BERKSHIRE HATHAWAY INC.

1999 ANNUAL REPORT

TABLE OF CONTENTS

Business Activities . . . . Inside Front Cover

Corporate Performance vs. the S&P 500 2

Chairman's Letter* 3

Selected Financial Data For The
Past Five Years 20

Acquisition Criteria 21

Independent Auditors' Report 21

Consolidated Financial Statements 22

Management's Discussion 43

Owner's Manual 55

Combined Financial Statements — Unaudited —
for Berkshire Business Groups 63

Shareholder-Designated Contributions 70

Common Stock Data 72

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

*Copyright © 2000 By Warren E. Buffett
All Rights Reserved

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 with a market value in excess of $750 million at the end of 1999 include approximately 11% of the outstanding capital stock of American Express Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 8½% of the capital stock of Federal Home Loan Mortgage Corporation ("Freddie Mac"), approximately 9% of the capital stock of The Gillette Company, approximately 18% of the capital stock of The Washington Post Company and approximately 3½% of the capital stock of Wells Fargo and 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, Star Furniture Company* and *Jordan's Furniture, Inc.*), 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 almost 6,000 *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.

****

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
1999	.5	21.0	(20.5)

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

Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules. In 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 1999 was $358 million, which increased the per-share book value of both our Class A and Class B stock by 0.5%. Over the last 35 years (that is, since present management took over) per-share book value has grown from $19 to $37,987, a rate of 24.0% compounded annually.*

The numbers on the facing page show just how poor our 1999 record was. We had the worst absolute performance of my tenure and, compared to the S&P, the worst relative performance as well. Relative results are what concern us: Over time, bad relative numbers will produce unsatisfactory absolute results.

Even Inspector Clouseau could find last year's guilty party: your Chairman. My performance reminds me of the quarterback whose report card showed four Fs and a D but who nonetheless had an understanding coach. "Son," he drawled, "I think you're spending too much time on that one subject."

My "one subject" is capital allocation, and my grade for 1999 most assuredly is a D. What most hurt us during the year was the inferior performance of Berkshire's equity portfolio — and responsibility for that portfolio, leaving aside the small piece of it run by Lou Simpson of GEICO, is entirely mine. Several of our largest investees badly lagged the market in 1999 because they've had disappointing operating results. We still like these businesses and are content to have major investments in them. But their stumbles damaged our performance last year, and it's no sure thing that they will quickly regain their stride.

The fallout from our weak results in 1999 was a more-than-commensurate drop in our stock price. In 1998, to go back a bit, the stock outperformed the business. Last year the business did much better than the stock, a divergence that has continued to the date of this letter. Over time, of course, the performance of the stock *must* roughly match the performance of the business.

Despite our poor showing last year, Charlie Munger, Berkshire's Vice Chairman and my partner, and I expect that the gain in Berkshire's intrinsic value over the next decade will modestly exceed the gain from owning the S&P. We can't guarantee that, of course. But we are willing to back our conviction with our own money. To repeat a fact you've heard before, well over 99% of my net worth resides in Berkshire. Neither my wife nor I have ever sold a share of Berkshire and — unless our checks stop clearing — we have no intention of doing so.

Please note that I spoke of hoping to beat the S&P "modestly." For Berkshire, truly large superiorities over that index are a thing of the past. They existed then because we could buy both businesses and stocks at far more attractive prices than we can now, and also because we then had a much smaller capital base, a situation that allowed us to consider a much wider range of investment opportunities than are available to us today.

Our optimism about Berkshire's performance is also tempered by the expectation — indeed, in our minds, the virtual certainty — that the S&P will do far less well in the next decade or two than it has done since 1982. A recent article in Fortune expressed my views as to why this is inevitable, and I'm enclosing a copy with this report.

Our goal is to run our present businesses well — a task made easy because of the outstanding managers we have in place — and to acquire additional businesses having economic characteristics and managers comparable to those we already own. We made important progress in this respect during 1999 by acquiring Jordan's Furniture and contracting to buy a major portion of MidAmerican Energy. We will talk more about these companies later in the report but let me emphasize one point here: We bought both for cash, issuing no Berkshire shares. Deals of that kind aren't always possible, but that is the method of acquisition that Charlie and I vastly prefer.

---

*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.

Guides to Intrinsic Value

I often talk in these pages about intrinsic value, a key, though far from precise, measurement we utilize in our acquisitions of businesses and common stocks. (For an extensive discussion of this, and other investment and accounting terms and concepts, please refer to our Owner's Manual on pages 55 - 62. Intrinsic value is discussed on page 60.)

In our last four reports, we have furnished you a table that we regard as useful in estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace two key components of value. The first column lists our per-share ownership of investments (including cash and equivalents but excluding assets 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 page 61), 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.

Year	Investments Per Share	Pre-tax Earnings (Loss) Per Share With All Income from Investments Excluded
1969	$ 45	$ 4.39
1979	577	13.07
1989	7,200	108.86
1999	47,339	(458.55)

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
1979	29.0%	11.5%
1989	28.7%	23.6%
1999	20.7%	N.A.
Annual Growth Rate, 1969-1999	25.4%	N.A.

In 1999, our per-share investments changed very little, but our operating earnings, affected by negatives that overwhelmed some strong positives, fell apart. Most of our operating managers deserve a grade of A for delivering fine results and for having widened the difference between the intrinsic value of their businesses and the value at which these are carried on our balance sheet. But, offsetting this, we had a huge — and, I believe, aberrational — underwriting loss at General Re. Additionally, GEICO's underwriting profit fell, as we had predicted it would. GEICO's overall performance, though, was terrific, outstripping my ambitious goals.

We do not expect our underwriting earnings to improve in any dramatic way this year. Though GEICO's intrinsic value should grow by a highly satisfying amount, its underwriting performance is almost certain to weaken. That's because auto insurers, as a group, will do worse in 2000, and because we will materially increase our marketing expenditures. At General Re, we are raising rates and, if there is no mega-catastrophe in 2000, the company's underwriting loss should fall considerably. It takes some time, however, for the full effect of rate increases to kick in, and General Re is therefore likely to have another unsatisfactory underwriting year.

You should be aware that one item regularly working to widen the amount by which intrinsic value exceeds book value is the annual charge against income we take for amortization of goodwill — an amount now running about $500 million. This charge reduces the amount of goodwill we show as an asset and likewise the amount that is included in our book value. This is an accounting matter having nothing to do with true economic goodwill, which increases in most years. But even if economic goodwill were to remain constant, the annual amortization charge would persistently widen the gap between intrinsic value and book value.

Though we can't give you a precise figure for Berkshire's intrinsic value, or even an approximation, Charlie and I can assure you that it far exceeds our $57.8 billion book value. Businesses such as See's and Buffalo News are now worth fifteen to twenty times the value at which they are carried on our books. Our goal is to continually widen this spread at all subsidiaries.

A Managerial Story You Will Never Read Elsewhere

Berkshire's collection of managers is unusual in several important ways. As one example, a very high percentage of these men and women are independently wealthy, having made fortunes in the businesses that they run. They work neither because they need the money nor because they are contractually obligated to — we have no contracts at Berkshire. Rather, they work long and hard because they love their businesses. And I use the word "their" advisedly, since these managers are truly in charge — there are no show-and-tell presentations in Omaha, no budgets to be approved by headquarters, no dictums issued about capital expenditures. We simply ask our managers to run their companies as if these are the sole asset of their families and will remain so for the next century.

Charlie and I try to behave with our managers just as we attempt to behave with Berkshire's shareholders, treating both groups as we would wish to be treated if our positions were reversed. Though "working" means nothing to me financially, I love doing it at Berkshire for some simple reasons: It gives me a sense of achievement, a freedom to act as I see fit and an opportunity to interact daily with people I like and trust. Why should our managers — accomplished artists at what they do — see things differently?

In their relations with Berkshire, our managers often appear to be hewing to President Kennedy's charge, "Ask not what your country can do for you; ask what you can do for your country." Here's a remarkable story from last year: It's about R. C. Willey, Utah's dominant home furnishing business, which Berkshire purchased from Bill Child and his family in 1995. Bill and most of his managers are Mormons, and for this reason R. C. Willey's stores have never operated on Sunday. This is a difficult way to do business: Sunday is the favorite shopping day for many customers. Bill, nonetheless, stuck to his principles -- and while doing so built his business from $250,000 of annual sales in 1954, when he took over, to $342 million in 1999.

Bill felt that R. C. Willey could operate successfully in markets outside of Utah and in 1997 suggested that we open a store in Boise. I was highly skeptical about taking a no-Sunday policy into a new territory where we would be up against entrenched rivals open seven days a week. Nevertheless, this was Bill's business to run. So, despite my reservations, I told him to follow both his business judgment and his religious convictions.

Bill then insisted on a truly extraordinary proposition: He would personally buy the land and build the store — for about $9 million as it turned out — and would sell it to us at his cost if it proved to be successful. On the other hand, if sales fell short of his expectations, we could exit the business without paying Bill a cent. This outcome, of course, would leave him with a huge investment in an empty building. I told him that I appreciated his offer but felt that if Berkshire was going to get the upside it should also take the downside. Bill said nothing doing: If there was to be failure because of his religious beliefs, he wanted to take the blow personally.

The store opened last August and immediately became a huge success. Bill thereupon turned the property over to us — including some extra land that had appreciated significantly — and we wrote him a check for his cost. And get this: *Bill refused to take a dime of interest on the capital he had tied up over the two years.*

If a manager has behaved similarly at some other public corporation, I haven't heard about it. You can understand why the opportunity to partner with people like Bill Child causes me to tap dance to work every morning.

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

A footnote: After our "soft" opening in August, we had a grand opening of the Boise store about a month later. Naturally, I went there to cut the ribbon (your Chairman, I wish to emphasize, is good for *something*). In my talk I told the crowd how sales had far exceeded expectations, making us, by a considerable margin, the largest home furnishings store in Idaho. Then, as the speech progressed, my memory miraculously began to improve. By the end of my talk, it all had come back to me: Opening a store in Boise had been *my* idea.

The Economics of Property/Casualty Insurance

Our main business — though we have others of great importance — is insurance. To understand Berkshire, therefore, it is necessary 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 critical 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. This pleasant activity typically 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. In 1999 a number of insurers announced reserve adjustments that made a mockery of the "earnings" that investors had relied on earlier when making their buy and sell decisions. At Berkshire, we strive to be conservative and consistent in our reserving. Even so, we warn you that an unpleasant surprise is always possible.

The table that follows shows (at intervals) the float generated by the various segments of Berkshire's insurance operations since we entered the business 33 years ago upon acquiring National Indemnity Company (whose traditional lines are included in the segment "Other Primary"). 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?)

Yearend Float (in $ millions)

Year	GEICO	General Re	Other Reinsurance	Other Primary	Total
1967				20	20
1977			40	131	171
1987			701	807	1,508
1997	2,917		4,014	455	7,386
1998	3,125	14,909	4,305	415	22,754
1999	3,444	15,166	6,285	403	25,298

Growth of float is important — but its cost is what's vital. Over the years we have usually recorded only a small underwriting loss — which means our cost of float was correspondingly low — or actually had an underwriting profit,

which means we were being *paid* for holding other people's money. Indeed, our cumulative result through 1998 was an underwriting profit. In 1999, however, we incurred a $1.4 billion underwriting loss that left us with float cost of 5.8%. One mildly mitigating factor: We enthusiastically welcomed $400 million of the loss because it stems from business that will deliver us exceptional float over the next decade. The balance of the loss, however, was decidedly unwelcome, and our overall result must be judged extremely poor. Absent a mega-catastrophe, we expect float cost to fall in 2000, but any decline will be tempered by our aggressive plans for GEICO, which we will discuss later.

There are a number of people who deserve credit for manufacturing so much "no-cost" float over the years. Foremost is Ajit Jain. It's simply impossible to overstate Ajit's value to Berkshire: He has from scratch built an outstanding reinsurance business, which during his tenure has earned an underwriting profit and now holds $6.3 billion of float.

In Ajit, we have an underwriter equipped with the intelligence to properly rate most risks; the realism to forget about those he can't evaluate; the courage to write huge policies when the premium is appropriate; and the discipline to reject even the smallest risk when the premium is inadequate. It is rare to find a person possessing any one of these talents. For one person to have them all is remarkable.

Since Ajit specializes in super-cat reinsurance, a line in which losses are infrequent but extremely large when they occur, his business is sure to be far more volatile than most insurance operations. To date, we have benefitted from good luck on this volatile book. Even so, Ajit's achievements are truly extraordinary.

In a smaller but nevertheless important way, our "other primary" insurance operation has also added to Berkshire's intrinsic value. This collection of insurers has delivered a $192 million underwriting profit over the past five years while supplying us with the float shown in the table. In the insurance world, results like this are uncommon, and for their feat we thank Rod Eldred, Brad Kinstler, John Kizer, Don Towle and Don Wurster.

As I mentioned earlier, the General Re operation had an exceptionally poor underwriting year in 1999 (though investment income left the company well in the black). Our business was extremely underpriced, both domestically and internationally, a condition that is improving but not yet corrected. Over time, however, the company should develop a growing amount of low-cost float. At both General Re and its Cologne subsidiary, incentive compensation plans are now directly tied to the variables of float growth and cost of float, the same variables that determine value for owners.

Even though a reinsurer may have a tightly focused and rational compensation system, it cannot count on every year coming up roses. Reinsurance is a highly volatile business, and neither General Re nor Ajit's operation is immune to bad pricing behavior in the industry. But General Re has the distribution , the underwriting skills, the culture, and — with Berkshire's backing — the financial clout to become the world's most profitable reinsurance company. Getting there will take time, energy and discipline, but we have no doubt that Ron Ferguson and his crew can make it happen.

GEICO (1-800-847-7536 or GEICO.com)

GEICO made exceptional progress in 1999. The reasons are simple: We have a terrific business idea being implemented by an extraordinary manager, Tony Nicely. When Berkshire purchased GEICO at the beginning of 1996, we handed the keys to Tony and asked him to run the operation exactly as if he owned 100% of it. He has done the rest. Take a look at his scorecard:

Years	New Auto Policies[1][2]	Auto Policies In-Force[1]
1993	346,882	2,011,055
1994	384,217	2,147,549
1995	443,539	2,310,037
1996	592,300	2,543,699
1997	868,430	2,949,439
1998	1,249,875	3,562,644
1999	1,648,095	4,328,900

[1] "Voluntary" only; excludes assigned risks and the like.
[2] Revised to exclude policies moved from one GEICO company to another.

In 1995, GEICO spent $33 million on marketing and had 652 telephone counselors. Last year the company spent $242 million, and the counselor count grew to 2,631. And we are just starting: The pace will step up materially in 2000. Indeed, we would happily commit $1 billion annually to marketing if we knew we could handle the business smoothly and if we expected the last dollar spent to produce new business at an attractive cost.

Currently two trends are affecting acquisition costs. The bad news is that it has become more expensive to develop inquiries. Media rates have risen, and we are also seeing diminishing returns — that is, as both we and our competitors step up advertising, inquiries per ad fall for all of us. These negatives are partly offset, however, by the fact that our closure ratio — the percentage of inquiries converted to sales — has steadily improved. Overall, we believe that our cost of new business, though definitely rising, is well below that of the industry. Of even greater importance, our operating costs for renewal business are the lowest among broad-based national auto insurers. Both of these major competitive advantages are sustainable. Others may copy our model, but they will be unable to replicate our economics.

The table above makes it appear that GEICO's retention of policyholders is falling, but for two reasons appearances are in this case deceiving. First, in the last few years our business mix has moved away from "preferred" policyholders, for whom industrywide retention rates are high, toward "standard" and "non-standard" policyholders for whom retention rates are much lower. (Despite the nomenclature, the three classes have similar profit prospects.) Second, retention rates for relatively new policyholders are always lower than those for long-time customers — and because of our accelerated growth, our policyholder ranks now include an increased proportion of new customers. Adjusted for these two factors, our retention rate has changed hardly at all.

We told you last year that underwriting margins for both GEICO and the industry would fall in 1999, and they did. We make a similar prediction for 2000. A few years ago margins got too wide, having enjoyed the effects of an unusual and unexpected decrease in the frequency and severity of accidents. The industry responded by reducing rates — but now is having to contend with an increase in loss costs. We would not be surprised to see the margins of auto insurers deteriorate by around three percentage points in 2000.

Two negatives besides worsening frequency and severity will hurt the industry this year. First, rate increases go into effect only slowly, both because of regulatory delay and because insurance contracts must run their course before new rates can be put in. Second, reported earnings of many auto insurers have benefitted in the last few years from reserve releases, made possible because the companies overestimated their loss costs in still-earlier years. This reservoir of redundant reserves has now largely dried up, and future boosts to earnings from this source will be minor at best.

In compensating its associates — from Tony on down — GEICO continues to use two variables, and only two, in determining what bonuses and profit-sharing contributions will be: 1) its percentage growth in policyholders and 2) the earnings of its "seasoned" business, meaning policies that have been with us for more than a year. We did outstandingly well on both fronts during 1999 and therefore made a profit-sharing payment of 28.4% of salary (in total, $113.3 million) to the great majority of our associates. Tony and I love writing those checks.

At Berkshire, we want to have compensation policies that are both easy to understand and in sync with what we wish our associates to accomplish. Writing new business is expensive (and, as mentioned, getting more expensive). If we were to include those costs in our calculation of bonuses — as managements did before our arrival at GEICO — we would be penalizing our associates for garnering new policies, even though these are very much in Berkshire's interest. So, in effect, we say to our associates that we will foot the bill for new business. Indeed, because percentage growth in policyholders is part of our compensation scheme, we *reward* our associates for producing this initially-unprofitable business. And then we reward them additionally for holding down costs on our seasoned business.

Despite the extensive advertising we do, our best source of new business is word-of-mouth recommendations from existing policyholders, who on the whole are pleased with our prices and service. An article published last year by *Kiplinger's Personal Finance Magazine* gives a good picture of where we stand in customer satisfaction: The magazine's survey of 20 state insurance departments showed that GEICO's complaint ratio was well below the ratio for most of its major competitors.

Our strong referral business means that we probably could maintain our policy count by spending as little as $50 million annually on advertising. That's a guess, of course, and we will never know whether it is accurate because Tony's foot is going to stay on the advertising pedal (and my foot will be on his). Nevertheless, I want to emphasize that a major percentage of the $300-$350 million we will spend in 2000 on advertising, as well as large additional costs

we will incur for sales counselors, communications and facilities, are optional outlays we choose to make so that we can both achieve significant growth and extend and solidify the promise of the GEICO brand in the minds of Americans.

Personally, I think these expenditures are the best investment Berkshire can make. Through its advertising, GEICO is acquiring a direct relationship with a huge number of households that, on average, will send us $1,100 year after year. That makes us — among all companies, selling whatever kind of product — one of the country's leading direct merchandisers. Also, as we build our long-term relationships with more and more families, cash is pouring in rather than going out (no Internet economics here). Last year, as GEICO increased its customer base by 766,256, it gained $590 million of cash from operating earnings and the increase in float.

In the past three years, we have increased our market share in personal auto insurance from 2.7% to 4.1%. But we rightfully belong in many more households — maybe even yours. Give us a call and find out. About 40% of those people checking our rates find that they can save money by doing business with us. The proportion is not 100% because insurers differ in their underwriting judgments, with some giving more credit than we do to drivers who live in certain geographic areas or work at certain occupations. Our closure rate indicates, 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. Just be sure to identify yourself as a Berkshire owner so that our sales counselor can make the appropriate adjustment.

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

It's with sadness that I report to you that Lorimer Davidson, GEICO's former Chairman, died last November, a few days after his 97th birthday. For GEICO, Davy was a business giant who moved the company up to the big leagues. For me, he was a friend, teacher and hero. I have told you of his lifelong kindnesses to me in past reports. Clearly, my life would have developed far differently had he not been a part of it. Tony, Lou Simpson and I visited Davy in August and marveled at his mental alertness — particularly in all matters regarding GEICO. He was the company's number one supporter right up to the end, and we will forever miss him.

Aviation Services

Our two aviation services companies — FlightSafety International ("FSI") and Executive Jet Aviation ("EJA") — are both runaway leaders in their field. EJA, which sells and manages the fractional ownership of jet aircraft, through its NetJets® program, is larger than its next two competitors combined. FSI trains pilots (as well as other transportation professionals) and is five times or so the size of its nearest competitor.

Another common characteristic of the companies is that they are still managed by their founding entrepreneurs. Al Ueltschi started FSI in 1951 with $10,000, and Rich Santulli invented the fractional-ownership industry in 1986. These men are both remarkable managers who have no financial need to work but thrive on helping their companies grow and excel.

Though these two businesses have leadership positions that are similar, they differ in their economic characteristics. FSI must lay out huge amounts of capital. A single flight simulator can cost as much as $15 million — and we have 222. Only one person at a time, furthermore, can be trained in a simulator, which means that the capital investment per dollar of revenue at FSI is exceptionally high. Operating margins must therefore also be high, if we are to earn a reasonable return on capital. Last year we made capital expenditures of $215 million at FSI and FlightSafety Boeing, its 50%-owned affiliate.

At EJA, in contrast, the customer owns the equipment, though we, of course, must invest in a core fleet of our own planes to ensure outstanding service. For example, the Sunday after Thanksgiving, EJA's busiest day of the year, strains our resources since fractions of 169 planes are owned by 1,412 customers, many of whom are bent on flying home between 3 and 6 p.m. On that day, and certain others, we need a supply of company-owned aircraft to make sure all parties get where they want, when they want.

Still, most of the planes we fly are owned by customers, which means that modest pre-tax margins in this business can produce good returns on equity. Currently, our customers own planes worth over $2 billion, and in addition we have $4.2 billion of planes on order. Indeed, the limiting factor in our business right now is the availability of planes. We

now are taking delivery of about 8% of all business jets manufactured in the world, and we wish we could get a bigger share than that. Though EJA was supply-constrained in 1999, its recurring revenues — monthly management fees plus hourly flight fees — increased 46%.

The fractional-ownership industry is still in its infancy. EJA is now building critical mass in Europe, and over time we will expand around the world. Doing that will be expensive — very expensive — but we will spend what it takes. Scale is vital to both us and our customers: The company with the most planes in the air worldwide will be able to offer its customers the best service. "Buy a fraction, get a fleet" has real meaning at EJA.

EJA enjoys another important advantage in that its two largest competitors are both subsidiaries of aircraft manufacturers and sell only the aircraft their parents make. Though these are fine planes, these competitors are severely limited in the cabin styles and mission capabilities they can offer. EJA, in contrast, offers a wide array of planes from five suppliers. Consequently, we can give the customer whatever *he* needs to buy — rather than his getting what the competitor's parent needs to sell.

Last year in this report, I described my family's delight with the one-quarter (200 flight hours annually) of a Hawker 1000 that we had owned since 1995. I got so pumped up by my own prose that shortly thereafter I signed up for one-sixteenth of a Cessna V Ultra as well. Now my annual outlays at EJA and Borsheim's, combined, total ten times my salary. Think of this as a rough guideline for your own expenditures with us.

During the past year, two of Berkshire's outside directors have also signed on with EJA. (Maybe we're paying them too much.) You should be aware that they and I are charged exactly the same price for planes and service as is any other customer: EJA follows a "most favored nations" policy, with no one getting a special deal.

And now, brace yourself. Last year, EJA passed the ultimate test: *Charlie signed up.* No other endorsement could speak more eloquently to the value of the EJA service. Give us a call at 1-800-848-6436 and ask for our "white paper" on fractional ownership.

Acquisitions of 1999

At both GEICO and Executive Jet, our best source of new customers is the happy ones we already have. Indeed, about 65% of our new owners of aircraft come as referrals from current owners who have fallen in love with the service.

Our acquisitions usually develop in the same way. At other companies, executives may devote themselves to pursuing acquisition possibilities with investment bankers, utilizing an auction process that has become standardized. In this exercise the bankers prepare a "book" that makes me think of the Superman comics of my youth. In the Wall Street version, a formerly mild-mannered company emerges from the investment banker's phone booth able to leap over competitors in a single bound and with earnings moving faster than a speeding bullet. Titillated by the book's description of the acquiree's powers, acquisition-hungry CEOs — Lois Lanes all, beneath their cool exteriors — promptly swoon.

What's particularly entertaining in these books is the precision with which earnings are projected for many years ahead. If you ask the author-banker, however, what his own firm will earn *next month*, he will go into a protective crouch and tell you that business and markets are far too uncertain for him to venture a forecast.

Here's one story I can't resist relating: In 1985, a major investment banking house undertook to sell Scott Fetzer, offering it widely — but with no success. Upon reading of this strikeout, I wrote Ralph Schey, then and now Scott Fetzer's CEO, expressing an interest in buying the business. I had never met Ralph, but within a week we had a deal. Unfortunately, Scott Fetzer's letter of engagement with the banking firm provided it a $2.5 million fee upon sale, even if it had nothing to do with finding the buyer. I guess the lead banker felt he should do something for his payment, so he graciously offered us a copy of the book on Scott Fetzer that his firm had prepared. With his customary tact, Charlie responded: "I'll pay $2.5 million *not* to read it."

At Berkshire, our carefully-crafted acquisition strategy is simply to wait for the phone to ring. Happily, it sometimes does so, usually because a manager who sold to us earlier has recommended to a friend that he think about following suit.

Which brings us to the furniture business. Two years ago I recounted how the acquisition of Nebraska Furniture Mart in 1983 and my subsequent association with the Blumkin family led to follow-on transactions with R. C. Willey (1995) and Star Furniture (1997). For me, these relationships have all been terrific. Not only did Berkshire acquire three outstanding retailers; these deals also allowed me to become friends with some of the finest people you will ever meet.

Naturally, I have persistently asked the Blumkins, Bill Child and Melvyn Wolff whether there are any more out there like you. Their invariable answer was the Tatelman brothers of New England and their remarkable furniture business, Jordan's.

I met Barry and Eliot Tatelman last year and we soon signed an agreement for Berkshire to acquire the company. Like our three previous furniture acquisitions, this business had long been in the family — in this case since 1927, when Barry and Eliot's grandfather began operations in a Boston suburb. Under the brothers' management, Jordan's has grown ever more dominant in its region, becoming the largest furniture retailer in New Hampshire as well as Massachusetts.

The Tatelmans don't just sell furniture or manage stores. They also present customers with a dazzling entertainment experience called "shoppertainment." A family visiting a store can have a terrific time, while concurrently viewing an extraordinary selection of merchandise. The business results are also extraordinary: Jordan's has the highest sales per square foot of any major furniture operation in the country. I urge you to visit one of their stores if you are in the Boston area — particularly the one at Natick, which is Jordan's newest. Bring money.

Barry and Eliot are classy people — just like their counterparts at Berkshire's three other furniture operations. When they sold to us, they elected to give each of their employees at least 50¢ for every hour that he or she had worked for Jordan's. This payment added up to $9 million, which came from the Tatelmans' own pockets, not from Berkshire's. And Barry and Eliot were thrilled to write the checks.

Each of our furniture operations is number one in its territory. We now sell more furniture than anyone else in Massachusetts, New Hampshire, Texas, Nebraska, Utah and Idaho. Last year Star's Melvyn Wolff and his sister, Shirley Toomim, scored two major successes: a move into San Antonio and a significant enlargement of Star's store in Austin.

There's no operation in the furniture retailing business remotely like the one assembled by Berkshire. It's fun for me and profitable for you. W. C. Fields once said, "It was a woman who drove me to drink, but unfortunately I never had the chance to thank her." I don't want to make that mistake. My thanks go to Louie, Ron and Irv Blumkin for getting me started in the furniture business and for unerringly guiding me as we have assembled the group we now have.

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

Now, for our second acquisition deal: It came to us through my good friend, Walter Scott, Jr., chairman of Level 3 Communications and a director of Berkshire. Walter has many other business connections as well, and one of them is with MidAmerican Energy, a utility company in which he has substantial holdings and on whose board he sits. At a conference in California that we both attended last September, Walter casually asked me whether Berkshire might be interested in making a large investment in MidAmerican, and from the start the idea of being in partnership with Walter struck me as a good one. Upon returning to Omaha, I read some of MidAmerican's public reports and had two short meetings with Walter and David Sokol, MidAmerican's talented and entrepreneurial CEO. I then said that, at an appropriate price, we would indeed like to make a deal.

Acquisitions in the electric utility industry are complicated by a variety of regulations including the Public Utility Holding Company Act of 1935. Therefore, we had to structure a transaction that would avoid Berkshire gaining voting control. Instead we are purchasing an 11% fixed-income security, along with a combination of common stock and exchangeable preferred that will give Berkshire just under 10% of the voting power of MidAmerican but about 76% of the equity interest. All told, our investment will be about $2 billion.

Walter characteristically backed up his convictions with real money: He and his family will buy more MidAmerican stock for cash when the transaction closes, bringing their total investment to about $280 million. Walter will also be the controlling shareholder of the company, and I can't think of a better person to hold that post.

Though there are many regulatory constraints in the utility industry, it's possible that we will make additional commitments in the field. If we do, the amounts involved could be large.

Acquisition Accounting

Once again, I would like to make some comments about accounting, in this case about its application to acquisitions. This is currently a very contentious topic and, before the dust settles, Congress may even intervene (a truly terrible idea).

When a company is acquired, generally accepted accounting principles ("GAAP") currently condone two very different ways of recording the transaction: "purchase" and "pooling." In a pooling, stock must be the currency; in a purchase, payment can be made in either cash or stock. Whatever the currency, managements usually detest purchase accounting because it almost always requires that a "goodwill" account be established and subsequently written off — a process that saddles earnings with a large annual charge that normally persists for decades. In contrast, pooling avoids a goodwill account, which is why managements love it.

Now, the Financial Accounting Standards Board ("FASB") has proposed an end to pooling, and many CEOs are girding for battle. It will be an important fight, so we'll venture some opinions. To begin with, we agree with the many managers who argue that goodwill amortization charges are usually spurious. You'll find my thinking about this in the appendix to our 1983 annual report, which is available on our website, and in the Owner's Manual on pages 55 - 62.

For accounting rules to mandate amortization that will, in the usual case, conflict with reality is deeply troublesome: Most accounting charges *relate* to what's going on, even if they don't precisely measure it. As an example, depreciation charges can't with precision calibrate the decline in value that physical assets suffer, but these charges do at least describe something that is truly occurring: Physical assets invariably deteriorate. Correspondingly, obsolescence charges for inventories, bad debt charges for receivables and accruals for warranties are among the charges that reflect true costs. The annual charges for these expenses can't be exactly measured, but the necessity for estimating them is obvious.

In contrast, economic goodwill does not, in many cases, diminish. Indeed, in a great many instances — perhaps most — it actually grows in value over time. In character, economic goodwill is much like land: The value of both assets is sure to fluctuate, but the direction in which value is going to go is in no way ordained. At See's, for example, economic goodwill has grown, in an irregular but very substantial manner, for 78 years. And, if we run the business right, growth of that kind will probably continue for at least another 78 years.

To escape from the fiction of goodwill charges, managers embrace the fiction of pooling. This accounting convention is grounded in the poetic notion that when two rivers merge their streams become indistinguishable. Under this concept, a company that has been merged into a larger enterprise has not been "purchased" (even though it will often have received a large "sell-out" premium). Consequently, no goodwill is created, and those pesky subsequent charges to earnings are eliminated. Instead, the accounting for the ongoing entity is handled as if the businesses had forever been one unit.

So much for poetry. The reality of merging is usually far different: There is indisputably an acquirer and an acquiree, and the latter has been "purchased," no matter how the deal has been structured. If you think otherwise, just ask employees severed from their jobs which company was the conqueror and which was the conquered. You will find no confusion. So on this point the FASB is correct: In most mergers, a purchase has been made. Yes, there are some true "mergers of equals," but they are few and far between.

Charlie and I believe there's a reality-based approach that should both satisfy the FASB, which correctly wishes to record a purchase, and meet the objections of managements to nonsensical charges for diminution of goodwill. We would first have the acquiring company record its purchase price — whether paid in stock or cash — at fair value. In most cases, this procedure would create a large asset representing economic goodwill. We would then leave this asset on the books, not requiring its amortization. Later, if the economic goodwill became impaired, as it sometimes would, it would be written down just as would any other asset judged to be impaired.

If our proposed rule were to be adopted, it should be applied retroactively so that acquisition accounting would be consistent throughout America — a far cry from what exists today. One prediction: If this plan were to take effect, managements would structure acquisitions more sensibly, deciding whether to use cash or stock based on the real consequences for their shareholders rather than on the unreal consequences for their reported earnings.

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

In our purchase of Jordan's, we followed a procedure that will maximize the cash produced for our shareholders but minimize the earnings we report to you. Berkshire purchased assets for cash, an approach that on our tax returns permits us to amortize the resulting goodwill over a 15-year period. Obviously, this tax deduction materially increases the amount of cash delivered by the business. In contrast, when stock, rather than assets, is purchased for cash, the resulting writeoffs of goodwill are not tax-deductible. The economic difference between these two approaches is substantial.

From the economic standpoint of the acquiring company, the worst deal of all is a stock-for-stock acquisition. Here, a huge price is often paid without there being any step-up in the tax basis of either the stock of the acquiree or its assets. If the acquired entity is subsequently sold, its owner may owe a large capital gains tax (at a 35% or greater rate), even though the sale may truly be producing a major economic loss.

We have made some deals at Berkshire that used far-from-optimal tax structures. These deals occurred because the sellers insisted on a given structure and because, overall, we still felt the acquisition made sense. We have never done an inefficiently-structured deal, however, in order to make our figures look better.

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 page 61, 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)*	
	1999	*1998*	*1999*	*1998*
Operating Earnings:				
Insurance Group:				
Underwriting — Reinsurance	$(1,440)	$(21)	$(927)	$(14)
Underwriting — GEICO	24	269	16	175
Underwriting — Other Primary	22	17	14	10
Net Investment Income	2,482	974	1,764	731
Buffalo News	55	53	34	32
Finance and Financial Products Businesses	125	205	86	133
Flight Services	225	181 [1]	132	110 [1]
Home Furnishings	79 [2]	72	46 [2]	41
International Dairy Queen	56	58	35	35
Jewelry	51	39	31	23
Scott Fetzer (excluding finance operation)	147	137	92	85
See's Candies	74	62	46	40
Shoe Group	17	33	11	23
Purchase-Accounting Adjustments	(739)	(123)	(648)	(118)
Interest Expense [3]	(109)	(100)	(70)	(63)
Shareholder-Designated Contributions	(17)	(17)	(11)	(11)
Other	33	60 [4]	20	45 [4]
Operating Earnings	1,085	1,899	671	1,277
Capital Gains from Investments	1,365	2,415	886	1,553
Total Earnings - All Entities	$2,450	$4,314	$1,557	$ 2,830

[1] *Includes Executive Jet from August 7, 1998 .*

[2] *Includes Jordan's Furniture from November 13, 1999.*

[3] *Excludes interest expense of Finance Businesses.*

[4] *Includes General Re operations for ten days in 1998.*

Almost all of our manufacturing, retailing and service businesses had excellent results in 1999. The exception was Dexter Shoe, and there the shortfall did not occur because of managerial problems: In skills, energy and devotion to their work, the Dexter executives are every bit the equal of our other managers. But we manufacture shoes primarily in the U.S., and it has become extremely difficult for domestic producers to compete effectively. In 1999, approximately 93% of the 1.3 billion pairs of shoes purchased in this country came from abroad, where extremely low-cost labor is the rule.

Counting both Dexter and H. H. Brown, we are currently the leading domestic manufacturer of shoes, and we are likely to continue to be. We have loyal, highly-skilled workers in our U.S. plants, and we want to retain every job here that we can. Nevertheless, in order to remain viable, we are sourcing more of our output internationally. In doing that, we have incurred significant severance and relocation costs that are included in the earnings we show in the table.

A few years back, Helzberg's, our 200-store jewelry operation, needed to make operating adjustments to restore margins to appropriate levels. Under Jeff Comment's leadership, the job was done and profits have dramatically rebounded. In the shoe business, where we have Harold Alfond, Peter Lunder, Frank Rooney and Jim Issler in charge, I believe we will see a similar improvement over the next few years.

See's Candies deserves a special comment, given that it achieved a record operating margin of 24% last year. Since we bought See's for $25 million in 1972, it has earned $857 million pre-tax. And, despite its growth, the business has required very little additional capital. Give the credit for this performance to Chuck Huggins. Charlie and I put him in charge the day of our purchase, and his fanatical insistence on both product quality and friendly service has rewarded customers, employees and owners.

Chuck gets better every year. When he took charge of See's at age 46, the company's pre-tax profit, expressed in millions, was about 10% of his age. Today he's 74, and the ratio has increased to 100%. Having discovered this mathematical relationship — let's call it Huggins' Law — Charlie and I now become giddy at the mere thought of Chuck's birthday.

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

Additional information about our various businesses is given on pages 39 - 54, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 63 - 69, 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.

Look-Through Earnings

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

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

The following table sets forth our 1999 look-through earnings, though I warn you that the figures can be no more than approximate, since they are based on a number of judgment calls. (The dividends paid to us by these investees have been included in the operating earnings itemized on page 13, mostly under "Insurance Group: Net Investment Income.")

Berkshire's Major Investees	Berkshire's Approximate Ownership at Yearend[1]	Berkshire's Share of Undistributed Operating Earnings (in millions)[2]
American Express Company	11.3%	$228
The Coca-Cola Company	8.1%	144
Freddie Mac	8.6%	127
The Gillette Company	9.0%	53
M&T Bank	6.5%	17
The Washington Post Company	18.3%	30
Wells Fargo & Company	3.6%	108
Berkshire's share of undistributed earnings of major investees		707
Hypothetical tax on these undistributed investee earnings[3]		(99)
Reported operating earnings of Berkshire		1,318
Total look-through earnings of Berkshire		$ 1,926

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

Investments

Below we present our common stock investments. Those that had a market value of more than $750 million at the end of 1999 are itemized.

		12/31/99	
Shares	*Company*	*Cost**	*Market*
		(dollars in millions)	
50,536,900	American Express Company	$1,470	$ 8,402
200,000,000	The Coca-Cola Company	1,299	11,650
59,559,300	Freddie Mac	294	2,803
96,000,000	The Gillette Company	600	3,954
1,727,765	The Washington Post Company	11	960
59,136,680	Wells Fargo & Company	349	2,391
	Others	4,180	6,848
	Total Common Stocks	$8,203	$37,008

* Represents tax-basis cost which, in aggregate, is $691 million less than GAAP cost.

We made few portfolio changes in 1999. As I mentioned earlier, several of the companies in which we have large investments had disappointing business results last year. Nevertheless, we believe these companies have important competitive advantages that will endure over time. This attribute, which makes for good long-term investment results, is one Charlie and I occasionally believe we can identify. More often, however, we can't — not at least with a high degree of conviction. This explains, by the way, why we don't own stocks of tech companies, even though we share the general view that our society will be transformed by their products and services. Our problem — which we can't solve by studying up — is that we have no insights into which participants in the tech field possess a truly *durable* competitive advantage.

Our lack of tech insights, we should add, does not distress us. After all, there are a great many business areas in which Charlie and I have no special capital-allocation expertise. For instance, we bring nothing to the table when it comes to evaluating patents, manufacturing processes or geological prospects. So we simply don't get into judgments in those fields.

If we have a strength, it is in recognizing when we are operating well within our circle of competence and when we are approaching the perimeter. Predicting the long-term economics of companies that operate in fast-changing industries is simply far beyond our perimeter. If others claim predictive skill in those industries — and seem to have their claims validated by the behavior of the stock market — we neither envy nor emulate them. Instead, we just stick with what we understand. If we stray, we will have done so inadvertently, not because we got restless and substituted hope for rationality. Fortunately, it's almost certain there will be opportunities from time to time for Berkshire to do well within the circle we've staked out.

Right now, the prices of the fine businesses we already own are just not that attractive. In other words, we feel much better about the businesses than their stocks. That's why we haven't added to our present holdings. Nevertheless, we haven't yet scaled back our portfolio in a major way: If the choice is between a questionable business at a comfortable price or a comfortable business at a questionable price, we much prefer the latter. What really gets our attention, however, is a comfortable business at a comfortable price.

Our reservations about the prices of securities we own apply also to the general level of equity prices. We have never attempted to forecast what the stock market is going to do in the next month or the next year, and we are not trying to do that now. But, as I point out in the enclosed article, equity investors currently seem wildly optimistic in their expectations about future returns.

We see the growth in corporate profits as being largely tied to the business done in the country (GDP), and we see GDP growing at a real rate of about 3%. In addition, we have hypothesized 2% inflation. Charlie and I have no particular conviction about the accuracy of 2%. However, it's the market's view: Treasury Inflation-Protected Securities (TIPS) yield about two percentage points less than the standard treasury bond, and if you believe inflation rates are going to be higher than that, you can profit by simply buying TIPS and shorting Governments.

If profits do indeed grow along with GDP, at about a 5% rate, the valuation placed on American business is unlikely to climb by much more than that. Add in something for dividends, and you emerge with returns from equities that are dramatically less than most investors have either experienced in the past or expect in the future. If investor expectations become more realistic — and they almost certainly will — the market adjustment is apt to be severe, particularly in sectors in which speculation has been concentrated.

Berkshire will someday have opportunities to deploy major amounts of cash in equity markets — we are confident of that. But, as the song goes, "Who knows where or when?" Meanwhile, if anyone starts explaining to you what is going on in the truly-manic portions of this "enchanted" market, you might remember still another line of song: "Fools give you reasons, wise men never try."

Share Repurchases

Recently, a number of shareholders have suggested to us that Berkshire repurchase its shares. Usually the requests were rationally based, but a few leaned on spurious logic.

There is only one combination of facts that makes it advisable for a company to repurchase its shares: First, the company has available funds — cash plus sensible borrowing capacity — beyond the near-term needs of the business and, second, finds its stock selling in the market below its intrinsic value, conservatively-calculated. To this we add a caveat: Shareholders should have been supplied all the information they need for estimating that value. Otherwise, insiders could take advantage of their uninformed partners and buy out their interests at a fraction of true worth. We have, on rare occasions, seen that happen. Usually, of course, chicanery is employed to drive stock prices up, not down.

The business "needs" that I speak of are of two kinds: First, expenditures that a company must make to maintain its competitive position (e.g., the remodeling of stores at Helzberg's) and, second, optional outlays, aimed at business growth, that management expects will produce more than a dollar of value for each dollar spent (R. C. Willey's expansion into Idaho).

When available funds exceed needs of those kinds, a company with a growth-oriented shareholder population can buy new businesses or repurchase shares. If a company's stock is selling well below intrinsic value, repurchases usually make the most sense. In the mid-1970s, the wisdom of making these was virtually screaming at managements, but few responded. In most cases, those that did made their owners much wealthier than if alternative courses of action had been

pursued. Indeed, during the 1970s (and, spasmodically, for some years thereafter) we searched for companies that were large repurchasers of their shares. This often was a tipoff that the company was both undervalued and run by a shareholder-oriented management.

That day is past. Now, repurchases are all the rage, but are all too often made for an unstated and, in our view, ignoble reason: to pump or support the stock price. The shareholder who chooses to sell today, of course, is benefitted by any buyer, whatever his origin or motives. But the *continuing* shareholder is penalized by repurchases above intrinsic value. Buying dollar bills for $1.10 is not good business for those who stick around.

Charlie and I admit that we feel confident in estimating intrinsic value for only a portion of traded equities and then only when we employ a range of values, rather than some pseudo-precise figure. Nevertheless, it appears to us that many companies now making repurchases are overpaying departing shareholders at the expense of those who stay. In defense of those companies, I would say that it is natural for CEOs to be optimistic about their own businesses. They also know a whole lot more about them than I do. However, I can't help but feel that too often today's repurchases are dictated by management's desire to "show confidence" or be in fashion rather than by a desire to enhance per-share value.

Sometimes, too, companies say they are repurchasing shares to offset the shares issued when stock options granted at much lower prices are exercised. This "buy high, sell low" strategy is one many unfortunate investors have employed — but never intentionally! Managements, however, seem to follow this perverse activity very cheerfully.

Of course, both option grants and repurchases may make sense — but if that's the case, it's not because the two activities are logically related. Rationally, a company's decision to repurchase shares or to issue them should stand on its own feet. Just because stock has been issued to satisfy options — or for any other reason — does not mean that stock should be repurchased at a price above intrinsic value. Correspondingly, a stock that sells well below intrinsic value should be repurchased whether or not stock has previously been issued (or may be because of outstanding options).

You should be aware that, at certain times in the past, I have erred in *not* making repurchases. My appraisal of Berkshire's value was then too conservative or I was too enthused about some alternative use of funds. We have therefore missed some opportunities — though Berkshire's trading volume at these points was too light for us to have done much buying, which means that the gain in our per-share value would have been minimal. (A repurchase of, say, 2% of a company's shares at a 25% discount from per-share intrinsic value produces only a ½% gain in that value at most — and even less if the funds could alternatively have been deployed in value-building moves.)

Some of the letters we've received clearly imply that the writer is unconcerned about intrinsic value considerations but instead wants us to trumpet an intention to repurchase so that the stock will rise (or quit going down). If the writer wants to sell tomorrow, his thinking makes sense — for him! — but if he intends to hold, he should instead hope the stock falls and trades in enough volume for us to buy a lot of it. That's the only way a repurchase program can have any real benefit for a continuing shareholder.

We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated. Nor will we attempt to talk the stock up or down. (Neither publicly or privately have I ever told anyone to buy or sell Berkshire shares.) Instead we will give all shareholders — and potential shareholders — the same valuation-related information we would wish to have if our positions were reversed.

Recently, when the A shares fell below $45,000, we considered making repurchases. We decided, however, to delay buying, if indeed we elect to do *any*, until shareholders have had the chance to review this report. If we do find that repurchases make sense, we will only rarely place bids on the New York Stock Exchange ("NYSE"). Instead, we will respond to offers made directly to us at or below the NYSE bid. If you wish to offer stock, have your broker call Mark Millard at 402-346-1400. When a trade occurs, the broker can either record it in the "third market" or on the NYSE. We will favor purchase of the B shares if they are selling at more than a 2% discount to the A. We will not engage in transactions involving fewer than 10 shares of A or 50 shares of B.

Please be clear about one point: We will *never* make purchases with the intention of stemming a decline in Berkshire's price. Rather we will make them if and when we believe that they represent an attractive use of the Company's money. At best, repurchases are likely to have only a very minor effect on the future rate of gain in our stock's intrinsic value.

Shareholder-Designated Contributions

About 97.3% of all eligible shares participated in Berkshire's 1999 shareholder-designated contributions program, with contributions totaling $17.2 million. A full description of the program appears on pages 70 - 71.

Cumulatively, over the 19 years of the program, Berkshire has made contributions of $147 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 $13.8 million in 1999, including in-kind donations of $2.5 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, 2000, will be ineligible for the 2000 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 Weekend for Capitalists will follow a format slightly different from that of recent years. We need to make a change because the Aksarben Coliseum, which served us well the past three years, is gradually being closed down. Therefore, we are relocating to the Civic Auditorium (which is on Capitol Avenue between 18th and 19th, behind the Doubletree Hotel), the only other facility in Omaha offering the space we require.

The Civic, however, is located in downtown Omaha, and we would create a parking and traffic nightmare if we were to meet there on a weekday. We will, therefore, convene on Saturday, April 29, with the doors opening at 7 a.m., the movie beginning at 8:30 and the meeting itself commencing at 9:30. As in the past, we will run until 3:30 with a short break at noon for food, which will be available at the Civic's concession stands.

An attachment to the proxy material that is enclosed with this report explains how you can obtain the credential 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, the buses 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.

We have scheduled the meeting in 2002 and 2003 on the customary first Saturday in May. In 2001, however, the Civic is already booked on that Saturday, so we will meet on April 28. The Civic should fit our needs well on any weekend, since there will then be more than ample parking in nearby lots and garages as well as on streets. We will also be able to greatly enlarge the space we give exhibitors. So, overcoming my normal commercial reticence, I will see that you have a wide display of Berkshire products at the Civic that you can *purchase*. As a benchmark, in 1999 shareholders bought 3,059 pounds of See's candy, $16,155 of World Book Products, 1,928 pairs of Dexter shoes, 895 sets of Quikut knives, 1,752 golf balls with the Berkshire Hathaway logo and 3,446 items of Berkshire apparel. I know you can do better.

Last year, we also initiated the sale of at least eight fractions of Executive Jet aircraft. We will again have an array of models at the Omaha airport for your inspection on Saturday and Sunday. Ask an EJA representative at the Civic about viewing any of these planes.

Dairy Queen will also be on hand at the Civic and again will donate all proceeds to the Children's Miracle Network. Last year we sold 4,586 Dilly® bars, fudge bars and vanilla/orange bars. Additionally, GEICO will have a booth that will be staffed by a number of our top counselors from around the country, all of them ready to supply you with auto insurance quotes. In most cases, GEICO will be able to offer you a special shareholder's discount. Bring the details of your existing insurance, and check out whether we can save you some money.

Finally, Ajit Jain and his associates will be on hand to offer both no-commission annuities and a liability policy with jumbo limits of a size rarely available elsewhere. Talk to Ajit and learn how to protect yourself and your family against a $10 million judgment.

NFM's newly remodeled complex, located on a 75-acre site on 72nd Street between Dodge and Pacific, 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 offers an unrivaled breadth of merchandise — furniture, electronics, appliances, carpets and computers — all at can't-be-beat prices. In 1999 NFM did more than $300 million of business at its 72nd Street location, which in a metropolitan area of 675,000 is an absolute miracle. During the Thursday, April 27 to Monday, May 1 period, any shareholder presenting his or her meeting credential will receive a discount that is customarily given only to employees. We have offered this break to shareholders the last couple of years, and sales have been amazing. In last year's five-day "Berkshire Weekend," NFM's volume was $7.98 million, an increase of 26% from 1998 and 51% from 1997.

Borsheim's — the largest jewelry store in the country except for Tiffany's Manhattan store — will have two shareholder-only events. The first will be a champagne and dessert party from 6 p.m.-10 p.m. on Friday, April 28. The second, the main gala, will be from 9 a.m. to 6 p.m. on Sunday, April 30. On that day, Charlie and I will be on hand to sign *sales tickets*. Shareholder prices will be available Thursday through Monday, so if you wish to avoid the largest crowds, which will form on Friday evening and Sunday, come at other times and identify yourself as a shareholder. On Saturday, we will be open until 7 p.m. Borsheim's operates on a gross margin that is fully twenty percentage points below that of its major rivals, so be prepared to be blown away by both our prices and selection.

In the mall outside of Borsheim's, we will again have Bob Hamman — the best bridge player the game has ever seen — available to play with our shareholders on Sunday. We will also have a few other experts playing at additional tables. In 1999, we had more demand than tables, but we will cure that problem this year.

Patrick Wolff, twice US chess champion, will again be in the mall playing blindfolded against all comers. He tells me that he has never tried to play more than four games simultaneously while handicapped this way but might try to bump that limit to five or six this year. If you're a chess fan, take Patrick on — but be sure to check his blindfold before your first move.

Gorat's — my favorite steakhouse — will again be open exclusively for Berkshire shareholders on Sunday, April 30, and will be serving from 4 p.m. until about midnight. Please remember that you can't come to Gorat's on Sunday without a reservation. To make one, call 402-551-3733 on April 3 (*but not before*). If Sunday is sold out, try Gorat's on one of the other evenings you will be in town. I make a "quality check" of Gorat's about once a week and can report that their rare T-bone (with a double order of hash browns) is still unequaled throughout the country.

The usual baseball game will be held at Rosenblatt Stadium at 7 p.m. on Saturday night. This year the Omaha Golden Spikes will play the Iowa Cubs. Come early, because that's when the real action takes place. Those who attended last year saw your Chairman pitch to Ernie Banks.

This encounter proved to be the titanic duel that the sports world had long awaited. After the first few pitches — which were not my best, but when have I ever thrown my best? — I fired a brushback at Ernie just to let him know who was in command. Ernie charged the mound, and I charged the plate. But a clash was avoided because we became exhausted before reaching each other.

Ernie was dissatisfied with his performance last year and has been studying the game films all winter. As you may know, Ernie had 512 home runs in his career as a Cub. Now that he has spotted telltale weaknesses in my delivery, he expects to get #513 on April 29. I, however, have learned new ways to disguise my "flutterball." Come and watch this matchup.

I should add that I have extracted a promise from Ernie that he will not hit a "come-backer" at me since I would never be able to duck in time to avoid it. My reflexes are like Woody Allen's, who said his were so slow that he was once hit by a car being pushed by two guys.

Our proxy statement contains instructions about obtaining tickets to the game and also a large quantity of other information that should help you enjoy your visit in Omaha. Join us at the Capitalist Caper on Capitol Avenue.

Warren E. Buffett
March 1, 2000 Chairman of the Board

BERKSHIRE HATHAWAY INC.

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

	1999	1998	1997	1996	1995
Revenues:					
Insurance premiums earned	$14,306	$ 5,481	$ 4,761	$ 4,118	$ 957
Sales and service revenues	5,918	4,675	3,615	3,095	2,756
Interest, dividend and other investment income	2,314	1,049	916	778	629
Income from finance and financial products businesses	125	212	32	25	27
Realized investment gain [1]	1,365	2,415	1,106 [2]	2,484 [3]	194
Total revenues	$24,028	$13,832	$10,430	$10,500	$ 4,563
Earnings:					
Before realized investment gain	$ 671	$ 1,277	$ 1,197	$ 884	$670
Realized investment gain [1]	886	1,553	704 [2]	1,605 [3]	125
Net earnings	$ 1,557	$ 2,830	$ 1,901	$ 2,489	$795
Earnings per share:					
Before realized investment gain	$ 442	$ 1,021	$ 971	$ 733	$565
Realized investment gain [1]	583	1,241	571 [2]	1,332 [3]	105
Net earnings	$ 1,025	$ 2,262	$ 1,542	$ 2,065	$670
Year-end data [4]:					
Total assets	$131,416	$122,237	$56,111	$43,409	$28,711
Borrowings under investment agreements and other debt [5]	2,465	2,385	2,267	1,944	1,062
Shareholders' equity	57,761	57,403	31,455	23,427	16,739
Class A equivalent common shares outstanding, in thousands	1,521	1,519	1,234	1,232	1,194
Shareholders' equity per outstanding Class A equivalent share	$ 37,987	$ 37,801	$25,488	$19,011	$14,025

---

(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, 1999 and 1998, 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, 1999. 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 auditing standards generally accepted in the United States of America. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
March 3, 2000
Omaha, Nebraska

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

	December 31, 1999	December 31, 1998
ASSETS		
Cash and cash equivalents	$ 3,835	$ 13,582
Investments:		
Securities with fixed maturities	30,222	21,246
Equity securities and other investments	39,508	39,761
Receivables	8,558	7,224
Inventories	844	767
Assets of finance and financial products businesses	24,229	16,989
Property, plant and equipment	1,903	1,509
Goodwill of acquired businesses	18,281	18,570
Other assets	4,036	2,589
	$131,416	$122,237
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 26,802	$ 23,012
Unearned premiums	3,718	3,324
Accounts payable, accruals and other liabilities	7,458	7,182
Income taxes, principally deferred	9,566	11,762
Borrowings under investment agreements and other debt	2,465	2,385
Liabilities of finance and financial products businesses	22,223	15,525
	72,232	63,190
Minority shareholders' interests	1,423	1,644
Shareholders' equity:		
Common Stock:*		
Class A Common Stock, $5 par value and Class B Common Stock, $0.1667 par value	8	8
Capital in excess of par value	25,209	25,121
Accumulated other comprehensive income	17,223	18,510
Retained earnings	15,321	13,764
Total shareholders' equity	57,761	57,403
	$131,416	$122,237

* *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 1,520,562 shares outstanding at December 31, 1999 versus 1,518,548 outstanding at December 31, 1998.*

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,		
	1999	**1998**	**1997**
Revenues:			
Insurance premiums earned	$14,306	$ 5,481	$ 4,761
Sales and service revenues	5,918	4,675	3,615
Interest, dividend and other investment income	2,314	1,049	916
Income from finance and financial products businesses	125	212	32
Realized investment gain	1,365	2,415	1,106
	24,028	13,832	10,430
Cost and expenses:			
Insurance losses and loss adjustment expenses	12,518	4,040	3,420
Insurance underwriting expenses	3,220	1,184	880
Cost of products and services sold	4,065	3,018	2,187
Selling, general and administrative expenses	1,164	1,056	921
Goodwill amortization	477	111	83
Interest expense	134	109	112
	21,578	9,518	7,603
Earnings before income taxes and minority interest	2,450	4,314	2,827
Income taxes	852	1,457	898
Minority interest	41	27	28
Net earnings	$ 1,557	$ 2,830	$ 1,901
Average common shares outstanding *	1,519,703	1,251,363	1,233,192
Net earnings per common share *	$ 1,025	$ 2,262	$ 1,542

* *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 $34 per share for 1999, $75 per share for 1998, and $51 per share for 1997.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net earnings	$1,557	$2,830	$1,901
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gain	(1,365)	(2,415)	(1,106)
Depreciation and amortization	688	265	227
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses	3,790	347	576
Deferred charges - reinsurance assumed	(958)	(80)	(142)
Unearned premiums	394	179	90
Receivables	(834)	(56)	(120)
Accounts payable, accruals and other liabilities	(5)	4	547
Income taxes	(1,395)	(329)	383
Other	328	(88)	(21)
Net cash flows from operating activities	2,200	657	2,335
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(18,380)	(2,697)	(6,837)
Purchases of equity securities and other investments	(3,664)	(1,865)	(714)
Proceeds from sales of securities with fixed maturities	4,509	6,339	3,397
Proceeds from redemptions and maturities of securities with fixed maturities	2,833	2,132	779
Proceeds from sales of equity securities and other investments	4,355	4,868	2,016
Loans and investments originated in finance businesses	(2,526)	(1,028)	(491)
Principal collection on loans and investments originated in finance businesses	845	295	276
Acquisitions of businesses, net of cash acquired	(153)	4,971	(775)
Other	(417)	(302)	(182)
Net cash flows from investing activities	(12,598)	12,713	(2,531)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	714	120	157
Proceeds from other borrowings	1,846	1,339	1,074
Repayments of borrowings of finance businesses	(335)	(83)	(214)
Repayments of other borrowings	(1,721)	(1,318)	(1,112)
Other	(137)	3	(1)
Net cash flows from financing activities	367	61	(96)
Increase (decrease) in cash and cash equivalents	(10,031)	13,431	(292)
Cash and cash equivalents at beginning of year	14,489	1,058	1,350
Cash and cash equivalents at end of year *	$4,458	$14,489	$1,058
** Cash and cash equivalents at end of year are comprised of the following:*			
Finance and financial products businesses	*$ 623*	*$ 907*	*$ 56*
Other	*3,835*	*13,582*	*1,002*
	$ 4,458	*$14,489*	*$ 1,058*

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, 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	
Net earnings	—	—	—	1,557	—	$ 1,557
Exercise of stock options issued in connection with business acquisitions	—	88	—	—	—	
Other comprehensive income items:						
Unrealized appreciation of investments	—	—	—	—	(795)	(795)
Reclassification adjustment for appreciation included in net earnings	—	—	—	—	(1,365)	(1,365)
Foreign currency translation losses	—	—	—	—	(16)	(16)
Income taxes and minority interests	—	—	—	—	889	889
Other comprehensive income						(1,287)
Total comprehensive income						$ 270
Balance December 31, 1999	$ 8	$25,209	$ —	$15,321	$17,223	

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1999

(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 16. 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, 1999 and 1998. General Re's results of operations are included in the Consolidated Statements of Earnings for the ten day period ended December 31, 1998 and the year ended December 31, 1999.

During the second quarter of 1999, the company adjusted its December 31, 1998 Consolidated Balance Sheet. The adjustment resulted from a further review of the opening balance sheet of General Re which was used as the basis for recording the fair value of the assets and liabilities acquired in connection with the acquisition of General Re. The effect of the adjustment was to increase goodwill of acquired businesses by $124 million and to increase property, plant and equipment by $18 million with a corresponding decrease of $142 million in other assets from the amounts previously reported. The adjustment had no effect on the previously reported earnings for the year 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 taxes and minority interest, 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.

Accounting policies and practices for investments held by finance and financial products businesses are described in Note 7.

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

(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 generally over forty years. The Company periodically reviews the recoverability of the carrying value of goodwill of acquired businesses to insure it is appropriately valued. In the event that a condition is identified which may indicate an impairment issue exists, an assessment is performed using a variety of methodologies.

(f) Insurance premiums

Insurance premiums for prospective insurance and reinsurance policies are earned in proportion to the level ofinsurance 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.

(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 $791 million and $666 million at December 31, 1999 and 1998, 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 and range from 5% to 13%. The periodic accretion of discounts is included in the Consolidated Statements of Earnings as a component of losses and loss adjustment expenses incurred. Net discounted liabilities were $1,529 million at December 31, 1999 and $1,637 million at December 31, 1998.

(j) Deferred charges-reinsurance assumed

The excess of estimated liabilities for claims and claim costs 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 $1,518 million at December 31, 1999 and $560 million at December 31, 1998.

(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 $2,331 million and $2,167 million at December 31, 1999 and 1998, respectively.

Notes to Consolidated Financial Statements *(Continued)*

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

(m) Foreign currency

The accounts of several foreign-based subsidiaries are measured using the local currency as the functional currency. Revenues and expenses of these businesses are translated into U.S. dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Gains or losses from translating the financial statements of foreign-based operations are included in shareholders' equity as a component of other comprehensive income. Gains and losses arising from other transactions denominated in a foreign currency are included in the Consolidated Statement of Earnings.

(n) Accounting pronouncements to be adopted subsequent to December 31, 1999

During 1998 and 1999, 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, 1999:

(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 repo
contracts, and hedging activities. In June 1999, the FASB issued SFAS No. 137 which delays the effective date for implementing SFAS No. 133. Berkshire expects to adopt SFAS No. 133 as of the beginning of 2001.

(ii) 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 will 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 its financial position or the results of operations.

(2) Significant business acquisitions

During 1998, Berkshire consummated three significant 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 shares of Class A and Class B Common Stock. Dairy Queen develops, licenses and services a system of almost 6,000 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 August 7, 1998, the merger of Executive Jet with and into a wholly owned subsidiary of Berkshire was completed. Total consideration paid by Berkshire was approximately $725 million, consisting of $350 million in cash and the remainder in shares of 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.

On December 21, 1998, the merger with General Re was completed. 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, (the merger agreement was entered into by the parties on June 19, 1998) was approximately $22 billion.

(2) Significant business acquisitions *(Continued)*

General Re is a holding company for global reinsurance and related risk management operations. It owns General Reinsurance Corporation, which together with its affiliates, comprise 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". General & Cologne Re operate in 28 countries and provide reinsurance coverage in 125 countries around the world.

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 $15.7 billion, including $14.7 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 unaudited 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

(3) Investment in MidAmerican Energy Holdings Company

On October 24, 1999, Berkshire entered into an agreement along with Walter Scott, Jr. and David L. Sokol, to acquire MidAmerican Energy Holdings Company ("MidAmerican"). Pursuant to the terms of the agreement, Berkshire expects to invest approximately $1.24 billion in common stock and a non-dividend paying convertible preferred stock of a newly formed entity which will merge with and into MidAmerican, with MidAmerican continuing as the surviving corporation. Such investment will give Berkshire about a 9.7% voting interest and a 76% economic interest in MidAmerican on a fully-diluted basis. Mr. Scott, a member of Berkshire's Board of Directors, will control approximately 86% of the voting interest in MidAmerican. Mr. Sokol is the current CEO of MidAmerican. Berkshire will also acquire approximately $455 million of an 11% non-transferable trust preferred security. Under certain conditions, for a period of up to seven years subsequent to the transaction, Berkshire may be required to purchase up to $345 million of additional trust preferred securities. The merger and related investments by Berkshire and the other investors are subject to terms and conditions including approval by shareholders of MidAmerican and certain regulatory approvals. On January 27, 2000, the transaction was approved by the shareholders of MidAmerican. All regulatory approvals are expected to be received prior to March 31, 2000. It is currently anticipated that the transaction will close by March 31, 2000.

Through its retail utility subsidiaries, MidAmerican Energy in the U.S. and Northern Electric in the U.K., MidAmerican provides electric service to 2.2 million customers and natural gas service to 1.2 million customers worldwide. MidAmerican manages and owns interests in approximately 8,300 net megawatts of diversified power generation facilities in operation, construction and development.

(4) Investments in securities with fixed maturities

The amortized cost and estimated fair values of investments in securities with fixed maturities as of December 31, 1999 and 1998 are as follows (in millions):

December 31, 1999[1]	*Amortized Cost*[2]	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
Bonds:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 4,001	$ 3	$ (189)	$ 3,815
Obligations of states, municipalities and political subdivisions	9,029	13	(436)	8,606
Obligations of foreign governments	2,208	6	(49)	2,165
Corporate bonds	5,901	21	(237)	5,685
Redeemable preferred stocks	133	1	(5)	129
Mortgage-backed securities	10,157	7	(342)	9,822
	$31,429	$ 51	$(1,258)	$30,222

December 31, 1998[1]	*Amortized Cost*[2]	*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

[1] *Amounts above exclude securities with fixed maturities held by finance and financial products businesses. See Note 7.*

[2] *In connection with the acquisition of General Re on December 21, 1998, fixed maturity securities with a then fair value of $17.6 billion were acquired. Such amount which was approximately $1.2 billion in excess of General Re's historical amortized cost. The writeup of $1.2 billion was included as a component of the amortized cost at December 31, 1998. Of this amount, approximately $900 million remains unamortized and is included as a component of amortized cost as of December 31, 1999.*

Shown below are the amortized cost and estimated fair values of securities with fixed maturities at December 31, 1999, by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in millions.

	Amortized Cost	*Estimated Fair Value*
Due in one year or less	$ 1,975	$ 1,965
Due after one year through five years	5,443	5,339
Due after five years through ten years	5,335	5,126
Due after ten years	8,519	7,970
	21,272	20,400
Mortgage-backed securities	10,157	9,822
	$31,429	$30,222

(5) 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, 1999	*Cost*	*Unrealized Gains*	*Fair Value*
Common stock of:			
American Express Company *	$ 1,470	$ 6,932	$ 8,402
The Coca-Cola Company	1,299	10,351	11,650
The Gillette Company	600	3,354	3,954
Other equity securities	6,305	7,461	13,766
Other investments	1,651	85	1,736
	$11,325	$28,183 **	$39,508

December 31, 1998	*Cost*	*Unrealized Gains*	*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	1,639	1	1,640
	$10,897	$28,864 **	$39,761

** 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, 1999. 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.*

*** Net of unrealized losses of $149 million and $38 million as of December 31, 1999 and 1998, respectively.*

(6) Realized investment gains (losses)

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

	1999	*1998*	*1997*
Equity securities and other investments —			
Gross realized gains	$1,507	$2,087	$ 739
Gross realized losses	(77)	(272)	(23)
Securities with fixed maturities —			
Gross realized gains	39	602	396
Gross realized losses	(104)	(2)	(6)
	$1,365	$2,415	$1,106

(7) Finance and financial products businesses

Assets and liabilities of Berkshire's finance and financial products businesses are summarized below (in millions).

	Dec. 31, 1999	*Dec. 31, 1998*
Assets		
Cash and cash equivalents	$ 623	$ 907
Investments in securities with fixed maturities:		
Held to maturity, at cost (fair value $2,223 in 1999; $1,366 in 1998)	2,293	1,227
Trading, at fair value (cost $11,330 in 1999; $5,279 in 1998)	11,277	5,219
Available for sale, at fair value (cost $997 in 1999; $745 in 1998)	999	743
Trading account assets	5,881	6,234
Securities purchased under agreements to resell	1,171	1,083
Other	1,985	1,576
	$24,229	$16,989
Liabilities		
Annuity reserves and policyholder liabilities	$ 843	$ 816
Securities sold under agreements to repurchase	10,216	4,065
Securities sold but not yet purchased	1,174	1,181
Trading account liabilities	5,930	5,834
Notes payable and other borrowings*	1,998	1,503
Other	2,062	2,126
	$22,223	$15,525

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

2000	*2001*	*2002*	*2003*	*2004*
$49	*$120*	*$260*	*$707*	*$475*

Berkshire's finance and financial products businesses consist primarily of the financial products businesses of General Re, the consumer finance business of Scott Fetzer Financial Group, the real estate finance business of Berkshire Hathaway Credit Corporation, the financial instrument trading business of BH Finance 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 discussed below.

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 Consolidated Statement of Earnings.

(7) 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, 1999 and 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, 1999 (in millions)	*December 31, 1998 (in millions)*
Interest rate and currency swap agreements	$531,645	$514,935
Options written	121,683	88,245
Options purchased	151,006	90,826
Financial futures contracts:		
Commitments to purchase	32,377	26,041
Commitments to sell	11,368	6,872
Forward - rate agreements	5,164	24,579
Foreign exchange spot and forward contracts	10,430	14,794

The following tables discloses the net fair value or carrying amount at December 31, 1999 and 1998 as well as the average fair value during 1999 for each class of derivative financial contract held or issued by GRFP.

	December 31, 1999		*December 31, 1998*	
	Asset	*Liability*	*Asset*	*Liability*
	(in millions)		*(in millions)*	
Interest rate and foreign currency swaps	$22,593	$22,819	$25,963	$25,445
Interest rate and foreign currency options	5,980	5,714	4,338	4,439
Gross fair value	28,573	28,533	30,301	29,884
Adjustment for counterparty netting	(22,692)	(22,692)	(24,067)	(24,067)
Net fair value	5,881	5,841	6,234	5,817
Security receivables/payables	—	89	—	17
Trading account assets/liabilities	$ 5,881	$ 5,930	$ 6,234	$ 5,834

	Average 1999	
	Asset	*Liability*
	(in millions)	
Interest rate and foreign currency swaps	$23,213	$23,071
Interest rate and foreign currency options	4,657	4,687
Gross fair value	27,870	27,758
Adjustment for counterparty netting	(22,579)	(22,579)
Net fair value	5,291	5,179
Security receivables/payables	85	111
Trading account assets/liabilities	$ 5,376	$ 5,290

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

The 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.

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. Such interest rates range from 5% to 8%. 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.

(8) Unpaid losses and loss adjustment expenses

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

	1999	1998	1997
Unpaid losses and loss adjustment expenses:			
Balance at beginning of year	$23,012	$6,850	$6,274
Less ceded liabilities and deferred charges	2,727	754	586
Net balance	20,285	6,096	5,688
Incurred losses recorded:			
Current accident year	11,275	4,235	3,551
All prior accident years	(192)	(195)	(131)
Total incurred losses	11,083	4,040	3,420
Payments with respect to:			
Current accident year	3,648	1,919	1,602
All prior accident years	4,532	1,834	1,410
Total payments	8,180	3,753	3,012
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	23,188	6,383	6,096
Ceded liabilities and deferred charges	3,848	2,727	754
Foreign currency translation adjustment	(234)	—	—
Net liabilities assumed in connection with business acquisitions	—	13,902	—
Balance at end of year	$26,802	$23,012	$6,850

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 regarding retroactive reinsurance assumed 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.

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

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.

Berkshire 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 reserve 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 liabilities for environmental and latent injury claims and claim expenses net of related reinsurance recoverables were $3,211 million and $1,913 million, respectively, at December 31, 1999 and 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.

(9) Income taxes

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

	Dec. 31, 1999	*Dec. 31, 1998*
Payable currently	$ (27)	$ 1,006
Deferred	9,593	10,756
	$9,566	$11,762

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

	1999	*1998*	*1997*
Federal	$ 748	$1,421	$865
State	43	31	32
Foreign	61	5	1
	$ 852	$1,457	$898
Current	$1,189	$1,643	$692
Deferred	(337)	(186)	206
	$ 852	$1,457	$898

Notes to Consolidated Financial Statements *(Continued)*

(9) Income taxes *(Continued)*

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1999 and 1998, are shown below (in millions):

	1999	*1998*
Deferred tax liabilities:		
Relating to unrealized appreciation of investments	$9,383	$10,149
Other	1,252	1,615
	10,635	11,764
Deferred tax assets	(1,042)	(1,008)
Net deferred tax liability	$9,593	$10,756

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

	1999	*1998*	*1997*
Earnings before income taxes	$2,450	$4,314	$2,827
Hypothetical amounts applicable to above computed at the federal statutory rate	$ 858	$1,510	$ 989
Decreases resulting from:			
Tax-exempt interest income	(145)	(30)	(36)
Dividends received deduction	(95)	(78)	(104)
Goodwill amortization	161	39	29
State income taxes, less federal income tax benefit	28	20	21
Foreign tax rate differential	45	—	—
Other differences, net	—	(4)	(1)
Total income taxes	$ 852	$1,457	$ 898

(10) Borrowings under investment agreements and other debt

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

	Dec. 31, 1999	*Dec. 31, 1998*
Borrowings under investment agreements	$ 613	$ 724
1% Senior Exchangeable Notes Due 2001 (“Exchange Notes”)	449	469
GEICO Corporation 7.5% debentures due 2005*	106	107
General Re Corporation 8.85% debentures due 2009*	107	108
General Re Corporation 9% debentures due 2009*	150	150
GEICO Corporation 9.15% debentures due 2021	107	107
GEICO Corporation 7.35% debentures due 2023*	160	160
Other debt	773	560
	$2,465	$2,385

* Non-callable

Borrowings under investment agreements are made pursuant to contracts calling for interest payable, normally semiannually, at fixed rates ranging from 2.5% to 8.6% per annum. Contractual maturities of borrowings under investment agreements generally range from 3 months to 30 years. Under certain conditions, these borrowings are redeemable prior to the contractual maturity dates.

Under certain conditions, each $1,000 par amount Exchange Note is currently exchangeable at the option of the holder or redeemable at the option of Berkshire into 44.875 shares of Citigroup common stock. Berkshire, at its option, may settle any exchange or redemption at the equivalent value in cash. 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 Exchange Notes. The contingent value component of the aggregate carrying value of the Exchange Notes was $276 million at December 31, 1999 and $171 million at year end 1998. During 1999, approximately $136 million par amount of Exchange Notes were converted by holders into Citigroup common shares.

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

Other debt includes primarily commercial paper, revolving bank debt, and variable rate term bonds issued by a variety of Berkshire subsidiaries and generally, may be redeemed at any time at the option of the issuing company.

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):

2000	2001	2002	2003	2004
$522	$473	$ 28	$ 54	$ 18

(11) Dividend restrictions - Insurance subsidiaries

Payments of dividends by insurance subsidiaries members are restricted by insurance statutes and regulations. Without prior regulatory approval in 2000, Berkshire can receive up to approximately $4.2 billion as dividends from insurance subsidiaries.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $44.5 billion at December 31, 1999. 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-reinsurance assumed, unrealized gains and losses on investments in securities with fixed maturities and goodwill of acquired businesses are recognized under GAAP but not for statutory reporting purposes.

(12) Common stock

Changes in issued and outstanding common stock of the Company during the three years ended December 31, 1999, 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, 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
Conversions of Class A common stock to Class B common stock and other	(7,872)		(7,872)	296,576
Balance December 31, 1999	1,341,663	—	1,341,663	5,366,955

* *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.*

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 shares of 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.

(13) Fair values of financial instruments

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

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

Considerable judgement is necessarily required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized 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 Berkshire's other financial instruments as of December 31, 1999 and 1998, are as follows (in millions):

	Carrying Value		Estimated Fair Value	
	1999	1998	1999	1998
Investments in securities with fixed maturities	$30,222	$21,246	$30,222	$21,246
Investments in equity securities and other investments	39,508	39,761	39,508	39,761
Assets of finance and financial products businesses	24,229	16,989	24,167	17,129
Borrowings under investment agreements and other debt	2,465	2,385	2,418	2,475
Liabilities of finance and financial products businesses	22,223	15,525	22,151	15,698

(14) Litigation

During 1999, GEICO was named as a defendant in a number of class action lawsuits related to the use of repair parts not produced by original equipment manufacturers in connection with settlement of collision damage claims. One of the lawsuits has been dismissed. The remaining lawsuits are in the early stages of development and the ultimate outcome cannot be reasonably determined at this time. Management intends to vigorously defend GEICO's position of recommending use of after-market parts in certain auto accident repairs.

Berkshire and its subsidiaries are parties in a variety of legal actions arising out of the normal course of business. In particular, and in common with the insurance industry in general, such legal actions affect Berkshire's insurance and reinsurance businesses. Such litigation generally seeks to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by Berkshire subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. Berkshire does not believe that such normal and routine litigation will have a material effect on its financial condition or results of operations.

(15) Supplemental cash flow and insurance premium information

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

	1999	*1998*	*1997*
Cash paid during the year for:			
Income taxes	$2,215	$1,703	$ 498
Interest of finance and financial products businesses	513	21	21
Other interest	136	111	102
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	61	36,064	25
Common shares issued in connection with acquisitions of businesses	—	22,795	73
Fair value of investments acquired as part of exchanges and conversions	—	—	1,837
Contingent value of Exchange Notes recognized in earnings	87	54	298
Value of equity securities used to redeem Exchange Notes	298	344	—

(15) Supplemental cash flow and insurance premium information *(Continued)*

Premiums written and earned by Berkshire's property/casualty and life/health insurance businesses during each of the three years ending December 31, 1999 are summarized below. Dollars are in millions.

	Property/Casualty			Life/Health*	
	1999	1998	1997	1999	1998
Premiums Written:					
Direct	$ 5,798	$4,503	$3,980	$ —	$ —
Assumed	7,951	1,184	957	1,981	46
Ceded	(818)	(83)	(85)	(245)	(5)
	$12,931	$5,604	$4,852	$1,736	$ 41
Premiums Earned:					
Direct	$ 5,606	$4,382	$3,879	$ —	$ —
Assumed	7,762	1,147	968	1,971	45
Ceded	(788)	(89)	(86)	(245)	(4)
	$12,580	$5,440	$4,761	$1,726	$ 41

**There were no premiums written or earned in 1997.*

(16) Business Segment Data

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 twelve reportable operating segments is shown below.

Business Identity	Business Activity
GEICO	Underwriting private passenger automobile insurance mainly by direct response methods
General Re	Underwriting excess-of-loss and quota-share reinsurance worldwide
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, Star Furniture Company and Jordan's Furniture ("Home Furnishings")	Retail sales of home furnishings, appliances and electronics
International Dairy Queen	Licensing and servicing a system of almost 6,000 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

General Re's reinsurance business is included as a reportable segment beginning in 1999. General Re Corporation was acquired by Berkshire on December 21, 1998. For further information regarding the acquisition, see Note 2.

(16) 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		
	1999	*1998*	*1997*
Operating Segments:			
Insurance group revenues:			
GEICO *	$ 4,757	$4,033	$3,482
General Re *	6,905	—	—
Berkshire Hathaway Reinsurance Group *	2,382	939	967
Berkshire Hathaway Direct Insurance Group *	262	328	312
Interest, dividend and other investment income	2,500	982	888
Total insurance group revenues	16,806	6,282	5,649
Buffalo News	157	157	156
Flight services	1,856	858	411
Home furnishings	917	793	667
International Dairy Queen	460	420	—
Jewelry	486	420	398
Scott Fetzer Companies	1,021	1,002	961
See's Candies	306	288	269
Shoe group	498	500	542
	22,507	10,720	9,053
Reconciliation of segments to consolidated amount:			
Realized investment gain	1,365	2,415	1,106
Other revenues	381	703	280
Purchase-accounting-adjustments	(225)	(6)	(9)
	$24,028	$13,832	$10,430

** Represents insurance premiums earned*

	Operating Profit before Taxes		
	1999	*1998*	*1997*
Operating Segments:			
Insurance group operating profit:			
GEICO *	$ 24	$269	$281
General Re *	(1,184)	—	—
Berkshire Hathaway Reinsurance Group *	(256)	(21)	128
Berkshire Hathaway Direct Insurance Group *	22	17	52
Interest, dividend and other investment income	2,482	974	882
Total insurance group operating profit	1,088	1,239	1,343
Buffalo News	55	53	56
Flight services	225	181	140
Home furnishings	79	72	57
International Dairy Queen	56	58	—
Jewelry	51	39	32
Scott Fetzer Companies	147	137	119
See's Candies	74	62	59
Shoe group	17	33	49
	1,792	1,874	1,855
Reconciliation of segments to consolidated amount:			
Realized investment gain	1,365	2,415	1,106
Interest expense **	(109)	(100)	(107)
Corporate and other	141	248	72
Goodwill amortization and other purchase-accounting-adjustments	(739)	(123)	(99)
	$2,450	$4,314	$2,827

* *Represents underwriting profit (loss)*

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

(16) Business Segment Data *(Continued)*

Operating Segments:	Capital expenditures *			Deprec. & amort. of tangible assets		
	1999	*1998*	*1997*	*1999*	*1998*	*1997*
Insurance group:						
GEICO	$ 87	$ 101	$ 27	$ 40	$ 27	$ 26
General Re	17	—	—	25	—	—
Berkshire Hathaway Reinsurance Group	—	—	—	—	—	—
Berkshire Hathaway Direct Insurance Group	1	1	1	1	1	1
Total insurance group	105	102	28	66	28	27
Buffalo News	5	2	3	2	2	3
Flight services	323	213	119	77	58	55
Home furnishings	41	21	43	16	13	10
International Dairy Queen	9	10	—	4	3	—
Jewelry	14	12	9	11	10	10
Scott Fetzer Companies	14	10	6	11	11	11
See's Candies	6	15	20	5	5	5
Shoe group	6	9	11	12	13	12
	523	394	239	204	143	133
Reconciliation of segments to consolidated amount:						
Corporate and other	7	5	3	11	4	3
Purchase-accounting-adjustments	—	—	—	3	8	8
	$ 530	$ 399	$ 242	$ 218	$ 155	$ 144

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

Operating Segments:	Identifiable assets at year-end		
	1999	*1998*	*1997*
Insurance group:			
GEICO	$ 9,381	$ 8,663	$ 7,683
General Re	30,168	32,011	—
Berkshire Hathaway Reinsurance Group	39,607	36,611	34,781
Berkshire Hathaway Direct Insurance Group	4,866	5,564	5,902
Total insurance group	84,022	82,849	48,366
Buffalo News	30	29	28
Flight services	1,790	1,345	792
Home furnishings	648	489	457
International Dairy Queen	207	199	—
Jewelry	258	234	219
Scott Fetzer Companies	298	242	256
See's Candies	78	79	65
Shoe group	301	336	353
	87,632	85,802	50,536
Reconciliation of segments to consolidated amount:			
Corporate and other	25,276	17,671	2,450
Goodwill and other purchase-accounting-adjustments	18,508	18,764	3,125
	$131,416	$122,237	$56,111

(17) Quarterly data

A summary of revenues and earnings by quarter for each of the last two years is presented in the following table. This information is unaudited. Dollars are in millions, except per share amounts.

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$5,446	$5,461	$7,051	$6,070
Earnings:				
Excluding realized investment gain	$ 294	$ 299	$ 156	$ (78)
Realized investment gain *	247	273	264	102
Net earnings	$ 541	$ 572	$ 420	$ 24
Earnings per equivalent Class A common share:				
Excluding realized investment gain	$ 194	$ 197	$ 103	$ (52)
Realized investment gain *	162	179	173	69
Net earnings	$ 356	$ 376	$ 276	$ 17

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

* *The amount of realized gain for any given period has no 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.*

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) —		
	1999	1998	1997
Insurance segments - underwriting	$ (897)	$ 171	$ 298
Insurance segments - investment income	1,764	731	704
Non-Insurance business segments	427	389	311
Interest expense	(70)	(63)	(67)
Goodwill amortization and other purchase-accounting-adjustments	(648)	(118)	(94)
Other	95	167	45
Earnings before realized investment gain	671	1,277	1,197
Realized investment gain	886	1,553	704
Net earnings	$1,557	$2,830	$1,901

The business segment data (Note 16 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) —		
	1999	1998	1997
Underwriting gain (loss) attributable to:			
GEICO	$ 24	$ 269	$ 281
General Re	(1,184)	—	—
Berkshire Hathaway Reinsurance Group	(256)	(21)	128
Berkshire Hathaway Direct Insurance Group	22	17	52
Underwriting gain (loss) — pre-tax	(1,394)	265	461
Income taxes and minority interest	(497)	94	163
Net underwriting gain (loss)	$ (897)	$ 171	$ 298

Berkshire engages in both primary insurance and reinsurance of property and casualty risks. Through General Re, Berkshire also reinsures life and health risks. In primary 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 insurance businesses are: (1) GEICO, the sixth largest auto insurer in the United States, (2) General Re, one of the four largest reinsurers in the world, (3) Berkshire Hathaway Reinsurance Group ("BHRG") and (4) Berkshire Hathaway Direct Insurance Group. See Note 2 to the Consolidated Financial Statements for information regarding the General Re acquisition.

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 $45 billion at December 31, 1999. 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.

Management's Discussion *(continued)*

Insurance Segments - Underwriting *(continued)*

GEICO

GEICO provides primarily private passenger automobile coverages to insureds in 48 states and the District of Columbia. GEICO policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company over the telephone, through the mail or via the Internet. This is a significant element in GEICO's strategy to be a low cost insurer and, yet, provide high value to policyholders.

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

	— (dollars are in millions) —					
	1999		1998		1997	
	Amount	%	Amount	%	Amount	%
Premiums written	$4,953		$4,182		$3,588	
Premiums earned	$4,757	100.0	$4,033	100.0	$3,482	100.0
Losses and loss expenses	3,815	80.2	2,978	73.8	2,630	75.5
Underwriting expenses	918	19.3	786	19.5	571	16.4
Total losses and expenses	4,733	99.5	3,764	93.3	3,201	91.9
Underwriting gain — pre-tax	$ 24		$ 269		$ 281	

Premiums earned in 1999 exceeded premiums earned in 1998 by 17.9%, which followed growth in 1998 of 15.8% over 1997 and 12.6% in 1997 over 1996. The increased premiums earned in recent years reflects significant growth in the numbers of voluntary auto policies-in-force, partially offset by the effects of premium rate reductions taken in certain states. Rate reductions have been taken during the past three years to better align premium rates with pricing targets. Voluntary auto policies-in-force during 1999 grew by 21.5% over 1998 following growth of 20.8% in 1998 and 16.0% in 1997. Over the past three years, GEICO experienced significant growth in the preferred-risk markets, as well as the standard and non-standard auto lines. New business sales in 1999 exceeded 1998 by 31.9%. The growth in premium volume in recent years is attributed to substantially higher amounts of advertising and competitive premium rates.

GEICO's net underwriting profits in 1999 declined significantly from the underwriting profits in 1998 and 1997. Underwriting results in 1999 reflect the aforementioned premium rate reductions, relatively higher levels of claim costs and increased marketing expenditures. In 1998 and 1997, GEICO's underwriting results were better than expected primarily due to favorable claims experience. Also, GEICO's underwriting results are subject to volatility, given the inherent uncertainty in anticipating the levels of claim losses for a given period.

Losses and loss expenses incurred as percentages of premiums earned were 80.2% in 1999, 73.8% in 1998 and 75.5% in 1997. As a result of the aforementioned premium rate reductions, claim costs incurred in 1999 were expected to rise at faster rates than premiums. In addition, higher claim frequency was experienced in 1999. Claim costs in 1998 and 1997 were lower than normal reflecting generally mild weather conditions and declining severity of auto liability claims. Catastrophe losses added 1.0% to the loss and loss expense ratio in 1999, compared to 0.7% in 1998 and 0.3% in 1997.

GEICO's underwriting expenses in 1999 exceeded 1998 by $132 million (16.8%) and underwriting expenses in 1998 exceeded 1997 by $215 million (37.7%). The increase in expenses in 1999 relates primarily to costs incurred in connection with the generation and servicing of new business, offset somewhat by the effect of the deferral of certain costs associated with the development of computer software for internal use, as prescribed by new accounting rules effective in 1999. GEICO expects to increase spending to generate new policy growth in 2000.

During 1999, GEICO was named as a defendant in a number of class action lawsuits related to the use of repair parts not produced by original equipment manufacturers in connection with settlement of collision damage claims. Similar lawsuits have been filed against several other major private-passenger auto insurers. Management intends to vigorously defend GEICO's position of recommending the use of after-market parts in certain auto accident repairs. The lawsuits are in the early stages of development and the ultimate outcome cannot be reasonably determined at this time.

Although competition for private passenger auto insurance remains intense, GEICO expects voluntary auto policies-in-force to continue to grow in 2000 as a result of accelerating marketing efforts and competitive rates. New business is initially unprofitable due in large part to first year acquisition costs. The costs of acquiring new business are expected to rise further in 2000. These factors produce lower overall underwriting margins during periods of growth. Thus, GEICO's underwriting results are expected to further decline in 2000 from 1999.

General Re

On December 21, 1998, General Re became a wholly owned subsidiary of Berkshire upon completion of the merger of the two companies. General Re's results of operations are included in Berkshire's consolidated results beginning as of that date. For comparative purposes in this discussion, the historical results for all of 1998 are presented although the full-year results are not included in Berkshire's 1998 consolidated results.

General Re and its affiliates conduct a global reinsurance business, which provides reinsurance coverage in the United States and 125 other countries around the world. General Re's principal reinsurance operations are: (1) North American property/casualty, (2) International property/casualty, and (3) Global life/health. The International property/casualty operations are conducted primarily through Germany-based Cologne Re and its subsidiaries. At December 31, 1999, General Re had an 88% economic ownership interest in Cologne Re.

General Re's consolidated underwriting results for the past two years are summarized below. Dollar amounts are in millions.

	1999		1998	
	Amount	%	Amount	%
Premiums written	$7,043		$6,084	
Premiums earned	$6,905	100.0	$6,095	100.0
Losses and loss expenses	6,022	87.2	4,607	75.6
Underwriting expenses	2,067	29.9	1,858	30.5
Total losses and expenses	8,089	117.1	6,465	106.1
Underwriting loss — pre-tax	$(1,184)		$(370)	

General Re's reinsurance operations produced large net underwriting losses in 1999. The aggregate net underwriting loss of $1,184 million in 1999 is the worst annual underwriting result of the company over the past 15 years. Following is additional information and discussion with respect to each of General Re's underwriting units.

General Re's North American property/casualty pre-tax underwriting results for the years ending December 31,1999 and 1998 are summarized below. Dollar amounts are in millions.

	1999		1998	
	Amount	%	Amount	%
Premiums written	$2,801		$2,707	
Premiums earned	$2,837	100.0	$2,708	100.0
Losses and loss expenses	2,547	89.8	1,830	67.6
Underwriting expenses	874	30.8	857	31.6
Total losses and expenses	3,421	120.6	2,687	99.2
Underwriting gain (loss) — pre-tax	$ (584)		$ 21	

General Re's North American property/casualty operations underwrite predominantly excess reinsurance across multiple lines of business. North American property/casualty premiums earned grew 4.8% in 1999. Premiums earned in 1999 included $154 million related to a single new stop-loss reinsurance contract. Otherwise, premiums decreased primarily due to reduced business with national accounts and declines in excess and surplus lines insurance businesses. These declines exceeded growth in regional, specialty, and casualty facultative reinsurance businesses during 1999.

Underwriting results from North American property/casualty operations in 1999 deteriorated significantly when compared to results for 1998. Net underwriting losses in 1999 include fourth quarter losses of $353 million. Large net underwriting losses in 1999 were generated in both property and casualty reinsurance lines, which in the aggregate, produced a small net underwriting profit in 1998.

The North American property/casualty loss ratio of 89.8% in 1999 exceeded the loss ratio for 1998 by 22.2 percentage points. The increase in the 1999 loss ratio was primarily due to the effects of inadequate premium rates, higher current accident year losses in property lines of business and considerably lower amounts of favorable development of loss reserves established for previous years' casualty claims. Losses in 1999 arising from catastrophic events and other large property losses under facultative and treaty contracts added 9.4 percentage points to the loss and loss expense ratio in 1999 compared to 4.1 percentage points in 1998.

Insurance Segments - Underwriting *(continued)*

General Re *(Continued)*

General Re's International property/casualty underwriting results for years ending December 31,1999 and 1998 are summarized below. Dollar amounts are in millions.

	1999		1998	
	Amount	%	Amount	%
Premiums written	$2,506		$2,072	
Premiums earned	$2,343	100.0	$2,095	100.0
Losses and loss expenses	2,041	87.1	1,514	72.3
Underwriting expenses	775	33.1	682	32.5
Total losses and expenses	2,816	120.2	2,196	104.8
Underwriting loss — pre-tax	$ (473)		$ (101)	

The International property/casualty operations write quota-share and excess reinsurance on risks around the world. Earned premiums in 1999 exceeded premiums earned in 1998 by 11.8%. The increase was primarily due to business produced by DP Mann, reduced levels of premiums ceded, including amounts ceded to General Re's North American reinsurance operations and a large new contract involving motor business in Argentina. DP Mann is a Lloyd's underwriting manager that was acquired by General Re at the end of 1998.

General Re's International property/casualty underwriting results for 1999 were poor. Loss and loss expense ratios for 1999 were 87.1% as compared to 72.3% for 1998. The increase in the 1999 loss ratio was mainly due to inadequate premium rates, higher catastrophe losses and deteriorating results in the excess liability, motor and the Australian professional indemnity lines of businesses. In addition, the motion picture film finance business experienced significant losses in the fourth quarter of 1999. Losses from catastrophic events, including fourth quarter 1999 European winter storms, earthquakes in Taiwan and Turkey and an Australian hailstorm, aggregated $126 million in 1999 or 5.4 loss ratio points, compared to $28 million of catastrophic losses or 1.3 loss ratio points in 1998.

General Re's Global life/health underwriting results for the years ending December 31,1999 and 1998 are summarized below. Dollar amounts are in millions.

	1999		1998	
	Amount	%	Amount	%
Premiums written	$1,736		$1,305	
Premiums earned	$1,725	100.0	$1,292	100.0
Losses and loss expenses	1,434	83.2	1,263	97.8
Underwriting expenses	418	24.2	319	24.6
Total losses and expenses	1,852	107.4	1,582	122.4
Underwriting loss — pre-tax	$ (127)		$ (290)	

General Re's Global life/health affiliates reinsure such risks worldwide. The life business represented approximately 52% of the total life/health premiums in 1999 compared to about 63% in 1998. Global life/health premiums earned increased 33.6% in 1999 over 1998. The increase was principally related to higher premiums earned in connection with the run off of health lines written by a former London agent of Cologne Re's U.S. subsidiary ("GCL" formerly "CLR") and growth from several new contracts written in the U.S. individual and group health markets.

The Global life/health net underwriting losses in 1999 and 1998 were principally attributed to the health business. In both 1999 and 1998, the life business produced modest underwriting profits although mortality experience in the individual life business worsened in 1999. The unsatisfactory underwriting experience in the group health business in 1999 reflected increases in GCL's health claim reserves that resulted from a comprehensive review conducted during the first half of 1999. Prior to the merger with Berkshire in 1998, a loss provision of $275 million was established on GCL's portion of a pool of workers' compensation carve-out business written by the former London-based managing underwriter. After considering settlements negotiated by other parties involved in this business and actuarial reviews of other available loss information, management concluded that no change to the reserve was warranted for 1999.

Insurance Segments - Underwriting (continued)

<u>*Berkshire Hathaway Reinsurance Group*</u>

The Berkshire Hathaway Reinsurance Group ("BHRG") underwrites principally excess-of-loss reinsurance coverages for insurers and reinsurers. BHRG is believed to be one of the world leaders in providing catastrophe excess-of-loss reinsurance. In recent years, BHRG has generated significant premium volume from a few very sizable retroactive reinsurance contracts.

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

	1999		1998		1997	
	Amount	%	Amount	%	Amount	%
Premiums written	$2,410		$ 986		$ 955	
Premiums earned	$2,382	100.0	$ 939	100.0	$ 967	100.0
Losses and loss expenses	2,573	108.0	765	81.5	676	69.9
Underwriting expenses	65	2.7	195	20.7	163	16.9
Total losses and expenses	2,638	110.7	960	102.2	839	86.8
Underwriting gain (loss) — pre-tax	$(256)		$ (21)		$ 128	

Premiums earned from retroactive reinsurance contracts, including structured settlements, were $1,508 million in 1999, $343 million in 1998 and $144 million in 1997. Premiums earned in 1999 included $1,250 million related to a single contact entered into with an affiliate of a major U.S. property/casualty insurer.

Generally, retroactive reinsurance contracts indemnify the ceding company, subject to aggregate loss limits, with respect to past loss events that were insured by the counterparty. It is generally expected that losses ultimately paid under these arrangements will exceed the premiums received, possibly by a wide margin. Premiums are based in part on time-value-of-money concepts because loss payments are expected to occur over lengthy time periods. However, retroactive contracts do not significantly impact earnings in the year of inception. Consistent with Berkshire's accounting policy, the excess of the estimated ultimate losses payable over the premiums received is established as a deferred charge and amortized against income over the estimated future claim settlement periods.

Net underwriting losses with respect to retroactive reinsurance contracts were $97 million in 1999, $90 million in 1998 and $82 million in 1997. The net underwriting losses from this business reflect the recurring recognition of time-value-of-money concepts, the amortization of deferred charges on retroactive reinsurance and accretion of discounted structured settlement liabilities. The amortization and accretion charges are reported as losses incurred and because there are no offsetting premiums, as underwriting losses. Due to the large retroactive reinsurance contracts entered into during 1999, deferred charges increased significantly. Consequently, the periodic amortization and therefore, underwriting losses are expected to increase in future periods.

Premiums earned from non-catastrophe reinsurance contracts totaled $560 million in 1999, $310 million in 1998 and $513 million in 1997. In each of the last three years, the premiums earned from this business were derived predominantly from a small number of sizable contracts. Premiums earned in 1999 included $113 million from contracts with General Re's North American property/casualty operations.

Net underwriting losses from the non-catastrophe reinsurance business were $355 million in 1999, $86 million in 1998 and $73 million in 1997. BHRG incurred a net loss of approximately $220 million from a single aggregate excess contract during the fourth quarter of 1999. Also, the 1999 underwriting loss includes $126 million of net losses on reinsurance assumed from General Re's North American property/casualty businesses. As with retroactive reinsurance contracts, the premiums established for non-catastrophe reinsurance contracts are based on time-value-of-money concepts because loss payments are expected to occur over lengthy time periods. Loss reserves for this business are established without such time discounting but, unlike retroactive reinsurance contracts, no deferred charges are established. Consequently, significant underwriting losses result. This business is accepted because of the large amounts of investable policyholder funds ("float") that is produced. It is anticipated that Berkshire will derive significant economic benefits over the lengthy period of time that the float will be available for investment.

Premiums earned from catastrophe excess contracts were $314 million in 1999, $286 million in 1998 and $310 million in 1997. Competition within the catastrophe reinsurance markets remains intense, which in many instances,

makes premium rates inadequate or coverage conditions unacceptable. As a result, BHRG has accepted relatively few new arrangements. However, it is expected that this business will still produce meaningful amounts of earned premiums during 2000.

Net underwriting gains from catastrophe reinsurance were $196 million in 1999, $155 million in 1998 and $283 million in 1997. Catastrophe losses incurred in 1999 and 1998 were relatively minor. Significant exposure to losses remains with respect to contracts that are in-force at year-end 1999, especially with respect to a major earthquake in California or a hurricane affecting the U.S. Future periodic underwriting results of this business are subject to extreme volatility. However, Berkshire's management is willing to accept volatility in reported results, provided there is a reasonable prospect of long-term profitability.

Berkshire Hathaway Direct Insurance Group

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; six 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, direct insurance businesses produced earned premiums of $262 million in 1999, $328 million in 1998 and $312 million in 1997. The decrease in premiums earned in 1999 compared to 1998 was essentially attributed to the credit card and international auto businesses, whereas the comparative increase in premiums earned in 1998 over 1997 was largely due to those same operations. Net underwriting gains of the direct businesses totaled $22 million in 1999, $17 million in 1998 and $52 million in 1997. The increase in underwriting profits in 1999 over 1998 was due primarily to lower net losses from the international auto business. The decline in net underwriting gains in 1998 from 1997 was principally due to lower profits from the specialty risk operations.

Insurance Segments - Investment Income

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

	(dollars in millions)		
	1999	1998	1997
Investment income before taxes	$2,482	$974	$882
Applicable income taxes and minority interest	718	243	178
Investment income after taxes and minority interest	$1,764	$731	$704

Investment income before taxes from the insurance operations in 1999 includes $1,328 million from General Re, which was acquired by Berkshire on December 21, 1998. Invested assets grew by approximately $25 billion as a result of the General Re acquisition. At December 31, 1999, cash and invested assets totaled approximately $72 billion. Excluding the impact of General Re, net investment income in 1999 grew 18.5% over amounts earned in 1998. In 1998, net investment income exceeded 1997 by 10.4%.

Berkshire's insurance businesses generate large amounts of investment income derived from shareholder capital, as well as policyholder float. Float represents an estimate of the amount of funds ultimately payable to policyholders that is available for investment. Float denotes the sum of net loss and loss adjustment expense reserves, unearned premiums, and funds held under reinsurance agreements, less premiums receivable, deferred acquisition costs, deferred charges on retroactive reinsurance and prepaid income taxes. The aggregate float was approximately $25.3 billion at December 31, 1999 and $22.8 billion at December 31, 1998. The acquisition of General Re increased float by approximately $14.9 billion.

Income taxes and minority interest as a percentage of investment income before taxes were 28.9% for 1999, 24.9% for 1998 and 20.2% for 1997. The increase in the rates reflects an increase in the proportion of taxable interest income relative to the amounts of dividend and tax-exempt interest, which are effectively taxed at lower rates. Minority interest applicable to investment income in 1999 also increased due to amounts related to investment income of Cologne Re.

Non-Insurance Business Segments

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

	1999 Amount	1999 %	1998 Amount	1998 %	1997 Amount	1997 %
	— (dollars in millions) —					
Revenues	$ 5,701	100	$ 4,438	100	$ 3,404	100
Cost and expenses	4,997	88	3,803	86	2,892	85
Operating profit	704	12	635	14	512	15
Income taxes and minority interest	277	5	246	5	201	6
Contribution to net earnings	$ 427	7	$ 389	9	$ 311	9

A comparison of revenues and operating profits between 1999, 1998 and 1997 for each of the eight identifiable non-insurance business segments follows.

	— (dollars in millions) —						Operating Profit as a % of Revenues		
	Revenues			Operating Profits					
Segment	1999	1998	1997	1999	1998	1997	1999	1998	1997
Buffalo News	$ 157	$ 157	$ 156	$ 55	$ 53	$ 56	35	34	36
Flight Services	1,856	858	411	225	181	140	12	21	34
Home Furnishings	917	793	667	79	72	57	9	9	9
International Dairy Queen	460	420	—	56	58	—	12	14	—
Jewelry	486	420	398	51	39	32	10	9	8
Scott Fetzer Companies	1,021	1,002	961	147	137	119	14	14	12
See's Candies	306	288	269	74	62	59	24	22	22
Shoe Group	498	500	542	17	33	49	3	7	9
	$5,701	$4,438	$3,404	$704	$635	$512			

1999 compared to 1998

Revenues from the eight identifiable non-insurance business segments of $5,701 million in 1999 increased $1,263 million (28.5%) from the prior year. The aggregate operating profits from these business segments of $704 million in 1999 increased $69 million (10.9%). The inclusion of Executive Jet, which was acquired during August, 1998, for a full year in 1999 accounts 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.

Buffalo News

The Buffalo News revenues were relatively unchanged in 1999 as compared to 1998. Operating profits in 1999 of $55 million increased $2 million (3.8%) from the comparable 1998 amount. Much of the increase arose as a result of a special non recurring charge which was recorded in 1998 related to workers' compensation insurance. Without the charge, operating profits in 1999 would have been comparable to the prior year.

Flight Services

This segment includes FlightSafety and Executive Jet. FlightSafety 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 $998 million (116.3%) over comparable prior year amounts. The inclusion of Executive Jet for the full year of 1999 accounts for a substantial portion of the overall revenue increase. Operating profits of this segment increased $44 million (24.3%) over comparable prior year amounts. Executive Jet accounts for almost 2/3 of the overall increase. FlightSafety's operating profits increased significantly over 1998 as a result of continued growth in all areas of its training business.

Non-Insurance Business Segments *(continued)*

Home Furnishings

This segment is comprised of four 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; Star Furniture Company ("Star"), based in Houston, Texas; and Jordan's Furniture, Inc. ("Jordan's"), based in Boston, Massachusetts. Berkshire acquired NFM in 1983, Willey in 1995 and Star in 1997. Jordan's was acquired on November 13, 1999 and is the largest furniture retailer in Massachusetts and New Hampshire. Revenues of this segment increased $124 million (15.6%) as compared to the prior year. NFM, Willey and Star each reported revenue increases of between 8% and 10%. Additionally, Jordan's results were included in Berkshire's segments results for about the last 45 days of the year. Operating profits of $79 million in 1999 increased $7 million (9.7%) over the comparable prior year amount. The increase arose from increased sales and improved margins at NFM, Willey and Star.

International Dairy Queen

At the beginning of 1998, Berkshire completed the acquisition of Dairy Queen. Dairy Queen develops, licenses and services a system of about 6,000 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 revenues increased $40 million (9.5%) as compared to the prior year. About 75% of the increase relates to increased distribution business. A significant portion of the remaining increase relates to sales by company-owned stores. Operating profit of $56 million declined $2 million (3.4%) from the prior year.

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 $486 million increased $66 million (15.7%) and operating profits of $51 million increased $12 million (30.8%) 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 $1,021 million increased $19 million (1.9%) over the comparable prior year amount. The increase in revenues was primarily due to revenue increases at Campbell Hausfeld and World Book offset somewhat by lower revenues from Kirby's home cleaning system's business. Operating profits of $147 million increased $10 million (7.3%) from the prior year. Increased sales at Campbell Hausfeld along with improved results from World Book's domestic and international businesses account for a significant portion of the improved results.

See's Candies

See's revenues increased $18 million (6.2%) over comparable prior year amounts. Total pounds of candy sold increased about 7.2% with strong increases being achieved both in See's quantity order business as well as its retail stores. Operating profits increased $12 million (19.3%) as compared to the prior year. The revenue increase as well as a slightly over 1% increase in gross margin percentage accounts for the increase.

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 $2 million in 1999 as compared to 1998. Operating profits of $17 million in 1999 decreased $16 million (48.5%) from the prior year. The significant profit decline arose at Dexter. It has become increasingly difficult for a domestic producer of shoes like Dexter to compete in an industry where over 90% of the items sold are produced abroad, where low-cost labor is the rule. In order to remain competitive, Dexter has begun shutting down certain of its domestic plants and sourcing more of its output internationally. The results for 1999 include severance and relocation costs.

Non-Insurance Business Segments *(continued)*

1998 compared to 1997

Revenues from the non-insurance business segments increased $1,034 million (30.4%) in 1998 as compared to 1997. Operating profits of $635 million during 1998 increased $123 million (24.0%) from the comparable 1997 amount. The most significant factor which gave rise to the increase in both revenues and operating profits were the acquisitions of Dairy Queen at the beginning of 1998 and Executive Jet during August, 1998. With the exception of the shoe group, all other reportable segments reported excellent results in 1998 as compared to 1997.

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.

While the effects of realized gains are often material to the Consolidated Statements of Earnings, such gains often produce a minimal impact on Berkshire's total shareholders' equity. This is due to the fact that Berkshire's investments are carried in prior periods' consolidated financial statements at market value with unrealized gains, net of tax, reported as a separate component of shareholders' equity.

Goodwill amortization and other purchase-accounting-adjustments

Goodwill amortization and other purchase-accounting-adjustments reflect the after-tax effect on net earnings with respect to the amortization of goodwill of acquired businesses and the amortization of fair value adjustments to certain assets and liabilities which were recorded at the acquisition dates of certain businesses (principally General Re and GEICO). The significant increase in such charges during 1999 as compared to 1998 periods is primarily due to the acquisition of General Re on December 21, 1998.

Market Risk Disclosures

Berkshire's Consolidated Balance Sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risks. Berkshire’s significant market risks are primarily associated with equity prices and interest rates and to a lesser degree financial products. The following sections address the significant market risks associated with Berkshire's business activities.

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 1999 and 1998, approximately 60% of the total fair value of investments in equity securities was concentrated in three investees.

Berkshire's preferred investment strategy contemplates that 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 strives to maintain 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.

Equity Price Risk *(continued)*

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 10 to the Consolidated Financial Statements for information regarding the Exchange Notes. Given the current market price of the underlying stock into which Exchange Notes may be converted, 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, 1999 and 1998 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 equity investment portfolio. Dollars are 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, 1999				
Equity securities	$37,772	30% increase	$49,104	12.6
		30% decrease	26,440	(12.6)
1% Senior Exchangeable Notes . . .	447	30% increase	581	(0.2)
		30% decrease	313	0.2
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	(0.2)
		30% decrease	342	0.2

* *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.*

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. Berkshire has historically utilized a modest level of corporate borrowings and debt. Further, Berkshire strives to maintain the highest credit ratings so that the cost of debt is minimized. Berkshire utilizes derivative products to manage interest rate risks to a very limited degree.

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 following table 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 1999 and 1998. 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 are in millions.

		Estimated fair value after Hypothetical change in interest rates (bp=basis points)			
	Fair Value	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
As of December 31, 1999					
Investments in securities with fixed maturities .	$30,222	$31,942	$28,483	$26,852	$25,413
Borrowings under investments agreements and other debt	1,971	2,059	1,891	1,819	1,753
As of December 31, 1998					
Investments in securities with fixed maturities .	$20,891	$21,774	$19,974	$19,093	$18,130
Borrowings under investments agreements and other debt	1,986	2,095	1,865	1,768	1,681

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. During 1999, the actual losses exceeded the market risk limit on one occasion. 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 are in millions.

	1999					
	Interest Rate	Foreign Exchange Rate	Equity	Credit	All Risks	1998 All Risks
Highest	$11	$5	$7	$5	$10	$13
Lowest	6	3	4	1	4	6
Average	8	4	6	2	8	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, 1999, reflects continuing capital strength. In the past three years, Berkshire shareholders' equity has increased from approximately $23.4 billion at December 31, 1996, to approximately $57.8 billion at December 31, 1999. In that three-year period, realized and unrealized securities gains increased equity capital by approximately $8.2 billion, and reinvested earnings, other than realized securities gains, were about $3.1 billion.

Management's Discussion ***(Continued)***

Year 2000 Issue

Prior to January 1, 2000, there was widespread concern that many computer systems in use would be unable to correctly process data or may not operate at all after December 31, 1999. It was feared that some computer programs may interpret the year "2000" incorrectly, causing errors in calculations or causing the system to fail. Year 2000 issues affect: (1) Information Technology (IT) utilized in Berkshire's widely diversified business information systems, (2) non-IT systems, 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.

To date, Berkshire has not experienced any significant Year 2000 related failures or disruptions with respect to its IT and non-IT systems. In addition, Berkshire has not experienced any significant adverse consequences due to Year 2000 related problems suffered by its significant business partners, including equity investees.

Berkshire and its subsidiaries could still be adversely affected if Year 2000 issues are not resolved by Berkshire or its significant customers, suppliers, business partners or equity investees. However, the most likely adverse consequence at this date could ultimately relate to losses incurred under property and casualty insurance and reinsurance contracts issued by subsidiaries. Otherwise, Berkshire management believes that the potential for adverse consequences arising out of the ordinary day-to-day operations of its businesses has diminished greatly since December 31, 1999. The financial impact of any adverse consequences cannot currently be estimated.

Berkshire and its subsidiaries have incurred about $60 million in identification, remediation and testing of Year 2000 issues. Year 2000 related costs are expensed as incurred. Berkshire management does not believe that any significant IT projects were delayed due to Year 2000 efforts.

Forward-Looking Statements

Investors are cautioned that certain statements contained in this document, 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 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.

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 seven 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.

*Copyright © 1996 By Warren E. Buffett
All Rights Reserved

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 <u>not</u>, 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, through its subsidiaries, is a multiple line property and casualty insurer the principal business of which is writing private passenger automobile insurance. GEICO Corporation is currently the sixth largest auto insurer in the U.S. GEICO's voluntary auto policy count grew 21.5% during the twelve months ended December 31, 1999.

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.

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 groups domiciled in the United States. General Re also owns a controlling interest in Cologne Re, a major international reinsurer.

Berkshire's fourth 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.

Berkshire Hathaway's insurance businesses maintain capital strength at unparalleled high levels. Statutory surplus as regards policyholders of these businesses increased to about $45 billion at December 31, 1999.

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 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, 1999	1998
Assets		
Investments:		
Fixed maturities at market	$30,217	$21,216
Equity securities and other investments at market:		
American Express Company	8,218	5,067
The Coca-Cola Company	11,622	13,368
Freddie Mac	2,803	3,885
The Gillette Company	3,954	4,590
Wells Fargo & Company	2,316	2,466
Other	10,256	10,118
	69,386	60,710
Cash and cash equivalents	2,981	13,081
Deferred costs	2,309	1,226
Other	9,490	7,745
	$84,166	$82,762
Liabilities		
Losses and loss adjustment expenses	$26,802	$23,012
Unearned premiums	3,718	3,324
Policyholder liabilities and other accruals	6,537	6,419
Income taxes, principally deferred	9,430	11,432
	46,487	44,187
Equity		
Minority shareholders'	1,337	1,554
Berkshire shareholders'	36,342	37,021
	37,679	38,575
	$84,166	$82,762

Statements of Earnings
(dollars in millions)

	1999	1998	1997
Premiums written	$14,667	$5,476	$4,852
Premiums earned	$14,306	$5,300	$4,761
Losses and loss expenses	12,518	3,904	3,420
Underwriting expenses	3,182	1,131	880
Total losses and expenses	15,700	5,035	4,300
Underwriting gain (loss) — pre-tax	(1,394)	265	461
Net investment income*	2,488	974	882
Realized investment gain	1,364	2,462	1,059
Earnings before income taxes	2,458	3,701	2,402
Income tax expense	672	1,186	704
	1,786	2,515	1,698
Minority interest	35	17	15
Net earnings	$ 1,751	$2,498	$1,683
** Net investment income is summarized below:*			
Dividends	*$ 476*	*$363*	*$457*
Interest	*2,030*	*621*	*430*
Investment expenses	*(18)*	*(10)*	*(5)*
	$2,488	*$974*	*$882*

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

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 and 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
Jordan's Furniture	Retailing home furnishings
Kingston	Appliance controls and actuators
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 flatbed and dump bodies, cranes, tool boxes, and hoists
Star Furniture Company	Retailing home furnishings
Wayne Combustion Systems	Oil and gas burners for residential and commercial appliances and equipment
Wayne Water Systems	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, 1999	December 31, 1998
Assets		
Cash and cash equivalents	$ 370	$ 281
Accounts receivable	923	823
Inventories	806	727
Properties and equipment	1,509	1,190
Other	388	331
	$3,996	$3,352
Liabilities		
Accounts payable, accruals and other	$ 908	$ 761
Income taxes	196	166
Term debt and other borrowings	740	442
	1,844	1,369
Equity		
Minority shareholders'	75	75
Berkshire shareholders'	2,077	1,908
	2,152	1,983
	$3,996	$3,352

Statements of Earnings

(dollars in millions)

	1999	1998	1997
Revenues:			
Sales and service revenues	$5,918	$4,675	$3,615
Interest income	11	8	7
	5,929	4,683	3,622
Cost and expenses:			
Cost of products and services sold	4,061	3,010	2,179
Selling, general and administrative expenses	1,126	1,014	899
Interest on debt	31	19	20
	5,218	4,043	3,098
Earnings from operations before income taxes	711	640	524
Income tax expense	267	234	200
	444	406	324
Minority interest	5	5	6
Net earnings	$ 439	$ 401	$ 318

This presentation reflects the results of operations of Star Furniture Company, International Dairy Queen, Executive Jet and Jordan's Furniture from their respective dates of acquisition; (Star Furniture — July 1, 1997; International Dairy Queen — January 7, 1998; Executive Jet — August 7, 1998; Jordan's Furniture — November 13, 1999).

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 69.

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, Berkshire Hathaway Credit Corporation, BH Finance and *General Re Financial Products* make up Berkshire's finance and financial products businesses.

Balance Sheets
(dollars in millions)

	1999	*1998*
Assets		
Cash and cash equivalents	$ 623	$ 907
Investment in securities with fixed maturities:		
Held to maturity, at cost (fair value $2,223 in 1999; $1,366 in 1998)	2,293	1,227
Trading, at fair value (cost $11,330 in 1999; $5,279 in 1998)	11,277	5,219
Available for sale, at fair value (cost $997 in 1999; $745 in 1998)	999	743
Trading account assets	5,881	6,234
Securities purchased under agreements to resell	1,171	1,083
Other	1,985	1,576
	$24,229	$16,989
Liabilities		
Annuity reserves and policyholder liabilities	$ 843	$ 816
Securities sold under agreements to repurchase	10,216	4,065
Securities sold but not yet purchased	1,174	1,181
Trading account liabilities	5,931	5,834
Notes payable and other borrowings	1,998	1,503
Other	2,303	2,428
	22,465	15,827
Equity		
Berkshire shareholders'	1,764	1,162
	$24,229	$16,989

Statements of Earnings
(dollars in millions)

	1999	1998	1997
Revenues:			
Annuity premiums earned	$ —	$ 95	$ 248
Other revenues	846	293	112
	846	388	360
Expenses:			
Interest expense	596	27	24
Annuity benefits and underwriting expenses	54	146	287
General and administrative	87	16	21
	737	189	332
Earnings from operations before income taxes	109	199	28
Income tax expense	32	70	10
Net earnings	$ 77	$ 129	$ 18

General Re Financial Products, ("GRFP") was acquired in connection with the acquisition of General Re Corporation on December 21, 1998. This statement reflects GRFP's operating results for the year ended December 31, 1999.

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 63 to 68).

Statements of Net Assets

(dollars in millions)

	December 31, 1999	December 31, 1998
Assets		
Cash and cash equivalents	$ 484	$ 220
Investments:		
Fixed maturities	2	30
Equity securities	339	267
Unamortized goodwill and other purchase accounting adjustments *	18,489	18,613
Deferred tax assets	80	130
Other	50	128
	$19,444	$19,388
Liabilities		
Accounts payable, accruals and other	$ 76	$ 40
Income taxes	86	158
Borrowings under investment agreements and other debt	1,693	1,863
	1,855	2,061
Equity		
Minority shareholders’	11	15
Berkshire shareholders’	17,578	17,312
	17,589	17,327
	$19,444	$19,388

Statements of Earnings

(dollars in millions)

	1999	1998	1997
Revenues:			
Interest, dividend and other income	$ 39	$ 63	$ 48
Realized investment gain	1	40	53
	40	103	101
Expenses:			
Corporate administration	6	6	7
Shareholder-designated contributions	17	17	15
Amortization of goodwill and purchase accounting adjustments *	739	210	105
Interest on debt	106	96	101
	868	329	228
Loss before income taxes	(828)	(226)	(127)
Income tax benefit	(119)	(33)	(17)
	(709)	(193)	(110)
Minority interest	1	5	8
Net loss	$(710)	$(198)	$(118)

* *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.

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.

*Copyright © 1981 By Warren E. Buffett
All Rights Reserved

"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
1999	$18	97.3%	$17,174,158	3,850

** 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 2000, 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, 2000*, 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.

BERKSHIRE HATHAWAY INC.

COMMON STOCK

General

Berkshire 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 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 Shareholder Services, Mail Stop 45-02-64. Certificates for re-issue or transfer should be directed to Transfer Operations, 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 EquiServe to obtain a "form of conversion notice" and instructions for converting their shares. Shareholders may call EquiServe between 9:00 a.m. and 6:00 p.m. Eastern Time to request a "form of conversion notice."

Alternatively, shareholders may notify EquiServe in writing. Along with the underlying stock certificate, shareholders should provide EquiServe 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

Berkshire had approximately 9,200 record holders of its Class A Common Stock and 14,600 record holders of its Class B Common Stock at March 3, 2000. Record owners included nominees holding at least 380,000 shares of Class A Common Stock and 5,100,000 shares of Class B Common Stock on behalf of beneficial-but-not-of-record owners.

Price Range of Common Stock

Berkshire'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:

	1999				1998			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$81,100	$61,900	$2,713	$2,048	$69,500	$45,700	$2,324	$1,526
Second Quarter	78,600	68,300	2,540	2,211	84,000	65,800	2,795	2,184
Third Quarter	73,000	54,600	2,333	1,802	78,500	57,000	2,622	1,893
Fourth Quarter	66,900	52,000	2,219	1,700½	71,000	57,700	2,396	1,916

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 1999), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at www.berkshirehathaway.com. Berkshire's 2000 quarterly reports are scheduled to be posted on the Internet after the close of the market on May 12, August 11 and November 10. Berkshire's 2000 Annual Report is scheduled to be posted on the Internet on Saturday March 10, 2001.

A three volume set of compilations of letters (1977 through 1999) is available upon written request accompanied by a payment of $35.00 to cover production, postage and handling costs. Requests should be submitted to the Company at 3555 Farnam St., Suite 1440, Omaha, NE 68131.