to deal with a moving target, the result of certain major carriers having obtained labor concessions and other carriers having benefitted from "fresh-start" costs that came out of bankruptcy proceedings. (As Herb Kelleher, CEO of Southwest Airlines, has said: "Bankruptcy court for airlines has become a health spa.") Additionally, it should be no surprise to anyone that those airline employees who contractually receive above-market salaries will resist any reduction in these as long as their checks continue to clear.

Despite this difficult situation, USAir may yet achieve the cost reductions it needs to maintain its viability long-term. But it is far from sure that will happen.

Accordingly, we wrote our USAir investment down to $89.5 million, or 25¢ on the dollar, at yearend 1994. This valuation reflects both a possibility that our preferred will have its value fully or largely restored and an opposite possibility that the stock will eventually become worthless. Whatever the outcome, we will heed a prime rule of investing: You don't have to make it back the way that you lost it.

The accounting effects of our USAir writedown are complicated. On our balance sheet, we carry all stocks at estimated market value. Therefore, at the end of last year's third quarter, we were carrying our USAir preferred at $89.5 million, or 25% of cost. In other words, our net worth was at that time reflecting a value for USAir that was far below our $358 million cost.

But in the fourth quarter, we concluded that the decline in value was, in accounting terms, "other than temporary," and that judgment required us to send the writedown of $268.5 million through our income statement. The amount had no other fourth-quarter effect. That is, it did not reduce our net worth, because the diminution of value had already been reflected there.

Charlie and I will not stand for reelection to USAir's board at the upcoming annual meeting. Should Seth wish to consult with us, however, we will be pleased to be of any help that we can.

Miscellaneous

Two CEO's who have done great things for Berkshire shareholders retired last year: Dan Burke of Capital Cities/ABC and Carl Reichardt of Wells Fargo. Dan and Carl encountered very tough industry conditions in recent years. But their skill as managers allowed the businesses they ran to emerge from these periods with record earnings, added luster, and bright prospects. Additionally, Dan and Carl prepared well for their departure and left their companies in outstanding hands. We owe them our gratitude.

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

About 95.7% of all eligible shares participated in Berkshire's 1994 shareholder-designated contributions program. Contributions made through the program were $10.4 million and 3,330 charities were recipients.

Every year a few shareholders miss participating in the program because they either do not have their shares registered in their own names on the prescribed record date or because they fail to get the designation form back to us within the 60-day period allowed for its return. Since we don't make exceptions when requirements aren't met, we urge that both new shareholders and old read the description of our shareholder-designated contributions program that appears on pages 50-51.

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, 1995 will be ineligible for the 1995 program.

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We made only one minor acquisition during 1994 — a small retail shoe chain — but our interest in finding good candidates remains as keen as ever. The criteria we employ for purchases or mergers is detailed in the appendix on page 21.

Last spring, we offered to merge with a large, family-controlled business on terms that included a Berkshire convertible preferred stock. Though we failed to reach an agreement, this episode made me realize that we needed to ask our shareholders to authorize preferred shares in case we wanted in the future to move quickly if a similar acquisition opportunity were to appear. Accordingly, our proxy presents a proposal that you authorize a large amount of preferred stock, which will be issuable on terms set by the Board of Directors. You can be sure that Charlie and I will not use these shares without being completely satisfied that we are receiving as much in intrinsic value as we are giving.

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

Charlie and I hope you can come to the Annual Meeting — at a new site. Last year, we slightly overran the Orpheum Theater's seating capacity of 2,750, and therefore we will assemble at 9:30 a.m. on Monday, May 1, 1995, at the Holiday Convention Centre. The main ballroom at the Centre can handle 3,300, and if need be, we will have audio and video equipment in an adjacent room capable of handling another 1,000 people.

Last year we displayed some of Berkshire's products at the meeting, and as a result sold about 800 pounds of candy, 507 pairs of shoes, and over $12,000 of World Books and related publications. All these goods will be available again this year. Though we like to think of the meeting as a spiritual experience, we must remember that even the saintliest of religions includes the ritual of the collection plate.

Of course, what you really should be purchasing is a video tape of the 1995 Orange Bowl. Your Chairman views this classic nightly, switching to slow motion for the fourth quarter. Our cover color this year is a salute to Nebraska's football coach, Tom Osborne, and his Cornhuskers, the country's top college team. I urge you to wear Husker red to the annual meeting and promise you that at least 50% of your managerial duo will be in appropriate attire.

We recommend that you promptly get hotel reservations for the meeting, as we expect a large crowd. Those of you who like to be downtown (about six miles from the Centre) may wish to stay at the Radisson Redick Tower, a small (88 rooms) but nice hotel or at the much larger Red Lion Hotel a few blocks away. In the vicinity of the Centre are the Holiday Inn (403 rooms), Homewood Suites (118 rooms) and Hampton Inn (136 rooms). Another recommended spot is the Marriott, whose west Omaha location is about 100 yards from Borsheim's and a ten-minute drive from the Centre. There will be buses at the Marriott that will leave at 8:30 and 8:45 for the meeting and return after it ends.

An attachment to our proxy material explains how you can obtain the card you will need for admission to the meeting. A good-sized parking area is available at the Centre, while those who stay at the Holiday Inn, Homewood Suites and Hampton Inn will be able to walk to the meeting.

As usual, we will have buses to take you to the Nebraska Furniture Mart and Borsheim's after the meeting and to take you from there to hotels or the airport later. I hope you make a special effort to visit the Nebraska Furniture Mart because it has opened the Mega Mart, a true retailing marvel that sells electronics, appliances, computers, CD's, cameras and audio equipment. Sales have been sensational since the opening, and you will be amazed by both the variety of products available and their display on the floor.

The Mega Mart, adjacent to NFM's main store, is on our 64-acre site about two miles north of the Centre. The stores are open from 10 a.m. to 9 p.m. on Fridays, 10 a.m. to 6 p.m. on Saturdays and noon to 6 p.m. on Sundays. When you're there be sure to say hello to Mrs. B, who, at 101, will be hard at work in our Mrs. B's Warehouse. She never misses a day at the store — or, for that matter, an hour.

Borsheim's normally is closed on Sunday but will be open for shareholders and their guests from noon to 6 p.m. on Sunday. This is always a special day, and we will try to have a few surprises. Usually this is the biggest sales day of the year, so for more reasons than one Charlie and I hope to see you there.

On Saturday evening, April 29, there will be a baseball game at Rosenblatt Stadium between the Omaha Royals and the Buffalo Bisons. The Buffalo team is owned by my friends, Mindy and Bob Rich, Jr., and I'm hoping they will attend. If so, I will try to entice Bob into a one-pitch duel on the mound. Bob is a capitalist's Randy Johnson — young, strong and athletic — and not the sort of fellow you want to face early in the season. So I will need plenty of vocal support.

The proxy statement will include information about obtaining tickets to the game. About 1,400 shareholders attended the event last year. Opening the game that night, I had my stuff and threw a strike that the scoreboard reported at eight miles per hour. What many fans missed was that I shook off the catcher's call for my fast ball and instead delivered my change-up. This year it will be all smoke.

Warren E. Buffett
Chairman of the Board

March 7, 1995

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, and Champion. *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, 1994 and 1993, and the related consolidated statements of earnings, and cash flows for each of the three years in the period ended December 31, 1994. 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, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1993 the Company changed its method of accounting for income taxes and investments to conform with recent pronouncements of the Financial Accounting Standards Board.

Deloitte & Touche LLP

March 9, 1995

Deloitte Touche Tohmatsu International

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

	December 31,	
	1994	1993
ASSETS		
Cash and cash equivalents	$ 273,881	$ 1,817,558
Investments:		
Securities with fixed maturities	1,820,733	1,397,812
Marketable equity securities	15,236,494	12,516,613
Salomon Inc	1,023,418	723,584
Receivables	580,600	524,963
Inventories	425,431	378,386
Properties and equipment	275,667	259,736
Assets of finance businesses	717,082	872,401
Other assets	984,876	1,029,416
	$ 21,338,182	$ 19,520,469
LIABILITIES AND SHAREHOLDERS' EQUITY		
Property and casualty insurance policyholder liabilities	$ 4,200,813	$ 3,807,188
Accounts payable, accruals and other liabilities	397,384	370,684
Income taxes	3,292,602	3,030,189
Borrowings under investment agreements and other debt	810,719	972,389
Liabilities of finance businesses	562,443	729,366
	9,263,961	8,909,816
Minority shareholders' interests	199,339	182,279
Shareholders' equity:		
Common stock of $5 par value. Authorized 1,500,000 shares; Issued 1,381,308 shares	6,907	6,907
Capital in excess of par value	656,074	656,074
Unrealized appreciation of investments, net	6,364,362	5,412,652
Retained earnings	4,885,173	4,390,375
	11,912,516	10,466,008
Less common stock in treasury, at cost (203,558 shares)	37,634	37,634
Total shareholders' equity	11,874,882	10,428,374
	$ 21,338,182	$ 19,520,469

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,		
	1994	**1993**	**1992**
Revenues:			
Sales and service revenues	$2,351,918	$1,962,862	$1,774,436
Insurance premiums earned	923,180	650,726	664,293
Interest and dividend income	426,094	354,028	364,895
Income from investment in Salomon Inc	30,058	63,000	63,000
Income from finance businesses	24,885	22,226	20,696
Realized investment gain	91,332	546,422	89,937
	3,847,467	3,599,264	2,977,257
Cost and expenses:			
Cost of products and services sold	1,449,999	1,180,642	1,049,721
Insurance losses and loss adjustment expenses	565,257	450,659	687,625
Insurance underwriting expenses	227,997	169,082	85,628
Selling, general and administrative expenses	613,406	552,618	505,023
Interest expense	60,111	56,545	98,643
Other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock	268,500	—	—
	3,185,270	2,409,546	2,426,640
Earnings before income taxes, minority interest and cumulative effect of accounting change	662,197	1,189,718	550,617
Income taxes -			
Other than effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	158,666	345,302	138,089
Effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	—	75,348	—
Minority interest	8,733	9,963	5,243
Earnings before cumulative effect of accounting change	494,798	759,105	407,285
Cumulative effect of change in accounting for income taxes	—	(70,984)	—
Net earnings	$ 494,798	$ 688,121	$ 407,285
Average shares outstanding	1,177,750	1,156,243	1,146,492
Earnings per share:			
Before cumulative effect of accounting change	$420	$656	$355
Cumulative effect of change in accounting for income taxes	—	(61)	—
Net earnings	$420	$595	$355

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1994	**1993**	**1992**
Cash flows from operating activities:			
Net income	$ 494,798	$ 688,121	$ 407,285
Adjustments to reconcile net income to cash flows from operating activities:			
Realized investment gain	(91,332)	(546,422)	(89,937)
Other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock	268,500	—	—
Depreciation and amortization	62,547	50,180	41,074
Effect of change in income tax rate on deferred taxes	—	75,348	—
Cumulative effect of accounting change	—	70,984	—
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	274,123	(22,798)	102,789
Deferred charges re reinsurance assumed	25,349	16,171	46,931
Unearned premiums	(8,518)	83,937	75,274
Receivables	(49,829)	134,077	239,428
Accounts payable, accruals and other liabilities	210,495	34,996	150,615
Income taxes	(257,102)	107,931	29,004
Other	77	33,644	(5,278)
Net cash flows from operating activities	929,108	726,169	997,185
Cash flows from investing activities:			
Purchases of fixed maturity investments	(2,485,768)	(272,249)	(258,617)
Purchases of marketable equity securities	(3,050,025)	(858,879)	(913,037)
Proceeds from sales of fixed maturity investments	1,772,050	—	284,301
Proceeds from redemptions and maturities of fixed maturity investments	85,881	318,881	371,514
Proceeds from sales of marketable equity securities	1,466,775	1,188,510	100,270
Acquisition of businesses	—	—	(119,948)
Loans and investments originated in finance businesses	(246,797)	(866,843)	(160,261)
Principal collection on loans and investments originated in finance businesses	332,398	269,345	127,913
Other	(23,160)	19,578	(5,294)
Net cash flows from investing activities	(2,148,646)	(201,657)	(573,159)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	208,561	591,853	38,862
Proceeds from other borrowings	1,225,301	1,264,972	961,565
Repayments of borrowings of finance businesses	(390,506)	(316,318)	(84,792)
Repayments of other borrowings	(1,387,674)	(1,399,901)	(906,964)
Other	(908)	(2,860)	(2,334)
Net cash flows from financing activities	(345,226)	137,746	6,337
Increase (decrease) in cash and cash equivalents	(1,564,764)	662,258	430,363
Cash and cash equivalents at beginning of year	1,854,621	1,192,363	762,000
Cash and cash equivalents at end of year *	$ 289,857	$ 1,854,621	$ 1,192,363

* *Cash and cash equivalents at end of year are comprised of the following:*

Finance businesses	$ 15,976	$ 37,063	$ 64,367
Other	273,881	1,817,558	1,127,996
	$ 289,857	$ 1,854,621	$ 1,192,363

See accompanying Notes to Consolidated Financial Statements

(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. In the accompanying financial statements for 1993 and 1992, reclassifications have been made when required to conform to the current year presentation.

(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

Management determines the appropriate classifications of investments in securities with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. At December 31, 1994, investments in securities with fixed maturities (except for such securities held by finance businesses) and marketable equity securities, are classified as available-for-sale. Securities with fixed maturities held by finance businesses are classified as held-to-maturity. At December 31, 1993, all fixed maturity securities were classified as held-to-maturity. Securities with fixed maturities are deemed to be held-to-maturity securities when the Company has the ability and positive intent to hold them to maturity. Held-to-maturity securities are carried at amortized cost. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the Consolidated Statements of Earnings.

(d) 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.

(e) 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. Generally, the ultimate recoverability of premium acquisition costs is determined without regard to investment income.

(f) 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 expected settlement periods of the claim liabilities. The unamortized balance of deferred charges is included in other assets.

(g) Property and casualty insurance policyholder liabilities

Property and casualty insurance policyholder liabilities are comprised primarily of (i) unpaid losses and loss adjustment expenses, (ii) unearned premiums, and (iii) funds held under reinsurance assumed.

Liability for unpaid losses and loss adjustment expenses represents the aggregate of such obligations of members of the Insurance Group with respect to: (i) prospective property/casualty insurance and reinsurance contracts, (ii) retroactive property/casualty reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, and (iii) reinsurance 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 unpaid losses and loss adjustment expenses is at the aggregate of estimated ultimate payment amounts.

(1) Significant accounting policies and practices (Continued)

(g) Property and casualty insurance policyholder liabilities (Continued)

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.

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. (See also 1(f) above related to deferred charges re reinsurance assumed.)

Liabilities under structured settlement contracts are established when the contracts are entered into, at the then present value of the actuarially determined ultimate payment amount discounted at the prevailing market interest rate. Thereafter, annual accretions to the liabilities are charged to losses incurred.

Funds held under reinsurance assumed treaties primarily consist of deposit balances refundable to insureds for coverages which the Company believes do not indemnify the ceding company against insurance risk, as defined by Statement of Financial Accounting Standards No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts".

(h) 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 coverages are deferred until the earlier of a loss occurrence or policy expiration. Consideration received for indemnification of risk under retroactive reinsurance contracts and structured settlements is accounted for as premiums earned at the inception of the contracts. Premiums earned are stated net of amounts ceded to reinsurers.

(j) Reinsurance

Provisions for losses and loss adjustment expenses are reported in the accompanying Consolidated Statements of Earnings after deducting estimates of recoveries under reinsurance contracts. Such recoveries totalled $61 million, $34 million, and $90 million for 1994, 1993 and 1992, respectively. Reinsurance contracts do not relieve the Insurance Group Members of their obligations to indemnify policyholders with respect to the underlying insurance and reinsurance contracts. Estimates of losses and loss expenses recoverable under reinsurance contracts are included in receivables.

(k) Accounting changes

Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). The adoption of SFAS 109 changed the Company's method of accounting for income taxes from the "deferred method" to the "asset and liability method". Previously the Company deferred the past tax effects of timing differences between financial reporting and taxable income. Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The provisions of SFAS 109 require that the effect on deferred taxes of a change in tax rates be recognized in income in the period that includes the enactment date.

In May 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). As permitted under the statement, the Company elected to adopt the statement's provisions as of December 31, 1993. Among its provisions, the statement requires a change in the accounting for marketable equity securities held by non-insurance entities. Prior to the adoption of SFAS 115, such securities were carried at the lower of aggregate cost or market. Under the provisions of SFAS 115, these securities are now carried at market and accounted for in the same manner as marketable equity securities held by the Company's insurance subsidiaries.

(2) Dexter Shoe Companies merger

On November 7, 1993, the Company consummated a merger with the privately held Dexter Shoe Companies ("Dexter") by reissuing 25,203 shares of its common stock held in treasury in exchange for 100% of the outstanding common stock of Dexter. Dexter manufactures and distributes men's and women's dress, casual and athletic shoes. The merger was accounted for by the purchase method of accounting and, accordingly, Dexter's operating results are included in the Company's consolidated results of operations from the effective date of the merger. Had the results of Dexter been included commencing with operations in 1992, the reported results would not have been materially affected.

(3) Investments in securities with fixed maturities

The amortized cost and estimated fair values as of December 31, 1994 and 1993, of investments in securities with fixed maturities are as follows (in thousands):

December 31, 1994	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
Bonds:				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	$ 733,543	$ —	$ (16,721)	$ 716,822
Obligations of states, municipalities				
and political subdivisions	601,009	22,266	(3,453)	619,822
Corporate bonds	8,030	2,463	(2)	10,491
Redeemable preferred stocks	422,923	15,002	(2,971)	434,954
Mortgage-backed securities	40,010	35	(1,401)	38,644
	$ 1,805,515	$ 39,766	$ (24,548)	$ 1,820,733

December 31, 1993	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
Bonds:				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	$ 9,286	$ 131	$ (4)	$ 9,413
Obligations of states, municipalities				
and political subdivisions	643,094	49,903	(810)	692,187
Redeemable preferred stocks	681,882	15,188	(90,060)	607,010
Mortgage-backed securities	63,550	1,635	(7)	65,178
	$ 1,397,812	$ 66,857	$ (90,881)	$ 1,373,788

Amounts above exclude securities with fixed maturities held by finance businesses. See note 7.

Shown below are the amortized cost and estimated fair values of the above securities at December 31, 1994, by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in thousands.

	Amortized Cost	*Estimated Fair Value*
Due in one year or less	$ 647,401	$ 647,054
Due after one year through five years	904,129	920,960
Due after five years through ten years	199,551	196,918
Due after ten years	14,424	17,157
	$ 1,765,505	$ 1,782,089
Mortgage-backed securities	40,010	38,644
	$ 1,805,515	$ 1,820,733

Gross realized gains and losses on sales and redemptions of securities with fixed maturities were as follows (in thousands):

	1994	*1993*	*1992*
Gross realized gains	$ 6,808	$ 40,109	$ 80,076
Gross realized losses	(4,268)	(174)	(563)

(4) Investments in marketable equity securities

Aggregate data with respect to the consolidated investment in marketable equity securities are shown below (in thousands):

December 31, 1994

	Cost	*Unrealized Gains*	*Market*
Common stock of:			
Capital Cities/ABC, Inc. [(a)]	$ 345,000	$ 1,360,000	$ 1,705,000
The Coca-Cola Company	1,298,888	3,851,112	5,150,000
GEICO Corporation [(b)]	45,713	1,632,537	1,678,250
The Gillette Company	600,000	1,197,000	1,797,000
Wells Fargo & Company [(c)]	423,680	561,047	984,727
All other marketable equity securities	2,869,830	1,051,687 [(d)]	3,921,517
	$ 5,583,111	$ 9,653,383	$ 15,236,494

December 31, 1993

	Cost	*Unrealized Gains*	*Market*
Common stock of:			
Capital Cities/ABC, Inc. [(a)]	$ 345,000	$ 894,000	$ 1,239,000
The Coca-Cola Company	1,023,920	3,144,055	4,167,975
GEICO Corporation [(b)]	45,713	1,713,881	1,759,594
The Gillette Company	600,000	831,000	1,431,000
Wells Fargo & Company [(c)]	423,680	454,934	878,614
All other marketable equity securities	1,857,809	1,182,621 [(e)]	3,040,430
	$ 4,296,122	$ 8,220,491	$ 12,516,613

(a) *Common shares of Capital Cities/ABC, Inc. ("Capital Cities") owned by Berkshire subsidiaries possessed approximately 13% of the voting rights of all Capital Cities shares outstanding at December 31, 1994. 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 50% of the voting rights of all GEICO shares outstanding at December 31, 1994. 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) *Subsidiaries of Berkshire owned common shares of Wells Fargo & Company ("Wells Fargo") that possessed approximately 13% of the voting rights of all Wells Fargo shares outstanding at December 31, 1994. The shares are held subject to a Passivity Agreement, the terms of which among other things prohibit Berkshire, without prior approval from the Federal Reserve Board of San Francisco, from seeking representation on the Board of Directors of Wells Fargo and from disposing of more than 5% of the Wells Fargo securities in any single transaction. In connection therewith, Berkshire has granted a proxy to the Secretary of Wells Fargo, with respect to all Wells Fargo stock presently owned and with respect to such additional shares of Wells Fargo stock as Berkshire may purchase and hold in the future.*

(d) *Represents gross unrealized gains $1,187,893, less gross unrealized losses $136,206.*

(e) *Represents gross unrealized gains $1,275,413, less gross unrealized losses $92,792.*

Gross realized gains and losses on sales of marketable equity securities were as follows (in thousands):

	1994	*1993*	*1992*
Gross realized gains	$ 185,702	$ 518,347*	$ 10,595
Gross realized losses	(96,910)	(11,860)	(171)

* *During the fourth quarter of 1993, a subsidiary of Berkshire sold 10,000,000 common shares of its investment in Capital Cities in connection with that company's offer to buy from its shareholders up to 20,000,000 of its common shares. Prior to the sale and since 1986, Berkshire subsidiaries owned 30,000,000 shares of Capital Cities or approximately 18% of that company's outstanding stock. Berkshire's gross realized gain from this transaction was $457.5 million.*

(5) Investment in Salomon Inc

The Company's investment in Salomon Inc consists of the following (in thousands):

	December 31, 1994			December 31, 1993		
	Cost	Fair Value	Carrying Value	Cost	Fair Value	Carrying Value
Cumulative Convertible Preferred Stock	$ 700,000	$ 735,000	$ 735,000	$ 700,000	$ 875,000	$ 700,000
Common Stock	324,445	248,760	288,418	21,636	23,584	23,584
	$1,024,445	$ 983,760	$1,023,418	$ 721,636	$ 898,584	$ 723,584

At both December 31, 1994 and 1993, Berkshire subsidiaries owned 700,000 shares of Cumulative Convertible Preferred Stock ("Preferred Shares"). The Preferred Shares have a redemption value of $1,000 per share and are entitled to receive quarterly dividends at the annual rate of $90 per share. The Preferred Shares can be converted into shares of Salomon Inc common stock at $38 per share and are entitled to one vote per share of common stock into which such shares are convertible (18,421,053 at December 31, 1994). Annually on each October 31, commencing in 1995, Salomon Inc will redeem, at cost, 140,000 of the Preferred Shares or such fewer number as are then outstanding. As discussed in Note 1(c), the Preferred Shares are carried at fair value at December 31, 1994, whereas they were carried at cost at December 31, 1993.

Berkshire subsidiaries possess slightly in excess of 20% of the total voting rights in Salomon. (Such rights consisting of rights attaching to the aforementioned Preferred Shares plus 6,633,600 common shares held at December 31, 1994.) Effective April 1, 1994, the Company adopted the equity method of accounting with respect to its investment in Salomon Inc common stock. The provisions of Accounting Principles Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock" require that the equity method be applied only to investments in common stock. Accordingly, as previously discussed, the Preferred Shares continue to be carried at fair value in accordance with SFAS 115.

Income from the investment in Salomon Inc consists of the following (in thousands):

	1994	1993	1992
Dividends on Preferred Shares	$63,000	$63,000	$63,000
Equity in net loss of Salomon attributable to common stock holdings *	(32,942)	—	—
	$30,058	$63,000	$63,000

* *After giving effect to amortization, over forty years, of the excess of the cost of Salomon common stock over its related book value.*

(6) Investment in USAir Group, Inc. Preferred Stock

Investments in securities with fixed maturities include 358,000 shares of USAir Group, Inc. Series A Cumulative Convertible Preferred Stock ("USAir Preferred Shares"). The USAir Preferred Shares were acquired in 1989 for $358 million. If not called or converted prior to August 7, 1999, the USAir Preferred Shares are mandatorily redeemable by USAir Group, Inc. ("USAir") at $1,000 per share ($358 million in the aggregate), plus accrued dividends.

For the past five years USAir has incurred very significant losses. On September 29, 1994, USAir announced that it was deferring the quarterly dividend payment due September 30, 1994, on the USAir Preferred Shares. As of March 7, 1995 neither the quarterly dividend due September 30, 1994, or December 31, 1994, had been received. USAir has publicly stated that its ability to survive in the low fare competitive environment is contingent upon USAir's ability permanently to reduce its operating costs through reductions in personnel costs and other cost saving initiatives. USAir management is currently engaged in discussions with the leadership of its unionized employees to achieve its goal of reducing personnel costs. While USAir's management has stated they are committed to reaching an agreement with the labor groups, both the timing and the outcome of the negotiations are uncertain.

As a result of the extended period of losses and the uncertainty surrounding the outcome of the labor negotiations, Berkshire management has concluded that an other than temporary decline in the value of the USAir Preferred Shares has arisen. Accordingly, the 1994 Consolidated Statement of Earnings includes a charge of $268.5 million to reflect the decline. While the aforementioned charge to earnings was recorded in the fourth quarter of 1994; the charge to shareholders' equity, however, had been recorded in earlier 1994 reporting periods. Effective March 31, 1994, investments in securities with fixed maturities were classified as available-for-sale and carried at fair value with the net after-tax unrealized gain or loss reported as a component of shareholders' equity. Accordingly, at March 31, 1994, the carrying value of the USAir Preferred Shares was adjusted to reflect its then estimated fair value of $179.0 million. At September 30, 1994, the estimate was adjusted downward to $89.5 million which also represents the estimated fair value as of December 31, 1994.

(7) Finance businesses

Berkshire's finance businesses are comprised of commercial and consumer finance companies and an annuity business. Assets and liabilities of Berkshire's finance businesses are summarized below (in thousands):

	Dec. 31, 1994	*Dec. 31, 1993*
Assets		
Cash and cash equivalents	$ 15,976	$ 37,063
Installment loans receivable	157,985	163,827
Fixed maturity investments [(a)]	538,866	667,101
Other	4,255	4,410
	$717,082	$872,401
Liabilities		
8.125% Notes, payable in 1996	$120,000	$120,000
Borrowings under investment agreements [(b)]	369,964	551,909
Annuity reserves	41,021	5,435
Other	31,458	52,022
	$562,443	$729,366

(a) *At December 31, 1994 and 1993, mortgage-backed securities of $396,033 and $534,352 respectively were included in this caption. Each of these securities has received the highest rating from at least two rating agencies. Estimated fair values and gross unrealized gains and losses as of December 31, 1994 and 1993, are as follows (in thousands):*

	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
1994	*$538,866*	*$ 655*	*$(21,091)*	*$518,430*
1993	*667,101*	*2,025*	*(1,660)*	*667,466*

(b) *Borrowings under investment agreements are made pursuant to contracts with terms generally ranging from six months to thirty years calling for interest payable, normally semiannually, at fixed rates ranging from 2.5% to 7.3% per annum. Payments of amounts outstanding at December 31, 1994, are expected to be required no earlier than as follows (in thousands):*

1995	*$256,270*
1996	*35,717*
1997	*3,998*
1998	*254*
1999	*1,868*
After 1999	*71,857*

Income from finance businesses for each of the past three years is summarized below (in thousands):

	1994	1993	1992
Revenues			
Interest on loans	$ 37,407	$ 42,671	$ 51,564
Interest and dividend income	34,749	20,107	15,950
Annuity premiums earned	35,998	5,615	—
	108,154	68,393	67,514
Cost and expenses			
Interest expense	31,665	24,204	25,854
Annuity benefits and underwriting expenses	37,664	5,724	—
General and administrative expenses	13,940	16,239	20,964
	83,269	46,167	46,818
	$ 24,885	$ 22,226*	$ 20,696*

* *Until October 1993, a savings and loan business was also included in this group of businesses. Income from finance businesses includes earnings of $5,857 and $4,547 in 1993 and 1992 respectively from this business.*

Notes to Consolidated Financial Statements *(Continued)*

(8) Other assets

Other assets are summarized below (in thousands):

	Dec. 31, 1994	*Dec. 31, 1993*
Goodwill	$ 454,633	$ 467,544
Deferred charges re reinsurance assumed	440,664	466,013
Other	89,579	95,859
	$ 984,876	$ 1,029,416

(9) Property and casualty insurance policyholder liabilities

Property and casualty insurance policyholder liabilities are summarized below (in thousands):

	Dec. 31, 1994	*Dec. 31, 1993*
Unpaid losses and loss adjustment expenses*	$ 3,430,028	$ 3,155,905
Unearned premiums	307,232	315,750
Funds held under reinsurance assumed	307,287	215,773
Other	156,266	119,760
	$ 4,200,813	$ 3,807,188

* *Unpaid losses and loss adjustment expenses include liabilities established with respect to retroactive reinsurance contracts that provide for indemnification of insurance risk. These liabilities aggregated $1,295,991 and $1,181,235 at December 31, 1994 and 1993, respectively. Related deferred charges were established with respect to these contracts and are reported as other assets. Also included in unpaid losses and loss adjustment expenses are discounted structured settlement reinsurance liabilities, which totalled $231,255 and $254,325 at December 31, 1994 and 1993, respectively.*

Supplemental data with respect to unpaid losses and loss adjustment expenses of property/casualty insurance subsidiaries (in thousands):

	1994	1993	1992
Unpaid losses and loss adjustment expenses:			
Balance at beginning of year	$3,155,905	$3,219,441	$2,978,837
Less ceded liabilities and deferred charges	597,860	655,309	652,041
Net balance	2,558,045	2,564,132	2,326,796
Incurred losses recorded:			
Current accident year	505,058	439,404	658,484
All prior accident years *	60,199	11,255	29,141
Total incurred losses	565,257	450,659	687,625
Payments with respect to:			
Current accident year	50,859	47,029	53,845
All prior accident years	216,346	409,717	422,905
Total payments	267,205	456,746	476,750
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	2,856,097	2,558,045	2,537,671
Plus ceded liabilities and deferred charges	573,931	597,860	652,865
Balance at end of year	$3,430,028	$3,155,905	$3,190,536**

* *Incurred losses "all prior years" reflects the amount of estimation error charged or credited to earnings in each year. In addition, this amount includes amortization of deferred charges re reinsurance assumed and accretion of discounted structured settlement liabilities.*

** *Excludes unpaid liabilities of Central States Indemnity Company of Omaha — acquired by the Company at the end of 1992.*

(10) Income taxes

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

	Dec. 31, 1994	*Dec. 31, 1993*
Payable currently	$ 62,401	$ 289,686
Deferred	3,230,201	2,740,503
	$ 3,292,602	$ 3,030,189

As discussed in Note 1(k), the Company adopted SFAS 109 as of January 1, 1993. The cumulative effect of adopting SFAS 109 on the Company's financial statements was to decrease 1993 net income by about $71 million. This amount is reflected in the 1993 Consolidated Statement of Earnings as the cumulative effect of change in accounting principle. It primarily represents the impact of adjusting deferred taxes related to unrealized appreciation of marketable equity securities which arose prior to 1987 to reflect the then current capital gain tax rate of 34% as opposed to the 28% rate which was in effect when the deferred taxes originated. The effect of the accounting change on 1993 earnings before income taxes and cumulative effect adjustment was not material. Prior year financial statements have not been restated.

During 1993, the federal corporate income and capital gain tax rate was increased from 34% to 35% retroactive to January 1, 1993. Accordingly, as required under SFAS 109, the Company recorded a charge to 1993 earnings of approximately $75 million. Most of this charge relates to the impact of adjusting deferred taxes applicable to unrealized appreciation of marketable equity securities.

The Consolidated Statements of Earnings reflect charges for income taxes as shown below (in thousands):

	1994	*1993**	*1992*
Federal	$ 133,443	$ 320,419	$ 110,276
State	22,101	20,857	24,430
Foreign	3,122	4,026	3,383
	$ 158,666	$ 345,302	$ 138,089
Current	$ 188,482	$ 400,762	$ 183,248
Deferred	(29,816)	(55,460)	(45,159)
	$ 158,666	$ 345,302	$ 138,089

* *Excludes the cumulative effect of change in accounting for income taxes ($70,984) and the effect of the change in federal income tax rate on deferred taxes applicable to unrealized appreciation of marketable equity securities ($75,348).*

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1994 and 1993, are shown below (in thousands):

	1994	*1993*
Deferred tax liabilities:		
Relating to unrealized appreciation of marketable equity securities	$ 3,381,328	$ 2,848,681
Other	71,883	73,638
	3,453,211	2,922,319
Deferred tax assets	(223,010)	(181,816)
Net deferred tax liability	$ 3,230,201	$ 2,740,503

Charges for income taxes are reconciled to hypothetical amounts computed at the federal statutory rate in the table shown below (in thousands):

	1994	*1993*	*1992*
Net earnings before income taxes	$ 662,197	$ 1,189,718	$ 550,617
Hypothetical amounts applicable to above computed at the federal statutory rate	$ 231,769	$ 416,401	$ 187,210
Decreases, resulting from:			
Tax-exempt interest income	(14,548)	(15,020)	(14,727)
Dividends received deduction	(81,235)	(68,333)	(62,085)
State income taxes, less federal income tax benefit	14,366	13,557	16,128
Net other differences	8,314	(1,303)	11,563
Total income taxes	$ 158,666	$ 345,302*	$ 138,089

* *Excludes the cumulative effect of change in accounting for income taxes and the effect of the change in federal income tax rate on deferred taxes applicable to unrealized appreciation of marketable equity securities.*

Notes to Consolidated Financial Statements *(Continued)*

(11) Borrowings under investment agreements and other debt

Liabilities reflected for this balance sheet caption are as follows (in thousands):

	Dec. 31, 1994	*Dec. 31, 1993*
Borrowings under investment agreements	$ 754,079	$ 915,079
Other debt	56,640	57,310
	$ 810,719	$ 972,389

Borrowings under investment agreements are made pursuant to contracts with terms generally ranging from three months to forty years and calling for interest payable, normally semiannually, at fixed rates ranging from 3.0% to 9.0% per annum. The borrowings are senior unsecured debt obligations of the Company. No materially restrictive covenants are included in any of the various debt agreements.

Payments of amounts outstanding at December 31, 1994, are expected to be required no earlier than as follows (in thousands):

1995	1996	1997	1998	1999	After 1999
$36,148	$15,381	$20,090	$17,018	$44,054	$ 678,028

(12) Shareholders' equity accounts

Changes in Shareholders' Equity accounts during the most recent three years were as follows (dollars in thousands except per share amounts):

	Common Stock of $5 Par Value	*Capital in excess of par value*	*Net Unrealized Appreciation*	*Retained Earnings*	*Treasury Stock*
Balance December 31, 1991	$6,876	$157,377	$3,962,989	$3,294,969	$42,293
Increase during 1992 in unrealized appreciation included in carrying value of marketable equity securities			1,644,810		
Change during 1992 in deemed applicable income taxes			(559,235)		
Increase in minority shareholders' interest in unrealized appreciation			(1,345)		
Common stock (2,162 shares) issued upon conversion of Zero Coupon Convertible Subordinated Notes	11	24,887			
Net earnings 1992				407,285	
Balance December 31, 1992	6,887	182,264	5,047,219	3,702,254	42,293
Common stock (3,944 shares) issued upon conversion of Zero Coupon Convertible Subordinated Notes	20	45,457			
Common stock (25,203 shares) issued in connection with acquisition of Dexter Shoe Companies		428,353			(4,659)
Increase during 1993 in unrealized appreciation included in carrying value of marketable equity securities			316,002		
Change during 1993 in deemed applicable income taxes			(119,843)		
Increase in minority shareholders' interest in unrealized appreciation			(2,501)		
Net earnings 1993				688,121	
Cumulative effect of adoption on December 31, 1993, of SFAS 115 (See note 1[k])			171,775		
Balance December 31, 1993	$6,907	$656,074	$5,412,652	$4,390,375	$37,634
Increase during 1994 in unrealized appreciation included in carrying value of investments			1,481,162		
Change during 1994 in deemed applicable income taxes			(519,514)		
Increase in minority shareholders' interest in unrealized appreciation			(9,938)		
Net earnings 1994				494,798	
Balance December 31, 1994	$6,907	$656,074	$6,364,362	$4,885,173	$37,634

(13) Dividend restrictions - Insurance subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1995, Berkshire can receive up to approximately $488 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 $13.4 billion at December 31, 1994. This amount exceeded by approximately $2.4 billion the corresponding amount determined on the basis of generally accepted accounting principles; the difference principally represents deferred income tax assets and liabilities and deferred charges re reinsurance assumed recognized for financial reporting purposes but not for statutory reporting purposes.

(14) Fair values of financial instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"), requires certain fair value disclosures. 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 SFAS 107 disclosure requirements due to perceived difficulties in measuring fair value. Accordingly, an estimation of fair value was not made with respect to unpaid losses and loss adjustment 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, receivables 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, 1994 and 1993, are as follows (in thousands):

	Carrying Value		Estimated Fair Value	
	1994	1993	1994	1993
Investments in securities with fixed maturities	$ 1,820,733	$ 1,397,812	$ 1,820,733	$ 1,373,788
Investments in marketable equity securities	15,236,494	12,516,613	15,236,494	12,516,613
Investment in Salomon Inc	1,023,418	723,584	983,760	898,584
Assets of finance businesses	717,082	872,401	702,858	891,505
Borrowings under investment agreements and other debt	810,719	972,389	768,595	1,048,623
Liabilities of finance businesses	562,443	729,366	546,667	735,521

(15) Supplemental cash flow information

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

	1994	*1993*	*1992*
Cash paid during the year for:			
Income taxes	$ 411,092	$ 235,015	$ 121,027
Interest	90,596	70,629	95,730
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisition of businesses	—	26,093	45,735
Common shares issued upon conversions of Zero Coupon Convertible Subordinated Notes	—	45,477	24,898
Common shares issued in connection with acquisition of Dexter Shoe Companies	—	433,012	—

Notes to Consolidated Financial Statements *(Continued)*

(16) 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.

1994	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$917,963	$868,360	$795,500	$ 1,265,644
Earnings:				
Excluding realized investment gain	$ 82,312	$158,784	$110,466	$ 82,097*
Realized investment gain (loss)	50,578	5,863	(4,646)	9,344
Net earnings	$132,890	$164,647	$105,820	$ 91,441
Earnings per share:				
Before realized investment gain	$ 69.89	$134.82	$93.79	$69.71*
Realized investment gain (loss)	42.94	4.98	(3.94)	7.93
Net earnings	$112.83	$139.80	$89.85	$77.64

* *Includes a nonrecurring charge of $172,579 ($146.53/share) representing an other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock. See note 6.*

1993	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$725,827	$703,698	$744,127	$ 1,425,612
Earnings:				
Excluding realized investment gain and cumulative effect of accounting change	$ 84,105	$103,836	$ 12,389*	$ 202,073
Realized investment gain	16,630	8,127	10,405	321,540**
Cumulative effect of change in accounting for income taxes	(70,984)	—	—	—
Net earnings	$ 29,751	$111,963	$ 22,794	$ 523,613
Earnings per share:				
Before realized investment gain and cumulative effect of accounting change	$72.97	$90.09	$10.75*	$173.10
Realized investment gain	14.43	7.05	9.03	275.45**
Cumulative effect of change in accounting for income taxes	(61.59)	—	—	—
Net earnings	$25.81	$97.14	$19.78	$448.55

* *Includes a nonrecurring charge of $75,348 ($65.38/share) representing the effect of the change in federal income tax rates on deferred taxes applicable to unrealized appreciation. See note 10.*

***Includes $297,375 ($254.75/share), net of taxes, related to sale of 10,000,000 shares of Capital Cities/ABC, Inc. common stock. See note 4.*

(17) Business Segment Data

Berkshire identified eight business segments for purposes of 1994 reporting pursuant to Statement of Financial Accounting Standards 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
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
Nebraska Furniture Mart Omaha, NE	Home furnishings	Retailing
Buffalo News Buffalo, NY	Newspaper	Publication of a daily and Sunday newspaper
H. H. Brown Shoe Co., Lowell Shoe, Inc. and Dexter Shoe Companies Greenwich, CT, Hudson, NH and Dexter, ME	Shoes	Manufacture, importing and distribution at wholesale and retail
Fechheimer Bros. Co. Cincinnati, OH	Uniforms	Manufacture and distribution at wholesale and retail

The business segments identified above were responsible in 1994 for 83% of Berkshire's consolidated revenues. Other businesses activities that contributed for 1994, in the aggregate, 16% of Berkshire's consolidated revenues, were as follows:

Business identity	Product/Service/Activity
Adalet	Conduit fittings, explosion proof junction boxes, couplings and terminations
BHR	Real estate management
Berkshire Hathaway Credit Corporation	Commercial financing
Berkshire Hathaway Life Insurance Co	Annuities
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Campbell Hausfeld	Air compressors, air tools, painting systems and pressure washers
Carefree	Sun and shade control products and accessories for RVs
France	Appliance controls, ignition and sign transformers
Halex	Zinc die cast electrical fittings
K&W Products	Automotive compounds
Meriam	Pressure and flow measurement devices
Northland	Fractional horsepower motors
Powerwinch	Boat winches, windlasses and hoists
Precision	Steel service center
Quikut	Cutlery
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scott Fetzer Financial Group	Commercial and 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

(17) 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		
	1994	*1993*	*1992*	*1994*	*1993*	*1992*
Identified Segments:						
Insurance	$1,436,966	$1,591,226	$1,078,419	$ 639,218	$ 961,397	$ 298,715
Non-insurance businesses	1,771,870	1,440,120	1,283,240	275,399	224,795	209,871
	3,208,836	3,031,346	2,361,659	914,617	1,186,192	508,586
Other than identified segments	638,631	567,918	615,598	(192,309)**	60,071	140,674
Interest expense *				(60,111)	(56,545)	(98,643)
Aggregate consolidated total	$3,847,467	$3,599,264	$2,977,257	$ 662,197	$1,189,718	$ 550,617

* *Amounts of interest expense represent those for borrowings under investment agreements and other debt exclusive of that of finance businesses.*

** *Includes pre-tax charge of $268,500 representing an other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock.*

Insurance Segment	Revenues			Operating profit before taxes		
	1994	*1993*	*1992*	*1994*	*1993*	*1992*
Premiums earned: *						
Primary or direct	$ 281,074	$ 249,585	$ 179,441			
Reinsurance assumed	688,537	442,425	530,525			
Reinsurance ceded	(46,431)	(41,284)	(45,673)			
	923,180	650,726	664,293			
Underwriting				$ 129,010	$ 30,070	$ (108,961)
Investment income	421,753	384,632	361,517	418,175	375,459	355,067
Realized investment gain	92,033	555,868	52,609	92,033	555,868	52,609
	$1,436,966	$1,591,226	$1,078,419	$ 639,218	$ 961,397	$ 298,715

* *Premiums written were as follows:*

	1994	*1993*	*1992*
Primary or direct	*$ 271,151*	*$ 247,173*	*$ 153,177*
Reinsurance assumed	*689,932*	*528,768*	*626,159*
Reinsurance ceded	*(45,562)*	*(38,854)*	*(39,769)*
	$ 915,521	*$ 737,087*	*$ 739,567*

Non-Insurance Business Segments	Revenues			Operating profit before taxes		
	1994	*1993*	*1992*	*1994*	*1993*	*1992*
Candy	$ 216,060	$ 200,979	$ 197,017	$ 46,564	$ 40,270	$ 41,382
Encyclopedias, other reference material	191,297	198,807	246,107	24,375	19,375	28,228
Home cleaning systems	207,567	193,891	190,072	43,938	40,944	37,744
Home furnishings	245,395	208,598	185,596	16,902	21,094	16,665
Newspaper	150,915	145,470	139,764	53,666	50,390	47,291
Shoes	609,398	370,211	214,873	76,416	40,003	25,586
Uniforms	151,238	122,164	109,811	13,538	12,719	12,975
	$1,771,870	$1,440,120	$1,283,240	$ 275,399	$ 224,795	$ 209,871

(17) Business Segment Data *(Continued)*

Other Than Identified Segments	Revenues 1994	Revenues 1993	Revenues 1992	Operating profit before taxes 1994	Operating profit before taxes 1993	Operating profit before taxes 1992
Other businesses	$ 607,350	$ 550,754	$ 517,259	$ 59,209	$ 55,185	$ 54,321
Not identified with specific businesses:						
Interest and dividend income	31,982	26,608	61,011	31,982	26,608	61,011
Realized investment gain (loss)	(701)	(9,444)	37,328	(701)	(9,444)	37,328
All other except interest expense				(282,799)*	(12,278)	(11,986)
	$ 638,631	$ 567,918	$ 615,598	$ (192,309)	$ 60,071	$ 140,674

* *Includes pre-tax charge of $268,500 representing an other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock.*

	Capital expenditures * 1994	Capital expenditures * 1993	Capital expenditures * 1992	Deprec. & amort. of tangible assets 1994	Deprec. & amort. of tangible assets 1993	Deprec. & amort. of tangible assets 1992
Insurance	$ 935	$ 1,207	$ 1,071	$ 908	$ 812	$ 840
Candy	4,111	4,287	4,167	4,095	4,116	4,061
Encyclopedias, other reference material	130	736	184	1,366	1,449	1,379
Home cleaning systems	959	1,470	769	4,208	5,259	4,942
Home furnishings	22,633	5,254	8,528	6,226	2,663	2,210
Newspaper	5,156	3,602	3,370	2,181	1,855	2,373
Shoes	17,912	4,407	2,171	10,218	5,201	3,027
Uniforms	4,594	1,041	2,660	2,491	1,836	1,833
Other	10,698	12,962	8,881	17,943	17,321	14,692
	$ 67,128	$ 34,966	$ 31,801	$ 49,636	$ 40,512	$ 35,357

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

	Identifiable assets at year-end 1994	Identifiable assets at year-end 1993	Identifiable assets at year-end 1992
Insurance	$18,494,195	$16,126,933	$14,788,237
Candy	69,442	70,201	65,880
Encyclopedias, other reference material	75,856	74,676	83,778
Home cleaning systems	42,114	48,703	50,692
Home furnishings	128,389	101,147	88,331
Newspaper	48,443	45,402	43,751
Shoes	672,704	641,548	208,218
Uniforms	94,904	87,546	85,392
Other	1,712,135	2,324,313	1,717,719
	$21,338,182	$19,520,469	$17,131,998

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)		
	1994	1993	1992
Property and Casualty Insurance Segment:			
Underwriting	$ 79.9	$ 19.2	$ (71.1)
Investment income	349.2	320.9	305.8
Realized investment gain	61.6	362.7	36.1
Total - Property and Casualty Insurance Segment	490.7	702.8	270.8
Non-Insurance business segments	165.8	133.3	123.4
Other businesses	36.4	33.2	30.7
Realized investment gain (loss) not included above	(0.5)	(6.1)	23.4
All other except interest expense	12.3	6.8	21.9
Interest expense *	(37.3)	(35.6)	(62.9)
Earnings before nonrecurring charges and effect of accounting change	667.4	834.4	407.3
Nonrecurring charges and effect of accounting change	(172.6)	(146.3)	—
Net earnings	$ 494.8	$ 688.1	$ 407.3

* *Interest expense incurred by finance businesses is not reflected as "Interest expense" but instead is reflected in amounts shown for "Other businesses".*

The business segment data (Note 17 to the Consolidated Financial Statements) on the preceding pages of this report should be read in conjunction with this discussion.

Property and Casualty Insurance Underwriting

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

	(dollars in millions)		
	1994	1993	1992
Underwriting gain (loss):			
Primary or direct insurance	$ 48.3	$ 12.7	$ 8.0
Reinsurance assumed	80.7	17.3	(117.0)
Underwriting gain (loss) — pre-tax	129.0	30.0	(109.0)
Applicable income taxes	48.3	10.2	(37.7)
Applicable minority interest	0.8	0.6	(0.2)
After-tax underwriting gain (loss)	$ 79.9	$ 19.2	$ (71.1)

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. Over the past three years, reinsurance assumed activities have produced about 75% of the aggregate premiums earned by the property and casualty insurance group.

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 Insurance Group increased to approximately $13.4 billion at year-end 1994. This extraordinary capital strength creates opportunities for Insurance Group members to negotiate and enter into contracts of insurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers.

Property and Casualty Insurance Underwriting (continued)

For purposes of this Discussion, premiums and losses and loss expenses amounts are stated net of reinsurance ceded.

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)					
	1994		1993		1992	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 689.8		$ 528.7		$ 607.2	
Premiums earned	$ 688.4	100.0	$ 442.4	100.0	$ 511.5	100.0
Losses and loss expenses	476.9	69.3	350.9	79.3	589.7	115.3
Underwriting expenses	130.8	19.0	74.2	16.7	38.8	7.6
Total losses and expenses	607.7	88.3	425.1	96.0	628.5	122.9
Underwriting gain (loss) — pre-tax	$ 80.7		$ 17.3		$(117.0)	

Reinsurance assumed operations are conducted from National Indemnity Company's offices in Stamford, Connecticut. The Insurance Group enters into a variety of types of reinsurance contracts, including excess of loss and quota share contracts. Excess of loss contracts provide indemnification to ceding companies for all or part of covered losses in excess of specified retentions (or deductibles). Such retentions may apply to either an individual loss occurrence or an aggregation of occurrences. Quota share contracts provide indemnification to ceding companies in specified proportion of the ceding companies' own losses. Each type of contract specifies a maximum aggregate amount of indemnification.

Premiums earned from reinsurance assumed activities in 1994 exceeded amounts earned in 1993 by $246.0 million (55.6%). This increase was due to higher amounts earned from catastrophe excess of loss reinsurance policies, offset somewhat by declines in premiums earned under quota share, structured settlement, and retroactive reinsurance contracts. (Amounts earned from catastrophe excess of loss policies totalled about $447 million in 1994 vs $152 million in 1993). Management believes that increased levels of capital devoted to the catastrophe reinsurance market by the insurance industry in recent years may put pressure on competitors to lower prices below the levels considered adequate. Therefore, management anticipates a reduction in the level of catastrophe reinsurance business that may be accepted in 1995.

Reinsurance premiums earned in 1993 declined by $69.1 million (13.5%) from amounts earned in 1992. The decline was primarily attributed to lesser amounts earned from retroactive reinsurance contracts. Increasing competition in retroactive reinsurance markets and the effects of new accounting standards for ceding companies have drastically reduced the opportunities to write such business. Minimal amounts of structured settlement reinsurance was written in 1994 as a similar type of annuity contract was more heavily marketed through a non-property/casualty insurance affiliate.

Underwriting gains of approximately $240 million and $110 million in 1994 and 1993 respectively, resulted from the Insurance Group's catastrophe reinsurance business. The considerable amounts of premiums earned from this business, coupled with the fact that only the 1994 Northridge earthquake produced a significant catastrophe loss during the period, contributed to the underwriting gains for 1994 and 1993. In 1992, catastrophe losses incurred were about $125 million (primarily related to Hurricane Andrew) which caused a small underwriting loss for that year.

Little comfort should be gained from either (a) the magnitude of underwriting gains recorded in 1994 and 1993 or (b) the current expectation that the early 1995 Kobe, Japan earthquake will not result in a significant loss to the Insurance Group. The underwriting gains produced by this business in any given year can be easily exceeded by losses in the next. Thus periodic underwriting results were and are expected to be subject to substantial volatility. Berkshire's management, however, is willing to accept such volatility, provided that there is a reasonable prospect of long term profitability.

Property and Casualty Insurance Underwriting (continued)

Reinsurance Assumed (continued)

Underwriting losses with respect to retroactive and structured settlement coverages amounted to $78 million for 1994, $64 million for 1993 and $66 million for 1992, reflecting principally the amortization of deferred charges re reinsurance assumed and accretion of discounted structured settlement liabilities. See Notes 1(f) and (g) to the Consolidated Financial Statements for information with respect to such charges and liabilities. The amortization and accretion are reported as losses incurred, and thus, because there is no related premium income, as underwriting losses. Amortization and accretion charges of about $70 million are expected in 1995.

Other non-catastrophe reinsurance business produced underwriting losses of about $80 million, $28 million and $48 million during 1994, 1993 and 1992 respectively. In most non-catastrophe reinsurance contracts, 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 reinsurance of certain casualty or liability coverages for which the premiums are based in significant part on time discounting of expected losses. Losses and loss expenses are established for these contracts on an undiscounted basis, thus resulting in underwriting losses for financial reporting purposes. This business is accepted, nonetheless, because of the large amounts of investable policyholder funds (or "float") that it produces. Underwriting losses in 1994 include charges of about $37 million for adverse development of pre-1994 loss occurrences. Underwriting results in 1993 and 1992 reflect relatively minor amounts of loss development.

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)					
	1994		1993		1992	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 225.7		$ 208.4		$ 132.4	
Premiums earned	$ 234.8	100.0	$ 208.3	100.0	$ 152.8	100.0
Losses and loss expenses	88.4	37.6	99.8	47.9	98.0	64.1
Underwriting expenses	98.1	41.8	95.8	46.0	46.8	30.7
Total losses and expenses	186.5	79.4*	195.6	93.9*	144.8	94.8*
Underwriting gain — pre-tax	$ 48.3		$ 12.7		$ 8.0	

* *Includes favorable loss development credits. Without such credits, total losses and expenses as a percentage of premiums earned were: 1994 — 102.4%, 1993 — 113.9%, and 1992 — 118.6%.*

Primary or direct insurance activities include the "traditional" business, directed from National Indemnity Company's Omaha offices. This business represents principally casualty coverages for commercial accounts. The commercial casualty/professional liability/specialty risk operations located in Stamford, Connecticut, enter into insurance contracts with insureds presenting risks unusual in nature and/or especially large in amount. The homestate companies underwrite various commercial coverages for standard risks located predominantly in their home states — Nebraska and Colorado. Cypress Insurance Company, a specialty carrier, underwrites workers' compensation risks in a highly competitive market environment in California. Additionally, since 1993 these activities include the underwriting of credit card credit insurance as a result of Berkshire's 1992 yearend acquisition of Central States Indemnity Co. of Omaha ("CSI").

CSI's business differs substantially from the insurance business underwritten by the other members of the Insurance Group. CSI's premiums derive from a high volume of small dollar premium transactions generated through credit card issuers. CSI's underwriting expenses as a percentage of premiums earned are roughly twice as great as that of the other Insurance Group members. On the other hand, CSI's losses and loss expenses incurred, as percentages of premiums earned are substantially lower than for the other primary or direct underwriting units. Overall, periodic underwriting results from this business are anticipated to be less volatile than the other primary or direct insurance operations. CSI produced premiums earned of $72 million and $69 million for 1994 and 1993, respectively. CSI's net underwriting gain was about $4 million for 1994 and $5 million for 1993.

Property and Casualty Insurance Underwriting (continued)

Primary or Direct Insurance Underwriting (continued)

Premiums earned by Berkshire's other primary or direct insurance businesses totalled $163 million, $140 million and $153 million for 1994, 1993 and 1992, respectively. Each of these business units, described on the preceding page, reported higher premiums earned in 1994 as compared with 1993. The Group's commercial casualty/professional liability/specialty risks businesses accounted for about half of the increase in premiums earned in 1994 over 1993. This increase was due to adjustments on a small number of "retrospectively rated" policies written in prior years. Under the terms of those policies, premium amounts may be adjusted upward or downward after policy expiration based upon changes to losses incurred under the policies. Thus the additional premiums earned in 1994 were largely in response to additional amounts of losses incurred. In addition, premiums earned in 1994 by the worker's compensation insurance unit exceeded 1993 by about $5 million reflecting increased marketing efforts of that business. However, that business operates in a highly competitive market which has recently undergone substantial regulatory changes and such revenue gains may be difficult to sustain in 1995.

Other primary or direct businesses produced a net underwriting gain of about $44 million for 1994 compared to gains of about $8 million for both 1993 and 1992. In 1994, all of the other primary or direct insurance operations had significant net underwriting gains, reflecting increased amounts of credits against losses incurred from the reestimation of loss reserves for prior year loss occurrences. Favorable loss development credits were recorded in each of the last three years. Loss development represents corrections of estimation error and is credited or charged to earnings in the year made. The favorable development recorded in 1994 related principally to the traditional commercial automobile business and to the commercial casualty/professional liability/specialty risks operations. In 1993 and 1992, the favorable development credits related primarily to the traditional commercial automobile business. While the trend of favorable development recognized in recent years is encouraging, there is no certainty that it will continue into future periods. The nature of estimating losses is inherently imprecise, particularly with respect to losses which are reported and settled over lengthy periods of time. In the future, additional information will be revealed, including reports of additional cases of an unknown number and magnitude for pre-1995 losses.

Soft market conditions for most primary or direct casualty insurance coverages continued during 1994, as have prevailed for the past several years. Group members follow disciplined underwriting approaches which encourage rejection of underpriced risks without regard to volume considerations. Management does not foresee any significant changes in market conditions which would soon reverse the current trend of low premium volume.

Insurance Segment Investment Income

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

	(dollars in millions)		
	1994	1993	1992
Investment income before taxes	$418.2	$375.4	$355.1
Applicable income taxes	64.3	51.2	46.5
Applicable minority interest	4.7	3.3	2.8
Investment income after taxes and minority interest	$349.2	$320.9	$305.8

Invested assets increased in each of the past three years. In the three year period, Berkshire contributed approximately $420 million additional capital to the Insurance Group. Reinvested earnings of the Insurance Group for that period amounted to approximately $1.0 billion. Contributing to a further increase in invested assets was about a $1.2 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, and other liabilities to policyholders less the aggregate of agents' balances receivable, amounts recoverable as reinsurance on paid and unpaid losses, deferred policy acquisition costs, deferred charges re reinsurance assumed and prepaid income taxes. The net amount of float was approximately $3.4 billion at the end of 1994. In addition, increased investment income in 1994 was partially attributed to higher dividend rates paid by several of the Insurance Group's major equity investees. The amount of pre-tax net investment income for 1994 shown in the table above reflects a charge of $32.9 million which represents the equity in net loss from the Insurance Group's investment in common stock of Salomon Inc. See Note 5 to the Consolidated Financial Statements for additional information regarding the investment in Salomon Inc.

Non-Insurance Business Segments

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

	(dollars in millions) 1994 Amount	%	1993 Amount	%	1992 Amount	%
Revenues	$1,771.9	100.0	$1,440.1	100.0	$1,283.2	100.0
Cost and expenses	1,496.5	84.5	1,215.3	84.4	1,073.3	83.6
Operating profit	275.4	15.5	224.8	15.6	209.9	16.4
Income taxes	106.2	6.0	87.8	6.1	83.2	6.5
Minority Interest	3.4	0.2	3.7	0.3	3.3	0.3
Contribution to net earnings	$ 165.8	9.3	$ 133.3	9.2	$ 123.4	9.6

A comparison of revenues and operating profits between 1994, 1993 and 1992 for each of the seven identifiable non-insurance business segments follows.

	(dollars in millions) Revenues			Operating Profits			Operating Profit as a % of Revenues		
Segment	1994	1993	1992	1994	1993	1992	1994	1993	1992
Candy	$ 216.1	$ 201.0	$ 197.0	$ 46.6	$ 40.3	$ 41.4	21.6	20.0	21.0
Encyclopedias, other reference material	191.3	198.8	246.1	24.4	19.4	28.2	12.8	9.8	11.5
Home cleaning systems	207.6	193.9	190.1	43.9	40.9	37.7	21.1	21.1	19.8
Home furnishings	245.4	208.6	185.6	16.9	21.1	16.7	6.9	10.1	9.0
Newspaper	150.9	145.5	139.7	53.7	50.4	47.3	35.6	34.6	33.9
Shoes	609.4	370.2	214.9	76.4	40.0	25.6	12.5	10.8	11.9
Uniforms	151.2	122.1	109.8	13.5	12.7	13.0	8.9	10.4	11.8
	$1,771.9	$1,440.1	$1,283.2	$275.4	$224.8	$209.9			

1994 compared to 1993

Revenues from the seven identifiable non-insurance business segments of $1,771.9 million increased $331.8 million (23.0%) from the prior year. The overall operating profit from these business segments of $275.4 million increased $50.6 million (22.5%). The following is a discussion of significant matters impacting comparative results for each of the non-insurance business segments.

Candy

Revenues of the candy segment increased $15.1 million (7.5%) and operating profits increased $6.3 million (15.6%) over comparable prior year amounts. The comparative increases in revenues and operating profits are primarily due to increased volume. Total pounds of candy sold increased about 5.3%. Much of the increase arose from *See's* mail order and quantity order programs. Beginning in 1993 *See's* intensified its marketing efforts relative to these programs. Such efforts continued during 1994 and as a result total pounds sold during 1994 resulting from quantity order and mail order programs increased about 15%.

Encyclopedias, Other Reference Materials

Revenues of this segment declined $7.5 million (3.8%) from 1993. This decline continues the trend of reduced unit sales of printed encyclopedias (*World Book* and *Childcraft*) which began in 1989. Somewhat offsetting the decline in *World Book* and *Childcraft* sales were sales increases of World Book's current CD-ROM product, *Infofinder*.

In April 1995, the Windows and MacIntosh versions of World Book's CD-ROM product will be available with the enhancements of audio, video and animation and marketed as the *World Book Multimedia Encyclopedia*. Management cannot predict the impact on sales or income that the upgraded CD-ROM product will have. However, it is anticipated that the industry trend away from printed material and toward electronic media will continue. While management believes that there will continue to be a profitable market for its core printed product, the quantity of

Non-Insurance Business Segments (continued)

1994 compared to 1993 (continued)

Encyclopedias, Other Reference Material (continued)

the printed products which can be sold may, in the future, be limited due to the continued increase in the number of home computers equipped with CD-ROMs, increased computer literacy of the general population, and the lower price of CD-ROM products in comparison to encyclopedia sets. Additionally, the decline in the unit volume of printed sets has and will continue to reduce significantly the volume of *Annual* sales if printed set sales do not return to prior levels. However, the *World Book Multimedia Encyclopedia* will be offered in annual upgrades to purchasers. Therefore, it is anticipated that reductions in printed *Annual* sales will be somewhat offset by sales of CD-ROM upgrades.

Home Cleaning Systems

Revenue of the home cleaning systems segment increased $13.7 million (7.0%) and operating profits increased $3.0 million (7.3%). This comparative increase can be attributed primarily to an increase in the average number of distributors over 1993 and improvements in the structure of the sales organization in foreign markets. Unit sales of *Kirbys* increased slightly in domestic markets and were up by 14% in foreign markets. Foreign *Kirby* sales represent approximately 22% of total unit volume. Management anticipates continued significant growth in its foreign business and combined with more modest growth in domestic markets expects continued successful results from this segment.

Home Furnishings

Revenues from the home furnishings segment increased in 1994 by $36.8 million (17.6%) over the prior year. Increases were achieved in all major product categories. In November 1994, a 102,000 square foot appliance and electronics superstore was opened adjacent to the Nebraska Furniture Mart ("NFM"). This superstore known as the "Mega Mart" has added new products such as music compact discs and an expanded computer software line to NFM's previously large selection of electronics and appliances.

Operating profits of $16.9 million were $4.2 million (19.9%) less than in 1993. Much of the decline resulted from store opening costs in connection with the grand opening of the Mega Mart. In addition, unusual charges of approximately $2.3 million were recorded in 1994 relating to the write-off of certain fixed assets no longer in use. Management is optimistic that absent the store opening costs and unusual charges, an improvement in operating profit will be experienced in 1995. It is expected that operating profits as a percentage of revenues will improve during 1995 as compared to 1994. However, due to the fact that the lower margin Mega Mart business will account for much of the anticipated revenue growth, the percentage levels attained will likely be less than experienced by NFM in years prior to the opening of the Mega Mart.

Newspaper

Operating profits during 1994 of $53.7 million were $3.3 million (6.5%) greater than in 1993. While the comparative results are impressive and have been for several recent years, the outlook for 1995 and beyond is not as encouraging. During 1994, the *Buffalo News* experienced a decline in circulation. Part of the decline was caused by an increase during 1994 in the newsstand price of the daily newspaper from 35¢ to 50¢. Also an aggressive new subscriber discount program which had been in place a number of years was phased out in 1994, and many subscribers used to a large discount did not resubscribe. From a dollar volume standpoint, the price increase offset the decline in circulation.

Earnings are expected to decline in 1995. For the past several years the cost of newsprint has either been stable or has declined. This trend has now sharply reversed. New higher costs per metric ton, as well as increased prices expected during the remainder of 1995, are expected to increase newsprint costs by $7 million or nearly 40% over 1994 costs.

Overall, the newspaper segment faces some significant challenges during the next year. However, the *Buffalo News'* ability to control its other operating costs should help mitigate the impact of the decline in circulation and the steep rise in newsprint costs.

Management's Discussion *(continued)*

Non-Insurance Business Segments (continued)

1994 compared to 1993 (continued)

Shoes

This segment includes H. H. Brown Shoe Company, Inc. ("*H. H. Brown*"), Lowell Shoe, Inc. ("*Lowell*") and Dexter Shoe Companies ("*Dexter*"). These businesses were acquired by Berkshire during the period between June 1991 and November 1993. *H. H. Brown*, acquired in 1991, is a manufacturer and distributor of work, safety and casual footwear. *Lowell*, acquired at the end of 1992, manufactures and markets women's casual, service and nurses' footwear. The acquisition of *Dexter* occurred in late 1993. *Dexter* is a manufacturer of men's and women's dress, casual and athletic footwear. Additionally, *Dexter* operates 77 retail outlet stores.

Revenues during 1994 of $609.4 million were greater than the prior year by $239.2 million (64.6%). This substantial increase was largely due to the inclusion of *Dexter's* results for the full year in 1994 as compared to just under two months during 1993. *Dexter's* 1994 operating profits account for most of this segments $36.4 million (91.0%) increase in comparative operating profits. Management was pleased with *Dexter's* 1994 performance and better results are anticipated during 1995. This optimism results from the fact that recent wholesale price adjustments should help mitigate the effects of prior years' increases in *Dexter's* costs. Additionally, operating efficiencies are anticipated in connection with the start-up of *Dexter's* new computerized distribution center and from advanced manufacturing technologies.

H. H. Brown accounts for most of the remaining comparative revenue increase for this segment. A portion of such increase is related to the acquisition during the second half of 1994 of a chain of 11 retail stores. The retail stores, located in Maryland, Pennsylvania and Virginia, carry *H. H. Brown* manufactured products as well as those of other shoe manufacturers. *H. H. Brown's* manufacturing and distribution business results reflect a modest increase in revenues and a slight decline in operating profits. The decline is largely a result of slightly lower gross margins on sales and an increased comparative LIFO charge being somewhat offset by the modest revenue increase.

Lowell's revenues were slightly lower in 1994 as compared to 1993. However, comparative operating profits were greater in 1994 than during 1993. The improvement largely arises from the fact that during 1993, unusual charges of $3.8 million were recorded in connection with the implementation of more stringent inventory control procedures.

Uniforms

The uniform segment's revenues increased $29.1 million (23.8%) in 1994 as compared to 1993. Almost 60% of the increase arose as a result of a special program begun during 1994 whereby an agreement was entered into with the New York City Fire Department to supply fire fighters with safety uniforms and related accessories. The initial contractual arrangement is for a period of three years. The remainder of the comparative revenue increase resulted from increases in this segment's core uniform manufacturing operations.

Operating profits for 1994 of $13.5 million were slightly above comparable 1993 operating profits. The additional margin resulting from the aforementioned revenue increases was substantially offset by a) the incurrence of certain unplanned start-up costs relative to the implementation of the New York City Fire Department program; b) costs incurred in connection with the scheduled installation of a new computer system; and c) problems which have arisen related to certain recent retail store acquisitions.

Management expects that the program with the New York City Fire Department will be successful in the long-term. The problems being encountered in connection with the retail store acquisitions are being addressed and will hopefully be resolved during 1995. Overall, management is cautiously optimistic that 1995's operating profit will exceed the results of the prior two years both in absolute terms and as a percentage of revenues.

1993 compared to 1992

Revenues from the non-insurance business segments increased $156.9 million (12.2%) in 1993 as compared to 1992. The most significant revenue increase arose in the "shoes" segment where revenues increased $155.3 million (72.3%) over the comparable prior year figures. As more fully described in the preceding section of this discussion,

Non-Insurance Business Segments (continued)

1993 compared to 1992 (continued)

the acquisition of *Lowell* (in late 1992) and *Dexter* (in late 1993) account for a substantial portion of the comparative increase in revenues. With the exception of the "encyclopedias, other reference material" segment, all other reportable non-insurance business segments experienced increases in comparative revenues in 1993 vs. 1992. Revenues from these five segments in 1993 were $871.1 million vs. $822.2 in 1992. Offsetting the increases attributable to the other non-insurance business segments was a reduction in revenues of $47.3 million (19.2%) from the "encyclopedias, other reference material" segment. This decline was a result of the continuation of a reduction which began in 1989 in printed encyclopedia sales. (See preceding section regarding comparative 1994 vs. 1993 results for a discussion regarding the decline in *World Book* unit sales.)

Operating profits of $224.8 million during 1993 were $14.9 million (7.1%) greater than in 1992. The "shoes" segment with a comparative increase of $14.4 million (56.3%) was the major contributor to the comparative increase. In addition to the impact that the acquisitions of *Lowell* and *Dexter* had on comparative operating profits, *H. H. Brown* was able to achieve comparative increases largely resulting from the popularity of work shoes and reduced demand for athletic shoes. The operating profits of the other reportable segments in the aggregate were relatively unchanged.

Business Other Than Identified Segments

	(dollars in millions)		
	1994	1993	1992
Revenues	$607.4	$550.8	$517.3
Operating profit	$ 59.2	$ 55.2	$ 54.3
Income taxes	22.1	20.8	21.8
Minority interest	0.7	1.2	1.8
Contribution to net earnings	$ 36.4	$ 33.2	$ 30.7

The above represent aggregate data for businesses that numbered 23 in 1994. 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

The small increase in interest expense in 1994 as compared to 1993 primarily results from the fact that average outstanding borrowings under investment agreements increased by approximately $82 million during 1994 as compared to 1993. Somewhat offsetting the effect on interest expense of the increased average level of borrowings was a reduction in the average interest rate on such borrowings from approximately 6.9% in 1993 to 6.6% in 1994. Interest expense for 1992 includes premiums paid of $16.2 million to redeem term debt and a charge of $6.3 million representing the write-off of deferred financing costs related to an issue of Convertible Subordinated Debentures which was called for redemption in December 1992.

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.

During the fourth quarter of 1993, an insurance subsidiary of Berkshire sold ten million common shares of its investment in Capital Cities/ABC, Inc. ("Capital Cities") in connection with that company's offer to buy from its shareholders up to twenty million of its common shares. Prior to the sale and since 1986, Berkshire subsidiaries owned thirty million shares of Capital Cities or approximately 18% of that company's outstanding stock. Berkshire's after-tax gain from this transaction was $297.4 million.

Nonrecurring charges and accounting changes

As more fully described in Note 6 to the Consolidated Financial Statements, the Company recorded a pre-tax charge of $268.5 million ($172.6 million after-taxes and minority interests) as result of recognizing an other than temporary decline in the value of its investment in USAir Group, Inc. Preferred Stock. While the charge to earnings was recorded in the fourth quarter of 1994, the charge to shareholders' equity had been recorded in earlier 1994 reporting periods.

Effective January 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). The cumulative effect of adopting SFAS 109 on the Company's 1993 results was to decrease net earnings by about $71 million. Additionally, during 1993 a charge of $75.3 million was recorded as a result of the increase in the Federal corporate income tax rate from 34% to 35%. For a further description of the accounting change and the charge to earnings resulting from the change in Federal income tax rates, see Notes 1(k) and 10 to the Consolidated Financial Statements.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1994, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $7.4 billion at December 31, 1991 to approximately $11.9 billion at December 31, 1994. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $2.9 billion, and reinvested earnings, other than realized securities gains, were about $1.1 billion.

Selected Financial Data for the Past Five Years

(dollars in thousands, except per share data)

	1994	1993	1992	1991	1990
Revenues:					
Sales and service revenues	$ 2,351,918	$ 1,962,862	$ 1,774,436	$ 1,651,134	$ 1,580,074
Insurance premiums earned	923,180	650,726	664,293	776,413	591,540
Interest and dividend income	426,094	354,028	364,895	347,293	317,095
Income from investment in Salomon Inc	30,058	63,000	63,000	63,000	63,000
Income from finance businesses	24,885	22,226	20,696	19,475	13,498
Realized investment gain	91,332	546,422	89,937	192,478	33,989
Total revenues	$ 3,847,467	$ 3,599,264	$ 2,977,257	$ 3,049,793	$ 2,599,196
Earnings:					
Before realized investment gain and cumulative effect of accounting change	$ 433,659[1]	$ 402,403[2]	$ 347,726	$ 315,753	$ 370,745
Realized investment gain	61,139	356,702	59,559	124,155	23,348
Cumulative effect of change in accounting for income taxes	—	(70,984)	—	—	—
Net earnings	$ 494,798	$ 688,121	$ 407,285	$ 439,908	$ 394,093
Earnings per share:					
Before realized investment gain and cumulative effect of accounting change	$368.21[1]	$348.03[2]	$303.29	$275.42	$323.39
Realized investment gain	51.91	308.50	51.95	108.30	20.36
Cumulative effect of change in accounting for income taxes	—	(61.39)	—	—	—
Net earnings	$420.12	$595.14	$355.24	$383.72	$343.75
Year-end data:					
Total assets	$21,338,182	$19,520,469	$17,131,998	$14,461,902	$10,670,423
Borrowings under investment agreements and other debt[3]	810,719	972,389	1,154,697	1,100,464	1,082,265
Shareholders' equity	11,874,882	10,428,374	8,896,331	7,379,918	5,287,454
Common shares outstanding, in thousands	1,178	1,178	1,149	1,146	1,146
Shareholders' equity per outstanding share	$ 10,083	$ 8,854	$ 7,745	$ 6,437	$ 4,612

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[1] *Includes a charge of $172,579 ($146.53/share) representing an other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock.*

[2] *Includes a charge of $75,348 ($65.38/share) representing the effect of the change in federal income tax rates on deferred taxes applicable to unrealized appreciation.*

[3] *Excludes borrowings of finance businesses.*

BERKSHIRE HATHAWAY INC.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past fourteen 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
1993	$10	97.3%	$ 9,448,370	3,110
1994	$11	95.7%	$10,419,497	3,330

* *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 1995, 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, 1995,** 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 with our Registrar on August 31 in the owner's individual name(s) or the name of an owning trust, corporation, partnership or estate, as applicable.

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BERKSHIRE HATHAWAY INC.

COMBINED FINANCIAL STATEMENTS

BUSINESS GROUPS

Berkshire's consolidated data is rearranged in the presentations on the following six 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 property/casualty 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 and Nebraska provide standard multiple-line property/casualty insurance to primarily "homestate" residents. A California domiciled member provides workers' compensation insurance to employers in that state. In addition, a Nebraska domiciled company issues credit insurance distributed through credit card issuers nationwide.

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).

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 1994 were approximately 7.5% of the Group's year-end statutory surplus. That compares to an industry average premiums-to-surplus ratio of about 133% (for 1993). 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 Insurance Group — unaudited and not fully adjusted to conform to Generally Accepted Accounting Principles — are presented on the following page.

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Balance Sheets

(dollars in millions)

	December 31, 1994	December 31, 1993
Assets		
Investments:		
Fixed maturities at market in 1994 and amortized cost in 1993:		
Bonds	$ 1,099.0	$ 715.9
Preferred stocks	410.4	650.9
Equity securities at market:		
Capital Cities/ABC, Inc.	1,662.4	1,208.0
Coca-Cola Company	5,137.6	4,157.3
GEICO	1,678.3	1,759.6
Gillette	1,797.0	1,431.0
Wells Fargo & Company	957.8	854.6
Other	3,890.4	2,873.6
Salomon Inc	972.2	673.6
	17,605.1	14,324.5
Cash and cash equivalents	90.3	1,368.0
Deferred costs	468.2	490.6
Other	301.9	290.4
	$ 18,465.5	$ 16,473.5
Liabilities		
Losses and loss adjustment expenses	$ 3,430.0	$ 3,155.9
Unearned premiums	307.2	315.8
Funds held under reinsurance assumed	307.3	215.8
Accounts payable, accruals and other	255.0	233.6
Income taxes, principally deferred	3,209.3	2,944.5
	7,508.8	6,865.6
Equity		
Minority shareholders'	136.5	124.9
Berkshire shareholders'	10,820.2	9,483.0
	10,956.7	9,607.9
	$ 18,465.5	$ 16,473.5

Statements of Earnings

(dollars in millions)

	1994	1993	1992
Premiums written	$ 915.5	$ 737.1	$ 739.6
Premiums earned	$ 923.2	$ 650.7	$ 664.3
Losses and loss expenses	564.3	450.7	687.6
Underwriting expenses	229.0	169.1	85.7
Total losses and expenses	793.3	619.8	773.3
Underwriting gain (loss) — pre-tax	129.9	30.9	(109.0)
Net investment income*	419.4	375.4	355.1
Realized investment gain	92.0	555.9	52.6
Other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock	(261.0)	—	—
Earnings before income taxes	380.3	962.2	298.7
Income tax expense	51.7	254.4	25.4
	328.6	707.8	273.3
Minority interest	4.3	4.1	2.6
Net earnings	$ 324.3	$ 703.7	$ 270.7
** Net investment income is summarized below:*			
Dividends	*$362.4*	*$306.7*	*$287.5*
Interest	*92.2*	*77.9*	*74.0*
Equity in net loss of Salomon Inc	*(31.7)*	—	—
Investment expenses	*(3.5)*	*(9.2)*	*(6.4)*
	$419.4	*$375.4*	*$355.1*

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 terminations
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Buffalo News	Daily and Sunday newspaper
Campbell Hausfeld	Air compressors, air tools, painting systems and pressure washers
Carefree	Sun and shade control products and accessories for RVs
Cleveland Wood Products	Vacuum cleaner brushes
Dexter Shoe Companies	Dress, casual and athletic shoes
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 die cast electrical fittings
K&W Products	Automotive compounds
Kirby	Home cleaning systems
Lowell Shoe, Inc.	Women's and nurses' shoes
Meriam	Pressure and flow measurement devices
Nebraska Furniture Mart	Retailing home furnishings
Northland	Fractional horsepower motors
Powerwinch	Boat winches, windlasses and hoists
Precision Steel Products	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, 1994	December 31, 1993
Assets		
Cash and cash equivalents	$ 77.0	$ 90.4
Accounts receivable	308.8	275.9
Inventories	398.2	351.0
Properties and equipment	219.6	195.9
Other	29.8	36.1
	$ 1,033.4	$ 949.3
Liabilities		
Accounts payable, accruals and other	$ 293.4	$ 257.2
Income taxes	30.5	38.5
Term debt and other borrowings	21.7	24.7
	345.6	320.4
Equity		
Minority shareholders'	40.1	35.8
Berkshire shareholders'	647.7	593.1
	687.8	628.9
	$ 1,033.4	$ 949.3

Statements of Earnings
(dollars in millions)

	1994	1993	1992
Revenues:			
Sales and service revenues	$2,352.0	$ 1,962.9	$1,774.4
Interest income	9.0	8.0	7.5
	2,361.0	1,970.9	1,781.9
Costs and expenses:			
Costs of products and services sold	1,442.9	1,172.5	1,043.6
Selling, general and administrative expenses	578.5	522.2	481.5
Interest on debt	3.7	3.7	4.6
	2,025.1	1,698.4	1,529.7
Earnings from operations before income taxes	335.9	272.5	252.2
Income tax expense	122.3	103.7	97.4
	213.6	168.8	154.8
Minority interest	4.9	4.5	4.2
Net earnings	$ 208.7	$ 164.3	$ 150.6

Dexter Shoe Company ("Dexter") was acquired effective November 7, 1993. Accordingly, this presentation reflects Dexter's results of operations only for the period subsequent to the acquisition date.

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 59.

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

BERKSHIRE HATHAWAY INC.

FINANCE BUSINESSES

Scott Fetzer Financial Group, Inc., Berkshire Hathaway Credit Corporation and *Berkshire Hathaway Life Insurance Co. of Nebraska* make up Berkshire's finance businesses. Until October 1993, *Mutual Savings and Loan Association* was also included in this group of businesses. In October 1993, a federal savings bank assumed Mutual's savings account liabilities, offset substantially by real estate loans, cash and certain other assets of Mutual.

Balance Sheets
(dollars in millions)

	December 31, 1994	December 31, 1993
Assets		
Cash and cash equivalents	$ 16.0	$ 37.0
Fixed maturity investments	538.9	667.1
Installment and other receivables	173.2	179.8
Deferred tax assets	6.2	4.2
Other	1.5	1.6
	$ 735.8	$ 889.7
Liabilities		
Borrowings under investment agreements and other debt	$ 601.6	$ 772.7
Accounts payable, accruals and other	31.5	52.1
Annuity reserves	41.0	5.4
	674.1	830.2
Equity		
Berkshire shareholders'	61.7	59.5
	$ 735.8	$ 889.7

Statements of Earnings
(dollars in millions)

	1994	1993	1992
Revenues:			
Interest and fees on loans and financed receivables	$ 37.8	$ 43.6	$ 49.7
Interest and dividends on investment securities	35.4	21.0	16.4
Annuity premiums earned	36.0	5.6	—
	109.2	70.2	66.1
Expenses:			
Interest expense	35.5	25.2	25.9
Annuity benefits and underwriting expenses	37.7	5.6	—
General and administrative	13.9	16.2	20.4
	87.1	47.0	46.3
Earnings from operations before income taxes	22.1	23.2	19.8
Income tax expense	7.5	7.7	6.4
	14.6	15.5	13.4
Minority interest	—	0.8	0.7
Net earnings	$ 14.6	$ 14.7	$ 12.7

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

BERKSHIRE HATHAWAY INC.

NON-OPERATING ACTIVITIES

These statements reflect the consolidated financial statement values for assets, liabilities, shareholders' equity, revenues and expenses that were not assigned to any Berkshire operating group in the unaudited, and not fully GAAP - adjusted group financial statements heretofore presented (pages 53 to 58).

Statements of Net Assets
(dollars in millions)

	December 31,	
	1994	1993
Assets		
Cash and cash equivalents	$ 106.2	$ 358.9
Investments:		
Fixed maturities:		
Bonds	286.8	—
Preferred stocks	75.8	81.0
Equity securities	113.0	232.5
Unamortized goodwill and property account adjustments *	520.4	541.8
Deferred tax assets	8.0	7.7
Other	186.3	174.9
	$ 1,296.5	$ 1,396.8
Liabilities		
Accounts payable, accruals and other	$ 62.2	$ 62.8
Income taxes	67.3	59.4
Borrowings under investment agreements and other debt	799.0	960.2
	928.5	1,082.4
Equity		
Minority shareholders'	22.7	21.6
Berkshire shareholders'	345.3	292.8
	368.0	314.4
	$ 1,296.5	$ 1,396.8

Statements of Earnings
(dollars in millions)

	1994	1993	1992
Revenues:			
Interest and dividend income	$ 31.1	$ 24.3	$ 58.9
Realized investment gain (loss)	(0.7)	(9.4)	37.3
	30.4	14.9	96.2
Expenses:			
Corporate administration	5.0	4.9	4.2
Shareholder-designated contributions	10.4	9.4	7.6
Amortization of goodwill and property account adjustments *	22.5	17.1	12.0
Interest on debt	59.4	54.0	94.5
Other (income) expense	1.7	(2.3)	(2.0)
Other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock	7.5	—	—
	106.5	83.1	116.3
Loss before income taxes	(76.1)	(68.2)	(20.1)
Income tax expense (benefit)	(22.8)	125.8**	8.9
	(53.3)	(194.0)	(29.0)
Minority interest	(0.5)	0.6	(2.3)
Net loss	$ (52.8)	$ (194.6)	$ (26.7)

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

** *Includes nonrecurring charges of $146.3 million related to adoption of a new rule regarding the accounting for income taxes.*

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 02102-0644 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence with the Division may be directed to Investor Relations, 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 8,400 record holders of its common stock at March 7, 1995. Record owners included nominees holding at least 190,000 shares on behalf of beneficial-but-not-of-record owners. Management believes that the Company has more than 20,000 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:

1994	High	Low	1993	High	Low
First Quarter	$16,900	$15,150	First Quarter	$13,200	$11,350
Second Quarter	16,700	15,400	Second Quarter	16,200	11,800
Third Quarter	19,750	16,425	Third Quarter	17,800	15,100
Fourth Quarter	20,800	19,200	Fourth Quarter	17,800	16,200

Dividends

Berkshire has not declared a cash dividend since 1967.

DIRECTORS

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

CHARLES T. MUNGER, *Vice Chairman of Berkshire*

SUSAN T. BUFFETT

HOWARD G. BUFFETT,
Vice President of Archer Daniels Midland Company, engaged principally in the business of processing and merchandising agricultural commodities.

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*

MARC D. HAMBURG, *Vice President, Treasurer*

STANFORD LIPSEY, *Vice President*

DANIEL J. JAKSICH, *Controller*

FORREST N. KRUTTER, *Secretary*

ROBERT M. FITZSIMMONS,
Director of Internal Auditing

JERRY W. HUFTON,
Director of Taxes

MARK D. MILLARD,
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 1993. Single copies are furnished without charge in response to requests received by the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131, (402) 346-1400.

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