

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED December 31, 1998

COMMISSION FILE NUMBER \_\_\_\_\_

BERKSHIRE HATHAWAY INC.  
(Exact name of Registrant as specified in its charter)

Delaware	47-0813844
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State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification number)
1440 Kiewit Plaza, Omaha, Nebraska	68131
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(Address of principal executive office)	(Zip Code)
Registrant's telephone number, including area code (402) 346-1400	
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Securities registered pursuant to Section 12(b) of the Act\*:

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$5.00 Par Value	New York Stock Exchange
Class B Common Stock, \$0.1667 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for the past 90 days. Yes {X} No { }

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. { }

State the aggregate market value of the voting stock held by non-affiliates of the Registrant - \$76,272,000,000 \*\*

Indicate number of shares outstanding of each of the Registrant's classes of common stock:

March 19, 1999 -- Class A Common Stock, \$5 par value.....1,343,357 shares  
March 19, 1999 -- Class B Common Stock, \$0.1667 par value.....5,274,030 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document -----	Incorporated In -----
Proxy Statement for Registrant's Annual Meeting to be held May 3, 1999	Part III

\* OBH Inc., a wholly-owned subsidiary of the Registrant, issued 1% Senior Exchangeable Notes due December 2, 2001, which are registered on the New York Stock Exchange.

\*\* This aggregate value is computed at the last sale price of the common stock on March 19, 1999. It does not include the value of Class A Common Stock (535,648 shares) and Class B Common Stock (58 shares) held by Directors and Executive Officers of the Registrant and members of their immediate families, some of whom may not constitute "affiliates" for purpose of the Securities Exchange Act of 1934.

Berkshire Hathaway Inc. ("Berkshire", "Company" or "Registrant") is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these are insurance businesses conducted nationwide on a primary basis and worldwide on a reinsurance basis. Berkshire also owns and operates a number of other businesses engaged in a variety of activities, as identified herein.

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.

#### INSURANCE AND REINSURANCE BUSINESSES

Berkshire's insurance and reinsurance business activities are conducted through 32 domestic and 15 foreign-based insurance companies. Since the beginning of 1996, Berkshire's insurance operations expanded significantly as a result of the January 1996 acquisition of GEICO Corporation ("GEICO Corp.") and the December 1998 acquisition of General Re Corporation ("General Re"). Historically, Berkshire's insurance businesses provided insurance and reinsurance of property and casualty risks primarily in the United States. In future periods, Berkshire's insurance operations will also include meaningful amounts of the life, accident and health reinsurance, as well as international property and casualty reinsurance through General Re and its affiliates.

In primary (or direct) insurance activities, the insurer assumes the risk of loss from persons or organizations that are directly subject to the risks. Such risks may relate to property, casualty (or liability), life, accident, health, financial or other perils that may arise from an insurable event. In reinsurance activities, the reinsurer assumes defined portions of similar or dissimilar risks that other primary insurers or reinsurers have assumed in their own insuring activities.

Reinsurance contracts are normally classified as treaty or facultative contracts. Treaty reinsurance refers to automatic reinsurance coverage for all or a portion of a specified class of risks ceded by the primary insurer, while facultative reinsurance involves underwriting of individual risks. Coverage of risks assumed under reinsurance contracts may be classified as quota-share or excess. Under quota-share (or pro-rata) reinsurance, the reinsurer shares proportionally in the original premiums, losses, and expenses of the primary insurer or reinsurer. Excess (or non-proportional) reinsurance provides for the indemnification of the primary insurer or reinsurer for all or a portion of the loss in excess of an agreed upon amount or "retention." Both quota-share and excess reinsurance may provide for aggregate limits of indemnification.

Except for regulatory considerations, there are virtually no barriers to entry into the insurance and reinsurance industry. Competitors may be domestic or foreign, as well as licensed or unlicensed. The number of competitors within the industry is not known. Insurers and reinsurers compete on the basis of reliability, financial strength and stability, ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions.

U.S. based insurers and reinsurers are subject to regulation by their states of domicile and by those states in which they are licensed. The primary focus of regulation is to assure that insurers are financially solvent and that policyholder interests are otherwise protected. States establish minimum capital levels for insurance companies and establish guidelines for permissible business and investment activities. States have the authority to suspend or revoke a company's authority to do business, as conditions warrant.

Most primary insurers are required to obtain regulatory approval of the policy forms issued and premium rates charged to policyholders. Reinsurers are normally not required to obtain such approvals. States regulate the payment of dividends by insurance companies to their shareholders. Dividends of extraordinary amounts are subject to prior regulatory approval.

#### ITEM 1. BUSINESS (CONTINUED)

##### INSURANCE AND REINSURANCE BUSINESSES (CONTINUED)

The insurance regulators of every state participate in the National Association of Insurance Commissioners ("NAIC"). The NAIC adopts forms, instructions and accounting procedures for use by U.S. insurers and reinsurers in preparing and filing annual statutory financial statements. However, an insurer's state of domicile has ultimate authority over accounting practices.

In 1998, the NAIC adopted statutory accounting principles ("SAP") developed under its Codification Project, which was intended to bring greater uniformity in accounting practices throughout the United States. The codification guidance is expected to become effective in 2001 and, in its current form, should not have a significant effect on Berkshire's insurance businesses. However, the amount of reported regulatory capital, also known as statutory surplus, of Berkshire's insurance subsidiaries will decline due to the recognition of deferred income tax liabilities on unrealized appreciation of

investments. Under current SAP, such liabilities are not recognized.

In addition to its activities relating to the annual statement and SAP, the NAIC develops or adopts model laws, regulations and programs for use by its members. Such matters deal with regulatory oversight of solvency, compliance with financial regulation standards, and risk-based capital reporting requirements.

In general, regulation of the reinsurance industry outside of the United States is subject to the differing laws and regulations of each country in which the reinsurer has operations or writes premiums. Some jurisdictions, such as the United Kingdom, impose complex regulatory requirements on reinsurance companies, while other jurisdictions, such as Germany, impose fewer requirements. Local reinsurance business conducted by General Re's subsidiaries in some countries requires licenses issued by governmental authorities. These licenses may be subject to modification, suspension or revocation dependent on such factors as amount and types of reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure and/or criminal sanctions for violation of regulatory requirements.

Berkshire's insurance companies maintain capital strength at unparalleled levels, significantly higher than normal in the industry. This strength differentiates Berkshire's insurance companies from their competitors. Collectively, the aggregate statutory surplus of Berkshire's U.S. based insurers has grown from \$11.5 billion at December 31, 1993 to approximately \$45.0 billion at December 31, 1998. All of Berkshire's major insurance companies are rated AAA by Standard & Poor's Corporation with respect to their claims-paying abilities and are rated A++ (superior) by A.M. Best with respect to their financial condition and operating performance.

Insurance underwriting operations are comprised of the following sub-groups: (1) GEICO Corp. and its subsidiaries, (2) Berkshire Hathaway Reinsurance Group, (3) Berkshire Hathaway Direct Insurance Group, and (4) General Re and its subsidiaries. Additional information related to each of these four underwriting units follows.

GEICO CORPORATION -- On January 2, 1996, GEICO Corp. became an indirect wholly-owned subsidiary of Berkshire as a result of the merger of an indirect wholly-owned subsidiary of Berkshire with and into GEICO Corp. The acquisition was pursuant to an Agreement and Plan of Merger wherein each outstanding share of GEICO Corp., except treasury shares and shares already held by Berkshire subsidiaries, was converted to the right to receive \$70 cash, or \$2.3 billion in the aggregate. Immediately prior to the merger, Berkshire subsidiaries owned approximately 51% of all outstanding GEICO Corp. common stock.

GEICO Corp. is headquartered in Chevy Chase, Maryland and its principal insurance subsidiaries include: Government Employees Insurance Company ("GEICO"), GEICO General Insurance Company ("GEICO General"), GEICO Indemnity Company ("GI"), and GEICO Casualty Company ("GEICO Casualty"). These companies offer primarily private passenger automobile insurance to individuals in 48 states and the District of Columbia. Since being acquired by Berkshire in 1996, premium volume has grown significantly due to growth in voluntary automobile policies in-force. Net premiums written in 1998 were \$4,182 million compared to \$2,856 million in 1995. Collectively, GEICO Corp. companies are currently the sixth largest auto insurer, in terms of premium volume, in the United States.

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#### ITEM 1. BUSINESS (CONTINUED)

##### INSURANCE AND REINSURANCE BUSINESSES (CONTINUED)

##### GEICO CORPORATION (CONTINUED)

GEICO, founded in 1936, is a multiple-line property and casualty insurer engaged primarily in writing private passenger automobile insurance for preferred-risk government employees and military personnel. GEICO also writes small amounts of homeowners, fire and boat owners insurance (businesses that GEICO has already substantially reduced and plans to fully exit in 1999), and personal umbrella insurance for all qualified applicants. GEICO General writes private passenger automobile insurance for preferred-risk drivers not associated with the government or military. GI writes standard-risk private passenger automobile and motorcycle insurance. GEICO Casualty writes non-standard risk private passenger automobile insurance. Each of these companies market their policies primarily through direct response methods, in which applications for insurance are submitted directly to the companies by telephone or through the mail.

Seasonal variations in GEICO Corp.'s insurance business are not significant. However, extraordinary weather conditions or other factors may have a significant effect upon the frequency or severity of automobile claims and, to a diminishing degree, homeowners claims.

GEICO Corp. companies compete for private passenger auto insurance customers with other companies that sell direct to the customer, as well as with companies that use a traditional agency sales force. Private passenger automobile insurance business is highly competitive in the areas of price and service. Some insurance companies exacerbate price competition by selling their products for a period of time at less than adequate rates, because they

underestimate ultimate claim costs and/or overestimate the amount of investment income expected to be earned from the cash flow generated as a result of premiums being received before claims are paid. Like all other Berkshire insurance and reinsurance businesses, GEICO Corp. companies will not knowingly follow that strategy.

Private passenger auto insurance is stringently regulated by state insurance departments. As a result, it is difficult for insurance companies to differentiate their products to consumers. Competition for preferred-risk private passenger automobile insurance, which is substantial, tends to focus on price and level of customer service provided, whereas price tends to be the primary focus for other risks. GEICO Corp. companies place great emphasis on customer satisfaction. GEICO Corp. companies' cost efficient direct response marketing methods and emphasis on customer satisfaction enable it to offer competitive rates and value to customers.

Management believes that the name and reputation of the GEICO Corp. companies is a material asset and protects its name and other service marks through appropriate registrations.

BERKSHIRE HATHAWAY REINSURANCE GROUP -- The Berkshire Hathaway Reinsurance Group is headed by National Indemnity Company ("National Indemnity"), and operates from offices located in Stamford, Connecticut. National Indemnity provides principally excess and, to a lesser degree, quota-share reinsurance to other property and casualty insurers and reinsurers.

National Indemnity's clients and risks assumed are located throughout the world, but are primarily located within the United States. Minimal organizational, but huge financial resources, are currently devoted to this business. Over the past 5 years, annual net premiums written have ranged from \$690 million (in 1994) to \$986 million (in 1998).

During the past five years, National Indemnity has written a considerable number of catastrophe excess contracts. A catastrophe excess policy provides protection to the counterparty from the accumulation of primarily property losses arising from a single loss event or series of events. These policies may provide significant amounts of indemnification per contract and a single loss event may produce losses under a number of contracts. Generally, National Indemnity does not cede any of the risks it has assumed under catastrophe excess reinsurance contracts to third-party reinsurers, due to perceived uncertainties in recovering amounts from other reinsurers that are financially weaker. As a result, the catastrophe excess reinsurance business can produce extreme volatility in periodic underwriting results. Accounting consequences, however, do not influence decisions of Berkshire's management with respect to this or any other business. This factor along with its extraordinary financial strength, are believed to be the primary reasons why National Indemnity has become a major provider of such coverages.

#### ITEM 1. BUSINESS (CONTINUED)

##### INSURANCE AND REINSURANCE BUSINESSES (CONTINUED)

##### BERKSHIRE HATHAWAY REINSURANCE GROUP (CONTINUED)

In recent years, the amount of capital (i.e. capacity) devoted to the catastrophe excess reinsurance business by the industry has increased, through additional capital raised by newly-formed entities and the introduction in the financial markets of new types of catastrophe risk management products. The effect of such increased insuring capacity is a reduction in opportunities to write this business at acceptable prices. However, the occasional acceptance of catastrophe excess reinsurance contracts can produce considerable premiums.

In National Indemnity's non-catastrophe reinsurance business, the concept of time-value-of money is often an important element in establishing prices and contract terms, since the payment of losses under the agreements are often expected to occur over lengthy periods of time. Under the terms of most contracts, limits of indemnification may be subject to minimum and maximum payment amounts. Minimum payment requirements arise from profit-sharing or commutation clauses that call for repayments to the reinsureds of amounts not otherwise paid as losses. Premium amounts and limits of indemnification per contract are likely to be large and contracts may span a number of years. This business is accepted, in large part, because of the substantial amounts of policyholder funds ("float") produced.

BERKSHIRE HATHAWAY DIRECT INSURANCE GROUP -- The Berkshire Hathaway Direct Insurance Group is a collection of smaller primary insurance operations that provide a wide variety of insurance coverages to insureds principally in the U.S. National Indemnity and certain affiliates underwrite motor vehicle insurance to commercial truck and bus operators. This business is written nationwide primarily through insurance agents and brokers and is based in Omaha, Nebraska. National Indemnity and certain other affiliates also solicit and underwrite various unusual or especially large property and casualty risks.

Other insurance operations include: several companies referred to as the "Homestate Companies", based in Colorado and Nebraska and with branch offices in several other states, which market various commercial coverages for standard risks to insureds in their state of domicile and an increasing number of other

states; Cypress Insurance Company, based in California, an underwriter of principally workers' compensation policies for insureds located in California and a small number of other states; Central States Indemnity Company of Omaha, 82% owned by Berkshire and located in Omaha, Nebraska, which provides credit card credit insurance marketed primarily through credit card issuers nationwide; 80.1% owned Kansas Bankers Surety Company, based in Kansas, and an insurer of primarily crime, fidelity, errors and omissions, officers and directors liability and related insurance coverages directed toward small and medium-sized banks throughout the midwestern United States; and Berkshire Hathaway International Ltd, an insurer of primarily private passenger and commercial auto risks in the United Kingdom.

GENERAL RE -- On June 19, 1998 Berkshire and General Re executed a Merger Agreement and Plan of Merger. In September 1998, shareholders of the two companies approved the merger and during the fourth quarter all regulatory approvals and tax rulings were received. The transaction was completed on December 21, 1998. General Re shareholders received merger consideration consisting of approximately 272,200 equivalent Class A shares.

Berkshire's Consolidated Balance Sheet at December 31, 1998 reflects the consolidation of the General Re accounts. Berkshire's Consolidated Statements of Earnings and Cash Flows include the consolidated results of General Re for the 10 day period ending December 31, 1998. Additional information regarding General Re's insurance and reinsurance business is provided below. The financial amounts and percentages related to General Re business activities are derived from its activities for the full year.

General Re was established in 1980 to serve as the holding company of General Reinsurance Corporation ("GRC", incorporated in 1921) and its affiliates. Other General Re affiliates include Kolnische Ruckversicherungs Gesellschaft AG ("Cologne Re"), a major international reinsurer based in Germany. General Re, directly and indirectly through a joint venture arrangement, holds an 83% economic interest in Cologne Re.

General Re subsidiaries have global reinsurance operations in 61 cities throughout the world and provide reinsurance coverage in 124 countries. General Re operates three principal reinsurance businesses: North American property/casualty reinsurance, international property/casualty reinsurance, and global life/health reinsurance. General Re's reinsurance operations are primarily based in North America and Germany. Collectively, General Re is among the four largest reinsurers in the world based on net premiums written and capital.

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#### ITEM 1. BUSINESS (CONTINUED)

##### INSURANCE AND REINSURANCE BUSINESSES (CONTINUED)

##### GENERAL RE (CONTINUED)

##### NORTH AMERICAN PROPERTY/CASUALTY REINSURANCE

General Re's North American property/casualty business is principally treaty and facultative reinsurance that is marketed directly to clients without involving a broker or intermediary. General Re companies underwrite predominantly excess coverages for clients located throughout the United States and Canada. North American reinsurance operations are conducted primarily through GRC and National Reinsurance Corporation ("NRC"), both based in Stamford, Connecticut. GRC is domiciled in Delaware and licensed in the District of Columbia and all states but Hawaii, where it is an accredited reinsurer. NRC is domiciled in Delaware and licensed in all 50 states, the District of Columbia, Puerto Rico, Canada and the United Kingdom.

North American reinsurance operations generated \$2,707 million in net written premiums in 1998. Casualty reinsurance represented approximately 61 percent of North American property/casualty net premiums written and property reinsurance business represented approximately 25 percent.

General Re's specialty insurers include the General Star companies, which underwrite excess and surplus lines and are domiciled in Connecticut and Ohio. Also, the Genesis companies underwrite excess insurance for self-insured programs and are domiciled in Connecticut and North Dakota. General Re also writes excess insurance for self insurers through GRC. Fairfield Insurance Company, a subsidiary of NRC engaged in property and casualty insurance services, is domiciled in Connecticut, and is licensed in 48 states and the District of Columbia. These businesses together represented approximately 14 percent of General Re's North American property/casualty net premiums written.

##### INTERNATIONAL PROPERTY/CASUALTY REINSURANCE

In total, General Re operates its international property/casualty reinsurance business in 31 countries and provides reinsurance coverage in 124 countries throughout the world. In 1998, the international property/casualty operations principally wrote business in the form of reinsurance treaties with lesser amounts written on a facultative basis. International property/casualty reinsurance business is primarily written through Cologne Re. In addition, international reinsurance business is written through a number of wholly-owned subsidiaries of General Re.

In 1998, General Re's international property/casualty operations produced net written premiums totaling \$2,072 million. Approximately 78 percent of international premiums written related to quota-share coverages and 22 percent were excess coverages. Property premiums written were approximately 63 percent of total international property/casualty premiums and casualty premiums were approximately 37 percent.

#### GLOBAL LIFE/HEALTH REINSURANCE

This segment includes the North American and international life/health operations of Cologne Re. Life/health net premiums written in 1998 were \$1,304 million. Approximately 38 percent of life/health net premiums were written in Europe, another 45 percent were written in North America and the remaining 17 percent were written throughout the rest of the world. The life/health operations provide individual life, group life, group health, long-term care, individual health and finite risk reinsurance. Most of the life reinsurance business is written on a proportional treaty basis, with smaller amounts written on a facultative basis, while health business is predominantly written on an excess treaty basis. The life/health business is marketed primarily on a direct basis with the exception of group health, which is marketed primarily through brokers.

INVESTMENTS -- The levels of reinsurance assumed business in recent years, plus the acquisitions of GEICO Corp. and General Re, have produced an exceptional increase in the amount of "float" held by Berkshire's insurance businesses. "Float" is an approximation of the amount of net policyholder funds available for investment. That term denotes the sum of unpaid losses and loss adjustment expenses, unearned premiums and other policyholder liabilities, less the aggregate amount of premium balances receivable, losses recoverable from reinsurance ceded, deferred policy acquisition costs, deferred charges re reinsurance assumed, and related prepaid income taxes. The amount of float has grown from about \$2.8 billion at the end of 1993 to about \$22.8 billion at the end of 1998. Approximately two-thirds of the year end 1998 amount derives from General Re. The increases in the amounts of float plus the substantial amounts of shareholder capital devoted to insurance and reinsurance activities has generated meaningful increases in the levels of investments and investment income.

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#### ITEM 1. BUSINESS (CONTINUED)

##### INSURANCE AND REINSURANCE BUSINESSES (CONTINUED)

##### INVESTMENTS (CONTINUED)

Investment portfolios of insurance subsidiaries include meaningful equity ownership percentages of other publicly traded companies. Investments in excess of 5% of the investees outstanding capital stock at December 31, 1998 include approximately 11% of the outstanding capital stock of American Express Company, approximately 8% of the capital stock of The Coca-Cola Company, approximately 9% of the capital stock of Federal Home Loan Mortgage Corporation ("Freddie Mac"), approximately 8 1/2% of the capital stock of The Gillette Company, and approximately 17% of the capital stock of The Washington Post Company. Much information about these publicly-owned companies is available, including information released from time to time by the companies themselves.

##### NON-INSURANCE BUSINESSES OF BERKSHIRE

The Registrant's eight non-insurance "reportable business segments" are described below.

BUFFALO NEWS -- The Buffalo News publishes a Sunday edition and nine editions each weekday from its headquarters in Buffalo, New York. It is the only metropolitan newspaper published daily within a ten county upstate New York distribution area that comprises one of the 50 largest primary market areas in the United States.

Among newspapers published in those primary markets, The Buffalo News claims the highest percentage of its area household coverage, 64% on weekdays and 80% on Sundays. Berkshire management believes the "newshole" percentage (portion of the paper devoted to news) of The Buffalo News to be greater than any other dominant newspaper of its size or larger. During 1998, this percentage was approximately 58%.

FLIGHT SERVICES -- On December 23, 1996, FlightSafety International Inc. ("FSI") became a wholly-owned subsidiary of Berkshire. Aggregate consideration of \$1.5 billion was paid to former FSI shareholders, consisting of approximately \$769 million in cash, and the remainder in Berkshire Class A and Class B Common Stock. FSI's corporate headquarters is located at LaGuardia Airport in Flushing, New York.

FSI and its subsidiaries engage primarily in the business of providing high technology training to operators of aircraft and ships. FSI's training activities include: advanced pilot training in the operation of aircraft and air traffic control procedures; aircrew training for military and other government personnel; aircraft maintenance technician training; ab-initio (primary) pilot training to qualify individuals for private and commercial pilots' licenses; and

shiphandling and related training services. FSI also develops classroom instructional systems and materials for use in its training business and for sale to others.

A significant element of FSI's training programs derives from the use of simulators, which incorporate computer-based technology to replicate the operation of particular aircraft or ocean-going vessels. Simulators reproduce, with a high degree of accuracy, certain sights, movements, and aircraft or vessel control responses experienced by the operator of the aircraft or ship. FSI utilizes more than 200 civil aviation simulators and training devices. FSI's training businesses are conducted primarily in the United States, with facilities located in 20 states. FSI also operates training facilities in Canada, China, France, United Kingdom and the Netherlands. During 1997, FSI and The Boeing Company, a leading airplane manufacturer, established a joint venture to provide pilot and aircrew training for airline customers around the world.

FSI also designs and manufactures full motion flight simulators, visual displays, and other training equipment for use in its training business and for sale to others. Manufacturing facilities are located in Oklahoma and Missouri.

Berkshire added to its flight services business upon the acquisition of Executive Jet, Inc. ("EJ"), which was completed on August 7, 1998. EJ shareholders received aggregate consideration of \$700 million, consisting of \$350 million in cash and the remainder in Berkshire Class A and B Common Stock.

EJ is the world's leading provider of fractional ownership programs for general aviation aircraft. The fractional ownership of aircraft concept permits customers to acquire a specific percentage of a certain aircraft type and allows them to utilize the aircraft for a specified number of flight hours per annum. In addition, EJ provides management, ground support and flight operation services to customers after the sale. EJ's revenues derive from both the sale of fractional interests as well as management and usage fees charged to clients in connection with flight operations.

The fractional ownership concept is designed to meet the needs of customers who cannot justify the purchase of an entire aircraft based upon expected usage. In addition, fractional ownership programs are available for corporate flight departments seeking to outsource their general aviation needs or looking for additional capacity for peak periods and for others that previously chartered aircraft. EJ places great emphasis on customer service. Its programs are designed to offer customers guaranteed availability of aircraft, lower and predictable operating costs and liquidity.

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#### ITEM 1. BUSINESS (CONTINUED)

##### NON-INSURANCE BUSINESSES OF BERKSHIRE (CONTINUED)

##### FLIGHT SERVICES (CONTINUED)

In 1986, EJ created the fractional ownership of aircraft concept and introduced its NetJets(R) program in the U.S. with one aircraft type. The NetJets(R) program has since grown to include seven aircraft types with plans to introduce several more models in the next two years. In late 1996, EJ expanded its fractional ownership programs to Europe via a joint venture arrangement, which is 91% owned by EJ.

EJ is currently believed to be the world's largest purchaser of general aviation aircraft. The company maintained 157 aircraft in its fleet as of December 31, 1998. EJ management believes that the market for fractional ownership of aircraft programs is large and growing and will contribute to EJ's continued growth over the foreseeable future.

EJ's executive offices are located in New Jersey, while most of its logistical and flight operations are based at Port Columbus International Airport in Columbus, Ohio. EJ's European operations are based in Lisbon, Portugal.

HOME FURNISHINGS -- The Home Furnishings segment includes the retail furniture businesses of the Nebraska Furniture Mart ("NFM"), 80% owned by Berkshire, R.C. Willey Home Furnishings ("R.C. Willey") and Star Furniture Company ("Star"), both 100% owned by Berkshire. Berkshire has owned its interest in NFM since 1983, and acquired R.C. Willey in 1995 and Star in 1997. NFM, R.C. Willey and Star each offer a wide selection of furniture and accessories. In addition, NFM and R.C. Willey sell a full line of major household appliances, electronics, computers and other home furnishings. All three businesses offer customer financing to complement their retail operations. An important feature of all three businesses is their ability to control costs and to produce high business volume from offerings of significant value to its customers.

NFM operates its business from a single very large - approximately 500,000 square feet - retail complex and sizable warehouse and administrative facilities in Omaha, Nebraska. NFM's customers are drawn from a radius around Omaha of approximately 300 miles and it is the largest furniture retailer in the area.

R.C. Willey, founded in 1932, is the dominant home furnishings retailer in Utah. Based in Salt Lake City, R.C. Willey operates six full retail stores, a

distribution center and three clearance facilities. These facilities -- which include more than 635,000 square feet of retail space -- are strategically located in northern suburban sections in the state of Utah and serve customers in four western states.

Star's retail, office and warehouse facilities, include about 480,000 square feet of retail space in nine locations. Seven retail locations are in Houston, Texas where Star is a major furniture retailer in that market.

INTERNATIONAL DAIRY QUEEN -- On January 7, 1998, Berkshire completed the acquisition of International Dairy Queen ("IDQ"). IDQ shareholders received total merger consideration of approximately \$590 million, consisting of \$ 265 million in cash and the remainder in Berkshire Class A and B stock.

IDQ develops, licenses and services a system of approximately 5,900 Dairy Queen stores that feature hamburgers, hot dogs, various dairy desserts and beverages. The company franchises Dairy Queen stores either directly with individual operators or indirectly through agreements with territorial operators, who then grant franchises to individual operators within a specific geographical territory. The company also directly owns and operates approximately 60 stores. IDQ supports and promotes the store operations of franchisees through product development, market testing, advertising, training and advisory services. IDQ creates and enforces quality control standards for franchisees. A major portion of IDQ's operating profit derives from franchise service fees paid by franchised stores and stores licensed by territorial operators.

IDQ also sells equipment directly to stores and sells products used in store operations to a system of independently-owned warehouses that also purchase approved products from other suppliers. These warehouses in turn sell products to the Dairy Queen stores within specified geographical areas. The first Dairy Queen store was opened in 1940 and stores are currently located in 49 states, as well as Canada, Japan, and several other countries.

The company also develops and services approximately 400 stores operating under the name of Orange Julius featuring blended fruit drinks and snack items and approximately 40 stores operating under the name of Karmelkorn featuring popcorn and other snacks items.

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#### ITEM 1. BUSINESS (CONTINUED)

##### NON-INSURANCE BUSINESSES OF BERKSHIRE (CONTINUED)

JEWELRY -- In 1995, Berkshire acquired Helzberg's Diamond Shops, Inc. ("Helzberg's"). Helzberg's, based in North Kansas City, Missouri, operates a chain of 194 retail jewelry stores in thirty states. Most of Helzberg's stores are located in malls or power strip centers, and operate under the name Helzberg Diamonds. In addition, since 1989, Berkshire has owned an 85% interest in Borsheim's Jewelry Company ("Borsheim's"). From its single store located in Omaha, Nebraska, Borsheim's is a high volume retailer of fine jewelry, watches, crystal, china, stemware, flatware, gifts and collectibles.

SCOTT FETZER COMPANIES -- The Scott Fetzer Companies are a diversified group of 22 businesses that manufacture and distribute a wide variety of products for residential, industrial and institutional use. The two most significant of these businesses are the Kirby home cleaning systems and the Campbell Hausfeld businesses.

Kirby's home cleaning systems are sold to approximately 830 independent authorized factory distributors in the United States and foreign countries. Sales are made through in-the-home demonstrations by independent salespeople. The distributors independently establish the prices at which they offer Kirby products. Kirby and its distributors believe they offer a premium product, and it is believed that prices are generally higher than most of its major competitors. Additionally, a wholly-owned subsidiary purchases consumer finance contracts from about 460 Kirby authorized factory distributors in the United States.

Campbell Hausfeld manufactures a variety of products including air compressors, air tools, painting systems, pressure washers, welders and generators which are marketed through retail outlets. Scott Fetzer management believes that Campbell Hausfeld offers products that are a superior value to the consumer in comparison to its competitors.

SEE'S CANDIES -- See's Candies produces boxed chocolates and other confectionery products with an emphasis on quality in two large kitchens in California. See's distributes its candies through its own retail stores - over 200 in number, located in 10 western and midwestern states, including Hawaii - and by mail order. A meaningful volume of candy business is also recorded from direct shipments made nationwide from its California based quantity order distribution centers.

Seasonality in this business is extreme. Nearly 50% of each year's unit sales volume is generated during the last two months of the year, when quantity order sales at reduced prices to businesses and other organizations augment the extremely high retail store and mail order volume during December.



SHOE GROUP -- This segment includes H. H. Brown Shoe Company ("H. H. Brown"), Lowell Shoe, Inc. ("Lowell") and Dexter Shoe Company ("Dexter"). A description of each of these businesses follows.

H. H. Brown manufactures, imports and markets work, safety, outdoor, western work and casual footwear. They are distributed under the H. H. Brown, Born, Carolina, Double-H Boot and other brand names as well as under private label. H. H. Brown is the leading domestic producer of steel toe safety work shoes. The company maintains a significant share in many niche markets in which it competes by providing functional footwear and emphasizing comfort. The company's competitors in this market are typically domestic work boot manufacturers. Management believes that its products are competitive in terms of quality and price.

In addition to manufacturing its products at three facilities located in the United States and a facility in Canada, H. H. Brown sources shoes and shoe components offshore. The company markets its products entirely within the United States and Canada through a direct sales force of about 120 employees. Its customer base is primarily composed of small independent retailers and wholesalers who sell to workers in a variety of industries including construction, heavy manufacturing, agriculture and other light duty and service occupations.

Lowell manufactures and markets women's casual, service and nurses footwear. These products are marketed primarily under the brand names Soft Spots and Nurse Mates.

Dexter manufactures and markets men's and women's dress, casual and athletic footwear primarily in the continental U.S. All products are manufactured and sold under the trademark Dexter. The company specializes in the construction of Handsewns, Welts and Cements. Leather is purchased from domestic tanneries, and many of the other components used in the manufacturing process are made by Dexter. Dexter has four manufacturing facilities in Maine, two in Puerto Rico and one in the Dominican Republic. In addition to the manufacturing facilities, Dexter operates 95 factory outlet stores located in 16 states and Puerto Rico.

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#### ITEM 1. BUSINESS (CONTINUED)

##### NON-INSURANCE BUSINESSES OF BERKSHIRE (CONTINUED)

OTHER NON-INSURANCE ACTIVITIES not identified with Berkshire business segments include a group of finance and financial products businesses. Included in this group is Berkshire Hathaway Life Insurance Company of Nebraska. This company primarily sells annuity contracts that provide for periodic payments to claimants associated with settlements of personal injury claims. Additionally, the finance group includes Scott Fetzer Financial Group, Inc., which for many years has provided financing of receivables related to Scott Fetzer's, Kirby and World Book products.

Also included in these business activities is General Re Financial Products Corporation and affiliates ("GRFP"). GRFP is a dealer in derivative products offering a full line of interest rate, currency, and equity swap and option products, as well as structured finance products. GRFP and its affiliates maintain offices in London, New York, Tokyo, Hong Kong and Toronto. GRFP's client base consists principally of major corporations, insurance companies, financial institutions and sovereigns that use derivative products as part of their asset and liability risk management strategies. Berkshire's finance operations also include several smaller businesses of General Re, which provide insurance, reinsurance, investment, and real estate brokerage and management services.

Berkshire Hathaway Inc. and subsidiaries employed approximately 47,600 persons on a full-time equivalent basis at December 31, 1998.

##### ADDITIONAL INFORMATION WITH RESPECT TO BERKSHIRE'S BUSINESSES

The amounts of revenue, operating profit and identifiable assets attributable to the aforementioned business segments are included in Note 15 to Registrant's Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data. Additional information regarding Registrant's investments in fixed maturity and marketable equity securities is included in Notes 3 and 4 to Registrant's Consolidated Financial Statements.

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#### ITEM 2. PROPERTIES

The physical properties used by the Registrant and its significant business segments are summarized below:

Owned      Approx.

Business -----	Location -----	Type of Property -----	or Leased -----	Square Footage -----
Company Headquarters	Omaha, NE	Offices	Leased	7,000
GEICO	Chevy Chase, MD, Woodbury, NY, Macon, GA, Dallas, TX, Fredericksburg & Virginia Beach, VA	Offices	Owned	2,000,000
	San Diego, CA & various locations throughout the United States	Offices and drive-in claims facilities	Leased	250,000
Berkshire Hathaway Reinsurance Group	Stamford, CT	Offices	Leased	10,000
Berkshire Hathaway Direct Insurance Group	Omaha, NE	Offices	Owned	73,000
	Omaha, NE & various locations throughout the United States & England	Offices	Leased	138,000
General Re	Stamford, CT, Cologne, Germany and various non-U.S. locations	Offices	Owned	580,000
	Various U.S. and non-U.S. locations	Offices	Leased	900,000
Buffalo News	Buffalo, NY	Offices	Owned	195,000
	Buffalo, NY	Printing Plant	Owned	150,000
	New York & Washington, D.C.	Offices/Warehouses	Leased	85,000
Flight Services	23 U.S. States, Canada, Netherlands, France, United Kingdom and China	Offices/Training Facilities/Hangars	Owned	962,000
		Offices/Training Facilities/Hangars	Leased	1,250,000
	Oklahoma and Missouri	Manufacturing	Owned and leased	84,000
Home Furnishings	Omaha, NE	Retail Stores	Owned	986,000
	Salt Lake City, UT & other locations in UT & NE	Warehouses/Offices	Owned	1,691,000
	Salt Lake City, UT,	Retail Stores	Leased	630,000
	Houston, TX & other locations in UT, TX & IA	Warehouses/Offices	Leased	490,000

## ITEM 2. PROPERTIES (CONTINUED)

Business -----	Location -----	Type of Property -----	Owned or Leased -----	Approx. Square Footage -----
International Dairy Queen	Decatur, GA, Minneapolis, MN & Canada	Manufacturing/ Offices/ Warehouses	Owned	145,000
	11 U.S. locations	Restaurants/Stores	Owned	35,000
	11 U.S. locations & Canada	Offices/Warehouses	Leased	54,000
	45 U.S. locations	Restaurants/Stores	Leased	129,000
Jewelry	Kansas City, MO	Office/Warehouse	Owned	65,000
	Omaha, NE and 194 other U.S. locations	Retail stores/offices	Leased	477,000
Scott Fetzer Companies	Cleveland, OH, & other locations in 13 U.S. states	Plants/Warehouses/ Offices	Owned	2,330,000
		Warehouses/Offices	Leased	805,000
	Canada, England, Taiwan & Mexico	Warehouses/Offices	Leased	93,000
See's Candies	Los Angeles, CA & South San Francisco, CA	Plants/Warehouses/ Offices	Owned	625,000
	California	Warehouses/Offices	Leased	227,000
	California & other locations principally in western states (205 locations)	Retail outlets and quantity order centers	Leased	339,000
Shoe Group	Morganton, NC, Womelsdorf, PA,	Plants/Warehouses/ Offices	Owned	1,723,000

Martinsburg, PA, Hudson, NH, Dexter, ME, Puerto Rico & Canada				
Greenwich, CT, Morganton, NC, Skowhedgan, ME, Newton, MA, Northkingstown, RI, Womelsdorf, PA, Hudson, NH, Canada, Puerto Rico & Dominican Republic	Plants/Warehouses/ Offices	Leased	819,000	
45 U.S. locations	Retail Stores	Owned	311,000	
67 U.S. & Puerto Rico locations	Retail Stores	Leased	456,000	

### ITEM 3. LEGAL PROCEEDINGS

Litigation pending against the Company and its subsidiaries is not considered material or is ordinary routine litigation incidental to the business.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

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### EXECUTIVE OFFICERS OF THE REGISTRANT

Following is a list of the Registrant's executive officers:

Name ----	Age ---	Position with Registrant -----	Since -----
Warren E. Buffett	68	Chairman of the Board	1970
Marc D. Hamburg	49	Vice President	1992
Charles T. Munger	75	Vice Chairman of the Board	1978

Each executive officer serves, in accordance with the by-laws of the Registrant, until the first meeting of the Board of Directors following the next annual meeting of shareholders and until his respective successor is chosen and qualified or until he sooner dies, resigns, is removed or becomes disqualified. Mr. Buffett and Mr. Munger also serve as directors of the Registrant.

### Part II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

#### MARKET INFORMATION

The Company's Class A and Class B Common Stock are listed for trading on the New York Stock Exchange, trading symbol: BRK.A and BRK.B. The following table sets forth the high and low sales prices per share, as reported on the New York Stock Exchange Composite List during the periods indicated:

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

### SHAREHOLDERS

The Company had approximately 9,300 record holders of its Class A Common Stock and 13,400 record holders of its Class B Common Stock at March 5, 1999. Record owners included nominees holding at least 385,000 shares of Class A Common Stock and 4,850,000 shares of Class B Common Stock on behalf of beneficial-but-not-of-record owners.

### DIVIDENDS

Berkshire has not declared a cash dividend since 1967.

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Part II (Continued)

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA FOR THE PAST FIVE YEARS

(dollars in millions, except per share data)

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

(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.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net earnings for each of the past three years are disaggregated in the table that follows. Amounts are after deducting minority interests and taxes.

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

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

#### INSURANCE SEGMENTS -- UNDERWRITING

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

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

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

A significant marketing strategy followed by all these businesses is the maintenance of extraordinary capital strength. Statutory surplus as regards policyholders of Berkshire's insurance businesses increased to approximately \$40 billion (excluding General Re Corporation) at December 31, 1998. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into contracts of insurance specially designed to meet unique needs of sophisticated insurance and reinsurance buyers. Additional information regarding Berkshire's insurance and reinsurance operations is presented on the following pages.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### INSURANCE SEGMENTS - UNDERWRITING (continued)

###### GEICO Corporation

GEICO through its subsidiaries, provides primarily private passenger automobile coverages to insureds in 48 states and the District of Columbia. GEICO policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company over the telephone or through the mail. This is a significant element in GEICO's strategy to be a low-cost provider of such coverages. In 1995, GEICO entered into an agreement with

another major insurance provider that over time will allow it to effectively exit the homeowners insurance business which represented a relatively small percentage of GEICO's business.

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

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

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

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

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

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### INSURANCE SEGMENTS - UNDERWRITING (continued)

##### GEICO Corporation (continued)

GEICO's underwriting results have been above expectations in recent years and the private passenger auto insurance industry as a whole had generally good results due to favorable claims experience. However, premium rates are subject to downward pressure from competition and through the ordinary rate regulation processes of state insurance departments. The rate reductions taken by GEICO in 1998 were greater than 1997's reductions and will be fully reflected in earned premiums in 1999. GEICO currently anticipates that there will be some further rate reductions in 1999. In addition, while the level of claim costs (including catastrophe losses) in recent years have been relatively low, there is no assurance that these favorable conditions will continue. Accordingly, management expects that GEICO's underwriting profit margins will return to more normal levels as costs increase faster than premiums. Notwithstanding, Berkshire's management believes that GEICO's underwriting results will remain better than industry averages.

Berkshire Hathaway Reinsurance Group

The Berkshire Hathaway Reinsurance Group underwrites principally

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

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

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

Reinsurance premiums earned from catastrophe excess-of-loss policies totaled \$286 million in 1998, \$310 million in 1997 and \$268 million in 1996. Management believes that increased industry capital devoted to this type of business and the lack of large catastrophic loss events in recent years continues to promote intensifying price competition in the catastrophe reinsurance markets. As a result, there are currently fewer opportunities to write catastrophe reinsurance coverages at acceptable prices. Management anticipates that the level of catastrophe reinsurance business accepted may decline in 1999.

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

Berkshire's management continues to believe that, eventually, a large catastrophe event will occur which will produce a significant loss. The Berkshire Hathaway Reinsurance Group's exposure to loss from a single event with respect to in-force policies at year end 1998 is estimated at approximately \$600 million after-tax (excludes losses which would likely be incurred by General Re). Accordingly, periodic underwriting results remain subject to extreme volatility. Berkshire's management is willing to accept such volatility provided there is a reasonable prospect of long-term profitability.

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### INSURANCE SEGMENTS -- UNDERWRITING (continued)

##### Berkshire Hathaway Reinsurance Group (continued)

Premiums earned from other property and casualty excess-of-loss and quota-share reinsurance contracts totaled \$310 million in 1998, \$513 million in 1997 and \$485 million in 1996. These contracts often provide considerable amounts of indemnification in exchange for large premiums. Certain of these contracts, which produced annual premiums of approximately \$200 million in 1997 and 1996, expired at the end of 1997 and were not renewed in 1998. Other property and casualty reinsurance contracts produced net underwriting losses of approximately \$86 million in 1998, \$73 million in 1997 and \$101 million in 1996. Premiums from these types of reinsurance contracts are often based, in part, on time discounting of estimated loss payments because such payments are expected to occur over lengthy time periods. Estimated claim liabilities are established for financial reporting purposes without recognition of such discounting, thus producing underwriting losses. This business is accepted because of the large amounts of policyholder float that it generates.

Premiums earned from retroactive reinsurance and structured settlement contracts were \$343 million in 1998 and \$144 million in 1997. Minor amounts of premiums were earned from such contracts in 1996. These contracts provide excess of loss coverage with respect to past loss events or periodic payments to claimants in connection with settled claims. Underwriting losses occur from such policies as a result of the recurring recognition of time value of money concepts--the amortization of deferred charges re reinsurance assumed and the accretion of discounted structured settlement liabilities. The amortization and accretion charges are reported as losses incurred, and because there is no offsetting premium income, as underwriting losses. Underwriting losses from retroactive reinsurance and structured settlement contracts were \$90 million in

1998, \$82 million in 1997 and \$74 million in 1996.

#### 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; five companies collectively referred to as "homestate" operations that provide primarily standard commercial coverages to insureds in an increasing number of states; Cypress Insurance Company, a provider of workers' compensation insurance in California and other states; Central States Indemnity Company, a provider of credit card credit insurance to individuals nationwide through financial institutions; Kansas Bankers Surety Company, an insurer for primarily small and medium size banks located in the midwest; and Berkshire Hathaway International, a London-based writer of personal and commercial auto insurance.

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

#### General Re

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

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### INSURANCE SEGMENTS - UNDERWRITING (continued)

##### General Re (continued)

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

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

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

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

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

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



million in both 1998 and 1997.

#### INSURANCE SEGMENTS - INVESTMENT INCOME

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

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

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

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### INSURANCE SEGMENTS - INVESTMENT INCOME (continued)

Berkshire's insurance businesses continue to generate significant levels of investment income from maintaining large levels of invested assets. The acquisition of General Re at the end of 1998 increased invested assets by about \$25 billion. Increases in invested assets in recent years also derive from reinvested earnings and additional capital contributions, as well as increases in the amounts of "float". Reinvested earnings and capital contributions over the three year period ending December 31, 1998 were approximately \$6 billion. Float represents the sum of unpaid losses and loss expenses, unearned premiums, and other liabilities to policyholders less the aggregate of premiums and reinsurance balances receivable, deferred policy acquisition costs, deferred charges re reinsurance assumed and related prepaid income taxes. Total float was approximately \$22.8 billion at year end 1998 which includes \$14.9 billion assumed as a result of the General Re acquisition.

Income tax expense as a percentage of investment income before taxes was 24.2% in 1998, 19.5% in 1997 and 17.6% in 1996. Investment income in each of these years includes substantial amounts of interest on municipal obligations and dividends from equity investments that are effectively taxed at rates below the full statutory federal rate.

##### NON-INSURANCE BUSINESS SEGMENTS

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

	-- (dollars in millions) --					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
	-----	---	-----	---	-----	---
Revenues.....	\$ 4,458	100	\$ 3,404	100	\$ 2,888	100
Cost and expenses.....	3,823	86	2,892	85	2,528	88
	-----	---	-----	---	-----	---
Operating profit.....	635	14	512	15	360	12
Income taxes and minority interest.....	246	5	201	6	134	4
	-----	---	-----	---	-----	---
Contribution to net earnings.....	\$ 389	9	\$ 311	9	\$ 226	8
	=====	====	=====	====	=====	====

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

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

1998 compared to 1997

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

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### NON-INSURANCE BUSINESS SEGMENTS (continued)

###### Buffalo News

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

###### Flight Services

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

###### Home Furnishings

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

###### International Dairy Queen

At the beginning of 1998, Berkshire completed the acquisition of Dairy Queen. Dairy Queen develops, licenses and services a system of approximately 5,900 Dairy Queen stores located throughout the United States, Canada and other foreign countries. Dairy Queen stores feature hamburgers, hot dogs, various dairy desserts and beverages. Dairy Queen also develops, licenses and services other stores and shops operating under the names of Orange Julius and Karmelkorn which feature blended fruit drinks, popcorn and other snacks. Dairy Queen's results for 1998 were in line with management's plan and continued positive results are expected from this business.

###### Jewelry

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

#### Scott Fetzer Companies

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

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### NON-INSURANCE BUSINESS SEGMENTS (continued)

1998 compared to 1997 (continued)

##### Scott Fetzer Companies (continued)

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

##### See's Candies

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

##### Shoes

This segment includes H. H. Brown Shoe Company, Inc., Lowell Shoe, Inc. and Dexter Shoe Companies. These businesses manufacture and distribute work, dress, casual and athletic footwear. In addition, over 100 retail shoe stores are included in this segment. Revenues for this segment decreased by \$42 million (7.7%) in 1998 as compared to 1997. Operating profits of \$33 million in 1998 decreased \$16 million (32.7%) from the prior year. The unfavorable results represent a continuation of a trend which began three years ago. Manufacturers such as Brown, Lowell and Dexter are facing reduced demand for their products. Additionally, major retailers are offering promotions to generate sales which is resulting in an ongoing margin squeeze. Management of these businesses is working to align production activity to the reduced sales levels.

1997 compared to 1996

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

##### REALIZED INVESTMENT GAIN

Realized investment gain has been a recurring element in Berkshire's net earnings for many years. The amount -- recorded when investments are sold, other-than-temporarily impaired or in certain situations, as required by GAAP, when investments are marked-to-market with the corresponding gain or loss included in earnings -- may fluctuate significantly from period to period, with a meaningful effect upon Berkshire's consolidated net earnings. However, the amount of realized investment gain or loss for any given period has no predictive value, and variations in amount from period to period have no practical analytical value, particularly in view of the net unrealized price appreciation now existing in Berkshire's consolidated investment portfolio.

The Consolidated Statement of Earnings for 1997 reflects a pre-tax realized investment gain of \$1.1 billion (\$704 million after-tax). A significant portion (\$678 million pre-tax) of this gain resulted from Travelers Group Inc.'s acquisition of Salomon Inc. The Consolidated Statement of Earnings for 1996 reflects a pre-tax realized investment gain of \$2.5 billion (\$1.6 billion after-tax). Most of this gain resulted from The Walt Disney Company's

acquisition of Capital Cities/ABC, Inc. See Note 5 to Consolidated Financial Statements for additional details regarding these transactions.

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

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# ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

## MARKET RISK DISCLOSURES

Berkshire's Consolidated Balance Sheet includes a substantial amount of assets and liabilities whose fair values are subject to market risks. Due to Berkshire's significant level of investments in equity securities, fluctuations in equity prices represent the largest market risk factor affecting Berkshire's consolidated financial position. The following sections address the significant market risks associated with Berkshire's business activities as of year end 1998 and 1997.

## EQUITY PRICE RISK

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

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

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

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

The table below summarizes Berkshire's equity price risks as of December 31, 1998 and 1997 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned concentrations existing in Berkshire's investment portfolio.

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

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

\*\* Less than 1%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

INTEREST RATE RISK

This section discusses interest rate risks associated with Berkshire's financial assets and liabilities, other than those of its finance and financial products businesses, which are discussed later. Berkshire's management prefers to invest in equity securities or to acquire entire businesses based upon the principles discussed in the preceding section on equity price risk. When unable to do so, management may alternatively invest in bonds or other interest rate sensitive instruments. Berkshire's strategy is to acquire securities that are attractively priced in relation to the perceived credit risk. Management recognizes and accepts that losses may occur. The Company has historically utilized a modest level of corporate borrowings and debt. Further, Berkshire strives to maintain the highest credit ratings so that the cost of debt is minimized. The Company does not actively utilize stand-alone derivatives to manage interest rate risks.

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

The table below summarizes the estimated effects of hypothetical increases and decreases in interest rates on assets and liabilities that are subject to interest rate risk. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risks. The hypothetical changes in market interest rates do not reflect what could be deemed best or worst case scenarios. The hypothetical fair values are based upon the same prepayment assumptions utilized in computing fair values at year-end 1998 and 1997. Significant variations in market interest rates could produce changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table which follows.

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

(1) Excludes redeemable convertible preferred stocks (See Equity Price Risk)

(2) Excludes 1% Senior Exchangeable Notes (See Equity Price Risk)

## FINANCIAL PRODUCTS RISK

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

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

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

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

## LIQUIDITY AND CAPITAL RESOURCES

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

## YEAR 2000 ISSUE

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

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

## YEAR 2000 ISSUE (continued)

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

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

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

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

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

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

## FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this document, including but not limited to those under the caption Year 2000 Issues as well as some statements by the Company in periodic press releases and some oral statements of Company officials during presentations about the Company, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company actions, which may be provided by management are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company, economic and market factors and the industries in which the Company does business, among other things. These statements are not guarantees of future performance and the Company has no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause the Company's actual performance and future events and actions to differ materially from such forward-looking statements, include, but are not limited to, changes in market prices of Berkshire's significant equity investees, the ability of the Company and its significant business partners and equity investees to successfully implement timely Year 2000 solutions, the occurrence of one or more catastrophic events, such as an earthquake or hurricane that causes losses insured by Berkshire's insurance subsidiaries, changes in insurance laws or regulations, changes in Federal income tax laws, and changes in general economic and market factors that affect the prices of securities or the industries in which Berkshire and its affiliates do business, especially those affecting the property and casualty insurance industry.

See "Market Risk Disclosures" contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders  
Berkshire Hathaway Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP  
March 8, 1999  
Omaha, Nebraska

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# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

## BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (dollars in millions except per share amounts)

	DECEMBER 31,	
	1998	1997
	----	----
ASSETS		
Cash and cash equivalents.....	\$ 13,582	\$ 1,002
Investments:		
Securities with fixed maturities.....	21,246	10,298
Equity securities and other investments.....	39,761	36,248
Receivables.....	7,224	1,711
Inventories.....	767	639
Assets of finance and financial products businesses.....	16,989	1,249
Property, plant and equipment.....	1,491	1,057
Goodwill of acquired businesses.....	18,446	3,067
Other assets.....	2,731	840
	-----	-----
	\$122,237	\$ 56,111
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses.....	\$23,012	\$ 6,850
Unearned premiums.....	3,324	1,274
Accounts payable, accruals and other liabilities.....	7,182	2,202
Income taxes, principally deferred.....	11,762	10,539
Borrowings under investment agreements and other debt.....	2,385	2,267
Liabilities of finance and financial products businesses.....	15,525	1,067
	-----	-----
	63,190	24,199



Minority shareholders' interests.....	1,644	457
Shareholders' equity:		
Common Stock:*		
Class A Common Stock, \$5 par value		
and Class B Common Stock, \$0.1667 par value.....	8	7
Capital in excess of par value.....	25,121	2,347
Accumulated other comprehensive income.....	18,510	18,198
Retained earnings.....	13,764	10,934
	57,403	31,486
Less: Cost of Class A common shares in treasury.....	--	31
	57,403	31,455
	\$122,237	\$ 56,111
	=====	=====

\* Class B Common Stock has economic rights equal to one-thirtieth (1/30) of the economic rights of Class A Common Stock. Accordingly, on an equivalent Class A Common Stock basis, there are 1,518,548 shares outstanding at December 31, 1998 versus 1,234,127 outstanding at December 31, 1997.

See accompanying Notes to Consolidated Financial Statements

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#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

##### BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (dollars in millions except per share amounts)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
REVENUES:			
Insurance premiums earned.....	\$ 5,481	\$ 4,761	\$ 4,118
Sales and service revenues.....	4,675	3,615	3,095
Interest, dividend and other investment income.....	1,049	916	778
Income from finance and financial products businesses.....	212	32	25
Realized investment gain.....	2,415	1,106	2,484
	13,832	10,430	10,500
	-----	-----	-----
COST AND EXPENSES:			
Insurance losses and loss adjustment expenses.....	4,040	3,420	3,089
Insurance underwriting expenses.....	1,184	880	798
Cost of products and services sold.....	3,018	2,187	1,884
Selling, general and administrative expenses.....	1,056	921	862
Goodwill amortization.....	111	83	61
Interest expense.....	109	112	100
	9,518	7,603	6,794
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST.....	4,314	2,827	3,706
Income taxes.....	1,457	898	1,197
Minority interest.....	27	28	20
	-----	-----	-----
NET EARNINGS.....	\$ 2,830	\$ 1,901	\$ 2,489
	=====	=====	=====
Average common shares outstanding *.....	1,251,363	1,233,192	1,205,257
NET EARNINGS PER COMMON SHARE *.....	\$ 2,262	\$ 1,542	\$ 2,065
	=====	=====	=====

\* Average shares outstanding include average Class A Common shares and average Class B Common shares determined on an equivalent Class A Common Stock basis. Net earnings per common share shown above represents net earnings per equivalent Class A Common share. Net earnings per Class B Common share is equal to one-thirtieth (1/30) of such amount or \$75 per share for 1998, \$51 per share for 1997 and \$69 per share for 1996.

See accompanying Notes to Consolidated Financial Statements

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollars in millions)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings.....	\$ 2,830	\$ 1,901	\$ 2,489
Adjustments to reconcile net earnings to cash flows from operating activities:			
Realized investment gain.....	(2,415)	(1,106)	(2,484)
Depreciation and amortization.....	265	227	151
Changes in assets and liabilities before effects from business acquisitions:			
Losses and loss adjustment expenses.....	347	576	352
Deferred charges re reinsurance assumed.....	(80)	(142)	52
Unearned premiums.....	179	90	(9)
Receivables.....	(56)	(120)	(127)
Accounts payable, accruals and other liabilities.....	4	547	558
Income taxes.....	(329)	383	222
Other.....	(88)	(21)	56
	-----	-----	-----
Net cash flows from operating activities.....	657	2,335	1,260
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of securities with fixed maturities.....	(2,697)	(6,837)	(2,465)
Purchases of equity securities and other investments.....	(1,865)	(714)	(1,423)
Proceeds from sales of securities with fixed maturities.....	6,339	3,397	277
Proceeds from redemptions and maturities of securities with fixed maturities.....	2,132	779	792
Proceeds from sales of equity securities and other investments.....	4,868	2,016	1,531
Loans and investments originated in finance businesses.....	(1,028)	(491)	(577)
Principal collection on loans and investments originated in finance businesses.....	295	276	351
Acquisitions of businesses, net of cash acquired.....	4,971	(775)	(1,975)
Other.....	(302)	(182)	(19)
	-----	-----	-----
Net cash flows from investing activities.....	12,713	(2,531)	(3,508)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings of finance businesses.....	120	157	285
Proceeds from other borrowings.....	1,339	1,074	1,604
Repayments of borrowings of finance businesses.....	(83)	(214)	(427)
Repayments of other borrowings.....	(1,318)	(1,112)	(1,170)
Net proceeds from issuance of Class B Common Stock.....	--	--	565
Other.....	3	(1)	(3)
	-----	-----	-----
Net cash flows from financing activities.....	61	(96)	854
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	13,431	(292)	(1,394)
Cash and cash equivalents at beginning of year.....	1,058	1,350	2,744
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR *.....	\$14,489	\$ 1,058	\$1,350
	=====	=====	=====
* Cash and cash equivalents at end of year are comprised of the following:			
Finance and financial products businesses.....	\$ 907	\$ 56	\$ 10
Other.....	13,582	1,002	1,340
	-----	-----	-----
	\$14,489	\$ 1,058	\$ 1,350
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

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

	Class A & B Common Stock	Capital in Excess of Par Value	Class A Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income
	-----	-----	-----	-----	-----	-----
BALANCE DECEMBER 31, 1995.....	\$ 7	\$ 1,002	\$ (35)	\$ 6,544	\$ 9,221	

Common stock issued in connection with acquisitions of businesses.....	--	707	4	--	--	
Issuance of Class B Stock.....	--	565	--	--	--	
Net earnings.....	--	--	--	2,489	--	\$ 2,489
						-----
Other comprehensive income items:						
Unrealized appreciation of investments.....	--	--	--	--	7,088	7,088
Reclassification adjustment for appreciation included in net earnings.....	--	--	--	--	(2,484)	(2,484)
Income taxes and minority interests.....	--	--	--	--	(1,681)	(1,681)
						-----
Other comprehensive income.....	--	--	--	--	--	2,923
						-----
Total comprehensive income.....						\$5,412
	-----	-----	-----	-----	-----	=====
BALANCE DECEMBER 31, 1996.....	\$ 7	\$ 2,274	\$ (31)	\$ 9,033	\$12,144	
Common stock issued in connection with acquisitions of businesses.....	--	73	--	--	--	
Net earnings.....	--	--	--	1,901	--	1,901
						-----
Other comprehensive income items:						
Unrealized appreciation of investments.....	--	--	--	--	10,574	10,574
Reclassification adjustment for appreciation included in net earnings.....	--	--	--	--	(1,106)	(1,106)
Income taxes and minority interests.....	--	--	--	--	(3,414)	(3,414)
						-----
Other comprehensive income.....	--	--	--	--	--	6,054
						-----
Total comprehensive income.....						\$7,955
	-----	-----	-----	-----	-----	=====
BALANCE DECEMBER 31, 1997.....	\$ 7	\$ 2,347	\$ (31)	\$10,934	\$18,198	
Common stock issued in connection with acquisitions of businesses.....	1	22,803	2	--	--	
Retirement of treasury stock.....	--	(29)	29	--	--	
Net earnings.....	--	--	--	2,830	--	2,830
						-----
Other comprehensive income items:						
Unrealized appreciation of investments.....	--	--	--	--	3,011	3,011
Reclassification adjustment for appreciation included in net earnings.....	--	--	--	--	(2,415)	(2,415)
Income taxes and minority interests.....	--	--	--	--	(284)	(284)
						-----
Other comprehensive income.....	--	--	--	--	--	312
						-----
Total comprehensive income.....						\$3,142
	-----	-----	-----	-----	-----	=====
BALANCE DECEMBER 31, 1998.....	\$ 8	\$25,121	\$ --	\$13,764	\$18,510	
	=====	=====	=====	=====	=====	

See accompanying Notes to Consolidated Financial Statements

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# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

## BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1998

### (1) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

#### (a) Nature of operations and basis of consolidation

Berkshire Hathaway Inc. ("Berkshire" or "Company") is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these are property and casualty insurance businesses conducted on both a direct and reinsurance basis. Further information regarding these businesses and Berkshire's other reportable business segments is contained in Note 15. The accompanying consolidated financial statements include the accounts of Berkshire consolidated with accounts of all its subsidiaries. Intercompany accounts and transactions have been eliminated. As more fully described in Note 2, on December 21, 1998, Berkshire consummated a merger with General Re Corporation ("General Re"). The balance sheet of General Re is consolidated with the balance sheets of Berkshire and its other subsidiaries as of December 31, 1998. However, General Re's results of operations are only included in the Consolidated Statement of Earnings for the

(b) Use of estimates in preparation of financial statements

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

(c) Cash equivalents

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

(d) Investments

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

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

(e) Goodwill of acquired businesses

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (Continued)

(f) Insurance premiums

Insurance premiums for prospective insurance and reinsurance policies are earned in proportion to the level of insurance protection provided. In most cases, premiums are recognized as revenues ratably over their terms with unearned premiums computed on a monthly or daily pro rata basis. Consideration received for retroactive reinsurance policies, including structured settlements, is recognized as premiums earned at the inception of the contracts. Premiums earned are stated net of amounts ceded to reinsurers. Earned premiums ceded were \$93 million in 1998, \$86 million in 1997 and \$79 million in 1996.

(g) Insurance premium acquisition costs

Certain costs of acquiring insurance premiums are deferred, subject to ultimate recoverability, and charged to income as the premiums are earned. The recoverability of premium acquisition costs of direct insurance businesses is determined without regard to investment income. The recoverability of premium acquisition costs from reinsurance

assumed businesses, generally, reflects anticipation of investment income. The unamortized balances of deferred premium acquisition costs are included in other assets and were \$666 million and \$127 million at December 31, 1998 and 1997, respectively.

(h) Losses and loss adjustment expenses

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

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

(j) Deferred charges re reinsurance assumed

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

(k) Reinsurance

Provisions for losses and loss adjustment expenses are reported in the accompanying Consolidated Statements of Earnings after deducting amounts recovered and estimates of amounts that will be ultimately recoverable under reinsurance contracts. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify policyholders with respect to the underlying insurance and reinsurance contracts. Estimated losses and loss adjustment expenses recoverable under reinsurance contracts are included in receivables and totaled \$2,167 million and \$274 million at December 31, 1998 and 1997, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) SIGNIFICANT ACCOUNTING POLICES AND PRACTICES (Continued)

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

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

(i) The FASB issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and hedging activities. SFAS No. 133 is effective for fiscal years

beginning after June 15, 1999. Berkshire expects to adopt SFAS No. 133 as of the beginning of 2000.

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

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

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

## (2) BUSINESS ACQUISITIONS

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

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

Dairy Queen develops, licenses and services a system of approximately 5,900 Dairy Queen stores located throughout the United States, Canada, and other foreign countries, which feature hamburgers, hot dogs, various dairy desserts and beverages. Dairy Queen also develops, licenses and services other stores and shops operating under the names of Orange Julius and Karmelkorn, which feature blended fruit drinks, popcorn and other snacks.

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

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

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

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

### BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (2) BUSINESS ACQUISITIONS (Continued)

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

General Re is a holding company for global reinsurance and related risk management operations. It owns General Reinsurance Corporation and National Reinsurance Corporation, the largest professional property and casualty reinsurance group domiciled in the United States. General Re also owns a

controlling interest in Kolnische Rückversicherungs- Gesellschaft AG (Cologne Re), a major international reinsurer. Together, General Re and Cologne Re transact reinsurance business as "General & Cologne Re".

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

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

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

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

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

On January 2, 1996, GEICO became a wholly-owned subsidiary of Berkshire. GEICO, through its subsidiaries, is a multiple line property and casualty insurer, the principal business of which is underwriting private passenger automobile insurance. Pursuant to the GEICO merger agreement, each issued and outstanding common share of GEICO, except shares held by Berkshire subsidiaries and GEICO, was converted into the right to receive \$70 per share, or an aggregate amount of \$2.3 billion. As of the merger date, subsidiaries of Berkshire owned 34,250,000 common shares of GEICO, which were acquired prior to 1981 at an aggregate cost of \$45.7 million. Up to the merger date, neither Berkshire nor its subsidiaries had acquired any shares of GEICO common stock since 1980. However, Berkshire's ownership percentage, due to intervening stock repurchases by GEICO, gradually increased from about 33% in 1980 to almost 51% immediately prior to the merger date.

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

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

## BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### (3) INVESTMENTS IN SECURITIES WITH FIXED MATURITIES

The amortized cost and estimated fair values of investments in securities with fixed maturities as of December 31, 1998 and 1997 are as follows (in millions):

December 31, 1998	Amortized Cost -----	Gross Unrealized Gains -----	Gross Unrealized Losses -----	Estimated Fair Value -----
-------------------	----------------------------	---------------------------------------	--	-------------------------------------

Bonds:

U.S. Treasury securities and obligations of				
U.S. government corporations and agencies.....	\$2,518	\$ 10	--	\$ 2,528
Obligations of states, municipalities				
and political subdivisions.....	9,574	73	--	9,647
Obligations of foreign governments.....	2,864	--	--	2,864
Corporate bonds.....	4,609	--	--	4,609
Redeemable preferred stocks.....	359	3	(7)	355
Mortgage-backed securities.....	1,235	8	--	1,243
	-----	----	-----	-----
	\$21,159	\$ 94	\$ (7)	\$21,246
	=====	=====	=====	=====

December 31, 1997

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
Bonds:				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies.....	\$5,890	\$ 601	\$ (1)	\$ 6,490
Obligations of states, municipalities				
and political subdivisions.....	2,151	58	--	2,209
Corporate bonds.....	35	--	--	35
Redeemable preferred stocks.....	764	516	--	1,280
Mortgage-backed securities.....	273	11	--	284
	-----	-----	-----	-----
	\$9,113	\$1,186	\$ (1)	\$10,298
	=====	=====	=====	=====

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

Shown below are the amortized cost and estimated fair values of securities with fixed maturities at December 31, 1998, by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in millions.

	Amortized Cost	Estimated Fair Value
	-----	-----
Due in one year or less.....	\$ 2,190	\$ 2,188
Due after one year through five years.....	5,194	5,232
Due after five years through ten years.....	6,295	6,335
Due after ten years.....	6,245	6,248
	-----	-----
	19,924	20,003
Mortgage-backed securities.....	1,235	1,243
	-----	-----
	\$ 21,159	\$ 21,246
	=====	=====

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) INVESTMENTS IN EQUITY SECURITIES AND OTHER INVESTMENTS

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

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



December 31, 1997

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

\* Common shares of American Express Company ("AXP") owned by Berkshire and its subsidiaries possessed approximately 11% of the voting rights of all AXP shares outstanding at December 31, 1998. The shares are held subject to various agreements with certain insurance and banking regulators which, among other things, prohibit Berkshire from (i) seeking representation on the Board of Directors of AXP (Berkshire may agree, if it so desires, at the request of management or the Board of Directors of AXP to have no more than one representative stand for election to the Board of Directors of AXP) and (ii) acquiring or retaining shares that would cause its ownership of AXP voting securities to equal or exceed 17% of the amount outstanding (should Berkshire have a representative on the Board of Directors, such amount is limited to 15%). In connection therewith, Berkshire has entered into an agreement with AXP which became effective when Berkshire's ownership interest in AXP voting securities reached 10% and will remain effective so long as Berkshire owns 5% or more of AXP's voting securities. The agreement obligates Berkshire, so long as Harvey Golub is chief executive officer of AXP, to vote its shares in accordance with the recommendations of AXP's Board of Directors. Additionally, subject to certain exceptions, Berkshire has agreed not to sell AXP common shares to any person who owns 5% or more of AXP voting securities or seeks to control AXP, without the consent of AXP.

(5) REALIZED INVESTMENT GAINS (LOSSES)

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

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

\* In November 1997, the merger of Salomon Inc ("Salomon") with and into a subsidiary of Travelers Group Inc. ("Travelers") was completed. Berkshire subsidiaries received common and preferred stock of Travelers in exchange for common and preferred shares of Salomon then owned. The value of the Travelers shares received was approximately \$1.8 billion. Realized investment gains for 1997 include \$678 million with respect to the transaction. The gain is net of a charge of \$298 million for the contingent value associated with Berkshire's Exchange Notes. See Note 9 for additional information regarding the Exchange Notes.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) FINANCE AND FINANCIAL PRODUCTS BUSINESSES

Assets and liabilities of Berkshire's finance and financial products

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

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

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

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

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

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

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

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

## (6) FINANCE AND FINANCIAL PRODUCTS BUSINESSES (Continued)

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

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

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

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

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

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

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

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (6) FINANCE AND FINANCIAL PRODUCTS BUSINESSES (Continued)

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

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

## (7) UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

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

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

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

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

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

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

(7) UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

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

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

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

(8) INCOME TAXES

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

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

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

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

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

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

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (8) INCOME TAXES (Continued)

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

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

## (9) BORROWINGS UNDER INVESTMENT AGREEMENTS AND OTHER DEBT

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

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

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

Borrowings under investment agreements are made pursuant to contracts calling for interest payable, normally semiannually, at fixed rates ranging from 3% to 9% per annum. No materially restrictive covenants are included in any of the various debt agreements. Payments of principal amounts expected during the next five years are as follows (in millions):

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

## (10) DIVIDEND RESTRICTIONS - INSURANCE SUBSIDIARIES

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

Combined shareholders' equity of U.S. based insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards

Policyholders) was approximately \$45 billion at December 31, 1998. This amount differs from the corresponding amount determined on the basis of GAAP. The major differences between statutory basis accounting and GAAP are that deferred income tax assets and liabilities, deferred charges re reinsurance assumed, and unrealized gains and losses on investments in securities with fixed maturities are recognized under GAAP but not for statutory reporting purposes. In addition, the GAAP amount includes goodwill of acquired businesses.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) COMMON STOCK

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

	Class A Common, \$5 Par Value ----- (1,650,000 shares authorized*)			Class B Common ----- \$0.1667 Par Value (55,000,000 shares authorized*)
	Shares Issued -----	Treasury Shares -----	Shares Outstanding -----	Shares Issued and Outstanding -----
Balance December 31, 1995.....	1,381,308	187,796	1,193,512	--
Issuance of Class B common stock.....	--	--	--	517,500
Common stock issued in connection with acquisition of business.....	--	(17,728)	17,728	112,655
Conversions of Class A common stock to Class B common stock.....	(5,120)	--	(5,120)	153,600
	-----	-----	-----	-----
Balance December 31, 1996.....	1,376,188	170,068	1,206,120	783,755
Common stock issued in connection with acquisition of business.....	--	(1,866)	1,866	165
Conversions of Class A common stock to Class B common stock and other.....	(10,098)	--	(10,098)	303,236
	-----	-----	-----	-----
Balance December 31, 1997.....	1,366,090	168,202	1,197,888	1,087,156
Common stock issued in connection with acquisitions of businesses.....	168,670	(9,709)	178,379	3,174,677
Conversions of Class A common stock to Class B common stock and other.....	(26,732)	--	(26,732)	808,546
Retirement of treasury shares.....	(158,493)	(158,493)	--	--
	-----	-----	-----	-----
Balance December 31, 1998.....	1,349,535	--	1,349,535	5,070,379
	=====	=====	=====	=====

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

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

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

(12) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

In determining fair value, the Company used quoted market prices when available. For instruments where quoted market prices were not available, the

Company used independent pricing services or appraisals by the Company's management. Those services and appraisals reflected the estimated present values utilizing current risk adjusted market rates of similar instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Considerable judgement is necessarily required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The carrying values of cash and cash equivalents, receivables and accounts payable, accruals and other liabilities are deemed to be reasonable estimates of their fair values. The estimated fair values of the Company's other financial instruments as of December 31, 1998 and 1997, are as follows (in millions):

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

(13) QUARTERLY DATA

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

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	-----	-----	-----	-----
Revenues.....	\$3,325	\$3,936	\$2,909	\$3,662
Earnings:				
Excluding realized investment gain.....	\$ 252	\$ 312	\$ 264	\$ 449
Realized investment gain *.....	470	864	101	118
Net earnings.....	\$ 722	\$1,176	\$ 365	\$ 567
	=====	=====	=====	=====
Earnings per equivalent Class A common share:				
Excluding realized investment gain.....	\$ 203	\$ 251	\$ 212	\$ 352
Realized investment gain *.....	379	696	81	92
Net earnings.....	\$ 582	\$ 947	\$ 293	\$ 444
	=====	=====	=====	=====
1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	-----	-----	-----	-----
Revenues.....	\$2,075	\$2,338	\$2,373	\$3,644
Earnings:				
Excluding realized investment gain.....	\$ 263	\$ 255	\$248	\$432
Realized investment gain *.....	21	23	119	540
Net earnings.....	\$ 284	\$ 278	\$ 367	\$ 972
	=====	=====	=====	=====



Earnings per equivalent Class A common share:

Excluding realized investment gain *.....	\$ 214	\$ 207	\$ 201	\$ 350
Realized investment gain.....	17	19	96	438
	-----	-----	-----	-----
Net earnings.....	\$ 231	\$ 226	\$ 297	\$ 788
	=====	=====	=====	=====

\* The amount of realized gain for any given period has 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.

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# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

## BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### (14) SUPPLEMENTAL CASH FLOW INFORMATION

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

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

#### (15) BUSINESS SEGMENT DATA

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

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

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

See's Candies

Manufacture and distribution of boxed chocolates and other confectionery products

H.H. Brown Shoe Company, Lowell Shoe, Inc.  
and Dexter Shoe Company ("Shoe Group")

Manufacture and distribution of footwear

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

BERKSHIRE HATHAWAY INC.  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) BUSINESS SEGMENT DATA (Continued)

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

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

\* Represents insurance premiums earned

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

adjustments.....	(210)	(105)	(76)
	-----	-----	-----
	\$4,314	\$2,827	\$3,706
	=====	=====	=====

\* Represents underwriting profit (loss)

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

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# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

## BERKSHIRE HATHAWAY INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### (15) BUSINESS SEGMENT DATA (Continued)

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

\* Excludes expenditures which were part of business acquisitions.

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

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

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (Continued)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (16) INFORMATION ABOUT CERTAIN SUBSIDIARIES

The accompanying consolidated financial statements include the accounts of OBH Inc. (formerly Berkshire Hathaway Inc.), which became a wholly-owned subsidiary of Berkshire Hathaway Inc. upon completion of the General Re merger. The condensed consolidated balance sheet of OBH Inc. as of December 31, 1998 is as follows (dollars in millions):

	DEC. 31, 1998
	-----
ASSETS	
Cash and cash equivalents.....	\$ 8,841
Investments, primarily equity securities.....	40,572
Assets of finance and financial products businesses.....	5,759
Goodwill of acquired businesses.....	4,004
Other assets.....	5,140
	-----
	\$ 64,316
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Losses and loss adjustment expenses.....	\$ 7,198
Unearned premiums, accounts payable and other liabilities.....	4,483
Income taxes, principally deferred.....	10,426
Borrowings under investment agreements and other debt.....	2,056
Liabilities of finance and financial products businesses.....	4,881
	-----
	29,044
Total shareholders' equity.....	35,272
	-----
	\$ 64,316
	=====

The condensed consolidated statement of earnings of OBH Inc. for the year ended December 31, 1998 is as follows (in millions):

	1998
	----
REVENUES	
Insurance premiums earned.....	\$ 5,300
Sales and service revenues.....	4,675
Investment income.....	1,013
Income from finance and financial products businesses.....	205
Realized investment gain.....	2,415
	-----
	13,608
	-----
COST AND EXPENSES	
Insurance losses, loss adjustment and underwriting expense.....	5,035
Cost of products and services sold.....	3,018
Selling, general and administrative expenses.....	1,148
Interest expense.....	109
	-----
	9,310
	-----
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST.....	4,298
Income taxes and minority interests.....	1,474
	-----
NET EARNINGS.....	\$ 2,824
	=====

The consolidated balance sheet of OBH Inc. at December 31, 1997 and consolidated statements of earnings for the years ended December 31, 1997 and 1996 are identical to the accompanying Consolidated Balance Sheet and Consolidated Statements of Earnings of Berkshire Hathaway Inc.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) INFORMATION ABOUT CERTAIN SUBSIDIARIES (Continued)

The summarized financial data of the finance and financial products businesses (See Note 6) includes the activities conducted by the Scott Fetzer Financial Group and its subsidiaries ("SFFG"). Assets and liabilities of SFFG are summarized below (in millions).

	Dec. 31, 1998	Dec. 31, 1997
	-----	-----
ASSETS		
Cash and cash equivalents.....	\$ 98	\$ 12
Mortgage-backed securities, installment loans and other receivables*.....	371	238
Trading securities, at market.....	3,488	--
Securities purchased under agreements to resell.....	192	--
	-----	-----
	\$ 4,149	\$ 250
	=====	=====
LIABILITIES		
6 3/4% Notes, due 2001 and borrowings under investment agreements.....	\$ 152	\$ 193
Securities sold under agreements to repurchase.....	3,469	--
Securities sold but not yet purchased.....	177	--
Other*.....	208	24
	-----	-----
	\$ 4,006	\$ 217
	=====	=====

\* Other liabilities include payables to affiliates of \$105 at December 31, 1998 and other receivables include receivables from affiliates of \$49 at December 31, 1997.

Net income of SFFG for each of the past three years is summarized below (in millions).

	1998	1997	1996
	----	----	----
Revenues.....	\$211	\$ 47	\$ 59
Cost and expenses.....	28	36	48
	----	----	----
Income before taxes.....	183	11	11
Income taxes.....	64	4	4
	----	----	----
Net income.....	\$119	\$ 7	\$ 7
	=====	=====	=====

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Part III

Except for the information set forth under the caption "Executive Officers of the Registrant" in Part I hereof, information required by this Part (Items 10, 11, 12, and 13) is incorporated by reference from the Registrant's definitive proxy statement, filed pursuant to Regulation 14A, for the Annual Meeting of Shareholders of the Registrant to be held on May 3, 1999, which meeting will involve the election of directors.

Part IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(a)1. Financial Statements

The following consolidated financial statements, as well as the Independent Auditors' Report, are included in Part II Item 8 of this report:

	PAGE
Independent Auditors' Report	26
Consolidated Balance Sheets at December 31, 1998 and 1997	27
Consolidated Statements of Earnings for the years ended 1998, 1997 and 1996	28
Consolidated Statements of Cash Flows for the years ended 1998, 1997 and 1996	29
Consolidated Statements of Changes in Shareholders' Equity for the years ended 1998, 1997 and 1996	30
Notes to Consolidated Financial Statements	31-48

(a)2. Financial Statement Schedule	PAGE
Independent Auditors' Report on Schedule Schedule I -- Parent Company	51
Condensed Balance Sheets as of December 31, 1998 and 1997 and Condensed Statements of Earnings and Cash Flows for the years ended 1998, 1997 and 1996.	52-53
Other schedules are omitted because they are not required, information therein is not applicable, or is reflected in the Consolidated Financial Statements or notes thereto.	

(a)3. Exhibits

See the "Exhibit Index" at page 54.

(b) Reports on Form 8-K

Form 8-K filed January 5, 1999 -- Acquisition or Disposition of Assets. Report described that the merger between Registrant and General Re Corporation was completed on December 21, 1998.

Form 8-K/A filed January 22, 1999 -- Item 7 Financial Statements and Exhibits -- Report incorporated the respective financial statements of OBH Inc.(formerly Berkshire Hathaway Inc.) and General Re Corporation for the year ended December 31, 1997 as filed on Form 10-K and for the nine months ended September 30, 1998 as filed on Form 10-Q. Report also provided pro forma financial information for those periods.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BERKSHIRE HATHAWAY INC.

Date: March 29, 1999

/s/ Marc D. Hamburg

Marc D. Hamburg  
Vice President and Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Warren E. Buffett	Chairman of the Board of Directors - Chief Executive Officer	March 29, 1999
Warren E. Buffett		Date
/s/ Howard G. Buffett	Director	March 29, 1999
Howard G. Buffett		Date
/s/ Susan T. Buffett	Director	March 29, 1999
Susan T. Buffett		Date
/s/ Charles T. Munger	Vice Chairman of the	March 29, 1999

----- Charles T. Munger -----	Board of Directors	----- Date -----
/s/ Malcolm G. Chace ----- Malcolm G. Chace -----	Director	March 29, 1999 ----- Date -----
/s/ Walter Scott, Jr. ----- Walter Scott, Jr. -----	Director	March 29, 1999 ----- Date -----
/s/ Ronald L. Olson ----- Ronald L. Olson -----	Director	March 29, 1999 ----- Date -----
/s/ Marc D. Hamburg ----- Marc D. Hamburg -----	Vice President - Principal Financial Officer	March 29, 1999 ----- Date -----
/s/ Daniel J. Jaksich ----- Daniel J. Jaksich -----	Controller	March 29, 1999 ----- Date -----

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# INDEPENDENT AUDITORS' REPORT ON SCHEDULE

To the Board of Directors and Shareholders  
Berkshire Hathaway Inc.

We have audited the consolidated financial statements of Berkshire Hathaway Inc. and subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, and have issued our report thereon dated March 8, 1999; such consolidated financial statements and report are included elsewhere in this Form 10-K. Our audits also included the financial statement schedule of Berkshire Hathaway Inc., listed in Item 14. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP  
Omaha, Nebraska  
March 8, 1999

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## BERKSHIRE HATHAWAY INC. (Parent Company) Condensed Financial Information (Dollars in millions)

### Schedule I

#### BALANCE SHEETS

	December 31, 1998	1997
	-----	-----
Assets:		
Cash and cash equivalents .....	\$ --	\$ 366
Investments in consolidated subsidiaries .....	57,411	32,587
Investments - other than consolidated subsidiaries .....	--	37
Other assets .....	--	54
	-----	-----
	\$ 57,411	\$ 33,044
	=====	=====
Liabilities and Shareholders' Equity:		

Accounts payable and accrued expenses .....	\$ 8	\$ 28
Borrowings under investment agreements and other debt ....	--	1,627
Income taxes, principally deferred .....	--	(66)
	-----	-----
	8	1,589
Shareholders' equity .....	57,403	31,455
	-----	-----
	\$ 57,411	\$ 33,044
	=====	=====

#### STATEMENTS OF EARNINGS

	Year ending December 31,		
Income items:	1998	1997	1996
	-----	-----	-----
From consolidated subsidiaries:			
Interest .....	\$ 6	\$ 11	\$ 7
Dividends .....	1,241	328	304
Undistributed earnings .....	1,626	1,771	2,081
	-----	-----	-----
	2,873	2,110	2,392
Interest and dividends - other investments .....	4	7	35
Realized investment gain (loss) .....	(60)	(297)	138
Revenues of Buffalo News .....	157	156	154
	-----	-----	-----
	2,974	1,976	2,719
	-----	-----	-----
Cost and expense items:			
Costs and expenses of Buffalo News .....	105	100	104
General and administrative .....	8	9	7
Interest and finance charges .....	62	67	58
Income tax expense (benefit) .....	(31)	(101)	61
	-----	-----	-----
	144	75	230
	-----	-----	-----
Net earnings .....	\$ 2,830	\$ 1,901	\$ 2,489
	=====	=====	=====

See Note to Condensed Financial Information

BERKSHIRE HATHAWAY INC.  
(Parent Company)  
Condensed Financial Information  
(Dollars in millions)

#### Schedule I (continued)

#### STATEMENTS OF CASH FLOWS

	Year ending December 31,		
	1998	1997	1996
	-----	-----	-----
Cash flows from operating activities:			
Net earnings .....	\$ 2,830	\$ 1,901	\$ 2,489
Adjustments of reconcile net earnings to cash flows from operating activities:			
Undistributed current earnings of subsidiaries .....	(1,626)	(1,771)	(2,081)
Realized investment (gain) loss .....	60	297	(138)
Increase (decrease) in income taxes .....	(31)	(35)	(77)
Other .....	(8)	(4)	(72)
	-----	-----	-----
Net cash flows from operating activities .....	1,225	388	121
	-----	-----	-----
Cash flows from investing activities:			
Investments in and advances to subsidiaries .....	(803)	(881)	24
Purchases of investments .....	(382)	--	(717)
Proceeds on sales and maturities of investments .....	16	189	36
	-----	-----	-----
Net cash flows from investing activities .....	(1,169)	(692)	(657)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from borrowings .....	1,048	1,005	1,525
Repayment of borrowings .....	(1,476)	(1,054)	(1,085)
Net proceeds from issuance of Class B Common Stock .....	--	--	565



Other .....	6	--	--
	-----	-----	-----
Net cash flows from financing activities .....	(422)	(49)	1,005
	-----	-----	-----
Increase (decrease) in cash and cash equivalents .....	(366)	(353)	469
Cash and cash equivalents at beginning of year .....	366	719	250
	-----	-----	-----
Cash and cash equivalents at end of year .....	\$ --	\$ 366	\$ 719
	=====	=====	=====
Other cash flow information:			
Income taxes paid .....	\$ 1,656	\$ 470	\$ 887
Interest paid .....	60	57	55

#### NOTE TO CONDENSED FINANCIAL INFORMATION

The condensed statements of earnings and cash flows of Berkshire Hathaway Inc. for 1998 include the earnings and cash flow data of OBH Inc. (formerly Berkshire Hathaway Inc. - parent company). OBH Inc. became a wholly-owned subsidiary of Berkshire Hathaway Inc. as of December 21, 1998 upon completion of the General Re merger. At December 31, 1998, Berkshire Hathaway Inc.'s investment in the net assets of OBH Inc. is included in investments in consolidated subsidiaries in the condensed balance sheet. Borrowings under investment agreements and other Berkshire Hathaway Inc. debt outstanding as of the General Re merger date remain obligations of the former parent company, now OBH Inc.

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#### EXHIBIT INDEX

Exhibit No.  
-----

- 2.1 Agreement and Plan of Merger dated as of August 25, 1995, between the Registrant and GEICO Corporation. Incorporated by reference to Exhibit 1 to the Registrant's Form 8-K dated August 25, 1995.
- 2.2 Agreement and Plan of Merger dated as of October 14, 1996 between the Registrant and FlightSafety International, Inc. Incorporated by reference to Exhibit 1 to the Registrant's Form 8-K filed on October 16, 1996.
- 2.3 Agreement and Plan of Merger dated as of June 19, 1998 between Registrant and General Re Corporation. Incorporated by reference to Annex I to Registration Statement No. 333-61129 filed on Form S-4.
- 3 Restated Certificate of Incorporation. Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-61129 filed on Form S-4.
- 3.1 By-Laws. Incorporated by reference to Exhibit 3.2 to Registration Statement No. 333-61129 filed on Form S-4.
- 4.1 Form of Indenture dated as of December 1, 1987 between OBH Inc. (formerly Berkshire Hathaway Inc.) and State Street Bank and Trust Company (as successor trustee to The First National Bank of Boston), trustee with respect to 9 3/4% Debentures due January 15, 2018. Incorporated by reference to Exhibit 4 to Registration Statement No. 33-19000 filed on Form S-3.
- 4.2 Form of Indenture dated as of December 1, 1987 between OBH Inc. (formerly Berkshire Hathaway Inc.) and State Street Bank and Trust Company (as successor trustee to The First National Bank of Boston), trustee with respect to 1% Senior Exchangeable Notes due December 2, 2001. Incorporated by reference to Exhibit 4 to Registration Statement No. 33-30570 filed on Form S-3.

OTHER INSTRUMENTS DEFINING THE RIGHTS OF HOLDERS OF LONG-TERM DEBT OF REGISTRANT AND ITS SUBSIDIARIES ARE NOT BEING FILED SINCE THE TOTAL AMOUNT OF SECURITIES AUTHORIZED BY ALL OTHER SUCH INSTRUMENTS DOES NOT EXCEED 10% OF THE TOTAL ASSETS OF THE REGISTRANT AND ITS SUBSIDIARIES ON A CONSOLIDATED BASIS AS OF DECEMBER 31, 1998. THE REGISTRANT HEREBY AGREES TO FURNISH TO THE COMMISSION UPON REQUEST A COPY OF ANY SUCH DEBT INSTRUMENT TO WHICH IT IS A PARTY.

- 12 Statement of computation of ratio of earnings to fixed charges
- 21 Subsidiaries of the Registrant
- 23 Independent Auditors' Consent
- 27 Financial Data Schedule

Reg S-K  
Item 601  
Exhibit 12

BERKSHIRE HATHAWAY INC.  
Calculation of Ratio of Consolidated Earnings to Consolidated Fixed Charges  
(Dollars in millions)

	Years Ended December 31,				
	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Net earnings .....	\$ 2,830	\$ 1,901	\$ 2,489	\$ 795	\$ 553
Income tax expense .....	1,457	898	1,197	276	163
Minority interest in earnings .....	27	28	20	13	9
Equity in the net income of investees accounted for under the equity method .....	--	--	--	(92)	(30)
Fixed charges* .....	142	141	124	75	70
	-----	-----	-----	-----	-----
Earnings available for fixed charges .....	\$ 4,456	\$ 2,968	\$ 3,830	\$ 1,067	\$ 765
	=====	=====	=====	=====	=====
Realized investment gain, pretax, included in earnings available for fixed charges .....	\$ 2,415	\$ 1,106	\$ 2,484	\$ 194	\$ 91
	=====	=====	=====	=====	=====
Fixed charges*					
Interest on indebtedness (including amortization of debt discount and expense) .....	\$ 109	\$ 112	\$ 100	\$ 59	\$ 60
Rentals representing interest .....	33	29	24	16	10
	-----	-----	-----	-----	-----
	\$ 142	\$ 141	\$ 124	\$ 75	\$ 70
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges* .....	31.38x	21.05x	30.89x	14.23x	10.93x
	=====	=====	=====	=====	=====
Ratio of earnings, excluding realized investment gain, to fixed charges* .....	14.37x	13.21x	10.85x	11.64x	9.63x
	=====	=====	=====	=====	=====

-----

\* Excludes fixed charges of finance businesses. Fixed charges of finance businesses were as follows:

	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
	\$ 21	\$ 20	\$ 30	\$ 29	\$ 32

Including fixed charges of finance businesses the ratios of earnings to fixed charges were as follows:

	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Including realized investment gain .....	27.47x	18.56x	25.06x	10.54x	7.81x
Excluding realized investment gain .....	12.65x	11.69x	8.94x	8.67x	6.92x

Reg. S-K  
Item 601  
Exhibit 21

Subsidiaries of Registrant (1)  
December 31, 1998

Company Name -----	Domicile or State of Incorporation -----
Berkshire Hathaway Credit Corporation	Nebraska
Berkshire Hathaway Life Insurance Company of Nebraska	Nebraska
BHG Life Insurance Company	Nebraska
BHSF, Inc.	Delaware
BH Finance, Inc.	Delaware
BH Shoe Holdings, Inc.	Delaware
Blue Chip Stamps	California
Borsheim's Jewelry Company, Inc.	Nebraska
Campbell Hausfeld/Scott Fetzer Company	Delaware
Central States Indemnity Co. of Omaha	Nebraska
Central States of Omaha Companies, Inc.	Nebraska
Cologne Life Reinsurance Company	Connecticut
Cologne Life Reinsurance Co. of Australia Ltd.	Australia
Cologne Reinsurance Company Ltd.	Ireland
The Cologne Reinsurance Company Ltd.	United Kingdom
Cologne Reinsurance Co. of South Africa Ltd.	South Africa
Columbia Insurance Company	Nebraska
Continental Divide Insurance Company	Colorado
Cornhusker Casualty Company	Nebraska
Cypress Insurance Company	California
Dexter Shoe Company	Maine
Europa Ruckversicherung AG	Germany
Fairfield Insurance Company	Connecticut
The Fechheimer Brothers Company (2)	Delaware
FlightSafety International Inc.	New York
GEICO Casualty Company	Maryland
GEICO Corporation	Delaware
GEICO General Insurance Company	Maryland
GEICO Indemnity Company	Maryland
GRD Corporation	Delaware
Gen Re Holdings, Inc.	Delaware
General Re-CKAG Reinsurance and Investment S.a r.l.	Luxembourg
General Re Corporation	Delaware
General Re Europe Limited	United Kingdom
General Re Financial Products Corp.	Delaware
General Re Financial Products (Japan) Inc.	Delaware
General Re Financial Securities Ltd.	United Kingdom
General Re Services Corporation	Delaware
General Reinsurance Corporation	Delaware
General Star Indemnity Company	Connecticut
General Star National Insurance Company	Ohio
Genesis Indemnity Insurance Company	North Dakota
Genesis Insurance Company	Connecticut
Government Employees Insurance Company	Maryland
Helzberg's Diamond Shops, Inc.	Missouri

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Reg. S-K  
Item 601  
Exhibit 21

BERKSHIRE HATHAWAY INC.  
Subsidiaries of Registrant (1)  
December 31, 1998

Company Name -----	Domicile or State of Incorporation -----
Herbert Clough, Inc.	New York
H. H. Brown Shoe Company, Inc.	Delaware
Isabela Shoe Corporation	Delaware
Kansas Bankers Surety Company	Kansas
Kolnische Ruck Wien	Austria
Kolnische Ruckversicherungs-Gesellschaft AG	Germany
Lowell Shoe, Inc.	New Hampshire
National Fire & Marine Insurance Company	Nebraska
National Indemnity Company	Nebraska
National Indemnity Company of the South	Florida
National Indemnity Company of Mid-America	Minnesota
National Liability and Fire Insurance Company	Connecticut
National Re Corporation	Delaware
National Reinsurance Corporation	Delaware

Nebraska Furniture Mart, Inc.  
Oak River Insurance Company  
OBH Inc.  
OCSAP, Ltd  
R.C. Willey Home Furnishings  
Redwood Fire and Casualty Insurance Company  
The Scott Fetzer Company  
Scott Fetzer Financial Group, Inc.  
See's Candies, Inc.  
See's Candy Shops, Inc.  
Star Furniture Company  
Wesco Financial Corporation  
Wesco-Financial Insurance Company  
Wesco Holdings Midwest, Inc.  
World Book/Scott Fetzer Company

Nebraska  
Nebraska  
Delaware  
Maine  
Utah  
Nebraska  
Delaware  
Delaware  
California  
California  
Texas  
Delaware  
Nebraska  
Nebraska  
Nebraska

(1) Each of the named subsidiaries is not necessarily a "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X, and Berkshire has several additional subsidiaries not named above. The unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a "significant subsidiary" at the end of the year covered by this report.

(2) The names have been omitted of 31 wholly-owned U.S. subsidiaries of The Fechheimer Brothers Company, each of whom operated in the business of uniform manufacturing and/or distribution.

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Reg S-K  
Item 601  
Exhibit 23  
Page 1 of 1

# INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements of Berkshire Hathaway Inc. on Form S-3 (File No. 33-50989), Form S-3 (File No. 33-58983), Form S-3 (File No. 33-60855), Form S-3 (File No. 333-31237), Form S-3 (File No. 333-62215), Form S-3 (File No. 333-68175), Form S-8 (File No. 333-18443), Form S-8 (File No. 333-70609) and Form S-8 (File No. 333-62273) of our reports dated March 8, 1999, appearing in this Annual Report on Form 10-K of Berkshire Hathaway Inc. for the year ended December 31, 1998.

DELOITTE & TOUCHE LLP  
Omaha, Nebraska  
March 29, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED IN FORM 10-K AS FILED HERewith, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS AND RELATED NOTES.

1,000,000  
U.S. DOLLARS

YEAR	
DEC-31-1998	
JAN-01-1998	
DEC-31-1998	
	1
	13,582
	61,007
	7,224
	0
	767
	0
	1,491
	0
	122,237

[illegible]