Berkshire Hathaway Inc.

1997
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. Included in this group of subsidiaries is GEICO Corporation, the seventh largest auto insurer in the United States.

Investment portfolios of insurance subsidiaries include meaningful equity ownership percentages of other publicly traded companies. Investments in excess of 5% of the investees outstanding capital stock at the end of 1997 include approximately 10½% of the outstanding capital stock of American Express Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 9½% of the capital stock of Federal Home Loan Mortgage Corporation ("Freddie Mac"), approximately 8½% of the capital stock of The Gillette Company, approximately 16½% of the capital stock of The Washington Post Company and approximately 8% of the capital stock of Wells Fargo & Company. Much information about these publicly-owned companies is available, including information released from time to time by the companies themselves.

Additionally, Berkshire Hathaway Inc. publishes the *Buffalo News*, a daily and Sunday newspaper in Western New York. Other business activities conducted by non-insurance subsidiaries include manufacture and sale of boxed chocolates and other confectionery products (*See's Candies*), manufacture and marketing of home cleaning systems and related accessories (sold principally under the *Kirby* name), retailing of home furnishings (*Nebraska Furniture Mart, R.C. Willey Home Furnishings* and *Star Furniture 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 training to operators of aircraft and ships throughout the world (*FlightSafety International*). On January 7, 1998, Berkshire Hathaway completed its previously announced acquisition of International Dairy Queen (*Dairy Queen*). Dairy Queen licenses and services a system of approximately 5,800 Dairy Queen stores which feature hamburgers, hot dogs, various dairy desserts and beverages. Berkshire also owns a number of other businesses engaged in a variety of activities, as identified in this report.

Operating decisions for the various Berkshire businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for Berkshire and its subsidiaries by Warren E. Buffett, in consultation with Charles T. Munger. Mr. Buffett is Chairman and Mr. Munger is Vice Chairman of Berkshire's Board of Directors.

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The color of this year's cover is in honor of Tom Osborne and the 1997 Nebraska football team. After leading the Huskers to three national championships in the past four years, Tom elected to retire at the end of 1997. His record as the premier coach in the country is matched by his record in helping boys grow into men.

BERKSHIRE HATHAWAY INC.

1997 ANNUAL REPORT

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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
1996	31.8	23.0	8.8
1997	34.1	33.4	.7

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

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

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.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Our gain in net worth during 1997 was $8.0 billion, which increased the per-share book value of both our Class A and Class B stock by 34.1%. Over the last 33 years (that is, since present management took over) per-share book value has grown from $19 to $25,488, a rate of 24.1% compounded annually.*

Given our gain of 34.1%, it is tempting to declare victory and move on. But last year's performance was no great triumph: *Any* investor can chalk up large returns when stocks soar, as they did in 1997. In a bull market, one must avoid the error of the preening duck that quacks boastfully after a torrential rainstorm, thinking that its paddling skills have caused it to rise in the world. A right-thinking duck would instead compare its position after the downpour to that of the other ducks on the pond.

So what's our duck rating for 1997? The table on the facing page shows that though we paddled furiously last year, passive ducks that simply invested in the S&P Index rose almost as fast as we did. Our appraisal of 1997's performance, then: Quack.

When the market booms, we tend to suffer in comparison with the S&P Index. The Index bears no tax costs, nor do mutual funds, since they pass through all tax liabilities to their owners. Last year, on the other hand, Berkshire paid or accrued $4.2 billion for federal income tax, or about 18% of our beginning net worth.

Berkshire will always have corporate taxes to pay, which means it needs to overcome their drag in order to justify its existence. Obviously, Charlie Munger, Berkshire's Vice Chairman and my partner, and I won't be able to lick that handicap every year. But we expect over time to maintain a modest advantage over the Index, and that is the yardstick against which you should measure us. We will not ask you to adopt the philosophy of the Chicago Cubs fan who reacted to a string of lackluster seasons by saying, "Why get upset? Everyone has a bad century now and then."

Gains in book value are, of course, not the bottom line at Berkshire. What truly counts are gains in per-share intrinsic business value. Ordinarily, though, the two measures tend to move roughly in tandem, and in 1997 that was the case: Led by a blow-out performance at GEICO, Berkshire's intrinsic value (which far exceeds book value) grew at nearly the same pace as book value.

For more explanation of the term, intrinsic value, you may wish to refer to our Owner's Manual, reprinted on pages 62 to 71. This manual sets forth our owner-related business principles, information that is important to all of Berkshire's shareholders.

In our last two annual reports, we furnished you a table that Charlie and I believe is central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value. The first column lists our per-share ownership of investments (including cash and equivalents) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments (discussed on pages 69 and 70), but after all interest and corporate expenses. The second column excludes all dividends, interest and capital gains that we realized from the investments presented in the first column. In effect, the columns show what Berkshire would look like were it split into two parts, with one entity holding our investments and the other operating all of our businesses and bearing all corporate costs.

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*All figures used in this report apply to Berkshire's A shares, the successor to the only stock that the company had outstanding before 1996. The B shares have an economic interest equal to 1/30th that of the A.

Year	Investments Per Share	Pre-tax Earnings Per Share Excluding All Income from Investments
1967	$ 41	$ 1.09
1977	372	12.44
1987	3,910	108.14
1997	38,043	717.82

Pundits who ignore what our 38,000 employees contribute to the company, and instead simply view Berkshire as a de facto investment company, should study the figures in the second column. We made our first business acquisition in 1967, and since then our pre-tax operating earnings have grown from $1 million to $888 million. Furthermore, as noted, in this exercise we have assigned all of Berkshire's corporate expenses — overhead of $6.6 million, interest of $66.9 million and shareholder contributions of $15.4 million — to our business operations, even though a portion of these could just as well have been assigned to the investment side.

Here are the growth rates of the two segments by decade:

Decade Ending	Investments Per Share	Pre-tax Earnings Per Share Excluding All Income from Investments
1977	24.6%	27.6%
1987	26.5%	24.1%
1997	25.5%	20.8%
Annual Growth Rate, 1967-1997	25.6%	24.2%

During 1997, both parts of our business grew at a satisfactory rate, with investments increasing by $9,543 per share, or 33.5%, and operating earnings growing by $296.43 per share, or 70.3%. One important caveat: Because we were lucky in our super-cat insurance business (to be discussed later) and because GEICO's underwriting gain was well above what we can expect in most years, our 1997 operating earnings were much better than we anticipated and also more than we expect for 1998.

Our rate of progress in both investments and operations is *certain* to fall in the future. For anyone deploying capital, nothing recedes like success. My own history makes the point: Back in 1951, when I was attending Ben Graham's class at Columbia, an idea giving me a $10,000 gain improved my investment performance for the year by a full 100 percentage points. Today, an idea producing a $500 million pre-tax profit for Berkshire adds *one* percentage point to our performance. It's no wonder that my annual results in the 1950s were better by nearly thirty percentage points than my annual gains in any subsequent decade. Charlie's experience was similar. We weren't smarter then, just smaller. At our present size, any performance superiority we achieve will be minor.

We will be helped, however, by the fact that the businesses to which we have already allocated capital — both operating subsidiaries and companies in which we are passive investors — have splendid long-term prospects. We are also blessed with a managerial corps that is unsurpassed in ability and focus. Most of these executives are wealthy and do not need the pay they receive from Berkshire to maintain their way of life. They are motivated by the joy of accomplishment, not by fame or fortune.

Though we are delighted with what we own, we are not pleased with our prospects for committing incoming funds. Prices are high for both businesses and stocks. That does not mean that the prices of either will fall — we have absolutely no view on that matter — but it does mean that we get relatively little in prospective earnings when we commit fresh money.

Under these circumstances, we try to exert a Ted Williams kind of discipline. In his book *The Science of Hitting*, Ted explains that he carved the strike zone into 77 cells, each the size of a baseball. Swinging only at balls in his "best" cell, he knew, would allow him to bat .400; reaching for balls in his "worst" spot, the low outside corner of the strike zone, would reduce him to .230. In other words, waiting for the fat pitch would mean a trip to the Hall of Fame; swinging indiscriminately would mean a ticket to the minors.

If they are in the strike zone at all, the business "pitches" we now see are just catching the lower outside corner. If we swing, we will be locked into low returns. But if we let all of today's balls go by, there can be no assurance that the next ones we see will be more to our liking. Perhaps the attractive prices of the past were the aberrations, not the full prices of today. Unlike Ted, we can't be called out if we resist three pitches that are barely in the strike zone; nevertheless, just standing there, day after day, with my bat on my shoulder is not my idea of fun.

Unconventional Commitments

When we can't find our favorite commitment — a well-run and sensibly-priced business with fine economics — we usually opt to put new money into very short-term instruments of the highest quality. Sometimes, however, we venture elsewhere. Obviously we believe that the alternative commitments we make are more likely to result in profit than loss. But we also realize that they do not offer the certainty of profit that exists in a wonderful business secured at an attractive price. Finding that kind of opportunity, we *know* that we are going to make money — the only question being when. With alternative investments, we *think* that we are going to make money. But we also recognize that we will sometimes realize losses, occasionally of substantial size.

We had three non-traditional positions at yearend. The first was derivative contracts for 14.0 million barrels of oil, that being what was then left of a 45.7 million barrel position we established in 1994-95. Contracts for 31.7 million barrels were settled in 1995-97, and these supplied us with a pre-tax gain of about $61.9 million. Our remaining contracts expire during 1998 and 1999. In these, we had an unrealized gain of $11.6 million at yearend. Accounting rules require that commodity positions be carried at market value. Therefore, both our annual and quarterly financial statements reflect any unrealized gain or loss in these contracts. When we established our contracts, oil for future delivery seemed modestly underpriced. Today, though, we have no opinion as to its attractiveness.

Our second non-traditional commitment is in silver. Last year, we purchased 111.2 million ounces. Marked to market, that position produced a pre-tax gain of $97.4 million for us in 1997. In a way, this is a return to the past for me: Thirty years ago, I bought silver because I anticipated its demonetization by the U.S. Government. Ever since, I have followed the metal's fundamentals but not owned it. In recent years, bullion inventories have fallen materially, and last summer Charlie and I concluded that a higher price would be needed to establish equilibrium between supply and demand. Inflation expectations, it should be noted, play no part in our calculation of silver's value.

Finally, our largest non-traditional position at yearend was $4.6 billion, at amortized cost, of long-term zero-coupon obligations of the U.S. Treasury. These securities pay no interest. Instead, they provide their holders a return by way of the discount at which they are purchased, a characteristic that makes their market prices move rapidly when interest rates change. If rates rise, you lose heavily with zeros, and if rates fall, you make outsized gains. Since rates fell in 1997, we ended the year with an unrealized pre-tax gain of $598.8 million in our zeros. Because we carry the securities at market value, that gain is reflected in yearend book value.

In purchasing zeros, rather than staying with cash-equivalents, we risk looking very foolish: A macro-based commitment such as this never has anything close to a 100% probability of being successful. However, you pay Charlie and me to use our best judgment — not to avoid embarrassment — and we will occasionally make an unconventional move when we believe the odds favor it. Try to think kindly of us when we blow one. Along with President Clinton, we will be feeling your pain: The Munger family has more than 90% of its net worth in Berkshire and the Buffetts more than 99%.

How We Think About Market Fluctuations

A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.

But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.

For shareholders of Berkshire who do not expect to sell, the choice is even clearer. To begin with, our owners are automatically saving even if they spend every dime they personally earn: Berkshire "saves" for them by retaining all earnings, thereafter using these savings to purchase businesses and securities. Clearly, the more cheaply we make these buys, the more profitable our owners' indirect savings program will be.

Furthermore, through Berkshire you own major positions in companies that consistently repurchase their shares. The benefits that these programs supply us grow as prices fall: When stock prices are low, the funds that an investee spends on repurchases increase our ownership of that company by a greater amount than is the case when prices are higher. For example, the repurchases that Coca-Cola, The Washington Post and Wells Fargo made in past years at very low prices benefitted Berkshire far more than do today's repurchases, made at loftier prices.

At the end of every year, about 97% of Berkshire's shares are held by the same investors who owned them at the start of the year. That makes them savers. They should therefore rejoice when markets decline and allow both us and our investees to deploy funds more advantageously.

So smile when you read a headline that says "Investors lose as market falls." Edit it in your mind to "*Dis*investors lose as market falls — but investors gain." Though writers often forget this truism, there is a buyer for every seller and what hurts one necessarily helps the other. (As they say in golf matches: "Every putt makes *someone* happy.")

We gained enormously from the low prices placed on many equities and businesses in the 1970s and 1980s. Markets that then were hostile to investment transients were friendly to those taking up permanent residence. In recent years, the actions we took in those decades have been validated, but we have found few new opportunities. In its role as a corporate "saver," Berkshire continually looks for ways to sensibly deploy capital, but it may be some time before we find opportunities that get us truly excited.

Insurance Operations — Overview

What does excite us, however, is our insurance business. GEICO is flying, and we expect that it will continue to do so. Before we expound on that, though, let's discuss "float" and how to measure its cost. Unless you understand this subject, it will be impossible for you to make an informed judgment about Berkshire's intrinsic value.

To begin with, float is money we hold but don't own. In an insurance operation, float arises because premiums are received before losses are paid, an interval that sometimes extends over many years. During that time, the insurer invests the money. Typically, this pleasant activity carries with it a downside: The premiums that an insurer takes in usually do not cover the losses and expenses it eventually must pay. That leaves it running an "underwriting loss," which is the cost of float. An insurance business has value if its cost of float over time is less than the cost the company would otherwise incur to obtain funds. But the business is a lemon if its cost of float is higher than market rates for money.

A caution is appropriate here: Because loss costs must be estimated, insurers have enormous latitude in figuring their underwriting results, and that makes it very difficult for investors to calculate a company's true cost of float. Estimating errors, usually innocent but sometimes not, can be huge. The consequences of these miscalculations flow directly into earnings. An experienced observer can usually detect large-scale errors in reserving, but the general public can typically do no more than accept what's presented, and at times I have been amazed by the numbers that big-name auditors have implicitly blessed. As for Berkshire, Charlie and I attempt to be conservative in presenting its underwriting results to you, because we have found that virtually all surprises in insurance are unpleasant ones.

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 large amounts relative to our premium volume — by adding net 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 five, our cost of float has been negative. In effect, we have been paid for holding money.

	(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%
1996	profit	6,702.0	less than zero	6.64%
1997	profit	7,093.1	less than zero	5.92%

Since 1967, when we entered the insurance business, our float has grown at an annual compounded rate of 21.7%. Better yet, it has cost us nothing, and in fact has made us money. Therein lies an accounting irony: Though our float is shown on our balance sheet as a liability, it has had a value to Berkshire greater than an equal amount of net worth would have had.

The expiration of several large contracts will cause our float to decline during the first quarter of 1998, but we expect it to grow substantially over the long term. We also believe that our cost of float will continue to be highly favorable.

Super-Cat Insurance

Occasionally, however, the cost of our float will spike severely. That will occur because of our heavy involvement in the super-cat business, which by its nature is the most volatile of all insurance lines. In this operation, we sell policies that insurance and reinsurance companies purchase in order to limit their losses when mega-catastrophes strike. Berkshire is the preferred market for sophisticated buyers: When the "big one" hits, the financial strength of super-cat writers will be tested, and Berkshire has no peer in this respect.

Since truly major catastrophes are rare occurrences, our super-cat business can be expected to show large profits in most years — and to record a huge loss occasionally. In other words, the attractiveness of our super-cat business will take a great many years to measure. *What you must understand, however, is that a truly terrible year in the super-cat business is not a possibility — it's a certainty. The only question is when it will come.*

Last year, we were very lucky in our super-cat operation. The world suffered no catastrophes that caused huge amounts of insured damage, so virtually all premiums that we received dropped to the bottom line. This pleasant result has a dark side, however. Many investors who are "innocents" — meaning that they rely on representations of salespeople rather than on underwriting knowledge of their own — have come into the reinsurance business by means of purchasing pieces of paper that are called "catastrophe bonds." The second word in this term, though, is an Orwellian misnomer: A true bond obliges the issuer to pay; these bonds, in effect, are contracts that lay a provisional promise to pay on the *purchaser*.

This convoluted arrangement came into being because the promoters of the contracts wished to circumvent laws that prohibit the writing of insurance by entities that haven't been licensed by the state. A side benefit for the promoters is that calling the insurance contract a "bond" may also cause unsophisticated buyers to assume that these instruments involve far less risk than is actually the case.

Truly outsized risks will exist in these contracts if they are not properly priced. A pernicious aspect of catastrophe insurance, however, makes it likely that mispricing, even of a severe variety, will not be discovered for a very long time. Consider, for example, the odds of throwing a 12 with a pair of dice — 1 out of 36. Now assume that the dice will be thrown once a year; that you, the "bond-buyer," agree to pay $50 million if a 12 appears; and that for "insuring" this risk you take in an annual "premium" of $1 million. That would mean you had significantly underpriced the risk. Nevertheless, you could go along for years thinking you were making money — indeed, easy money. There is actually a 75.4% probability that you would go for a decade without paying out a dime. Eventually, however, you would go broke.

In this dice example, the odds are easy to figure. Calculations involving monster hurricanes and earthquakes are necessarily much fuzzier, and the best we can do at Berkshire is to estimate a range of probabilities for such events. The lack of precise data, coupled with the rarity of such catastrophes, plays into the hands of promoters, who typically employ an "expert" to advise the potential bond-buyer about the probability of losses. The expert puts no money on the table. Instead, he receives an up-front payment that is forever his no matter how inaccurate his predictions. Surprise: When the stakes are high, an expert can invariably be found who will affirm — to return to our example — that the chance of rolling a 12 is not 1 in 36, but more like 1 in 100. (In fairness, we should add that the expert will probably believe that his odds are correct, a fact that makes him less reprehensible — but more dangerous.)

The influx of "investor" money into catastrophe bonds — which may well live up to their name — has caused super-cat prices to deteriorate materially. Therefore, we will write less business in 1998. We have some

large multi-year contracts in force, however, that will mitigate the drop. The largest of these are two policies that we described in last year's report — one covering hurricanes in Florida and the other, signed with the California Earthquake Authority, covering earthquakes in that state. Our "worst-case" loss remains about $600 million after-tax, the maximum we could lose under the CEA policy. Though this loss potential may sound large, it is only about 1% of Berkshire's market value. Indeed, if we could get appropriate prices, we would be willing to significantly increase our "worst-case" exposure.

Our super-cat business was developed from scratch by Ajit Jain, who has contributed to Berkshire's success in a variety of other ways as well. Ajit possesses both the discipline to walk away from business that is inadequately priced and the imagination to then find other opportunities. Quite simply, he is one of Berkshire's major assets. Ajit would have been a star in whatever career he chose; fortunately for us, he enjoys insurance.

Insurance — GEICO (1-800-555-2756) and Other Primary Operations

Last year I wrote about GEICO's Tony Nicely and his terrific management skills. If I had known then what he had in store for us in 1997, I would have searched for still greater superlatives. Tony, now 54, has been with GEICO for 36 years and last year was his best. As CEO, he has transmitted vision, energy and enthusiasm to all members of the GEICO family — raising their sights from what *has* been achieved to what *can* be achieved.

We measure GEICO's performance by first, the net increase in its voluntary auto policies (that is, not including policies assigned us by the state) and, second, the profitability of "seasoned" auto business, meaning policies that have been with us for more than a year and are thus past the period in which acquisition costs cause them to be money-losers. In 1996, in-force business grew 10%, and I told you how pleased I was, since that rate was well above anything we had seen in two decades. Then, in 1997, growth jumped to 16%.

Below are the new business and in-force figures for the last five years:

Years	New Voluntary Auto Policies	Voluntary Auto Policies in Force
1993	354,882	2,011,055
1994	396,217	2,147,549
1995	461,608	2,310,037
1996	617,669	2,543,699
1997	913,176	2,949,439

Of course, any insurer can grow rapidly if it gets careless about underwriting. GEICO's underwriting profit for the year, though, was 8.1% of premiums, far above its average. Indeed, that percentage was higher than we wish it to be: Our goal is to pass on most of the benefits of our low-cost operation to our customers, holding ourselves to about 4% in underwriting profit. With that in mind, we reduced our average rates a bit during 1997 and may well cut them again this year. Our rate changes varied, of course, depending on the policyholder and where he lives; we strive to charge a rate that properly reflects the loss expectancy of each driver.

GEICO is not the only auto insurer obtaining favorable results these days. Last year, the industry recorded profits that were far better than it anticipated or can sustain. Intensified competition will soon squeeze margins very significantly. But this is a development we welcome: Long term, a tough market helps the low-cost operator, which is what we are and intend to remain.

Last year I told you about the record 16.9% profit-sharing contribution that GEICO's associates had earned and explained that two simple variables set the amount: policy growth and profitability of seasoned business. I further explained that 1996's performance was so extraordinary that we had to enlarge the chart delineating the possible payouts. The new configuration didn't make it through 1997: We enlarged the chart's boundaries again and awarded our 10,500 associates a profit-sharing contribution amounting to 26.9% of their base compensation, or $71 million. In addition, the same two variables — policy growth and profitability of seasoned business — determined the cash bonuses that we paid to dozens of top executives, starting with Tony.

At GEICO, we are paying in a way that makes sense for both our owners and our managers. We distribute merit badges, not lottery tickets: In none of Berkshire's subsidiaries do we relate compensation to our stock price, which our associates cannot affect in any meaningful way. Instead, we tie bonuses to each unit's business performance, which is the direct product of the unit's people. When that performance is terrific — as it has been at GEICO — there is nothing Charlie and I enjoy more than writing a big check.

GEICO's underwriting profitability will probably fall in 1998, but the company's growth could accelerate. We're planning to step on the gas: GEICO's marketing expenditures this year will top $100 million, up 50% from 1997. Our market share today is only 3%, a level of penetration that should increase dramatically in the next decade. The auto insurance industry is huge — it does about $115 billion of volume annually — and there are tens of millions of drivers who would save substantial money by switching to us.

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In the 1995 report, I described the enormous debt that you and I owe to Lorimer Davidson. On a Saturday early in 1951, he patiently explained the ins and outs of both GEICO and its industry to me — a 20-year-old stranger who'd arrived at GEICO's headquarters uninvited and unannounced. Davy later became the company's CEO and has remained my friend and teacher for 47 years. The huge rewards that GEICO has heaped on Berkshire would not have materialized had it not been for his generosity and wisdom. Indeed, had I not met Davy, I might never have grown to understand the whole field of insurance, which over the years has played such a key part in Berkshire's success.

Davy turned 95 last year, and it's difficult for him to travel. Nevertheless, Tony and I hope that we can persuade him to attend our annual meeting, so that our shareholders can properly thank him for his important contributions to Berkshire. Wish us luck.

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Though they are, of course, far smaller than GEICO, our other primary insurance operations turned in results last year that, in aggregate, were fully as stunning. National Indemnity's traditional business had an underwriting profit of 32.9% and, as usual, developed 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 a profit of 24.3%. Our homestate operation, managed by Rod Eldred, recorded an underwriting profit of 14.1% even though it continued to absorb the expenses of geographical expansion. Rod's three-year record is an amazing 15.1%. Berkshire's workers' compensation business, run out of California by Brad Kinstler, had a modest underwriting loss in a difficult environment; its three-year underwriting record is a positive 1.5%. John Kizer, at Central States Indemnity, set a new volume record while generating good underwriting earnings. At Kansas Bankers Surety, Don Towle more than lived up to the high expectations we had when we purchased the company in 1996.

In aggregate, these five operations recorded an underwriting profit of 15.0%. The two Dons, along with Rod, Brad and John, have created significant value for Berkshire, and we believe there is more to come.

Sources of Reported Earnings

The table that follows shows the main sources of Berkshire's reported earnings. In this presentation, purchase-accounting adjustments 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. For the reasons discussed on pages 69 and 70, this form of presentation seems to us to be more useful to investors and managers than one utilizing generally-accepted accounting principles (GAAP), which require purchase-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)*	
	1997	*1996*	*1997*	*1996*
Operating Earnings:				
Insurance Group:				
Underwriting — Super-Cat	$ 283.0	$ 167.0	$ 182.7	$ 107.4
Underwriting — Other Reinsurance	(155.2)	(174.8)	(100.1)	(112.4)
Underwriting — GEICO	280.7	171.4	181.1	110.2
Underwriting — Other Primary	52.9	58.5	34.1	37.6
Net Investment Income	882.3	726.2	703.6	593.1
Buffalo News	55.9	50.4	32.7	29.5
Finance Businesses	28.1	23.1	18.0	14.9
FlightSafety	139.5	3.1[1]	84.4	1.9[1]
Home Furnishings	56.8[2]	43.8	32.2[2]	24.8
Jewelry	31.6	27.8	18.3	16.1
Scott Fetzer (excluding finance operation)	118.9	121.7	77.3	81.6
See's Candies	58.6	51.9	35.0	30.8
Shoe Group	48.8	61.6	32.2	41.0
Purchase-Accounting Adjustments	(104.9)	(75.7)	(97.0)	(70.5)
Interest Expense[3]	(106.6)	(94.3)	(67.1)	(56.6)
Shareholder-Designated Contributions	(15.4)	(13.3)	(9.9)	(8.5)
Other	60.7	73.0	37.0	42.2
Operating Earnings	1,715.7	1,221.4	1,194.5	883.1
Capital Gains from Investments	1,111.9	2,484.5	707.1	1,605.5
Total Earnings - All Entities	$2,827.6	$3,705.9	$1,901.6	$2,488.6

[1] *From date of acquisition, December 23, 1996.*
[2] *Includes Star Furniture from July 1, 1997.*
[3] *Excludes interest expense of Finance Businesses.*

Overall, our operating businesses continue to perform exceptionally well, far outdoing their industry norms. We are particularly pleased that profits improved at Helzberg's after a disappointing 1996. Jeff Comment, Helzberg's CEO, took decisive steps early in 1997 that enabled the company to gain real momentum by the crucial Christmas season. In the early part of this year, as well, sales remained strong.

Casual observers may not appreciate just how extraordinary the performance of many of our businesses has been: If the earnings history of, say, Buffalo News or Scott Fetzer is compared to the records of their publicly-owned peers, their performance might seem to have been unexceptional. But most public companies retain two-thirds or more of their earnings to fund their corporate growth. In contrast, those Berkshire subsidiaries have paid 100% of their earnings to us, their parent company, to fund *our* growth.

In effect, the records of the public companies reflect the cumulative benefits of the earnings they have retained, while the records of our operating subsidiaries get no such boost. Over time, however, the earnings these subsidiaries have distributed have created truly huge amounts of earning power elsewhere in Berkshire. The News, See's and Scott Fetzer have alone paid us $1.8 billion, which we have gainfully employed elsewhere. We owe their managements our gratitude for much more than the earnings that are detailed in the table.

Additional information about our various businesses is given on pages 36-50, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 55-61, we have rearranged Berkshire's financial data into four segments on a non-GAAP basis, a presentation that corresponds to the way Charlie and I think about the company. Our intent is to supply you with the financial information that we would wish you to give us if our positions were reversed.

Look-Through Earnings

Reported earnings are a poor measure of economic progress at Berkshire, in part because the numbers shown in the table presented earlier include only the dividends we receive from investees — though these dividends typically represent only a small fraction of the earnings attributable to our ownership. Not that we mind this division of money, since on balance we regard the undistributed earnings of investees as more valuable to us than the portion paid out. The reason is simple: Our investees often have the opportunity to reinvest earnings at high rates of return. So why should we want them paid out?

To depict something closer to economic reality at Berkshire than reported earnings, though, we employ the concept of "look-through" earnings. As we calculate these, they consist of: (1) the operating earnings reported in the previous section, plus; (2) our share of the retained operating earnings of major investees that, under GAAP accounting, are not reflected in our profits, less; (3) an allowance for the tax that would be paid by Berkshire if these retained earnings of investees had instead been distributed to us. When tabulating "operating earnings" here, we exclude purchase-accounting adjustments as well as capital gains and other major non-recurring items.

The following table sets forth our 1997 look-through earnings, though I warn you that the figures can be no more than approximate, since they are based on a number of judgment calls. (The dividends paid to us by these investees have been included in the operating earnings itemized on page 11, mostly under "Insurance Group: Net Investment Income.")

Berkshire's Major Investees	Berkshire's Approximate Ownership at Yearend[(1)]	Berkshire's Share of Undistributed Operating Earnings (in millions)[(2)]
American Express Company	10.7%	$161
The Coca-Cola Company	8.1%	216
The Walt Disney Company	3.2%	65
Freddie Mac	8.6%	86
The Gillette Company	8.6%	82
The Washington Post Company	16.5%	30
Wells Fargo & Company	7.8%	103
Berkshire's share of undistributed earnings of major investees		743
Hypothetical tax on these undistributed investee earnings[(3)]		(105)
Reported operating earnings of Berkshire		1,292
Total look-through earnings of Berkshire		$1,930

(1) Does not include shares allocable to minority interests
(2) Calculated on average ownership for the year
(3) The tax rate used is 14%, which is the rate Berkshire pays on the dividends it receives

Acquisitions of 1997

In 1997, we agreed to acquire Star Furniture and International Dairy Queen (a deal that closed early in 1998). Both businesses fully meet our criteria: They are understandable; possess excellent economics; and are run by outstanding people.

The Star transaction has an interesting history. Whenever we buy into an industry whose leading participants aren't known to me, I always ask our new partners, "Are there any more at home like you?" Upon our purchase of Nebraska Furniture Mart in 1983, therefore, the Blumkin family told me about three outstanding furniture retailers in other parts of the country. At the time, however, none was for sale.

Many years later, Irv Blumkin learned that Bill Child, CEO of R.C. Willey –– one of the recommended three –– might be interested in merging, and we promptly made the deal described in the 1995 report. We have been delighted with that association –– Bill is the perfect partner. Furthermore, when we asked Bill about industry standouts, he came up with the remaining two names given me by the Blumkins, one of these being Star Furniture of Houston. But time went by without there being any indication that either of the two was available.

On the Thursday before last year's annual meeting, however, Bob Denham of Salomon told me that Melvyn Wolff, the long-time controlling shareholder and CEO of Star, wanted to talk. At our invitation, Melvyn came to the meeting and spent his time in Omaha confirming his positive feelings about Berkshire. I, meanwhile, looked at Star's financials, and liked what I saw.

A few days later, Melvyn and I met in New York and made a deal in a single, two-hour session. As was the case with the Blumkins and Bill Child, I had no need to check leases, work out employment contracts, etc. I knew I was dealing with a man of integrity and that's what counted.

Though the Wolff family's association with Star dates back to 1924, the business struggled until Melvyn and his sister Shirley Toomin took over in 1962. Today Star operates 12 stores –– ten in Houston and one each in Austin and Bryan –– and will soon move into San Antonio as well. We won't be surprised if Star is many times its present size a decade from now.

Here's a story illustrating what Melvyn and Shirley are like: When they told their associates of the sale, they also announced that Star would make large, special payments to those who had helped them succeed –– and then defined that group as everyone in the business. Under the terms of our deal, it was Melvyn and Shirley's money, not ours, that funded this distribution. Charlie and I love it when we become partners with people who behave like that.

The Star transaction closed on July 1. In the months since, we've watched Star's already-excellent sales and earnings growth accelerate further. Melvyn and Shirley will be at the annual meeting, and I hope you get a chance to meet them.

Next acquisition: International Dairy Queen. There are 5,792 Dairy Queen stores operating in 23 countries –– all but a handful run by franchisees –– and in addition IDQ franchises 409 Orange Julius operations and 43 Karmelkorn operations. In 190 locations, "treat centers" provide some combination of the three products.

For many years IDQ had a bumpy history. Then, in 1970, a Minneapolis group led by John Mooty and Rudy Luther took control. The new managers inherited a jumble of different franchising agreements, along with some unwise financing arrangements that had left the company in a precarious condition. In the years that followed, management rationalized the operation, extended food service to many more locations, and, in general, built a strong organization.

Last summer Mr. Luther died, which meant his estate needed to sell stock. A year earlier, Dick Kiphart of William Blair & Co., had introduced me to John Mooty and Mike Sullivan, IDQ's CEO, and

I had been impressed with both men. So, when we got the chance to merge with IDQ, we offered a proposition patterned on our FlightSafety acquisition, extending selling shareholders the option of choosing either cash or Berkshire shares having a slightly lower immediate value. By tilting the consideration as we did, we encouraged holders to opt for cash, the type of payment we by far prefer. Even then, only 45% of IDQ shares elected cash.

Charlie and I bring a modicum of product expertise to this transaction: He has been patronizing the Dairy Queens in Cass Lake and Bemidji, Minnesota, for decades, and I have been a regular in Omaha. We have put our money where our mouth is.

A Confession

I've mentioned that we strongly prefer to use cash rather than Berkshire stock in acquisitions. A study of the record will tell you why: If you aggregate all of our stock-only mergers (excluding those we did with two affiliated companies, Diversified Retailing and Blue Chip Stamps), you will find that our shareholders are slightly worse off than they would have been had I not done the transactions. Though it hurts me to say it, when I've issued stock, I've cost you money.

Be clear about one thing: This cost has *not* occurred because we were misled in any way by sellers or because they thereafter failed to manage with diligence and skill. On the contrary, the sellers were completely candid when we were negotiating our deals and have been energetic and effective ever since.

Instead, our problem has been that we own a truly marvelous collection of businesses, which means that trading away a portion of them for something new almost never makes sense. When we issue shares in a merger, we reduce your ownership in all of our businesses — partly-owned companies such as Coca-Cola, Gillette and American Express, and all of our terrific operating companies as well. An example from sports will illustrate the difficulty we face: For a baseball team, acquiring a player who can be expected to bat .350 is almost always a wonderful event — *except* when the team must trade a .380 hitter to make the deal.

Because our roster is filled with .380 hitters, we have tried to pay cash for acquisitions, and here our record has been far better. Starting with National Indemnity in 1967, and continuing with, among others, See's, Buffalo News, Scott Fetzer and GEICO, we have acquired — for cash — a number of large businesses that have performed incredibly well since we bought them. These acquisitions have delivered Berkshire tremendous value — indeed, far more than I anticipated when we made our purchases.

We believe that it is almost impossible for us to "trade up" from our present businesses and managements. Our situation is the opposite of Camelot's Mordred, of whom Guenevere commented, "The one thing I can say for him is that he is bound to marry well. Everybody is above him." Marrying well is extremely difficult for Berkshire.

So you can be sure that Charlie and I will be very reluctant to issue shares in the future. In those cases when we simply must do so — when certain shareholders of a desirable acquiree insist on getting stock — we will include an attractive cash option in order to tempt as many of the sellers to take cash as is possible.

Merging with public companies presents a special problem for us. If we are to offer *any* premium to the acquiree, one of two conditions must be present: Either our own stock must be overvalued relative to the acquiree's, or the two companies together must be expected to earn more than they would if operated separately. Historically, Berkshire has seldom been overvalued. In this market, moreover, undervalued acquirees are almost impossible to find. That other possibility — synergy gains — is usually unrealistic, since we expect acquirees to operate after we've bought them just as they did before. Joining with Berkshire does not normally raise their revenues nor cut their costs.

Indeed, their reported costs (but not their true ones) will *rise* after they are bought by Berkshire if the acquiree has been granting options as part of its compensation packages. In these cases, "earnings" of the acquiree have been overstated because they have followed the standard — but, in our view, dead wrong — accounting practice of ignoring the cost to a business of issuing options. When Berkshire acquires an option-issuing company, we promptly substitute a cash compensation plan having an economic value equivalent to that of the previous option plan. The acquiree's true compensation cost is thereby brought out of the closet and charged, as it should be, against earnings.

The reasoning that Berkshire applies to the merger of public companies *should* be the calculus for all buyers. Paying a takeover premium does not make sense for any acquirer unless a) its stock is overvalued relative to the acquiree's or b) the two enterprises will earn more combined than they would separately. Predictably, acquirers normally hew to the second argument because very few are willing to acknowledge that their stock is overvalued. However, voracious buyers — the ones that issue shares as fast as they can print them — are tacitly conceding that point. (Often, also, they are running Wall Street's version of a chain-letter scheme.)

In some mergers there truly are major synergies — though oftentimes the acquirer pays too much to obtain them — but at other times the cost and revenue benefits that are projected prove illusory. Of one thing, however, be certain: If a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisors will come up with whatever projections are needed to justify his stance. Only in fairy tales are emperors told that they are naked.

Common Stock Investments

Below we present our common stock investments. Those with a market value of more than $750 million are itemized.

Shares	Company	12/31/97 Cost*	Market
		(dollars in millions)	
49,456,900	American Express Company	$ 1,392.7	$ 4,414.0
200,000,000	The Coca-Cola Company	1,298.9	13,337.5
21,563,414	The Walt Disney Company	381.2	2,134.8
63,977,600	Freddie Mac	329.4	2,683.1
48,000,000	The Gillette Company	600.0	4,821.0
23,733,198	Travelers Group Inc.	604.4	1,278.6
1,727,765	The Washington Post Company	10.6	840.6
6,690,218	Wells Fargo & Company	412.6	2,270.9
	Others	2,177.1	4,467.2
	Total Common Stocks	$ 7,206.9	$36,247.7

* Represents tax-basis cost which, in aggregate, is $1.8 billion less than GAAP cost.

We made net sales during the year that amounted to about 5% of our beginning portfolio. In these, we significantly reduced a few of our holdings that are below the $750 million threshold for itemization, and we also modestly trimmed a few of the larger positions that we detail. Some of the sales we made during 1997 were aimed at changing our bond-stock ratio moderately in response to the relative values that we saw in each market, a realignment we have continued in 1998.

Our reported positions, we should add, sometimes reflect the investment decisions of GEICO's Lou Simpson. Lou independently runs an equity portfolio of nearly $2 billion that may at times overlap the portfolio that I manage, and occasionally he makes moves that differ from mine.

Though we don't attempt to predict the movements of the stock market, we do try, in a very rough way, to value it. At the annual meeting last year, with the Dow at 7,071 and long-term Treasury yields at 6.89%, Charlie and I stated that we did not consider the market overvalued *if* 1) interest rates remained where they were or fell, and 2) American business continued to earn the remarkable returns

on equity that it had recently recorded. So far, interest rates have fallen — that's one requisite satisfied — and returns on equity still remain exceptionally high. If they stay there — and if interest rates hold near recent levels — there is no reason to think of stocks as generally overvalued. On the other hand, returns on equity are not a sure thing to remain at, or even near, their present levels.

In the summer of 1979, when equities looked cheap to me, I wrote a *Forbes* article entitled "You pay a very high price in the stock market for a cheery consensus." At that time skepticism and disappointment prevailed, and my point was that investors should be glad of the fact, since pessimism drives down prices to truly attractive levels. Now, however, we have a very cheery consensus. That does not necessarily mean this is the wrong time to buy stocks: Corporate America is now earning far more money than it was just a few years ago, and in the presence of lower interest rates, every dollar of earnings becomes more valuable. Today's price levels, though, have materially eroded the "margin of safety" that Ben Graham identified as the cornerstone of intelligent investing.

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In last year's annual report, I discussed Coca-Cola, our largest holding. Coke continues to increase its market dominance throughout the world, but, tragically, it has lost the leader responsible for its outstanding performance. Roberto Goizueta, Coke's CEO since 1981, died in October. After his death, I read every one of the more than 100 letters and notes he had written me during the past nine years. Those messages could well serve as a guidebook for success in both business and life.

In these communications, Roberto displayed a brilliant and clear strategic vision that was always aimed at advancing the well-being of Coke shareholders. Roberto knew where he was leading the company, how he was going to get there, and why this path made the most sense for his owners — and, equally important, he had a burning sense of urgency about reaching his goals. An excerpt from one handwritten note he sent to me illustrates his mind-set: "By the way, I have told Olguita that what she refers to as an obsession, you call focus. I like your term much better." Like all who knew Roberto, I will miss him enormously.

Consistent with his concern for the company, Roberto prepared for a seamless succession long before it seemed necessary. Roberto knew that Doug Ivester was the right man to take over and worked with Doug over the years to ensure that no momentum would be lost when the time for change arrived. The Coca-Cola Company will be the same steamroller under Doug as it was under Roberto.

Convertible Preferreds

Two years ago, I gave you an update on the five convertible preferreds that we purchased through private placements in the 1987-1991 period. At the time of that earlier report, we had realized a small profit on the sale of our Champion International holding. The four remaining preferred commitments included two, Gillette and First Empire State, that we had converted into common stock in which we had large unrealized gains, and two others, USAir and Salomon, that had been trouble-prone. At times, the last two had me mouthing a line from a country song: "How can I miss you if you won't go away?"

Since I delivered that report, all four holdings have grown significantly in value. The common stocks of both Gillette and First Empire have risen substantially, in line with the companies' excellent performance. At yearend, the $600 million we put into Gillette in 1989 had appreciated to $4.8 billion, and the $40 million we committed to First Empire in 1991 had risen to $236 million.

Our two laggards, meanwhile, have come to life in a very major way. In a transaction that finally rewarded its long-suffering shareholders, Salomon recently merged into Travelers Group. All of Berkshire's shareholders — including me, very personally — owe a huge debt to Deryck Maughan and Bob Denham for, first, playing key roles in saving Salomon from extinction following its 1991 scandal and, second, restoring the vitality of the company to a level that made it an attractive acquisition for Travelers. I have often said that I wish to work with executives that I like, trust and admire. No two fit that description better than Deryck and Bob.

Berkshire's final results from its Salomon investment won't be tallied for some time, but it is safe to say that they will be far better than I anticipated two years ago. Looking back, I think of my Salomon experience as having been both fascinating and instructional, though for a time in 1991-92 I felt like the drama critic who wrote: "I would have enjoyed the play except that I had an unfortunate seat. It faced the stage."

The resuscitation of US Airways borders on the miraculous. Those who have watched my moves in this investment know that I have compiled a record that is unblemished by success. I was wrong in originally purchasing the stock, and I was wrong later, in repeatedly trying to unload our holdings at 50¢ on the dollar.

Two changes at the company coincided with its remarkable rebound: 1) Charlie and I left the board of directors and 2) Stephen Wolf became CEO. Fortunately for our egos, the second event was the key: Stephen Wolf's accomplishments at the airline have been phenomenal.

There still is much to do at US Airways, but survival is no longer an issue. Consequently, the company made up the dividend arrearages on our preferred during 1997, adding extra payments to compensate us for the delay we suffered. The company's common stock, furthermore, has risen from a low of $4 to a recent high of $73.

Our preferred has been called for redemption on March 15. But the rise in the company's stock has given our conversion rights, which we thought worthless not long ago, great value. It is now almost certain that our US Airways shares will produce a decent profit — that is, if my cost for Maalox is excluded — and the gain could even prove indecent.

Next time I make a big, dumb decision, Berkshire shareholders will know what to do: *Phone Mr. Wolf.*

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In addition to the convertible preferreds, we purchased one other private placement in 1991, $300 million of American Express Percs. This security was essentially a common stock that featured a tradeoff in its first three years: We received extra dividend payments during that period, but we were also capped in the price appreciation we could realize. Despite the cap, this holding has proved extraordinarily profitable thanks to a move by your Chairman that combined luck and skill — 110% luck, the balance skill.

Our Percs were due to convert into common stock in August 1994, and in the month before I was mulling whether to sell upon conversion. One reason to hold was Amex's outstanding CEO, Harvey Golub, who seemed likely to maximize whatever potential the company had (a supposition that has since been proved — in spades). But the size of that potential was in question: Amex faced relentless competition from a multitude of card-issuers, led by Visa. Weighing the arguments, I leaned toward sale.

Here's where I got lucky. During that month of decision, I played golf at Prouts Neck, Maine with Frank Olson, CEO of Hertz. Frank is a brilliant manager, with intimate knowledge of the card business. So from the first tee on I was quizzing him about the industry. By the time we reached the second green, Frank had convinced me that Amex's corporate card was a terrific franchise, and I had decided not to sell. On the back nine I turned buyer, and in a few months Berkshire owned 10% of the company.

We now have a $3 billion gain in our Amex shares, and I naturally feel very grateful to Frank. But George Gillespie, our mutual friend, says that I am confused about where my gratitude should go. After all, he points out, it was he who arranged the game and assigned me to Frank's foursome.

Quarterly Reports to Shareholders

In last year's letter, I described the growing costs we incur in mailing quarterly reports and the problems we have encountered in delivering them to "street-name" shareholders. I asked for your opinion about the desirability of our continuing to print reports, given that we now publish our quarterly and annual communications on the Internet, at our site, www.berkshirehathaway.com. Relatively few shareholders responded, but it is clear that at least a small number who want the quarterly information have no interest in getting it off the Internet. Being a life-long sufferer from technophobia, I can empathize with this group.

The cost of publishing quarterlies, however, continues to balloon, and we have therefore decided to send printed versions only to shareholders who request them. If you wish the quarterlies, please complete the reply card that is bound into this report. In the meantime, be assured that *all* shareholders will continue to receive the *annual* report in printed form.

Those of you who enjoy the computer should check out our home page. It contains a large amount of current information about Berkshire and also all of our annual letters since 1977. In addition, our website includes links to the home pages of many Berkshire subsidiaries. On these sites you can learn more about our subsidiaries' products and — yes — even place orders for them.

We are required to file our quarterly information with the SEC no later than 45 days after the end of each quarter. One of our goals in posting communications on the Internet is to make this material information — in full detail and in a form unfiltered by the media — simultaneously available to all interested parties at a time when markets are closed. Accordingly, we plan to send our 1998 quarterly information to the SEC on three Fridays, May 15, August 14, and November 13, and on those nights to post the same information on the Internet. This procedure will put all of our shareholders, whether they be direct or "street-name," on an equal footing. Similarly, we will post our 1998 annual report on the Internet on Saturday, March 13, 1999, and mail it at about the same time.

Shareholder-Designated Contributions

About 97.7% of all eligible shares participated in Berkshire's 1997 shareholder-designated contributions program. Contributions made were $15.4 million, and 3,830 charities were recipients. A full description of the program appears on pages 52-53.

Cumulatively, over the 17 years of the program, Berkshire has made contributions of $113.1 million pursuant to the instructions of our shareholders. The rest of Berkshire's giving is done by our subsidiaries, which stick to the philanthropic patterns that prevailed before they were acquired (except that their former owners themselves take on the responsibility for their personal charities). In aggregate, our subsidiaries made contributions of $8.1 million in 1997, including in-kind donations of $4.4 million.

Every year a few shareholders miss out on our contributions program because they don't have their shares registered in their own names on the prescribed record date or because they fail to get the designation form back to us within the 60-day period allowed. Charlie and I regret this. But if replies are received late, we have to reject them 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, 1998, will be ineligible for the 1998 program. When you get the contributions form from us, return it promptly so that it does not get put aside or forgotten.

The Annual Meeting

Woodstock Weekend at Berkshire will be May 2-4 this year. The finale will be the annual meeting, which will begin at 9:30 a.m. on Monday, May 4. Last year we met at Aksarben Coliseum, and both our staff and the crowd were delighted with the venue. There was only one crisis: The night before the meeting, I lost my voice, thereby fulfilling Charlie's wildest fantasy. He was crushed when I showed up the next morning with my speech restored.

Last year about 7,500 attended the meeting. They represented all 50 states, as well as 16 countries, including Australia, Brazil, Israel, Saudi Arabia, Singapore and Greece. Taking into account several overflow rooms, we believe that we can handle more than 11,000 people, and that should put us in good shape this year even though our shareholder count has risen significantly. Parking is ample at Aksarben; acoustics are excellent; and seats are comfortable.

The doors will open at 7 a.m. on Monday and at 8:30 we will again feature the world premiere of a movie epic produced by Marc Hamburg, our CFO. The meeting will last until 3:30, with a short break at noon. This interval will permit the exhausted to leave unnoticed and allow time for the hardcore to lunch at Aksarben's concession stands. Charlie and I enjoy questions from owners, so bring up whatever is on your mind.

Berkshire products will again be *for sale* in the halls outside the meeting room. Last year — not that I pay attention to this sort of thing — we again set sales records, moving 2,500 pounds of See's candy, 1,350 pairs of Dexter shoes, $75,000 of World Books and related publications, and 888 sets of Quikut knives. We also took orders for a new line of apparel, featuring our Berkshire logo, and sold about 1,000 polo, sweat, and T-shirts. At this year's meeting, we will unveil our 1998 collection.

GEICO will again be on hand with a booth staffed by star associates from its regional offices. Find out whether you can save money by shifting your auto insurance to GEICO. About 40% of those who check us out learn that savings are possible. The proportion is not 100% because insurers differ in their underwriting judgments, with some favoring drivers who live in certain geographical areas and work at certain occupations more than we do. We believe, however, that we more frequently offer the low price than does any other national carrier selling insurance to all comers. In the GEICO informational material that accompanies this report, you will see that in 38 states we now offer a special discount of as much as 8% to our shareholders. We also have applications pending that would extend this discount to drivers in other states.

An attachment to the proxy material that is enclosed with this report explains how you can obtain the card you will need for admission to the meeting. We expect a large crowd, so get plane, hotel and car reservations promptly. American Express (800-799-6634) will be happy to help you with arrangements. As usual, we will have buses at the larger hotels that will take you to and from the meeting and also deliver you to Nebraska Furniture Mart, Borsheim's and the airport after its conclusion. You are likely, however, to find a car handy.

NFM's main store, located on a 75-acre site about a mile from Aksarben, 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. During the period from May 1 to May 5, shareholders who present NFM with the coupon that will accompany their meeting ticket will be entitled to a discount that is otherwise restricted to its employees.

Borsheim's normally is closed on Sunday but will be open for shareholders from 10 a.m. to 6 p.m. on May 3rd. Last year was our second-best shareholder's day, exceeded only by 1996's. I regard this slippage as an anomaly and hope that you will prove me right this year. Charlie will be available for autographs. He smiles, however, only if the paper he signs is a Borsheim's sales ticket. Shareholders who wish to visit on Saturday (10 a.m. to 5:30 p.m.) or on Monday (10 a.m.-8 p.m.) should be sure to identify themselves as Berkshire owners so that Susan Jacques, Borsheim's CEO, can make you especially welcome. Susan, I should add, had a fabulous year in 1997. As a manager, she is everything that an owner hopes for.

On Sunday afternoon we will also have a special treat for bridge players in the mall outside of Borsheim's. There, Bob Hamman — a legend of the game for more than three decades — will play a few hands with all comers. Join in and dazzle Bob with your skill.

My favorite steakhouse, Gorat's, opens one Sunday a year — for Berkshire shareholders on the night before the annual meeting. Last year the restaurant started serving at 4 p.m. and finished about 1:30 a.m, an endurance trial that was the result of taking 1,100 reservations vs. a seating capacity of 235. If you make a reservation and then can't attend, be sure to let Gorat's know promptly, since it goes to great effort to help us and we want to reciprocate. You can make reservations beginning on April 1st (*but not before*) by calling 402-551-3733. Last year I had to leave Gorat's a little early because of my voice problem, but this year I plan to leisurely savor every bite of my rare T-bone and double order of hash browns.

After this warmup, Charlie and I will head for the Dairy Queen on 114th, just south of Dodge. There are 12 great Dairy Queens in metropolitan Omaha, but the 114th Street location is the best suited to handle the large crowd that we expect. South of the property, there are hundreds of parking spaces on both sides of the street. Also, this Dairy Queen will extend its Sunday hours to 11 p.m. in order to accommodate our shareholders.

The 114th Street operation is now run by two sisters, Coni Birge and Deb Novotny, whose grandfather put up the building in 1962 at what was then the outer edge of the city. Their mother, Jan Noble, took over in 1972, and Coni and Deb continue as third generation owner-managers. Jan, Coni and Deb will all be on hand Sunday evening, and I hope that you meet them. Enjoy one of their hamburgers if you can't get into Gorat's. And then, around eight o'clock, join me in having a Dusty Sundae for dessert. This item is a personal specialty — the Dairy Queen will furnish you a copy of my recipe — and will be offered only on Shareholder Sunday.

The Omaha Royals and Albuquerque Dukes will play baseball on Saturday evening, May 2nd, at Rosenblatt Stadium. As usual, your Chairman, shamelessly exploiting his 25% ownership of the team, will take the mound. But this year you will see something new.

In past games, much to the bafflement of the crowd, I have shaken off the catcher's first call. He has consistently asked for my sweeping curve, and I have just as regularly resisted. Instead, I have served up a pathetic fast ball, which on my best day was clocked at eight miles per hour (with a following wind).

There's a story behind my unwillingness to throw the curve ball. As some of you may know, Candy Cummings invented the curve in 1867 and used it to great effect in the National Association, where he never won less than 28 games in a season. The pitch, however, drew immediate criticism from the very highest of authorities, namely Charles Elliott, then president of Harvard University, who declared, "I have heard that this year we at Harvard won the baseball championship because we have a pitcher who has a fine curve ball. I am further instructed that the purpose of the curve ball is to deliberately deceive the batter. Harvard is not in the business of teaching deception." (I'm not making this up.)

Ever since I learned of President Elliott's moral teachings on this subject, I have scrupulously refrained from using my curve, however devastating its effect might have been on hapless batters. Now, however, it is time for my karma to run over Elliott's dogma and for me to quit holding back. Visit the park on Saturday night and marvel at the majestic arc of my breaking ball.

Our proxy statement includes information about obtaining tickets to the game. We will also provide an information packet describing the local hot spots, including, of course, those 12 Dairy Queens.

Come to Omaha — the cradle of capitalism — in May and enjoy yourself.

Warren E. Buffett
Chairman of the Board

February 27, 1998

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 $5-10 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."

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

	December 31, 1997	December 31, 1996
ASSETS		
Cash and cash equivalents	$ 1,002.4	$ 1,339.8
Investments:		
Securities with fixed maturities	10,297.8	6,446.9
Equity securities	36,247.7	27,750.6
Receivables	1,711.5	1,523.2
Inventories	639.0	619.6
Assets of finance businesses	1,248.8	968.8
Property, plant and equipment	1,056.5	1,034.2
Goodwill of acquired businesses	3,066.5	3,110.3
Other assets	840.7	616.0
	$56,110.9	$43,409.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 6,850.5	$ 6,274.4
Unearned premiums	1,273.7	1,183.5
Accounts payable, accruals and other liabilities	2,202.3	2,556.8
Income taxes, principally deferred	10,538.8	6,837.6
Borrowings under investment agreements and other debt	2,266.7	1,944.4
Liabilities of finance businesses	1,067.2	851.3
	24,199.2	19,648.0
Minority shareholders' interests	456.5	335.1
Shareholders' equity:		
Common Stock: *		
Class A Common Stock, $5 par value, 1,366,090 and 1,376,188 shares issued; 1,197,888 and 1,206,120 shares outstanding	6.8	6.9
Class B Common Stock, $0.1667 par value, 1,087,156 and 783,755 shares issued and outstanding	0.2	0.1
Capital in excess of par value	2,347.1	2,274.1
Unrealized appreciation of investments	18,197.9	12,143.9
Retained earnings	10,934.3	9,032.7
	31,486.3	23,457.7
Less: Cost of 168,202 and 170,068 Class A common shares in treasury	31.1	31.4
Total shareholders' equity	31,455.2	23,426.3
	$56,110.9	$43,409.4

* *Class B Common Stock has economic rights equal to one-thirtieth (1/30) of the economic rights of Class A Common Stock. Accordingly, on an equivalent Class A Common Stock basis, there are 1,234,127 shares outstanding at December 31, 1997 versus 1,232,245 outstanding at December 31, 1996.*

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,		
	1997	1996	1995
Revenues:			
Insurance premiums earned	$ 4,761.1	$ 4,117.8	$ 957.5
Sales and service revenues	3,577.5	3,061.2	2,755.9
Interest, dividend and other investment income	953.3	811.9	629.2
Income from finance businesses	31.8	25.3	26.6
Realized investment gain	1,106.3	2,484.1	194.1
	10,430.0	10,500.3	4,563.3
Cost and expenses:			
Insurance losses and loss adjustment expenses	3,420.1	3,089.5	612.0
Insurance underwriting expenses	879.6	797.6	325.0
Cost of products and services sold	2,186.9	1,884.0	1,706.7
Selling, general and administrative expenses	920.8	861.9	759.6
Goodwill amortization	83.1	61.7	16.3
Interest expense	111.9	99.7	59.3
	7,602.4	6,794.4	3,478.9
Earnings before income taxes and minority interest	2,827.6	3,705.9	1,084.4
Income taxes	897.7	1,196.8	276.2
Minority interest	28.3	20.5	13.3
Net earnings	$ 1,901.6	$ 2,488.6	$ 794.9
Average common shares outstanding *	1,233,192	1,205,257	1,187,102
Net earnings per common share *	$1,542	$2,065	$670

* *Average shares outstanding for 1997 and 1996 include average Class A Common shares and average Class B Common shares determined on an equivalent Class A Common Stock basis. Net earnings per common share shown above represents net earnings per equivalent Class A Common share. Net earnings per Class B Common share is equal to one-thirtieth (1/30) of such amount or $51 per share for 1997 and $69 per share for 1996.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1997	1996	1995
Cash flows from operating activities:			
Net earnings	$1,901.6	$2,488.6	$ 794.9
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gain	(1,106.3)	(2,484.1)	(194.1)
Depreciation and amortization	227.3	151.6	75.7
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	576.1	352.1	268.6
Deferred charges re reinsurance assumed	(142.3)	51.8	51.0
Unearned premiums	90.2	(8.8)	66.9
Receivables	(120.2)	(127.1)	(35.4)
Accounts payable, accruals and other liabilities	547.4	558.3	228.2
Income taxes	382.8	221.9	(29.9)
Other	(21.0)	55.7	(98.0)
Net cash flows from operating activities	2,335.6	1,260.0	1,127.9
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(6,837.3)	(2,464.7)	(273.9)
Purchases of equity securities	(714.3)	(1,423.4)	(1,459.9)
Proceeds from sales of securities with fixed maturities	3,397.5	277.5	669.7
Proceeds from redemptions and maturities of securities with fixed maturities	779.6	791.9	954.6
Proceeds from sales of equity securities	2,015.6	1,531.0	1,352.7
Loans and investments originated in finance businesses	(491.1)	(577.1)	(381.2)
Principal collection on loans and investments originated in finance businesses	276.0	351.5	363.0
Acquisitions of businesses, net of cash acquired	(774.9)	(1,975.3)	—
Other	(182.3)	(19.2)	(11.4)
Net cash flows from investing activities	(2,531.2)	(3,507.8)	1,213.6
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	157.5	285.1	265.7
Proceeds from other borrowings	1,073.6	1,604.3	1,232.7
Repayments of borrowings of finance businesses	(214.1)	(427.3)	(232.1)
Repayments of other borrowings	(1,111.8)	(1,170.0)	(1,151.7)
Net proceeds from issuance of Class B Common Stock	—	565.0	—
Other	(1.4)	(3.5)	(1.5)
Net cash flows from financing activities	(96.2)	853.6	113.1
Increase (decrease) in cash and cash equivalents	(291.8)	(1,394.2)	2,454.6
Cash and cash equivalents at beginning of year	1,350.3	2,744.5	289.9
Cash and cash equivalents at end of year *	$1,058.5	$1,350.3	$2,744.5

** Cash and cash equivalents at end of year are comprised of the following:*			
Finance businesses	*$ 56.1*	*$ 10.5*	*$ 40.7*
Other	*1,002.4*	*1,339.8*	*2,703.8*
	$1,058.5	*$1,350.3*	*$2,744.5*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in millions)

	Par Value Common Stock Class A	Par Value Common Stock Class B	Capital in Excess of Par Value	Unrealized Appreciation of Investments	Retained Earnings	Class A Treasury Stock
Balance December 31, 1994	$ 6.9	$ —	$ 656.1	$ 5,276.9	$ 5,749.2	$ 37.6
Net earnings	—	—	—	—	794.9	—
Increase in unrealized appreciation included in carrying value of investments	—	—	—	6,177.1	—	—
Increase in deemed applicable deferred income taxes	—	—	—	(2,176.2)	—	—
Increase in minority interest in unrealized appreciation	—	—	—	(57.1)	—	—
Common stock issued in connection with acquisitions of businesses	—	—	345.6	—	—	(2.9)
Balance December 31, 1995	6.9	—	1,001.7	9,220.7	6,544.1	34.7
Net earnings	—	—	—	—	2,488.6	—
Increase in unrealized appreciation included in carrying value of investments	—	—	—	4,604.0	—	—
Increase in deemed applicable deferred income taxes	—	—	—	(1,629.1)	—	—
Increase in minority interest in unrealized appreciation	—	—	—	(51.7)	—	—
Common stock issued in connection with acquisition of business	—	—	707.5	—	—	(3.3)
Issuance of Class B Common stock	—	0.1	564.9	—	—	—
Balance December 31, 1996	6.9	0.1	2,274.1	12,143.9	9,032.7	31.4
Net earnings	—	—	—	—	1,901.6	—
Increase in unrealized appreciation included in carrying value of investments	—	—	—	9,468.2	—	—
Increase in deemed applicable deferred income taxes	—	—	—	(3,318.9)	—	—
Increase in minority interest in unrealized appreciation	—	—	—	(95.3)	—	—
Common stock issued in connection with acquisition of business	—	—	72.7	—	—	(0.3)
Other	(0.1)	0.1	0.3	—	—	—
Balance December 31, 1997	$ 6.8	$ 0.2	$2,347.1	$18,197.9	$10,934.3	$ 31.1

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

(1) Significant accounting policies and practices

(a) Nature of operations and basis of consolidation

Berkshire Hathaway Inc. ("Berkshire" or "Company") 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 15. 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 ("GAAP") 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) Accounting pronouncements to be adopted in 1998

During 1997, the Financial Accounting Standards Board issued the following Statements of Financial Accounting Standards ("SFAS") that are effective for periods beginning after December 15, 1997 and will be adopted by the Company during 1998. The Company does not expect that adoption of these Standards will have a material effect on its financial position, results of operations or on disclosures within the financial statements.

(1) SFAS No. 130 — "Reporting Comprehensive Income", which establishes standards for the reporting and display of comprehensive income and its components.

(2) SFAS No. 131 — "Disclosures about Segments of an Enterprise and Related Information", which establishes new standards for reporting information about operating segments in interim and annual financial statements.

(d) 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.

(e) Investments

Management determines the appropriate classifications of investments in securities with fixed maturities and equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. Investments in equity securities are classified as available-for-sale. Investments in securities with fixed maturities, except for such securities held by finance businesses, 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.

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. Held-to-maturity securities are carried at amortized cost. Realized gains and losses, which arise when investments are sold (as determined on a specific identification basis), other-than-temporarily impaired or in certain situations when investments are marked-to-market, are included in the Consolidated Statements of Earnings.

(f) Goodwill of acquired businesses

Goodwill of acquired businesses represents the difference between purchase cost and the fair value of the net assets of acquired businesses and is being amortized on a straight line basis over forty years. The Company periodically reviews the recoverability of the carrying value of goodwill of acquired businesses using the methodology prescribed by SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

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

(g) Insurance premium acquisition costs

Certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. The ultimate recoverability of premium acquisition costs is determined without regard to investment income. The unamortized balance of deferred premium acquisition costs is included in other assets.

(h) 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 is included in other assets and was $480.2 million at December 31, 1997 and $337.9 million at December 31, 1996.

(j) Losses and loss adjustment expenses

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(*h*) 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 and policyholder liabilities which are included in liabilities of finance businesses.

(k) Insurance premiums

Insurance premiums for prospective insurance and reinsurance policies are earned in proportion to the level of insurance protection provided. In most cases, premiums are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Consideration received for retroactive reinsurance policies is accounted for as premiums earned at the inception of the contracts. Premiums earned are stated net of amounts ceded to reinsurers.

(m) Reinsurance

Provisions for losses and loss adjustment expenses are reported in the accompanying Consolidated Statements of Earnings after deducting amounts recovered and estimates of amounts that will be ultimately recoverable under reinsurance contracts. Reinsurance contracts do not relieve the Insurance Group members of their obligations to indemnify policyholders with respect to the underlying insurance and reinsurance contracts. Estimated losses and loss adjustment expenses recoverable under reinsurance contracts are included in receivables.

Notes to Consolidated Financial Statements *(Continued)*

(2) Business acquisitions

During 1996, Berkshire consummated mergers with GEICO Corporation ("GEICO") and FlightSafety International, Inc. ("FlightSafety"). Each of these mergers was accounted for by the purchase method. The excess of the purchase cost of each business over the fair value of net assets acquired as of each merger date was recorded as goodwill of acquired businesses and is being amortized over forty years. The aggregate amount of goodwill applicable to these acquisitions was approximately $2.5 billion. Additional information concerning each merger is provided below.

(a) GEICO

On January 2, 1996, GEICO became a wholly-owned subsidiary as a result of the merger of an indirect wholly-owned subsidiary of Berkshire with and into GEICO. GEICO, through its subsidiaries, is a multiple line property and casualty insurer, the principal business of which is underwriting private passenger automobile insurance.

The merger was consummated pursuant to an Agreement and Plan of Merger dated August 25, 1995 (the "GEICO Agreement"). Pursuant to the GEICO Agreement, each issued and outstanding common share of GEICO, except shares held by Berkshire subsidiaries and GEICO, was converted into the right to receive $70 per share, or an aggregate amount of $2.3 billion.

As of the merger date, subsidiaries of Berkshire owned 34,250,000 common shares of GEICO, which were acquired prior to 1981 at an aggregate cost of $45.7 million. Up to the merger date, neither Berkshire nor its subsidiaries had acquired any shares of GEICO 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.

(b) FlightSafety

On December 23, 1996, FlightSafety became a wholly-owned subsidiary as a result of the merger of FlightSafety with and into a subsidiary of Berkshire. FlightSafety provides high technology training to operators of aircraft and ships throughout the world.

The merger was consummated pursuant to an Agreement and Plan of Merger dated October 14, 1996 (the "FlightSafety Agreement"). Pursuant to the FlightSafety Agreement, aggregate consideration of approximately $1.5 billion was paid to FlightSafety shareholders consisting of $769.0 million in cash, 17,728 shares of Berkshire's Class A common stock and 112,655 shares of Berkshire's Class B common stock.

The results of operations for each of these entities are fully included in Berkshire's Consolidated Statements of Earnings beginning on the effective dates of each of the mergers (GEICO — January 2, 1996 and FlightSafety — December 23, 1996). In the accompanying Consolidated Statement of Earnings for 1995, Berkshire's previous investment in GEICO was accounted for under the equity method. Berkshire's proportionate share of GEICO's net earnings, reduced by amortization of goodwill, is included as a component of interest, dividends, and other investment income.

The following table sets forth certain unaudited condensed consolidated earnings data for the years ended December 31, 1996 and 1995, as if the GEICO and FlightSafety mergers had been consummated on the same terms at the beginning of 1995. Dollar amounts are in millions, except per share amounts.

	1996	1995
Insurance premiums earned	$ 4,117.8	$3,744.5
Sales and service revenues	3,416.5	3,081.6
Total revenues	10,823.5	7,640.9
Net earnings	2,515.0	833.8
Earnings per equivalent Class A common share	2,051	690

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 (subsequently redesignated Class A 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 over 180 jewelry stores operating in 28 states and R.C. Willey, through its several locations, is the dominant retailer of home furnishings in Utah. 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 Statements of Earnings from the effective dates of the mergers (Helzberg's — April 30, 1995; R.C. Willey — June 29, 1995).

(2) Business acquisitions *(Continued)*

On October 21, 1997, Berkshire and International Dairy Queen, Inc. ("Dairy Queen") executed a definitive Merger Agreement pursuant to which Berkshire would acquire Dairy Queen through the merger of Dairy Queen with and into a wholly-owned subsidiary of Berkshire. The Merger Agreement provided that, subject to certain limitations and conditions, the holders of Dairy Queen Class A and Class B common stock could receive either $27.00 cash or $26.00 of Berkshire Class A or Class B common stock for each Dairy Queen share. The total merger consideration was approximately $587.8 million consisting of $264.5 million in cash and the remainder in Class A and Class B common stock. The merger was completed on January 7, 1998.

Dairy Queen develops, licenses and services a system of approximately 5,800 Dairy Queen stores located throughout the United States, Canada and other foreign countries, which feature hamburgers, hot dogs, various dairy desserts and beverages. Dairy Queen also develops, licenses and services other stores and shops operating under the names of Orange Julius and Karmelkorn, which feature blended fruit drinks, popcorn and other snacks.

(3) Investments in securities with fixed maturities

The amortized cost and estimated fair values of investments in securities with fixed maturities as of December 31, 1997 and 1996 are as follows (in millions):

December 31, 1997	*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	$5,890.4	$ 600.8	$ (0.6)	$ 6,490.6
Obligations of states, municipalities and political subdivisions	2,151.0	58.3	(0.2)	2,209.1
Corporate bonds	34.7	—	—	34.7
Redeemable preferred stocks	764.3	515.4	—	1,279.7
Mortgage-backed securities	272.8	10.9	—	283.7
	$9,113.2	$1,185.4	$ (0.8)	$10,297.8

December 31, 1996	*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	$2,618.8	$ 4.0	$ (5.7)	$ 2,617.1
Obligations of states, municipalities and political subdivisions	2,502.0	32.4	(1.8)	2,532.6
Corporate bonds	22.0	—	—	22.0
Redeemable preferred stocks	584.3	275.9	(4.3)	855.9
Mortgage-backed securities	415.2	6.1	(2.0)	419.3
	$6,142.3	$ 318.4	$(13.8)	$ 6,446.9

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

Shown below are the amortized cost and estimated fair values of the above securities at December 31, 1997, 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	$1,278.7	$ 1,785.0
Due after one year through five years	2,151.6	2,183.1
Due after five years through ten years	781.4	818.4
Due after ten years	4,628.7	5,227.6
	8,840.4	10,014.1
Mortgage-backed securities	272.8	283.7
	$9,113.2	$10,297.8

Notes to Consolidated Financial Statements *(Continued)*

(4) Investments in equity securities

Data with respect to the consolidated investment in equity securities are shown below. Individual investments whose fair values exceed ten percent of consolidated shareholders' equity at December 31, 1997 and 1996 are listed separately. Amounts are in millions.

December 31, 1997	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company	$1,392.7	$ 3,021.3	$ 4,414.0
The Coca-Cola Company	1,298.9	12,038.6	13,337.5
The Gillette Company	600.0	4,221.0	4,821.0
All other equity securities	5,725.1	7,950.1*	13,675.2
	$9,016.7	$27,231.0	$36,247.7

December 31, 1996	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company	$1,392.7	$ 1,401.6	$ 2,794.3
The Coca-Cola Company	1,298.9	9,226.1	10,525.0
The Gillette Company	600.0	3,132.0	3,732.0
All other equity securities	5,860.4	4,838.9**	10,699.3
	$9,152.0	$18,598.6	$27,750.6

* *Represents gross unrealized gains $7,995.9 less gross unrealized losses $45.8.*

** *Represents gross unrealized gains $4,861.3 less gross unrealized losses $22.4.*

Common shares of American Express Company ("AXP") owned by Berkshire and its subsidiaries possessed approximately 10.5% of the voting rights of all AXP shares outstanding at December 31, 1997. The shares are held subject to various agreements with certain 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 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.

(5) Realized investment gains (losses)

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

	1997	*1996*	*1995*
Equity securities —			
Gross realized gains	$ 739.2	$2,379.1	$109.9
Gross realized losses	(23.3)	(36.4)	(14.2)
Securities with fixed maturities and other investments —			
Gross realized gains	395.9	144.6	100.8
Gross realized losses	(5.5)	(3.2)	(2.4)
	$1,106.3	$2,484.1	$194.1

In November 1997, the merger of Salomon Inc ("Salomon") with and into a subsidiary of Travelers Group Inc. ("Travelers") was completed. Berkshire subsidiaries received common and preferred stock of Travelers in exchange for common and preferred shares of Salomon then owned. The value of the Travelers shares received was approximately $1.8 billion. Realized investment gains for 1997 include $677.9 million with respect to the transaction. The gain is net of a charge of $298.4 million for the contingent value associated with Berkshire's Exchange Notes. See Note 9 for additional information regarding the Exchange Notes.

In March 1996, The Walt Disney Company ("Disney") completed its acquisition of Capital Cities/ABC, Inc. ("Capital Cities"). Subsidiaries of Berkshire received aggregate consideration of $2.5 billion, which included cash of $1.2 billion and common shares of Disney with a value of $1.3 billion. Gross realized gains from sales of equity securities include a gain of $2.2 billion relating to Disney's acquisition of Capital Cities.

(6) Commitment to purchase silver

During 1997, the Company entered into several forward contracts to purchase silver during the first quarter of 1998. As of December 31, 1997, the Company had committed to purchase 111.2 million ounces of silver which had an estimated fair value of about $665 million. Subsequent to year end, the Company committed to purchase an additional 18.5 million ounces of silver. The Consolidated Statement of Earnings for 1997 includes a pre-tax gain of $97.4 million representing the excess of fair value over net cost of the commitments.

(7) Finance businesses

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

	Dec. 31, 1997	*Dec. 31, 1996*
Assets		
Cash and cash equivalents	$ 56.1	$ 10.5
Installment loans and other receivables	221.8	215.9
Fixed maturity investments [(a)]	970.9	742.4
	$1,248.8	$ 968.8
Liabilities		
Borrowings under investment agreements and other debt [(b)]	$ 225.9	$ 281.8
6 ¾% Notes, due 2001	99.6	99.5
Annuity reserves and policyholder liabilities	697.4	434.8
Other	44.3	35.2
	$1,067.2	$ 851.3

(a) *At December 31, 1997 and 1996, mortgage-backed securities of $857.3 and $601.6 respectively were included in this caption. Estimated fair values and gross unrealized gains and losses as of December 31, 1997 and 1996, are as follows (in millions):*

	Amortized Cost	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
1997	*$970.9*	*$111.7*	*$ (0.2)*	*$1,082.4*
1996	*742.4*	*25.2*	*(4.8)*	*762.8*

(b) *Borrowings under investment agreements and other debt are made pursuant to contracts with terms generally ranging from six months to thirty years and at fixed interest rates ranging from 5.0% to 7.2%. Payments of principal amounts expected during the next five years are as follows (in millions):*

1998	1999	2000	2001	2002
$76.9	$ 3.3	—	—	—

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

	1997	1996	1995
Revenues			
Interest on loans	$ 36.9	$ 38.8	$ 38.4
Interest income	74.4	54.4	39.2
Annuity premiums earned	248.0	259.5	75.2
	359.3	352.7	152.8
Cost and expenses			
Interest expense	19.9	30.3	28.9
Annuity benefits and expenses	286.6	276.7	80.8
General and administrative expenses.	21.0	20.4	16.5
	327.5	327.4	126.2
	$ 31.8	$ 25.3	$ 26.6

Notes to Consolidated Financial Statements *(Continued)*

(8) Unpaid losses and loss adjustment expenses

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

	1997	1996	1995
Unpaid losses and loss adjustment expenses:			
Balance at beginning of year	$6,274.4	$5,923.9*	$3,430.0
Less ceded liabilities and deferred charges	585.8	645.0*	573.9
Net balance	5,688.6	5,278.9*	2,856.1
Incurred losses recorded:			
Current accident year	3,551.4	3,179.7	556.5
All prior accident years	(131.3)	(90.2)	55.5
Total incurred losses	3,420.1	3,089.5	612.0
Payments with respect to:			
Current accident year	1,602.1	1,484.9	43.6
All prior accident years	1,410.3	1,194.9	246.2
Total payments	3,012.4	2,679.8	289.8
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	6,096.3	5,688.6	3,178.3
Plus ceded liabilities and deferred charges	754.2	585.8	520.3
Balance at end of year **	$6,850.5	$6,274.4	$3,698.6

* *Includes GEICO balances as of the acquisition date.*

** *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 $1,398.1, $1,263.6, and $1,283.5 at December 31, 1997, 1996 and 1995 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 $212.3, $217.2, and $221.7 at December 31, 1997, 1996 and 1995 respectively.*

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.

(9) Borrowings under investment agreements and other debt

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

	Dec. 31, 1997	*Dec. 31, 1996*
Borrowings under investment agreements	$ 816.2	$ 865.3
1% Senior Exchangeable Notes Due 2001	805.9	454.6
Other debt	644.6	624.5
	$2,266.7	$1,944.4

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.

On December 2, 1996, Berkshire received net proceeds of $447.1 million from the issuance of $500 million principal amount of 1% Senior Exchangeable Notes, due December 2, 2001 (the "Exchange Notes"). Under certain conditions, on the last trading day of January, April, July and October from January 1997 through July 2001, each $1,000 principal amount Exchange Note is exchangeable at the option of the holder into 29.92 shares of Travelers Group Inc. common stock ("Travelers Stock"). (Prior to November 28, 1997, each Exchange Note was exchangeable into 17.65 shares of Salomon Inc common stock.) Beginning on December 2, 1999, under certain conditions, the Exchange Notes are exchangeable into 29.92 shares of Travelers Stock at the option of the Company. Upon such exchange, Berkshire may elect to redeem the Exchange Notes for the equivalent cash value of the underlying Travelers Stock. In all other circumstances, Berkshire will pay the principal amount at maturity.

(9) Borrowings under investment agreements and other debt *(Continued)*

The Exchange Notes are carried at accreted value plus an additional amount (the "contingent value") representing the excess, if any, of the value of the underlying Travelers Stock over the accreted value of the Notes. The contingent value of the Exchange Notes is initially charged to unrealized appreciation of investments. The contingent value amount is subsequently recognized in the Consolidated Statements of Earnings as a charge against realized investment gains on the earliest of the (i) dates that the Exchange Notes mature or are exchanged or otherwise redeemed or (ii) the date the related underlying stock is otherwise no longer owned by the Company. As of December 31, 1997, the contingent value component of the aggregate carrying value of the Exchange Notes was $342.6 million. There was no contingent value associated with the Exchange Notes at year end 1996.

No materially restrictive covenants are included in any of the various debt agreements. Payments of principal amounts expected during the next five years are as follows (in millions):

1998	1999	2000	2001	2002
$200.4	$ 61.7	$ 13.4	$829.6	$ 24.6

(10) Income taxes

The liability for income taxes as reflected in the accompanying Consolidated Balance Sheets is as follows (in millions):

	Dec. 31, 1997	*Dec. 31, 1996*
Payable currently	$ 138.5	$ (41.1)
Deferred	10,400.3	6,878.7
	$10,538.8	$ 6,837.6

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

	1997	*1996*	*1995*
Federal	$ 864.8	$1,169.9	$252.3
State	32.1	26.1	22.6
Foreign	0.8	0.8	1.3
	$ 897.7	$1,196.8	$276.2
Current	$ 691.4	$ 818.9	$331.0
Deferred	206.3	377.9	(54.8)
	$ 897.7	$1,196.8	$276.2

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996, are shown below (in millions):

	1997	*1996*
Deferred tax liabilities:		
Relating to unrealized appreciation of investments	$ 9,940.5	$ 6,620.6
Other	1,168.1	860.9
	11,108.6	7,481.5
Deferred tax assets	(708.3)	(602.8)
Net deferred tax liability	$10,400.3	$ 6,878.7

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

	1997	*1996*	*1995*
Earnings before income taxes	$2,827.6	$3,705.9	$1,084.4
Hypothetical amounts applicable to above computed at the federal statutory rate	$ 989.7	$1,297.1	$ 379.5
Decreases, resulting from:			
Tax-exempt interest income	(35.8)	(41.7)	(10.6)
Dividends received deduction	(104.4)	(90.3)	(86.3)
Goodwill amortization	29.1	21.6	5.7
State income taxes, less federal income tax benefit	20.8	17.0	14.7
Other differences, net	(1.7)	(6.9)	(26.8)
Total income taxes	$ 897.7	$1,196.8	$ 276.2

Notes to Consolidated Financial Statements *(Continued)*

(11) Common stock

Changes in common stock issued and outstanding of the Company during the three years ended December 31, 1997, are shown in the table below.

	Class A Common, $5 Par Value			Class B Common $0.1667 Par Value
	Shares Issued	Treasury Shares	Shares Outstanding	Shares Issued and Outstanding
Balance December 31, 1994	1,381,308	203,558	1,177,750	—
Common stock issued in connection with acquisitions of businesses	—	(15,762)	15,762	—
Balance December 31, 1995	1,381,308	187,796	1,193,512	—
Issuance of Class B common stock	—	—	—	517,500
Common stock issued in connection with acquisition of business	—	(17,728)	17,728	112,655
Conversions of Class A common stock to Class B common stock	(5,120)	—	(5,120)	153,600
Balance December 31, 1996	1,376,188	170,068	1,206,120	783,755
Common stock issued in connection with acquisition of business	—	(1,866)	1,866	165
Conversions of Class A common stock to Class B common stock and other	(10,098)	—	(10,098)	303,236
Balance December 31, 1997	1,366,090	168,202	1,197,888	1,087,156

On May 6, 1996, Berkshire shareholders approved a recapitalization plan which created a new class of common stock, designated as Class B Common Stock. In connection therewith, Berkshire's then existing common stock was redesignated as Class A Common Stock. Each share of Class A Common Stock is convertible, at the option of the holder, into thirty shares of Class B Common Stock. Class B Common Stock is not convertible into Class A Common Stock. Each share of Class B Common Stock possesses voting rights equivalent to one-two-hundredth (1/200) of the voting rights of a share of Class A Common Stock.

On May 8, 1996, Berkshire completed an initial public offering of 517,500 shares of Class B Common Stock. Berkshire received net proceeds from the offering of $565.0 million. Since the Class B Common shares are equivalent to one-thirtieth (1/30) of the economic rights of Class A Common shares, the issuance of the Class B Common Stock was equivalent to the issuance of 17,250 Class A Common shares or approximately 1.4% of Class A Common shares outstanding at the time of the issuance of Class B Common shares.

(12) Dividend restrictions - Insurance subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1998, Berkshire can receive up to approximately $3.5 billion as dividends from insurance subsidiaries.

Combined shareholders' equity of insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $37.2 billion at December 31, 1997. This amount exceeded by approximately $7.8 billion the corresponding amount determined on the basis of GAAP. The major differences between statutory basis accounting and GAAP are that deferred income tax assets and liabilities, deferred charges re reinsurance assumed, and unrealized gains and losses on investments in securities with fixed maturities are recognized under GAAP but not for statutory reporting purposes. In addition, goodwill of acquired businesses is subject to a shorter amortization period under statutory accounting rules than is permitted under GAAP.

(13) Fair values of financial instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" 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, are 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.

(13) Fair values of financial instruments *(continued)*

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 used 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, 1997 and 1996, are as follows (in millions):

	Carrying Value		Estimated Fair Value	
	1997	1996	1997	1996
Investments in securities with fixed maturities	$10,297.8	$ 6,446.9	$10,297.8	$ 6,446.9
Investments in equity securities	36,247.7	27,750.6	36,247.7	27,750.6
Assets of finance businesses	1,248.8	968.8	1,367.3	997.7
Borrowings under investment agreements and other debt	2,266.7	1,944.4	2,262.0	1,937.9
Liabilities of finance businesses	1,067.2	851.3	1,149.4	851.9

(14) 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.

1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 2,074.8	$ 2,338.2	$ 2,372.7	$ 3,644.3
Earnings:				
Excluding realized investment gain	$ 263.1	$ 254.9	$ 248.1	$ 432.0
Realized investment gain	21.3	22.9	118.5	540.8*
Net earnings	$ 284.4	$ 277.8	$ 366.6	$ 972.8
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 213.51	$ 206.86	$ 201.03	$ 350.05
Realized investment gain	17.29	18.58	96.02	438.20*
Net earnings	$ 230.80	$ 225.44	$ 297.05	$ 788.25

* *Includes $427.3 million ($346.47/share), net of taxes, related to gain arising from Travelers Group Inc.'s acquisition of Salomon Inc. See Note 5.*

1996	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 4,139.7	$ 1,914.8	$ 2,015.3	$ 2,430.5
Earnings:				
Excluding realized investment gain	$ 160.2	$ 193.7	$ 201.4	$ 328.1
Realized investment gain (loss)	1,508.5*	(2.5)	62.6	36.6
Net earnings	$ 1,668.7	$ 191.2	$ 264.0	$ 364.7
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 134.23	$ 160.91	$ 166.34	$ 270.52
Realized investment gain (loss)	1,263.92*	(2.08)	51.70	30.17
Net earnings	$1,398.15	$ 158.83	$ 218.04	$ 300.69

* *Includes $1.4 billion ($1,143.68/share), net of taxes, related to gain arising from The Walt Disney Company's acquisition of Capital Cities/ABC, Inc. See Note 5.*

Notes to Consolidated Financial Statements *(Continued)*

(15) Business Segment Data

Berkshire identified seven business segments for purposes of 1997 reporting pursuant to SFAS No. 14. These include the property and casualty insurance business (The Insurance Segment) conducted on both a direct and reinsurance basis through a number of subsidiaries. Included in this segment is GEICO Corporation, the seventh largest auto insurer in the United States and National Indemnity Company, one of the world's leading providers of catastrophe excess of loss reinsurance. Berkshire's six separately conducted non-insurance business segments are as follows:

Business identity and headquarters	Segment	Activity
FlightSafety International Flushing, NY	Aviation training	High technology training to operators of aircraft and ships
See's Candies South San Francisco, CA	Candy	Manufacture and distribution at retail and by catalog solicitation
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, R.C. Willey Home Furnishings and Star Furniture Company Omaha, NE, Salt Lake City, UT and Houston, TX	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

The business segments identified above were responsible in 1997 for 86% of Berkshire's consolidated revenues. Other businesses activities that contributed for 1997, in the aggregate, 13% of Berkshire's consolidated revenues, were as follows:

Business identity	Product/Service/Activity
Adalet	Electrical enclosure systems and cable accessories
BHR	Real estate management
Berkshire Hathaway Credit Corporation	Commercial financing
Berkshire Hathaway Life Insurance Co.	Annuities and other financial products
Blue Chip Stamps	Marketing motivational services
Borsheim's	Retailing fine jewelry
Campbell Hausfeld	Air compressors, air tools, painting systems, pressure washers, welders and generators
Carefree	Comfort and convenience products for the recreational vehicle industry
Fechheimer Bros. Co.	Uniforms and accessories
France	Ignition and sign transformers and components
Halex	Zinc die cast conduit fittings and other electrical construction materials
Helzberg's Diamond Shops	Retailing fine jewelry
Kingston	Appliance controls
Meriam	Pressure and flow measurement devices
Northland	Fractional horsepower electric motors
Powerwinch	Marine and general purpose winches, windlasses, 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	Truck equipment including service bodies, flatbed bodies, cranes, tool boxes and dump bodies
Wayne Combustion Systems	Oil and gas burners for residential and commercial furnaces and water heaters
Wayne Pumps	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
World Book	Printed and multimedia encyclopedias and other reference materials

(15) 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		
	1997	*1996*	*1995*	*1997*	*1996*	*1995*
Identified Segments:						
Insurance	$ 6,695.4	$7,133.1	$1,715.7	$2,346.7	$3,189.6	$ 776.5
Non-insurance businesses	2,297.8	1,812.3	1,617.2	391.9	259.6	225.8
	8,993.2	8,945.4	3,332.9	2,738.6	3,449.2	1,002.3
Other than identified segments	1,436.8	1,554.9	1,230.4	194.2	349.7	138.1
Interest expense *				(105.2)	(93.0)	(56.0)
Aggregate consolidated total	$10,430.0	$10,500.3	$4,563.3	$2,827.6	$3,705.9	$1,084.4

* *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.*

Insurance Segment	Revenues			Operating profit before taxes		
	1997	*1996*	*1995*	*1997*	*1996*	*1995*
Premiums earned: *						
Direct	$3,878.5	$3,432.9	$ 287.3			
Reinsurance assumed	968.4	764.0	718.4			
Reinsurance ceded	(85.8)	(79.1)	(48.2)			
	4,761.1	4,117.8	957.5			
Underwriting				$ 461.4	$ 230.7	$ 19.6
Goodwill amortization				(42.9)	(42.6)	—
Investment income	879.0	725.9	577.1	872.9	712.1	575.8
Realized investment gain	1,055.3	2,289.4	181.1	1,055.3	2,289.4	181.1
	$6,695.4	$7,133.1	$1,715.7	$2,346.7	$3,189.6	$ 776.5

* *Premiums written were as follows:*

	1997	*1996*	*1995*
Direct	*$3,980.4*	*$3,465.4*	*$ 294.8*
Reinsurance assumed	*956.5*	*722.7*	*777.9*
Reinsurance ceded	*(84.6)*	*(82.9)*	*(48.5)*
	$4,852.3	*$4,105.2*	*$1,024.2*

Non-Insurance Business Segments	Revenues			Operating profit before taxes		
	1997	*1996*	*1995*	*1997*	*1996*	*1995*
Aviation training	$ 410.9	$ 8.4	$ —	$ 118.6	$ 2.7	$ —
Candy	269.2	248.9	233.6	57.6	50.9	49.3
Home cleaning systems	253.5	253.7	235.6	66.5	62.5	52.6
Home furnishings	667.1	586.6	428.1	53.7	41.0	28.1
Newspaper	155.5	154.2	154.8	55.4	49.8	46.3
Shoes	541.6	560.5	565.1	40.1	52.7	49.5
	$2,297.8	$1,812.3	$1,617.2	$ 391.9	$ 259.6	$ 225.8

Notes to Consolidated Financial Statements *(Continued)*

(15) Business Segment Data *(Continued)*

Other Than Identified Segments	Revenues 1997	Revenues 1996	Revenues 1995	Operating profit before taxes 1997	Operating profit before taxes 1996	Operating profit before taxes 1995
Other businesses	$1,349.4	$1,306.2	$1,179.6	$123.4	$116.1	$101.2
Not identified with specific businesses:						
Interest and dividend income	36.4	54.0	37.8	36.4	54.0	37.8
Realized investment gain	51.0	194.7	13.0	51.0	194.7	13.0
All other except interest expense				(16.6)	(15.1)	(13.9)
	$1,436.8	$1,554.9	$1,230.4	$194.2	$349.7	$138.1

	Capital expenditures * 1997	Capital expenditures * 1996	Capital expenditures * 1995	Deprec. & amort. of tangible assets 1997	Deprec. & amort. of tangible assets 1996	Deprec. & amort. of tangible assets 1995
Insurance	$ 28.7	$12.2	$ 1.2	$ 27.2	$26.3	$ 0.9
Aviation training	118.9	—	—	54.9	—	—
Candy	20.1	5.3	5.1	4.5	4.5	4.1
Home cleaning systems	0.6	2.0	0.3	2.8	2.7	3.0
Home furnishings	43.3	21.6	9.2	10.5	10.0	9.7
Newspaper	2.9	1.0	1.8	2.4	2.8	4.9
Shoes	10.8	12.8	13.7	13.2	13.4	12.0
Other	16.9	26.9	22.9	28.6	28.0	25.7
	$242.2	$81.8	$54.2	$144.1	$87.7	$60.3

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

	Identifiable assets at year-end 1997	Identifiable assets at year-end 1996	Identifiable assets at year-end 1995
Insurance	$49,962.5	$36,597.8	$25,280.0
Aviation training	1,679.2	1,683.7	—
Candy	88.1	74.1	74.5
Home cleaning systems	43.2	44.3	42.9
Home furnishings	593.9	445.8	427.7
Newspaper	42.1	42.0	45.0
Shoes	634.7	624.4	656.7
Other	3,067.2	3,897.3	2,184.6
	$56,110.9	$43,409.4	$28,711.4

(16) Supplemental cash flow information

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

	1997	1996	1995
Cash paid during the year for:			
Income taxes	$ 498.5	$ 965.9	$ 294.6
Interest	123.1	129.4	83.9
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	25.4	4,172.1	248.0
Common shares issued in connection with acquisitions of businesses	73.0	710.8	348.5
Fair value of investments acquired as part of exchanges and conversions	1,837.4	1,618.6	—
Contingent value of Exchange Notes recognized in earnings	298.4	—	—

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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, 1997 and 1996, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

March 6, 1998

Deloitte Touche Tohmatsu International

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)		
	1997	1996	1995
Insurance segment, except realized gain	$ 952.6	$ 689.6	$496.4
Non-Insurance business segments	225.8	157.0	133.3
Other businesses	72.2	69.5	58.1
Interest expense	(66.2)	(55.7)	(34.9)
Other	13.7	23.0	17.0
Earnings before realized gain	1,198.1	883.4	669.9
Realized gain	703.5	1,605.2	125.0
Net earnings	$1,901.6	$2,488.6	$794.9

The business segment data (Note 15 to Consolidated Financial Statements) should be read in conjunction with this discussion.

Insurance Segment

A summary follows of results to Berkshire from the insurance segment for the past three years.

	(dollars in millions)		
	1997	1996	1995
Premiums earned from:			
Direct insurance	$3,794.5	$3,360.3	$239.9
Reinsurance assumed	966.6	757.5	717.6
	$4,761.1	$4,117.8	$957.5
Underwriting gain (loss) attributable to:			
Direct insurance	$ 333.6	$ 238.5	$ 40.6
Reinsurance assumed	127.8	(7.8)	(21.0)
	461.4	230.7	19.6
Net investment income	872.9	712.1	575.8
Goodwill amortization	(42.9)*	(42.6)*	—
Pre-tax earnings	1,291.4	900.2	595.4
Income taxes	330.4	203.3	92.0
Minority interest	8.4	7.3	7.0
Net earnings from insurance, except realized gain	$ 952.6	$ 689.6	$496.4

* *Virtually all of the goodwill amortization relates to the amortization of goodwill that arose in connection with the GEICO merger.*

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

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 $37.2 billion at December 31, 1997. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into contracts of insurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers.

Direct Insurance Underwriting

A summary follows of the combined underwriting results of Berkshire's direct insurance businesses, stated on the basis of generally accepted accounting principles ("GAAP").

	(dollars are in millions)					
	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
Premiums written	$3,896.9		$3,389.7		$ 247.2	
Premiums earned	$3,794.5	100.0	$3,360.3	100.0	$ 239.9	100.0
Losses and loss expenses	2,744.3	72.3	2,516.6	74.9	90.0	37.5
Underwriting expenses	716.6	18.9	605.2	18.0	109.3	45.6
Total losses and expenses	3,460.9	91.2	3,121.8	92.9	199.3	83.1
Underwriting gain — pre-tax	$ 333.6		$ 238.5		$ 40.6	

The net underwriting results from direct insurance in 1997 and 1996 include the results of GEICO Corporation ("GEICO"). Through its subsidiaries, GEICO provides primarily private passenger automobile coverages to insureds in 48 states and the District of Columbia. GEICO policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company over the telephone or through the mail. This is a significant element in GEICO's strategy to be a low-cost provider of such coverages. In previous years, a relatively small percentage of GEICO's insurance business was derived from homeowner's and other non-automobile insurance coverages. In 1995, GEICO entered into an agreement with another major insurance provider that over time will allow it to effectively exit the homeowner's insurance business.

GEICO's underwriting results for 1997 and 1996 are summarized below. Amounts for 1995 are shown for comparative purposes, although such amounts are not included in Berkshire's Consolidated Financial Statements.

	(dollars are in millions)					
	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
Premiums written	$3,588.4		$3,122.1		$2,855.8	
Premiums earned	$3,481.8	100.0	$3,091.6	100.0	$2,787.0	100.0
Losses and loss expenses	2,630.1	75.5	2,424.9	78.4	2,254.2	80.9
Underwriting expenses	571.0	16.4	486.7	15.8	440.7	15.8
Total losses and expenses	3,201.1	91.9	2,911.6	94.2	2,694.9	96.7
Underwriting gain — pre-tax	$ 280.7		$ 180.0		$ 92.1	

As shown in the table above, premiums earned by GEICO grew significantly during 1997 and 1996. Premiums earned by GEICO in 1997 exceeded amounts earned in 1996 by 12.6% and amounts earned in 1996 surpassed 1995 by 10.9%. The increases in premium volume were attributed to growth in voluntary auto insurance business partially offset by declines in involuntary residual auto market and homeowner's businesses. In-force policy growth for GEICO's core preferred-risk auto business was 12.8% in 1997 and 7.3% in 1996. Policy growth in standard and non-standard auto markets was 36.6% in 1997 and 33.5% in 1996 reflecting continued marketing efforts to offer rate quotes to potential customers who do not meet GEICO's preferred-risk underwriting guidelines. Voluntary new auto policy growth was 47.8% in 1997 as compared to 1996 and followed growth of 33.8% in 1996 as compared to 1995.

Losses and loss expenses incurred during 1997 were 8.5% greater than amounts incurred during 1996. This followed a 7.6% increase in such costs during 1996 as compared to 1995. The loss and loss expense ratio, a measurement of the portion of earned premiums that were paid or reserved for losses and related claims handling expenses, was 75.5% in 1997, 78.4% in 1996, and 80.9% in 1995. The lower ratio in 1997 reflects milder weather conditions resulting in reduced frequency of auto physical damage claims and lower catastrophe losses. Catastrophe losses added 0.3% to the loss and loss expense ratio in 1997 compared to 1.7% in 1996 and 1.9% in 1995. Both 1997 and 1996 benefitted from reduced average severity of liability claims.

Management's Discussion *(continued)*

Insurance Segment *(continued)*

Direct Insurance Underwriting *(continued)*

Underwriting expenses in 1997 for GEICO's businesses increased $84.3 million (17.3%) over 1996 and underwriting costs in 1996 increased $46.0 million (10.4%) over 1995. The increases reflect additional advertising and other costs incurred to generate the aforementioned in-force policy growth, as well as increased levels of administrative expenses, particularly profit-sharing costs.

GEICO's underwriting performance during 1997 was exceptional and better than its pricing targets. Generally, the results produced by the industry with respect to private passenger auto insurance during this period have been good as well. GEICO has taken certain rate reductions in 1997 and will take further rate reductions in 1998 to adjust its rates to its pricing targets. Premium rates are also subject to downward pressure through competition and through the ordinary rate regulation processes of state insurance departments. In addition, while the level of claim costs (including catastrophe losses) in 1997 and 1996 have been relatively low, there is no assurance that these favorable conditions will continue. Accordingly, management expects that GEICO's underwriting profit margins will return to more normal levels as losses increase faster than premiums. Notwithstanding, Berkshire's management believes that GEICO's underwriting results will remain better than industry averages.

Berkshire's other direct insurance businesses are comprised of a wide variety of smaller property/casualty activities. These businesses include: National Indemnity Company's traditional commercial motor vehicle and specialty risk operations; five companies collectively referred to as "homestate" operations that provide primarily standard commercial coverages to insureds in an increasing number of states; Cypress Insurance Company, a provider of workers' compensation insurance in California and other states; Central States Indemnity Company, a provider of credit card credit insurance to individuals nationwide through financial institutions; and Kansas Bankers Surety Company, an insurer for primarily small and medium size banks located in the midwest.

Collectively, the non-GEICO direct insurance businesses produced earned premiums of $312.7 million in 1997, $268.7 million in 1996 and $239.9 million in 1995. The increases in premiums earned in recent years were achieved by the homestate, credit card credit, and specialty risk operations offset by declines in the traditional commercial motor vehicle business. Net underwriting gains attributed to non-GEICO direct insurance activities were $52.9 million in 1997, $58.5 million in 1996 and $40.6 million in 1995.

Reinsurance Assumed

Underwriting results for the past three years, stated on a GAAP basis with respect to the reinsurance assumed business, are summarized in the following table.

	(dollars in millions)					
	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 955.4		$ 715.5		$ 777.0	
Premiums earned	$ 966.6	100.0	$ 757.5	100.0	$ 717.6	100.0
Losses and loss expenses	675.8	69.9	572.9	75.6	522.0	72.7
Underwriting expenses	163.0	16.9	192.4	25.4	216.6	30.2
Total losses and expenses	838.8	86.8	765.3	101.0	738.6	102.9
Underwriting gain (loss) — pre-tax	$ 127.8		$ (7.8)		$ (21.0)	

Reinsurance premiums earned from catastrophe excess-of-loss policies totaled $309.9 million in 1997, $268.0 million in 1996 and $260.0 million in 1995. Management believes that increased industry capital devoted to this type of business and the lack of large catastrophic events in recent years is contributing to intensifying price competition in the catastrophe reinsurance markets. As a result, there are currently fewer opportunities to write catastrophe reinsurance coverages at acceptable prices. Management anticipates that the level of catastrophe reinsurance business accepted will decline in 1998.

Insurance Segment *(continued)*

Reinsurance Assumed (continued)

The catastrophe reinsurance business produced net underwriting gains in 1997 of $283.0 million as compared to net underwriting gains of $167.0 million in 1996 and $152.1 million in 1995. During the 1995-1997 period, there were no truly large insured catastrophic events. Catastrophe losses incurred during 1997 were minimal. In 1996 and 1995, catastrophe losses incurred were $45.7 million and $39.4 million respectively. Underwriting results for 1997 also reflected lower underwriting expenses than in previous years.

Berkshire's management continues to believe that, eventually, a large catastrophe event will occur that will produce a significant loss to the Insurance Group, although the timing of the loss cannot be predicted. The Insurance Group's exposure to loss from a single event with respect to in-force policies at year end 1997 is estimated at approximately $600 million after-tax. Accordingly, periodic underwriting results remain subject to extreme volatility. Berkshire's management is willing to accept such volatility provided there is a reasonable prospect of long-term profitability.

Premiums earned from other property and casualty excess-of-loss and quota-share reinsurance contracts totaled $513.2 million in 1997, $484.5 million in 1996 and $450.7 million in 1995. These contracts often provide considerable amounts of indemnification in exchange for large premiums. Certain of these contracts, which produced annual premiums of approximately $200 million in 1997 and 1996, expired at the end of 1997 and are not expected to renew in 1998. Consequently, premiums earned in 1998 from other reinsurance activities may decline. Other property and casualty reinsurance contracts produced net underwriting losses of approximately $73.2 million in 1997, $101.0 million in 1996 and $97.7 million in 1995. Premiums from these types of reinsurance contracts are often based, in part, on time discounting of estimated loss payments because such payments are expected to occur over lengthy time periods. Estimated claim liabilities are established for financial reporting purposes without recognition of such discounting, thus producing underwriting losses. This business is accepted because of the large amounts of policyholder float that it generates.

Premiums earned from retroactive reinsurance and structured settlement contracts were $143.5 million in 1997. Relatively minor amounts of premiums were earned from such contracts in 1996 and 1995. These contracts provide excess of loss coverage with respect to past loss events or periodic payments to claimants in connection with settled claims. Underwriting losses occur from such policies as a result of the recurring recognition of time value of money concepts — the amortization of deferred charges re reinsurance assumed and the accretion of discounted structured settlement liabilities. The amortization and accretion charges are reported as losses incurred, and because there is no offsetting premium income, as underwriting losses. Underwriting losses from retroactive reinsurance and structured settlement contacts were $82.0 million in 1997, $73.8 million in 1996 and $75.4 million in 1995.

Insurance Segment Investment Income

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

	(dollars in millions)		
	1997	1996	1995
Investment income before taxes	$ 872.9	$ 712.1	$ 575.8
Applicable income taxes	169.0	122.6	84.8
Applicable minority interest	6.4	5.7	5.0
Investment income after taxes and minority interest	$ 697.5	$ 583.8	$ 486.0

Investment income of the Insurance Group in 1997 exceeded amounts earned in 1996 by $160.8 million (22.6%). Investment income earned in 1997 reflects increased dividend income and taxable interest income, partially offset by lower tax-exempt interest income. Dividends earned from the Insurance Group's investment in US Airways

Management's Discussion *(continued)*

Insurance Segment *(continued)*

Insurance Segment Investment Income (continued)

Group, Inc. ("US Airways") Cumulative Convertible Preferred Stock, including amounts previously in arrears, were $78.4 million in 1997 and $46.5 million in 1996. No dividends were earned in 1995 from this investment. During the first quarter of 1998, Berkshire expects to convert the US Airways preferred shares, which have been called for redemption, into common shares of that company. Dividends earned by the Insurance Group in 1998 may decline from amounts earned in 1997.

Net investment income in 1997 and 1996 includes the investment results of GEICO, which became a wholly-owned subsidiary in January 1996. Investment income generated by GEICO was $262.1 million in 1997 and $227.2 million in 1996. Investment income before taxes of the Insurance Group in 1995 includes $112.6 million representing the equity in net earnings of GEICO less a charge for amortization of related goodwill.

Insurance Group members continue to generate significant levels of investment income from maintaining large levels of invested assets. Increases in invested assets in recent years derive from reinvested earnings of the Group and additional capital contributions, as well as increases in the amounts of "float". Reinvested earnings of the Insurance Group and capital contributions over the three year period ending December 31, 1997 were approximately $5.5 billion. Float represents the sum of unpaid losses and loss expenses, unearned premiums, and other liabilities to policyholders less the aggregate of premiums and reinsurance balances receivable, deferred policy acquisition costs, deferred charges re reinsurance assumed and related prepaid income taxes. Total float was approximately $7.3 billion at year end 1997.

Income tax expense as a percentage of investment income before taxes was 19.4% in 1997, 17.2% in 1996 and 14.7% in 1995. Investment income in each of these years includes substantial amounts of interest on municipal obligations and dividends and earnings from equity investments that are effectively taxed at rates below the full statutory federal rate.

Non-Insurance Business Segments

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

	(dollars in millions)					
	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
Revenues	$2,297.8	100.0	$1,812.3	100.0	$1,617.2	100.0
Cost and expenses	1,905.9	83.0	1,552.7	85.7	1,391.4	86.0
Operating profit	391.9	17.0	259.6	14.3	225.8	14.0
Income taxes	163.2	7.1	100.2	5.5	90.5	5.6
Minority Interest	2.9	0.1	2.4	0.1	2.0	0.1
Contribution to net earnings	$ 225.8	9.8	$ 157.0	8.7	$ 133.3	8.3

A comparison of revenues and operating profits between 1997, 1996 and 1995 for each of the six identifiable non-insurance business segments follows.

	(dollars in millions)						Operating Profit as a % of Revenues		
	Revenues			Operating Profits					
Segment	1997	1996	1995	1997	1996	1995	1997	1996	1995
Aviation training	$ 410.9	$ 8.4	$ —	$118.6	$ 2.7	$ —	28.9	32.1	—
Candy	269.2	248.9	233.6	57.6	50.9	49.3	21.4	20.4	21.1
Home cleaning systems	253.5	253.7	235.6	66.5	62.5	52.6	26.2	24.6	22.3
Home furnishings	667.1	586.6	428.1	53.7	41.0	28.1	8.0	7.0	6.6
Newspaper	155.5	154.2	154.8	55.4	49.8	46.3	35.6	32.3	29.9
Shoes	541.6	560.5	565.1	40.1	52.7	49.5	7.4	9.4	8.8
	$2,297.8	$1,812.3	$1,617.2	$391.9	$259.6	$225.8			

Non-Insurance Business Segments (continued)

1997 compared to 1996

Revenues from the six identifiable non-insurance business segments of $2,297.8 million increased $485.5 million (26.8%) from the prior year. The overall operating profit from these business segments of $391.9 million increased $132.3 million (51.0%). The acquisition of FlightSafety International ("FlightSafety") at the end of 1996 accounts for a substantial portion of these increases. The following is a discussion of significant matters impacting comparative results for each of the non-insurance business segments.

Aviation Training

On December 23, 1996, FlightSafety became a wholly-owned subsidiary of Berkshire. FlightSafety provides high technology training to operators of aircraft and ships. Total training systems are used which include sophisticated simulators and training devices, computer based training and professional instructors. FlightSafety's worldwide clients include corporations, airlines, the military and government agencies. Revenues and operating profits for 1996 as shown in the preceding table only reflect the results for the last eight days of 1996. For the full year of 1996, FlightSafety revenues were $363.7 million and pro forma operating profits were $90.2 million (after adjusting for goodwill amortization which would had been reflected in FlightSafety's results had the acquisition occurred at the beginning of 1996). FlightSafety's operating results during 1997 were excellent reflecting increased revenues and operating margins. Management expects continued positive results from this business.

Candy

Revenues of the candy segment increased $20.3 million (8.2%) over comparable prior year amounts. Total pounds of candy sold increased about 5.5%. Substantially all of the volume increase arose from See's quantity order, mail order and licensee programs. Pounds sold during 1997 from quantity order and mail order programs increased about 10% over 1996's volume. Operating profits increased $6.7 million (13.2%) over comparable prior year amounts.

Home Cleaning Systems

Revenues of the home cleaning systems segment (which consists of products sold principally under the Kirby name) were relatively unchanged and operating profits increased $4.0 million (6.4%) over comparable prior year amounts. Unit sales volume in foreign markets, which comprise about 30% of total volume, increased about 4%. However, domestic unit sales volume decreased 9%. The decline in domestic volume was due to ineffective recruiting and training of independent dealers. Management has addressed the problem and during early 1998, sales volume is exceeding 1997 levels. Offsetting the impact of the volume decline was the fact that during 1997, an improved model was introduced which was sold at higher prices than the prior model.

Home Furnishings

Revenues from this segment increased in 1997 by $80.5 million (13.7%) over the prior year. A major portion of this increase (about 75%) relates to the acquisition on July 1, 1997 of Star Furniture Company ("Star"). Star is headquartered in Houston, Texas and is a major retailer of home furnishings in that market. Additionally, Star has locations in other cities in Texas. Operating profits of $53.7 million were $12.7 million (31.0%) greater in 1997 than in the prior year. Star's inclusion in this segment's results for the last half of 1997 accounts for almost 50% of the comparative increase. The remainder of the increase arose primarily from increased sales and improved margins at Nebraska Furniture Mart and R.C. Willey.

Newspaper

Operating profits during 1997 of $55.4 million increased $5.6 million (11.2%) over the comparable 1996 amount. Much of the increase in comparative operating profits arose because the average cost of newsprint in 1997 was about 13.6% less than 1996's average. However, it should be noted that by year end 1997 the cost of newsprint was above the average cost in 1997 and management believes the cost will remain at such levels for at least the foreseeable future.

Management's Discussion *(continued)*

Non-Insurance Business Segments *(continued)*

1997 compared to 1996 *(continued)*

Shoes

This segment includes H. H. Brown Shoe Company, Inc., Lowell Shoe, Inc. and Dexter Shoe Companies. These businesses manufacture and distribute work, dress, casual and athletic footwear. In addition, over 100 retail shoe stores are included in this segment. Revenues for this segment decreased by $18.9 million (3.4%) in 1997 as compared to 1996. Operating profits of $40.1 million decreased $12.6 million (23.9%). The unfavorable results are primarily due to disappointing results at Dexter where sales volume declined about 12% in 1997 as compared to 1996. Management at Dexter is repositioning its brand to be more competitive in a highly discount oriented retail environment. It has implemented a brand marketing strategy that includes global advertising to better promote its products and brand. Management anticipates that a substantial portion of the lost volume will be recovered in 1998.

1996 compared to 1995

Revenues from the non-insurance business segments increased $195.1 million (12.1%) in 1996 as compared to 1995. The most significant revenue increase arose in the "home furnishings" segment where revenues increased $158.5 million (37.0%) over the comparable prior year figures. The inclusion of R.C. Willey's results for a full year in 1996 versus six months in 1995 accounts for the comparative increase. Operating profits of $259.6 million during 1996 increased $33.8 million (15.0%) from the comparable 1995 amount. As reflected in the preceding table, each segment reported increased operating profits in 1996 as compared to 1995.

Business Other Than Identified Segments

	(dollars in millions)		
	1997	1996	1995
Revenues	$1,349.4	$1,306.2	$1,179.6
Operating profits	$ 123.4	$ 116.1	$ 101.2
Income taxes	48.3	44.6	40.8
Minority interest	2.9	2.0	2.3
Contribution to net earnings	$ 72.2	$ 69.5	$ 58.1

The above represent aggregate data for businesses that numbered 28 in 1997. Revenues from businesses not identified with specific business segments increased by $43.2 million (3.3%) in 1997 as compared to the prior year. Operating profits from this group of businesses increased by $7.3 million (6.3%) in 1997 versus the prior year.

Interest Expense and Other

The increase in interest expense in 1997 as compared to 1996 is primarily due to the issuance during late 1996 of $500 million principal amount of 1% Senior Exchangeable Notes, due December 2, 2001. For additional information regarding these notes, see Note 9 to Consolidated Financial Statements.

Other earnings consist primarily of investment income of Berkshire and its non-insurance subsidiaries offset by Berkshire's corporate costs (including charges related to Berkshire's shareholder designated contribution program). The decrease in 1997 as compared to 1996 primarily relates to a decrease in interest income earned by Berkshire.

Realized Investment Gain

Realized investment gain has been a recurring element in Berkshire's net earnings for many years. The amount — recorded when investments are sold, other-than-temporarily impaired or in certain situations, as required by GAAP, when investments are marked-to-market with the corresponding gain or loss included in earnings — may fluctuate significantly from period to period, with a meaningful effect upon Berkshire's consolidated net earnings. However, the amount of realized investment gain or loss 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 net unrealized price appreciation now existing in Berkshire's consolidated investment portfolio.

Realized Investment Gain (continued)

The Consolidated Statement of Earnings for 1997 reflects a pre-tax realized investment gain of $1.1 billion ($703.5 million after-tax). A significant portion ($677.9 million pre-tax) of this gain resulted from Travelers Group Inc.'s acquisition of Salomon Inc. See Notes 5 and 9 to Consolidated Financial Statements for additional details regarding this transaction.

The Consolidated Statement of Earnings for 1996 reflects a pre-tax realized investment gain of $2.5 billion ($1.6 billion after-tax). Most of this gain resulted from The Walt Disney Company's ("Disney") acquisition of Capital Cities/ABC, Inc. ("Capital Cities"). Prior to the acquisition, subsidiaries of Berkshire owned common stock of Capital Cities that had been acquired in 1986 for an aggregate cost of $345.0 million. In exchange for the Capital Cities common stock, Berkshire subsidiaries received cash and Disney common stock having an aggregate value of $2.5 billion.

While the effects of these transactions are material to the Consolidated Statements of Earnings, the completion of these acquisitions had a minimal impact on Berkshire's shareholders' equity. This is due to the fact that Berkshire's investments in Salomon Inc and Capital Cities had been carried in prior periods' consolidated financial statements at market value with unrealized gains, net of tax, reported as a separate component of shareholders' equity.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1997, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $11.7 billion at December 31, 1994, to approximately $31.5 billion at December 31, 1997. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $15 billion, and reinvested earnings, other than realized securities gains, were about $2.8 billion.

Market Risk Disclosures

Berkshire's Consolidated Balance Sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risks. Due to Berkshire's significant level of investments in equity securities and, to a lesser degree, in certain securities with fixed maturities (convertible preferred stocks), equity price fluctuations represent the largest market risk factor affecting Berkshire's consolidated financial position. The following sections address the significant market risks associated with Berkshire's financial activities as of year end 1997.

Equity Price Risk

Strategically, Berkshire management strives to invest in businesses that possess excellent economics, with able and honest management and at sensible prices. Berkshire's management prefers, if possible to make an investment in each investee in a size that is meaningful in relation to Berkshire's investment portfolio. Accordingly, Berkshire's equity investments are concentrated in relatively few investees. As of December 31, 1997, over 60% of the total fair value of investments in equity securities is concentrated in three investees. See Note 4 to Consolidated Financial Statements.

Berkshire's investment strategy contemplates that most investments will be held for very long periods of time. Berkshire generally does not acquire investments for trading purposes. Thus, Berkshire management is not necessarily concerned with short term price volatility with respect to its investments provided that the underlying business, economic and management characteristics of the investees remain favorable. Berkshire maintains above average levels of shareholder capital to provide a margin of safety against short term equity price volatility.

Management's Discussion *(continued)*

Equity Price Risk *(continued)*

The carrying values of investments subject to equity price risks are based on quoted market prices or management's estimates of fair value as of the balance sheet date. Market prices are subject to fluctuation and, consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Furthermore, amounts realized in the sale of a particular security may be affected by the relative quantity of the security being sold.

In addition to common stock investments, Berkshire's investments in preferred stocks and its obligations with respect to the 1% Senior Exchangeable Notes are subject to equity price risks. As of December 31, 1997, approximately 97% of the total fair value of preferred stocks is comprised of convertible preferred shares of Travelers and US Airways. As of that date, the market prices of the common stocks into which these preferred shares are convertible far exceeded the related conversion prices. The Exchange Notes are, under certain conditions, exchangeable into shares of Travelers common stock. As of December 31, 1997 the market price of Travelers common stock far exceeded the current exchange price of the Exchange Notes. Therefore, the fair values of preferred stock investments and the Exchange Notes are primarily subject to equity price risk.

The table below summarizes Berkshire's equity price risks as of December 31, 1997 and shows the effects of a hypothetical 20% increase and a 20% decrease in market prices as of December 31, 1997. A comparison of quarter end stock prices on the individual stocks within the Company's equity portfolios over the three years ending December 31, 1997 indicated that the change from one quarter end to the next was 20% or less approximately 90% of the time. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the concentration existing in Berkshire's investment portfolio.

	(dollars in millions)			
	Fair Value at December 31, 1997	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
Equity securities	$36,247.7	20% increase	$43,497.2	15.0
		20% decrease	28,998.2	(15.0)
Convertible preferred stocks	1,279.7	20% increase	1,535.4	*
		20% decrease	1,023.7	*
1% Senior Exchangeable Notes	780.0	20% increase	936.0	*
		20% decrease	624.0	*

* *Less than 1%*

Interest Rate Risk

Berkshire's management prefers to invest in equity securities or to acquire entire businesses based upon the principles discussed in the preceding section on equity price risk. When unable to do so, management may alternatively invest in bonds or other interest rate sensitive instruments. Berkshire's strategy is to make investments that are attractively priced in relation to the perceived credit risk. Management recognizes and accepts that losses may occur. Generally investments in interest rate sensitive instruments are not made for trading purposes. The Company does not actively utilize stand-alone derivatives to manage interest rate risks.

The Company has historically utilized a modest level of corporate borrowings and debt. Further, Berkshire strives to maintain the highest credit ratings so that the cost of debt is minimized. Berkshire customarily utilizes debt or debt-like instruments in its finance businesses.

Interest Rate Risk (continued)

Berkshire's fixed maturity investments and borrowings under investment agreements and other debt are subject to interest rate risk. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions.

The table below summarizes the estimated effects of hypothetical increases and decreases in interest rates. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risks. The hypothetical changes in market interest rates reflect what could be deemed best or worst case scenarios. The hypothetical fair values are based upon the same prepayment assumptions utilized in computing fair values at December 31, 1997. Significant variations in market interest rates could produce changes in the timing of repayments due to prepayment options available. The fair value of such instruments could be affected and therefore actual results might differ from those reflected in the table which follows.

	(dollars in millions)			
	Fair Value at December 31, 1997	Hypothetical Change in Interest Rate (bp=basis points)	Estimated Fair Value after Hypothetical Change in Interest Rate	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
Assets:				
US Treasury securities and obligations of US government corporations and agencies	$6,490.6	100 bp decrease	$7,693.2	2.5
		100 bp increase	5,454.0	(2.1)
		200 bp increase	4,766.8	(3.6)
		300 bp increase	4,198.7	(4.7)
Other fixed maturity investments[1] ..	2,527.4	100 bp decrease	2,589.8	*
		100 bp increase	2,402.6	*
		200 bp increase	2,307.4	*
		300 bp increase	2,217.5	*
Assets of finance businesses[2] ...	1,311.2	100 bp decrease	1,420.9	*
		100 bp increase	1,188.9	*
		200 bp increase	1,094.5	*
		300 bp increase	1,012.9	*
Liabilities:				
Borrowings under investment agreements and other debt[3] ...	1,482.0	100 bp decrease	1,534.7	*
		100 bp increase	1,409.5	*
		200 bp increase	1,354.3	*
		300 bp increase	1,302.7	*
Liabilities of finance businesses ...	1,149.4	100 bp decrease	1,344.8	*
		100 bp increase	989.3	*
		200 bp increase	859.8	*
		300 bp increase	753.6	*

* *Less than 1%*

[1] *Excludes preferred stocks (See Equity Price Risk)*

[2] *Excludes cash and cash equivalents*

[3] *Excludes 1% Senior Exchangeable Notes (See Equity Price Risk)*

Management's Discussion *(continued)*

Commodity Price Risk

As of December 31, 1997, Berkshire was party to derivative contracts with respect to crude oil and had commitments to purchase silver at future dates. Such contracts provide that Berkshire acquire the commodity at a fixed price at fixed future dates. At expiration, the derivative crude oil contracts are settled by a net amount equal to the difference between the then current price of crude oil and the fixed contract price. The silver contracts are settled by the delivery of silver to Berkshire in exchange for cash payments. These contracts were not entered into to offset any specific underlying commodity price risks associated with Berkshire's business activities.

Berkshire is subject to commodity price risk to the extent that crude oil and/or silver market prices deviate from the fixed contract settlement prices. As of December 31, 1997, the aggregate contract or notional amounts of these commitments were less than 3% of Berkshire's consolidated shareholders' equity. Therefore, any significant change in price in either of these commodities would not have a material impact on Berkshire's financial condition.

Year 2000 Issue

Many computer systems used today may be unable to interpret data correctly after December 31, 1999 because they allow only two digits to indicate the year in a date. Berkshire and its subsidiaries have been engaged in assessing this Year 2000 issue as it relates to their businesses, including their electronic interactions with banks, vendors, customers, and others. This project, along with developing and implementing solutions to the Year 2000 issue, is continuing. Management currently anticipates that the project will be substantially completed well in advance of year end 1999, and will not have a material impact on Berkshire's consolidated financial results or position. Berkshire's consolidated financial results could also be adversely affected if one or more of the companies in which it has material investments were materially adversely affected by the Year 2000 issue.

Forward-Looking Statements

Investors are cautioned that certain statements contained in this document, including but not limited to those under the caption "Market Risk Disclosures," as well as some statements by the Company in periodic press releases and some oral statements of Company officials during presentations about the company, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, or which, like those under "Market Risk Disclosure" involve hypothetical events. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the industries in which the Company does business, among other things. These statements are not guaranties of future performance and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause the Company's actual performance and future events and actions to differ materially from such forward-looking statements, include, but are not limited to, changes in market prices of Berkshire's significant investees (see discussion under "Market Risk Disclosure"), the occurrence of one or more catastrophic events, such as an earthquake or hurricane, that causes losses insured by members of Berkshire's Insurance Group, changes in insurance laws or regulations, changes in Federal income tax laws, as well as general economic and market factors that affect the prices of securities or the industries in which Berkshire and its affiliates do business, especially those affecting the property and casualty insurance industry.

BERKSHIRE HATHAWAY INC.

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

	1997	1996	1995	1994	1993
Revenues:					
Insurance premiums earned	$ 4,761.1	$ 4,117.8	$ 957.5	$ 923.2	$ 650.7
Sales and service revenues	3,577.5	3,061.2	2,755.9	2,351.9	1,962.9
Interest and dividend income	953.3	811.9	629.2	519.0	520.7
Income from finance businesses	31.8	25.3	26.6	24.9	22.2
Realized investment gain [1]	1,106.3[2]	2,484.1[3]	194.1	91.3	546.4
Total revenues	$10,430.0	$10,500.3	$ 4,563.3	$ 3,910.3	$ 3,702.9
Earnings:					
Before realized investment gain and cumulative effect of accounting change	$ 1,198.1	$ 883.4	$ 669.9	$ 491.9[4]	$ 520.2[5]
Realized investment gain [1]	703.5[2]	1,605.2[3]	125.0	61.1	356.7
Cumulative effect of change in accounting for income taxes	—	—	—	—	(33.3)
Net earnings	$ 1,901.6	$ 2,488.6	$ 794.9	$ 553.0	$ 843.6
Earnings per share:					
Before realized investment gain and cumulative effect of accounting change	$ 971.54	$ 732.96	$ 564.31	$ 417.66[4]	$ 449.90[5]
Realized investment gain [1]	570.47[2]	1,331.83[3]	105.30	51.88	308.50
Cumulative effect of change in accounting for income taxes	—	—	—	—	(28.80)
Net earnings	$1,542.01	$2,064.79	$ 669.61	$ 469.54	$ 729.60
Year-end data:					
Total assets	$56,110.9	$43,409.4	$28,711.4	$20,609.6	$18,697.5
Borrowings under investment agreements and other debt [6]	2,266.7	1,944.4	1,061.7	810.7	972.4
Shareholders' equity	31,455.2	23,426.3	16,738.7	11,651.5	10,140.2
Class A equivalent common shares outstanding, in thousands	1,234	1,232	1,194	1,178	1,178
Shareholders' equity per outstanding Class A equivalent share	$ 25,488	$ 19,011	$ 14,025	$ 9,893	$ 8,610

[1] *The amount of realized investment gain/loss 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 appreciation now existing in Berkshire's consolidated investment portfolio.*

[2] *In November 1997, Travelers Group Inc. completed its acquisition of Salomon Inc. A pre-tax realized gain of $677.9 million ($427.3 million after-tax) is included in 1997's results.*

[3] *In March 1996, The Walt Disney Company completed its acquisition of Capital Cities/ABC, Inc. A pre-tax realized gain related to this transaction of $2.2 billion ($1.4 billion after-tax) is included in 1996's results.*

[4] *Includes a charge of $172.6 million representing an other-than-temporary decline in value of investment in USAirways Group, Inc. Preferred Stock.*

[5] *Includes a charge of $53.6 million representing the effect of the change in U.S. Federal income tax rates on deferred taxes applicable to unrealized appreciation.*

[6] *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 seventeen 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
1996	$14	97.2%	$13,309,044	3,910
1997	$16	97.7%	$15,424,480	3,830

** 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 1998, 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, 1998,* 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 are not eligible to participate in the program.

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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 insurance businesses are comprised of three operating groups of subsidiaries. The largest group (in terms of premium volume) is GEICO Corporation ("GEICO") whose business was merged with another Berkshire subsidiary at the beginning of 1996. Prior to that date, Berkshire subsidiaries owned approximately 51% of the then outstanding capital stock of GEICO. GEICO, through its subsidiaries, is a multiple line property and casualty insurer the principal business of which is writing private passenger automobile insurance. Currently the seventh largest auto insurer in the U.S., GEICO's voluntary auto policy count grew 16% during the twelve months ended December 31, 1997. At the same time, outstanding underwriting results continued to be generated.

The Berkshire Hathaway Reinsurance Division provides treaty and limited facultative reinsurance to other property/casualty insurers and reinsurers. Berkshire is one of the world's leading providers of catastrophe excess of loss reinsurance. Berkshire's unparalled capital strength has enabled it to offer dollar coverages of a magnitude far in excess of its competitors.

Berkshire's third group of businesses underwrite miscellaneous forms of direct insurance. National Indemnity Company and other affiliated entities underwrite multiple lines of traditional insurance for primarily commercial accounts. The "Homestate Group" companies underwrite various commercial coverages for risks in an increasing number of selected states. Cypress Insurance Company provides workers' compensation insurance to employers in California and other states. Central States Indemnity Company issues credit insurance distributed through credit card issuers nationwide and Kansas Bankers Surety Company is an insurer for primarily small and medium sized banks located in the midwest.

The Berkshire Hathaway Insurance Group maintains capital strength at unparalleled high levels. Statutory surplus as regards policyholders of the Insurance Group increased to about $37 billion at December 31, 1997. The obvious margins of safety thus provided to insureds of the Group are particularly persuasive in marketing of individually negotiated insurance and reinsurance contracts.

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

BERKSHIRE HATHAWAY INC.

INSURANCE GROUP

Balance Sheets

(dollars in millions)

	December 31, 1997	December 31, 1996
Assets		
Investments:		
Fixed maturities at market	$ 10,028.2	$ 5,462.4
Equity securities at market:		
American Express Company	4,315.2	2,731.8
The Coca-Cola Company	13,305.5	10,499.7
The Walt Disney Company	2,082.8	1,680.2
Freddie Mac	2,683.1	1,772.8
The Gillette Company	4,821.0	3,732.0
Wells Fargo & Company	2,207.9	1,916.8
Other	6,525.6	5,218.3
	45,969.3	33,014.0
Cash and cash equivalents	515.6	513.7
Deferred costs	607.7	437.5
Other	1,287.0	1,022.0
	$48,379.6	$34,987.2
Liabilities		
Losses and loss adjustment expenses	$ 6,850.5	$ 6,274.4
Unearned premiums	1,273.7	1,183.5
Funds held under reinsurance assumed	396.9	449.6
Policyholder liabilities and other accruals	1,256.4	802.0
Income taxes, principally deferred	10,372.0	6,611.8
	20,149.5	15,321.3
Equity		
Minority shareholders'	359.4	258.1
Berkshire shareholders'	27,870.7	19,407.8
	28,230.1	19,665.9
	$48,379.6	$34,987.2

Statements of Earnings

(dollars in millions)

	1997	1996	1995
Premiums written	$4,852.3	$4,105.2	$1,024.2
Premiums earned	$4,761.1	$4,117.8	$ 957.5
Losses and loss expenses	3,420.1	3,089.5	612.0
Underwriting expenses	879.6	806.2	325.0
Total losses and expenses	4,299.7	3,895.7	937.0
Underwriting gain — pre-tax	461.4	222.1	20.5
Net investment income*	882.3	726.2	501.6
Realized investment gain	1,059.1	2,289.8	181.1
Earnings before income taxes	2,402.8	3,238.1	703.2
Income tax expense	704.5	1,006.6	149.0
	1,698.3	2,231.5	554.2
Minority interest	15.0	7.6	7.5
Net earnings	$1,683.3	$2,223.9	$ 546.7
** Net investment income is summarized below:*			
Dividends	*$457.5*	*$418.4*	*$385.0*
Interest	*430.7*	*321.9*	*99.6*
Equity in unremitted net earnings of Salomon Inc	*—*	*—*	*18.3*
Investment expenses	*(5.9)*	*(14.1)*	*(1.3)*
	$882.3	*$726.2*	*$501.6*

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	Electrical enclosure systems and cable accessories
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, welders and generators
Carefree	Comfort and convenience products for the recreational vehicle industry
Cleveland Wood Products	Vacuum cleaner brushes and bags
Dexter Shoe Companies	Dress, casual and athletic shoes
Douglas Products	Specialty and cordless vacuum cleaners
Fechheimer Bros. Co.	Uniforms and accessories
FlightSafety	High technology training to operators of aircraft and ships
France	Ignition and sign transformers and components
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
Kingston	Appliance controls
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 and general purpose winches, windlasses, 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	Truck equipment including service bodies, flatbed bodies, cranes, tool boxes and dump bodies
Star Furniture Company	Retailing home furnishings
Wayne Combustion Systems	Oil and gas burners for residential and commercial furnaces and water heaters
Wayne Pumps	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, 1997	December 31, 1996
Assets		
Cash and cash equivalents	$ 103.4	$ 61.1
Accounts receivable	624.4	563.1
Inventories	598.6	578.7
Properties and equipment	892.4	863.2
Other	156.3	97.9
	$ 2,375.1	$ 2,164.0
Liabilities		
Accounts payable, accruals and other	$ 531.7	$ 523.3
Income taxes	157.3	126.9
Term debt and other borrowings	216.6	193.3
	905.6	843.5
Equity		
Minority shareholders'	52.1	51.6
Berkshire shareholders'	1,417.4	1,268.9
	1,469.5	1,320.5
	$ 2,375.1	$ 2,164.0

Statements of Earnings
(dollars in millions)

	1997	1996	1995
Revenues:			
Sales and service revenues	$3,577.5	$3,061.9	$2,755.9
Interest income	44.9	38.8	25.1
	3,622.4	3,100.7	2,781.0
Cost and expenses:			
Cost of products and services sold	2,179.3	1,875.7	1,698.4
Selling, general and administrative expenses	899.2	832.1	741.4
Interest on debt	19.5	15.3	9.1
	3,098.0	2,723.1	2,448.9
Earnings from operations before income taxes	524.4	377.6	332.1
Income tax expense	199.9	138.3	126.4
	324.5	239.3	205.7
Minority interest	5.6	5.1	4.5
Net earnings	$ 318.9	$ 234.2	$ 201.2

This presentation reflects the results of operations of Helzberg's Diamond Shops, R.C. Willey Home Furnishings, FlightSafety International and Star Furniture Company from their respective dates of acquisition (Helzberg's — April 30, 1995; Willey — June 29, 1995; FlightSafety — December 23, 1996; Star Furniture — July 1, 1997). Accordingly, while the 1996 balance sheet includes the assets and liabilities of FlightSafety as of December 31, 1996, the statement of earnings for 1996 includes FlightSafety's operating results for only the last eight days of the year.

Purchase 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 61.

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,	
	1997	1996
Assets		
Cash and cash equivalents	$ 56.1	$ 10.5
Fixed maturity investments	970.9	742.4
Installment and other receivables	226.2	228.4
Deferred tax assets	17.8	22.5
	$1,271.0	$1,003.8
Liabilities		
Borrowings under investment agreements and other debt	$ 325.5	$ 381.3
Annuity reserves and policyholder liabilities	697.4	434.8
Accounts payable, accruals and other	126.4	123.8
	1,149.3	939.9
Equity		
Berkshire shareholders'	121.7	63.9
	$1,271.0	$1,003.8

Statements of Earnings
(dollars in millions)

	1997	1996	1995
Revenues:			
Interest and fees on loans and financed receivables	$ 37.5	$ 38.8	$ 37.9
Interest and dividends on investment securities	74.5	54.9	43.7
Annuity premiums earned	248.0	259.5	75.2
	360.0	353.2	156.8
Expenses:			
Interest expense	24.3	32.6	38.7
Annuity benefits and underwriting expenses	286.6	276.7	80.8
General and administrative	21.0	20.8	16.5
	331.9	330.1	136.0
Earnings from operations before income taxes	28.1	23.1	20.8
Income tax expense	10.1	8.2	8.2
Net earnings	$ 18.0	$ 14.9	$ 12.6

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 55 to 60).

Statements of Net Assets
(dollars in millions)

	December 31, 1997	December 31, 1996
Assets		
Cash and cash equivalents	$ 383.4	$ 765.0
Investments:		
Fixed maturities:		
Bonds	205.6	942.5
Preferred stocks	64.0	42.0
Equity securities	306.6	199.0
Unamortized goodwill and other purchase accounting adjustments *	3,098.6	3,149.8
Deferred tax assets	135.6	31.3
Other	104.5	258.8
	$ 4,298.3	$ 5,388.4
Liabilities		
Accounts payable, accruals and other	$ 39.4	$ 816.4
Income taxes	152.3	142.7
Borrowings under investment agreements and other debt	2,016.2	1,718.2
	2,207.9	2,677.3
Equity		
Minority shareholders'	45.0	25.4
Berkshire shareholders'	2,045.4	2,685.7
	2,090.4	2,711.1
	$ 4,298.3	$ 5,388.4

Statements of Earnings
(dollars in millions)

	1997	1996	1995
Revenues:			
Interest and dividend income	$ 41.0	$ 54.6	$ 37.5
Realized investment gain	52.8	194.7	13.0
	93.8	249.3	50.5
Expenses:			
Corporate administration	6.6	5.1	5.3
Shareholder-designated contributions	15.4	13.3	11.6
Amortization of goodwill and purchase accounting adjustments *	104.9	75.7	27.0
Interest on debt	101.1	90.9	55.3
Other (income)	(6.5)	(2.8)	(1.4)
	221.5	182.2	97.8
Income (loss) before income taxes	(127.7)	67.1	(47.3)
Income tax expense (benefit)	(16.8)	43.7	(13.3)
	(110.9)	23.4	(34.0)
Minority interest	7.7	7.8	1.3
Net earnings (loss)	$ (118.6)	$ 15.6	$ (35.3)

* *Purchase accounting adjustments and goodwill arose in accounting for business acquisitions.*

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

BERKSHIRE HATHAWAY INC.

AN OWNER'S MANUAL*

In June 1996, Berkshire's Chairman, Warren E. Buffett, issued a booklet entitled **"An Owner's Manual"** to Berkshire's Class A and Class B shareholders. The purpose of the manual was to explain Berkshire's broad economic principles of operation. The Owner's Manual is reproduced on the following nine pages.

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INTRODUCTION

Berkshire's recent offering of Class B stock added more than 25,000 shareholders to our rolls. Charlie Munger, Berkshire's Vice Chairman and my partner, and I welcome each of you. As a further greeting, we have prepared this booklet to help you understand our business, goals, philosophy and limitations.

These pages are aimed at explaining our broad principles of operation, not at giving you detail about Berkshire's many businesses. For more detail and a continuing update on our progress, you should look to our annual reports. We will be happy to send a copy of our 1995 report to any shareholder requesting it. In addition, we can also supply you with a compendium of our 1977-95 annual letters.

OWNER-RELATED BUSINESS PRINCIPLES

Berkshire's shareholder count has grown from about 1,200 in the late 1960s to an estimated 70,000 today, with two big spurts contributing heavily to the increase. One jump occurred with the just-completed offering of the Class B shares, and the other took place in 1983, when Blue Chip Stamps merged into Berkshire.

At the time of that merger, I set down 13 owner-related business principles that I thought would help new shareholders understand our managerial approach. As is appropriate for "principles," all 13 remain alive and well today, and they are stated here in italics. A few words have been changed to bring them up-to-date and to each I've added a short commentary.

1. *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 are also, 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.*

   Charlie and I hope that you do not think of yourself as merely owning a piece of paper whose price wiggles around daily and that is a candidate for sale when some economic or political event makes you nervous. We hope you instead visualize yourself as a part owner of a business that you expect to stay with indefinitely, much as you might if you owned a farm or apartment house in partnership with members of your family. For our part, we do not view Berkshire shareholders as faceless members of an ever-shifting crowd, but rather as co-venturers who have entrusted their funds to us for what may well turn out to be the remainder of their lives.

   The evidence suggests that most Berkshire shareholders have indeed embraced this long-term partnership concept. The annual percentage turnover in Berkshire's shares is a small fraction of that occurring in the stocks of other major American corporations, even when the shares I own are excluded from the calculation.

   In effect, our shareholders behave in respect to their Berkshire stock much as Berkshire itself behaves in respect to companies in which it has an investment. As owners of, say, Coca-Cola or Gillette shares, we think of Berkshire as being a non-managing partner in two extraordinary businesses, in which we measure our success by the long-term progress of the companies rather than by the month-to-month movements of their stocks. In fact, we would not care in the least if several years went by in which there was no trading, or quotation of prices, in the stocks of those companies. If we have good long-term expectations, short-term price changes are meaningless for us except to the extent they offer us an opportunity to increase our ownership at an attractive price.

2. *In line with Berkshire's owner-orientation, most of our directors have a major portion of their net worth invested in the company. We eat our own cooking.*

   Charlie's family has 90% or more of its net worth in Berkshire shares; my wife, Susie, and I have more than 99%. In addition, many of my relatives — my sisters and cousins, for example — keep a huge portion of their net worth in Berkshire stock.

   Charlie and I feel totally comfortable with this eggs-in-one-basket situation because Berkshire itself owns a wide variety of truly extraordinary businesses. Indeed, we believe that Berkshire is close to being unique in the quality and diversity of the businesses in which it owns either a controlling interest or a minority interest of significance.

   Charlie and I cannot promise you results. But we can guarantee that your financial fortunes will move in lockstep with ours for whatever period of time you elect to be our partner. We have no interest in large salaries or options or other means of gaining an "edge" over you. We want to make money only when our partners do and in exactly the same proportion. Moreover, when I do something dumb, I want you to be able to derive some solace from the fact that my financial suffering is proportional to yours.

3. *Our long-term economic goal (subject to some qualifications mentioned later) is to maximize Berkshire's 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.*

   Since that was written at yearend 1983, our intrinsic value (a topic I'll discuss a bit later) has increased at an annual rate of about 25%, a pace that has definitely surprised both Charlie and me. Nevertheless the principle just stated remains valid: Operating with large amounts of capital as we do today, we cannot come close to performing as well as we once did with much smaller sums. The best rate of gain in intrinsic value we can even hope for is an average of 15% per annum, and we may well fall far short of that target. Indeed, we think very few large businesses have a chance of compounding intrinsic value at 15% per annum over an extended period of time. So it may be that we will end up meeting our stated goal — being above average — with gains that fall significantly short of 15%.

4. *Our preference would be to reach our 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.*

   As has usually been the case, it is easier today to buy small pieces of outstanding businesses via the stock market than to buy similar businesses in their entirety on a negotiated basis. Nevertheless, we continue to prefer the 100% purchase, and in some years we get lucky: In 1995, in fact, we made three acquisitions. Though there will be dry years also, we expect to make a number of acquisitions in the decades to come, and our hope is that they will be large. If these purchases approach the quality of those we have made in the past, Berkshire will be well served.

   The challenge for us is to generate ideas as rapidly as we generate cash. In this respect, a depressed stock market is likely to present us with significant advantages. For one thing, it tends to reduce the prices at which entire companies become available for purchase. Second, a depressed market makes it easier for our insurance companies to buy small pieces of wonderful businesses — including additional pieces of businesses we already own — at attractive prices. And third, some of those same wonderful businesses, such as Coca-Cola and Wells Fargo, are consistent buyers of their own shares, which means that they, and we, gain from the cheaper prices at which they can buy.

Overall, Berkshire and its long-term shareholders benefit from a sinking stock market much as a regular purchaser of food benefits from declining food prices. So when the market plummets — as it will from time to time — neither panic nor mourn. It's good news for Berkshire.

5. *Because of our 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.*

   To state things simply, we try to give you in the annual report the numbers and other information that really matter. Charlie and I pay a great deal of attention to how well our businesses are doing, and we also work to understand the environment in which each business is operating. For example, is one of our businesses enjoying an industry tailwind or is it facing a headwind? Charlie and I need to know exactly which situation prevails and to adjust our expectations accordingly. We will also pass along our conclusions to you.

   Over time, practically all of our businesses have exceeded our expectations. But occasionally we have disappointments, and we will try to be as candid in informing you about those as we are in describing the happier experiences. When we use unconventional measures to chart our progress — for instance, you will be reading in our annual reports about insurance "float" — we will try to explain these concepts and why we regard them as important. In other words, we believe in telling you how we think so that you can evaluate not only Berkshire's businesses but also assess our approach to management and capital allocation.

6. *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 attempt to offset the shortcomings of conventional accounting by regularly reporting "look-through" earnings (though, for special and nonrecurring reasons, we omitted these from the 1995 Annual Report). The look-through numbers include Berkshire's own reported operating earnings, excluding capital gains and purchase-accounting adjustments (an explanation of which occurs later in this message) plus Berkshire's share of the undistributed earnings of our major investees — amounts that are not included in Berkshire's figures under conventional accounting. From these undistributed earnings of our investees we subtract the tax we would have owed had the earnings been paid to us as dividends. We also exclude capital gains, purchase-accounting adjustments and extraordinary charges or credits from the investee numbers.

   We have found over time that the undistributed earnings of our investees, in aggregate, have been fully as beneficial to Berkshire as if they had been distributed to us (and therefore had been included in the earnings we officially report). This pleasant result has occurred because most of our investees are engaged in truly outstanding businesses that can often employ incremental capital to great advantage, either by putting it to work in their businesses or by repurchasing their shares. Obviously, every capital decision that our investees have made has not benefitted us as shareholders, but overall we have garnered far more than a dollar of value for each dollar they have retained. We consequently regard look-through earnings as realistically portraying our yearly gain from operations.

   In 1992, our look-through earnings were $604 million, and in that same year we set a goal of raising them by an average of 15% per annum to $1.8 billion in the year 2000. Since that time, however, we

have issued additional shares — including the B Shares sold recently — so that we now need look-through earnings of $1.9 billion in 2000 to match the per-share goal we originally were shooting for. This is a tough target but one we still hope to hit.

7. *We use debt sparingly and, when we do borrow, we attempt to structure our loans 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, 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.")*

   The financial calculus that Charlie and I employ would never permit our trading a good night's sleep for a shot at a few extra percentage points of return. I've never believed in risking what my family and friends have and need in order to pursue what they don't have and don't need.

   Besides, Berkshire has access to two low-cost, non-perilous sources of leverage that allow us to safely own far more assets than our equity capital alone would permit: deferred taxes and "float," the funds of others that our insurance business holds because it receives premiums before needing to pay out losses. Both of these funding sources have grown rapidly and now total about $12 billion.

   Better yet, this funding to date has been cost-free. Deferred tax liabilities bear no interest. And as long as we can break even in our insurance underwriting — which we have done, on the average, during our 29 years in the business — the cost of the float developed from that operation is zero. Neither item, of course, is equity; these are real liabilities. But they are liabilities without covenants or due dates attached to them. In effect, they give us the benefit of debt — an ability to have more assets working for us — but saddle us with none of its drawbacks.

   Of course, there is no guarantee that we can obtain our float in the future at no cost. But we feel our chances of attaining that goal are as good as those of anyone in the insurance business. Not only have we reached the goal in the past (despite a number of important mistakes by your Chairman), but have now, with our acquisition of GEICO, materially improved our prospects for getting there in the future.

8. *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.*

   Charlie and I are interested only in acquisitions that we believe will raise the *per-share* intrinsic value of Berkshire's stock. The size of our paychecks or our offices will never be related to the size of Berkshire's balance sheet.

9. *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 continue to pass the test, but the challenges of doing so have grown more difficult. If we reach the point that we can't create extra value by retaining earnings, we will pay them out and let our shareholders deploy the funds.

10. *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.

When we sold the Class B shares, we stated that Berkshire stock was not undervalued — and some people found that shocking. That reaction was not well-founded. Shock should have registered instead had we issued shares when our stock was undervalued. Managements that say or imply during a public offering that their stock is undervalued are usually being economical with the truth or uneconomical with their existing shareholders' money: Owners unfairly lose if their managers deliberately sell assets for 80¢ that in fact are worth $1. We didn't commit that kind of crime in our recent offering and we never will.

11. *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. We are also 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 and the advocates 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 that kind of behavior.*

    We continue to avoid gin rummy behavior. True, we closed our textile business in the mid-1980's after 20 years of struggling with it, but only because we felt it was doomed to run never-ending operating losses. We have not, however, given thought to selling operations that would command very fancy prices nor have we dumped our laggards, though we focus hard on curing the problems that cause them to lag.

12. *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.*

    At Berkshire you will find no "big bath" accounting maneuvers or restructurings nor any "smoothing" of quarterly or annual results. We will always tell you how many strokes we have taken on each hole and never play around with the scorecard. When the numbers are a very rough "guesstimate," as they necessarily must be in insurance reserving, we will try to be both consistent and conservative in our approach.

    We will be communicating with you in several ways. Through the annual report, I try to give all shareholders as much value-defining information as can be conveyed in a document kept to reasonable length. We also try to convey a liberal quantity of condensed but important information in our quarterly reports, though I don't write those (one recital a year is enough). Still another important occasion for communication is our Annual Meeting, at which Charlie and I are delighted to spend five hours or more answering questions about Berkshire. But there is one way we can't communicate: on a one-on-one basis. That isn't feasible given Berkshire's many thousands of owners.

    In all of our communications, we try to make sure that no single shareholder gets an edge: We do not follow the usual practice of giving earnings "guidance" or other information of value to analysts or large shareholders. Our goal is to have all of our owners updated at the same time.

13. *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.*

    Though we continue to be unwilling to talk about specific stocks, we freely discuss our business and investment philosophy. I benefitted enormously from the intellectual generosity of Ben Graham, the greatest teacher in the history of finance, and I believe it appropriate to pass along what I learned from him, even if that creates new and able investment competitors for Berkshire just as Ben's teachings did for him.

AN ADDED PRINCIPLE

To the extent possible, we would like each Berkshire shareholder to record a gain or loss in market value during his period of ownership that is proportional to the gain or loss in per-share intrinsic value recorded by the company during that holding period. For this to come about, the relationship between the intrinsic value and the market price of a Berkshire share would need to remain constant, and by our preferences at 1-to-1. As that implies, we would rather see Berkshire's stock price at a fair level than a high level. Obviously, Charlie and I can't control Berkshire's price. But by our policies and communications, we can encourage informed, rational behavior by owners that, in turn, will tend to produce a stock price that is also rational. Our it's-as-bad-to-be-overvalued-as-to-be-undervalued approach may disappoint some shareholders. We believe, however, that it affords Berkshire the best prospect of attracting long-term investors who seek to profit from the progress of the company rather than from the investment mistakes of their partners.

INTRINSIC VALUE

Now let's focus on two terms that I mentioned earlier and that you will encounter in future annual reports.

Let's start with intrinsic value, an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.

The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover — and this would apply even to Charlie and me — will almost inevitably come up with at least slightly different intrinsic value figures. That is one reason we never give you our estimates of intrinsic value. What our annual reports do supply, though, are the facts that we ourselves use to calculate this value.

Meanwhile, we regularly report our per-share book value, an easily calculable number, though one of limited use. The limitations do not arise from our holdings of marketable securities, which are carried on our books at their current prices. Rather the inadequacies of book value have to do with the companies we control, whose values as stated on our books may be far different from their intrinsic values.

The disparity can go in either direction. For example, in 1964 we could state with certitude that Berkshire's per-share book value was $19.46. However, that figure considerably overstated the company's intrinsic value, since all of the company's resources were tied up in a sub-profitable textile business. Our textile assets had neither going-concern nor liquidation values equal to their carrying values. Today, however, Berkshire's situation is reversed: Our March 31, 1996 book value of $15,180 *far* understates Berkshire's intrinsic value, a point true because many of the businesses we control are worth much more than their carrying value.

Inadequate though they are in telling the story, we give you Berkshire's book-value figures because they today serve as a rough, albeit significantly understated, tracking measure for Berkshire's intrinsic value. In other words, the percentage change in book value in any given year is likely to be reasonably close to that year's change in intrinsic value.

You can gain some insight into the differences between book value and intrinsic value by looking at one form of investment, a college education. Think of the education's cost as its "book value." If this cost is to be accurate, it should include the earnings that were foregone by the student because he chose college rather than a job.

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

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

PURCHASE-ACCOUNTING ADJUSTMENTS

Next: spinach time. I know that a discussion of accounting technicalities turns off many readers, so let me assure you that a full and happy life can still be yours if you decide to skip this section.

Our recent acquisition of GEICO, however, means that purchase-accounting adjustments of about $60 million will now be charged against our annual earnings as recorded under generally accepted accounting principles (GAAP) and we may well make other acquisitions that will increase this figure in the future. So this is a subject of importance to Berkshire. In our annual reports, also, we will sometimes talk of earnings that we will describe as "before purchase-accounting adjustments." The discussion that follows will tell you why we think earnings of that description have far more economic meaning than the earnings produced by GAAP.

When Berkshire buys a business for a premium over the GAAP net worth of the acquiree — as will usually be the case, since most companies we'd want to buy don't come at a discount — that premium has to be entered on the asset side of our balance sheet. There are loads of rules about just how a company should record the premium. But to simplify this discussion, we will focus on "Goodwill," the asset item to which almost all of Berkshire's acquisition premiums have been allocated. For example, when we recently acquired the half of GEICO we didn't previously own, we recorded goodwill of about $1.6 billion.

GAAP requires goodwill to be amortized — that is, written off — over a period no longer than 40 years. Therefore, to extinguish our $1.6 billion in GEICO goodwill, we will annually take charges of about $40 million against our earnings. This amount is not deductible for tax purposes, so it reduces both our pre-tax and after-tax earnings by $40 million.

In an accounting sense, consequently, our GEICO goodwill will disappear gradually in even-sized bites. But the one thing I can guarantee you is that the *economic* goodwill we have purchased at GEICO will not decline in the same measured way. In fact, my best guess is that the economic goodwill assignable to GEICO will not decline at all, but rather will increase — quite probably in a very substantial way.

I made a similar statement in our 1983 Annual Report about the goodwill attributed to See's Candy, when I used that company as an example in a discussion of goodwill accounting. At that time, our balance sheet carried about $36 million of See's goodwill. We have since been charging about $1 million against earnings every year in order to amortize the asset, and the See's goodwill on our balance sheet is now down to about $23 million. In other words, from an accounting standpoint, See's is now presented as having lost a good deal of goodwill since 1983.

The economic facts could not be more different. In 1983, See's earned about $27 million pre-tax on $11 million of net operating assets; in 1995 it earned $50 million on $5 million of net operating assets. Clearly See's economic goodwill has increased dramatically during the interval rather than decreased. Just as clearly, See's is worth many hundreds of millions of dollars more than its stated value on our books.

We could, of course, be wrong, but we expect GEICO's gradual loss of accounting value to be paired with increases in its economic value. Certainly that has been the pattern at most of our subsidiaries, not just See's. That is why we regularly present our operating earnings in a way that allows you to ignore all purchase-accounting adjustments.

In the future, also, we will adopt a similar policy for look-through earnings, moving to a form of presentation that rids these earnings of the major purchase-accounting adjustments of investees. We will not apply this policy to companies that have only small amounts of goodwill on their books, such as Coca-Cola or Gillette. We will extend it, however, to Wells Fargo and Disney, which have both recently made huge acquisitions and are consequently dealing with exceptionally large goodwill charges.

Before leaving this subject, we should issue an important warning: Investors are often led astray by CEOs and Wall Street analysts who equate depreciation charges with the amortization charges we have just discussed. In no way are the two the same: With rare exceptions, depreciation is an economic cost every bit as real as wages, materials, or taxes. Certainly that is true at Berkshire and at virtually all the other businesses we have studied. Furthermore, we do *not* think so-called EBITDA (earnings before interest, taxes, depreciation and amortization) is a meaningful measure of performance. Managements that dismiss the importance of depreciation — and emphasize "cash flow" or EBITDA — are apt to make faulty decisions, and you should keep that in mind as you make your own investment decisions.

THE MANAGING OF BERKSHIRE

I think it's appropriate that I conclude with a discussion of Berkshire's management, today and in the future. As our first owner-related principle tells you, Charlie and I are the managing partners of Berkshire. But we subcontract all of the heavy lifting in this business to the managers of our subsidiaries. In fact, we delegate almost to the point of abdication: Though Berkshire has about 33,000 employees, only 12 of these are at headquarters.

Charlie and I mainly attend to capital allocation and the care and feeding of our key managers. Most of these managers are happiest when they are left alone to run their businesses, and that is customarily just how we leave them. That puts them in charge of all operating decisions and of dispatching the excess cash they generate to headquarters. By sending it to us, they don't get diverted by the various enticements that would come their way were they responsible for deploying the cash their businesses throw off. Furthermore, Charlie and I are exposed to a much wider range of possibilities for investing these funds than any of our managers could find in his or her own industry.

Most of our managers are independently wealthy, and it's therefore up to us to create a climate that encourages them to choose working with Berkshire over golfing or fishing. This leaves us needing to treat them fairly and in the manner that we would wish to be treated if our positions were reversed.

As for the allocation of capital, that's an activity both Charlie and I enjoy and in which we have acquired some useful experience. In a general sense, grey hair doesn't hurt on this playing field: You don't need good hand-eye coordination or well-toned muscles to push money around (thank heavens). As long as our minds continue to function effectively, Charlie and I can keep on doing our jobs pretty much as we have in the past.

On my death, Berkshire's ownership picture will change but not in a disruptive way: First, only about 1% of my stock will have to be sold to take care of bequests and taxes; second, the balance of my stock will go to my wife, Susan, if she survives me, or to a family foundation if she doesn't. In either event, Berkshire will possess a controlling shareholder guided by the same philosophy and objectives that now set our course.

At that juncture, the Buffett family will not be involved in managing the business, only in picking and overseeing the managers who do. Just who those managers will be, of course, depends on the date of my death.

But I can anticipate what the management structure will be: Essentially my job will be split into two parts, with one executive becoming responsible for investments and another for operations. If the acquisition of new businesses is in prospect, the two will cooperate in making the decisions needed. Both executives will report to a board of directors who will be responsive to the controlling shareholder, whose interests will in turn be aligned with yours.

Were we to need the management structure I have just described on an immediate basis, my family and a few key individuals know who I would pick to fill both posts. Both currently work for Berkshire and are people in whom I have total confidence.

I will continue to keep my family posted on the succession issue. Since Berkshire stock will make up virtually my entire estate and will account for a similar portion of the assets of either my wife or the foundation for a considerable period after my death, you can be sure that I have thought through the succession question carefully. You can be equally sure that the principles we have employed to date in running Berkshire will continue to guide the managers who succeed me.

Lest we end on a morbid note, I also want to assure you that I have never felt better. I love running Berkshire, and if enjoying life promotes longevity, Methuselah's record is in jeopardy.

BERKSHIRE HATHAWAY INC.

COMMON STOCK

General

The Company has two classes of common stock designated Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is convertible, at the option of the holder, into 30 shares of Class B Common Stock. Shares of Class B Common Stock are not convertible into shares of Class A Common Stock.

Stock Transfer Agent

BankBoston, N.A. % Boston EquiServe, P.O. Box 8040, Boston, MA 02266-8040 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence may be directed to Investor Relations, Mail Stop 45-02-64. Certificates for re-issue or transfer should be directed to the Transfer Processing Section, Mail Stop 45-01-05. Notices for conversion and underlying stock certificates should be directed to Corporate Reorganization, Mail Stop 45-02-53. Phone inquiries should be directed to Investor Relations — (781) 575-3100.

Shareholders of record wishing to convert Class A Common Stock into Class B Common Stock should contact BankBoston to obtain a "form of conversion notice" and instructions for converting their shares. Shareholders may call BankBoston between 9:00 a.m. and 6:00 p.m. Eastern Time to request a "form of conversion notice."

Alternatively, shareholders may notify BankBoston in writing. Along with the underlying stock certificate, shareholders should provide BankBoston with specific written instructions regarding the number of shares to be converted and the manner in which the Class B shares are to be registered. We recommend that you use certified or registered mail when delivering the stock certificates and written instructions.

If Class A shares are held in "street name," shareholders wishing to convert all or a portion of their holding should contact their broker or bank nominee. It will be necessary for the nominee to make the request for conversion.

Shareholders

The Company had approximately 9,000 record holders of its Class A Common Stock and 8,600 record holders of its Class B Common Stock at March 6, 1998. Record owners included nominees holding at least 240,000 shares of Class A Common Stock and 1,100,000 shares of Class B Common Stock on behalf of beneficial-but-not-of-record owners.

Price Range of Common Stock

The Company's Class A and Class B Common Stock are listed for trading on the New York Stock Exchange, trading symbol: BRK.A and BRK.B. 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:

	1997				1996			
	Class A *		Class B *		Class A *		Class B *	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$37,900	$33,000	$1,264	$1,088	$38,000	$29,800	N/A	N/A
Second Quarter	48,600	35,900	1,624	1,197	36,000	30,000	$1,220	$ 990
Third Quarter	48,300	41,300	1,608	1,377	33,500	30,500	1,117	1,005
Fourth Quarter	47,200	42,500	1,565	1,400	36,500	31,000	1,175	1,036

* *Class B Common Stock was first issued on May 8, 1996. At that time Berkshire's then outstanding common stock was redesignated Class A Common Stock.*

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,
Chairman of the Board of Directors of The GSI Group, a company primarily engaged in the manufacture of agricultural equipment.

MALCOLM G. CHACE,
Chairman of the Board of Directors of BankRI, a community bank located in the State of Rhode Island.

RONALD L. OLSON,
Partner of the law firm of Munger Tolles & Olson, LLP.

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

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*

REBECCA K. AMICK,
Director of Internal Auditing

JERRY W. HUFTON,
Director of Taxes

MARK D. MILLARD,
Director of Financial Assets

Letters from earlier Annual Reports (1977 through 1997), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at www.berkshirehathaway.com. A two volume bound set of compilations of letters (1977 through 1995) and the 1996 Annual Report is available upon written request accompanied by a payment of $30.00 to cover production, postage and handling costs. Requests should be submitted to the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131.

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