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Berkshire Hathaway Inc.

1995
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. On January 2, 1996, a subsidiary of the Company acquired all the outstanding shares of GEICO Corporation not then held by Berkshire subsidiaries. Accordingly, GEICO Corporation is now a wholly owned subsidiary of Berkshire Hathaway Inc. and henceforth will be included in 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 1995 include approximately 10% of the outstanding capital stock of American Express Company, approximately 13% of the capital stock of Capital Cities/ABC, Inc., approximately 7% of the capital stock of Federal Home Loan Mortgage Corporation ("Freddie Mac"), approximately 11% of the capital stock of The Gillette Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 16% of the capital stock of The Washington Post Company, approximately 14% of the common stock of Wells Fargo & Company, and common and convertible preferred stock of Salomon Inc having approximately 18% 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 Western 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* and *R.C. Willey Home Furnishings*), 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*) retailing of fine jewelry (*Borsheim's* and *Helzberg's Diamond Shops*) 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.

BERKSHIRE HATHAWAY INC.

1995 ANNUAL REPORT

TABLE OF CONTENTS

Business Activities . . . . Inside Front Cover

Owner-Related Business Principles 2

Corporate Performance vs. the S&P 500 4

Chairman's Letter* 5

Acquisition Criteria 23

Independent Auditors' Report 24

Consolidated Financial Statements 25

Business Segment Data 41

Management's Discussion 44

Selected Financial Data For The
Past Five Years 53

Shareholder-Designated Contributions 54

Combined Financial Statements — Unaudited —
for Berkshire Business Groups 57

Common Stock Data 64

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
1995	43.1	37.6	5.5

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 1995 was $5.3 billion, or 45.0%. Per-share book value grew by a little less, 43.1%, because we paid stock for two acquisitions, increasing our shares outstanding by 1.3%. Over the last 31 years (that is, since present management took over) per-share book value has grown from $19 to $14,426, or at a rate of 23.6% compounded annually.

There's no reason to do handsprings over 1995's gains. This was a year in which any fool could make a bundle in the stock market. And we did. To paraphrase President Kennedy, a rising tide lifts all yachts.

Putting aside the financial results, there was plenty of good news at Berkshire last year: We negotiated three acquisitions of exactly the type we desire. Two of these, Helzberg's Diamond Shops and R.C. Willey Home Furnishings, are included in our 1995 financial statements, while our largest transaction, the purchase of GEICO, closed immediately after the end of the year. (I'll tell you more about all three acquisitions later in the report.)

These new subsidiaries roughly double our revenues. Even so, the acquisitions neither materially increased our shares outstanding nor our debt. And, though these three operations employ over 11,000 people, our headquarters staff grew only from 11 to 12. (No sense going crazy.)

Charlie Munger, Berkshire's Vice Chairman and my partner, and I want to build a collection of companies — both wholly- and partly-owned — that have excellent economic characteristics and that are run by outstanding managers. Our favorite acquisition is the negotiated transaction that allows us to purchase 100% of such a business at a fair price. But we are almost as happy when the stock market offers us the chance to buy a modest percentage of an outstanding business at a pro-rata price well below what it would take to buy 100%. This double-barrelled approach — purchases of entire businesses through negotiation or purchases of part-interests through the stock market — gives us an important advantage over capital-allocators who stick to a single course. Woody Allen once explained why eclecticism works: "The real advantage of being bisexual is that it doubles your chances for a date on Saturday night."

Over the years, we've been Woody-like in our thinking, attempting to increase our marketable investments in wonderful businesses, while simultaneously trying to buy similar businesses in their entirety. The following table illustrates our progress on both fronts. In the tabulation, we show the marketable securities owned per share of Berkshire at ten-year intervals. A second column lists our per-share operating earnings (before taxes and purchase-price adjustments but after interest and corporate overhead) from all other activities. In other words, the second column shows what we earned excluding the dividends, interest and capital gains that we realized from investments. Purchase-price accounting adjustments are ignored for reasons we have explained at length in previous reports and which, as an act of mercy, we won't repeat. (We'll be glad to send masochists the earlier explanations, however.)

Year	Marketable Securities Per Share	Pre-tax Earnings Per Share Excluding All Income from Investments
1965	$ 4	$ 4.08
1975	159	(6.48)
1985	2,443	18.86
1995	22,088	258.20
Yearly Growth Rate: 1965-95	33.4%	14.7%

These results have not sprung from some master plan that we concocted in 1965. In a general way, we knew then what we hoped to accomplish but had no idea what specific opportunities might make it possible. Today we remain similarly unstructured: Over time, we expect to improve the figures in both columns but have no road map to tell us how that will come about.

We proceed with two advantages: First, our operating managers are outstanding and, in most cases, have an unusually strong attachment to Berkshire. Second, Charlie and I have had considerable experience in allocating capital and try to go at that job rationally and objectively. The giant disadvantage we face is size: In the early years, we needed only good ideas, but now we need good *big* ideas. Unfortunately, the difficulty of finding these grows in direct proportion to our financial success, a problem that increasingly erodes our strengths.

I will have more to say about Berkshire's prospects later in this report, when I discuss our proposed recapitalization.

Acquisitions

It may seem strange that we exult over a year in which we made three acquisitions, given that we have regularly used these pages to question the acquisition activities of most managers. Rest assured, Charlie and I haven't lost our skepticism: We believe most deals do damage to the shareholders of the acquiring company. Too often, the words from *HMS Pinafore* apply: "Things are seldom what they seem, skim milk masquerades as cream." Specifically, sellers and their representatives invariably present financial projections having more entertainment value than educational value. In the production of rosy scenarios, Wall Street can hold its own against Washington.

In any case, why potential buyers even look at projections prepared by sellers baffles me. Charlie and I never give them a glance, but instead keep in mind the story of the man with an ailing horse. Visiting the vet, he said: "Can you help me? Sometimes my horse walks just fine and sometimes he limps." The vet's reply was pointed: "No problem — when he's walking fine, sell him." In the world of mergers and acquisitions, that horse would be peddled as Secretariat.

At Berkshire, we have all the difficulties in perceiving the future that other acquisition-minded companies do. Like they also, we face the inherent problem that the seller of a business practically always knows far more about it than the buyer and also picks the time of sale — a time when the business is likely to be walking "just fine."

Even so, we do have a few advantages, perhaps the greatest being that we *don't* have a strategic plan. Thus we feel no need to proceed in an ordained direction (a course leading almost invariably to silly purchase prices) but can instead simply decide what makes sense for our owners. In doing that, we always mentally compare any move we are contemplating with dozens of other opportunities open to us, including the purchase of small pieces of the best businesses in the world via the stock market. Our practice of making this comparison — acquisitions against passive investments — is a discipline that managers focused simply on expansion seldom use.

Talking to *Time Magazine* a few years back, Peter Drucker got to the heart of things: "I will tell you a secret: Dealmaking beats working. Dealmaking is exciting and fun, and working is grubby. Running anything is primarily an enormous amount of grubby detail work . . . dealmaking is romantic, sexy. That's why you have deals that make no sense."

In making acquisitions, we have a further advantage: As payment, we can offer sellers a stock backed by an extraordinary collection of outstanding businesses. An individual or a family wishing to dispose of a single fine business, but also wishing to defer personal taxes indefinitely, is apt to find Berkshire stock a particularly comfortable holding. I believe, in fact, that this calculus played an important part in the two acquisitions for which we paid shares in 1995.

Beyond that, sellers sometimes care about placing their companies in a corporate home that will both endure and provide pleasant, productive working conditions for their managers. Here again, Berkshire offers something special. Our managers operate with extraordinary autonomy. Additionally, our ownership structure enables sellers to know that when I say we are buying to keep, the promise means something. For our part, we like dealing with owners who care what happens to their companies and people. A buyer is likely to find fewer unpleasant surprises dealing with that type of seller than with one simply auctioning off his business.

In addition to the foregoing being an explanation of our acquisition style, it is, of course, a not-so-subtle sales pitch. If you own or represent a business earning $25 million or more before tax, and it fits the criteria listed on page 23, just give me a call. Our discussion will be confidential. And if you aren't interested now, file our proposition in the back of your mind: We are never going to lose our appetite for buying companies with good economics and excellent management.

Concluding this little dissertation on acquisitions, I can't resist repeating a tale told me last year by a corporate executive. The business he grew up in was a fine one, with a long-time record of leadership in its industry. Its main product, however, was distressingly glamorless. So several decades ago, the company hired a management consultant who — naturally — advised diversification, the then-current fad. ("Focus" was not yet in style.) Before long, the company acquired a number of businesses, each after the consulting firm had gone through a long — and expensive — acquisition study. And the outcome? Said the executive sadly, "When we started, we were getting 100% of our earnings from the original business. After ten years, we were getting 150%."

Helzberg's Diamond Shops

A few years back, management consultants popularized a technique called "management by walking around" (MBWA). At Berkshire, we've instituted ABWA (acquisitions by walking around).

In May 1994, a week or so after the Annual Meeting, I was crossing the street at 58th and Fifth Avenue in New York, when a woman called out my name. I listened as she told me she'd been to, and had enjoyed, the Annual Meeting. A few seconds later, a man who'd heard the woman stop me did so as well. He turned out to be Barnett Helzberg, Jr., who owned four shares of Berkshire and had also been at our meeting.

In our few minutes of conversation, Barnett said he had a business we might be interested in. When people say that, it usually turns out they have a lemonade stand — with potential, of course, to quickly grow into the next Microsoft. So I simply asked Barnett to send me particulars. That, I thought to myself, will be the end of that.

Not long after, Barnett sent me the financial statements of Helzberg's Diamond Shops. The company had been started by his grandfather in 1915 from a single store in Kansas City and had developed by the time we met into a group with 134 stores in 23 states. Sales had grown from $10 million in 1974 to $53 million in 1984 and $282 million in 1994. We weren't talking lemonade stands.

Barnett, then 60, loved the business but also wanted to feel free of it. In 1988, as a step in that direction, he had brought in Jeff Comment, formerly President of Wanamaker's, to help him run things. The hiring of Jeff turned out to be a homerun, but Barnett still found that he couldn't shake a feeling of ultimate responsibility. Additionally, he owned a valuable asset that was subject to the vagaries of a single, very competitive industry, and he thought it prudent to diversify his family's holdings.

Berkshire was made to order for him. It took us awhile to get together on price, but there was never any question in my mind that, first, Helzberg's was the kind of business that we wanted to own and, second, Jeff was our kind of manager. In fact, we would not have bought the business if Jeff had not been there to run it. Buying a retailer without good management is like buying the Eiffel Tower without an elevator.

We completed the Helzberg purchase in 1995 by means of a tax-free exchange of stock, the only kind of transaction that interested Barnett. Though he was certainly under no obligation to do so, Barnett shared

a meaningful part of his proceeds from the sale with a large number of his associates. When someone behaves that generously, you know you are going to be treated right as a buyer.

The average Helzberg's store has annual sales of about $2 million, far more than competitors operating similarly-sized stores achieve. This superior per-store productivity is the key to Helzberg's excellent profits. If the company continues its first-rate performance — and we believe it will — it could grow rather quickly to several times its present size.

Helzberg's, it should be added, is an entirely different sort of operation from Borsheim's, our Omaha jewelry business, and the two companies will operate independently of each other. Borsheim's had an excellent year in 1995, with sales up 11.7%. Susan Jacques, its 36-year-old CEO, had an even better year, giving birth to her second son at the start of the Christmas season. Susan has proved to be a terrific leader in the two years since her promotion.

R.C. Willey Home Furnishings

It was Nebraska Furniture Mart's Irv Blumkin who did the walking around in the case of R.C. Willey, long the leading home furnishings business in Utah. Over the years, Irv had told me about the strengths of that company. And he had also told Bill Child, CEO of R.C. Willey, how pleased the Blumkin family had been with its Berkshire relationship. So in early 1995, Bill mentioned to Irv that for estate tax and diversification reasons, he and the other owners of R.C. Willey might be interested in selling.

From that point forward, things could not have been simpler. Bill sent me some figures, and I wrote him a letter indicating my idea of value. We quickly agreed on a number, and found our personal chemistry to be perfect. By mid-year, the merger was completed.

R.C. Willey is an amazing story. Bill took over the business from his father-in-law in 1954 when sales were about $250,000. From this tiny base, Bill employed Mae West's philosophy: "It's not what you've got — it's what you do with what you've got." Aided by his brother, Sheldon, Bill has built the company to its 1995 sales volume of $257 million, and it now accounts for over 50% of the furniture business in Utah. Like Nebraska Furniture Mart, R.C. Willey sells appliances, electronics, computers and carpets in addition to furniture. Both companies have about the same sales volume, but NFM gets all of its business from one complex in Omaha, whereas R.C. Willey will open its sixth major store in the next few months.

Retailing is a tough business. During my investment career, I have watched a large number of retailers enjoy terrific growth and superb returns on equity for a period, and then suddenly nosedive, often all the way into bankruptcy. This shooting-star phenomenon is far more common in retailing than it is in manufacturing or service businesses. In part, this is because a retailer must stay smart, day after day. Your competitor is always copying and then topping whatever you do. Shoppers are meanwhile beckoned in every conceivable way to try a stream of new merchants. In retailing, to coast is to fail.

In contrast to this have-to-be-smart-every-day business, there is what I call the have-to-be-smart-*once* business. For example, if you were smart enough to buy a network TV station very early in the game, you could put in a shiftless and backward nephew to run things, and the business would still do well for decades. You'd do far better, of course, if you put in Tom Murphy, but you could stay comfortably in the black without him. For a retailer, hiring that nephew would be an express ticket to bankruptcy.

The two retailing businesses we purchased this year are blessed with terrific managers who love to compete and have done so successfully for decades. Like the CEOs of our other operating units, they will operate autonomously: We want them to feel that the businesses they run are *theirs*. This means no second-guessing by Charlie and me. We avoid the attitude of the alumnus whose message to the football coach is "I'm 100% with you — win or tie." Our basic goal as an owner is to behave with our managers as we like our owners to behave with us.

As we add more operations, I'm sometimes asked how many people I can handle reporting to me. My answer to that is simple: If I have one person reporting to me and he is a lemon, that's one too many, and if I have managers like those we now have, the number can be almost unlimited. We are lucky to have Bill and Sheldon associated with us, and we hope that we can acquire other businesses that bring with them managers of similar caliber.

GEICO Corporation

Right after yearend, we completed the purchase of 100% of GEICO, the seventh largest auto insurer in the United States, with about 3.7 million cars insured. I've had a 45-year association with GEICO, and though the story has been told before, it's worth a short recap here.

I attended Columbia University's business school in 1950-51, not because I cared about the degree it offered, but because I wanted to study under Ben Graham, then teaching there. The time I spent in Ben's classes was a personal high, and quickly induced me to learn all I could about my hero. I turned first to *Who's Who in America*, finding there, among other things, that Ben was Chairman of Government Employees Insurance Company, to me an unknown company in an unfamiliar industry.

A librarian next referred me to Best's Fire and Casualty insurance manual, where I learned that GEICO was based in Washington, DC. So on a Saturday in January, 1951, I took the train to Washington and headed for GEICO's downtown headquarters. To my dismay, the building was closed, but I pounded on the door until a custodian appeared. I asked this puzzled fellow if there was anyone in the office I could talk to, and he said he'd seen one man working on the sixth floor.

And thus I met Lorimer Davidson, Assistant to the President, who was later to become CEO. Though my only credentials were that I was a student of Graham's, "Davy" graciously spent four hours or so showering me with both kindness and instruction. No one has ever received a better half-day course in how the insurance industry functions nor in the factors that enable one company to excel over others. As Davy made clear, GEICO's method of selling — direct marketing — gave it an enormous cost advantage over competitors that sold through agents, a form of distribution so ingrained in the business of these insurers that it was impossible for them to give it up. After my session with Davy, I was more excited about GEICO than I have ever been about a stock.

When I finished at Columbia some months later and returned to Omaha to sell securities, I naturally focused almost exclusively on GEICO. My first sales call — on my Aunt Alice, who always supported me 100% — was successful. But I was then a skinny, unpolished 20-year-old who looked about 17, and my pitch usually failed. Undaunted, I wrote a short report late in 1951 about GEICO for "The Security I Like Best" column in *The Commercial and Financial Chronicle*, a leading financial publication of the time. More important, I bought stock for my own account.

You may think this odd, but I have kept copies of every tax return I filed, starting with the return for 1944. Checking back, I find that I purchased GEICO shares on four occasions during 1951, the last purchase being made on September 26. This pattern of persistence suggests to me that my tendency toward self-intoxication was developed early. I probably came back on that September day from unsuccessfully trying to sell some prospect and decided — despite my already having more than 50% of my net worth in GEICO — to load up further. In any event, I accumulated 350 shares of GEICO during the year, at a cost of $10,282. At yearend, this holding was worth $13,125, more than 65% of my net worth.

You can see why GEICO was my first business love. Furthermore, just to complete this stroll down memory lane, I should add that I earned most of the funds I used to buy GEICO shares by delivering *The Washington Post*, the chief product of a company that much later made it possible for Berkshire to turn $10 million into $500 million.

Alas, I sold my entire GEICO position in 1952 for $15,259, primarily to switch into Western Insurance Securities. This act of infidelity can partially be excused by the fact that Western was selling for slightly more

than one times its current earnings, a p/e ratio that for some reason caught my eye. But in the next 20 years, the GEICO stock I sold grew in value to about $1.3 million, which taught me a lesson about the inadvisability of selling a stake in an identifiably-wonderful company.

In the early 1970's, after Davy retired, the executives running GEICO made some serious errors in estimating their claims costs, a mistake that led the company to underprice its policies — and that almost caused it to go bankrupt. The company was saved only because Jack Byrne came in as CEO in 1976 and took drastic remedial measures.

Because I believed both in Jack and in GEICO's fundamental competitive strength, Berkshire purchased a large interest in the company during the second half of 1976, and also made smaller purchases later. By yearend 1980, we had put $45.7 million into GEICO and owned 33.3% of its shares. During the next 15 years, we did not make further purchases. Our interest in the company, nonetheless, grew to about 50% because it was a big repurchaser of its own shares.

Then, in 1995, we agreed to pay $2.3 billion for the half of the company we didn't own. That is a steep price. But it gives us full ownership of a growing enterprise whose business remains exceptional for precisely the same reasons that prevailed in 1951. In addition, GEICO has two extraordinary managers: Tony Nicely, who runs the insurance side of the operation, and Lou Simpson, who runs investments.

Tony, 52, has been with GEICO for 34 years. There's no one I would rather have managing GEICO's insurance operation. He has brains, energy, integrity and focus. If we're lucky, he'll stay another 34 years.

Lou runs investments just as ably. Between 1980 and 1995, the equities under Lou's management returned an average of 22.8% annually vs. 15.7% for the S&P. Lou takes the same conservative, concentrated approach to investments that we do at Berkshire, and it is an enormous plus for us to have him on board. One point that goes beyond Lou's GEICO work: His presence on the scene assures us that Berkshire would have an extraordinary professional immediately available to handle its investments if something were to happen to Charlie and me.

GEICO, of course, must continue both to attract good policyholders and keep them happy. It must also reserve and price properly. But the ultimate key to the company's success is its rock-bottom operating costs, which virtually no competitor can match. In 1995, moreover, Tony and his management team pushed underwriting and loss adjustment expenses down further to 23.6% of premiums, nearly one percentage point below 1994's ratio. In business, I look for economic castles protected by unbreachable "moats." Thanks to Tony and his management team, GEICO's moat widened in 1995.

Finally, let me bring you up to date on Davy. He's now 93 and remains my friend and teacher. He continues to pay close attention to GEICO and has always been there when the company's CEOs — Jack Byrne, Bill Snyder and Tony — have needed him. Our acquisition of 100% of GEICO caused Davy to incur a large tax. Characteristically, he still warmly supported the transaction.

Davy has been one of my heroes for the 45 years I've known him, and he's never let me down. You should understand that Berkshire would not be where it is today if Davy had not been so generous with his time on a cold Saturday in 1951. I've often thanked him privately, but it is fitting that I use this report to thank him on behalf of Berkshire's shareholders.

Insurance Operations

In addition to acquiring GEICO, we enjoyed other favorable developments in insurance during 1995.

As we've explained in past reports, what counts in our insurance business is, first, the amount of "float" we generate 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 a huge winner. For the table, we have calculated 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 three, our cost of float has been negative, which means we have calculated 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%
1995	profit	3,607.2	less than zero	5.95%

Since 1967, when we entered the insurance business, our float has grown at an annual compounded rate of 20.7%. In more years than not, our cost of funds has been less than nothing. This access to "free" money has boosted Berkshire's performance in a major way.

Any company's level of profitability is determined by three items: (1) what its assets earn; (2) what its liabilities cost; and (3) its utilization of "leverage" — that is, the degree to which its assets are funded by liabilities rather than by equity. Over the years, we have done well on Point 1, having produced high returns on our assets. But we have also benefitted greatly — to a degree that is not generally well-understood — because our liabilities have cost us very little. An important reason for this low cost is that we have obtained float on very advantageous terms. The same cannot be said by many other property and casualty insurers, who may generate plenty of float, but at a cost that exceeds what the funds are worth to them. In those circumstances, leverage becomes a disadvantage.

Since our float has cost us virtually nothing over the years, it has in effect served as equity. Of course, it differs from true equity in that it doesn't belong to us. Nevertheless, let's assume that instead of our having $3.4 billion of float at the end of 1994, we had replaced it with $3.4 billion of equity. Under this scenario, we would have owned no more assets than we did during 1995. We would, however, have had somewhat lower earnings because the cost of float was negative last year. That is, our float threw off profits. And, of course, to obtain the replacement equity, we would have needed to sell many new shares of Berkshire. The net result — more shares, equal assets and lower earnings — would have materially reduced the value of our stock. So you can understand why float wonderfully benefits a business — *if* it is obtained at a low cost.

Our acquisition of GEICO will immediately increase our float by nearly $3 billion, with additional growth almost certain. We also expect GEICO to operate at a decent underwriting profit in most years, a fact that will increase the probability that our total float will cost us nothing. Of course, we paid a very substantial price for the GEICO float, whereas virtually all of the gains in float depicted in the table were developed internally.

Our enthusiasm over 1995's insurance results must be tempered once again because we had our third straight year of good fortune in the super-cat business. In this operation, we sell policies that insurance and reinsurance companies buy to protect themselves from the effects of mega-catastrophes. 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. We know that the results of years like the past three will be at least partially offset by some truly terrible year in the future. We just hope that "partially" turns out to be the proper adverb.

There were plenty of catastrophes last year, but no super-cats of the insured variety. The Southeast had a close call when Opal, sporting winds of 150 miles per hour, hovered off Florida. However, the storm abated before hitting land, and so a second Andrew was dodged. For insurers, the Kobe earthquake was another close call: The economic damage was huge — perhaps even a record — but only a tiny portion of it was insured. The insurance industry won't always be that lucky.

Ajit Jain is the guiding genius of our super-cat business and writes important non-cat business as well. In insurance, the term "catastrophe" is applied to an event, such as a hurricane or earthquake, that causes a great many insured losses. The other deals Ajit enters into usually cover only a single large loss. A simplified description of three transactions from last year will illustrate both what I mean and Ajit's versatility. We insured: (1) The life of Mike Tyson for a sum that is large initially and that, fight-by-fight, gradually declines to zero over the next few years; (2) Lloyd's against more than 225 of its "names" dying during the year; and (3) The launch, and a year of orbit, of two Chinese satellites. Happily, both satellites are orbiting, the Lloyd's folk avoided abnormal mortality, and if Mike Tyson looked any healthier, no one would get in the ring with him.

Berkshire is sought out for many kinds of insurance, both super-cat and large single-risk, because: (1) our financial strength is unmatched, and insureds know we can and will pay our losses under the most adverse of circumstances; (2) we can supply a quote faster than anyone in the business; and (3) we will issue policies with limits larger than anyone else is prepared to write. Most of our competitors have extensive reinsurance treaties and lay off much of their business. While this helps them avoid shock losses, it also hurts their flexibility and reaction time. As you know, Berkshire moves quickly to seize investment and acquisition opportunities; in insurance we respond with the same exceptional speed. In another important point, large coverages don't frighten us but, on the contrary, intensify our interest. We have *offered* a policy under which we could have lost $1 billion; the largest coverage that a client *accepted* was $400 million.

We will get hit from time to time with large losses. Charlie and I, however, are quite willing to accept relatively volatile results in exchange for better long-term earnings than we would otherwise have had. In other words, we prefer a lumpy 15% to a smooth 12%. Since most managers opt for smoothness, we are left with a competitive advantage that we try to maximize. We do, though, monitor our aggregate exposure in order to keep our "worst case" at a level that leaves us comfortable.

Indeed, our worst case from a "once-in-a-century" super-cat is far less severe — relative to net worth — than that faced by many well-known primary companies writing great numbers of property policies. These insurers don't issue single huge-limit policies as we do, but their small policies, in aggregate, can create a risk of staggering size. The "big one" would blow right through the reinsurance covers of some of these insurers, exposing them to uncapped losses that could threaten their survival. In our case, losses would be large, but capped at levels we could easily handle.

Prices are weakening in the super-cat field. That is understandable considering the influx of capital into the reinsurance business a few years ago and the natural desire of those holding the capital to employ it. No matter what others may do, we will not knowingly write business at inadequate rates. We unwittingly did this in the early 1970's and, after more than 20 years, regularly receive significant bills stemming from the mistakes of that era. My guess is that we will still be getting surprises from that business 20 years from now. A bad reinsurance contract is like hell: easy to enter and impossible to exit.

I actively participated in those early reinsurance decisions, and Berkshire paid a heavy tuition for my education in the business. Unfortunately, reinsurance students can't attend school on scholarship. GEICO, incidentally, suffered a similar, disastrous experience in the early 1980's, when it plunged enthusiastically into the writing of reinsurance and large risks. GEICO's folly was brief, but it will be cleaning things up for at least another decade. The well-publicized problems at Lloyd's further illustrate the perils of reinsurance and also underscore how vital it is that the interests of the people who write insurance business be aligned — on the downside as well as the upside — with those of the people putting up the capital. When that kind of symmetry is missing, insurers almost invariably run into trouble, though its existence may remain hidden for some time.

A small, apocryphal story about an insurance CEO who was visited by an analyst tells a lot about this industry. To the analyst's questions about his business, the CEO had nothing but gloomy answers: Rates were ridiculously low; the reserves on his balance sheet weren't adequate for ordinary claims, much less those likely to arise from asbestos and environmental problems; most of his reinsurers had long since gone broke, leaving him holding the sack. But then the CEO brightened: "Still, things could be a lot worse," he said. "It could be *my* money." At Berkshire, it's *our* money.

Berkshire's other insurance operations, though relatively small, performed magnificently in 1995. National Indemnity's traditional business had a combined ratio of 84.2 and developed, as usual, a large amount of float compared to premium volume. Over the last three years, this segment of our business, run by Don Wurster, has had an average combined ratio of 85.6. Our homestate operation, managed by Rod Eldred, grew at a good rate in 1995 and achieved a combined ratio of 81.4. Its three-year combined ratio is an amazing 82.4. Berkshire's California workers' compensation business, run by Brad Kinstler, faced fierce price-cutting in 1995 and lost a great many renewals when we refused to accept inadequate rates. Though this operation's volume dropped materially, it produced an excellent underwriting profit. Finally, John Kizer, at Central States Indemnity, continues to do an extraordinary job. His premium volume was up 23% in 1995, and underwriting profit grew by 59%. Ajit, Don, Rod, Brad and John are all under 45, an embarrassing fact demolishing my theory that managers only hit their stride after they reach 70.

To sum up, we entered 1995 with an exceptional insurance operation of moderate size. By adding GEICO, we entered 1996 with a business still better in quality, much improved in its growth prospects, and doubled in size. More than ever, insurance is our core strength.

Sources of Reported Earnings

The table below shows the main sources of Berkshire's reported earnings. In this presentation, purchase-premium charges 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.

	(in millions)			
	Pre-Tax Earnings		*Berkshire's Share of Net Earnings (after taxes and minority interests)*	
	1995	*1994*	*1995*	*1994*
Operating Earnings:				
Insurance Group:				
Underwriting	$ 20.5	$129.9	$ 11.3	$ 80.9
Net Investment Income	501.6	419.4	417.7	350.5
Buffalo News	46.8	54.2	27.3	31.7
Fechheimer	16.9	14.3	8.8	7.1
Finance Businesses	20.8	22.1	12.6	14.6
Home Furnishings	29.7[1]	17.4	16.7[1]	8.7
Jewelry	33.9[2]	—[3]	19.1[2]	—[3]
Kirby	50.2	42.3	32.1	27.7
Scott Fetzer Manufacturing Group	34.1	39.5	21.2	24.9
See's Candies	50.2	47.5	29.8	28.2
Shoe Group	58.4	85.5	37.5	55.8
World Book	8.8	24.7	7.0	17.3
Purchase-Price Premium Charges	(27.0)	(22.6)	(23.4)	(19.4)
Interest Expense[4]	(56.0)	(60.1)	(34.9)	(37.3)
Shareholder-Designated Contributions	(11.6)	(10.4)	(7.0)	(6.7)
Other	37.4	35.7	24.4	22.3
Operating Earnings	814.7	839.4	600.2	606.3
Sales of Securities	194.1	91.3	125.0	61.1
Decline in Value of USAir Preferred Stock	—	(268.5)	—	(172.6)
Total Earnings - All Entities	$1,008.8	$662.2	$725.2	$494.8

[1] *Includes R.C. Willey from June 29, 1995.*
[2] *Includes Helzberg's from April 30, 1995.*
[3] *Jewelry earnings were included in "Other" in 1994.*
[4] *Excludes interest expense of Finance Businesses.*

A large amount of information about these businesses is given on pages 41-52, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 57-63, 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.

At Berkshire, we believe in Charlie's dictum — "Just tell me the bad news; the good news will take care of itself" — and that is the behavior we expect of our managers when they are reporting to us. Consequently, I also owe you — Berkshire's owners — a report on three operations that, though they continued to earn decent (or better) returns on invested capital, experienced a decline in earnings last year. Each encountered a different type of problem.

Our shoe business operated in an industry that suffered depressed earnings throughout last year, and many of our competitors made only marginal profits or worse. That means we at least maintained, and in some instances widened, our competitive superiority. So I have no doubt that our shoe operations will climb back to top-grade earnings in the future. In other words, though the turn has not yet occurred, we believe you should view last year's figures as reflecting a cyclical problem, not a secular one.

The Buffalo News, though still doing very well in comparison to other newspapers, is another story. In this case, industry trends are not good. In the 1991 Annual Report, I explained that newspapers had lost a notch in their economic attractiveness from the days when they appeared to have a bullet-proof franchise. Today, the industry retains its excellent economics, but has lost still another notch. Over time, we expect the competitive strength of newspapers to gradually erode, though the industry should nevertheless remain a fine business for many years to come.

Berkshire's most difficult problem is World Book, which operates in an industry beset by increasingly tough competition from CD-ROM and on-line offerings. True, we are still profitable, a claim that perhaps no other print encyclopedia can make. But our sales and earnings trends have gone in the wrong direction. At the end of 1995, World Book made major changes in the way it distributes its product, stepped up its efforts with electronic products and sharply reduced its overhead costs. It will take time for us to evaluate the effects of these initiatives, but we are confident they will significantly improve our viability.

All of our operations, including those whose earnings fell last year, benefit from exceptionally talented and dedicated managers. Were we to have the choice of any other executives now working in their industries, there is not one of our managers we would replace.

Many of our managers don't have to work for a living, but simply go out and perform every day for the same reason that wealthy golfers stay on the tour: They love both doing what they do and doing it well. To describe them as working may be a misnomer — they simply prefer spending much of their time on a productive activity at which they excel to spending it on leisure activities. Our job is to provide an environment that will keep them feeling this way, and so far we seem to have succeeded: Thinking back over the 1965-95 period, I can't recall that a single key manager has left Berkshire to join another employer.

Common Stock Investments

Below we present our common stock investments. Those with a market value of more than $600 million are itemized.

		12/31/95	
Shares	*Company*	*Cost*	*Market*
		(dollars in millions)	
49,456,900	American Express Company	$ 1,392.7	$ 2,046.3
20,000,000	Capital Cities/ABC, Inc.	345.0	2,467.5
100,000,000	The Coca-Cola Company	1,298.9	7,425.0
12,502,500	Federal Home Loan Mortgage Corp. ("Freddie Mac")	260.1	1,044.0
34,250,000	GEICO Corp.	45.7	2,393.2
48,000,000	The Gillette Company	600.0	2,502.0
6,791,218	Wells Fargo & Company	423.7	1,466.9
	Others	1,379.0	2,655.4
	Total Common Stocks	$ 5,745.1	$22,000.3

We continue in our Rip Van Winkle mode: Five of our six top positions at yearend 1994 were left untouched during 1995. The sixth was American Express, in which we increased our ownership to about 10%.

In early 1996, two major events affected our holdings: First, our purchase of the GEICO stock we did not already own caused that company to be converted into a wholly-owned subsidiary. Second, we exchanged our Cap Cities shares for a combination of cash and Disney stock.

In the Disney merger, Cap Cities shareholders had a choice of actions. If they chose, they could exchange each of their Cap Cities shares for one share of Disney stock plus $65. Or they could ask for — though not necessarily get — all cash or all stock, with their ultimate allotment of each depending on the choices made by other shareholders and certain decisions made by Disney. For our 20 million shares, we sought stock, but do not know, as this report goes to press, how much we were allocated. We are certain, however, to receive something over 20 million Disney shares. We have also recently bought Disney stock in the market.

One more bit of history: I first became interested in Disney in 1966, when its market valuation was less than $90 million, even though the company had earned around $21 million pre-tax in 1965 and was sitting with more cash than debt. At Disneyland, the $17 million Pirates of the Caribbean ride would soon open. Imagine my excitement — a company selling at only five times rides!

Duly impressed, Buffett Partnership Ltd. bought a significant amount of Disney stock at a split-adjusted price of 31¢ per share. That decision may appear brilliant, given that the stock now sells for $66. But your Chairman was up to the task of nullifying it: In 1967 I sold out at 48¢ per share.

Oh well — we're happy to be once again a large owner of a business with both unique assets and outstanding management.

Convertible Preferred Stocks

As many of you will remember, Berkshire made five private purchases of convertible preferred stocks during the 1987-91 period and the time seems right to discuss their status. Here are the particulars:

Company	Dividend Rate	Year of Purchase	Cost	Market Value
			(dollars in millions)	
Champion International Corp.	9¼%	1989	$300	$388[1]
First Empire State Corp.	9%	1991	40	110
The Gillette Company	8¾%	1989	600	2,502[2]
Salomon Inc	9%	1987	700	728[3]
USAir Group, Inc.	9¼%	1989	358	215

[1] *Proceeds from sale of common we received through conversion in 1995.*
[2] *12/31/95 value of common we received through conversion in 1991.*
[3] *Includes $140 we received in 1995 from partial redemption.*

In each case we had the option of sticking with these preferreds as fixed-income securities or converting them into common stock. Initially, their value to us came primarily from their fixed-income characteristics. The option we had to convert was a kicker.

Our $300 million private purchase of American Express "Percs" — described in the 1991 Annual Report — is not included in the table because that security was a modified form of common stock whose fixed-income characteristics contributed only a minor portion of its initial value. Three years after we bought them, the Percs automatically were converted to common stock. In contrast, the five securities in the table were set to become common stocks only if we wished them to — a crucial difference.

When we purchased our convertible securities, I told you that we expected to earn after-tax returns from them that "moderately" exceeded what we could earn from the medium-term fixed-income securities they replaced. We beat this expectation — but only because of the performance of a single issue. I also told you that these securities, as a group, would "not produce the returns we can achieve when we find a

business with wonderful economic prospects." Unfortunately, that prediction was fulfilled. Finally, I said that "under almost any conditions, we expect these preferreds to return us our money plus dividends." That's one I would like to have back. Winston Churchill once said that "eating my words has never given me indigestion." My assertion, however, that it was almost impossible for us to lose money on our preferreds has caused me some well-deserved heartburn.

Our best holding has been Gillette, which we told you from the start was a superior business. Ironically, though, this is also the purchase in which I made my biggest mistake — of a kind, however, never recognized on financial statements.

We paid $600 million in 1989 for Gillette preferred shares that were convertible into 48 million (split-adjusted) common shares. Taking an alternative route with the $600 million, I probably could have purchased 60 million shares of common from the company. The market on the common was then about $10.50, and given that this would have been a huge private placement carrying important restrictions, I probably could have bought the stock at a discount of at least 5%. I can't be sure about this, but it's likely that Gillette's management would have been just as happy to have Berkshire opt for common.

But I was far too clever to do that. Instead, for less than two years, we received some extra dividend income (the difference between the preferred's yield and that of the common), at which point the company — quite properly — called the issue, moving to do that as quickly as was possible. If I had negotiated for common rather than preferred, we would have been better off at yearend 1995 by $625 million, minus the "excess" dividends of about $70 million.

In the case of Champion, the ability of the company to call our preferred at 115% of cost forced a move out of us last August that we would rather have delayed. In this instance, we converted our shares just prior to the pending call and offered them to the company at a modest discount.

Charlie and I have never had a conviction about the paper industry — actually, I can't remember ever owning the common stock of a paper producer in my 54 years of investing — so our choice in August was whether to sell in the market or to the company. Champion's management had always been candid and honorable in dealing with us and wished to repurchase common shares, so we offered our stock to the company. Our Champion capital gain was moderate — about 19% after tax from a six-year investment — but the preferred delivered us a good after-tax dividend yield throughout our holding period. (That said, many press accounts have overstated the after-tax yields earned by property-casualty insurance companies on dividends paid to them. What the press has failed to take into account is a change in the tax law that took effect in 1987 and that significantly reduced the dividends received credit applicable to insurers. For details, see our 1986 Annual Report.)

Our First Empire preferred will be called on March 31, 1996, the earliest date allowable. We are comfortable owning stock in well-run banks, and we will convert and keep our First Empire common shares. Bob Wilmers, CEO of the company, is an outstanding banker, and we love being associated with him.

Our other two preferreds have been disappointing, though the Salomon preferred has modestly outperformed the fixed-income securities for which it was a substitute. However, the amount of management time Charlie and I have devoted to this holding has been vastly greater than its economic significance to Berkshire. Certainly I never dreamed I would take a new job at age 60 — Salomon interim chairman, that is — because of an earlier purchase of a fixed-income security.

Soon after our purchase of the Salomon preferred in 1987, I wrote that I had "no special insights regarding the direction or future profitability of investment banking." Even the most charitable commentator would conclude that I have since proved my point.

To date, our option to convert into Salomon common has not proven of value. Furthermore, the Dow Industrials have doubled since I committed to buy the preferred, and the brokerage group has performed equally as well. That means my decision to go with Salomon because I saw value in the conversion option

must be graded as very poor. Even so, the preferred has continued under some trying conditions to deliver as a fixed-income security, and the 9% dividend is currently quite attractive.

Unless the preferred is converted, its terms require redemption of 20% of the issue on October 31 of each year, 1995-99, and $140 million of our original $700 million was taken on schedule last year. (Some press reports labeled this a sale, but a senior security that matures is not "sold.") Though we did not elect to convert the preferred that matured last year, we have four more bites at the conversion apple, and I believe it quite likely that we will yet find value in our right to convert.

I discussed the USAir investment at length in last year's report. The company's results improved in 1995, but it still faces significant problems. On the plus side for us is the fact that our preferred is structurally well-designed: For example, though we have not been paid dividends since June 1994, the amounts owed us are compounding at 5% over the prime rate. On the minus side is the fact that we are dealing with a weak credit.

We feel much better about our USAir preferred than we did a year ago, but your guess is as good as mine as to its ultimate value. (Indeed, considering my record with this investment, it's fair to say that your guess may be *better* than mine.) At yearend we carried our preferred (in which there is no public market) at 60% of par, though USAir also has outstanding a junior preferred that is significantly inferior to ours in all respects except conversion price and that was then trading at 82% of par. As I write this, the junior issue has advanced to 97% of par. Let's hope the market is right.

Overall, our preferreds have performed well, but that is true only because of one huge winner, Gillette. Leaving aside Gillette, our preferreds as a group have delivered us after-tax returns no more than equal to those we could have earned from the medium-term fixed-income issues that they replaced.

A Proposed Recapitalization

At the Annual Meeting you will be asked to approve a recapitalization of Berkshire, creating two classes of stock. If the plan is adopted, our existing common stock will be designated as Class A Common Stock and a new Class B Common Stock will be authorized.

Each share of the "B" will have the rights of 1/30th of an "A" share with these exceptions: First, a B share will have 1/200th of the vote of an A share (rather than 1/30th of the vote). Second, the B will not be eligible to participate in Berkshire's shareholder-designated charitable contributions program.

When the recapitalization is complete, each share of A will become convertible, at the holder's option and at any time, into 30 shares of B. This conversion privilege will not extend in the opposite direction. That is, holders of B shares will not be able to convert them into A shares.

We expect to list the B shares on the New York Stock Exchange, where they will trade alongside the A stock. To create the shareholder base necessary for a listing — and to ensure a liquid market in the B stock — Berkshire expects to make a public offering for cash of at least $100 million of new B shares. The offering will be made only by means of a prospectus.

The market will ultimately determine the price of the B shares. Their price, though, should be in the neighborhood of 1/30th of the price of the A shares.

Class A shareholders who wish to give gifts may find it convenient to convert a share or two of their stock into Class B shares. Additionally, arbitrage-related conversions will occur if demand for the B is strong enough to push its price to slightly above 1/30th of the price of A.

However, because the Class A stock will entitle its holders to full voting rights and access to Berkshire's contributions program, these shares will be superior to the Class B shares and we would expect most shareholders to remain holders of the Class A — which is precisely what the Buffett and Munger families plan to do, except in those instances when we ourselves might convert a few shares to facilitate gifts. The prospect that most shareholders will stick to the A stock suggests that it will enjoy a somewhat more liquid market than the B.

There are tradeoffs for Berkshire in this recapitalization. But they do not arise from the proceeds of the offering — we will find constructive uses for the money — nor in any degree from the price at which we will sell the B shares. As I write this — with Berkshire stock at $36,000 — Charlie and I do not believe it undervalued. Therefore, the offering we propose will not diminish the per-share intrinsic value of our existing stock. Let me also put our thoughts about valuation more baldly: Berkshire is selling at a price at which Charlie and I would not consider buying it.

What Berkshire will incur by way of the B stock are certain added costs, including those involving the mechanics of handling a larger number of shareholders. On the other hand, the stock should be a convenience for people wishing to make gifts. And those of you who have hoped for a split have gained a do-it-yourself method of bringing one about.

We are making this move, though, for other reasons — having to do with the appearance of expense-laden unit trusts purporting to be low-priced "clones" of Berkshire and sure to be aggressively marketed. The idea behind these vehicles is not new: In recent years, a number of people have told me about their wish to create an "all-Berkshire" investment fund to be sold at a low dollar price. But until recently, the promoters of these investments heard out my objections and backed off.

I did not discourage these people because I prefer large investors over small. Were it possible, Charlie and I would love to turn $1,000 into $3,000 for multitudes of people who would find that gain an important answer to their immediate problems.

In order to quickly triple small stakes, however, we would have to just as quickly turn our present market capitalization of $43 billion into $129 billion (roughly the market cap of General Electric, America's most highly valued company). *We can't come close to doing that.* The very best we hope for is — on average — to double Berkshire's per-share intrinsic value every five years, and we may well fall far short of that goal.

In the end, Charlie and I do not care whether our shareholders own Berkshire in large or small amounts. What we wish for are shareholders of any size who are knowledgeable about our operations, share our objectives and long-term perspective, and are aware of our limitations, most particularly those imposed by our large capital base.

The unit trusts that have recently surfaced fly in the face of these goals. They would be sold by brokers working for big commissions, would impose other burdensome costs on their shareholders, and would be marketed *en masse* to unsophisticated buyers, apt to be seduced by our past record and beguiled by the publicity Berkshire and I have received in recent years. The sure outcome: a multitude of investors destined to be disappointed.

Through our creation of the B stock — a low-denomination product far superior to Berkshire-only trusts — we hope to make the clones unmerchandisable.

But both present and prospective Berkshire shareholders should pay special attention to one point: Though the per-share intrinsic value of our stock has grown at an excellent rate during the past five years, its market price has grown still faster. The stock, in other words, has outperformed the business.

That kind of market overperformance cannot persist indefinitely, neither for Berkshire nor any other stock. *Inevitably, there will be periods of underperformance as well.* The price volatility that results, though endemic to public markets, is not to our liking. What we would prefer instead is to have the market price of Berkshire precisely track its intrinsic value. Were the stock to do that, every shareholder would benefit during his period of ownership in exact proportion to the progress Berkshire itself made in the period.

Obviously, the market behavior of Berkshire's stock will never conform to this ideal. But we will come closer to this goal than we would otherwise if our present and prospective shareholders are informed, business-oriented and not exposed to high-commission salesmanship when making their investment decisions. To that end, we are better off if we can blunt the merchandising efforts of the unit trusts — and that is the reason we are creating the B stock.

We look forward to answering your questions about the recapitalization at the Annual Meeting.

Miscellaneous

Berkshire isn't the only American corporation utilizing the new, exciting ABWA strategy. At about 1:15 p.m. on July 14, 1995, Michael Eisner, CEO of The Walt Disney Company, was walking up Wildflower Lane in Sun Valley. At the same time, I was leaving a lunch at Herbert Allen's home on that street to meet Tom Murphy, CEO of Cap Cities/ABC, for a golf game.

That morning, speaking to a large group of executives and money managers assembled by Allen's investment bank, Michael had made a brilliant presentation about Disney, and upon seeing him, I offered my congratulations. We chatted briefly — and the subject of a possible combination of Disney and Cap Cities came up. This wasn't the first time a merger had been discussed, but progress had never before been made, in part because Disney wanted to buy with cash and Cap Cities desired stock.

Michael and I waited a few minutes for Murph to arrive, and in the short conversation that ensued, both Michael and Murph indicated they might bend on the stock/cash question. Within a few weeks, they both did, at which point a contract was put together in three very busy days.

The Disney/Cap Cities deal makes so much sense that I'm sure it would have occurred without that chance encounter in Sun Valley. But when I ran into Michael that day on Wildflower Lane, he was heading for his plane, so without that accidental meeting the deal certainly wouldn't have happened in the time frame it did. I believe both Disney and Cap Cities will benefit from the fact that we all serendipitously met that day.

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

It's appropriate that I say a few words here about Murph. To put it simply, he is as fine an executive as I have ever seen in my long exposure to business. Equally important, he possesses human qualities every bit the equal of his managerial qualities. He's an extraordinary friend, parent, husband and citizen. In those rare instances in which Murph's personal interests diverged from those of shareholders, he unfailingly favored the owners. When I say that I like to be associated with managers whom I would love to have as a sibling, in-law, or trustee of my will, Murph is the exemplar of what I mean.

If Murph should elect to run another business, don't bother to study its value — just buy the stock. And don't later be as dumb as I was two years ago when I sold one-third of our holdings in Cap Cities for $635 million (versus the $1.27 billion those shares would bring in the Disney merger).

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

About 96.3% of all eligible shares participated in Berkshire's 1995 shareholder-designated contributions program. Contributions made were $11.6 million and 3,600 charities were recipients. A full description of the shareholder-designated contributions program appears on pages 54-55.

Every year a few shareholders miss out on the program because they don't have their shares registered in their own names on the prescribed record date or because they fail to get their designation form back to us within the 60-day period allowed. That second problem pained me especially this year because two good friends with substantial holdings missed the deadline. We had to deny their requests to be included because we can't make exceptions for some shareholders while refusing to make them for others.

To participate in future programs, you must own Class A shares that are registered in the name of the actual owner, not the nominee name of a broker, bank or depository. Shares not so registered on August 31, 1996, will be ineligible for the 1996 program. When you get the form, return it promptly so that it does not get put aside or forgotten.

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

When it comes to our Annual Meetings, Charlie and I are managerial oddballs: We thoroughly enjoy the event. So come join us on Monday, May 6. At Berkshire, we have no investor relations department and don't use financial analysts as a channel for disseminating information, earnings "guidance," or the like. Instead, we prefer direct manager-to-owner communication and believe that the Annual Meeting is the ideal place for this interchange of ideas. Talking to you there is efficient for us and also democratic in that all present simultaneously hear what we have to say.

Last year, for the first time, we had the Annual Meeting at the Holiday Convention Centre and the logistics seemed to work. The ballroom there was filled with about 3,200 people, and we had a video feed into a second room holding another 800 people. Seating in the main room was a little tight, so this year we will probably configure it to hold 3,000. This year we will also have two rooms for the overflow.

All in all, we will be able to handle 5,000 shareholders. The meeting will start at 9:30 a.m., but be warned that last year the main ballroom was filled shortly after 8:00 a.m.

Shareholders from 49 states attended our 1995 meeting — where were you, Vermont? — and a number of foreign countries, including Australia, Sweden and Germany, were represented. As always, the meeting attracted shareholders who were interested in Berkshire's business — as contrasted to shareholders who are primarily interested in themselves — and the questions were all good. Charlie and I ate lunch on stage and answered questions for about five hours.

We feel that if owners come from all over the world, we should try to make sure they have an opportunity to ask their questions. Most shareholders leave about noon, but a thousand or so hardcore types usually stay to see whether we will drop. Charlie and I are in training to last at least five hours again this year.

We will have our usual array of Berkshire products at the meeting and this year will add a sales representative from GEICO. At the 1995 meeting, we sold 747 pounds of candy, 759 pairs of shoes, and over $17,500 of World Books and related publications. In a move that might have been dangerous had our stock been weak, we added knives last year from our Quikut subsidiary and sold 400 sets of these. (We draw the line at soft fruit, however.) All of these goods will again be available this year. We don't consider a cultural event complete unless a little business is mixed in.

Because we expect a large crowd for the meeting, we recommend that you promptly get both plane and hotel reservations. 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 7:30, 8:00 and 8:30 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.

NFM's main store, on its 64-acre site about two miles north of the Centre, is open from 10 a.m. to 9 p.m. on weekdays, 10 a.m. to 6 p.m. on Saturdays, and noon to 6 p.m. on Sundays. Rose Blumkin — "Mrs. B" — is now 102, but will be hard at work in Mrs. B's Warehouse. She was honored in November at the opening of The Rose, a classic downtown theater of the 20's that has been magnificently restored, but that would have been demolished had she not saved it. Ask her to tell you the story.

Borsheim's normally is closed on Sunday but will be open for shareholders and their guests from 10 a.m. to 6 p.m. on May 5th. Additionally, we will have a special opening for shareholders on Saturday, the 4th, from 6 p.m. to 9 p.m. Last year, on Shareholders Day, we wrote 1,733 tickets in the six hours we were open — which is a sale every 13 seconds. Remember, though, that records are made to be broken.

At Borsheim's, we will also have the world's largest faceted diamond on display. Two years in the cutting, this inconspicuous bauble is 545 carats in size. Please inspect this stone and let it guide you in determining what size gem is appropriate for the one you love.

On Saturday evening, May 4, there will be a baseball game at Rosenblatt Stadium between the Omaha Royals and the Louisville Redbirds. I expect to make the opening pitch — owning a quarter of the team assures me of one start per year — but our manager, Mike Jirschele, will probably make his usual mistake and yank me immediately after. About 1,700 shareholders attended last year's game. Unfortunately, we had a rain-out, which greatly disappointed the many scouts in the stands. But the smart ones will be back this year, and I plan to show them my best stuff.

Our proxy statement will include information about obtaining tickets to the game. We will also offer an information packet this year listing restaurants that will be open on Sunday night and describing various things that you can do in Omaha on the weekend.

For years, I've unsuccessfully tried to get my grade school classmate, "Pal" Gorat, to open his steakhouse for business on the Sunday evening preceding the meeting. But this year he's relented. Gorat's is a family-owned enterprise that has thrived for 52 years, and if you like steaks, you'll love this place. I've told Pal he will get a good crowd, so call Gorat's at (402) 551-3733 for a reservation. You'll spot me there — I'll be the one eating the rare T-bone with a double order of hash browns.

Warren E. Buffett
Chairman of the Board

March 1, 1996

BERKSHIRE HATHAWAY INC.

ACQUISITION CRITERIA

We are eager to hear *from principals or their representatives* about businesses that meet all of the following criteria:

(1) Large purchases (at least $25 million of before-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 $3-5 billion range. *We are not interested, however, in receiving suggestions about purchases we might make in the general stock market.*

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.

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."

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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, 1995 and 1994, and the related consolidated statements of earnings, and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 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 8, 1996

Deloitte Touche Tohmatsu International

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

	December 31, 1995	December 31, 1994
ASSETS		
Cash and cash equivalents	$ 2,703.8	$ 273.9
Investments:		
Securities with fixed maturities	835.2	1,820.7
Marketable equity securities	22,000.3	15,236.5
Salomon Inc	822.7	1,023.4
Receivables	718.9	580.6
Inventories	601.1	425.4
Properties and equipment	333.3	275.7
Assets of finance businesses	756.7	717.1
Other assets	1,156.8	984.9
	$29,928.8	$21,338.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Property and casualty insurance policyholder liabilities	$ 4,629.7	$ 4,200.8
Accounts payable, accruals and other liabilities	482.1	397.4
Income taxes	5,588.5	3,292.6
Borrowings under investment agreements and other debt	1,061.7	810.7
Liabilities of finance businesses	685.2	562.4
	12,447.2	9,263.9
Minority shareholders' interests	264.5	199.3
Shareholders' equity:		
Common stock of $5 par value. Authorized 1,500,000 shares; Issued 1,381,308 shares	6.9	6.9
Capital in excess of par value	1,001.7	656.1
Unrealized appreciation of investments, net	10,632.8	6,364.4
Retained earnings	5,610.4	4,885.2
	17,251.8	11,912.6
Less common stock in treasury, at cost (187,796 shares in 1995; 203,558 shares in 1994)	34.7	37.6
Total shareholders' equity	17,217.1	11,875.0
	$29,928.8	$21,338.2

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1995	1994	1993
Revenues:			
Sales and service revenues	$2,755.9	$2,351.9	$1,962.9
Insurance premiums earned	957.5	923.2	650.7
Interest and dividend income	474.8	426.1	354.1
Income from investment in Salomon Inc	78.8	30.1	63.0
Income from finance businesses	26.6	24.9	22.2
Realized investment gain	194.1	91.3	546.4
	4,487.7	3,847.5	3,599.3
Cost and expenses:			
Cost of products and services sold	1,706.7	1,450.0	1,180.6
Insurance losses and loss adjustment expenses	612.0	565.3	450.7
Insurance underwriting expenses	325.0	228.0	169.1
Selling, general and administrative expenses	775.9	613.4	552.6
Interest expense	59.3	60.1	56.6
Other-than-temporary decline in value of investment in USAir Group, Inc. Preferred Stock	—	268.5	—
	3,478.9	3,185.3	2,409.6
Earnings before income taxes, minority interest and cumulative effect of accounting change	1,008.8	662.2	1,189.7
Income taxes -			
Other than effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	270.3	158.7	345.3
Effect of change in income tax rate on deferred taxes applicable to unrealized appreciation	—	—	75.3
Minority interest	13.3	8.7	10.0
Earnings before cumulative effect of accounting change	725.2	494.8	759.1
Cumulative effect of change in accounting for income taxes	—	—	(71.0)
Net earnings	$ 725.2	$ 494.8	$ 688.1
Average shares outstanding	1,187,102	1,177,750	1,156,243
Earnings per share:			
Before cumulative effect of accounting change	$611	$420	$656
Cumulative effect of change in accounting for income taxes	—	—	(61)
Net earnings	$611	$420	$595

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1995	**1994**	**1993**
Cash flows from operating activities:			
Net income	$ 725.2	$ 494.8	$ 688.1
Adjustments to reconcile net income to cash flows from operating activities:			
Realized investment gain	(194.1)	(91.3)	(546.4)
Other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock	—	268.5	—
Depreciation and amortization	75.7	62.5	50.2
Effect of change in income tax rate on deferred taxes	—	—	75.3
Cumulative effect of accounting change	—	—	71.0
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	268.6	274.1	(22.8)
Deferred charges re reinsurance assumed	51.0	25.3	16.2
Unearned premiums	66.9	(8.5)	83.9
Receivables	(35.4)	(49.8)	134.1
Accounts payable, accruals and other liabilities	228.2	210.5	35.0
Income taxes	(35.8)	(257.1)	107.9
Other	(22.4)	0.1	33.7
Net cash flows from operating activities	1,127.9	929.1	726.2
Cash flows from investing activities:			
Purchases of fixed maturity investments	(273.9)	(2,485.8)	(272.3)
Purchases of marketable equity securities	(1,459.9)	(3,050.0)	(858.9)
Proceeds from sales of fixed maturity investments	669.7	1,772.1	—
Proceeds from redemptions and maturities of fixed maturity investments	954.6	85.9	318.9
Proceeds from sales of marketable equity securities	1,352.7	1,466.8	1,188.5
Loans and investments originated in finance businesses	(381.2)	(246.8)	(866.8)
Principal collection on loans and investments originated in finance businesses	363.0	332.4	269.3
Other	(11.4)	(23.2)	19.6
Net cash flows from investing activities	1,213.6	(2,148.6)	(201.7)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	265.7	208.6	591.9
Proceeds from other borrowings	1,232.7	1,225.3	1,265.0
Repayments of borrowings of finance businesses	(232.1)	(390.5)	(316.3)
Repayments of other borrowings	(1,151.7)	(1,387.7)	(1,399.9)
Other	(1.5)	(0.9)	(2.9)
Net cash flows from financing activities	113.1	(345.2)	137.8
Increase (decrease) in cash and cash equivalents	2,454.6	(1,564.7)	662.3
Cash and cash equivalents at beginning of year	289.9	1,854.6	1,192.3
Cash and cash equivalents at end of year *	$2,744.5	$ 289.9	$1,854.6

* *Cash and cash equivalents at end of year are comprised of the following:*			
Finance businesses	*$ 40.7*	*$ 16.0*	*$ 37.1*
Other	*2,703.8*	*273.9*	*1,817.5*
	$2,744.5	*$ 289.9*	*$1,854.6*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1995

(1) Significant accounting policies and practices

(a) Nature of operations and basis of consolidation

Berkshire Hathaway Inc. (the "Company" or "Berkshire") 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. Further information regarding this business and Berkshire's other reportable business segments is contained in Note 18.

The accompanying consolidated financial statements include the accounts of Berkshire consolidated with accounts of all its subsidiaries. Intercompany accounts and transactions have been eliminated.

(b) Use of estimates in preparation of financial statements

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

(c) 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.

(d) 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. 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. 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.

(e) Goodwill of acquired businesses

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

(f) Insurance premium acquisition costs

For financial reporting purposes, certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. Generally, the ultimate recoverability of premium acquisition costs is determined without regard to investment income.

(g) Deferred charges re reinsurance assumed

The excess of estimated liabilities for claims and claim costs ultimately payable by the Insurance Group over consideration received with respect to retroactive property/casualty reinsurance contracts that provide for indemnification of insurance risk, other than structured settlements, is established as a deferred charge at inception of such contracts. The deferred charges are subsequently amortized using the interest method over the expected settlement periods of the claim liabilities. The unamortized balance of deferred charges is included in other assets.

(h) 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.

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

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

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.

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*(g)* 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. Annual accretions to the liabilities are charged to losses incurred. (This accounting policy also applies to annuity reserves which are included in the liabilities of finance businesses).

Funds held under reinsurance assumed treaties include deposit balances refundable to insureds under contracts which, at inception, the Company believed did not meet the risk transfer requirements established by Statement of Financial Accounting Standards No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts".

(j) Insurance premiums

Insurance premiums for prospective insurance and non-property catastrophe reinsurance policies are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Premiums for catastrophe excess of loss reinsurance 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.

(k) 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 $14 million, $61 million, and $34 million for 1995, 1994 and 1993, 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 adjustment expenses recoverable under reinsurance contracts are included in receivables.

(m) 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". 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) Business acquisitions

During 1995, the Company consummated mergers with Helzberg's Diamond Shops, Inc. ("Helzberg's") and R.C. Willey Home Furnishings ("R.C. Willey") by reissuing 15,762 shares of its common stock held in treasury in exchange for 100% of the common stock of each of these companies. Helzberg's consists of a chain of 166 jewelry stores operating in 25 states and R.C. Willey, through its seven locations, is the dominant retailer of home furnishings in Utah.

In 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.

Each of these mergers was accounted for by the purchase method and, accordingly, the operating results of these businesses are included in the Company's consolidated results of operations from the effective dates of the mergers (Dexter — November 7, 1993; Helzberg's — April 30, 1995; R.C. Willey — June 29, 1995). Had the results of these businesses been included commencing with operations at the beginning of the year of their respective acquisition by Berkshire, the reported results would not have been materially affected.

(3) Merger with GEICO Corporation

On January 2, 1996, GEICO Corporation ("GEICO") became an indirect wholly-owned subsidiary of Berkshire as a result of the merger of an indirect wholly-owned subsidiary of Berkshire with and into GEICO. (The date of January 2, 1996 is hereafter referred to as the "Merger Date".) The merger was consummated pursuant to an Agreement and Plan of Merger (the "Agreement") dated August 25, 1995. Pursuant to the Agreement, each issued and outstanding common share of GEICO on the Merger Date, except shares held by Berkshire's subsidiaries and GEICO, was converted into the right to receive $70 per share, or an aggregate amount of $2.3 billion (the "Merger Consideration"). The amount of the Merger Consideration was determined based upon 33,284,733 outstanding common shares held by the public on the Merger Date.

As of the Merger Date, subsidiaries of Berkshire owned 34,250,000 common shares of GEICO which were acquired in 1980 and earlier years for an aggregate cost of $45.7 million. Up to the Merger Date, neither Berkshire nor its subsidiaries had acquired any shares of GEICO's common stock since 1980. However, Berkshire's ownership percentage, due to intervening stock repurchases by GEICO, gradually increased from about 33% in 1980 to almost 51% immediately prior to the Merger Date.

GEICO, through its subsidiaries, is a multiple line property casualty insurer, the principal business of which is writing private passenger automobile insurance. The condensed financial statements which follow are derived from GEICO's audited consolidated financial statements as of December 31, 1995 and for the year then ended.

GEICO Corporation
(dollars in millions)

Condensed Balance Sheet as of December 31, 1995

Assets	
Cash and cash equivalents	$ 391.6
Investments:	
Securities with fixed maturities	3,680.8
Equity securities	971.1
Other	752.0
	$5,795.5
Liabilities and shareholders' equity	
Property and casualty insurance policyholder liabilities	$3,025.8
Debt	434.4
Other	466.9
	3,927.1
Shareholders' equity	1,868.4
	$5,795.5

Condensed Statement of Earnings For the year ended December 31, 1995

Revenues	
Premiums	$2,787.0
Net investment income	226.8
Realized investment gain	21.6
Other	18.6
	3,054.0
Cost and expenses	
Insurance losses and expenses	2,711.3
Interest on debt	34.4
	2,745.7
Earnings before income taxes	308.3
Income taxes	60.7
Net earnings	$247.6

(3) Merger with GEICO Corporation *(Continued)*

The merger will be accounted for by the purchase method and, therefore, assets and liabilities of GEICO will be recorded in Berkshire's consolidated financial statements at fair value. The excess of the purchase cost over the fair value of net assets acquired at the Merger Date will be recorded as goodwill and subsequently amortized over 40 years. The following unaudited pro forma combined condensed balance sheet results from combining GEICO's condensed consolidated balance sheet with Berkshire's consolidated balance sheet as of December 31, 1995 to give effect to the merger as if it had occurred on such date.

Pro Forma Combined Condensed Balance Sheet
As of December 31, 1995
(dollars in millions)

Assets	
Cash and cash equivalents	$ 758.3
Investments:	
Securities with fixed maturities	5,104.0
Marketable equity securities	20,812.9
Receivables	1,213.9
Goodwill	2,293.7
Other assets	2,432.9
	$32,615.7

Liabilities and shareholders' equity	
Property and casualty insurance policyholder liabilities	$ 7,655.5
Income taxes, principally deferred	4,873.6
Borrowings under investment agreements and other debt	1,475.5
Other liabilities	1,607.8
	15,612.4
Minority shareholders' interest	264.5
Total shareholders' equity	16,738.8
	$32,615.7

The preceding pro forma balance sheet reflects purchase accounting adjustments which result in the consolidation of Berkshire's previously owned investments in GEICO on a "step-by-step" basis, in accordance with the provisions of Accounting Research Bulletin 51, "Consolidated Financial Statements" ("ARB 51"). Prior to the Merger Date the investment in GEICO common stock was classified as an available-for-sale security and carried at market value in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (See Note 6). The change in accounting will result in a decrease in shareholders' equity of about $478 million from the amount reflected on Berkshire's Consolidated Balance Sheet at December 31, 1995.

During the fourth quarter of 1995, the Financial Accounting Standards Board ("FASB") issued a proposed statement of financial accounting standards entitled "Consolidated Financial Statements: Policy and Procedures" ("Exposure Draft") which would supersede ARB 51. The provisions of the Exposure Draft would require that Berkshire recognize, in earnings, the unrealized gains of such earlier GEICO investments. Therefore, if the purchase accounting adjustments had been recorded on the basis of the provisions of the Exposure Draft, shareholders' equity would not have decreased. It is not currently known whether or not the Exposure Draft, in its present form, will be adopted by the FASB.

(4) Realized investment gains (losses)

Realized gains (losses) from sales and redemptions of investments are summarized below (in millions):

	1995	*1994*	*1993*
Marketable equity securities —			
Gross realized gains	$109.9	$185.7	$518.4*
Gross realized losses	(14.2)	(96.9)	(11.9)
Securities with fixed maturities —			
Gross realized gains	100.8	6.8	40.1
Gross realized losses	(2.4)	(4.3)	(0.2)
	$194.1	$ 91.3	$546.4

* *During the fourth quarter of 1993, a subsidiary of Berkshire sold 10,000,000 common shares of its investment in Capital Cities/ABC, Inc. in connection with that company's offer to buy from its shareholders up to 20,000,000 of its common shares. Berkshire's gross realized gain from this transaction was $457.5.*

(5) Investments in securities with fixed maturities

The amortized cost and estimated fair values as of December 31, 1995 and 1994, of investments in securities with fixed maturities are as follows (in millions):

December 31, 1995	*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	$ 80.9	$ 2.2	$ —	$ 83.1
Obligations of states, municipalities and political subdivisions	346.4	17.2	(0.5)	363.1
Redeemable preferred stocks	122.5	125.4	(2.9)	245.0
Mortgage-backed securities	138.3	5.9	(0.2)	144.0
	$ 688.1	$ 150.7	$ (3.6)	$ 835.2

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	$ 733.5	$ —	$ (16.7)	$ 716.8
Obligations of states, municipalities and political subdivisions	601.0	22.3	(3.5)	619.8
Corporate bonds	8.0	2.5	—	10.5
Redeemable preferred stocks	423.0	15.0	(3.0)	435.0
Mortgage-backed securities	40.0	—	(1.4)	38.6
	$1,805.5	$ 39.8	$ (24.6)	$1,820.7

Amounts above exclude securities with fixed maturities held by finance businesses. See note 8.

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.

On September 29, 1994, USAir announced that it was deferring the regular quarterly dividend payments on the USAir Preferred Shares. Since that date, USAir has not paid any dividends on the USAir Preferred Shares. For several years prior to 1995, USAir incurred very significant losses. Consequently, during 1994, Berkshire management concluded that an other-than-temporary decline in the value of USAir Preferred Shares had arisen. The 1994 consolidated statement of earnings includes a pre-tax charge of $268.5 million to reflect the decline.

During 1995, USAir returned to profitability, but continued the deferral of dividends on the USAir Preferred Shares. Berkshire management has estimated the fair value of the USAir Preferred Shares to be $214.8 million at December 31, 1995. The increase of $125.3 million in the estimated fair value over the amount recorded at December 31, 1994, is included as a component of the increase during 1995 in unrealized appreciation of investments.

Shown below are the amortized cost and estimated fair values of the above securities at December 31, 1995, 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 millions.

	Amortized Cost	*Estimated Fair Value*
Due in one year or less	$235.6	$241.0
Due after one year through five years	279.6	409.3
Due after five years through ten years	31.1	37.1
Due after ten years	3.5	3.8
	549.8	691.2
Mortgage-backed securities	138.3	144.0
	$688.1	$835.2

(6) Investments in marketable equity securities

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

December 31, 1995

	Cost	*Unrealized Gains*	*Market*
Common stock of:			
American Express Company [(a)]	$1,392.7	$ 653.6	$ 2,046.3
Capital Cities/ABC, Inc. [(b)]	345.0	2,122.5	2,467.5
The Coca-Cola Company	1,298.9	6,126.1	7,425.0
Federal Home Loan Mortgage Corporation	260.1	783.9	1,044.0
GEICO Corporation [(c)]	45.7	2,347.5	2,393.2
The Gillette Company	600.0	1,902.0	2,502.0
Wells Fargo & Company [(d)]	423.7	1,043.2	1,466.9
All other marketable equity securities	1,379.0	1,276.4*	2,655.4
	$5,745.1	$16,255.2	$22,000.3

December 31, 1994

	Cost	*Unrealized Gains*	*Market*
Common stock of:			
American Express Company [(a)]	$ 723.9	$ 95.0	$ 818.9
Capital Cities/ABC, Inc. [(b)]	345.0	1,360.0	1,705.0
The Coca-Cola Company	1,298.9	3,851.1	5,150.0
Federal Home Loan Mortgage Corporation	270.5	373.9	644.4
GEICO Corporation [(c)]	45.7	1,632.6	1,678.3
The Gillette Company	600.0	1,197.0	1,797.0
Wells Fargo & Company [(d)]	423.7	561.0	984.7
All other marketable equity securities	1,875.4	582.8**	2,458.2
	$5,583.1	$9,653.4	$15,236.5

* *Represents gross unrealized gains $1,302.1 less gross unrealized losses $25.7.*

** *Represents gross unrealized gains $719.0 less gross unrealized losses $136.2.*

(a) *American Express Company*

Common shares of American Express Company ("AXP") owned by Berkshire and its subsidiaries possessed approximately 10% of the voting rights of all AXP shares outstanding at December 31, 1995. The shares are held subject to various agreements with the Federal Reserve Board, Federal Deposit Insurance Corporation and certain state insurance and banking regulators which, among other things, prohibit Berkshire from i) seeking representation on the Board of Directors of AXP (Berkshire may agree, if it so desires, at the request of management or the Board of Directors of AXP to have no more than one representative stand for election to the Board of Directors of AXP) and (ii) acquiring or retaining shares that would cause its ownership of AXP voting securities to equal or exceed 17% of the amount outstanding (should Berkshire have a representative on the board of directors, such amount is limited to 15%). In connection therewith, Berkshire has entered into an agreement with AXP which became effective when Berkshire's ownership interest in AXP voting securities reached 10% and will remain effective so long as Berkshire owns 5% or more of AXP's voting securities. The agreement, among other things, obligates Berkshire, so long as Harvey Golub is chief executive officer of AXP, to vote its shares in accordance with the recommendations of AXP's Board of Directors. Additionally, subject to certain exceptions, Berkshire has agreed not to sell AXP common shares to any person who owns 5% or more of AXP voting securities or seeks to control AXP, without the consent of AXP.

(b) *Capital Cities/ABC, Inc.*

Common shares of Capital Cities/ABC, Inc. ("Capital Cities") owned by Berkshire subsidiaries possessed approximately 13% (consisting of 20,000,000 Capital Cities common shares) of the voting rights of all Capital Cities shares outstanding at December 31, 1995. On January 4, 1996, shareholders of Capital Cities and The Walt Disney Company ("Disney") approved an agreement by and between Disney and Capital Cities whereby each Capital Cities common share will be converted at the election of the holder, subject to certain limitations including proration, into the right to receive for each share of Capital Cities stock either a) one share of Disney common stock and $65 in cash; or b) 2.048 shares of Disney stock; or c) $127 in cash. Berkshire has elected to receive 2.048 shares of Disney stock for each of its shares of Capital Cities stock. However, the election is subject to proration and the actual consideration to be received is not currently known. It is expected that Berkshire will receive its share of the consideration on or about March 14, 1996.

(6) Investments in marketable equity securities *(Continued)*

(c) GEICO Corporation

Subsidiaries of Berkshire owned shares of common stock of GEICO Corporation that possessed approximately 51% of the voting rights of all GEICO shares outstanding at December 31, 1995. Prior to January 2, 1996, Berkshire maintained 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, prohibited 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 was permitted to serve as a director of GEICO. Because the Order divested Berkshire of its voting rights with respect to the shares, Berkshire has not consolidated the accounts of GEICO in its financial statements. On January 2, 1996, Berkshire acquired the remaining 49% of GEICO's common shares not previously owned for $70 per share or approximately $2.3 billion. The acquisition of such shares was pursuant to an Agreement and Plan of Merger dated August 25, 1995, between Berkshire and GEICO. In connection therewith, the independent proxy arrangement was vacated effective January 2, 1996. Accordingly, beginning in 1996, GEICO's accounts will be included in Berkshire's consolidated financial statements. See Note 3 for additional information.

(d) Wells Fargo & Company

Subsidiaries of Berkshire owned common shares of Wells Fargo & Company ("Wells Fargo") that possessed approximately 14% of the voting rights of all Wells Fargo shares outstanding at December 31, 1995. 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.

(7) Investment in Salomon Inc

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

	December 31, 1995			December 31, 1994		
	Cost	Fair Value	Carrying Value	Cost	Fair Value	Carrying Value
Cumulative Convertible Preferred Stock	$560.0	$588.0	$588.0	$ 700.0	$ 735.0	$ 735.0
Common Stock	324.4	234.7	234.7	324.4	248.8	288.4
	$884.4	$822.7	$822.7	$1,024.4	$ 983.8	$1,023.4

At December 31, 1995, Berkshire subsidiaries owned 560,000 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 (14,736,842 at December 31, 1995). Annually on each October 31, Salomon Inc will redeem, at cost, 140,000 of the Preferred Shares or such fewer number as are then outstanding.

As of December 31, 1995, Berkshire subsidiaries possessed approximately 18% 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, 1995.) Prior to October 31, 1995 and since April 1, 1994, Berkshire subsidiaries possessed approximately 20% of total voting rights and Berkshire was therefore following the equity method of accounting with respect to its investment in Salomon Inc common stock. The reduction in total voting rights as of December 31, 1995, resulted from the redemption by Salomon Inc of 140,000 preferred shares on October 31, 1995. Accordingly, Berkshire discontinued the use of the equity method effective October 31, 1995.

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

	1995	*1994*	*1993*
Dividends	$61.9	$63.0	$63.0
Equity in net income (loss) of Salomon attributable to common stock holdings *	16.9	(32.9)	—
	$78.8	$30.1	$63.0

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

(8) 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 millions):

	Dec. 31, 1995	*Dec. 31, 1994*
Assets		
Cash and cash equivalents	$ 40.7	$ 16.0
Installment loans and other receivables	185.9	158.0
Fixed maturity investments [(a)]	529.4	538.9
Other	0.7	4.2
	$756.7	$717.1
Liabilities		
8.125% Notes, payable in 1996	$120.0	$120.0
Borrowings under investment agreements [(b)]	403.6	370.0
Annuity reserves	116.7	41.0
Other	44.9	31.4
	$685.2	$562.4

(a) At December 31, 1995 and 1994, mortgage-backed securities of $336.0 and $396.0 respectively were included in this caption. Estimated fair values and gross unrealized gains and losses as of December 31, 1995 and 1994, are as follows (in millions):

	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
1995	*$529.4*	*$29.0*	*$ (1.0)*	*$557.4*
1994	*538.9*	*0.6*	*(21.1)*	*518.4*

(b) Borrowings under investment agreements are made pursuant to contracts with terms generally ranging from six months to thirty years and at fixed interest rates ranging from 4% to 7%. Payments of amounts outstanding at December 31, 1995, are expected to be required no earlier than as follows (in millions):

1996	*$303.3*
1997	*26.5*
1998	*0.3*
1999	*1.9*
2000	*-0-*
After 2000	*71.6*

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

	1995	1994	1993
Revenues			
Interest on loans	$ 38.4	$ 37.4	$ 42.7
Interest and dividend income	39.2	34.8	20.1
Annuity premiums earned	75.2	36.0	5.6
	152.8	108.2	68.4
Cost and expenses			
Interest expense	28.9	31.7	24.2
Annuity benefits and underwriting expenses	80.8	37.6	5.7
General and administrative expenses	16.5	14.0	16.3
	126.2	83.3	46.2
	$ 26.6	$ 24.9	$ 22.2*

* *Until October 1993, a savings and loan business was also included in this group of businesses. Income from finance businesses includes earnings of $5.9 in 1993 from this business.*

(9) Other assets

Other assets are summarized below (in millions):

	Dec. 31, 1995	Dec. 31, 1994
Goodwill	$ 672.0	$ 454.6
Deferred charges re reinsurance assumed	389.7	440.7
Other	95.1	89.6
	$1,156.8	$ 984.9

(10) Property and casualty insurance policyholder liabilities

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

	Dec. 31, 1995	Dec. 31, 1994
Unpaid losses and loss adjustment expenses*	$3,698.6	$3,430.0
Unearned premiums	374.1	307.2
Funds held under reinsurance assumed	379.0	307.3
Other	178.0	156.3
	$4,629.7	$4,200.8

* *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 $1,283.5 and $1,296.0 at December 31, 1995 and 1994, 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 $221.7 and $231.3 at December 31, 1995 and 1994, respectively.*

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

	1995	1994	1993
Unpaid losses and loss adjustment expenses:			
Balance at beginning of year	$3,430.0	$3,155.9	$3,219.4
Less ceded liabilities and deferred charges	573.9	597.9	655.3
Net balance	2,856.1	2,558.0	2,564.1
Incurred losses recorded:			
Current accident year	556.5	505.1	439.4
All prior accident years	55.5	60.2	11.3
Total incurred losses	612.0	565.3	450.7
Payments with respect to:			
Current accident year	43.6	50.9	47.1
All prior accident years	246.2	216.3	409.7
Total payments	289.8	267.2	456.8
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	3,178.3	2,856.1	2,558.0
Plus ceded liabilities and deferred charges	520.3	573.9	597.9
Balance at end of year	$3,698.6	$3,430.0	$3,155.9

Incurred losses "all prior accident 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. The use of estimates is inherent in the process of establishing unpaid losses and loss expenses. Additional information will be revealed over time and those estimates and assumptions will be revised resulting in gains or losses in the period made.

(11) Income taxes

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

	Dec. 31, 1995	Dec. 31, 1994
Payable currently	$ 86.8	$ 62.4
Deferred	5,501.7	3,230.2
	$5,588.5	$3,292.6

As discussed in Note 1*(m)*, 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. 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.

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 millions):

	1995	1994	1993
Federal	$246.4	$133.5	$320.4
State	22.6	22.1	20.9
Foreign	1.3	3.1	4.0
	$270.3	$158.7	$345.3*
Current	$331.0	$188.5	$400.8
Deferred	(60.7)	(29.8)	(55.5)
	$270.3	$158.7	$345.3*

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994, are shown below (in millions):

	1995	1994
Deferred tax liabilities:		
Relating to unrealized appreciation of investments	$5,717.1	$3,381.3
Other	87.4	71.9
	5,804.5	3,453.2
Deferred tax assets	(302.8)	(223.0)
Net deferred tax liability	$5,501.7	$3,230.2

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

	1995	1994	1993
Net earnings before income taxes	$1,008.8	$ 662.2	$1,189.7
Hypothetical amounts applicable to above computed at the federal statutory rate	$ 353.1	$ 231.8	$ 416.4
Decreases, resulting from:			
Tax-exempt interest income	(10.6)	(14.6)	(15.0)
Dividends received deduction	(86.3)	(81.2)	(68.3)
State income taxes, less federal income tax benefit	14.7	14.4	13.5
Other differences, net	(0.6)	8.3	(1.3)
Total income taxes	$ 270.3	$ 158.7	$ 345.3*

* *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.*

(12) Borrowings under investment agreements and other debt

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

	Dec. 31, 1995	*Dec. 31, 1994*
Borrowings under investment agreements	$ 878.9	$ 754.1
Other debt	182.8	56.6
	$1,061.7	$ 810.7

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% to 9% 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, 1995, are expected to be required no earlier than as follows (in millions):

1996	1997	1998	1999	2000	After 2000
$159.5	$59.2	$107.3	$44.6	$13.7	$677.4

(13) Shareholders' equity accounts

Changes in Shareholders' Equity accounts during the most recent three years were as follows (dollars in millions 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, 1992	$6.9	$ 182.3	$ 5,047.2	$3,702.3	$42.3
Common stock (3,944 shares) issued upon conversion of Zero Coupon Convertible Subordinated Notes		45.5			
Common stock (25,203 shares) issued in connection with acquisition of Dexter Shoe Companies		428.3			(4.7)
Increase during 1993 in unrealized appreciation included in carrying value of marketable equity securities			316.0		
Change during 1993 in deemed applicable income taxes			(119.8)		
Increase in minority shareholders' interest in unrealized appreciation			(2.5)		
Net earnings 1993				688.1	
Cumulative effect of adoption on December 31, 1993, of SFAS 115 (See note 1[*m*])			171.8		
Balance December 31, 1993	6.9	656.1	5,412.7	4,390.4	$37.6
Increase during 1994 in unrealized appreciation included in carrying value of investments			1,481.1		
Change during 1994 in deemed applicable income taxes			(519.5)		
Increase in minority shareholders' interest in unrealized appreciation			(9.9)		
Net earnings 1994				494.8	
Balance December 31, 1994	6.9	656.1	6,364.4	4,885.2	37.6
Common stock (15,762 shares) issued in connection with acquisitions of Helzberg's Diamond Shops and R.C. Willey Home Furnishings		345.6			(2.9)
Increase during 1995 in unrealized appreciation included in carrying value of investments			6,660.3		
Change during 1995 in deemed applicable income taxes			(2,334.8)		
Increase in minority shareholders' interest in unrealized appreciation			(57.1)		
Net earnings 1995				725.2	
Balance December 31, 1995	$6.9	$1,001.7	$10,632.8	$5,610.4	$34.7

(14) Dividend restrictions - Insurance subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1996, Berkshire can receive up to approximately $787 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 $19.5 billion at December 31, 1995. This amount exceeded by approximately $3.2 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.

(15) 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, 1995 and 1994, are as follows (in millions):

	Carrying Value		Estimated Fair Value	
	1995	1994	1995	1994
Investments in securities with fixed maturities	$ 835.2	$ 1,820.7	$ 835.2	$ 1,820.7
Investments in marketable equity securities	22,000.3	15,236.5	22,000.3	15,236.5
Investment in Salomon Inc	822.7	1,023.4	822.7	983.8
Assets of finance businesses	756.7	717.1	792.3	702.9
Borrowings under investment agreements and other debt	1,061.7	810.7	1,095.0	768.6
Liabilities of finance businesses	685.2	562.4	704.4	546.7

(16) Supplemental cash flow information

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

	1995	*1994*	*1993*
Cash paid during the year for:			
Income taxes	$ 294.6	$ 411.1	$ 235.0
Interest	83.9	90.6	70.6
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisition of businesses	248.0	—	26.1
Common shares issued in connection with acquisition of businesses	348.5	—	433.0
Common shares issued upon conversions of Zero Coupon Convertible Subordinated Notes	—	—	45.5

Notes to Consolidated Financial Statements *(Continued)*

(17) 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 millions, except per share amounts.

1995	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 923.5	$1,004.9	$1,083.3	$1,476.0
Earnings:				
Excluding realized investment gain	$ 124.9	$ 127.8	$ 129.3	$ 218.2
Realized investment gain (loss)	(4.7)	51.7	43.2	34.8
Net earnings	$ 120.2	$ 179.5	$ 172.5	$ 253.0
Earnings per share:				
Before realized investment gain	$ 106.12	$ 108.02	$ 108.32	$ 182.82
Realized investment gain (loss)	(4.03)	43.71	36.18	29.16
Net earnings	$ 102.09	$ 151.73	$ 144.50	$ 211.98

1994	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 918.0	$ 868.4	$ 795.5	$1,265.6
Earnings:				
Excluding realized investment gain	$ 82.3	$ 158.8	$ 110.5	$ 82.1*
Realized investment gain (loss)	50.6	5.9	(4.7)	9.3
Net earnings	$ 132.9	$ 164.7	$ 105.8	$ 91.4
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 $172.6 ($146.53/share) representing an other-than-temporary decline in value of investment in USAir Group, Inc. Preferred Stock. See note 5.*

(18) Business segment data

See page 41.

(19) Accounting rule to be adopted in 1996

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121). The Company's required adoption date is January 1, 1996. SFAS 121 standardizes the accounting practices for the recognition and measurement of impairment losses on certain long-lived assets, including goodwill. The Company believes the adoption of SFAS 121 will not have a material impact on its results of operations or financial position.

BERKSHIRE HATHAWAY INC.
Business Segment Data

Berkshire identified eight business segments for purposes of 1995 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 and R.C. Willey Home Furnishings Omaha, NE and Salt Lake City, UT	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 1995 for 79% of Berkshire's consolidated revenues. Other businesses activities that contributed for 1995, in the aggregate, 20% of Berkshire's consolidated revenues, were as follows:

Business identity	Product/Service/Activity
Adalet - PLM	Explosion proof electrical enclosures, cable couplers 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, pressure washers and generators
Carefree	Sun and shade control products for the home and campground
France	Appliance and HVAC controls, ignition and sign transformers
Halex	Zinc die cast conduit fittings and other electrical construction materials
Helzberg's Diamond Shops	Retailing fine jewelry
K&W Products	Automotive compounds
Meriam	Pressure and flow measurement devices
Northland	Fractional horsepower electric motors
Powerwinch	Marine winches and windlasses; general purpose winches and hoists
Precision Steel Products	Steel service center
Quikut	Cutlery for home and sporting goods markets
ScottCare	Cardiopulmonary rehabilitation and monitoring equipment
Scott Fetzer Financial Group	Commercial and consumer finance companies
Scot Labs	Cleaning and maintenance chemicals
Stahl	Custom service bodies, flatbed bodies, cranes and tool boxes for trucks
Wayne	Furnace burners; sump, utility and sewage pumps
Wesco Financial	Real estate management
Western Enterprises	Medical and industrial compressed gas fittings and regulators
Western Plastics	Molded plastic components

Business Segment Data *(Continued)*

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

	Revenues			Operating profit before taxes		
	1995	*1994*	*1993*	*1995*	*1994*	*1993*
Identified Segments:						
Insurance	$1,640.1	$1,437.0	$1,591.2	$ 700.9	$ 639.2	$ 961.4
Non-insurance businesses	1,918.9	1,771.9	1,440.2	249.3	275.4	224.8
	3,559.0	3,208.9	3,031.4	950.2	914.6	1,186.2
Other than identified segments	928.7	638.6	567.9	114.6	(192.3)**	60.1
Interest expense *				(56.0)	(60.1)	(56.6)
Aggregate consolidated total	$4,487.7	$3,847.5	$3,599.3	$1,008.8	$ 662.2	$1,189.7

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

** *Includes pre-tax charge of $268.5 representing an other than temporary decline in value of investment in USAir Group, Inc. Preferred Stock.*

Insurance Segment	Revenues			Operating profit before taxes		
	1995	*1994*	*1993*	*1995*	*1994*	*1993*
Premiums earned: *						
Primary or direct	$ 287.3	$ 281.1	$ 249.6			
Reinsurance assumed	718.4	688.5	442.4			
Reinsurance ceded	(48.2)	(46.4)	(41.3)			
	957.5	923.2	650.7			
Underwriting				$ 19.6	$ 129.0	$ 30.1
Investment income	501.5	421.8	384.6	500.2	418.2	375.4
Realized investment gain	181.1	92.0	555.9	181.1	92.0	555.9
	$1,640.1	$1,437.0	$1,591.2	$ 700.9	$ 639.2	$ 961.4

* *Premiums written were as follows:*

	1995	*1994*	*1993*
Primary or direct	*$ 294.8*	*$ 271.2*	*$ 247.2*
Reinsurance assumed	*777.9*	*689.9*	*528.8*
Reinsurance ceded	*(48.5)*	*(45.6)*	*(38.9)*
	$1,024.2	*$ 915.5*	*$ 737.1*

Non-Insurance Business Segments	Revenues			Operating profit before taxes		
	1995	*1994*	*1993*	*1995*	*1994*	*1993*
Candy	$ 233.6	$ 216.1	$ 201.0	$ 49.3	$ 46.6	$ 40.3
Encyclopedias, other reference material	157.9	191.3	198.8	7.4	24.4	19.4
Home cleaning systems	235.6	207.6	193.9	52.6	43.9	40.9
Home furnishings	428.1	245.4	208.6	28.1	16.9	21.1
Newspaper	154.8	150.9	145.5	46.3	53.7	50.4
Shoes	565.1	609.4	370.2	49.5	76.4	40.0
Uniforms	143.8	151.2	122.2	16.1	13.5	12.7
	$1,918.9	$1,771.9	$1,440.2	$ 249.3	$ 275.4	$ 224.8

Business Segment Data *(Continued)*

Other Than Identified Segments	Revenues 1995	Revenues 1994	Revenues 1993	Operating profit before taxes 1995	Operating profit before taxes 1994	Operating profit before taxes 1993
Other businesses	$877.9	$607.3	$550.7	$ 77.7	$ 59.2	$ 55.2
Not identified with specific businesses:						
Interest and dividend income	37.8	32.0	26.6	37.8	32.0	26.6
Realized investment gain (loss)	13.0	(0.7)	(9.4)	13.0	(0.7)	(9.4)
All other except interest expense				(13.9)	(282.8)*	(12.3)
	$928.7	$638.6	$567.9	$114.6	$(192.3)	$ 60.1

* *Includes pre-tax charge of $268.5 representing an other-than-temporary decline in value of investment in USAir Group, Inc. Preferred Stock.*

	Capital expenditures * 1995	Capital expenditures * 1994	Capital expenditures * 1993	Deprec. & amort. of tangible assets 1995	Deprec. & amort. of tangible assets 1994	Deprec. & amort. of tangible assets 1993
Insurance	$ 1.2	$ 0.9	$ 1.2	$ 0.9	$ 0.9	$ 0.8
Candy	5.1	4.1	4.3	4.1	4.1	4.1
Encyclopedias, other reference material	—	0.1	0.7	1.0	1.4	1.4
Home cleaning systems	0.3	1.0	1.5	3.0	4.2	5.3
Home furnishings	9.2	22.6	5.3	9.7	6.2	2.7
Newspaper	1.8	5.2	3.6	4.9	2.2	1.9
Shoes	13.7	17.9	4.4	12.0	10.2	5.2
Uniforms	0.6	4.6	1.0	2.2	2.5	1.8
Other	22.3	10.7	13.0	22.5	17.9	17.3
	$54.2	$67.1	$35.0	$60.3	$49.6	$40.5

* *Excludes expenditures which were part of business acquisitions.*

	Identifiable assets at year-end 1995	Identifiable assets at year-end 1994	Identifiable assets at year-end 1993
Insurance	$26,497.4	$18,494.2	$16,126.9
Candy	74.5	69.4	70.2
Encyclopedias, other reference material	71.8	75.9	74.7
Home cleaning systems	42.9	42.1	48.7
Home furnishings	427.7	128.4	101.1
Newspaper	45.0	48.4	45.4
Shoes	656.7	672.7	641.6
Uniforms	83.5	94.9	87.6
Other	2,029.3	1,712.2	2,324.3
	$29,928.8	$21,338.2	$19,520.5

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)		
	1995	1994	1993
Property and Casualty Insurance Segment:			
Underwriting	$ 10.4	$ 79.9	$ 19.2
Investment income	416.3	349.2	320.9
Realized investment gain	117.7	61.6	362.7
Total - Property and Casualty Insurance Segment	544.4	490.7	702.8
Non-Insurance business segments	147.4	165.8	133.3
Other businesses	44.0	36.4	33.2
Realized investment gain (loss) not included above	7.3	(0.5)	(6.0)
All other except interest expense	17.0	12.3	6.7
Interest expense	(34.9)	(37.3)	(35.6)
Earnings before nonrecurring charges and effect of accounting change	725.2	667.4	834.4
Nonrecurring charges and effect of accounting change	—	(172.6)	(146.3)
Net earnings	$ 725.2	$ 494.8	$ 688.1

The business segment data 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)		
	1995	1994	1993
Underwriting gain (loss):			
Primary or direct insurance	$ 40.6	$ 48.3	$ 12.7
Reinsurance assumed	(21.0)	80.7	17.3
Underwriting gain — pre-tax	19.6	129.0	30.0
Applicable income taxes	7.2	48.3	10.2
Applicable minority interest	2.0	0.8	0.6
After-tax underwriting gain	$ 10.4	$ 79.9	$ 19.2

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 73% 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 extraordinary capital strength. Statutory surplus as regards policyholders of the Insurance Group increased to approximately $19.5 billion at December 31, 1995. This superior 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)					
	1995		1994		1993	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 777.0		$ 689.8		$ 528.7	
Premiums earned	$ 717.6	100.0	$ 688.4	100.0	$ 442.4	100.0
Losses and loss expenses	522.0	72.7	476.9	69.3	350.9	79.3
Underwriting expenses	216.6	30.2	130.8	19.0	74.2	16.8
Total losses and expenses	738.6	102.9	607.7	88.3	425.1	96.1
Underwriting gain (loss) — pre-tax	$ (21.0)		$ 80.7		$ 17.3	

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 catastrophe and other excess of loss contracts 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. 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. Most contracts specify a maximum aggregate amount of indemnification.

Reinsurance premiums earned from catastrophe excess of loss policies totalled about $260 million in 1995, $447 million in 1994 and $152 million in 1993. Underwriting gains of approximately $152 million in 1995, $240 million in 1994 and $110 million in 1993, 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 last three years, contributed to the underwriting gains in each of these years.

The magnitude of underwriting gains recorded over the last three years from the catastrophe reinsurance business should not be considered predictive of future results. 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.

The increased levels of capital devoted to the catastrophe reinsurance market by the insurance industry in recent years has put pressure on competitors to lower prices below the levels Berkshire management considered adequate. The result was a decrease in acceptances and amounts of premiums earned from catastrophe policies by the Group in 1995. Management anticipates that the level of catastrophe business accepted in 1996 may again decline.

Premiums earned from other property and casualty excess of loss and quota-share coverages totalled about $451 million in 1995, $238 million in 1994 and $253 million in 1993. These coverages gave rise to underwriting losses of $98 million in 1995, $82 million in 1994 and $28 million in 1993. The increase in premiums earned in 1995 over amounts earned in 1994 and 1993 primarily derived from a few sizable excess of loss treaties.

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. Reserves for 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.

Management's Discussion *(continued)*

Property and Casualty Insurance Underwriting (continued)

Reinsurance Assumed *(continued)*

The underwriting results from the reinsurance businesses discussed above reflect net charges of about $30 million in 1995 and $37 million in 1994 of adverse loss development of previous years loss occurrences. 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-1996 losses. Loss development represents corrections of prior estimates and is credited or charged to earnings in the year made. The estimated liability for unpaid losses and loss expenses from reinsurance assumed businesses totalled about $3.1 billion at the end of 1995. Subsequent loss development with respect to a liability of this magnitude is another factor which may cause substantial volatility in future periodic earnings.

Prior to 1993, the Group entered into significant levels of retroactive reinsurance — excess of loss coverage of past events and structured settlement reinsurance — contracts providing periodic payments with respect to settled claims. Opportunities to write retroactive coverages in recent years have been minimal. Underwriting losses with respect to retroactive and structured settlement coverages amounted to $75 million in 1995, $78 million in 1994 and $64 million in 1993, reflecting principally the amortization of deferred charges re reinsurance assumed and accretion of discounted structured settlement liabilities. See Notes 1(*g*) and 1(*h*) 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 1996.

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)					
	1995		1994		1993	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 247.2		$ 225.7		$ 208.4	
Premiums earned	$ 239.9	100.0	$ 234.8	100.0	$ 208.3	100.0
Losses and loss expenses	90.0	37.5	88.4	37.6	99.8	47.9
Underwriting expenses	109.3	45.6	98.1	41.8	95.8	46.0
Total losses and expenses	199.3	83.1*	186.5	79.4*	195.6	93.9*
Underwriting gain — pre-tax	$ 40.6		$ 48.3		$ 12.7	

* *Includes favorable loss development credits: 1995 — $49.3 million, 1994 — $54.1 million and 1993 — $41.6 million. Without such credits, total losses and expenses as a percentage of premiums earned were: 1995 — 103.7%, 1994 — 102.4% and 1993 — 113.9%.*

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 Group companies underwrite various commercial coverages for risks in an increasing number of selected states. Cypress Insurance Company, a specialty carrier, underwrites workers' compensation risks primarily in California. Additionally, these activities include the credit card credit insurance business written nationwide by Central States Indemnity Co. of Omaha ("CSI"). Group members follow disciplined underwriting approaches which encourage rejection of underpriced risks without regard to volume considerations.

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 costs, primarily commissions to credit card issuers, are normally higher, but claim costs are normally 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 $93 million, $72 million and $69 million for 1995, 1994 and 1993, respectively. CSI's net underwriting gain was about $7 million for 1995, $4 million for 1994 and $5 million for 1993.

Property and Casualty Insurance Underwriting (continued)

<u>*Primary or Direct Insurance Underwriting*</u> *(continued)*

Premiums earned by Berkshire's other primary or direct insurance businesses totalled $147 million, $163 million and $140 million for 1995, 1994 and 1993, respectively. Higher amounts of premiums were earned by the Homestate Group in 1995 as compared to 1994. This increase was more than offset by decreased premiums earned in 1995 from each of the other primary or direct insurance businesses. Each primary or direct insurance business operates in highly competitive markets. Soft market conditions which have prevailed over the past several years continued through 1995 with respect to most property and casualty coverages. Management does not foresee any significant change in market conditions which would soon reverse the trend of low premium volume.

Other primary or direct businesses produced a net underwriting gain of $33 million for 1995, $44 million for 1994 and $8 million for 1993. As noted in the preceding table, favorable loss development credits were recorded in each of the last three years. The favorable development recorded in 1995 and 1994 related principally to the traditional commercial business and to the commercial casualty/professional liability/specialty risks operations. In 1993, the favorable development credits related primarily to the traditional commercial business. While the trend of favorable development recognized in recent years is encouraging, there is no certainty that it will continue into future periods.

Insurance Segment Investment Income

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

	(dollars in millions)		
	1995	1994	1993
Investment income before taxes	$500.2	$418.2	$375.4
Applicable income taxes	78.9	64.3	51.2
Applicable minority interest	5.0	4.7	3.3
Investment income after taxes and minority interest	$416.3	$349.2	$320.9

Invested assets increased in each of the past three years. In the three year period, reinvested earnings of the Group and capital contributed by Berkshire totalled approximately $2.1 billion. In addition, over the past three year period, the amount of "float" from policyholder funds increased by approximately $1.3 billion. That term denotes the sum of unpaid losses, unpaid loss adjustment expenses, 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 $3.8 billion at the end of 1995. The amount of pre-tax investment income shown above for 1995 and 1994 includes the equity in net earnings or losses with respect to the Group's investment in common stock of Salomon Inc. For 1995, the Group's equity in net earnings of Salomon was $17 million compared to a loss of $33 million for 1994. See Note 7 to the Consolidated Financial Statements for additional information regarding the investments 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)					
	1995		1994		1993	
	Amount	%	Amount	%	Amount	%
Revenues	$1,918.9	100.0	$1,771.9	100.0	$1,440.2	100.0
Cost and expenses	1,669.6	87.0	1,496.5	84.5	1,215.4	84.4
Operating profit	249.3	13.0	275.4	15.5	224.8	15.6
Income taxes	98.6	5.1	106.2	6.0	87.8	6.1
Minority Interest	3.3	0.2	3.4	0.2	3.7	0.3
Contribution to net earnings	$ 147.4	7.7	$ 165.8	9.3	$ 133.3	9.2

Management's Discussion *(continued)*

Non-Insurance Business Segments (continued)

A comparison of revenues and operating profits between 1995, 1994 and 1993 for each of the seven identifiable non-insurance business segments follows.

	(dollars in millions)						Operating Profit as a % of Revenues		
	Revenues			Operating Profits					
Segment	1995	1994	1993	1995	1994	1993	1995	1994	1993
Candy	$ 233.6	$ 216.1	$ 201.0	$ 49.3	$ 46.6	$ 40.3	21.1	21.6	20.0
Encyclopedias, other reference material	157.9	191.3	198.8	7.4	24.4	19.4	4.7	12.8	9.8
Home cleaning systems	235.6	207.6	193.9	52.6	43.9	40.9	22.3	21.1	21.1
Home furnishings	428.1	245.4	208.6	28.1	16.9	21.1	6.6	6.9	10.1
Newspaper	154.8	150.9	145.5	46.3	53.7	50.4	29.9	35.6	34.6
Shoes	565.1	609.4	370.2	49.5	76.4	40.0	8.8	12.5	10.8
Uniforms	143.8	151.2	122.2	16.1	13.5	12.7	11.2	8.9	10.4
	$1,918.9	$1,771.9	$1,440.2	$249.3	$275.4	$224.8			

1995 compared to 1994

Revenues from the seven identifiable non-insurance business segments of $1,918.9 million increased $147.0 million (8.3%) from the prior year. The overall operating profit from these business segments of $249.3 million decreased $26.1 million (9.5%). 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 $17.5 million (8.1%) over comparable prior year amounts. The comparative increase in revenues is primarily due to increased volume. Total pounds of candy sold increased about 7.1%. Most of the volume increase arose from *See's* quantity order and mail order programs. Total pounds sold during 1995 from quantity order and mail order programs increased about 15%.

Operating profits increased $2.7 million (5.8%) over comparable prior year amounts. Somewhat offsetting the favorable impact on profits of the increased volume was increased advertising and payroll costs. Such increases primarily related to *See's* continuing efforts to intensify the marketing of its mail order and quantity order business.

Encyclopedias, Other Reference Materials

Revenues of this segment declined $33.4 million (17.5%) from 1994. The decline continues the trend of reduced unit sales of printed encyclopedias (*World Book* and *Childcraft*) which began in 1989 when revenues from this segment were in excess of $300 million. Operating profits of this segment declined $17.0 million (69.7%) from 1994. The comparative decline in operating profits was primarily due to the decline in revenues. Also negatively impacting comparative operating profits were increased paper costs and a higher ratio of administrative, selling and editorial costs to revenues.

The quantity of print products sold in the future will be influenced by the capacity of the company to market and sell an expanded line of products which better combine the advantages of print and electronic media. *World Book* sold more than $4.0 million of multimedia encyclopedia products in 1995 and has significantly expanded its efforts to increase the number of CD-ROM titles in its library. Management believes the increased efforts in marketing and product innovation will enhance the capacity of the company to compete in the home and school markets for educational products.

Management is concerned about the impact of the continued increase in home computers equipped with CD-ROMs and the lower price of CD-ROM encyclopedias in comparison to printed encyclopedias, *World Book* has stepped up its efforts to market its CD-ROM product (*World Book Multimedia Encyclopedia*). It is hoped that this product and other similar offerings will provide *World Book* an opportunity to better compete in an industry which is beset by increasingly tough competition from other CD-ROM and on-line offerings.

Non-Insurance Business Segments (continued)

1995 compared to 1994 *(continued)*

Encyclopedias, Other Reference Material *(continued)*

At the end of 1995, *World Book* began implementing various significant cost cutting measures. These measures included significant reductions in administrative costs and a major change in the way it distributes printed encyclopedias. It will take time to evaluate the effects of the various initiatives, but management is cautiously optimistic that such efforts will improve the prospects of this business.

Home Cleaning Systems

Revenues of the home cleaning systems segment increased $28.0 million (13.5%) and operating profits increased $8.7 million (19.8%) over prior year amounts. Unit sales volume increased 8% domestically and 24% in international markets. Foreign *Kirby* sales represent approximately 21% of total unit volume. The favorable comparative results are attributed to an increase in the average number of domestic distributors and improvements in the structure of the sales force in international markets. The businesses comprising this segment were acquired in connection with Berkshire's acquisition in 1986 of Scott Fetzer. Since that time, operating profits generated from these businesses have more than doubled and revenues have increased over 85%. Management anticipates continued successful results from this segment.

Home Furnishings

Revenues from this segment increased in 1995 by $182.7 million (74.4%) over the prior year. The major reason for the increase was an acquisition which took place at mid-year. Effective June 29, 1995, Berkshire consummated a merger with R.C. Willey Home Furnishings ("*R.C. Willey*") and acquired 100% of the stock of the privately held corporation. *R.C. Willey*, through its seven retail locations, is the dominant retailer of home furnishings in Utah. *R.C. Willey* sells the same types of products as the *Nebraska Furniture Mart* (the business formerly comprising this segment). Both businesses have about the same annual sales volume. For the last half of 1995, *R.C. Willey* contributed about $150 million to the overall comparative revenue increase of this segment.

Operating profits of $28.1 million were $11.2 million (66.3%) greater than in 1994. *R.C. Willey's* inclusion in this segment's results for the second half of the year more than accounts for the increase in comparative operating profits. Nebraska Furniture Mart's ("*NFM*") comparative operating profits declined about 10% in 1995 as compared to 1994. The reduction in *NFM* operating profits resulted primarily from increased depreciation charges and payroll costs related to the first full year of operation of its electronics superstore more than offsetting the benefits of volume increases. The superstore known as the "*Mega Mart*" opened in November 1994.

Newspaper

Operating profits during 1995 of $46.3 million declined $7.4 million (13.8%) over the comparable 1994 amount. The decline in operating profits was not unexpected and was predicted in Berkshire's 1994 management's discussion. A major factor contributing to the decline in operating profits was a sharp increase in newsprint costs. The costs per metric ton of newsprint increased almost 40% in 1995 as compared to 1994. For several years prior to 1995, newsprint costs had either been stable or had declined. While management doesn't expect these costs to rise in 1996 at the same rate, it is still possible that additional increases of 5% to 10% will occur.

Two other factors contributed somewhat to lower comparative operating profits. Special one-time charges were recorded to accrue the costs of buying out the contracts of a number of composing room employees whose services are not required under present production techniques but whose jobs were subject to lifetime guarantees. Additionally, adjustments were made to the periods over which certain data handling and electronic equipment were being depreciated.

Over the last several years, the attractiveness of newspaper businesses as strong economic franchises has been reduced. While the industry retains excellent economics, over time it can be expected that the competitive strength of the newspaper business will gradually erode. However, management expects that the newspaper business and the *Buffalo News* in particular will remain a fine business for many years to come.

Management's Discussion *(continued)*

Non-Insurance Business Segments *(continued)*

1995 compared to 1994 (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 76 retail outlet stores and *H. H. Brown* operates 15 retail shoe stores.

Revenues during 1995 of $565.1 million were lower than the prior year by $44.3 million (7.3%). Operating profits of this segment declined $26.9 million (35.3%) in 1995 as compared to the prior year. All of the businesses which comprise this segment experienced declines in revenues and profits.

The footwear industry, with the exception of the athletic segment, experienced depressed earnings during 1995 and many competitors earned only marginal profits or incurred losses. Intense competition resulted in many footwear manufacturers and importers selling their products at or below cost. A flurry of retail consolidations and closings resulted in a surplus of close-out merchandise and made sales of regular priced products extremely difficult.

Management is optimistic that 1996 will be a better year for the footwear industry. The three businesses that comprise this segment provide functional footwear products to many niche markets. It is anticipated that these businesses will be able to capitalize on opportunities resulting from a reduction in competition. In order to maximize future opportunities, the businesses intend to focus on lowering production and administrative costs. Over time, it is expected that Berkshire's shoe businesses will return to higher earnings levels more in line with 1994's results.

Uniforms

The uniform segment's revenues decreased $7.4 million (4.9%) in 1995 as compared to 1994. However, operating profits in 1995 increased $2.6 million (19.3%) over the comparable prior year figure. The decline in comparative revenues was attributable to a reduction in sales to New York City fire fighters in connection with a special three year program which incepted in 1994. Somewhat offsetting the aforementioned revenue declines were increases in revenues from the segment's core uniform manufacturing businesses. Margins related to the New York City Fire Department business are significantly less than those of the core uniform manufacturing business. Thus, in spite of the overall decline in revenues, comparative operating profits increased primarily due to the sales mix change.

1994 compared to 1993

Revenues from the non-insurance business segments increased $331.7 million (23.0%) in 1994 as compared to 1993. The most significant revenue increase arose in the "shoes" segment where revenues increased $239.2 million (64.6%) over the comparable prior year figures. The acquisition of *Dexter* late in 1993 accounts for a substantial portion of the comparative increase as 1994 results include *Dexter's* business for the full year as compared to about two months in 1993. With the exception of the "encyclopedias, other reference material" segment, all other reportable non-insurance business segments experienced increases in comparative revenues in 1994 vs. 1993. The decline in the "encyclopedias, other reference material" segment was a result of the continuation of a reduction which began in 1989 in printed encyclopedia sales. (See preceding section regarding comparative 1995 vs. 1994 results for a discussion regarding the decline in *World Book* unit sales.)

Operating profits of $275.4 million during 1994 were $50.6 million (22.5%) greater than in 1993. The "shoes" segment with a comparative increase of $36.4 million (91.0%) was the major contributor to the comparative increase. The *Dexter* acquisition accounts for substantially all the comparative increase in operating profits for the "shoes" segment.

Non-Insurance Business Segments (continued)

Business Other Than Identified Segments

	(dollars in millions)		
	1995	1994	1993
Revenues	$877.9	$607.3	$550.7
Operating profit	$ 77.7	$ 59.2	$ 55.2
Income taxes	32.7	22.1	20.8
Minority interest	1.0	0.7	1.2
Contribution to net earnings	$ 44.0	$ 36.4	$ 33.2

The above represent aggregate data for businesses that numbered 25 in 1995. Revenues from businesses not identified with specific business segments increased by $270.6 million (44.6%) in 1995 as compared to the prior year. Operating profits from this group of businesses increased by $18.5 million (31.2%) in 1995 versus the prior year. Most of this increase in revenues during 1995 relates to the acquisition of Helzberg's Diamond Shops ("Helzberg's") on April 30, 1995. Helzberg's consists of a chain of 166 retail jewelry stores operating in 25 states. Operating profits generated by Helzberg's during the last eight months of 1995 more than account for the increase in 1995 operating profits as compared to the prior two years.

Interest Expense

The decrease in interest expense in 1995 as compared to 1994 primarily results from the fact that average outstanding borrowings under investment agreements decreased by about $64 million during 1995 as compared to 1994. Additionally, the average interest rate related to such borrowings decreased from 6.6% in 1994 to 6.5% in 1995. The level of average borrowings under investment agreements in 1994 was approximately $80 million greater than the comparable 1993 amount and primarily accounts for the increase in 1994's interest expense over the comparable 1993 amount.

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. in connection with that Company's offer to buy from its shareholders up to twenty million of its common shares. Berkshire's after-tax gain from this transaction was $297.4 million.

Nonrecurring charges and accounting changes

As more fully described in Note 5 to the Consolidated Financial Statements, during 1994 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.

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(*m*) and 11 to the Consolidated Financial Statements.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1995, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $8.9 billion at December 31, 1992 to approximately $17.2 billion at December 31, 1995. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $6.0 billion, and reinvested earnings, other than realized securities gains, were about $1.4 billion.

The following events occurred subsequent to December 31, 1995 and will impact future operating results and liquidity.

GEICO Acquisition

As more fully described in Note 3 to the Consolidated Financial Statements, on January 2, 1996 the Company consummated a merger with GEICO Corporation ("GEICO"). The merger was pursuant to an agreement dated August 25, 1995, whereby the Company agreed to acquire for cash each issued and outstanding common share of GEICO except shares already held by Berkshire. The cost of acquiring such shares was approximately $2.3 billion. The Company utilized cash and cash equivalents which were on hand at December 31, 1995 to acquire the GEICO common shares.

GEICO, through its subsidiaries, is a multiple line property/casualty insurer, the principal business of which is writing private passenger automobile insurance. Beginning in 1996, GEICO's results will be included in the Company's consolidated financial statements. Inclusion of GEICO will have a substantial effect on comparative period-to-period underwriting results and investment income earned by the Insurance Group during 1996. GEICO's 1995 condensed financial statements are included in Note 3 to the Consolidated Financial Statements.

Capital Cities/ABC, Inc. acquisition by The Walt Disney Company

On January 4, 1996, shareholders of Capital Cities/ABC, Inc. ("Capital Cities") and The Walt Disney Company ("Disney") approved an agreement whereby each Capital Cities common share will be converted at the election of the holder, subject to certain limitations including proration, into the right to receive for each share of Capital Cities stock either a) one share of Disney stock and $65 in cash; or b) 2.048 shares of Disney stock; or c) $127 in cash. At December 31, 1995, Berkshire held 20 million Capital Cities common shares. The Company has elected the option of receiving 2.048 shares of Disney stock for each of its shares of Capital Cities stock. However, the election is subject to proration and the actual consideration to be received is not currently known.

Proposed Recapitalization

On February 13, 1996, Berkshire announced that at its annual meeting of shareholders to be held on May 6, 1996, shareholders will be asked to approve a recapitalization of Berkshire, creating two classes of common stock. If the recapitalization is approved, among other things, a new class of stock to be designated Class B Common Stock will be authorized. Berkshire's existing common stock will be redesignated as Class A Common Stock. Each share of Class A Common Stock will be convertible at the option of the holder into thirty shares of Class B Common Stock.

For the purpose of creating an initial supply of Class B shares, Berkshire intends to make a public offering of at least $100 million of new Class B shares. Berkshire could, of course, issue more than $100 million of Class B shares, and will do so if believed necessary to forestall any speculative excesses in the market for its stock. Berkshire expects to find constructive uses from the proceeds generated from the public offering. However, at this time, the Company has no specific plans for utilizing the proceeds. The offering will be made only by means of a prospectus and is expected to occur, subject to shareholder approval of the recapitalization, reasonably soon following the annual meeting.

Selected Financial Data for the Past Five Years

(dollars in millions, except per share data)

	1995	1994	1993	1992	1991
Revenues:					
Sales and service revenues	$2,755.9	$2,351.9	$1,962.9	$1,774.4	$1,651.1
Insurance premiums earned	957.5	923.2	650.7	664.3	776.4
Interest and dividend income	474.8	426.1	354.1	364.9	347.3
Income from investment in Salomon Inc	78.8	30.1	63.0	63.0	63.0
Income from finance businesses	26.6	24.9	22.2	20.7	19.5
Realized investment gain	194.1	91.3	546.4	89.9	192.5
Total revenues	$4,487.7	$3,847.5	$3,599.3	$2,977.2	$3,049.8
Earnings:					
Before realized investment gain and cumulative effect of accounting change	$600.2	$433.7[1]	$402.4[2]	$347.7	$315.7
Realized investment gain	125.0	61.1	356.7	59.6	124.2
Cumulative effect of change in accounting for income taxes	—	—	(71.0)	—	—
Net earnings	$725.2	$494.8	$688.1	$407.3	$439.9
Earnings per share:					
Before realized investment gain and cumulative effect of accounting change	$505.60	$368.21[1]	$348.03[2]	$303.29	$275.42
Realized investment gain	105.30	51.91	308.50	51.95	108.30
Cumulative effect of change in accounting for income taxes	—	—	(61.39)	—	—
Net earnings	$610.90	$420.12	$595.14	$355.24	$383.72
Year-end data:					
Total assets	$29,928.8	$21,338.2	$19,520.5	$17,132.0	$14,461.9
Borrowings under investment agreements and other debt [3]	1,061.7	810.7	972.4	1,154.7	1,100.5
Shareholders' equity	17,217.1	11,875.0	10,428.5	8,896.4	7,379.9
Common shares outstanding, in thousands	1,194	1,178	1,178	1,149	1,146
Shareholders' equity per outstanding share	$ 14,426	$ 10,083	$ 8,854	$ 7,745	$ 6,437

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[1] *Includes a charge of $172.6 ($146.53/share) representing an other-than-temporary decline in value of investment in USAir Group, Inc. Preferred Stock.*

[2] *Includes a charge of $75.3 ($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 fifteen 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
1995	$12	96.3%	$11,558,616	3,600

* *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 1996, the notice will be mailed on or about September 15 **to Class A shareholders of record reflected in our Registrar's records as of the close of business August 31, 1996,** and shareholders will be given until **November 15** to respond.

Shareholders should note the fact that Class A 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. Also, shareholders should note that Class B shares will not be eligible to participate in the program (See pages 18-19 for additional information concerning the proposed recapitalization).

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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 property/casualty coverages for especially large or unusual risks. The Commercial Casualty Division and the Professional Liability and Special Risk Division solicit and underwrite the large or unusual risks. The "Homestate Group" companies underwrite various commercial coverages for risks in an increasing number of selected states. A California domiciled member provides workers' compensation insurance to principally employers in that state. In addition, a Nebraska domiciled company issues credit insurance distributed through credit card issuers nationwide.

A Reinsurance Division provides treaty and limited facultative reinsurance to other property/casualty insurers and reinsurers. This division is currently one of the leading providers in the world of property/catastrophe protection.

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 1995 were approximately 5% of the Group's year-end statutory surplus. That compares to an industry average premiums-to-surplus ratio of about 130% (for 1994). The obvious margins of safety thus provided to insureds of the Group are particularly persuasive in marketing of individually negotiated insurance and reinsurance contracts.

On January 2, 1996, GEICO Corporation ("GEICO") became an indirect wholly-owned subsidiary of Berkshire. GEICO is a multiple line property and casualty insurer, the principal business of which is writing private passenger automobile insurance. Beginning in 1996, GEICO's results will be combined with Berkshire's other property/casualty insurance businesses in developing these statements. A condensed balance sheet as of December 31, 1995 and condensed earnings statement for the year then ended of GEICO can be found on page 30.

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, 1995	December 31, 1994
Assets		
Investments:		
Fixed maturities at market	$ 821.1	$ 1,509.4
Equity securities at market:		
American Express Company	2,000.5	794.1
Capital Cities/ABC, Inc.	2,405.8	1,662.4
The Coca-Cola Company	7,407.2	5,137.6
Federal Home Loan Mortgage Corporation	1,044.0	644.4
GEICO Corporation	2,393.2	1,678.3
The Gillette Company	2,502.0	1,797.0
Wells Fargo & Company	1,426.8	957.8
Other	2,633.6	2,451.9
Salomon Inc	782.1	972.2
	23,416.3	17,605.1
Cash and cash equivalents	2,328.9	90.3
Deferred costs	389.7	468.2
Other	335.4	301.9
	$26,470.3	$18,465.5
Liabilities		
Losses and loss adjustment expenses	$ 3,698.6	$ 3,430.0
Unearned premiums	374.1	307.2
Funds held under reinsurance assumed	379.0	307.3
Accounts payable, accruals and other	238.9	255.0
Income taxes, principally deferred	5,483.3	3,209.3
	10,173.9	7,508.8
Equity		
Minority shareholders'	196.4	136.5
Berkshire shareholders'	16,100.0	10,820.2
	16,296.4	10,956.7
	$26,470.3	$18,465.5

Statements of Earnings
(dollars in millions)

	1995	1994	1993
Premiums written	$1,024.2	$ 915.5	$ 737.1
Premiums earned	$ 957.5	$ 923.2	$ 650.7
Losses and loss expenses	612.0	565.3	450.7
Underwriting expenses	325.0	228.0	169.1
Total losses and expenses	937.0	793.3	619.8
Underwriting gain — pre-tax	20.5	129.9	30.9
Net investment income*	501.6	419.4	375.4
Realized investment gain	181.1	92.0	555.9
Other-than-temporary decline in value of investment in USAir Group, Inc. Preferred Stock	—	(261.0)	—
Earnings before income taxes	703.2	380.3	962.2
Income tax expense	149.0	51.7	254.4
	554.2	328.6	707.8
Minority interest	7.5	4.3	4.1
Net earnings	$ 546.7	$ 324.3	$ 703.7
** Net investment income is summarized below:*			
Dividends	*$385.0*	*$362.4*	*$306.7*
Interest	*99.6*	*92.2*	*77.9*
Equity in unremitted net earnings (loss) of Salomon Inc	*18.3*	*(31.7)*	*—*
Investment expenses	*(1.3)*	*(3.5)*	*(9.2)*
	$501.6	*$419.4*	*$375.4*

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 - PLM	Explosion proof electrical enclosures, cable couplers 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, pressure washers and generators
Carefree	Sun and shade control products for the home and campground
Cleveland Wood Products	Vacuum cleaner brushes and bags
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 and HVAC controls; ignition and sign transformers
H. H. Brown Shoe Co.	Work shoes, boots and casual footwear
Halex	Zinc die cast conduit fittings and other electrical construction materials
Helzberg's Diamond Shops	Retailing fine jewelry
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 electric motors
Powerwinch	Marine winches and windlasses; general purpose winches and hoists
Precision Steel Products	Steel service center
Quikut	Cutlery for the home and sporting goods markets
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, flatbed bodies, cranes and tool boxes for trucks
Wayne	Furnace burners; sump, utility and sewage pumps
Western Enterprises	Medical and industrial compressed gas fittings and regulators
Western Plastics	Molded plastic components
R.C. Willey Home Furnishings	Retailing home furnishings
World Book	Printed and multimedia encyclopedias and other reference materials

BERKSHIRE HATHAWAY INC.

MANUFACTURING, PUBLISHING AND RETAILING BUSINESSES

Balance Sheets
(dollars in millions)

	December 31, 1995	December 31, 1994
Assets		
Cash and cash equivalents	$ 124.5	$ 77.0
Accounts receivable	454.7	308.8
Inventories	556.0	398.2
Properties and equipment	285.5	219.6
Other	34.3	29.8
	$ 1,455.0	$ 1,033.4
Liabilities		
Accounts payable, accruals and other	$ 398.3	$ 293.4
Income taxes	20.1	30.5
Term debt and other borrowings	150.6	21.7
	569.0	345.6
Equity		
Minority shareholders'	39.5	40.1
Berkshire shareholders'	846.5	647.7
	886.0	687.8
	$ 1,455.0	$ 1,033.4

Statements of Earnings
(dollars in millions)

	1995	1994	1993
Revenues:			
Sales and service revenues	$2,755.9	$2,351.9	$1,962.9
Interest income	25.1	9.1	8.0
	2,781.0	2,361.0	1,970.9
Cost and expenses:			
Cost of products and services sold	1,698.4	1,442.9	1,172.5
Selling, general and administrative expenses	741.4	578.5	522.2
Interest on debt	9.1	3.7	3.7
	2,448.9	2,025.1	1,698.4
Earnings from operations before income taxes	332.1	335.9	272.5
Income tax expense	126.4	122.3	103.7
	205.7	213.6	168.8
Minority interest	4.5	4.9	4.5
Net earnings	$ 201.2	$ 208.7	$ 164.3

This presentation reflects the results of operations of Dexter Shoe Company, Helzberg's Diamond Shops and R.C. Willey Home Furnishings from their respective dates of acquisition (Dexter — November 7, 1993; Helzberg's — April 30, 1995; Willey — June 29, 1995).

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 63.

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.

Balance Sheets
(dollars in millions)

	December 31, 1995	December 31, 1994
Assets		
Cash and cash equivalents	$ 40.7	$ 16.0
Fixed maturity investments	529.4	538.9
Installment and other receivables	195.7	173.2
Deferred tax assets	14.2	6.2
Other	0.7	1.5
	$ 780.7	$ 735.8
Liabilities		
Borrowings under investment agreements and other debt	$ 523.6	$ 601.6
Accounts payable, accruals and other	76.5	31.5
Annuity reserves	116.7	41.0
	716.8	674.1
Equity		
Berkshire shareholders'	63.9	61.7
	$ 780.7	$ 735.8

Statements of Earnings
(dollars in millions)

	1995	1994	1993*
Revenues:			
Interest and fees on loans and financed receivables	$ 37.9	$ 37.8	$ 43.6
Interest and dividends on investment securities	43.7	35.4	21.0
Annuity premiums earned	75.2	36.0	5.6
	156.8	109.2	70.2
Expenses:			
Interest expense	38.7	35.5	25.2
Annuity benefits and underwriting expenses	80.8	37.7	5.6
General and administrative	16.5	13.9	16.2
	136.0	87.1	47.0
Earnings from operations before income taxes	20.8	22.1	23.2
Income tax expense	8.2	7.5	7.7
	12.6	14.6	15.5
Minority interest	—	—	0.8
Net earnings	$ 12.6	$ 14.6	$ 14.7

* *Until October 1993, a savings and loan business was also included in this group of businesses. Net earnings includes $3.2 related to this business.*

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 57 to 62).

Statements of Net Assets
(dollars in millions)

	December 31, 1995	December 31, 1994
Assets		
Cash and cash equivalents	$ 250.4	$ 106.2
Investments:		
Fixed maturities:		
Bonds	8.2	286.8
Preferred stocks	46.6	75.8
Equity securities	187.1	113.0
Unamortized goodwill and property account adjustments *	747.6	520.4
Deferred tax assets	2.4	8.0
Other	56.6	186.3
	$ 1,298.9	$ 1,296.5
Liabilities		
Accounts payable, accruals and other	$ 50.6	$ 62.2
Income taxes	94.4	67.3
Borrowings under investment agreements and other debt	918.6	799.0
	1,063.6	928.5
Equity		
Minority shareholders'	28.6	22.7
Berkshire shareholders'	206.7	345.3
	235.3	368.0
	$ 1,298.9	$ 1,296.5

Statements of Earnings
(dollars in millions)

	1995	1994	1993
Revenues:			
Interest and dividend income	$ 37.5	$ 31.1	$ 24.3
Realized investment gain (loss)	13.0	(0.7)	(9.4)
	50.5	30.4	14.9
Expenses:			
Corporate administration	5.3	5.0	4.9
Shareholder-designated contributions	11.6	10.4	9.4
Amortization of goodwill and property account adjustments *	27.0	22.5	17.1
Interest on debt	55.3	59.4	54.0
Other (income) expense	(1.4)	1.7	(2.3)
Other-than-temporary decline in value of investment in USAir Group, Inc. Preferred Stock	—	7.5	—
	97.8	106.5	83.1
Loss before income taxes	(47.3)	(76.1)	(68.2)
Income tax expense (benefit)	(13.3)	(22.8)	125.8**
	(34.0)	(53.3)	(194.0)
Minority interest	1.3	(0.5)	0.6
Net loss	$ (35.3)	$ (52.8)	$ (194.6)

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

** *Includes nonrecurring charges of $146.3 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, ℅ Boston EquiServe, P.O. Box 644, Boston, MA 02102-0644 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence may be directed to Investor Relations, Mail Stop 45-02-64. Phone inquiries should be directed to Investor Relations — (617) 575-3100. Certificates for re-issue or transfer should be directed to the Transfer Processing Section, Mail Stop 45-01-05. Subject to the ratification by shareholders of a proposed recapitalization, certificates for conversions of Class A Common Stock should also be directed to the Transfer Processing Section. **Certificates should not be mailed to the Company**.

Shareholders

The Company had approximately 9,000 record holders of its common stock at March 8, 1996. Record owners included nominees holding at least 215,000 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:

1995	High	Low	1994	High	Low
First Quarter	$25,200	$20,250	First Quarter	$16,900	$15,150
Second Quarter	24,450	21,500	Second Quarter	16,700	15,400
Third Quarter	30,600	23,400	Third Quarter	19,750	16,425
Fourth Quarter	33,400	28,850	Fourth Quarter	20,800	19,200

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,
President of International Operations, The GSI Group, a company primarily engaged in the manufacture of agricultural equipment.

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 (1977 through 1993) are available upon written request. A two volume set will be furnished to shareholders without charge. Shareholders of record requesting the compilations should provide their name and address as recorded on their stock certificate. Beneficial-but-not-of-record shareholders should include a copy of a broker's statement showing shares held. Non-shareholders may order the two volume set by submitting a written request and a payment to cover production, postage and handling costs of $15.00 for delivery in the United States or $30.00 (in U.S. currency) for delivery outside of the United States. Requests should be submitted to the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131.

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Executive Offices — 1440 Kiewit Plaza, Omaha, Nebraska 68131

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