BERKSHIRE HATHAWAY INC.

1998 ANNUAL REPORT

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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 sixth largest auto insurer in the United States and General Re Corporation, one of the four largest reinsurers in the world.

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 1998 include approximately 11% of the outstanding capital stock of American Express Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 9% of the capital stock of Federal Home Loan Mortgage Corporation ("Freddie Mac"), approximately 8½% of the capital stock of The Gillette Company, and approximately 17% of the capital stock of The Washington Post Company. Much information about these publicly-owned companies is available, including information released from time to time by the companies themselves.

Other business activities conducted by non-insurance subsidiaries include publication of a daily and Sunday newspaper in Western New York (*Buffalo News*), manufacture and sale of boxed chocolates and other confectionery products (*See's Candies*), diversified manufacturing and distribution (managed by Scott Fetzer and whose principal products are sold under the *Kirby* and *Campbell Hausfeld* brand names), 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*), training to operators of aircraft and ships throughout the world (*FlightSafety International*), providing fractional ownership programs for general aviation aircraft (*Executive Jet*), and licensing and servicing a system of approximately 5,900 *Dairy Queen* stores.

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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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
1998	....	48.3	28.6	19.7

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 1998 was $25.9 billion, which increased the per-share book value of both our Class A and Class B stock by 48.3%. Over the last 34 years (that is, since present management took over) per-share book value has grown from $19 to $37,801, a rate of 24.7% compounded annually.*

Normally, a gain of 48.3% would call for handsprings — but not this year. Remember Wagner, whose music has been described as better than it sounds? Well, Berkshire's progress in 1998 — though more than satisfactory — was not as good as it looks. That's because most of that 48.3% gain came from our issuing shares in acquisitions.

To explain: Our stock sells at a large premium over book value, which means that any issuing of shares we do — whether for cash or as consideration in a merger — instantly increases our per-share book-value figure, even though we've earned not a dime. What happens is that we get more per-share book value in such transactions than we give up. These transactions, however, do not deliver us any immediate gain in per-share *intrinsic value*, because in this respect what we give and what we get are roughly equal. And, as Charlie Munger, Berkshire's Vice Chairman and my partner, and I can't tell you too often (though you may feel that we try), it's the per-share gain in intrinsic value that counts rather than the per-share gain in book value. Though Berkshire's intrinsic value grew very substantially in 1998, the gain fell well short of the 48.3% recorded for book value. Nevertheless, intrinsic value still *far* exceeds book value. (For a more extensive discussion of these terms, and other investment and accounting concepts, please refer to our Owner's Manual, on pages 56-64, in which we set forth our owner-related business principles. Intrinsic value is discussed on pages 61 and 62.)

We entered 1999 with the best collection of businesses and managers in our history. The two companies we acquired in 1998, General Re and Executive Jet, are first-class in every way — more about both later — and the performance of our operating businesses last year exceeded my hopes. GEICO, once again, simply shot the lights out. On the minus side, several of the public companies in which we have major investments experienced significant operating shortfalls that neither they nor I anticipated early in the year. Consequently, our equity portfolio did not perform nearly as well as did the S&P 500. The problems of these companies are almost certainly temporary, and Charlie and I believe that their long-term prospects are excellent.

In our last three annual reports, we furnished you a table that we regard as central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value, including General Re on a pro-forma basis as if we had owned it throughout the year. The first column lists our per-share ownership of investments (including cash and equivalents but excluding securities held in our financial products operation) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments (discussed on pages 62 and 63), 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 how Berkshire would look if it were 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 With All Income from Investments Excluded
1968	$ 53	$ 2.87
1978	465	12.85
1988	4,876	145.77
1998	47,647	474.45

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

Decade Ending	Investments Per Share	Pre-tax Earnings Per Share With All Income from Investments Excluded
1978	24.2%	16.2%
1988	26.5%	27.5%
1998	25.6%	12.5%
Annual Growth Rate, 1968-1998	25.4%	18.6%

During 1998, our investments increased by $9,604 per share, or 25.2%, but per-share operating earnings fell by 33.9%. General Re (included, as noted, on a pro-forma basis) explains both facts. This company has very large investments, and these greatly increased our per-share investment figure. But General Re also had an underwriting loss in 1998, and that hurt operating earnings. Had we not acquired General Re, per-share operating earnings would have shown a modest gain.

Though certain of our acquisitions and operating strategies may from time to time affect one column more than the other, we continually work to increase the figures in both. But one thing is certain: Our future rates of gain will fall far short of those achieved in the past. Berkshire's capital base is now simply too large to allow us to earn truly outsized returns. If you believe otherwise, you should consider a career in sales but avoid one in mathematics (bearing in mind that there are really only three kinds of people in the world: those who can count and those who can't).

Currently we are working to compound a net worth of $57.4 billion, the largest of any American corporation (though our figure will be eclipsed if the merger of Exxon and Mobil takes place). Of course, our lead in net worth does not mean that Berkshire outranks all other businesses in value: Market value is what counts for owners and General Electric and Microsoft, for example, have valuations more than three times Berkshire's. Net worth, though, measures the capital that managers must deploy, and at Berkshire that figure has indeed become huge.

Nonetheless, Charlie and I will do our best to increase intrinsic value in the future at an average rate of 15%, a result we consider to be at the very peak of possible outcomes. We may have years when we exceed 15%, but we will most certainly have other years when we fall far short of that — including years showing negative returns — and those will bring our average down. In the meantime, you should understand just what an average gain of 15% over the next five years implies: It means we will need to increase net worth by $58 billion. Earning this daunting 15% will require us to come up with big ideas: Popcorn stands just won't do. Today's markets are not friendly to our search for "elephants," but you can be sure that we will stay focused on the hunt.

Whatever the future holds, I make you one promise: I'll keep at least 99% of my net worth in Berkshire for as long as I am around. How long will that be? My model is the loyal Democrat in Fort Wayne who asked to be buried in Chicago so that he could stay active in the party. To that end, I've already selected a "power spot" at the office for my urn.

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Our financial growth has been matched by employment growth: We now have 47,566 on our payroll, with the acquisitions of 1998 bringing 7,074 employees to us and internal growth adding another 2,500. To balance this gain

of 9,500 in hands-on employees, we have enlarged the staff at world headquarters from 12 to 12.8. (The .8 doesn't refer to me or Charlie: We have a new person in accounting, working four days a week.) Despite this alarming trend toward corporate bloat, our after-tax overhead last year was about $3.5 million, or well under one basis point (.01 of 1%) of the value of the assets we manage.

Taxes

One beneficiary of our increased size has been the U.S. Treasury. The federal income taxes that Berkshire and General Re have paid, or will soon pay, in respect to 1998 earnings total $2.7 billion. That means we shouldered *all* of the U.S. Government's expenses for more than a half-day.

Follow that thought a little further: If only 625 other U.S. taxpayers had paid the Treasury as much as we and General Re did last year, no one else — neither corporations nor 270 million citizens — would have had to pay federal income taxes or any other kind of federal tax (for example, social security or estate taxes). Our shareholders can truly say that they "gave at the office."

Writing checks to the IRS that include strings of zeros does not bother Charlie or me. Berkshire as a corporation, and we as individuals, have prospered in America as we would have in no other country. Indeed, if we lived in some other part of the world and completely escaped taxes, I'm sure we would be worse off financially (and in many other ways as well). Overall, we feel extraordinarily lucky to have been dealt a hand in life that enables us to write large checks to the government rather than one requiring the government to regularly write checks to us — say, because we are disabled or unemployed.

Berkshire's tax situation is sometimes misunderstood. First, capital gains have no special attraction for us: A corporation pays a 35% rate on taxable income, whether it comes from capital gains or from ordinary operations. This means that Berkshire's tax on a long-term capital gain is fully 75% higher than what an individual would pay on an identical gain.

Some people harbor another misconception, believing that we can exclude 70% of all dividends we receive from our taxable income. Indeed, the 70% rate applies to most corporations and also applies to Berkshire in cases where we hold stocks in non-insurance subsidiaries. However, almost all of our equity investments are owned by our insurance companies, and in that case the exclusion is 59.5%. That still means a dollar of dividends is considerably more valuable to us than a dollar of ordinary income, but not to the degree often assumed.

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Berkshire truly went all out for the Treasury last year. In connection with the General Re merger, we wrote a $30 million check to the government to pay an SEC fee tied to the new shares created by the deal. We understand that this payment set an SEC record. Charlie and I are enormous admirers of what the Commission has accomplished for American investors. We would rather, however, have found another way to show our admiration.

GEICO (1-800-847-7536)

Combine a great idea with a great manager and you're certain to obtain a great result. That mix is alive and well at GEICO. The idea is low-cost auto insurance, made possible by direct-to-customer marketing, and the manager is Tony Nicely. Quite simply, there is no one in the business world who could run GEICO better than Tony does. His instincts are unerring, his energy is boundless, and his execution is flawless. While maintaining underwriting discipline, Tony is building an organization that is gaining market share at an accelerating rate.

This pace has been encouraged by our compensation policies. The direct writing of insurance — that is, without there being an agent or broker between the insurer and its policyholder — involves a substantial front-end investment. First-year business is therefore unprofitable in a major way. At GEICO, we do not wish this cost to deter our associates from the aggressive pursuit of new business — which, as it renews, will deliver significant profits — so we leave it out of our compensation formulas. What's included then? We base 50% of our associates' bonuses and profit sharing on

the earnings of our "seasoned" book, meaning policies that have been with us for more than a year. The other 50% is tied to growth in policyholders — and here we have stepped on the gas.

In 1995, the year prior to its acquisition by Berkshire, GEICO spent $33 million on marketing and had 652 telephone counselors. Last year the company spent $143 million, and the counselor count grew to 2,162. The effects that these efforts had at the company are shown by the new business and in-force figures below:

Years	New Auto Policies*	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
1998	1,317,761	3,562,644

* "Voluntary" only; excludes assigned risks and the like.

In 1999, we will again increase our marketing budget, spending at least $190 million. In fact, there is no limit to what Berkshire is willing to invest in GEICO's new-business activity, as long as we can concurrently build the infrastructure the company needs to properly serve its policyholders.

Because of the first-year costs, companies that are concerned about quarterly or annual earnings would shy from similar investments, no matter how intelligent these might be in terms of building long-term value. Our calculus is different: We simply measure whether we are creating more than a dollar of value per dollar spent — and if that calculation is favorable, the more dollars we spend the happier I am.

There is far more to GEICO's success, of course, than low prices and a torrent of advertising. The handling of claims must also be fair, fast and friendly — and ours is. Here's an impartial scorecard on how we shape up: In New York, our largest-volume state, the Insurance Department recently reported that GEICO's complaint ratio in 1997 was not only the lowest of the five largest auto insurers but was also less than half the average of the other four.

GEICO's 1998 profit margin of 6.7% was better than we had anticipated — and, indeed, better than we wished. Our results reflect an industry-wide phenomenon: In recent years, both the frequency of auto accidents and their severity have unexpectedly declined. We responded by reducing rates 3.3% in 1998, and we will reduce them still more in 1999. These moves will soon bring profit margins down — at the least to 4%, which is our target, and perhaps considerably lower. Whatever the case, we believe that our margins will continue to be much better than those of the industry.

With GEICO's growth and profitability both outstanding in 1998, so also were its profit-sharing and bonus payments. Indeed, the profit-sharing payment of $103 million or 32.3% of salary — which went to all 9,313 associates who had been with us for more than a year — may well have been the highest percentage payment at any large company in the country. (In addition, associates benefit from a company-funded pension plan.)

The 32.3% may turn out to be a high-water mark, given that the profitability component in our profit-sharing calculation is almost certain to come down in the future. The growth component, though, may well increase. Overall, we expect the two benchmarks together to dictate very significant profit-sharing payments for decades to come. For our associates, growth pays off in other ways as well: Last year we promoted 4,612 people.

Impressive as the GEICO figures are, we have far more to do. Our market share improved significantly in 1998 — but only from 3% to 3½%. For every policyholder we now have, there are another ten who should be giving us their business.

Some of you who are reading this may be in that category. About 40% of those who check our rates find that they can save money by doing business with us. The proportion is not 100% because insurers differ in their underwriting judgements, with some giving more credit than we do to drivers who live in certain geographical areas or work at certain occupations. We believe, however, that we more frequently offer the low price than does any other national carrier

selling insurance to all comers. Furthermore, in 40 states we can offer a special discount — usually 8% — to our shareholders. So give us a call and check us out.

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You may think that one commercial in this section is enough. But I have another to present, this one directed at managers of publicly-owned companies.

At Berkshire we feel that telling outstanding CEOs, such as Tony, how to run their companies would be the height of foolishness. Most of our managers wouldn't work for us if they got a lot of backseat driving. (Generally, they don't have to work for *anyone*, since 75% or so are independently wealthy.) Besides, they are the Mark McGwires of the business world and need no advice from us as to how to hold the bat or when to swing.

Nevertheless, Berkshire's ownership may make even the best of managers more effective. First, we eliminate all of the ritualistic and nonproductive activities that normally go with the job of CEO. Our managers are totally in charge of their personal schedules. Second, we give each a simple mission: Just run your business as if: 1) you own 100% of it; 2) it is the only asset in the world that you and your family have or will ever have; and 3) you can't sell or merge it for at least a century. As a corollary, we tell them they should not let any of their decisions be affected even slightly by accounting considerations. We want our managers to think about what counts, not how it will be counted.

Very few CEOs of public companies operate under a similar mandate, mainly because they have owners who focus on short-term prospects and reported earnings. Berkshire, however, has a shareholder base — which it will have for decades to come — that has the longest investment horizon to be found in the public-company universe. Indeed, a majority of our shares are held by investors who expect to die still holding them. We can therefore ask our CEOs to manage for maximum long-term value, rather than for next quarter's earnings. We certainly don't ignore the current results of our businesses — in most cases, they are of great importance — but we *never* want them to be achieved at the expense of our building ever-greater competitive strengths.

I believe the GEICO story demonstrates the benefits of Berkshire's approach. Charlie and I haven't taught Tony a thing — and never will — but we *have* created an environment that allows him to apply all of his talents to what's important. He does not have to devote his time or energy to board meetings, press interviews, presentations by investment bankers or talks with financial analysts. Furthermore, he need never spend a moment thinking about financing, credit ratings or "Street" expectations for earnings per share. Because of our ownership structure, he also knows that this operational framework will endure for decades to come. In this environment of freedom, both Tony and his company can convert their almost limitless potential into matching achievements.

If you are running a large, profitable business that will thrive in a GEICO-like environment, check our acquisition criteria on page 21 and give me a call. I promise a fast answer and will mention your inquiry to no one except Charlie.

Executive Jet Aviation (1-800-848-6436)

To understand the huge potential at Executive Jet Aviation (EJA), you need some understanding of its business, which is selling fractional shares of jets and operating the fleet for its many owners. Rich Santulli, CEO of EJA, created the fractional ownership industry in 1986, by visualizing an important new way of using planes. Then he combined guts and talent to turn his idea into a major business.

In a fractional ownership plan, you purchase a portion — say $^1/_8$th — of any of a wide variety of jets that EJA offers. That purchase entitles you to 100 hours of flying time annually. ("Dead-head" hours don't count against your allotment, and you are also allowed to average your hours over five years.) In addition, you pay both a monthly management fee and a fee for hours actually flown.

Then, on a few hours notice, EJA makes your plane, or another at least as good, available to you at your choice of the 5500 airports in the U.S. In effect, calling up your plane is like phoning for a taxi.

I first heard about the NetJets® program, as it is called, about four years ago from Frank Rooney, our manager at H.H. Brown. Frank had used and been delighted with the service and suggested that I meet Rich to investigate signing up for my family's use. It took Rich about 15 minutes to sell me a quarter (200 hours annually) of a Hawker 1000. Since then, my family has learned firsthand — through flying 900 hours on 300 trips — what a friendly, efficient, and safe operation EJA runs. Quite simply, they love this service. In fact, they quickly grew so enthusiastic that I did a testimonial ad for EJA long before I knew there was any possibility of our purchasing the business. I did, however, ask Rich to give me a call if he ever got interested in selling. Luckily, he phoned me last May, and we quickly made a $725 million deal, paying equal amounts of cash and stock.

EJA, which is by far the largest operator in its industry, has more than 1,000 customers and 163 aircraft (including 23 "core" aircraft that are owned or leased by EJA itself, so that it can make sure that service is first-class even during the times when demand is heaviest). Safety, of course, is the paramount issue in any flight operation, and Rich's pilots — now numbering about 650 — receive extensive training at least twice a year from FlightSafety International, another Berkshire subsidiary and the world leader in pilot training. The bottom line on our pilots: I've sold the Berkshire plane and will now do all of my business flying, as well as my personal flying, with NetJets' crews.

Being the leader in this industry is a major advantage for all concerned. Our customers gain because we have an armada of planes positioned throughout the country at all times, a blanketing that allows us to provide unmatched service. Meanwhile, we gain from the blanketing because it reduces dead-head costs. Another compelling attraction for our clients is that we offer products from Boeing, Gulfstream, Falcon, Cessna, and Raytheon, whereas our two competitors are owned by manufacturers that offer only their own planes. In effect, NetJets is like a physician who can recommend whatever medicine best fits the needs of each patient; our competitors, in contrast, are producers of a "house" brand that they must prescribe for one and all.

In many cases our clients, both corporate and individual, own fractions of several different planes and can therefore match specific planes to specific missions. For example, a client might own $^{1}/_{16}$th of three different jets (each giving it 50 hours of flying time), which in total give it a virtual fleet, obtained for a small fraction of the cost of a single plane.

Significantly, it is not only small businesses that can benefit from fractional ownership. Already, some of America's largest companies use NetJets as a supplement to their own fleet. This saves them big money in both meeting peak requirements and in flying missions that would require their wholly-owned planes to log a disproportionate amount of dead-head hours.

When a plane is slated for personal use, the clinching argument is that either the client signs up now or his children likely will later. That's an equation I explained to my wonderful Aunt Alice 40 years ago when she asked me whether she could afford a fur coat. My reply settled the issue: "Alice, *you* aren't buying it; your heirs are."

EJA's growth has been explosive: In 1997, it accounted for 31% of all corporate jets ordered in the world. Nonetheless, Rich and I believe that the potential of fractional ownership has barely been scratched. If many thousands of owners find it sensible to own 100% of a plane — which must be used 350-400 hours annually if it's to make economic sense — there must be a large multiple of that number for whom fractional ownership works.

In addition to being a terrific executive, Rich is fun. Like most of our managers, he has no economic need whatsoever to work. Rich spends his time at EJA because it's his baby — and he wants to see how far he can take it. We both already know the answer, both literally and figuratively: to the ends of the earth.

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And now a small hint to Berkshire directors: Last year I spent more than nine times my salary at Borsheim's and EJA. Just think how Berkshire's business would boom if you'd only spring for a raise.

General Re

On December 21, we completed our $22 billion acquisition of General Re Corp. In addition to owning 100% of General Reinsurance Corporation, the largest U.S. property-casualty reinsurer, the company also owns (including stock it has an arrangement to buy) 82% of the oldest reinsurance company in the world, Cologne Re. The two companies together reinsure all lines of insurance and operate in 124 countries.

For many decades, General Re's name has stood for quality, integrity and professionalism in reinsurance — and under Ron Ferguson's leadership, this reputation has been burnished still more. Berkshire can add absolutely nothing to the skills of General Re's and Cologne Re's managers. On the contrary, there is a lot that they can teach us.

Nevertheless, we believe that Berkshire's ownership will benefit General Re in important ways and that its earnings a decade from now will materially exceed those that would have been attainable absent the merger. We base this optimism on the fact that we can offer General Re's management a freedom to operate in whatever manner will best allow the company to exploit its strengths.

Let's look for a moment at the reinsurance business to understand why General Re could not on its own do what it can under Berkshire. Most of the demand for reinsurance comes from primary insurers who want to escape the wide swings in earnings that result from large and unusual losses. In effect, a reinsurer gets paid for absorbing the volatility that the client insurer wants to shed.

Ironically, though, a publicly-held reinsurer gets graded by both its owners and those who evaluate its credit on the smoothness of its own results. Wide swings in earnings hurt both credit ratings and p/e ratios, even when the business that produces such swings has an expectancy of satisfactory profits over time. This market reality sometimes causes a reinsurer to make costly moves, among them laying off a significant portion of the business it writes (in transactions that are called "retrocessions") or rejecting good business simply because it threatens to bring on too much volatility.

Berkshire, in contrast, happily accepts volatility, just as long as it carries with it the expectation of increased profits over time. Furthermore, we are a Fort Knox of capital, and that means volatile earnings can't impair our premier credit ratings. Thus we have the perfect structure for writing — and *retaining* — reinsurance in virtually any amount. In fact, we've used this strength over the past decade to build a powerful super-cat business.

What General Re gives us, however, is the distribution force, technical facilities and management that will allow us to employ our structural strength in every facet of the industry. In particular, General Re and Cologne Re can now accelerate their push into international markets, where the preponderance of industry growth will almost certainly occur. As the merger proxy statement spelled out, Berkshire also brings tax and investment benefits to General Re. But the most compelling reason for the merger is simply that General Re's outstanding management can now do what it does best, unfettered by the constraints that have limited its growth.

Berkshire is assuming responsibility for General Re's investment portfolio, though not for Cologne Re's. We will not, however, be involved in General Re's underwriting. We will simply ask the company to exercise the discipline of the past while increasing the proportion of its business that is retained, expanding its product line, and widening its geographical coverage — making these moves in recognition of Berkshire's financial strength and tolerance for wide swings in earnings. As we've long said, we prefer a lumpy 15% return to a smooth 12%.

Over time, Ron and his team will maximize General Re's new potential. He and I have known each other for many years, and each of our companies has initiated significant business that it has reinsured with the other. Indeed, General Re played a key role in the resuscitation of GEICO from its near-death status in 1976.

Both Ron and Rich Santulli plan to be at the annual meeting, and I hope you get a chance to say hello to them.

The Economics of Property-Casualty Insurance

With the acquisition of General Re — and with GEICO's business mushrooming — it becomes more important than ever that you understand how to evaluate an insurance company. The key determinants are: (1) the amount of float that the business generates; (2) its cost; and (3) most important of all, the long-term outlook for both of these factors.

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. Errors of estimation, 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.

The table that follows shows the float generated by Berkshire's insurance operations since we entered the business 32 years ago. The data are for every fifth year and also the last, which includes General Re's huge float. 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. (Got that?)

Year	Average Float (in $ millions)
1967	17
1972	70
1977	139
1982	221
1987	1,267
1992	2,290
1997	7,093
1998	22,762 (yearend)

Impressive as the growth in our float has been — 25.4% compounded annually — what really counts is the cost of this item. If that becomes too high, growth in float becomes a curse rather than a blessing.

At Berkshire, the news is all good: Our average cost over the 32 years has been well under zero. In aggregate, we have posted a substantial underwriting profit, which means that we have been paid for holding a large and growing amount of money. This is the best of all worlds. Indeed, though our net float is recorded on our balance sheet as a liability, it has had more economic value to us than an equal amount of net worth would have had. As long as we can continue to achieve an underwriting profit, float will continue to outrank net worth in value.

During the next few years, Berkshire's growth in float may well be modest. The reinsurance market is soft, and in this business, relationships change slowly. Therefore, General Re's float — $^{2}/_{3}$rds of our total — is unlikely to increase significantly in the near term. We do expect, however, that our cost of float will remain very attractive compared to that of other insurers.

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 62 and 63, 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)*	
	1998	*1997*	*1998*	*1997*
Operating Earnings:				
Insurance Group:				
Underwriting — Super-Cat	$154	$283	$100	$183
Underwriting — Other Reinsurance	(175)	(155)	(114)	(100)
Underwriting — GEICO	269	281	175	181
Underwriting — Other Primary	17	53	10	34
Net Investment Income	974	882	731	704
Buffalo News	53	56	32	33
Finance and Financial Products Businesses	205[1]	28	133[1]	18
Flight Services	181	140[2]	110	84[2]
Home Furnishings	72	57	41	32
International Dairy Queen	58	—	35	—
Jewelry	39	32	23	18
Scott Fetzer (excluding finance operation)	137	119	85	77
See's Candies	62	59	40	35
Shoe Group	33	49	23	32
General Re	26[3]	—	16[3]	—
Purchase-Accounting Adjustments	(123)	(101)	(118)	(94)
Interest Expense [4]	(100)	(107)	(63)	(67)
Shareholder-Designated Contributions	(17)	(15)	(11)	(10)
Other	34	60	29	37
Operating Earnings	1,899	1,721	1,277	1,197
Capital Gains from Investments	2,415	1,106	1,553	704
Total Earnings - All Entities	$4,314	$2,827	$ 2,830	$1,901

[1] *Includes Executive Jet from August 7, 1998 .*
[2] *Includes Star Furniture from July 1, 1997.*
[3] *From date of acquisition, December 21, 1998.*
[4] *Excludes interest expense of Finance Businesses.*

You can be proud of our operating managers. They almost invariably deliver earnings that are at the very top of what conditions in their industries allow, meanwhile fortifying their businesses' long-term competitive strengths. In aggregate, they have created many billions of dollars of value for you.

An example: In my 1994 letter, I reported on Ralph Schey's extraordinary performance at Scott Fetzer. Little did I realize that he was just warming up. Last year Scott Fetzer, operating with no leverage (except for a conservative level of debt in its finance subsidiary), earned a record $96.5 million after-tax on its $112 million net worth.

Today, Berkshire has an unusually large number of individuals, such as Ralph, who are truly legends in their industries. Many of these joined us when we purchased their companies, but in recent years we have also identified a number of strong managers internally. We further expanded our corps of all-stars in an important way when we acquired General Re and EJA.

Charlie and I have the easy jobs at Berkshire: We do very little except allocate capital. And, even then, we are not all that energetic. We have one excuse, though: In allocating capital, activity does not correlate with achievement. Indeed, in the fields of investments and acquisitions, frenetic behavior is often counterproductive. Therefore, Charlie and I mainly just wait for the phone to ring.

Our managers, however, work very hard — and it shows. Naturally, they want to be paid fairly for their efforts, but pay alone can't explain their extraordinary accomplishments. Instead, each is primarily motivated by a vision of just how far his or her business can go — and by a desire to be the one who gets it there. Charlie and I thank them on your behalf and ours.

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

Additional information about our various businesses is given on pages 39-53, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 65-71, 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.

Normally, we follow this section with one on "Look-Through" Earnings. Because the General Re acquisition occurred near yearend, though, neither a historical nor a pro-forma calculation of a 1998 number seems relevant. We will resume the look-through calculation in next year's report.

Investments

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

		12/31/98	
Shares	*Company*	*Cost**	*Market*
		(dollars in millions)	
50,536,900	American Express Company	$1,470	$ 5,180
200,000,000	The Coca-Cola Company	1,299	13,400
51,202,242	The Walt Disney Company	281	1,536
60,298,000	Freddie Mac	308	3,885
96,000,000	The Gillette Company	600	4,590
1,727,765	The Washington Post Company	11	999
63,595,180	Wells Fargo & Company	392	2,540
	Others	2,683	5,135
	Total Common Stocks	$ 7,044	$ 37,265

* Represents tax-basis cost which, in aggregate, is $1.5 billion less than GAAP cost.

During the year, we slightly increased our holdings in American Express, one of our three largest commitments, and left the other two unchanged. However, we trimmed or substantially cut many of our smaller positions. Here, I need to make a confession (ugh): The portfolio actions I took in 1998 actually *decrease*d our gain for the year. In particular, my decision to sell McDonald's was a very big mistake. Overall, you would have been better off last year if I had regularly snuck off to the movies during market hours.

At yearend, we held more than $15 billion in cash equivalents (including high-grade securities due in less than one year). Cash never makes us happy. But it's better to have the money burning a hole in Berkshire's pocket than resting comfortably in someone else's. Charlie and I will continue our search for large equity investments or, better yet, a really major business acquisition that would absorb our liquid assets. Currently, however, we see nothing on the horizon.

Once we knew that the General Re merger would definitely take place, we asked the company to dispose of the equities that it held. (As mentioned earlier, we do not manage the Cologne Re portfolio, which includes many equities.) General Re subsequently eliminated its positions in about 250 common stocks, incurring $935 million of taxes in the process. This "clean sweep" approach reflects a basic principle that Charlie and I employ in business and investing: We don't back into decisions.

Last year I deviated from my standard practice of not disclosing our investments (other than those we are legally required to report) and told you about three unconventional investments we had made. There were several reasons behind that disclosure. First, questions about our silver position that we had received from regulatory authorities led us to believe that they wished us to publicly acknowledge this investment. Second, our holdings of zero-coupon bonds were so large that we wanted our owners to know of this investment's potential impact on Berkshire's net worth. Third, we simply wanted to alert you to the fact that we sometimes *do* make unconventional commitments.

Normally, however, as discussed in the Owner's Manual on page 61, we see no advantage in talking about specific investment actions. Therefore — unless we again take a position that is particularly large — we will not post you as to what we are doing in respect to any specific holding of an unconventional sort. We can report, however, that we have eliminated certain of the positions discussed last year and added certain others.

Our never-comment-even-if-untrue policy in regard to investments may disappoint "piggybackers" but will benefit owners: Your Berkshire shares would be worth less if we discussed what we are doing. Incidentally, we should warn you that media speculation about our investment moves continues in most cases to be incorrect. People who rely on such commentary do so at their own peril.

Accounting — Part 1

Our General Re acquisition put a spotlight on an egregious flaw in accounting procedure. Sharp-eyed shareholders reading our proxy statement probably noticed an unusual item on page 60. In the pro-forma statement of income — which detailed how the combined 1997 earnings of the two entities would have been affected by the merger — there was an item stating that compensation expense would have been increased by $63 million.

This item, we hasten to add, does not signal that either Charlie or I have experienced a major personality change. (He still travels coach and quotes Ben Franklin.) Nor does it indicate any shortcoming in General Re's accounting practices, which have followed GAAP to the letter. Instead, the pro-forma adjustment came about because we are replacing General Re's longstanding stock option plan with a cash plan that ties the incentive compensation of General Re managers to their operating achievements. Formerly what counted for these managers was General Re's stock price; now their payoff will come from the business performance they deliver.

The new plan and the terminated option arrangement have matching economics, which means that the rewards they deliver to employees should, for a given level of performance, be the same. But what these people could have formerly anticipated earning from new option grants will now be paid in cash. (Options granted in past years remain outstanding.)

Though the two plans are an economic wash, the cash plan we are putting in will produce a vastly different accounting result. This Alice-in-Wonderland outcome occurs because existing accounting principles ignore the cost of stock options when earnings are being calculated, even though options are a huge and increasing expense at a great many corporations. In effect, accounting principles offer management a choice: Pay employees in one form and count the cost, or pay them in another form and ignore the cost. Small wonder then that the use of options

has mushroomed. This lop-sided choice has a big downside for owners, however: Though options, if properly structured, can be an appropriate, *and even ideal*, way to compensate and motivate top managers, they are more often wildly capricious in their distribution of rewards, inefficient as motivators, and inordinately expensive for shareholders.

Whatever the merits of options may be, their accounting treatment is outrageous. Think for a moment of that $190 million we are going to spend for advertising at GEICO this year. Suppose that instead of paying cash for our ads, we paid the media in ten-year, at-the-market Berkshire options. Would anyone then care to argue that Berkshire had not borne a cost for advertising, or should not be charged this cost on its books?

Perhaps Bishop Berkeley — you may remember him as the philosopher who mused about trees falling in a forest when no one was around — would believe that an expense unseen by an accountant does not exist. Charlie and I, however, have trouble being philosophical about unrecorded costs. When we consider investing in an option-issuing company, we make an appropriate downward adjustment to reported earnings, simply subtracting an amount equal to what the company could have realized by publicly selling options of like quantity and structure. Similarly, if we contemplate an acquisition, we include in our evaluation the cost of replacing any option plan. Then, if we make a deal, we promptly take that cost out of hiding.

Readers who disagree with me about options will by this time be mentally quarreling with my equating the cost of options issued to employees with those that might theoretically be sold and traded publicly. It is true, to state one of these arguments, that employee options are sometimes forfeited — that lessens the damage done to shareholders — whereas publicly-offered options would not be. It is true, also, that companies receive a tax deduction when employee options are exercised; publicly-traded options deliver no such benefit. But there's an offset to these points: Options issued to employees are often repriced, a transformation that makes them much more costly than the public variety.

It's sometimes argued that a non-transferable option given to an employee is less valuable to him than would be a publicly-traded option that he could freely sell. That fact, however, does not reduce the *cost* of the non-transferable option: Giving an employee a company car that can only be used for certain purposes diminishes its value to the employee, but does not in the least diminish its cost to the employer.

The earning revisions that Charlie and I have made for options in recent years have frequently cut the reported per-share figures by 5%, with 10% not all that uncommon. On occasion, the downward adjustment has been so great that it has affected our portfolio decisions, causing us either to make a sale or to pass on a stock purchase we might otherwise have made.

A few years ago we asked three questions in these pages to which we have not yet received an answer: "If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?"

Accounting — Part 2

The role that managements have played in stock-option accounting has hardly been benign: A distressing number of both CEOs and auditors have in recent years bitterly fought FASB's attempts to replace option fiction with truth and virtually none have spoken out in support of FASB. Its opponents even enlisted Congress in the fight, pushing the case that inflated figures were in the national interest.

Still, I believe that the behavior of managements has been even worse when it comes to restructurings and merger accounting. Here, many managements purposefully work at manipulating numbers and deceiving investors. And, as Michael Kinsley has said about Washington: "The scandal isn't in what's done that's *illegal* but rather in what's *legal*."

It was once relatively easy to tell the good guys in accounting from the bad: The late 1960's, for example, brought on an orgy of what one charlatan dubbed "bold, imaginative accounting" (the practice of which, incidentally, made him loved for a time by Wall Street because he never missed expectations). But most investors

of that period knew who was playing games. And, to their credit, virtually all of America's most-admired companies then shunned deception.

In recent years, probity has eroded. Many major corporations still play things straight, but a significant and growing number of otherwise high-grade managers — CEOs you would be happy to have as spouses for your children or as trustees under your will — have come to the view that it's okay to manipulate earnings to satisfy what they believe are Wall Street's desires. Indeed, many CEOs think this kind of manipulation is not only okay, but actually their *duty*.

These managers start with the assumption, all too common, that their job at all times is to encourage the highest stock price possible (a premise with which we adamantly disagree). To pump the price, they strive, admirably, for operational excellence. But when operations don't produce the result hoped for, these CEOs resort to unadmirable accounting stratagems. These either manufacture the desired "earnings" or set the stage for them in the future.

Rationalizing this behavior, these managers often say that their shareholders will be hurt if their currency for doing deals — that is, their stock — is not fully-priced, and they also argue that in using accounting shenanigans to get the figures they want, they are only doing what everybody else does. Once such an everybody's-doing-it attitude takes hold, ethical misgivings vanish. Call this behavior Son of Gresham: Bad accounting drives out good.

The distortion *du jour* is the "restructuring charge," an accounting entry that can, of course, be legitimate but that too often is a device for manipulating earnings. In this bit of legerdemain, a large chunk of costs that should properly be attributed to a number of years is dumped into a single quarter, typically one already fated to disappoint investors. In some cases, the purpose of the charge is to clean up earnings misrepresentations of the past, and in others it is to prepare the ground for future misrepresentations. In either case, the size and timing of these charges is dictated by the cynical proposition that Wall Street will not mind if earnings fall short by $5 per share in a given quarter, just as long as this deficiency ensures that quarterly earnings in the future will consistently exceed expectations by five cents per share.

This dump-everything-into-one-quarter behavior suggests a corresponding "bold, imaginative" approach to — golf scores. In his first round of the season, a golfer should ignore his actual performance and simply fill his card with atrocious numbers — double, triple, quadruple bogeys — and then turn in a score of, say, 140. Having established this "reserve," he should go to the golf shop and tell his pro that he wishes to "restructure" his imperfect swing. Next, as he takes his new swing onto the course, he should count his good holes, but not the bad ones. These remnants from his old swing should be charged instead to the reserve established earlier. At the end of five rounds, then, his record will be 140, 80, 80, 80, 80 rather than 91, 94, 89, 94, 92. On Wall Street, they will ignore the 140 — which, after all, came from a "discontinued" swing — and will classify our hero as an 80 shooter (and one who *never* disappoints).

For those who prefer to cheat up front, there would be a variant of this strategy. The golfer, playing alone with a cooperative caddy-auditor, should defer the recording of bad holes, take four 80s, accept the plaudits he gets for such athleticism and consistency, and then turn in a fifth card carrying a 140 score. After rectifying his earlier scorekeeping sins with this "big bath," he may mumble a few apologies but will refrain from returning the sums he has previously collected from comparing scorecards in the clubhouse. (The caddy, need we add, will have acquired a loyal patron.)

Unfortunately, CEOs who use variations of these scoring schemes in real life tend to become addicted to the games they're playing — after all, it's easier to fiddle with the scorecard than to spend hours on the practice tee — and never muster the will to give them up. Their behavior brings to mind Voltaire's comment on sexual experimentation: "Once a philosopher, twice a pervert."

In the acquisition arena, restructuring has been raised to an art form: Managements now frequently use mergers to dishonestly rearrange the value of assets and liabilities in ways that will allow them to both smooth and swell future earnings. Indeed, at deal time, major auditing firms sometimes point out the possibilities for a little accounting magic (or for a lot). Getting this push from the pulpit, first-class people will frequently stoop

to third-class tactics. CEOs understandably do not find it easy to reject auditor-blessed strategies that lead to increased future "earnings."

An example from the property-casualty insurance industry will illuminate the possibilities. When a p-c company is acquired, the buyer sometimes simultaneously increases its loss reserves, often substantially. This boost may merely reflect the previous inadequacy of reserves — though it is uncanny how often an actuarial "revelation" of this kind coincides with the inking of a deal. In any case, the move sets up the possibility of 'earnings" flowing into income at some later date, as reserves are released.

Berkshire has kept entirely clear of these practices: If we are to disappoint you, we would rather it be with our earnings than with our accounting. In all of our acquisitions, we have left the loss reserve figures exactly as we found them. After all, we have consistently joined with insurance managers knowledgeable about their business and honest in their financial reporting. When deals occur in which liabilities are increased immediately and substantially, simple logic says that at least one of those virtues must have been lacking — or, alternatively, that the acquirer is laying the groundwork for future infusions of "earnings."

Here's a true story that illustrates an all-too-common view in corporate America. The CEOs of two large banks, one of them a man who'd made many acquisitions, were involved not long ago in a friendly merger discussion (which in the end didn't produce a deal). The veteran acquirer was expounding on the merits of the possible combination, only to be skeptically interrupted by the other CEO: "But won't that mean a huge charge," he asked, "perhaps as much as $1 billion?" The "sophisticate" wasted no words: "We'll make it bigger than that — that's why we're doing the deal."

A preliminary tally by R. G. Associates, of Baltimore, of special charges taken or announced during 1998 — that is, charges for restructuring, in-process R&D, merger-related items, and write-downs — identified no less than 1,369 of these, totaling $72.1 billion. That is a staggering amount as evidenced by this bit of perspective: The 1997 earnings of the 500 companies in Fortune's famous list totaled $324 billion.

Clearly the attitude of disrespect that many executives have today for accurate reporting is a business disgrace. And auditors, as we have already suggested, have done little on the positive side. Though auditors *should* regard the investing public as their client, they tend to kowtow instead to the managers who choose them and dole out their pay. ("Whose bread I eat, his song I sing.")

A big piece of news, however, is that the SEC, led by its chairman, Arthur Levitt, seems determined to get corporate America to clean up its act. In a landmark speech last September, Levitt called for an end to "earnings management." He correctly observed, "Too many corporate managers, auditors and analysts are participants in a game of nods and winks." And then he laid on a real indictment: "Managing may be giving way to manipulating; integrity may be losing out to illusion."

I urge you to read the Chairman's speech (you can find it on the Internet at www.sec.gov) and to support him in his efforts to get corporate America to deliver a straight story to its owners. Levitt's job will be Herculean, but it is hard to think of another more important for him to take on.

Reports to Shareholders

Berkshire's Internet site, www.berkshirehathaway.com, has become a prime source for information about the company. While we continue to send an annual report to all shareholders, we now send quarterlies only to those who request them, letting others read these at our site. In this report, we again enclose a card that can be returned by those wanting to get printed quarterlies in 1999.

Charlie and I have two simple goals in reporting: 1) We want to give you the information that we would wish you to give us if our positions were reversed; and 2) We want to make Berkshire's information accessible to all of you simultaneously. Our ability to reach that second goal is greatly helped by the Internet.

In another portion of his September speech, Arthur Levitt deplored what he called "selective disclosure." His remarks were timely: Today, many companies matter-of-factly favor Wall Street analysts and institutional

investors in a variety of ways that often skirt or cross the line of unfairness. These practices leave the great bulk of shareholders at a distinct disadvantage to a favored class.

At Berkshire, we regard the holder of one share of B stock as the equal of our large institutional investors. We, of course, warmly welcome institutions as owners and have gained a number of them through the General Re merger. We hope also that these new holders find that our owner’s manual and annual reports offer them more insights and information about Berkshire than they garner about other companies from the investor relations departments that these corporations typically maintain. But if it is “earnings guidance” or the like that shareholders or analysts seek, we will simply guide them to our public documents.

This year we plan to post our quarterly reports on the Internet after the close of the market on May 14, August 13, and November 12. We also expect to put the 1999 annual report on our website on Saturday, March 11, 2000, and to mail the print version at roughly the same time.

We promptly post press releases on our website. This means that you do not need to rely on the versions of these reported by the media but can instead read the full text on your computer.

Despite the pathetic technical skills of your Chairman, I’m delighted to report that GEICO, Borsheim’s, See’s, and The Buffalo News are now doing substantial business via the Internet. We’ve also recently begun to offer annuity products on our website. This business was developed by Ajit Jain, who over the last decade has personally accounted for a significant portion of Berkshire’s operating earnings. While Charlie and I sleep, Ajit keeps thinking of new ways to add value to Berkshire.

Shareholder-Designated Contributions

About 97.5% of all eligible shares participated in Berkshire's 1998 shareholder-designated contributions program, with contributions totaling $16.9 million. A full description of the program appears on pages 54-55.

Cumulatively, over the 18 years of the program, Berkshire has made contributions of $130 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 $12.5 million in 1998, including in-kind donations of $2.0 million.

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, 1999, will be ineligible for the 1999 program. When you get the contributions form from us, return it promptly so that it does not get put aside or forgotten. Designations received after the due date will not be honored.

The Annual Meeting

This year’s Woodstock for Capitalists will be held May 1-3, and we may face a problem. Last year more than 10,000 people attended our annual meeting, and our shareholders list has since doubled. So we don’t quite know what attendance to expect this year. To be safe, we have booked both Aksarben Coliseum, which holds about 14,000 and the Holiday Convention Centre, which can seat an additional 5,000. Because we know that our Omaha shareholders will want to be good hosts to the out-of-towners (many of them come from outside the U.S), we plan to give those visitors first crack at the Aksarben tickets and to subsequently allocate these to greater Omaha residents on a first-come, first-served basis. If we exhaust the Aksarben tickets, we will begin distributing Holiday tickets to Omaha shareholders.

If we end up using both locations, Charlie and I will split our pre-meeting time between the two. Additionally, we will have exhibits and also the Berkshire movie, large television screens and microphones at both sites. When we break for lunch, many attendees will leave Aksarben, which means that those at Holiday can, if they wish, make the five-minute trip to Aksarben and finish out the day there. Buses will be available to transport people who don’t have cars.

The doors will open at both locations at 7 a.m. on Monday, and at 8:30 we will premier the 1999 Berkshire movie epic, produced by Marc Hamburg, our CFO. The meeting will last from 9:30 until 3:30, interrupted only by the short lunch break.

An attachment to the proxy material that is enclosed with this report explains how you can obtain the badge you will need for admission to the meeting and other events. As for plane, hotel and car reservations, we have again signed up American Express (800-799-6634) to give you special help. In our normal fashion, we will run buses from the larger hotels to the meeting. After the meeting, these will make trips back to the hotels and to Nebraska Furniture Mart, Borsheim's and the airport. Even so, you are likely to find a car useful.

The full line of Berkshire products will be available at Aksarben, and the more popular items will also be at Holiday. Last year we set sales records across-the-board, moving 3,700 pounds of See's candy, 1,635 pairs of Dexter shoes, 1,150 sets of Quikut knives and 3,104 Berkshire shirts and hats. Additionally, $26,944 of World Book products were purchased as well as more than 2,000 golf balls with the Berkshire Hathaway logo. Charlie and I are pleased but not satisfied with these numbers and confidently predict new records in all categories this year. Our 1999 apparel line will be unveiled at the meeting, so please defer your designer purchases until you view our collection.

Dairy Queen will also be on hand and will again donate all proceeds to the Children's Miracle Network. Last year we sold about 4,000 Dilly® bars, fudge bars and vanilla/orange bars. Additionally, GEICO will have a booth that will be manned by a number of our top counselors from around the country, all of them ready to supply you with auto insurance quotes. In almost all cases, GEICO will be able to offer you a special shareholder's discount. Check out whether we can save you some money.

The *piece de resistance* of our one-company trade show will be a 79-foot-long, nearly 12-foot-wide, fully-outfitted cabin of a 737 Boeing Business Jet ("BBJ"), which is NetJets' newest product. This plane has a 14-hour range; is designed to carry 19 passengers; and offers a bedroom, an office, and two showers. Deliveries to fractional owners will begin in the first quarter of 2000.

The BBJ will be available for your inspection on May 1-3 near the entrance to the Aksarben hall. You should be able to minimize your wait by making your visit on Saturday or Sunday. Bring along your checkbook in case you decide to make an impulse purchase.

NFM's multi-stored complex, located on a 75-acre site about a mile from Aksarben, is open from 10 a.m. to 9 p.m. on weekdays, and 10 a.m. to 6 p.m. on Saturdays and Sundays. This operation did $300 million in business during 1998 and offers an unrivaled breadth of merchandise — furniture, electronics, appliances, carpets and computers — all at can't-be-beat prices. During the April 30th to May 4th period, shareholders presenting their meeting badge will receive a discount that is customarily given only 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 2nd. On annual meeting weekend last year, the store did an incredible amount of business. Sales were double those of the previous year, and the store's volume on Sunday greatly exceeded volume for any day in Borsheim's history. Charlie attributes this record to the fact that he autographed sales tickets that day and, while I have my doubts about this proposition, we are not about to mess with a winning formula. Please give him writer's cramp. On last year's Sunday, Borsheim's wrote 2,501 tickets during the eight hours it was open. For those of you who are mathematically challenged, that is one ticket every 11½ seconds.

Shareholders who wish to avoid Sunday's crowd can visit Borsheim's on Saturday (10 a.m.-5:30 p.m.) or on Monday (10 a.m.-8 p.m.). Be sure to identify yourself as a Berkshire owner so that Susan Jacques, Borsheim's CEO, can quote you a "shareholder-weekend" price. Susan joined us in 1983 as a $4-per-hour salesperson and was made CEO in 1994. This move ranks as one of my best managerial decisions.

Bridge players can look forward to a thrill on Sunday, when Bob Hamman — the best the game has ever seen — will turn up to play with our shareholders in the mall outside of Borsheim's. Bob plays without sorting his cards — hey, maybe that's what's wrong with my game. We will also have a couple of other tables at which another expert or two will be playing.

Gorat's — my favorite steakhouse — will again be open especially for Berkshire shareholders on the Sunday night before the meeting. Though Gorat's served from 4 p.m. until about 1 a.m. last year, its crew was swamped, and some of our shareholders had an uncomfortable wait. This year fewer reservations will be accepted, and we ask that you don't come on Sunday without a reservation. In other years, many of our shareholders have chosen to visit Gorat's on Friday, Saturday or Monday. You can make reservations beginning on April 1 *(but not before)* by calling 402-551-3733. The cognoscenti will continue to order rare T-bones with double orders of hash browns.

The Omaha Golden Spikes (neé the Omaha Royals) will meet the Iowa Cubs on Saturday evening, May 1st, at Rosenblatt Stadium. Your Chairman, whose breaking ball had the crowd buzzing last year, will again take the mound. This year I plan to introduce my "flutterball." It's a real source of irritation to me that many view our annual meeting as a financial event rather than the sports classic I consider it to be. Once the world sees my flutterball, that misperception will be erased.

Our proxy statement includes instructions about obtaining tickets to the game and also a large quantity of other information that should help you to enjoy your visit. I particularly urge the 60,000 shareholders that we gained through the Gen Re merger to join us. Come and meet your fellow capitalists.

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

It wouldn't be right to close without a word about the 11.8 people who work with me in Berkshire's corporate office. In addition to handling the myriad of tax, regulatory and administrative matters that come with owning dozens of businesses, this group efficiently and cheerfully manages various special projects, some of which generate hundreds of inquiries. Here's a sample of what went on in 1998:

- 6,106 shareholders designated 3,880 charities to receive contributions.

- Kelly Muchemore processed about 17,500 admission tickets for the annual meeting, along with orders and checks for 3,200 baseball tickets.

- Kelly and Marc Hamburg produced and directed the Aksarben extravaganza, a job that required them to arrange the presentations made by our subsidiaries, prepare our movie, and sometimes lend people a hand with travel and lodging.

- Debbie Bosanek satisfied the varying needs of the 46 media organizations (13 of them non-U.S.) that covered the meeting, and meanwhile, as always, skillfully assisted me in every aspect of my job.

- Debbie and Marc assembled the data for our annual report and oversaw the production and distribution of 165,000 copies. (This year the number will be 325,000.)

- Marc handled 95% of the details — and much of the substance — connected with our completing two major mergers.

- Kelly, Debbie and Deb Ray dealt efficiently with tens of thousands of requests for annual reports and financial information that came through the office.

You and I are paying for only 11.8 people, but we are getting what would at most places be the output of 100. To all of the 11.8, my thanks.

Warren E. Buffett
March 1, 1999 Chairman of the Board

BERKSHIRE HATHAWAY INC.

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

	1998	1997	1996	1995	1994
Revenues:					
Insurance premiums earned	$ 5,481	$ 4,761	$ 4,118	$ 957	$ 923
Sales and service revenues	4,675	3,615	3,095	2,756	2,352
Interest, dividend and other investment income	1,049	916	778	629	519
Income from finance and financial products businesses	212	32	25	27	25
Realized investment gain [1]	2,415	1,106 [2]	2,484 [3]	194	91
Total revenues	$13,832	$10,430	$10,500	$ 4,563	$3,910
Earnings:					
Before realized investment gain	$ 1,277	$ 1,197	$ 884	$670	$492
Realized investment gain [1]	1,553	704 [2]	1,605 [3]	125	61
Net earnings	$ 2,830	$ 1,901	$ 2,489	$795	$553
Earnings per share:					
Before realized investment gain	$ 1,021	$ 971	$ 733	$565	$417
Realized investment gain [1]	1,241	571 [2]	1,332 [3]	105	52
Net earnings	$ 2,262	$ 1,542	$ 2,065	$670	$469
Year-end data [4]:					
Total assets	$122,237	$56,111	$43,409	$28,711	$20,610
Borrowings under investment agreements and other debt [5]	2,385	2,267	1,944	1,062	811
Shareholders' equity	57,403	31,455	23,427	16,739	11,651
Class A equivalent common shares outstanding, in thousands	1,519	1,234	1,232	1,194	1,178
Shareholders' equity per outstanding Class A equivalent share	$ 37,801	$25,488	$19,011	$14,025	$ 9,893

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[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 $678 million ($427 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] *Year-end data for 1998 includes General Re Corporation acquired by Berkshire on December 21, 1998.*

[5] *Excludes borrowings of finance businesses.*

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 $50 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 $5-20 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."

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, 1998 and 1997, 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, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
March 8, 1999
Omaha, Nebraska

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(dollars in millions except per share amounts)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 13,582	$ 1,002
Investments:		
Securities with fixed maturities	21,246	10,298
Equity securities and other investments	39,761	36,248
Receivables	7,224	1,711
Inventories	767	639
Assets of finance and financial products businesses	16,989	1,249
Property, plant and equipment	1,491	1,057
Goodwill of acquired businesses	18,446	3,067
Other assets	2,731	840
	$122,237	$56,111
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$23,012	$ 6,850
Unearned premiums	3,324	1,274
Accounts payable, accruals and other liabilities	7,182	2,202
Income taxes, principally deferred	11,762	10,539
Borrowings under investment agreements and other debt	2,385	2,267
Liabilities of finance and financial products businesses	15,525	1,067
	63,190	24,199
Minority shareholders' interests	1,644	457
Shareholders' equity:		
Common Stock:*		
Class A Common Stock, $5 par value and Class B Common Stock, $0.1667 par value	8	7
Capital in excess of par value	25,121	2,347
Accumulated other comprehensive income	18,510	18,198
Retained earnings	13,764	10,934
	57,403	31,486
Less: Cost of Class A common shares in treasury	—	31
Total shareholders' equity	57,403	31,455
	$122,237	$56,111

* *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 1,518,548 shares outstanding at December 31, 1998 versus 1,234,127 outstanding at December 31, 1997.*

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,		
	1998	1997	1996
Revenues:			
Insurance premiums earned	$ 5,481	$ 4,761	$ 4,118
Sales and service revenues	4,675	3,615	3,095
Interest, dividend and other investment income	1,049	916	778
Income from finance and financial products businesses	212	32	25
Realized investment gain	2,415	1,106	2,484
	13,832	10,430	10,500
Cost and expenses:			
Insurance losses and loss adjustment expenses	4,040	3,420	3,089
Insurance underwriting expenses	1,184	880	798
Cost of products and services sold	3,018	2,187	1,884
Selling, general and administrative expenses	1,056	921	862
Goodwill amortization	111	83	61
Interest expense	109	112	100
	9,518	7,603	6,794
Earnings before income taxes and minority interest	4,314	2,827	3,706
Income taxes	1,457	898	1,197
Minority interest	27	28	20
Net earnings	$ 2,830	$ 1,901	$ 2,489
Average common shares outstanding *	1,251,363	1,233,192	1,205,257
Net earnings per common share *	$ 2,262	$ 1,542	$ 2,065

* *Average shares outstanding 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 $75 per share for 1998, $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,		
	1998	1997	1996
Cash flows from operating activities:			
Net earnings	$2,830	$1,901	$2,489
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gain	(2,415)	(1,106)	(2,484)
Depreciation and amortization	265	227	151
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	347	576	352
Deferred charges re reinsurance assumed	(80)	(142)	52
Unearned premiums	179	90	(9)
Receivables	(56)	(120)	(127)
Accounts payable, accruals and other liabilities	4	547	558
Income taxes	(329)	383	222
Other	(88)	(21)	56
Net cash flows from operating activities	657	2,335	1,260
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(2,697)	(6,837)	(2,465)
Purchases of equity securities and other investments	(1,865)	(714)	(1,423)
Proceeds from sales of securities with fixed maturities	6,339	3,397	277
Proceeds from redemptions and maturities of securities with fixed maturities	2,132	779	792
Proceeds from sales of equity securities and other investments	4,868	2,016	1,531
Loans and investments originated in finance businesses	(1,028)	(491)	(577)
Principal collection on loans and investments originated in finance businesses	295	276	351
Acquisitions of businesses, net of cash acquired	4,971	(775)	(1,975)
Other	(302)	(182)	(19)
Net cash flows from investing activities	12,713	(2,531)	(3,508)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	120	157	285
Proceeds from other borrowings	1,339	1,074	1,604
Repayments of borrowings of finance businesses	(83)	(214)	(427)
Repayments of other borrowings	(1,318)	(1,112)	(1,170)
Net proceeds from issuance of Class B Common Stock	—	—	565
Other	3	(1)	(3)
Net cash flows from financing activities	61	(96)	854
Increase (decrease) in cash and cash equivalents	13,431	(292)	(1,394)
Cash and cash equivalents at beginning of year	1,058	1,350	2,744
Cash and cash equivalents at end of year *	$14,489	$1,058	$1,350
** Cash and cash equivalents at end of year are comprised of the following:*			
Finance and financial products businesses	*$ 907*	*$ 56*	*$ 10*
Other	*13,582*	*1,002*	*1,340*
	$14,489	*$ 1,058*	*$ 1,350*

See accompanying Notes to Consolidated Financial Statements

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

	Class A & B Common Stock	Capital in Excess of Par Value	Class A Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
Balance December 31, 1995	$ 7	$ 1,002	$ (35)	$ 6,544	$ 9,221	
Common stock issued in connection with acquisitions of businesses	—	707	4	—	—	
Issuance of Class B Stock	—	565	—	—	—	
Net earnings	—	—	—	2,489	—	$ 2,489
Other comprehensive income items:						
Unrealized appreciation of investments	—	—	—	—	7,088	7,088
Reclassification adjustment for appreciation included in net earnings	—	—	—	—	(2,484)	(2,484)
Income taxes and minority interests	—	—	—	—	(1,681)	(1,681)
Other comprehensive income	—	—	—	—	—	2,923
Total comprehensive income						$ 5,412
Balance December 31, 1996	$ 7	$ 2,274	$ (31)	$ 9,033	$12,144	
Common stock issued in connection with acquisitions of businesses	—	73	—	—	—	
Net earnings	—	—	—	1,901	—	1,901
Other comprehensive income items:						
Unrealized appreciation of investments	—	—	—	—	10,574	10,574
Reclassification adjustment for appreciation included in net earnings	—	—	—	—	(1,106)	(1,106)
Income taxes and minority interests	—	—	—	—	(3,414)	(3,414)
Other comprehensive income	—	—	—	—	—	6,054
Total comprehensive income						$ 7,955
Balance December 31, 1997	$ 7	$ 2,347	$ (31)	$10,934	$18,198	
Common stock issued in connection with acquisitions of businesses	1	22,803	2	—	—	
Retirement of treasury stock	—	(29)	29	—	—	
Net earnings	—	—	—	2,830	—	2,830
Other comprehensive income items:						
Unrealized appreciation of investments	—	—	—	—	3,011	3,011
Reclassification adjustment for appreciation included in net earnings	—	—	—	—	(2,415)	(2,415)
Income taxes and minority interests	—	—	—	—	(284)	(284)
Other comprehensive income	—	—	—	—	—	312
Total comprehensive income						$ 3,142
Balance December 31, 1998	$ 8	$25,121	$ —	$13,764	$18,510	

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998

(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 are property and casualty insurance businesses conducted on both a direct and reinsurance basis. Further information regarding these businesses 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. As more fully described in Note 2, on December 21, 1998, Berkshire consummated a merger with General Re Corporation ("General Re"). The balance sheet of General Re is consolidated with the balance sheets of Berkshire and its other subsidiaries as of December 31, 1998. However, General Re's results of operations are only included in the Consolidated Statement of Earnings for the ten day period ended December 31, 1998.

(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) Cash equivalents

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

(d) Investments

Berkshire's management determines the appropriate classifications of investments at the time of acquisition and re-evaluates the classifications at each balance sheet date. Investments may be classified as held for trading, held to maturity, or, when neither of those classifications is appropriate, as available-for-sale. Berkshire's investments in fixed maturity and equity securities are classified as available-for-sale. Available-for-sale securities are stated at fair value with unrealized gains or losses, net of tax, reported as a separate component in shareholders' equity. Realized gains and losses, which arise when available-for-sale investments are sold (as determined on a specific identification basis) or other than temporarily impaired are included in the Consolidated Statements of Earnings.

Other investments include investments in limited partnerships and commodities which are carried at fair value in the accompanying balance sheets. Investments in limited partnerships are classified as available-for-sale. The realized and unrealized gains and losses associated with commodities are included in the Consolidated Statements of Earnings as a component of realized investment gain.

(e) 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)*

(f) 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, including structured settlements, is recognized as premiums earned at the inception of the contracts. Premiums earned are stated net of amounts ceded to reinsurers. Earned premiums ceded were $93 million in 1998, $86 million in 1997 and $79 million in 1996.

(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 recoverability of premium acquisition costs of direct insurance businesses is determined without regard to investment income. The recoverability of premium acquisition costs from reinsurance assumed businesses, generally, reflects anticipation of investment income. The unamortized balances of deferred premium acquisition costs are included in other assets and were $666 million and $127 million at December 31, 1998 and 1997, respectively.

(h) Losses and loss adjustment expenses

Liabilities for unpaid losses and loss adjustment expenses represent estimated claim and claim settlement costs of property/casualty insurance and reinsurance contracts. The liabilities for losses and loss adjustment expenses are recorded at the estimated ultimate payment amounts, except amounts arising from certain reinsurance assumed businesses are discounted. Estimated ultimate payment amounts are based upon (i) individual case estimates, (ii) estimates of incurred-but-not reported losses, based upon past experience and (iii) reports of losses from ceding insurers.

The estimated liabilities of certain workers' compensation claims assumed under reinsurance contracts and liabilities assumed under structured settlement reinsurance contracts are carried in the Consolidated Balance Sheets at discounted amounts. Discounted amounts pertaining to reinsurance of certain workers' compensation risks are based upon an annual discount rate of 4.5%. The discounted amounts for structured settlement reinsurance contracts are based upon the prevailing market discount rates when the contracts were written. The periodic accretion of discounts is included in the Consolidated Statements of Earnings as a component of losses and loss adjustment expenses incurred.

(j) Deferred charges re reinsurance assumed

The excess of estimated liabilities for claims and claim costs payable by the Insurance Group over the consideration received with respect to retroactive property and casualty reinsurance contracts that provide for indemnification of insurance risk 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 periodic amortization charges are reflected in the accompanying Consolidated Statements of Earnings as losses and loss adjustment expenses. The unamortized balance of deferred charges is included in other assets and was $560 million at December 31, 1998 and $480 million at December 31, 1997.

(k) 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 ceding company of its 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 and totaled $2,167 million and $274 million at December 31, 1998 and 1997, respectively.

Notes to Consolidated Financial Statements *(Continued)*

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

(m) Accounting pronouncements to be adopted subsequent to December 31, 1998

During 1998, the Financial Accounting Standards Board ("FASB") and the Accounting Standards Executive Committee ("AcSEC") issued the following new accounting standards that become effective after December 31, 1998:

(i) The FASB issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and hedging activities. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 Berkshire expects to adopt SFAS No. 133 as of the beginning of 2000.

(ii) AcSEC issued Statement of Position ("SOP") No. 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP No. 98-1 provides guidance on the recognition and measurement of costs incurred in connection with the acquisition or development of computer software used in the business activities of a company. This SOP is effective for fiscal years beginning after December 15, 1998 and will be adopted by Berkshire as of the beginning of 1999.

(iii) AcSEC issued Statement of Position ("SOP") No. 98-7 "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk". SOP No. 98-7 provides guidance on accounting and disclosure for insurance and reinsurance contracts that do not transfer insurance risk. This SOP is effective for fiscal years beginning after June 15, 1999. Berkshire expects to adopt this pronouncement as of the beginning of 2000.

The Company does not believe that adoption of these new accounting principles will have a material effect on the Company's financial position or the results of operations.

(2) Business acquisitions

During 1998, Berkshire consummated three business acquisitions — International Dairy Queen, Inc. ("Dairy Queen"), effective January 7, 1998; Executive Jet, Inc. ("Executive Jet"), effective August 7, 1998; and General Re Corporation ("General Re"), effective December 21, 1998. Additional information regarding these acquisitions is provided below.

On January 7, 1998, the merger of Dairy Queen with and into a wholly owned subsidiary of Berkshire was completed. Shareholders of Dairy Queen received merger consideration of approximately $590 million, consisting of $265 million in cash and the remainder in Class A and Class B Common Stock.

Dairy Queen develops, licenses and services a system of approximately 5,900 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.

On July 23, 1998, Berkshire signed a merger agreement with Executive Jet and on August 7, 1998, the merger was consummated. Under the terms of the Executive Jet agreement, shareholders of Executive Jet received total consideration of approximately $700 million, consisting of $350 million in cash and the remainder in Class A and Class B Common Stock.

Executive Jet is the world's leading provider of fractional ownership programs for general aviation aircraft. Executive Jet currently operates its NetJets® fractional ownership programs in the United States and Europe. In addition, Executive Jet is pursuing other international activities. The fractional ownership concept was first introduced in 1986. Since then the NetJets program has grown to include nine aircraft types with plans to introduce several more models in the next two years.

On June 19, 1998, Berkshire signed a merger agreement with General Re. The merger was approved by Berkshire shareholders on September 16, 1998 and by General Re shareholders on September 18, 1998. During the fourth quarter of 1998, all necessary regulatory approvals and tax rulings were received and on December 21, 1998, the merger was completed.

(2) Business acquisitions *(Continued)*

Under the terms of the merger agreement, General Re shareholders received at their election either 0.0035 shares of Berkshire Class A Common Stock or 0.105 shares of Berkshire Class B Common Stock for each share of General Re common stock they owned. Berkshire issued approximately 272,200 Class A equivalent shares in exchange for the General Re shares outstanding as of December 21, 1998. The total consideration for the transaction, based upon the closing prices of Berkshire Class A Common Stock for the 10-day period ending June 26, 1998, was approximately $22 billion.

General Re is a holding company for global reinsurance and related risk management operations. It owns General Reinsurance Corporation and National Reinsurance Corporation, the largest professional property and casualty reinsurance group domiciled in the United States. General Re also owns a controlling interest in Kölnische Rückversicherungs-Gesellschaft AG (Cologne Re), a major international reinsurer. Together, General Re and Cologne Re transact reinsurance business as "General & Cologne Re".

In addition, General Re writes excess and surplus lines insurance through General Star Management Company, provides alternative risk solutions through Genesis Underwriting Management Company, provides reinsurance brokerage services through Herbert Clough, Inc., manages aviation insurance risks through United States Aviation Underwriters, Inc., and acts as a business development consultant and reinsurance intermediary through Ardent Risk Services, Inc. General Re also operates as a dealer in the swap and derivatives market through General Re Financial Products Corporation, and provides specialized investment services to the insurance industry through General Re-New England Asset Management, Inc.

Each of the business acquisitions described above was accounted for under the purchase method. The excess of the purchase cost of the business over the fair value of net assets acquired was recorded as goodwill of acquired businesses. The aggregate goodwill associated with the three acquisitions discussed above was $15.5 billion, including $14.5 billion associated with the General Re merger.

The results of operations for each of these entities are included in Berkshire's consolidated results of operations from the dates of each merger. The following table sets forth certain consolidated earnings data for the years ended December 31, 1998 and 1997, as if the Dairy Queen, Executive Jet and General Re acquisitions had been consummated on the same terms at the beginning of 1997. Dollars in millions except per share amounts.

	1998	1997
Insurance premiums earned	$11,395	$11,369
Sales and service revenues	5,267	4,719
Total revenues	24,174	19,422
Net earnings	4,764	2,438
Earnings per equivalent Class A Common Share	3,137	1,607

In 1996, Berkshire consummated mergers with GEICO Corporation ("GEICO") and FlightSafety International, Inc. ("FlightSafety"). Additional information concerning each merger is provided below.

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

On December 23, 1996, FlightSafety became a wholly-owned subsidiary of Berkshire. FlightSafety provides high technology training to operators of aircraft and ships throughout the world. Pursuant to the FlightSafety merger agreement aggregate consideration of approximately $1.5 billion was paid to FlightSafety shareholders consisting of $769 million in cash and the remainder in Class A and Class B Common Stock.

Notes to Consolidated Financial Statements *(Continued)*

(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, 1998 and 1997 are as follows (in millions):

December 31, 1998	*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	$2,518	$10	—	$2,528
Obligations of states, municipalities and political subdivisions	9,574	73	—	9,647
Obligations of foreign governments	2,864	—	—	2,864
Corporate bonds	4,609	—	—	4,609
Redeemable preferred stocks	359	3	(7)	355
Mortgage-backed securities	1,235	8	—	1,243
	$21,159	$ 94	$ (7)	$21,246

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	$ 601	$ (1)	$6,490
Obligations of states, municipalities and political subdivisions	2,151	58	—	2,209
Corporate bonds	35	—	—	35
Redeemable preferred stocks	764	516	—	1,280
Mortgage-backed securities	273	11	—	284
	$9,113	$1,186	$ (1)	$10,298

Amounts above exclude securities with fixed maturities held by finance businesses. See Note 6.

Shown below are the amortized cost and estimated fair values of securities with fixed maturities at December 31, 1998, 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	$ 2,190	$ 2,188
Due after one year through five years	5,194	5,232
Due after five years through ten years	6,295	6,335
Due after ten years	6,245	6,248
	19,924	20,003
Mortgage-backed securities	1,235	1,243
	$21,159	$21,246

(4) Investments in equity securities and other investments

Data with respect to the consolidated investment in equity securities and other investments are shown below. Amounts are in millions.

December 31, 1998	*Cost*	*Unrealized Gains(Losses)*	*Fair Value*
Common stock of:			
American Express Company *	$ 1,470	$ 3,710	$ 5,180
The Coca-Cola Company	1,299	12,101	13,400
The Gillette Company	600	3,990	4,590
Other equity securities	5,889	9,062	14,951
Other investments	1,736	(96)	1,640
	$10,994	$28,767	$39,761

December 31, 1997	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company *	$1,393	$ 3,021	$ 4,414
The Coca-Cola Company	1,299	12,039	13,338
The Gillette Company	600	4,221	4,821
Other equity securities	5,725	7,950	13,675
	$9,017	$27,231	$36,248

** Common shares of American Express Company ("AXP") owned by Berkshire and its subsidiaries possessed approximately 11% of the voting rights of all AXP shares outstanding at December 31, 1998. 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):

	1998	*1997*	*1996*
Equity securities and other investments —			
Gross realized gains	$2,087	$ 739 *	$2,379 **
Gross realized losses	(272)	(23)	(36)
Securities with fixed maturities —			
Gross realized gains	602	396	144
Gross realized losses	(2)	(6)	(3)
	$2,415	$1,106	$2,484

** 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 $678 million with respect to the transaction. The gain is net of a charge of $298 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) Finance and financial products businesses

Assets and liabilities of Berkshire's finance and financial products businesses are summarized below (in millions). Amounts as of December 31, 1998 include the financial products business of General Re, which merged with Berkshire on December 21, 1998. See Note 2.

	1998	1997
Assets		
Cash and cash equivalents	$ 907	$ 56
Investment in securities with fixed maturities:		
Held to maturity, at cost (fair value $1,366 in 1998; $1,082 in 1997)	1,227	971
Trading, at fair value (cost $5,279)	5,219	—
Available for sale, at fair value (cost $745)	743	—
Trading account assets	6,234	—
Securities purchased under agreements to resell	1,083	—
Other	1,576	222
	$16,989	$1,249
Liabilities		
Annuity reserves and policyholder liabilities	$ 816	$ 697
Securities sold under agreements to repurchase	4,065	—
Securities sold but not yet purchased	1,181	—
Trading account liabilities	5,834	—
Notes payable and other borrowings*	1,503	326
Other	2,126	44
	$15,525	$1,067

**Payments of principal amounts of notes payable and other borrowings during the next five years are as follows (in millions):*

1999	2000	2001	2002	2003
$341	$2	$112	$268	$466

Berkshire's finance and financial products businesses consist primarily of the financial products businesses of General Re, the finance business of Scott Fetzer Financial Group and a life insurance subsidiary in the business of selling annuities. General Re's financial products businesses consist of General Re Financial Products ("GRFP") group and a collection of other businesses that provide investment, insurance, reinsurance and real estate management and brokerage services. Significant accounting policies and disclosures for these businesses are as follows:

Investment securities (principally fixed maturity and equity investments) that are acquired for purposes of selling them in the near term are classified as trading securities. Such assets are carried at fair value. Realized and unrealized gains and losses from trading activities are included in income from finance and financial products businesses. Trading account assets and liabilities are marked-to-market on a daily basis and represent the estimated fair values of derivatives in net gain positions (assets) and in net loss positions (liabilities). The net gains and losses reflect reductions permitted under master netting agreements with counterparties.

Securities purchased under agreements to resell (assets) and securities sold under agreements to repurchase (liabilities) are accounted for as collateralized investments and borrowings and are recorded at the contractual resale or repurchase amounts plus accrued interest. Other investment securities owned and liabilities associated with investment securities sold but not yet purchased are carried at fair value.

GRFP is engaged as a dealer in various types of derivative instruments, including interest rate, currency and equity swaps and options, as well as structured finance products. These instruments are carried at their current estimates of fair value, which is a function of underlying interest rates, currency rates, security values, volatilities and the creditworthiness of counterparties. Future changes in these factors or a combination thereof may affect the fair value of these instruments with any resulting adjustment to be included currently in the Statement of Earnings.

(6) Finance and financial products businesses *(Continued)*

Interest rate, currency and equity swaps are agreements between two parties to exchange, at particular intervals, payment streams calculated on a specified notional amount. Interest rate, currency and equity options grant the purchaser the right, but not the obligation, to either purchase from or sell to the writer a specified financial instrument under agreed terms. Interest rate caps and floors require the writer to pay the purchaser at specified future dates the amount, if any, by which the option's underlying market interest rate exceeds the fixed cap or falls below the fixed floor, applied to a notional amount.

Futures contracts are commitments to either purchase or sell a financial instrument at a future date for a specified price and are generally settled in cash. Forward-rate agreements are financial instruments that settle in cash at a specified future date based on the differential between agreed interest rates applied to a notional amount. Foreign exchange contracts generally involve the exchange of two currencies at agreed rates on a specified date; spot contracts usually require the exchange to occur within two business days of the contract date.

A summary of notional amounts of derivative contracts at December 31, 1998 is included in the table below. For these transactions, the notional amount represents the principal volume, which is referenced by the counterparties in computing payments to be exchanged, and are not indicative of the Company's exposure to market or credit risk, future cash requirements or receipts from such transactions.

	December 31, 1998 (in millions)
Interest rate and currency swap agreements	$514,935
Options written	88,245
Options purchased	90,826
Financial futures contracts:	
Commitments to purchase	26,041
Commitments to sell	6,872
Forward - rate agreements	24,579
Foreign exchange spot and forward contracts	14,794

The table below discloses the net fair value or carrying amount at the reporting date for each class of derivative financial contract held or issued by GRFP.

	December 31, 1998	
	Asset	*Liability*
	(in millions)	
Interest rate and foreign currency swaps	$25,963	$25,445
Interest rate and foreign currency options	4,338	4,439
Gross fair value	30,301	29,884
Adjustment for counterparty netting	(24,067)	(24,067)
Net fair value	6,234	5,817
Security receivables/payables	—	17
Trading account assets/liabilities	$ 6,234	$ 5,834

These derivative financial instruments involve, to varying degrees, elements of market, credit, and legal risks. Market risk is the possibility that future changes in market conditions may make the derivative financial instrument less valuable. Credit risk is defined as the possibility that a loss may occur from the failure of another party to perform in accordance with the terms of the contract which exceeds the value of existing collateral, if any. The derivative's risk of credit loss is generally a small fraction of notional value of the instrument and is represented by the fair value of the derivative financial instrument. Legal risk arises from the uncertainty of the enforceability of the obligations of another party, including contractual provisions intended to reduce credit exposure by providing for the offsetting or netting of mutual obligations.

(6) Finance and financial products businesses *(Continued)*

With respect to Berkshire's life insurance business, annuity reserves and policyholder liabilities are carried at the present value of the actuarially determined ultimate payment amounts discounted at market interest rates existing at the inception of the contracts. Periodic accretions of the discounted liabilities are charged against income from finance and financial products businesses.

Investments in securities with fixed maturities held by Berkshire's life insurance business are classified as held-to-maturity. Investments classified as held-to-maturity are carried at amortized cost reflecting the company's ability and intent to hold such investments to maturity. Such items consist predominantly of mortgage loans and collateralized mortgage obligations.

(7) Unpaid losses and loss adjustment expenses

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

	1998	1997	1996
Unpaid losses and loss adjustment expenses:			
Balance at beginning of year	$6,850	$6,274	$5,924
Less ceded liabilities and deferred charges	754	586	645
Net balance	6,096	5,688	5,279
Incurred losses recorded:			
Current accident year	4,235	3,551	3,179
All prior accident years	(195)	(131)	(90)
Total incurred losses	4,040	3,420	3,089
Payments with respect to:			
Current accident year	1,919	1,602	1,485
All prior accident years	1,834	1,410	1,195
Total payments	3,753	3,012	2,680
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	6,383	6,096	5,688
Ceded liabilities and deferred charges	2,727	754	586
Net liabilities assumed in connection with General Re Merger	13,902	—	—
Balance at end of year	$23,012	$6,850	$6,274

Incurred losses "all prior accident years" reflects the amount of estimation error charged or credited to earnings in each year with respect to the liabilities established as of the beginning of that year. This amount includes amortization of deferred charges re reinsurance and accretion of discounted liabilities. See Note 1 for additional information regarding these items. Additional information regarding incurred losses will be revealed over time and the estimates will be revised resulting in gains or losses in the periods made.

The balances of unpaid losses and loss adjustment expenses are based upon estimates of the ultimate claim costs associated with claim occurrences as of the balance sheet dates. Considerable judgement is required to evaluate claims and establish estimated claim liabilities, particularly with respect to certain lines of business, such as reinsurance assumed, or certain types of claims, such as environmental or latent injury liabilities.

The Company continuously evaluates its liabilities and related reinsurance recoverable for environmental and latent injury claims and claim expenses, which arise from exposures in the U.S., as well as internationally. Environmental and latent injury exposures do not lend themselves to traditional methods of loss development determination and therefore

(7) Unpaid losses and loss adjustment expenses *(Continued)*

reserves estimates related to these exposures may be considerably less reliable than for other lines of business (e.g., automobile). The effect of joint and several liability claims severity and a provision for inflation have been included in the loss development estimate. The Company has also established a liability for litigation costs associated with coverage disputes arising out of direct insurance policies.

The gross liabilities for environmental and latent injury claims and claim expenses and the related reinsurance recoverable were $2,329 million and $416 million, respectively, at December 31, 1998. The liabilities recorded for environmental and latent injury claims and claim expenses are management's best estimate of future ultimate claim and claim expense payments and recoveries and are expected to develop over the next several decades.

Berkshire monitors evolving case law and its effect on environmental and latent injury claims. Changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could result in significant amounts of adverse development of the balance sheet liabilities. Such development could be material to Berkshire's results of operations. It is not possible to estimate reliably the amount of additional net loss, or the range of net loss, that is reasonably possible.

(8) Income taxes

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

	Dec. 31, 1998	*Dec. 31, 1997*
Payable currently	$ 1,006	$ 139
Deferred	10,756	10,400
	$11,762	$10,539

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

	1998	*1997*	*1996*
Federal	$1,421	$865	$1,170
State	31	32	26
Foreign	5	1	1
	$1,457	$898	$1,197
Current	$1,643	$692	$ 819
Deferred	(186)	206	378
	$1,457	$898	$1,197

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997, are shown below (in millions):

	1998	*1997*
Deferred tax liabilities:		
Relating to unrealized appreciation of investments	$10,149	$ 9,940
Other	1,615	1,168
	11,764	11,108
Deferred tax assets	(1,008)	(708)
Net deferred tax liability	$10,756	$10,400

Notes to Consolidated Financial Statements *(Continued)*

(8) Income taxes *(Continued)*

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

	1998	*1997*	*1996*
Earnings before income taxes	$4,314	$2,827	$3,706
Hypothetical amounts applicable to above computed at the federal statutory rate	$1,510	$ 989	$1,297
Decreases, resulting from:			
Tax-exempt interest income	(30)	(36)	(42)
Dividends received deduction	(78)	(104)	(90)
Goodwill amortization	39	29	22
State income taxes, less federal income tax benefit	20	21	17
Other differences, net	(4)	(1)	(7)
Total income taxes	$1,457	$ 898	$1,197

(9) Borrowings under investment agreements and other debt

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

	Dec. 31, 1998	*Dec. 31, 1997*
Borrowings under investment agreements	$ 724	$ 816
1% Senior Exchangeable Notes Due 2001 ("Exchange Notes")	469	806
Other debt	1,192	645
	$2,385	$2,267

Under certain terms and conditions, each $1,000 principal amount Exchange Note then outstanding is exchangeable at the option of the holder into 29.92 shares of Citigroup common stock. Beginning on December 2, 1999, under certain conditions, the Exchange Notes are exchangeable into 29.92 shares of Citigroup common 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 Citigroup common stock. In all other circumstances, Berkshire will pay the principal amount at maturity. The Exchange Notes are carried at accreted value plus an additional amount (the "contingent value") representing the excess of the value of the underlying Citigroup common stock over the accreted value of the Notes. The contingent value component of the aggregate carrying value of the Exchange Notes was $ 171 million at December 31, 1998 and $343 million at year end 1997. During 1998, approximately $185 million par amount of Exchange Notes were converted by holders into Citigroup common shares.

Borrowings under investment agreements are made pursuant to contracts calling for interest payable, normally semiannually, at fixed rates ranging from 3% to 9% per annum. 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):

1999	2000	2001	2002	2003
$297	$30	$505	$49	$93

(10) Dividend restrictions - Insurance subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations. Without prior regulatory approval in 1999, Berkshire can receive up to approximately $4 billion as dividends from insurance subsidiaries.

Combined shareholders' equity of U.S. based insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $45 billion at December 31, 1998. This amount differs from 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, the GAAP amount includes goodwill of acquired businesses.

(11) Common stock

Changes in issued and outstanding common stock of the Company during the three years ended December 31, 1998, are shown in the table below.

	Class A Common, $5 Par Value (1,650,000 shares authorized)*			*Class B Common $0.1667 Par Value (55,000,000 shares authorized*)*
	Shares Issued	*Treasury Shares*	*Shares Outstanding*	*Shares Issued and Outstanding*
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
Common stock issued in connection with acquisitions of businesses	168,670	(9,709)	178,379	3,174,677
Conversions of Class A common stock to Class B common stock and other	(26,732)	—	(26,732)	808,546
Retirement of treasury shares	(158,493)	(158,493)	—	—
Balance December 31, 1998	1,349,535	—	1,349,535	5,070,379

* *Prior to the General Re merger the number of authorized Class A and Class B Common Shares was 1,500,000 and 50,000,000 respectively.*

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. Class A and Class B common shares vote together as a single class.

In connection with the General Re merger, all Class A and Class B Common Stock of the Company outstanding immediately prior to the effective date of the merger were canceled and replaced with new Class A and Class B common shares and all Class A treasury shares were canceled and retired. See Note 2 for information regarding the General Re merger.

(12) 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.

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.

Notes to Consolidated Financial Statements *(Continued)*

(12) Fair values of financial instruments *(Continued)*

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, 1998 and 1997, are as follows (in millions):

	Carrying Value		Estimated Fair Value	
	1998	1997	1998	1997
Investments in securities with fixed maturities	$21,246	$10,298	$21,246	$10,298
Investments in equity securities and other investments	39,761	36,248	39,761	36,248
Assets of finance and financial products businesses	16,989	1,249	17,129	1,367
Borrowings under investment agreements and other debt	2,385	2,267	2,475	2,262
Liabilities of finance and financial products businesses	15,525	1,067	15,698	1,149

(13) 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.

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$3,325	$3,936	$2,909	$3,662
Earnings:				
Excluding realized investment gain	$ 252	$ 312	$ 264	$ 449
Realized investment gain *	470	864	101	118
Net earnings	$ 722	$1,176	$ 365	$ 567
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 203	$ 251	$ 212	$ 352
Realized investment gain *	379	696	81	92
Net earnings	$ 582	$ 947	$ 293	$ 444

1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$2,075	$2,338	$2,373	$3,644
Earnings:				
Excluding realized investment gain	$ 263	$ 255	$248	$432
Realized investment gain *	21	23	119	540
Net earnings	$ 284	$ 278	$ 367	$ 972
Earnings per equivalent Class A common share:				
Excluding realized investment gain *	$ 214	$ 207	$ 201	$ 350
Realized investment gain	17	19	96	438
Net earnings	$ 231	$ 226	$ 297	$ 788

* *The amount of realized gain for any given period has not predictive value and variations in amount from period to period have no practical analytical value particulary in view of the unrealized appreciation now existing in Berkshire's consolidated investment portfolio.*

(14) Supplemental cash flow information

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

	1998	*1997*	*1996*
Cash paid during the year for:			
Income taxes	$ 1,703	$ 498	$ 965
Interest	132	123	129
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	36,064	25	4,172
Common shares issued in connection with acquisitions of businesses	22,795	73	710
Fair value of investments acquired as part of exchanges and conversions	—	1,837	1,618
Contingent value of Exchange Notes recognized in earnings	54	298	—
Value of equity securities used to redeem Exchange Notes	344	—	—

(15) Business Segment Data

Berkshire adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" as of December 31, 1998. SFAS No. 131 requires certain disclosures about operating segments in a manner that is consistent with how management evaluates the performance of the segment. Information related to Berkshire's reportable operating segments is shown below. Prior years' presentations are restated to conform to current year presentations.

Berkshire identified the following eleven business segments for purposes of 1998 reporting pursuant to SFAS No. 131.

Business Identity	Business Activity
GEICO Corporation	Underwriting private passenger automobile insurance mainly by direct response methods
Berkshire Hathaway Reinsurance Group	Underwriting excess-of-loss and quota-share reinsurance for property and casualty insurers and reinsurers
Berkshire Hathaway Direct Insurance Group	Underwriting multiple lines of property and casualty insurance policies for primarily commercial accounts
Buffalo News	Publication of a daily and Sunday newspaper in Western New York
FlightSafety and Executive Jet ("Flight Services")	Training to operators of aircraft and ships and providing fractional ownership programs for general aviation aircraft
Nebraska Furniture Mart, R.C. Willey Home Furnishings and Star Furniture Company ("Home Furnishings")	Retail sales of home furnishings, appliances and electronics
International Dairy Queen	Licensing and servicing a system of approximately 5,900 Dairy Queen stores
Helzberg's Diamond Shops and Borsheim's ("Jewelry")	Retailing of fine jewelry
Scott Fetzer Companies	Diversified manufacturing and distribution of various consumer and commercial products with principal brand names including Kirby and Campbell Hausfeld
See's Candies	Manufacture and distribution of boxed chocolates and other confectionery products
H.H. Brown Shoe Company, Lowell Shoe, Inc. and Dexter Shoe Company ("Shoe Group")	Manufacture and distribution of footwear

The segments identified above do not include the reinsurance business of General Re Corporation, which was acquired by Berkshire on December 21, 1998. Beginning in 1999, General Re's reinsurance business will be included as a reportable segment. For further information regarding the acquisition, see Note 2.

Notes to Consolidated Financial Statements *(Continued)*

(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		
	1998	*1997*	*1996*
Operating Segments:			
GEICO Corporation *	$4,033	$3,482	$3,092
Berkshire Hathaway Reinsurance Group *	939	967	758
Berkshire Hathaway Direct Insurance Group *	328	312	268
Buffalo News	157	156	154
Flight services	858	411	8
Home furnishings	793	667	587
International Dairy Queen	420	—	—
Jewelry	440	398	392
Scott Fetzer Companies	1,002	961	938
See's Candies	288	269	249
Shoe group	500	542	560
	9,758	8,165	7,006
Reconciliation of segment amounts to consolidated amount:			
Other sales and service revenues	398	211	205
Interest, dividend and other investment income	1,055	925	794
Income from finance and financial products businesses	212	32	25
Realized investment gain	2,502	1,112	2,485
Purchase-accounting-adjustments	(93)	(15)	(15)
	$13,832	$10,430	$10,500

** Represents insurance premiums earned*

	Operating Profit before Taxes		
	1998	*1997*	*1996*
Operating Segments			
GEICO Corporation *	$269	$281	$171
Berkshire Hathaway Reinsurance Group *	(21)	128	(8)
Berkshire Hathaway Direct Insurance Group *	17	52	59
Buffalo News	53	56	50
Flight services	181	140	3
Home furnishings	72	57	44
International Dairy Queen	58	—	—
Jewelry	39	32	28
Scott Fetzer Companies	137	119	122
See's Candies	62	59	52
Shoe group	33	49	61
	900	973	582
Reconciliation of segment amounts to consolidated amounts:			
Interest, dividend and other investment income	1,046	919	780
Income from finance and financial products businesses	212	32	25
Realized investment gain	2,502	1,112	2,485
Interest expense **	(100)	(107)	(94)
Corporate and other	(36)	3	4
Goodwill amortization and other purchase-accounting-adjustments	(210)	(105)	(76)
	$4,314	$2,827	$3,706

* *Represents underwriting profit (loss)*

** *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.*

(15) Business Segment Data *(Continued)*

	Capital expenditures *			Deprec. & amort. of tangible assets		
	1998	*1997*	*1996*	*1998*	*1997*	*1996*
GEICO Corporation	$ 101	$ 27	$ 11	$ 27	$ 26	$ 25
Berkshire Hathaway Reinsurance Group	—	—	—	—	—	—
Berkshire Hathaway Direct Insurance Group	1	1	1	1	1	1
Buffalo News	2	3	1	2	3	3
Flight services	213	119	—	58	55	—
Home furnishings	21	43	22	13	10	10
International Dairy Queen	10	—	—	7	—	—
Jewelry	12	9	16	10	10	9
Scott Fetzer Companies	10	6	11	11	11	12
See's Candies	15	20	5	5	5	4
Shoe group	9	11	13	13	12	12
	394	239	80	147	133	76
Reconciliation of segment amounts to consolidated amount:						
Corporate and other	5	3	2	4	3	4
Purchase-accounting-adjustments	—	—	—	8	8	8
	$ 399	$ 242	$ 82	$ 159	$ 144	$ 88

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

	Identifiable assets at year-end		
	1998	*1997*	*1996*
GEICO Corporation	$ 8,663	$ 7,683	$ 6,437
Berkshire Hathaway Reinsurance Group	36,611	34,781	24,458
Berkshire Hathaway Direct Insurance Group	5,564	5,902	4,061
Buffalo News	29	28	27
Flight services	1,345	792	733
Home furnishings	489	457	342
International Dairy Queen	199	—	—
Jewelry	234	219	267
Scott Fetzer Companies	242	256	240
See's Candies	79	65	50
Shoe group	336	353	334
	53,791	50,536	36,949
Reconciliation of segment amounts to consolidated amount:			
Corporate and other	49,682*	2,450	3,283
Goodwill and other purchase-accounting-adjustments	18,764	3,125	3,177
	$122,237	$56,111	$43,409

* *Includes the assets of General Re's reinsurance business which will be included as a reportable segment in 1999.*

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) —		
	1998	1997	1996
Insurance segments - underwriting	$ 171	$ 298	$ 143
Insurance segments - investment income	731	704	593
Non-Insurance business segments	389	311	226
Interest expense	(63)	(67)	(57)
Goodwill amortization and other purchase-accounting-adjustments	(118)	(94)	(70)
Other	167	45	49
Earnings before realized investment gain	1,277	1,197	884
Realized investment gain	1,553	704	1,605
Net earnings	$2,830	$1,901	$2,489

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

Insurance Segments — Underwriting

A summary follows of underwriting results from Berkshire's insurance segments for the past three years.

	— (dollars in millions) —		
	1998	1997	1996
Underwriting gain (loss) attributable to:			
GEICO Corporation	$ 269	$ 281	$ 171
Berkshire Hathaway Reinsurance Group	(21)	128	(8)
Berkshire Hathaway Direct Insurance Group	17	52	59
Pre-tax underwriting gain	265	461	222
Income taxes and minority interest	94	163	79
Net underwriting gain	$ 171	$ 298	$ 143

Berkshire Hathaway engages in both direct insurance and reinsurance of property and casualty risks. In direct insurance activities, Berkshire subsidiaries assume defined portions of the risks of loss from persons or organizations that are directly subject to the risks. In reinsurance activities, Berkshire subsidiaries assume defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities. Berkshire's principal underwriting businesses are: (1) GEICO, which became a wholly owned subsidiary of Berkshire on January 3, 1996, (2) Berkshire Hathaway Reinsurance Group and (3) Berkshire Hathaway Direct Insurance Group. On December 21, 1998, Berkshire completed its merger with General Re. General Re and its affiliates comprise one of the four largest reinsurance companies in the world. See Note 2 to the Consolidated Financial Statements.

A significant marketing strategy followed by all these businesses is the maintenance of extraordinary capital strength. Statutory surplus as regards policyholders of Berkshire's insurance businesses increased to approximately $40 billion (excluding General Re Corporation) at December 31, 1998. 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. Additional information regarding Berkshire's insurance and reinsurance operations is presented on the following pages.

Insurance Segments - Underwriting *(continued)*

GEICO Corporation

GEICO through its subsidiaries, 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 1995, GEICO entered into an agreement with another major insurance provider that over time will allow it to effectively exit the homeowners insurance business which represented a relatively small percentage of GEICO's business.

GEICO's underwriting results for the past three years are summarized below.

	— (dollars are in millions) —					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Premiums written	$4,182		$3,588		$3,122	
Premiums earned	$4,033	100.0	$3,482	100.0	$3,092	100.0
Losses and loss expenses	2,978	73.8	2,630	75.5	2,434	78.7
Underwriting expenses	786	19.5	571	16.4	487	15.8
Total losses and expenses	3,764	93.3	3,201	91.9	2,921	94.5
Underwriting gain — pre-tax	$ 269		$ 281		$ 171	

As shown in the table above, GEICO's premium volume grew significantly during the last two years. Premiums earned by GEICO in 1998 exceeded amounts earned in 1997 by 15.8% and amounts earned in 1997 surpassed 1996 by 12.6%. The increases in premium volume were attributed to growth in voluntary auto insurance, partially mitigated by premium rate reductions taken in certain states during 1998 and 1997. Such rate reductions were intended to better align premium rates with pricing targets, and will result in lower premiums earned per policy in the future. The growth in voluntary auto premium volume in each of the past two years was also offset by declines in homeowners and residual auto market business. In-force policy growth for GEICO's core preferred-risk auto business was 17.2% in 1998 and 12.8% in 1997. Policy growth in standard and non-standard auto markets was 40.4% in 1998 and 36.6% in 1997. In-force policy growth reflects GEICO's continued marketing efforts and competitive prices. Sales of new voluntary policies increased 44.3% in 1998 as compared to 1997 and followed growth of 47.8% in 1997 as compared to 1996.

Losses and loss expenses incurred during 1998 were 13.2% greater than amounts incurred during 1997. This followed an 8.1% increase in such costs during 1997 as compared to 1996. 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 73.8% in 1998, 75.5% in 1997 and 78.7% in 1996. These lower than expected loss and loss expense ratios reflect the declining severity of auto liability claims and generally mild weather conditions. Catastrophe losses added 0.7% to the loss and loss expense ratio in 1998 compared to 0.3% in 1997 and 1.7% in 1996. As a result of GEICO's diminishing homeowners business, risks of weather related catastrophe losses are currently lower than in years prior to 1996.

Underwriting expenses in 1998 for GEICO's businesses increased $215 million (37.7%) over 1997 and in 1997 increased $84 million (17.2%) over 1996. The increases reflect additional advertising and personnel costs incurred to generate and service the aforementioned in-force policy growth, as well as increased levels of administrative expenses, particularly profit-sharing costs.

Management's Discussion *(continued)*

Insurance Segments - Underwriting *(continued)*

GEICO Corporation (continued)

GEICO's underwriting results have been above expectations in recent years and the private passenger auto insurance industry as a whole had generally good results due to favorable claims experience. However, premium rates are subject to downward pressure from competition and through the ordinary rate regulation processes of state insurance departments. The rate reductions taken by GEICO in 1998 were greater than 1997's reductions and will be fully reflected in earned premiums in 1999. GEICO currently anticipates that there will be some further rate reductions in 1999. In addition, while the level of claim costs (including catastrophe losses) in recent years 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 costs increase faster than premiums. Notwithstanding, Berkshire's management believes that GEICO's underwriting results will remain better than industry averages.

Berkshire Hathaway Reinsurance Group

The Berkshire Hathaway Reinsurance Group underwrites principally excess-of-loss reinsurance coverages for insurers and reinsurers world wide. This Group is believed to be one of the world leaders in providing catastrophe excess-of-loss reinsurance.

Underwriting results for the past three years are summarized in the following table.

	— (dollars are in millions) —					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Premiums written	$ 986		$ 955		$ 715	
Premiums earned	$ 939	100.0	$ 967	100.0	$ 758	100.0
Losses and loss expenses	765	81.5	676	69.9	573	75.6
Underwriting expenses	195	20.7	163	16.9	193	25.4
Total losses and expenses	960	102.2	839	86.8	766	101.0
Underwriting gain (loss) — pre-tax	$ (21)		$ 128		$ (8)	

Reinsurance premiums earned from catastrophe excess-of-loss policies totaled $286 million in 1998, $310 million in 1997 and $268 million in 1996. Management believes that increased industry capital devoted to this type of business and the lack of large catastrophic loss events in recent years continues to promote 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 may decline in 1999.

The catastrophe reinsurance business produced net underwriting gains in 1998 of $155 million as compared to net underwriting gains of $283 million in 1997 and $167 million in 1996. During the 1996-1998 period, there were no truly large catastrophic events. Catastrophe losses incurred were $34 million in 1998, nearly zero in 1997 and $46 million in 1996.

Berkshire's management continues to believe that, eventually, a large catastrophe event will occur which will produce a significant loss. The Berkshire Hathaway Reinsurance Group's exposure to loss from a single event with respect to in-force policies at year end 1998 is estimated at approximately $600 million after-tax (excludes losses which would likely be incurred by General Re). 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.

Insurance Segments - Underwriting *(continued)*

<u>*Berkshire Hathaway Reinsurance Group*</u> *(continued)*

Premiums earned from other property and casualty excess-of-loss and quota-share reinsurance contracts totaled $310 million in 1998, $513 million in 1997 and $485 million in 1996. 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 were not renewed in 1998. Other property and casualty reinsurance contracts produced net underwriting losses of approximately $86 million in 1998, $73 million in 1997 and $101 million in 1996. 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 $343 million in 1998 and $144 million in 1997. Minor amounts of premiums were earned from such contracts in 1996. 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 contracts were $90 million in 1998, $82 million in 1997 and $74 million in 1996.

<u>*Berkshire Hathaway Direct Insurance Group*</u>

The Berkshire Hathaway Direct Insurance Group is comprised of a wide variety of smaller property/casualty businesses. 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; Kansas Bankers Surety Company, an insurer for primarily small and medium size banks located in the midwest; and Berkshire Hathaway International, a London-based writer of personal and commercial auto insurance.

Collectively, the Berkshire Hathaway Direct Insurance businesses produced earned premiums of $328 million in 1998, $312 million in 1997 and $268 million in 1996. Increases in premiums earned in 1998 and 1997 were achieved by the homestate, credit card credit, international auto and specialty risk businesses offset by comparative declines in the traditional commercial motor vehicle business. Net underwriting gains attributed to direct insurance activities were $17 million in 1998, $52 million in 1997 and $59 million in 1996. The decline in 1998 underwriting results as compared to 1997 principally derived from the traditional motor vehicle and specialty risk operations.

<u>*General Re*</u>

On December 21, 1998, General Re became a wholly owned subsidiary of Berkshire upon completion of the merger of the two companies. Berkshire's results of operations in 1998 include the results of General Re for the last ten days of 1998. Although the revenues and operating results of General Re for that ten-day period are not significant to Berkshire for the full year, General Re will have a major impact on Berkshire's results in future periods. For purposes of this discussion, General Re's results for the last ten days of 1998 are included in other sources of earnings.

Insurance Segments - Underwriting *(continued)*

General Re *(continued)*

General Re and its affiliates operate a global insurance/reinsurance business with operations in the U.S. and 124 other countries around the world. General Re's principal reinsurance operations are internally classified: (1) North American property/casualty, (2) international property/casualty, and (3) global life/health reinsurance.

North American property/casualty operations underwrite predominantly excess-of-loss reinsurance across various lines of business. The international property/casualty operations write quota-share and excess-of-loss reinsurance for risks throughout the world. The global life/health operations reinsure such risks in North America and throughout the world. The international property/casualty and global life/health businesses are primarily conducted through German-based Cologne Re and its subsidiaries. As of December 31, 1998, General Re, directly and indirectly through a joint venture arrangement, maintained an 82% economic interest in Cologne Re.

Summarized information regarding General Re's historical pre-tax underwriting results for 1998 and 1997 is presented below.

	— (dollars in millions) —			
	Net premiums earned		Net underwriting gain (loss)	
	1998	1997	1998	1997
North American property/casualty	$2,708	$3,143	$ (15)	$ 23
International property/casualty	2,095	2,270	(112)	(55)
Global life/health	1,292	1,193	(282)*	13
	$6,095	$6,606	$(409)	$ (19)

* *Includes a pre-tax loss of $275 million related to estimated losses incurred by a Cologne Re U.S. based life insurance subsidiary. Such losses were incurred with respect to U.S. workers' compensation reinsurance written through an underwriting facility in the London market.*

General Re's historical pre-tax net investment income in each of the years ending December 31, 1998 and 1997 totaled approximately $1.3 billion. On an after-tax basis, General Re's historical net investment income was about $975 million in both 1998 and 1997.

Insurance Segments - Investment Income

Following is a summary of the insurance segments net investment income for the past three years.

	(dollars in millions)		
	1998	1997	1996
Investment income before taxes	$974	$882	$726
Applicable income taxes	236	172	128
Applicable minority interest	7	6	5
Investment income after taxes and minority interest	$731	$704	$593

Investment income of the insurance businesses in 1998 exceeded amounts earned in 1997 by $92 million (10.4%) and 1997 income earned exceeded 1996 by $156 million (21.5%). Investment income earned in 1998 reflects increased taxable interest income, partially offset by lower tax-exempt interest and dividend income. Dividends earned from the investment in US Airways Group, Inc. ("US Airways") Cumulative Convertible Preferred Stock, including amounts previously in arrears, were $78 million in 1997 and $46 million in 1996. During the first quarter of 1998, Berkshire converted the US Airways preferred shares into common shares of that company.

Insurance Segments - Investment Income *(continued)*

Berkshire's insurance businesses continue to generate significant levels of investment income from maintaining large levels of invested assets. The acquisition of General Re at the end of 1998 increased invested assets by about $25 billion. Increases in invested assets in recent years also derive from reinvested earnings and additional capital contributions, as well as increases in the amounts of "float". Reinvested earnings and capital contributions over the three year period ending December 31, 1998 were approximately $6 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 $22.8 billion at year end 1998 which includes $14.9 billion assumed as a result of the General Re acquisition.

Income tax expense as a percentage of investment income before taxes was 24.2% in 1998, 19.5% in 1997 and 17.6% in 1996. Investment income in each of these years includes substantial amounts of interest on municipal obligations and dividends 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) —					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Revenues	$ 4,458	100	$ 3,404	100	$ 2,888	100
Cost and expenses	3,823	86	2,892	85	2,528	88
Operating profit	635	14	512	15	360	12
Income taxes and minority interest	246	5	201	6	134	4
Contribution to net earnings	$ 389	9	$ 311	9	$ 226	8

A comparison of revenues and operating profits between 1998, 1997 and 1996 for each of the eight identifiable non-insurance business segments follows.

	— (dollars in millions) —						Operating Profit		
	Revenues			Operating Profits			as a % of Revenues		
Segment	1998	1997	1996	1998	1997	1996	1998	1997	1996
Buffalo News	$ 157	$ 156	$ 154	$ 53	$ 56	$ 50	34	36	32
Flight Services	858	411	8	181	140	3	21	34	37
Home Furnishings	793	667	587	72	57	44	9	9	8
International Dairy Queen	420	—	—	58	—	—	14	—	—
Jewelry	440	398	392	39	32	28	9	8	7
Scott Fetzer Companies	1,002	961	938	137	119	122	14	12	13
See's Candies	288	269	249	62	59	52	22	22	21
Shoe Group	500	542	560	33	49	61	7	9	11
	$4,458	$3,404	$2,888	$635	$512	$360			

1998 compared to 1997

Revenues from the eight identifiable non-insurance business segments of $4,458 million in 1998 increased $1,054 million (31.0%) from the prior year. The aggregate operating profits from these business segments of $635 million in 1998 increased $123 million (24.0%). The acquisitions of International Dairy Queen ("Dairy Queen") at the beginning of 1998 and Executive Jet during August, 1998 account for a significant portion of the comparative increases. The following is a discussion of other significant matters impacting comparative results for each of the non-insurance business segments.

Non-Insurance Business Segments *(continued)*

Buffalo News

The Buffalo News revenues were relatively unchanged in 1998 as compared to 1997. Operating profits in 1998 of $53 million decreased $3 million (5.4%) from the comparable 1997 amount. Much of the decrease arose as a result of a special non recurring charge related to workers' compensation insurance. Without the charge, operating profits in 1998 would have been comparable to the prior year.

Flight Services

This segment includes FlightSafety and Executive Jet. FlightSafety, acquired at the end of 1996, provides high technology training to operators of aircraft and ships. FlightSafety's worldwide clients include corporations, the military and government agencies. On August 7, 1998, Berkshire acquired Executive Jet, the worlds' leading provider of fractional ownership programs for general aviation aircraft. Executive Jet operates the NetJets® fractional ownership program in the United States and Europe. Revenues of this segment increased $447 million (108.8%) over comparable prior year amounts. The acquisition of Executive Jet accounts for about 85% of the overall revenue increase. Operating profits of this segment increased $41 million (29.3%) over comparable prior year amounts. The acquisition of Executive Jet accounts for about half of the overall increase. FlightSafety's operating profits increased significantly over 1997 as a result of continued growth in all areas of its training business.

Home Furnishings

This segment is comprised of three separately managed but similar retail home furnishing businesses: Nebraska Furniture Mart ("NFM"), based in Omaha, Nebraska; R.C. Willey Home Furnishings ("Willey"), based in Salt Lake City, Utah; and Star Furniture Company ("Star"), based in Houston, Texas. Berkshire acquired NFM in 1983, Willey in 1995 and Star in 1997. Revenues of this segment increased $126 million (18.9%) as compared to the prior year. Over half of this increase resulted from the acquisition of Star in July 1997. Both NFM and Willey also reported strong increases in revenues in 1998 as compared to 1997. Operating profits of $72 million in 1998 increased $15 million (26.3%) over the comparable prior year amount. Star's inclusion in this segment's results, for the full year of 1998 versus only the last half of 1997, accounts for over half of the comparative increase. The remainder of the increase arose primarily from increased sales and improved margins at NFM and Willey.

International Dairy Queen

At the beginning of 1998, Berkshire completed the acquisition of Dairy Queen. Dairy Queen develops, licenses and services a system of approximately 5,900 Dairy Queen stores located throughout the United States, Canada and other foreign countries. Dairy Queen stores 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 Karmel Korn which feature blended fruit drinks, popcorn and other snacks. Dairy Queen's results for 1998 were in line with management's plan and continued positive results are expected from this business.

Jewelry

This segment consists of two separately managed retailers of fine jewelry. Borsheim's operates from a single location in Omaha, Nebraska. Helzberg's Diamonds operates a national chain of retail stores located primarily in malls throughout the United States. Revenues of $440 million increased $42 million (10.6%) and operating profits of $39 million increased $7 million (21.9%) over the comparable prior year amounts. While the revenue increase accounted for much of the increase in operating profits, both of these businesses were able to effectively control operating expenses resulting in improved results.

Scott Fetzer Companies

The Scott Fetzer companies are a group of about twenty diverse manufacturing and distribution businesses under common management. Principal businesses in this group of companies sell products under the Kirby (home cleaning systems), Campbell Hausfeld (air compressors, paint sprayers and pressure washers) and World Book (encyclopedias and other educational products) names. Revenues of $1,002 million increased $41 million (4.3%) over the comparable prior year amount.

Non-Insurance Business Segments *(continued)*

1998 compared to 1997 (continued)

Scott Fetzer Companies (continued)

The increase in revenues was primarily due to increases at Campbell Hausfeld somewhat offset by lower World Book revenues. Operating profits of $137 million increased $18 million (15.1%) from the prior year. Increased sales at Campbell Hausfeld along with improved results from World Book's international businesses account for a significant portion of the improved results.

See's Candies

See's revenues increased $19 million (7.1%) over comparable prior year amounts. Total pounds of candy sold increased about 3.3% with 3% to 4% increases being achieved both in See's quantity order business as well as its retail stores. Operating profits increased $3 million (5.1%) as compared to the prior year.

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 $42 million (7.7%) in 1998 as compared to 1997. Operating profits of $33 million in 1998 decreased $16 million (32.7%) from the prior year. The unfavorable results represent a continuation of a trend which began three years ago. Manufacturers such as Brown, Lowell and Dexter are facing reduced demand for their products. Additionally, major retailers are offering promotions to generate sales which is resulting in an ongoing margin squeeze. Management of these businesses is working to align production activity to the reduced sales levels.

1997 compared to 1996

Revenues from the non-insurance business segments increased $516 million (17.9%) in 1997 as compared to 1996. Operating profits of $512 million during 1997 increased $152 million (42.2%) from the comparable 1996 amount. The most significant factor which gave rise to the increase in both revenues and operating profits was the acquisition of FlightSafety at the end of 1996. With the exception of the shoe group, all other reportable segments reported excellent results in 1997 as compared to 1996.

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.

The Consolidated Statement of Earnings for 1997 reflects a pre-tax realized investment gain of $1.1 billion ($704 million after-tax). A significant portion ($678 million pre-tax) of this gain resulted from Travelers Group Inc.'s acquisition of Salomon Inc. 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 acquisition of Capital Cities/ABC, Inc. See Note 5 to Consolidated Financial Statements for additional details regarding these transactions.

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.

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, fluctuations in equity prices represent the largest market risk factor affecting Berkshire's consolidated financial position. The following sections address the significant market risks associated with Berkshire's business activities as of year end 1998 and 1997.

Equity Price Risk

Strategically, Berkshire strives to invest in businesses that possess excellent economics, with able and honest management and at sensible prices. Berkshire's management prefers to invest a meaningful amount in each investee. Accordingly, Berkshire's equity investments are concentrated in relatively few investees. At year-end 1998 and 1997, approximately 60% of the total fair value of investments in equity securities was concentrated in three investees.

Berkshire's primary investment strategy contemplates that most equity investments will be held for very long periods of time. Thus, Berkshire management is not necessarily troubled by 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.

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 dates. 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 its equity investments, Berkshire's obligations with respect to the 1% Senior Exchangeable Notes are subject to equity price risks. See Note 9 to the Consolidated Financial Statements for information regarding the Exchange Notes. As of year-end 1998 and 1997, the market price of Citigroup common stock far exceeded the current exchange price of the Exchange Notes. Therefore, the fair values of the Exchange Notes are primarily subject to equity price risk.

The table below summarizes Berkshire's equity price risks as of December 31, 1998 and 1997 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates. 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 aforementioned concentrations existing in Berkshire's investment portfolio.

— (dollars in millions) —

	Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
As of December 31, 1998				
Equity securities *	$38,476	30% increase	$50,019	12.8
		30% decrease	26,933	(12.8)
1% Senior Exchangeable Notes	489	30% increase	636	**
		30% decrease	342	**
As of December 31, 1997				
Equity securities *	$37,528	30% increase	$48,786	22.9
		30% decrease	26,270	(22.9)
1% Senior Exchangeable Notes	780	30% increase	1,014	**
		30% decrease	546	**

** Includes redeemable convertible preferred shares of investees in which the market prices of the common stock of the investees significantly exceeded the related conversion prices.*

*** Less than 1%*

Interest Rate Risk

This section discusses interest rate risks associated with Berkshire's financial assets and liabilities, other than those of its finance and financial products businesses, which are discussed later. 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 acquire securities that are attractively priced in relation to the perceived credit risk. Management recognizes and accepts that losses may occur. 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. The Company does not actively utilize stand-alone derivatives to manage interest rate risks.

The fair values of Berkshire's fixed maturity investments and borrowings under investment agreements and other debt will fluctuate in response to changes in market interest rates. 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 on assets and liabilities that are subject to interest rate risk. 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 do not 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 year-end 1998 and 1997. Significant variations in market interest rates could produce changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table which follows.

		— (dollars in millions) —	
	Fair Value	Hypothetical Change in Interest Rate (bp=basis points)	Estimated Fair Value after Hypothetical Change in Interest Rate
As of December 31, 1998			
Investments in securities with fixed maturities[1] . . .	$20,891	100 bp decrease	$21,774
		100 bp increase	19,974
		200 bp increase	19,093
		300 bp increase	18,130
Borrowings under investment agreements and other debt[2]	1,986	100 bp decrease	2,095
		100 bp increase	1,865
		200 bp increase	1,768
		300 bp increase	1,681
As of December 31, 1997			
Investments in securities with fixed maturities[1] . . .	9,018	100 bp decrease	10,283
		100 bp increase	7,857
		200 bp increase	7,074
		300 bp increase	6,416
Borrowings under investment agreements and other debt[2]	1,482	100 bp decrease	1,535
		100 bp increase	1,410
		200 bp increase	1,354
		300 bp increase	1,303

[1] Excludes redeemable convertible preferred stocks (See Equity Price Risk)
[2] Excludes 1% Senior Exchangeable Notes (See Equity Price Risk)

Management's Discussion *(Continued)*

Financial Products Risk

The finance and financial products operations are subject to market risk principally through General Re Financial Products ("GRFP"). GRFP monitors its market risk on a daily basis across all swap and option products by calculating the effect on operating results of potential changes in market variables over a one week period, based on historical market volatility, correlation data and informed judgment. This evaluation is done on an individual trading book basis, against limits set by individual book, to a 95% probability level. GRFP sets market risk limits for each type of risk, and for an aggregate measure of risk, based on a 99% probability that movements in market rates will not affect the results from operations in excess of the risk limit over a one week period. GRFP's weekly aggregate market risk limit is $15 million. Risk is measured primarily by Monte Carlo simulations to obtain the required degree of confidence. In addition to these daily and weekly assessments of risk, GRFP prepares periodic stress tests to assess its exposure to extreme movements in various market risk factors.

The table below shows the highest, lowest and average value at risk, as calculated using the above methodology, by broad category of market risk to which GRFP is exposed.

	— (dollars in millions) —			
	Interest Rate	Foreign Exchange Rate	Equity	All Risks
Highest	$9	$7	$8	$13
Lowest	5	2	2	6
Average	7	4	5	9

GRFP evaluates and records a fair-value adjustment to recognize counterparty credit exposure and future costs associated with administering each contract. The expected credit exposure for each trade is initially established on the trade date and is determined through the use of a proprietary credit exposure model that is based on historical default probabilities, market volatilities and, if applicable, the legal right of setoff. These exposures are continually monitored and adjusted due to changes in the credit quality of the counterparty, changes in interest and currency rates or changes in other factors affecting credit exposure. Since inception, GRFP has not experienced any credit losses.

Liquidity and Capital Resources

Berkshire's Consolidated Balance Sheet as of December 31, 1998, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $16.7 billion at December 31, 1995, to approximately $57.4 billion at December 31, 1998. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $13.2 billion, and reinvested earnings, other than realized securities gains, were about $3.4 billion.

Year 2000 Issue

Many computer systems in use today may be unable to correctly process data or may not operate at all after December 31, 1999 because those systems recognize the year within a date only by the last two digits. Some computer programs may interpret the year "00" as 1900, instead of as 2000, causing errors in calculations or the value "00" may be considered invalid by the computer program, causing the system to fail. Year 2000 issues affect: (1) Information Technology (IT) utilized in the Company's widely diversified business information systems, including mainframe and client server hardware and software applications, (2) non-IT systems utilized by the Company, such as communications, facilities management, and manufacturing and service equipment containing embedded computer chips, and (3) IT and non-IT systems of significant customers, suppliers, business partners and equity investees.

Berkshire and its subsidiaries could be adversely affected if Year 2000 issues are not resolved by Berkshire or its significant customers, suppliers, business partners or equity investees before the Year 2000. Possible adverse consequences include but are not limited to: (1) the inability to obtain products or services used in business operations, (2) the inability to transact business with key customers, (3) the inability to execute transactions through the financial markets, (4) the inability to manufacture or deliver goods or services sold to customers, (5) the decline in economic value of one or more of Berkshire's significant equity investees and (6) the occurrence of Year 2000 related losses under property and casualty insurance and reinsurance contracts entered into by subsidiaries. Berkshire's management believes that at least some minor disruptions due to Year 2000 issues will occur. On a worst case basis, if Berkshire,

Year 2000 Issue *(continued)*

one or more of its significant business partners, equity investees or key governmental bodies are unable to implement timely and effective solutions to the Year 2000 issues, Berkshire could suffer material adverse effects. The financial impact of such effects cannot currently be estimated.

Although Berkshire's business operations are diverse, they all rely on computers to conduct daily business activities. Because of the diversity of those operations, Year 2000 issues are independently managed at each of the Company's operating units. Berkshire and its subsidiaries have been working on Year 2000 readiness issues in varying degrees for several years.

Generally, the stages involved in managing Year 2000 issues include (a) identifying the IT and non-IT systems that are non-compliant, (b) formulating strategies to remedying the problems, (c) making the changes necessary through purchasing compliant systems or fixing existing systems, (d) testing the changes and (e) developing contingency plans. The identification and formulation stages are nearly complete at all significant operating units. Many systems have been purchased, upgraded or corrected to make them Year 2000 compliant. In certain instances the Company has obtained certifications of Year 2000 compliance from the manufacturers of systems used by the Company. Management expects that by the end of 1999, all critical systems that are not currently Year 2000 compliant will be corrected or replaced.

The Company has begun the testing of several systems that are believed to be Year 2000 compliant. Significant levels of testing will continue throughout 1999. In addition, Berkshire has contacted a large number of its business partners to obtain information regarding their own progress on Year 2000 issues. While all business partners have not fully completed their own Year 2000 projects, Berkshire is currently not aware of any significant business partner whose Year 2000 issues will not be resolved in a timely manner. However, there is no assurance that significant Year 2000 related problems will not ultimately arise with its business partners.

Berkshire and its subsidiaries expect to ultimately incur about $60 million in identification, remediation and testing of Year 2000 issues. Approximately $40 million of this amount was incurred as of December 31, 1998. Year 2000 related costs are expensed as incurred. The Company does not believe that any significant IT projects have been delayed due to Year 2000 efforts.

Berkshire and its subsidiaries have begun consideration of contingency plans to deal with certain Year 2000 issues in the event that remediation efforts are unsuccessful. Such plans will be more fully developed in 1999 to address specific areas of need.

Forward-Looking Statements

Investors are cautioned that certain statements contained in this document, including but not limited to those under the caption Year 2000 Issues 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. 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 equity investees, the ability of the Company and its significant business partners and equity investees to successfully implement timely Year 2000 solutions, the occurrence of one or more catastrophic events, such as an earthquake or hurricane that causes losses insured by Berkshire's insurance subsidiaries, changes in insurance laws or regulations, changes in Federal income tax laws, and changes in 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.

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

The Company has conducted this program of corporate giving during each of the past eighteen 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
1998	$18	97.5%	$16,931,538	3,880

** 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 1999, 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, 1999*, 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.

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 booklet was reprinted in January 1999 and distributed to all of Berkshire's shareholders. The purpose of the manual was to explain Berkshire's broad economic principles of operation. The Owner's Manual is reproduced on this and the following eight pages.

INTRODUCTION

Augmented by the General Re merger, Berkshire's shareholder count has doubled in the past year to about 250,000. Charlie Munger, Berkshire's Vice Chairman and my partner, and I welcome each of you. As a further greeting, we have prepared a second printing of 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 1997 report to any shareholder requesting it. A great deal of additional information, including our 1977-1996 annual letters, is available at our Internet site: www.berkshirehathaway.com.

OWNER-RELATED BUSINESS PRINCIPLES

At the time of the Blue Chip merger in 1983, 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.

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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 more than 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 the last three years in fact, we made seven 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, 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 occasionally omit them). 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 a significant number in the 1998 merger with General Re — so that we now need look-through earnings of $2.4 billion in 2000 to match the per-share goal we originally were shooting for. This is a target 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 $32 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 32 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), our 1996 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 in 1996, 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 offering of Class B shares and we never will. (We did not, however, say at the time of the sale that our stock was overvalued, though many media have reported that we did.)

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: Now, our book value *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 1996 acquisition of GEICO, however, means that purchase-accounting adjustments of about $40 million are charged against our annual earnings as recorded under generally accepted accounting principles (GAAP). Our General Re acquisition will produce an annual charge many times this number, but we don’t have final figures at this time. So the magnitude of these charges makes them a subject of importance to Berkshire. In our annual reports, therefore, 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 acquired in 1996 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 take annual charges of about $40 million until 2036. 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 has dramatically increased since our purchase and will likely continue to 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 $21 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 1997 it earned $59 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 that GEICO's gradual loss of accounting value will continue to be paired with major 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.

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 45,000 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.

Warren E. Buffett
Chairman

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 four operating groups of subsidiaries. GEICO Corporation ("GEICO"), currently the sixth largest auto insurer in the U.S., 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. GEICO's voluntary auto policy count grew 21% during the twelve months ended December 31, 1998. 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.

On December 21, 1998, Berkshire completed its acquisition of General Re Corporation. General Re is a holding company for global reinsurance and related risk management operations. General Re, through its domestic subsidiaries, General Reinsurance Corporation and National Reinsurance Corporation, is one of the largest professional property/casualty reinsurance group domiciled in the United States. General Re also owns a controlling interest in Cologne Re, a major international reinsurer.

Berkshire Hathaway’s insurance businesses maintains capital strength at unparalleled high levels. Statutory surplus as regards policyholders of these businesses increased to about $45 billion at December 31, 1998.

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. These combined financial statements include the assets and liabilities of General Re’s insurance operations as of December 31, 1998 but exclude the operating results of General Re from 1998's Statement of Earnings.

BERKSHIRE HATHAWAY INC.
INSURANCE GROUP
Balance Sheets
(dollars in millions)

	December 31, 1998	December 31, 1997
Assets		
Investments:		
Fixed maturities at market	$21,216	$10,028
Equity securities and other investments at market:		
American Express Company	5,067	4,315
The Coca-Cola Company	13,368	13,305
The Walt Disney Company	1,489	2,083
Freddie Mac	3,885	2,683
The Gillette Company	4,590	4,821
Wells Fargo & Company	2,466	2,208
Other	8,629	6,526
	60,710	45,969
Cash and cash equivalents	13,081	516
Deferred costs	1,226	608
Other	7,745	1,287
	$82,762	$48,380
Liabilities		
Losses and loss adjustment expenses	$23,012	$6,850
Unearned premiums	3,324	1,274
Policyholder liabilities and other accruals	6,419	1,654
Income taxes, principally deferred	11,432	10,372
	44,187	20,150
Equity		
Minority shareholders'	1,554	359
Berkshire shareholders'	37,021	27,871
	38,575	28,230
	$82,762	$48,380

Statements of Earnings
(dollars in millions)

	1998	1997	1996
Premiums written	$5,476	$4,852	$4,105
Premiums earned	$5,300	$4,761	$4,118
Losses and loss expenses	3,904	3,420	3,090
Underwriting expenses	1,131	880	806
Total losses and expenses	5,035	4,300	3,896
Underwriting gain — pre-tax	265	461	222
Net investment income*	974	882	726
Realized investment gain	2,462	1,059	2,290
Earnings before income taxes	3,701	2,402	3,238
Income tax expense	1,186	704	1,007
	2,515	1,698	2,231
Minority interest	17	15	7
Net earnings	$2,498	$1,683	$2,224

** Net investment income is summarized below:*

	1998	1997	1996
Dividends	*$363*	*$457*	*$418*
Interest	*621*	*430*	*322*
Investment expenses	*(10)*	*(5)*	*(14)*
	$974	*$882*	*$726*

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

BERKSHIRE HATHAWAY INC.

MANUFACTURING, RETAILING AND SERVICES BUSINESSES

Combined financial statements of Berkshire's Manufacturing, Retailing and Services 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
Executive Jet	Fractional ownership programs for general aviation aircraft
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
International Dairy Queen	Licensing and servicing Dairy Queen Stores
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 compounds and solutions
See's Candies	Boxed chocolates and other confectionery products
Stahl	Truck equipment including service bodies, flatbed bodies, cranes, tool boxes, hoists 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, RETAILING AND SERVICES BUSINESSES

Balance Sheets
(dollars in millions)

	December 31, 1998	December 31, 1997
Assets		
Cash and cash equivalents	$ 281	$ 103
Accounts receivable	823	624
Inventories	727	599
Properties and equipment	1,190	892
Other	331	156
	$3,352	$2,374
Liabilities		
Accounts payable, accruals and other	$ 761	$ 532
Income taxes	166	157
Term debt and other borrowings	442	216
	1,369	905
Equity		
Minority shareholders'	75	52
Berkshire shareholders'	1,908	1,417
	1,983	1,469
	$3,352	$2,374

Statements of Earnings
(dollars in millions)

	1998	1997	1996
Revenues:			
Sales and service revenues	$4,675	$3,615	$3,095
Interest income	8	7	6
	4,683	3,622	3,101
Cost and expenses:			
Cost of products and services sold	3,010	2,179	1,876
Selling, general and administrative expenses	1,014	899	832
Interest on debt	19	20	16
	4,043	3,098	2,724
Earnings from operations before income taxes	640	524	377
Income tax expense	234	200	138
	406	324	239
Minority interest	5	6	5
Net earnings	$ 401	$ 318	$ 234

This presentation reflects the results of operations of FlightSafety International, Star Furniture Company, International Dairy Queen and Executive Jet from their respective dates of acquisition; (FlightSafety — December 23, 1996; Star Furniture — July 1, 1997; International Dairy Queen — January 7, 1998; Executive Jet — August 7, 1998).

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 71.

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

BERKSHIRE HATHAWAY INC.

FINANCE AND FINANCIAL PRODUCTS BUSINESSES

Scott Fetzer Financial Group, Inc., Berkshire Hathaway Life Insurance Co. of Nebraska and *General Re Financial Products* make up Berkshire's finance and financial products businesses.

Balance Sheets
(dollars in millions)

	1998	1997
Assets		
Cash and cash equivalents	$ 907	$ 56
Investment in securities with fixed maturities:		
Held to maturity, at cost (fair value $1,366 in 1998; $1,082 in 1997)	1,227	971
Trading, at fair value (cost $5,643)	5,219	—
Available for sale, at fair value (cost $745)	743	—
Trading account assets	6,234	—
Securities purchased under agreements to resell	1,083	—
Other	1,576	244
	$16,989	$1,271
Liabilities		
Annuity reserves and policyholder liabilities	$ 816	$ 697
Securities sold under agreements to repurchase	4,065	—
Securities sold but not yet purchased	1,181	—
Trading account liabilities	5,834	—
Notes payable and other borrowings	1,503	326
Other	2,428	126
	$15,827	$1,149
Equity		
Berkshire shareholders'	1,162	122
	$16,989	$1,271

Statements of Earnings
(dollars in millions)

	1998	1997	1996
Revenues:			
Annuity premiums earned	$ 95	$ 248	$ 259
Other revenues	293	112	94
	388	360	353
Expenses:			
Interest expense	27	24	32
Annuity benefits and underwriting expenses	146	287	277
General and administrative	16	21	21
	189	332	330
Earnings from operations before income taxes	199	28	23
Income tax expense	70	10	8
Net earnings	$ 129	$ 18	$ 15

This presentation includes the assets and liabilities as of December 31, 1998 of General Re Financial Products, acquired in connection with the acquisition of General Re Corporation on December 21, 1998. It does not include the operating results of this business.

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

BERKSHIRE HATHAWAY INC.

NON-OPERATING ACTIVITIES

These statements reflect the consolidated financial statement values for assets, liabilities, shareholders' equity, revenues and expenses that were not assigned to any Berkshire operating group in the unaudited, and not fully GAAP - adjusted group financial statements heretofore presented (pages 65 to 70).

Statements of Net Assets
(dollars in millions)

	December 31, 1998	December 31, 1997
Assets		
Cash and cash equivalents	$ 220	$ 383
Investments:		
Fixed maturities	30	269
Equity securities	267	307
Unamortized goodwill and other purchase accounting adjustments *	18,613	3,099
Deferred tax assets	130	136
Other	128	104
	$19,388	$4,298
Liabilities		
Accounts payable, accruals and other	$ 40	$ 40
Income taxes	158	152
Borrowings under investment agreements and other debt	1,863	2,016
	2,061	2,208
Equity		
Minority shareholders'	15	45
Berkshire shareholders'	17,312	2,045
	17,327	2,090
	$19,388	$4,298

Statements of Earnings
(dollars in millions)

	1998	1997	1996
Revenues:			
Interest, dividend and other income	$ 63	$ 41	$ 55
Realized investment gain	40	53	194
	103	94	249
Expenses:			
Corporate administration	6	7	5
Shareholder-designated contributions	17	15	13
Amortization of goodwill and purchase accounting adjustments *	210	105	76
Interest on debt	96	101	91
Other income	—	(7)	(3)
	329	221	182
Income (loss) before income taxes	(226)	(127)	67
Income tax expense (benefit)	(33)	(17)	44
	(193)	(110)	23
Minority interest	5	8	7
Net earnings (loss)	$(198)	$(118)	$ 16

* *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.

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. c/o 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 9,300 record holders of its Class A Common Stock and13,400 record holders of its Class B Common Stock at March 5, 1999. Record owners included nominees holding at least 385,000 shares of Class A Common Stock and 4,850,000 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:

	1998				1997			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$69,500	$45,700	$2,324	$1,526	$37,900	$33,000	$1,264	$1,088
Second Quarter	84,000	65,800	2,795	2,184	48,600	35,900	1,624	1,197
Third Quarter	78,500	57,000	2,622	1,893	48,300	41,300	1,608	1,377
Fourth Quarter	71,000	57,700	2,396	1,916	47,200	42,500	1,565	1,400

Dividends

Berkshire has not declared a cash dividend since 1967.

BERKSHIRE HATHAWAY INC.

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 of Level 3 Communications, a successor to certain businesses of Peter Kiewit Sons' Inc. which is engaged in telecommunications and computer outsourcing.

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*

CHARLES T. MUNGER, *Vice Chairman*

MARC D. HAMBURG, *Vice President, Treasurer*

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 Annual Reports (1977 through 1998), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at www.berkshirehathaway.com. In addition, this site includes links to the home pages of many Berkshire subsidiaries. A two volume bound set of compilations of letters (1977 through 1995) 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.