BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

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

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

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

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

In our last three annual reports, we furnished you a table that we regard as central to estimating Berkshire's intrinsic value. In the updated version of that table, which follows, we trace our two key components of value, including General Re on a pro-forma basis as if we had owned it throughout the year. The first column lists our per-share ownership of investments (including cash and equivalents but excluding securities held in our financial products operation) and the second column shows our per-share earnings from Berkshire's operating businesses before taxes and purchase-accounting adjustments (discussed on pages 62 and 63), but after all interest and corporate expenses. The second column excludes *all* dividends, interest and capital gains that we realized from the investments presented in the first column. In effect, the columns show how Berkshire would look if it were split into two parts, with one entity holding our investments and the other operating all of our businesses and bearing all corporate costs.

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

Year	Investments Per Share	Pre-tax Earnings Per Share With All Income from Investments Excluded
1968	$ 53	$ 2.87
1978	465	12.85
1988	4,876	145.77
1998	47,647	474.45

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

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

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

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

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

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

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

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Our financial growth has been matched by employment growth: We now have 47,566 on our payroll, with the acquisitions of 1998 bringing 7,074 employees to us and internal growth adding another 2,500. To balance this gain of 9,500 in hands-on employees, we have enlarged the staff at world headquarters from 12 to 12.8. (The .8 doesn't refer to me or Charlie: We have a new person in accounting, working four days a week.) Despite this alarming trend toward corporate bloat, our after-tax overhead last year was about $3.5 million, or well under one basis point (.01 of 1%) of the value of the assets we manage.

Taxes

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

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

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

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

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

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

GEICO (1-800-847-7536)

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

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

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

Years	New Auto Policies*	Auto Policies In-Force*
1993	354,882	2,011,055
1994	396,217	2,147,549
1995	461,608	2,310,037
1996	617,669	2,543,699
1997	913,176	2,949,439
1998	1,317,761	3,562,644

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

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

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

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

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

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

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

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

Some of you who are reading this may be in that category. About 40% of those who check our rates find that they can save money by doing business with us. The proportion is not 100% because insurers differ in their underwriting judgements, with some giving more credit than we do to drivers who live in certain geographical areas or work at certain occupations. We believe, however, that we more frequently offer the low price than does any other national carrier selling insurance to all comers. Furthermore, in 40 states we can offer a special discount — usually 8% — to our shareholders. So give us a call and check us out.

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

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

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

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

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

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

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

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

In a fractional ownership plan, you purchase a portion — say $^{1}/_{8}$th — of any of a wide variety of jets that EJA offers. That purchase entitles you to 100 hours of flying time annually. ("Dead-head" hours don't count against your allotment, and you are also allowed to average your hours over five years.) In addition, you pay both a monthly management fee and a fee for hours actually flown.

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

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

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

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

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

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

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

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

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

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

General Re

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

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

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

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

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

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

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

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

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

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

The Economics of Property-Casualty Insurance

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

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

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

The table that follows shows the float generated by Berkshire's insurance operations since we entered the business 32 years ago. The data are for every fifth year and also the last, which includes General Re's huge float. For the table we have calculated our float — which we generate in large amounts relative to our premium volume — by adding net loss reserves, loss adjustment reserves, funds held under reinsurance assumed and unearned premium reserves, and then subtracting agents balances, prepaid acquisition costs, prepaid taxes and deferred charges applicable to assumed reinsurance. (Got that?)

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

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

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

During the next few years, Berkshire's growth in float may well be modest. The reinsurance market is soft, and in this business, relationships change slowly. Therefore, General Re's float — $^2/_3$rds of our total — is unlikely to increase significantly in the near term. We do expect, however, that our cost of float will remain very attractive compared to that of other insurers.

Sources of Reported Earnings

The table that follows shows the main sources of Berkshire's reported earnings. In this presentation, purchase-accounting adjustments are not assigned to the specific businesses to which they apply, but are instead aggregated and shown separately. This procedure lets you view the earnings of our businesses as they would have been reported had we not purchased them. For the reasons discussed on pages 62 and 63, this form of presentation seems to us to be more useful to investors and managers than one utilizing generally-accepted accounting principles (GAAP), which require purchase-premiums to be charged off business-by-business. The total earnings we show in the table are, of course, identical to the GAAP total in our audited financial statements.

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

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

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

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

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

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

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

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Additional information about our various businesses is given on pages 39-53, where you will also find our segment earnings reported on a GAAP basis. In addition, on pages 65-71, we have rearranged Berkshire's financial data into four segments on a non-GAAP basis, a presentation that corresponds to the way Charlie and I think about the company.

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

Investments

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

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

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

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

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

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

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

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

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

Accounting — Part 1

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

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

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

Though the two plans are an economic wash, the cash plan we are putting in will produce a vastly different accounting result. This Alice-in-Wonderland outcome occurs because existing accounting principles ignore the cost of stock options when earnings are being calculated, even though options are a huge and increasing expense at a great many corporations. In effect, accounting principles offer management a choice: Pay employees in one form and count the cost, or pay them in another form and ignore the cost. Small wonder then that the use of options has mushroomed. This lop-sided choice has a big downside for owners, however: Though options, if properly structured, can be an appropriate, *and even ideal*, way to compensate and motivate top managers, they are more often wildly capricious in their distribution of rewards, inefficient as motivators, and inordinately expensive for shareholders.

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

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

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

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

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

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

Accounting — Part 2

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

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

It was once relatively easy to tell the good guys in accounting from the bad: The late 1960's, for example, brought on an orgy of what one charlatan dubbed "bold, imaginative accounting" (the practice of which, incidentally, made him loved for a time by Wall Street because he never missed expectations). But most investors of that period knew who was playing games. And, to their credit, virtually all of America's most-admired companies then shunned deception.

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

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

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

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

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

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

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

In the acquisition arena, restructuring has been raised to an art form: Managements now frequently use mergers to dishonestly rearrange the value of assets and liabilities in ways that will allow them to both smooth and swell future earnings. Indeed, at deal time, major auditing firms sometimes point out the possibilities for a little accounting magic (or for a lot). Getting this push from the pulpit, first-class people will frequently stoop to third-class tactics. CEOs understandably do not find it easy to reject auditor-blessed strategies that lead to increased future "earnings."

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

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

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

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

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

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

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

Reports to Shareholders

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

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

In another portion of his September speech, Arthur Levitt deplored what he called "selective disclosure." His remarks were timely: Today, many companies matter-of-factly favor Wall Street analysts and institutional investors in a variety of ways that often skirt or cross the line of unfairness. These practices leave the great bulk of shareholders at a distinct disadvantage to a favored class.

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

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

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

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

Shareholder-Designated Contributions

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

Cumulatively, over the 18 years of the program, Berkshire has made contributions of $130 million pursuant to the instructions of our shareholders. The rest of Berkshire's giving is done by our subsidiaries, which stick to the philanthropic patterns that prevailed before they were acquired (except that their former owners themselves take on the responsibility for their personal charities). In aggregate, our subsidiaries made contributions of $12.5 million in 1998, including in-kind donations of $2.0 million.

To participate in future programs, you must own Class A shares that are registered in the name of the actual owner, not the nominee name of a broker, bank or depository. Shares not so registered on August 31, 1999, will be ineligible for the 1999 program. When you get the contributions form from us, return it promptly so that it does not get put aside or forgotten. Designations received after the due date will not be honored.

The Annual Meeting

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

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

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

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

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

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

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

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

NFM's multi-stored complex, located on a 75-acre site about a mile from Aksarben, is open from 10 a.m. to 9 p.m. on weekdays, and 10 a.m. to 6 p.m. on Saturdays and Sundays. This operation did $300 million in business during 1998 and offers an unrivaled breadth of merchandise — furniture, electronics, appliances, carpets and computers — all at can't-be-beat prices. During the April 30th to May 4th period, shareholders presenting their meeting badge will receive a discount that is customarily given only to its employees.

Borsheim's normally is closed on Sunday but will be open for shareholders from 10 a.m. to 6 p.m. on May 2nd. On annual meeting weekend last year, the store did an incredible amount of business. Sales were double those of the previous year, and the store's volume on Sunday greatly exceeded volume for any day in Borsheim's history. Charlie attributes this record to the fact that he autographed sales tickets that day and, while I have my doubts about this proposition, we are not about to mess with a winning formula. Please give him writer's cramp. On last year's Sunday, Borsheim's wrote 2,501 tickets during the eight hours it was open. For those of you who are mathematically challenged, that is one ticket every 11½ seconds.

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

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

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

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

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

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

- 6,106 shareholders designated 3,880 charities to receive contributions.
- Kelly Muchemore processed about 17,500 admission tickets for the annual meeting, along with orders and checks for 3,200 baseball tickets.
- Kelly and Marc Hamburg produced and directed the Aksarben extravaganza, a job that required them to arrange the presentations made by our subsidiaries, prepare our movie, and sometimes lend people a hand with travel and lodging.
- Debbie Bosanek satisfied the varying needs of the 46 media organizations (13 of them non-U.S.) that covered the meeting, and meanwhile, as always, skillfully assisted me in every aspect of my job.
- Debbie and Marc assembled the data for our annual report and oversaw the production and distribution of 165,000 copies. (This year the number will be 325,000.)
- Marc handled 95% of the details — and much of the substance — connected with our completing two major mergers.
- Kelly, Debbie and Deb Ray dealt efficiently with tens of thousands of requests for annual reports and financial information that came through the office.

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

Warren E. Buffett
Chairman of the Board

March 1, 1999