Berkshire's Performance vs. the S&P 500

Year	Annual Percentage Change in Per-Share Book Value of Berkshire	in Per-Share Market Value of Berkshire	in S&P 500 with Dividends Included
1965	23.8	49.5	10.0
1966	20.3	(3.4)	(11.7)
1967	11.0	13.3	30.9
1968	19.0	77.8	11.0
1969	16.2	19.4	(8.4)
1970	12.0	(4.6)	3.9
1971	16.4	80.5	14.6
1972	21.7	8.1	18.9
1973	4.7	(2.5)	(14.8)
1974	5.5	(48.7)	(26.4)
1975	21.9	2.5	37.2
1976	59.3	129.3	23.6
1977	31.9	46.8	(7.4)
1978	24.0	14.5	6.4
1979	35.7	102.5	18.2
1980	19.3	32.8	32.3
1981	31.4	31.8	(5.0)
1982	40.0	38.4	21.4
1983	32.3	69.0	22.4
1984	13.6	(2.7)	6.1
1985	48.2	93.7	31.6
1986	26.1	14.2	18.6
1987	19.5	4.6	5.1
1988	20.1	59.3	16.6
1989	44.4	84.6	31.7
1990	7.4	(23.1)	(3.1)
1991	39.6	35.6	30.5
1992	20.3	29.8	7.6
1993	14.3	38.9	10.1
1994	13.9	25.0	1.3
1995	43.1	57.4	37.6
1996	31.8	6.2	23.0
1997	34.1	34.9	33.4
1998	48.3	52.2	28.6
1999	0.5	(19.9)	21.0
2000	6.5	26.6	(9.1)
2001	(6.2)	6.5	(11.9)
2002	10.0	(3.8)	(22.1)
2003	21.0	15.8	28.7
2004	10.5	4.3	10.9
2005	6.4	0.8	4.9
2006	18.4	24.1	15.8
2007	11.0	28.7	5.5
2008	(9.6)	(31.8)	(37.0)
2009	19.8	2.7	26.5
2010	13.0	21.4	15.1
2011	4.6	(4.7)	2.1
2012	14.4	16.8	16.0
2013	18.2	32.7	32.4
2014	8.3	27.0	13.7
2015	6.4	(12.5)	1.4
2016	10.7	23.4	12.0
Compounded Annual Gain – 1965-2016	19.0%	20.8%	9.7%
Overall Gain – 1964-2016	884,319%	1,972,595%	12,717%

Notes: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31. Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules. In all other respects, the results are calculated using the numbers originally reported. The S&P 500 numbers are **pre-tax** whereas the Berkshire numbers are **after-tax**. If a corporation such as Berkshire were simply to have owned the S&P 500 and accrued the appropriate taxes, its results would have lagged the S&P 500 in years when that index showed a positive return, but would have exceeded the S&P 500 in years when the index showed a negative return. Over the years, the tax costs would have caused the aggregate lag to be substantial.

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Berkshire's gain in net worth during 2016 was $27.5 billion, which increased the per-share book value of both our Class A and Class B stock by 10.7%. Over the last 52 years (that is, since present management took over), per-share book value has grown from $19 to $172,108, a rate of 19% compounded annually.*

During the first half of those years, Berkshire's net worth was roughly equal to the number that really counts: the intrinsic value of the business. The similarity of the two figures existed then because most of our resources were deployed in marketable securities that were regularly revalued to their quoted prices (less the tax that would be incurred if they were to be sold). In Wall Street parlance, our balance sheet was then in very large part "marked to market."

By the early 1990s, however, our focus was changing to the outright ownership of businesses, a shift that materially diminished the relevance of balance sheet figures. That disconnect occurred because the accounting rules (commonly referred to as "GAAP") that apply to companies we control differ in important ways from those used to value marketable securities. Specifically, the accounting for *businesses* we own requires that the carrying value of "losers" be written down when their failures become apparent. "Winners," conversely, are *never* revalued upwards.

We've experienced both outcomes: As is the case in marriage, business acquisitions often deliver surprises *after* the "I do's." I've made some dumb purchases, paying far too much for the economic goodwill of companies we acquired. That later led to goodwill write-offs and to consequent reductions in Berkshire's book value. We've also had some winners among the businesses we've purchased – a few of the winners very big – but have not written those up by a penny.

We have no quarrel with the asymmetrical accounting that applies here. But, over time, it necessarily widens the gap between Berkshire's intrinsic value and its book value. Today, the large – and growing – unrecorded gains at our winners produce an intrinsic value for Berkshire's shares that *far* exceeds their book value. The overage is truly huge in our property/casualty insurance business and significant also in many other operations.

Over time, stock prices gravitate toward intrinsic value. That's what has happened at Berkshire, a fact explaining why the company's 52-year market-price gain – shown on the facing page – materially exceeds its book-value gain.

* All per-share figures used in this report apply to Berkshire's A shares. Figures for the B shares are 1/1500th of those shown for A.

What We Hope to Accomplish

Charlie Munger, Berkshire's Vice Chairman and my partner, and I expect Berkshire's *normalized* earning power per share to increase every year. *Actual* earnings, of course, will sometimes decline because of periodic weakness in the U.S. economy. In addition, insurance mega-catastrophes or other industry-specific events may occasionally reduce earnings at Berkshire, even when most American businesses are doing well.

It's our job, though, to over time deliver significant growth, bumpy or not. After all, as stewards of *your* capital, Berkshire directors have opted to retain all earnings. Indeed, in both 2015 and 2016 Berkshire ranked first among American businesses in the dollar volume of earnings retained, in each year reinvesting many billions of dollars more than did the runner-up. Those reinvested dollars must earn their keep.

Some years, the gains in underlying earning power we achieve will be minor; very occasionally, the cash register will ring loud. Charlie and I have no magic plan to add earnings except to dream big and to be prepared mentally and financially to act fast when opportunities present themselves. Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold. When downpours of that sort occur, it's imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do.

I earlier described our gradual shift from a company obtaining most of its gains from investment activities to one that grows in value by owning businesses. Launching that transition, we took baby steps – making small acquisitions whose impact on Berkshire's profits was dwarfed by our gains from marketable securities. Despite that cautious approach, I made one particularly egregious error, acquiring Dexter Shoe for $434 million in 1993. Dexter's value promptly went to zero. The story gets worse: I used stock for the purchase, giving the sellers 25,203 shares of Berkshire that at yearend 2016 were worth more than $6 billion.

That wreck was followed by three key happenings – two positive, one negative – that set us firmly on our present course. At the beginning of 1996, we acquired the half of GEICO we didn't already own, a cash transaction that changed our holding from a portfolio investment into a wholly-owned operating business. GEICO, with its almost unlimited potential, quickly became the centerpiece around which we built what I believe is now the world's premier property/casualty business.

Unfortunately, I followed the GEICO purchase by foolishly using Berkshire stock – a *boatload* of stock – to buy General Reinsurance in late 1998. After some early problems, General Re has become a fine insurance operation that we prize. It was, nevertheless, a terrible mistake on my part to issue 272,200 shares of Berkshire in buying General Re, an act that increased our outstanding shares by a whopping 21.8%. My error caused Berkshire shareholders to give far more than they received (a practice that – despite the Biblical endorsement – is far from blessed when you are buying businesses).

Early in 2000, I atoned for that folly by buying 76% (since grown to 90%) of MidAmerican Energy, a brilliantly-managed utility business that has delivered us many large opportunities to make profitable and socially-useful investments. The MidAmerican *cash* purchase – I was learning – firmly launched us on our present course of (1) continuing to build our insurance operation; (2) energetically acquiring large and diversified non-insurance businesses and (3) largely making our deals from internally-generated cash. (Today, I would rather prep for a colonoscopy than issue Berkshire shares.)

Our portfolio of bonds and stocks, de-emphasized though it is, has continued in the post-1998 period to grow and to deliver us hefty capital gains, interest, and dividends. Those portfolio earnings have provided us major help in financing the purchase of businesses. Though unconventional, Berkshire's two-pronged approach to capital allocation gives us a real edge.

Here's our financial record since 1999, when the redirection of our business began in earnest. During the 18-year period covered, Berkshire's outstanding shares grew by only 8.3%, with most of the increase occurring when we purchased BNSF. That, I'm happy to say, was one issuance of stock that made good sense.

After-Tax Earnings
(in billions of dollars)

Year	Operations (1)	Capital Gains (2)	Year	Operations (1)	Capital Gains (2)
1999	0.67	0.89	2008	9.64	(4.65)
2000	0.94	2.39	2009	7.57	0.49
2001	(0.13)	0.92	2010	11.09	1.87
2002	3.72	0.57	2011	10.78	(0.52)
2003	5.42	2.73	2012	12.60	2.23
2004	5.05	2.26	2013	15.14	4.34
2005	5.00	3.53	2014	16.55	3.32
2006	9.31	1.71	2015	17.36	6.73
2007	9.63	3.58	2016	17.57	6.50

(1) Including interest and dividends from investments, but *excluding* capital gains or losses.

(2) In very large part, this tabulation includes only *realized* capital gains or losses. Unrealized gains and losses are also included, however, when GAAP requires that treatment.

Our expectation is that investment gains will continue to be substantial – though totally random as to timing – and that these will supply significant funds for business purchases. Concurrently, Berkshire's superb corps of operating CEOs will focus on increasing earnings at the individual businesses they manage, sometimes helping them to grow by making bolt-on acquisitions. By our avoiding the issuance of Berkshire stock, any improvement in earnings will translate into equivalent per-share gains.

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Our efforts to materially increase the normalized earnings of Berkshire will be aided – as they have been throughout our managerial tenure – by America's economic dynamism. One word sums up our country's achievements: miraculous. From a standing start 240 years ago – a span of time less than triple my days on earth – Americans have combined human ingenuity, a market system, a tide of talented and ambitious immigrants, and the rule of law to deliver abundance beyond any dreams of our forefathers.

You need not be an economist to understand how well our system has worked. Just look around you. See the 75 million owner-occupied homes, the bountiful farmland, the 260 million vehicles, the hyper-productive factories, the great medical centers, the talent-filled universities, you name it – they all represent a net gain for Americans from the barren lands, primitive structures and meager output of 1776. Starting from scratch, America has amassed wealth totaling $90 trillion.

It's true, of course, that American owners of homes, autos and other assets have often borrowed heavily to finance their purchases. If an owner defaults, however, his or her asset does not disappear or lose its usefulness. Rather, ownership customarily passes to an American lending institution that then disposes of it to an American buyer. Our *nation's* wealth remains intact. As Gertrude Stein put it, "Money is always there, but the pockets change."

Above all, it's our market system – an economic traffic cop ably directing capital, brains and labor – that has created America's abundance. This system has also been the primary factor in allocating rewards. Governmental redirection, through federal, state and local taxation, has in addition determined the distribution of a significant portion of the bounty.

America has, for example, decided that those citizens in their productive years should help both the old and the young. Such forms of aid – sometimes enshrined as "entitlements" – are generally thought of as applying to the aged. But don't forget that four million American babies are born each year with an entitlement to a public education. That societal commitment, largely financed at the local level, costs about $150,000 per baby. The annual cost totals more than $600 billion, which is about 3 ½% of GDP.

However our wealth may be divided, the mind-boggling amounts you see around you belong almost exclusively to Americans. Foreigners, of course, own or have claims on a modest portion of our wealth. Those holdings, however, are of little importance to our national balance sheet: *Our* citizens own assets abroad that are roughly comparable in value.

Early Americans, we should emphasize, were neither smarter nor more hard working than those people who toiled century after century before them. But those venturesome pioneers crafted a system that unleashed human potential, and their successors built upon it.

This economic creation will deliver increasing wealth to our progeny far into the future. Yes, the build-up of wealth will be interrupted for short periods from time to time. It will not, however, be stopped. I'll repeat what I've both said in the past and expect to say in future years: Babies born in America today are the luckiest crop in history.

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America's economic achievements have led to staggering profits for stockholders. During the 20th century the Dow-Jones Industrials advanced from 66 to 11,497, a 17,320% capital gain that was materially boosted by steadily increasing dividends. The trend continues: By yearend 2016, the index had advanced a further 72%, to 19,763.

American business – and consequently a basket of stocks – is virtually certain to be worth far more in the years ahead. Innovation, productivity gains, entrepreneurial spirit and an abundance of capital will see to that. Ever-present naysayers may prosper by marketing their gloomy forecasts. But heaven help them if they act on the nonsense they peddle.

Many companies, of course, will fall behind, and some will fail. Winnowing of that sort is a product of market dynamism. Moreover, the years ahead will occasionally deliver major market declines – even panics – that will affect virtually all stocks. No one can tell you when these traumas will occur – not me, not Charlie, not economists, not the media. Meg McConnell of the New York Fed aptly described the reality of panics: "We spend a lot of time looking for systemic risk; in truth, however, it tends to find us."

During such scary periods, you should never forget two things: First, widespread fear is your *friend* as an investor, because it serves up bargain purchases. Second, *personal* fear is your enemy. It will also be unwarranted. Investors who avoid high and unnecessary costs and simply sit for an extended period with a collection of large, conservatively-financed American businesses will almost certainly do well.

As for Berkshire, our size precludes a *brilliant* result: Prospective returns fall as assets increase. Nonetheless, Berkshire's collection of good businesses, along with the company's impregnable financial strength and owner-oriented culture, should deliver decent results. We won't be satisfied with less.

Share Repurchases

In the investment world, discussions about share repurchases often become heated. But I'd suggest that participants in this debate take a deep breath: Assessing the desirability of repurchases isn't that complicated.

From the standpoint of exiting shareholders, repurchases are always a plus. Though the day-to-day impact of these purchases is usually minuscule, it's always better for a seller to have an additional buyer in the market.

For continuing shareholders, however, repurchases only make sense if the shares are bought at a price below intrinsic value. When that rule is followed, the remaining shares experience an immediate gain in intrinsic value. Consider a simple analogy: If there are three equal partners in a business worth $3,000 and one is bought out by the partnership for $900, each of the remaining partners realizes an immediate gain of $50. If the exiting partner is paid $1,100, however, the continuing partners each suffer a loss of $50. The same math applies with corporations and their shareholders. Ergo, the question of whether a repurchase action is value-enhancing or value-destroying for continuing shareholders is entirely purchase-price dependent.

It is puzzling, therefore, that corporate repurchase announcements almost never refer to a price above which repurchases will be eschewed. That certainly wouldn't be the case if a management was buying an outside business. There, price would always factor into a buy-or-pass decision.

When CEOs or boards are buying a small part of their own company, though, they all too often seem oblivious to price. Would they behave similarly if they were managing a private company with just a few owners and were evaluating the wisdom of buying out one of them? Of course not.

It is important to remember that there are two occasions in which repurchases should not take place, even if the company's shares are underpriced. One is when a business both needs all its available money to protect or expand its own operations and is also uncomfortable adding further debt. Here, the internal need for funds should take priority. This exception assumes, of course, that the business has a decent future awaiting it after the needed expenditures are made.

The second exception, less common, materializes when a business acquisition (or some other investment opportunity) offers far greater value than do the undervalued shares of the potential repurchaser. Long ago, Berkshire itself often had to choose between these alternatives. At our present size, the issue is far less likely to arise.

My suggestion: Before even discussing repurchases, a CEO and his or her Board should stand, join hands and in unison declare, "What is smart at one price is stupid at another."

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To recap Berkshire's own repurchase policy: I am authorized to buy large amounts of Berkshire shares at 120% or less of book value because our Board has concluded that purchases at that level clearly bring an instant and material benefit to continuing shareholders. By our estimate, a 120%-of-book price is a significant discount to Berkshire's intrinsic value, a spread that is appropriate because calculations of intrinsic value can't be precise.

The authorization given me does not mean that we will "prop" our stock's price at the 120% ratio. If that level is reached, we will instead attempt to blend a desire to make meaningful purchases at a value-creating price with a related goal of not over-influencing the market.

To date, repurchasing our shares has proved hard to do. That may well be because we have been clear in describing our repurchase policy and thereby have signaled our view that Berkshire's intrinsic value is significantly higher than 120% of book value. If so, that's fine. Charlie and I prefer to see Berkshire shares sell in a fairly narrow range around intrinsic value, neither wishing them to sell at an unwarranted high price – it's no fun having owners who are disappointed with their purchases – nor one too low. Furthermore, our buying out "partners" at a discount is not a particularly gratifying way of making money. Still, market circumstances could create a situation in which repurchases would benefit both continuing and exiting shareholders. If so, we will be ready to act.

One final observation for this section: As the subject of repurchases has come to a boil, some people have come close to calling them un-American – characterizing them as corporate misdeeds that divert funds needed for productive endeavors. That simply isn't the case: Both American corporations and private investors are today awash in funds looking to be sensibly deployed. I'm not aware of *any* enticing project that in recent years has died for lack of capital. (Call us if you have a candidate.)

Insurance

Let's now look at Berkshire's various businesses, starting with our most important sector, insurance. The property/casualty ("P/C") branch of that industry has been the engine that has propelled our growth since 1967, the year we acquired National Indemnity and its sister company, National Fire & Marine, for $8.6 million. Today, National Indemnity is the largest property/casualty company in the world as measured by net worth.

One reason we were attracted to the P/C business was its financial characteristics: P/C insurers receive premiums upfront and pay claims later. In extreme cases, such as claims arising from exposure to asbestos, payments can stretch over many decades. This collect-now, pay-later model leaves P/C companies holding large sums – money we call "float" – that will eventually go to others. Meanwhile, insurers get to invest this float for their own benefit. Though individual policies and claims come and go, the amount of float an insurer holds usually remains fairly stable in relation to premium volume. Consequently, as our business grows, so does our float. And *how* it has grown, as the following table shows:

Year	*Float (in millions)*
1970	$ 39
1980	237
1990	1,632
2000	27,871
2010	65,832
2016	91,577

We recently wrote a huge policy that increased float to more than $100 billion. Beyond that one-time boost, float at GEICO and several of our specialized operations is almost certain to grow at a good clip. National Indemnity's reinsurance division, however, is party to a number of large run-off contracts whose float is certain to drift downward.

We may in time experience a decline in float. If so, the decline will be *very* gradual – at the outside no more than 3% in any year. The nature of our insurance contracts is such that we can *never* be subject to immediate or near-term demands for sums that are of significance to our cash resources. This structure is by design and is a key component in the unequaled financial strength of our insurance companies. It will *never* be compromised.

If our premiums exceed the total of our expenses and eventual losses, our insurance operation registers an underwriting profit that adds to the investment income the float produces. When such a profit is earned, we enjoy the use of free money – and, better yet, get *paid* for holding it.

Unfortunately, the wish of all insurers to achieve this happy result creates intense competition, so vigorous indeed that it sometimes causes the P/C industry as a whole to operate at a significant underwriting *loss*. This loss, in effect, is what the industry pays to hold its float. Competitive dynamics almost guarantee that the insurance industry, despite the float income all its companies enjoy, will continue its dismal record of earning subnormal returns on tangible net worth as compared to other American businesses.

This outcome is made more certain by the dramatically lower interest rates that now exist throughout the world. The investment portfolios of almost all P/C companies – though *not* those of Berkshire – are heavily concentrated in bonds. As these high-yielding legacy investments mature and are replaced by bonds yielding a pittance, earnings from float will steadily fall. For that reason, and others as well, it's a good bet that industry results over the next ten years will fall short of those recorded in the past decade, particularly in the case of companies that specialize in reinsurance.

Nevertheless, I very much like our own prospects. Berkshire's unrivaled financial strength allows us far more flexibility in investing than that generally available to P/C companies. The many alternatives available to us are always an advantage; occasionally, they offer us major opportunities. When others are constrained, our choices expand.

Moreover, our P/C companies have an excellent underwriting record. Berkshire has now operated at an underwriting profit for 14 consecutive years, our pre-tax gain for the period having totaled $28 billion. That record is no accident: Disciplined risk evaluation is the daily focus of *all* of our insurance managers, who know that while float is valuable, its benefits can be drowned by poor underwriting results. All insurers give that message lip service. At Berkshire it is a religion, Old Testament style.

So how does our float affect intrinsic value? When Berkshire's *book* value is calculated, the *full* amount of our float is deducted as a *liability*, just as if we had to pay it out tomorrow and could not replenish it. But to think of float as a typical liability is a major mistake. It should instead be viewed as a revolving fund. Daily, we pay old claims and related expenses – a huge $27 billion to more than six million claimants in 2016 – and that reduces float. Just as surely, we each day write new business that will soon generate its own claims, adding to float.

If our revolving float is both costless and long-enduring, which I believe it will be, the true value of this liability is *dramatically* less than the accounting liability. Owing $1 that in effect will never leave the premises – because new business is almost certain to deliver a substitute – is worlds different from owing $1 that will go out the door tomorrow and not be replaced. The two types of liabilities, however, are treated as equals under GAAP.

A partial offset to this overstated liability is a $15.5 billion "goodwill" asset that we incurred in buying our insurance companies and that is included in our book-value figure. In very large part, this goodwill represents the price we paid for the float-generating capabilities of our insurance operations. The cost of the goodwill, however, has *no* bearing on its true value. For example, if an insurance company sustains large and prolonged underwriting losses, *any* goodwill asset carried on the books should be deemed valueless, whatever its original cost.

Fortunately, that does not describe Berkshire. Charlie and I believe the true economic value of our insurance goodwill – what we would happily pay for float *of similar quality* were we to purchase an insurance operation possessing it – to be *far* in excess of its historic carrying value. Indeed, almost the entire $15.5 billion we carry for goodwill in our insurance business was already on our books in 2000 when float was $28 billion. Yet we have subsequently increased our float by $64 billion, a gain that in no way is reflected in our book value. This unrecorded asset is one reason – a huge reason – why we believe Berkshire's intrinsic business value far exceeds its book value.

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Berkshire's attractive insurance economics exist only because we have some terrific managers running disciplined operations that in most cases possess hard-to-replicate business models. Let me tell you about the major units.

First by float size is the Berkshire Hathaway Reinsurance Group, managed by Ajit Jain. Ajit insures risks that no one else has the desire or the capital to take on. His operation combines capacity, speed, decisiveness and, most important, brains in a manner unique in the insurance business. Yet he never exposes Berkshire to risks that are inappropriate in relation to our resources.

Indeed, Berkshire is *far* more conservative in avoiding risk than most large insurers. For example, if the insurance industry should experience a $250 billion loss from some mega-catastrophe – a loss about triple anything it has ever experienced – Berkshire as a whole would likely record a large profit for the year. Our many streams of non-insurance earnings would see to that. Additionally, we would remain awash in cash and be eager to write business in an insurance market that might well be in disarray. Meanwhile, other major insurers and reinsurers would be swimming in red ink, if not facing insolvency.

When Ajit entered Berkshire's office on a Saturday in 1986, he did not have a day's experience in the insurance business. Nevertheless, Mike Goldberg, then our manager of insurance, handed him the keys to our small and struggling reinsurance business. With that move, Mike achieved sainthood: Since then, Ajit has created tens of billions of value for Berkshire shareholders. If there were ever to be another Ajit and you could swap me for him, *don't hesitate*. Make the trade!

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We have another reinsurance powerhouse in General Re, managed until recently by Tad Montross. After 39 years at General Re, Tad retired in 2016. Tad was a class act in every way and we owe him a ton of thanks. Kara Raiguel, who has worked with Ajit for 16 years, is now CEO of General Re.

At bottom, a sound insurance operation needs to adhere to four disciplines. It must (1) understand *all* exposures that might cause a policy to incur losses; (2) conservatively assess the likelihood of any exposure actually causing a loss and the probable cost if it does; (3) set a premium that, on average, will deliver a profit after both prospective loss costs and operating expenses are covered; and (4) be willing to walk away if the appropriate premium can't be obtained.

Many insurers pass the first three tests and flunk the fourth. They simply can't turn their back on business that is being eagerly written by their competitors. That old line, "The other guy is doing it, so we must as well," spells trouble in any business, but in none more so than insurance. Tad never listened to that nonsensical excuse for sloppy underwriting, and neither will Kara.

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Finally, there is GEICO, the company that set my heart afire 66 years ago (and for which the flame still burns). GEICO is managed by Tony Nicely, who joined the company at 18 and completed 55 years of service in 2016.

Tony became CEO of GEICO in 1993, and since then the company has been flying. There is *no* better manager than Tony, who brings his combination of brilliance, dedication *and* soundness to the job. (The latter quality is essential to sustained success. As Charlie says, it's great to have a manager with a 160 IQ – unless he thinks it's 180.) Like Ajit, Tony has created tens of billions of value for Berkshire.

On my initial visit to GEICO in 1951, I was blown away by the huge cost advantage the company enjoyed over the giants of the industry. It was clear to me that GEICO would succeed because it *deserved* to succeed. The company's annual sales were then $8 million; In 2016, GEICO did that much business every three hours of the year.

Auto insurance is a major expenditure for most families. Savings matter to them – and only a low-cost operation can deliver those. In fact, at least 40% of the people reading this letter can save money by insuring with GEICO. So stop reading – right now! – and go to geico.com or call 800-847-7536.

GEICO's low costs create a moat – an *enduring* one – that competitors are unable to cross. As a result, the company gobbles up market share year after year, ending 2016 with about 12% of industry volume. That's up from 2.5% in 1995, the year Berkshire acquired control of GEICO. Employment, meanwhile, grew from 8,575 to 36,085.

GEICO's growth accelerated dramatically during the second half of 2016. Loss costs throughout the auto-insurance industry had been increasing at an unexpected pace and some competitors lost their enthusiasm for taking on new customers. GEICO's reaction to the profit squeeze, however, was to *accelerate* its new-business efforts. We like to make hay while the sun *sets*, knowing that it will surely rise again.

GEICO continues on a roll as I send you this letter. When insurance prices increase, people shop more. And when they shop, GEICO wins.

Have you called yet? (800-847-7536 or go to geico.com)

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In addition to our three major insurance operations, we own a collection of smaller companies that primarily write commercial coverages. In aggregate, these companies are a large, growing and valuable operation that consistently delivers an underwriting profit, usually one much superior to that reported by their competitors. Over the past 14 years, this group has earned $4.7 billion from underwriting – about 13% of its premium volume – while increasing its float from $943 million to $11.6 billion.

Less than three years ago, we formed Berkshire Hathaway Specialty Insurance ("BHSI"), which is included in this grouping. Our first decision was to put Peter Eastwood in charge, a move that proved to be a home run: We expected significant losses in the early years while Peter built the personnel and infrastructure needed for a world-wide operation. Instead, he and his crew delivered significant underwriting profits throughout the start-up period. BHSI's volume increased 40% in 2016, reaching $1.3 billion. It's clear to me that the company is destined to become one of the world's leading P/C insurers.

Here's a recap of pre-tax underwriting earnings and float by division:

	Underwriting Profit		*Yearend Float*	
		(in millions)		
Insurance Operations	*2016*	*2015*	*2016*	*2015*
BH Reinsurance	$ 822	$ 421	$ 45,081	$ 44,108
General Re	190	132	17,699	18,560
GEICO	462	460	17,148	15,148
Other Primary	657	824	11,649	9,906
	$2,131	$1,837	$ 91,577	$ 87,722

Berkshire's great managers, premier financial strength and a range of business models protected by wide moats amount to something unique in the insurance world. This assemblage of strengths is a huge asset for Berkshire shareholders that time will only make more valuable.

Regulated, Capital-Intensive Businesses

Our BNSF railroad and Berkshire Hathaway Energy ("BHE"), our 90%-owned utility business, share important characteristics that distinguish them from Berkshire's other activities. Consequently, we assign them their own section in this letter and split out their combined financial statistics in our GAAP balance sheet and income statement. These two very major companies accounted for 33% of Berkshire's after-tax operating earnings last year.

A key characteristic of both companies is their huge investment in very long-lived, regulated assets, with these partially funded by large amounts of long-term debt that is *not* guaranteed by Berkshire. Our credit is in fact not needed because each company has earning power that even under terrible economic conditions would far exceed its interest requirements. Last year, for example, in a disappointing year for railroads, BNSF's interest coverage was more than 6:1. (Our definition of coverage is the ratio of earnings before interest and taxes to interest, *not* EBITDA/interest, a commonly-used measure we view as seriously flawed.)

At BHE, meanwhile, two factors ensure the company's ability to service its debt under all circumstances. The first is common to all utilities: recession-resistant earnings, which result from these companies offering an essential service for which demand is remarkably steady. The second is enjoyed by few other utilities: an ever-widening diversity of earnings streams, which shield BHE from being seriously harmed by any single regulatory body. These many sources of profit, supplemented by the inherent advantage of the company being owned by a strong parent, have allowed BHE and its utility subsidiaries to significantly lower their cost of debt. That economic fact benefits both us *and* our customers.

All told, BHE and BNSF invested $8.9 billion in plant and equipment last year, a massive commitment to their segments of America's infrastructure. We relish making such investments as long as they promise reasonable returns – and, on that front, we put a large amount of trust in future regulation.

Our confidence is justified both by our past experience and by the knowledge that society will forever need huge investments in both transportation and energy. It is in the self-interest of governments to treat capital providers in a manner that will ensure the continued flow of funds to essential projects. It is concomitantly in our self-interest to conduct our operations in a way that earns the approval of our regulators and the people they represent.

Low prices are a powerful way to keep these constituencies happy. In Iowa, BHE's average retail rate is 7.1¢ per KWH. Alliant, the other major electric utility in the state, averages 9.9¢. Here are the comparable industry figures for adjacent states: Nebraska 9.0¢, Missouri 9.5¢, Illinois 9.2¢, Minnesota 10.0¢. The national average is 10.3¢. We have promised Iowans that our base rates will not increase until 2029 *at the earliest*. Our rock-bottom prices add up to real money for paycheck-strapped customers.

At BNSF, price comparisons between major railroads are far more difficult to make because of significant differences in both their mix of cargo and the average distance the load is carried. To supply a *very* crude measure, however, our revenue per ton-mile was 3¢ last year, while shipping costs for customers of the other four major U.S.-based railroads ranged from 4¢ to 5¢.

Both BHE and BNSF have been leaders in pursuing planet-friendly technology. In wind generation, no state comes close to rivaling Iowa, where last year the megawatt-hours we generated from wind equaled 55% of all megawatt-hours sold to our Iowa retail customers. New wind projects that are underway will take that figure to 89% by 2020.

Bargain-basement electric rates carry second-order benefits with them. Iowa has attracted large high-tech installations, both because of its low prices for electricity (which data centers use in huge quantities) and because most tech CEOs are enthusiastic about using renewable energy. When it comes to wind energy, Iowa is the Saudi Arabia of America.

BNSF, like other Class I railroads, uses only a single gallon of diesel fuel to move a ton of freight almost 500 miles. Those economics make railroads four times as fuel-efficient as trucks! Furthermore, railroads alleviate highway congestion – and the taxpayer-funded maintenance expenditures that come with heavier traffic – in a major way.

All told, BHE and BNSF own assets that are of major importance to our country as well as to shareholders of Berkshire. Here are the key financial figures for both:

BNSF	*Earnings (in millions)*		
	2016	*2015*	*2014*
Revenues	$ 19,829	$ 21,967	$ 23,239
Operating expenses	13,144	14,264	16,237
Operating earnings before interest and taxes	6,685	7,703	7,002
Interest (net)	992	928	833
Income taxes	2,124	2,527	2,300
Net earnings	$ 3,569	$ 4,248	$ 3,869

Berkshire Hathaway Energy (90% owned)	*Earnings (in millions)*		
	2016	*2015*	*2014*
U.K. utilities	$ 367	$ 460	$ 527
Iowa utility	392	292	270
Nevada utilities	559	586	549
PacifiCorp (primarily Oregon and Utah)	1,105	1,026	1,010
Gas pipelines (Northern Natural and Kern River)	413	401	379
Canadian transmission utility	147	170	16
Renewable projects	157	175	194
HomeServices	225	191	139
Other (net)	73	49	54
Operating earnings before corporate interest and taxes	3,438	3,350	3,138
Interest	465	499	427
Income taxes	431	481	616
Net earnings	$ 2,542	$ 2,370	$ 2,095
Earnings applicable to Berkshire	$ 2,287	$ 2,132	$ 1,882

HomeServices may appear out of place in the above table. But it came with our purchase of MidAmerican (now BHE) in 1999 – and we are lucky that it did.

HomeServices owns 38 realty companies with more than 29,000 agents who operate in 28 states. Last year it purchased four realtors, including Houlihan Lawrence, the leader in New York's Westchester County (in a transaction that closed shortly after yearend).

In real estate parlance, representing either a buyer or a seller is called a "side," with the representation of both counting as two sides. Last year, our *owned* realtors participated in 244,000 sides, totaling $86 billion in volume.

HomeServices also *franchises* many operations throughout the country that use our name. We like both aspects of the real estate business and expect to acquire many realtors and franchisees during the next decade.

Manufacturing, Service and Retailing Operations

Our manufacturing, service and retailing operations sell products ranging from lollipops to jet airplanes. Let's look, though, at a summary balance sheet and earnings statement for the entire group.

Balance Sheet 12/31/16 (in millions)

Assets		*Liabilities and Equity*	
Cash and equivalents	$ 8,073	Notes payable	$ 2,054
Accounts and notes receivable	11,183	Other current liabilities	12,464
Inventory	15,727	Total current liabilities	14,518
Other current assets	1,039		
Total current assets	36,022		
		Deferred taxes	12,044
Goodwill and other intangibles	71,473	Term debt and other liabilities	10,943
Fixed assets	18,915	Non-controlling interests	579
Other assets	3,183	Berkshire equity	91,509
	$129,593		$129,593

Earnings Statement (in millions)

	2016	*2015*	*2014*
Revenues	$120,059	$107,825	$97,689
Operating expenses	111,383	100,607	90,788
Interest expense	214	103	109
Pre-tax earnings	8,462	7,115	6,792
Income taxes and non-controlling interests	2,831	2,432	2,324
Net earnings	$ 5,631	$ 4,683	$ 4,468

Included in this financial summary are 44 businesses that report directly to headquarters. But some of these companies, in turn, have many individual operations under their umbrella. For example, Marmon has 175 separate business units, serving widely disparate markets, and Berkshire Hathaway Automotive owns 83 dealerships, operating in nine states.

This collection of businesses is truly a motley crew. Some operations, measured by earnings on unleveraged net *tangible* assets, enjoy terrific returns that, in a couple of instances, exceed 100%. Most are solid businesses generating good returns in the area of 12% to 20%.

A few, however – these are serious blunders I made in my job of capital allocation – produce very poor returns. In most cases, I was wrong when I originally sized up the economic characteristics of these companies or the industries in which they operate, and we are now paying the price for my misjudgments. In a couple of instances, I stumbled in assessing either the fidelity or ability of incumbent managers or ones I later put in place. I will commit more errors; you can count on that. Fortunately, Charlie – never bashful – is around to say "no" to my worst ideas.

Viewed as a single entity, the companies in the manufacturing, service and retailing group are an excellent business. They employed an average of $24 billion of net tangible assets during 2016 and, despite their holding large quantities of excess cash and carrying very little debt, earned 24% after-tax on that capital.

Of course, a business with terrific economics can be a bad investment if it is bought at too high a price. We have paid substantial premiums to net tangible assets for most of our businesses, a cost that is reflected in the large figure we show on our balance sheet for goodwill and other intangibles. Overall, however, we are getting a decent return on the capital we have deployed in this sector. Absent a recession, earnings from the group will likely grow in 2017, in part because Duracell and Precision Castparts (both bought in 2016) will for the first time contribute a full year's earnings to this group. Additionally, Duracell incurred significant transitional costs in 2016 that will not recur.

We have far too many companies in this group to comment on them individually. Moreover, their competitors – both current and potential – read this report. In a few of our businesses, we might be disadvantaged if outsiders knew our numbers. Therefore, in certain of our operations that are not of a size material to an evaluation of Berkshire, we only disclose what is required. You can nevertheless find a good bit of detail about many of our operations on pages 90 - 94. Be aware, though, that it's the growth of the Berkshire forest that counts. It would be foolish to focus over-intently on any single tree.

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For several years I have told you that the income and expense data shown in this section does not conform to GAAP. I have explained that this divergence occurs primarily because of GAAP-ordered rules regarding purchase-accounting adjustments that require the full amortization of certain intangibles over periods averaging about 19 years. In our opinion, most of those amortization "expenses" are not truly an economic cost. Our goal in diverging from GAAP in this section is to present the figures to you in a manner reflecting the way in which Charlie and I view and analyze them.

On page 54 we itemize $15.4 billion of intangibles that are yet to be amortized by annual charges to earnings. (More intangibles to be amortized will be created as we make new acquisitions.) On that page, we show that the 2016 amortization charge to GAAP earnings was $1.5 billion, up $384 million from 2015. My judgment is that about 20% of the 2016 charge is a "real" cost.

Eventually amortization charges fully write off the related asset. When that happens – most often at the 15-year mark – the GAAP earnings we report will increase without any true improvement in the underlying economics of Berkshire's business. (My gift to my successor.)

Now that I've described a GAAP expense that I believe to be overstated, let me move on to a less pleasant distortion produced by accounting rules. The subject this time is GAAP-prescribed depreciation charges, which are necessarily based on historical cost. Yet in certain cases, those charges materially *understate* true economic costs. Countless words were written about this phenomenon in the 1970s and early 1980s, when inflation was rampant. As inflation subsided – thanks to heroic actions by Paul Volcker – the inadequacy of depreciation charges became less of an issue. But the problem still prevails, *big time*, in the railroad industry, where current costs for many depreciable items far outstrip historical costs. The inevitable result is that reported earnings throughout the railroad industry are considerably higher than true economic earnings.

At BNSF, to get down to particulars, our GAAP depreciation charge last year was $2.1 billion. But were we to spend that sum and no more annually, our railroad would soon deteriorate and become less competitive. The reality is that – *simply to hold our own* – we need to spend far more than the cost we show for depreciation. Moreover, a wide disparity will prevail for decades.

All that said, Charlie and I love our railroad, which was one of our better purchases.

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Too many managements – and the number seems to grow every year – are looking for any means to report, *and indeed feature*, "adjusted earnings" that are higher than their company's GAAP earnings. There are many ways for practitioners to perform this legerdemain. Two of their favorites are the omission of "restructuring costs" and "stock-based compensation" as expenses.

Charlie and I *want* managements, *in their commentary*, to describe unusual items – good or bad – that affect the GAAP numbers. After all, the reason we look at these numbers of the past is to make estimates of the future. But a management that regularly attempts to wave away very real costs by highlighting "adjusted per-share earnings" makes us nervous. That's because bad behavior is contagious: CEOs who overtly look for ways to report high numbers tend to foster a culture in which subordinates strive to be "helpful" as well. Goals like that can lead, for example, to insurers underestimating their loss reserves, a practice that has destroyed many industry participants.

Charlie and I cringe when we hear analysts talk admiringly about managements who always "make the numbers." In truth, business is too unpredictable for the numbers always to be met. Inevitably, surprises occur. When they do, a CEO whose focus is centered on Wall Street will be tempted to *make up* the numbers.

Let's get back to the two favorites of "don't-count-this" managers, starting with "restructuring." Berkshire, I would say, has been restructuring from the first day we took over in 1965. Owning only a northern textile business then gave us no other choice. And today a fair amount of restructuring occurs every year at Berkshire. That's because there are always things that need to change in our hundreds of businesses. Last year, as I mentioned earlier, we spent significant sums getting Duracell in shape for the decades ahead.

We have never, however, singled out restructuring charges and told you to ignore them in estimating our normal earning power. If there were to be some truly major expenses in a single year, I would, of course, mention it in my commentary. Indeed, when there is a total rebasing of a business, such as occurred when Kraft and Heinz merged, it is imperative that for several years the huge one-time costs of rationalizing the combined operations be explained clearly to owners. That's precisely what the CEO of Kraft Heinz has done, in a manner approved by the company's directors (who include me). But, to tell owners year after year, "Don't count this," when management is simply making business adjustments that are necessary, is misleading. And too many analysts and journalists fall for this baloney.

To say "stock-based compensation" is not an expense is even more cavalier. CEOs who go down that road are, in effect, saying to shareholders, "If you pay me a bundle in options or restricted stock, don't worry about its effect on earnings. I'll 'adjust' it away."

To explore this maneuver further, join me for a moment in a visit to a make-believe accounting laboratory whose sole mission is to juice Berkshire's *reported* earnings. Imaginative technicians await us, eager to show their stuff.

Listen carefully while I tell these enablers that stock-based compensation usually comprises at least 20% of total compensation for the top three or four executives at most large companies. Pay attention, too, as I explain that Berkshire has several hundred such executives at its subsidiaries and pays them similar amounts, but uses only cash to do so. I further confess that, lacking imagination, I have counted *all* of these payments to Berkshire's executives as an expense.

My accounting minions suppress a giggle and immediately point out that 20% of what is paid these Berkshire managers is tantamount to "cash paid in lieu of stock-based compensation" and is therefore not a "true" expense. So – presto! – Berkshire, too, can have "adjusted" earnings.

Back to reality: If CEOs want to leave out stock-based compensation in reporting earnings, they should be required to affirm *to their owners* one of two propositions: why items of value used to pay employees are not a cost or why a payroll cost should be excluded when calculating earnings.

During the accounting nonsense that flourished during the 1960s, the story was told of a CEO who, as his company revved up to go public, asked prospective auditors, "What is two plus two?" The answer that won the assignment, of course, was, "What number do you have in mind?"

Finance and Financial Products

Our three leasing and rental operations are conducted by CORT (furniture), XTRA (semi-trailers), and Marmon (primarily tank cars but also freight cars, intermodal tank containers and cranes). Each is the leader in its field.

We also include Clayton Homes in this section. This company receives most of its revenue from the sale of manufactured homes, but derives the bulk of its *earnings* from its large mortgage portfolio. Last year, Clayton became America's largest home builder, delivering 42,075 units that accounted for 5% of all new American homes. (In fairness, other large builders do far more *dollar* volume than Clayton because they sell site-built homes that command much higher prices.)

In 2015, Clayton branched out, purchasing its first site-builder. Two similar acquisitions followed in 2016, and more will come. Site-built houses are expected to amount to 3% or so of Clayton's unit sales in 2017 and will likely deliver about 14% of its dollar volume.

Even so, Clayton's focus will always be manufactured homes, which account for about 70% of new American homes costing less than $150,000. Clayton manufactures close to one-half of the total. That is a far cry from Clayton's position in 2003 when Berkshire purchased the company. It then ranked third in the industry in units sold and employed 6,731 people. Now, when its new acquisitions are included, the employee count is 14,677. And that number will increase in the future.

Clayton's earnings in recent years have materially benefited from extraordinarily low interest rates. The company's mortgage loans to home-buyers are at fixed-rates and for long terms (averaging 25 years at inception). But Clayton's own borrowings are short-term credits that re-price frequently. When rates plunge, Clayton's earnings from its portfolio greatly increase. We normally would shun that kind of lend-long, borrow-short approach, which can cause major problems for financial institutions. As a whole, however, Berkshire is always asset-sensitive, meaning that higher short-term rates will benefit our *consolidated* earnings, even as they hurt at Clayton.

Last year Clayton had to foreclose on 8,304 manufactured-housing mortgages, about 2.5% of its total portfolio. Customer demographics help explain that percentage. Clayton's customers are usually lower-income families with mediocre credit scores; many are supported by jobs that will be at risk in any recession; many, similarly, have financial profiles that will be damaged by divorce or death to an extent that would not be typical for a high-income family. Those risks that our customers face are partly mitigated because almost all have a strong desire to own a home and because they enjoy reasonable monthly payments that average only $587, *including* the cost of insurance and property taxes.

Clayton also has long had programs that help borrowers through difficulties. The two most popular are loan extensions and payment forgiveness. Last year about 11,000 borrowers received extensions, and 3,800 had $3.4 million of scheduled payments permanently canceled by Clayton. The company does not earn interest or fees when these loss-mitigation moves are made. Our experience is that 93% of borrowers helped through these programs in the last two years now remain in their homes. Since we lose significant sums on foreclosures – losses last year totaled $150 million – our assistance programs end up helping Clayton as well as its borrowers.

Clayton and Berkshire have been a wonderful partnership. Kevin Clayton came to us with a best-in-class management group and culture. Berkshire, in turn, provided unmatched staying power when the manufactured-home industry fell apart during the Great Recession. (As other lenders to the industry vanished, Clayton supplied credit not only to its own dealers but also to dealers who sold the products of its competitors.) At Berkshire, we never count on synergies when we acquire companies. Truly important ones, however, surfaced after our purchase of Clayton.

Marmon's railcar business experienced a major slowdown in demand last year, which will cause earnings to decline in 2017. Fleet utilization was 91% in December, down from 97% a year earlier, with the drop particularly severe at the large fleet we purchased from General Electric in 2015. Marmon's crane and container rentals have weakened as well.

Big swings in railcar demand have occurred in the past and they will continue. Nevertheless, we very much like this business and expect decent returns on equity capital over the years. Tank cars are Marmon's specialty. People often associate tank cars with the transportation of crude oil; in fact, they are essential to a great variety of shippers.

Over time, we expect to expand our railcar operation. Meanwhile, Marmon is making a number of bolt-on acquisitions whose results are included in the Manufacturing, Service and Retailing section.

Here's the pre-tax earnings recap for our finance-related companies:

	2016	*2015*	*2014*
		(in millions)	
Berkadia (our 50% share)	$ 91	$ 74	$ 122
Clayton	744	706	558
CORT	60	55	49
Marmon – Containers and Cranes	126	192	238
Marmon – Railcars	654	546	442
XTRA	179	172	147
Net financial income*	276	341	283
	$ 2,130	$ 2,086	$ 1,839

* Excludes capital gains or losses

Investments

Below we list our fifteen common stock investments that at yearend had the largest market value. We exclude our Kraft Heinz holding because Berkshire is part of a control group and therefore must account for this investment on the "equity" method. The 325,442,152 shares Berkshire owns of Kraft Heinz are carried on our balance sheet at a GAAP figure of $15.3 billion and had a yearend market value of $28.4 billion. Our cost basis for the shares is $9.8 billion.

			12/31/16	
*Shares**	*Company*	*Percentage of Company Owned*	*Cost***	*Market*
			(in millions)	
151,610,700	American Express Company	16.8	$ 1,287	$ 11,231
61,242,652	Apple Inc.	1.1	6,747	7,093
6,789,054	Charter Communications, Inc.	2.5	1,210	1,955
400,000,000	The Coca-Cola Company	9.3	1,299	16,584
54,934,718	Delta Airlines Inc.	7.5	2,299	2,702
11,390,582	The Goldman Sachs Group, Inc.	2.9	654	2,727
81,232,303	International Business Machines Corp.	8.5	13,815	13,484
24,669,778	Moody's Corporation	12.9	248	2,326
74,587,892	Phillips 66	14.4	5,841	6,445
22,169,930	Sanofi	1.7	1,692	1,791
43,203,775	Southwest Airlines Co.	7.0	1,757	2,153
101,859,335	U.S. Bancorp	6.0	3,239	5,233
26,620,184	United Continental Holdings Inc.	8.4	1,477	1,940
43,387,980	USG Corp.	29.7	836	1,253
500,000,000	Wells Fargo & Company	10.0	12,730	27,555
	Others		10,697	17,560
	Total Common Stocks Carried at Market		$ 65,828	$ 122,032

* Excludes shares held by pension funds of Berkshire subsidiaries.

** This is our actual purchase price and also our tax basis; GAAP "cost" differs in a few cases because of write-downs that have been required under GAAP rules.

Some of the stocks in the table are the responsibility of either Todd Combs or Ted Weschler, who work with me in managing Berkshire's investments. Each, *independently*, manages more than $10 billion; I usually learn about decisions they have made by looking at monthly trade sheets. Included in the $21 billion that the two manage is about $7.6 billion of pension trust assets of certain Berkshire subsidiaries. As noted, pension investments are not included in the preceding tabulation of Berkshire holdings.

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Excluded from the table – *but important* – is our ownership of $5 billion of preferred stock issued by Bank of America. This stock, which pays us $300 million per year, also carries with it a valuable warrant allowing Berkshire to purchase 700 million common shares of Bank of America for $5 billion at any time before September 2, 2021. At yearend, that privilege would have delivered us a profit of $10.5 billion. If it wishes, Berkshire can use its preferred shares to satisfy the $5 billion cost of exercising the warrant.

If the dividend rate on Bank of America common stock – now 30 cents annually – should rise above 44 cents before 2021, we would anticipate making a cashless exchange of our preferred into common. If the common dividend remains below 44 cents, it is highly probable that we will exercise the warrant immediately before it expires.

Many of our investees, including Bank of America, have been repurchasing shares, some quite aggressively. We very much like this behavior because we believe the repurchased shares have in most cases been underpriced. (Undervaluation, after all, is why we own these positions.) When a company grows and outstanding shares shrink, good things happen for shareholders.

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It's important for you to understand that 95% of the $86 billion of "cash and equivalents" (which in my mind includes U.S. Treasury Bills) shown on our balance sheet are held by entities in the United States and, consequently, is not subject to any repatriation tax. Moreover, repatriation of the remaining funds would trigger only minor taxes because much of that money has been earned in countries that themselves impose meaningful corporate taxes. Those payments become an offset to U.S. tax when money is brought home.

These explanations are important because many cash-rich American companies hold a large portion of their funds in jurisdictions imposing very low taxes. Such companies hope – and may well be proved right – that the tax levied for bringing these funds to America will soon be materially reduced. In the meantime, these companies are limited as to how they can use that cash. In other words, off-shore cash is simply not worth as much as cash held at home.

Berkshire has a partial offset to the favorable geographical location of its cash, which is that much of it is held in our insurance subsidiaries. Though we have many alternatives for investing this cash, we do not have the unlimited choices that we would enjoy if the cash were held by the parent company, Berkshire. We *do* have an ability annually to distribute large amounts of cash from our insurers to the parent – though here, too, there are limits. Overall, cash held at our insurers is a very valuable asset, but one slightly less valuable to us than is cash held at the parent level.

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Sometimes the comments of shareholders or media imply that we will own certain stocks "forever." It is true that we own some stocks that I have no intention of selling for as far as the eye can see (and we're talking 20/20 vision). But we have made no *commitment* that Berkshire will hold *any* of its marketable securities forever.

Confusion about this point may have resulted from a too-casual reading of Economic Principle 11 on pages 110 - 111, which has been included in our annual reports since 1983. That principle covers *controlled businesses*, not marketable securities. This year I've added a final sentence to #11 to ensure that our owners understand that we regard any marketable security as available for sale, however unlikely such a sale now seems.

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Before we leave this investment section, a few educational words about dividends and taxes: Berkshire, like most corporations, nets considerably *more* from a dollar of dividends than it reaps from a dollar of capital gains. That will probably surprise those of our shareholders who are accustomed to thinking of capital gains as the route to tax-favored returns.

But here's the *corporate* math. Every $1 of capital gains that a corporation realizes carries with it 35 cents of federal income tax (and often state income tax as well). The tax on dividends received from *domestic* corporations, however, is consistently lower, though rates vary depending on the status of the recipient.

For a non-insurance company – which describes Berkshire Hathaway, the parent – the federal tax rate is effectively 10½ cents per $1 of dividends received. Furthermore, a non-insurance company that owns more than 20% of an investee owes taxes of only 7 cents per $1 of dividends. That rate applies, for example, to the substantial dividends we receive from our 27% ownership of Kraft Heinz, all of it held by the parent company. (The rationale for the low corporate taxes on dividends is that the dividend-paying investee has already paid its own corporate tax on the earnings being distributed.)

Berkshire's insurance subsidiaries pay a tax rate on dividends that is somewhat higher than that applying to non-insurance companies, though the rate is still well below the 35% hitting capital gains. Property/casualty companies owe about 14% in taxes on most dividends they receive. Their tax rate falls, though, to about 11% if they own more than 20% of a U.S.-based investee.

And that's our tax lesson for today.

"The Bet" (or how your money finds its way to Wall Street)

In this section, you will encounter, early on, the story of an investment bet I made nine years ago and, next, some strong opinions I have about investing. As a starter, though, I want to briefly describe Long Bets, a unique establishment that played a role in the bet.

Long Bets was seeded by Amazon's Jeff Bezos and operates as a non-profit organization that administers just what you'd guess: long-term bets. To participate, "proposers" post a proposition at Longbets.org that will be proved right or wrong at a distant date. They then wait for a contrary-minded party to take the other side of the bet. When a "doubter" steps forward, each side names a charity that will be the beneficiary if its side wins; parks its wager with Long Bets; and posts a short essay defending its position on the Long Bets website. When the bet is concluded, Long Bets pays off the winning charity.

Here are examples of what you will find on Long Bets' very interesting site:

In 2002, entrepreneur Mitch Kapor asserted that "By 2029 no computer – or 'machine intelligence' – will have passed the Turing Test," which deals with whether a computer can successfully impersonate a human being. Inventor Ray Kurzweil took the opposing view. Each backed up his opinion with $10,000. I don't know who will win this bet, but I will confidently wager that no computer will ever replicate Charlie.

That same year, Craig Mundie of Microsoft asserted that pilotless planes would routinely fly passengers by 2030, while Eric Schmidt of Google argued otherwise. The stakes were $1,000 each. To ease any heartburn Eric might be experiencing from his outsized exposure, I recently offered to take a piece of his action. He promptly laid off $500 with me. (I like his assumption that I'll be around in 2030 to contribute my payment, should we lose.)

Now, to my bet and its history. In Berkshire's 2005 annual report, I argued that active investment management by professionals – in aggregate – would over a period of years underperform the returns achieved by rank amateurs who simply sat still. I explained that the massive fees levied by a variety of "helpers" would leave their clients – *again in aggregate* – worse off than if the amateurs simply invested in an unmanaged low-cost index fund. (See pages 114 - 115 for a reprint of the argument as I originally stated it in the 2005 report.)

Subsequently, I publicly offered to wager $500,000 that no investment pro could select a set of at least five hedge funds – wildly-popular and high-fee investing vehicles – that would over an extended period match the performance of an unmanaged S&P-500 index fund charging only token fees. I suggested a ten-year bet and named a low-cost Vanguard S&P fund as my contender. I then sat back and waited expectantly for a parade of fund managers – who could include their own fund as one of the five – to come forth and defend their occupation. After all, these managers urged *others* to bet billions on their abilities. Why should they fear putting a little of their own money on the line?

What followed was the sound of silence. Though there are thousands of professional investment managers who have amassed staggering fortunes by touting their stock-selecting prowess, only one man – Ted Seides – stepped up to my challenge. Ted was a co-manager of Protégé Partners, an asset manager that had raised money from limited partners to form a fund-of-funds – in other words, a fund that invests in multiple hedge funds.

I hadn't known Ted before our wager, but I like him and admire his willingness to put his money where his mouth was. He has been both straight-forward with me and meticulous in supplying all the data that both he and I have needed to monitor the bet.

For Protégé Partners' side of our ten-year bet, Ted picked five funds-of-funds whose results were to be averaged and compared against my Vanguard S&P index fund. The five he selected had invested their money in more than 100 hedge funds, which meant that the overall performance of the funds-of-funds would not be distorted by the good or poor results of a single manager.

Each fund-of-funds, of course, operated with a layer of fees that sat above the fees charged by the hedge funds in which it had invested. In this doubling-up arrangement, the larger fees were levied by the underlying hedge funds; each of the fund-of-funds imposed an additional fee for its presumed skills in selecting hedge-fund managers.

Here are the results for the first nine years of the bet – figures leaving no doubt that Girls Inc. of Omaha, the charitable beneficiary I designated to get any bet winnings I earned, will be the organization eagerly opening the mail next January.

Year	Fund of Funds A	Fund of Funds B	Fund of Funds C	Fund of Funds D	Fund of Funds E	S&P Index Fund
2008	-16.5%	-22.3%	-21.3%	-29.3%	-30.1%	-37.0%
2009	11.3%	14.5%	21.4%	16.5%	16.8%	26.6%
2010	5.9%	6.8%	13.3%	4.9%	11.9%	15.1%
2011	-6.3%	-1.3%	5.9%	-6.3%	-2.8%	2.1%
2012	3.4%	9.6%	5.7%	6.2%	9.1%	16.0%
2013	10.5%	15.2%	8.8%	14.2%	14.4%	32.3%
2014	4.7%	4.0%	18.9%	0.7%	-2.1%	13.6%
2015	1.6%	2.5%	5.4%	1.4%	-5.0%	1.4%
2016	-2.9%	1.7%	-1.4%	2.5%	4.4%	11.9%
Gain to Date	8.7%	28.3%	62.8%	2.9%	7.5%	85.4%

Footnote: Under my agreement with Protégé Partners, the names of these funds-of-funds have never been publicly disclosed. I, however, see their annual audits.

The compounded annual increase to date for the index fund is 7.1%, which is a return that could easily prove typical for the stock market over time. That's an important fact: A particularly weak nine years for the market over the lifetime of this bet would have probably helped the relative performance of the hedge funds, because many hold large "short" positions. Conversely, nine years of exceptionally high returns from stocks would have provided a tailwind for index funds.

Instead we operated in what I would call a "neutral" environment. In it, the five funds-of-funds delivered, through 2016, an average of only 2.2%, compounded annually. That means $1 million invested in those funds would have gained $220,000. The index fund would meanwhile have gained $854,000.

Bear in mind that every one of the 100-plus managers of the underlying hedge funds had a huge financial incentive to do his or her best. Moreover, the five funds-of-funds managers that Ted selected were similarly incentivized to select the best hedge-fund managers possible because the five were entitled to performance fees based on the results of the underlying funds.

I'm certain that in almost all cases the managers at both levels were honest and intelligent people. But the results for their investors were dismal – *really* dismal. And, alas, the huge fixed fees charged by all of the funds and funds-of-funds involved – fees that were totally unwarranted by performance – were such that their managers were showered with compensation over the nine years that have passed. As Gordon Gekko might have put it: "Fees never sleep."

The underlying hedge-fund managers in our bet received payments from their limited partners that likely averaged a bit under the prevailing hedge-fund standard of "2 and 20," meaning a 2% annual fixed fee, payable even when losses are huge, and 20% of profits with no clawback (if good years were followed by bad ones). Under this lopsided arrangement, a hedge fund operator's ability to simply pile up assets under management has made many of these managers extraordinarily rich, even as their investments have performed poorly.

Still, we're not through with fees. Remember, there were the fund-of-funds managers to be fed as well. These managers received an additional fixed amount that was usually set at 1% of assets. Then, despite the terrible overall record of the five funds-of-funds, some experienced a few good years and collected "performance" fees. Consequently, I estimate that over the nine-year period roughly 60% – gulp! – of *all* gains achieved by the five funds-of-funds were diverted to the two levels of managers. That was their misbegotten reward for accomplishing something far short of what their many hundreds of limited partners could have effortlessly – and with virtually *no* cost – achieved on their own.

In my opinion, the disappointing results for hedge-fund investors that this bet exposed are almost certain to recur in the future. I laid out my reasons for that belief in a statement that was posted on the Long Bets website when the bet commenced (and that is still posted there). Here is what I asserted:

> Over a ten-year period commencing on January 1, 2008, and ending on December 31, 2017, the S&P 500 will outperform a portfolio of funds of hedge funds, when performance is measured on a basis net of fees, costs and expenses.
>
> A lot of very smart people set out to do better than average in securities markets. Call them active investors.
>
> Their opposites, passive investors, will by definition do about average. In aggregate their positions will more or less approximate those of an index fund. Therefore, the balance of the universe—the active investors—must do about average as well. However, these investors will incur far greater costs. So, on balance, their aggregate results after these costs will be worse than those of the passive investors.
>
> Costs skyrocket when large annual fees, large performance fees, and active trading costs are all added to the active investor's equation. Funds of hedge funds accentuate this cost problem because their fees are superimposed on the large fees charged by the hedge funds in which the funds of funds are invested.
>
> A number of smart people are involved in running hedge funds. But to a great extent their efforts are self-neutralizing, and their IQ will not overcome the costs they impose on investors. Investors, on average and over time, will do better with a low-cost index fund than with a group of funds of funds.

So that was my argument – and now let me put it into a simple equation. If Group A (active investors) and Group B (do-nothing investors) comprise the total investing universe, and B is destined to achieve average results before costs, so, too, must A. Whichever group has the lower costs will win. (The academic in me requires me to mention that there is a very minor point – not worth detailing – that *slightly* modifies this formulation.) And if Group A has exorbitant costs, its shortfall will be substantial.

There are, of course, some skilled individuals who are highly likely to out-perform the S&P over long stretches. In my lifetime, though, I've identified – *early on* – only ten or so professionals that I expected would accomplish this feat.

There are no doubt many hundreds of people – perhaps thousands – whom I have never met and whose abilities would equal those of the people I've identified. The job, after all, is not impossible. The problem simply is that the great majority of managers who attempt to over-perform will fail. The probability is also very high that the person soliciting your funds will not be the exception who does well. Bill Ruane – a truly wonderful human being and a man whom I identified 60 years ago as almost certain to deliver superior investment returns over the long haul – said it well: "In investment management, the progression is from the innovators to the imitators to the swarming incompetents."

Further complicating the search for the rare high-fee manager who is worth his or her pay is the fact that some investment professionals, just as some amateurs, will be lucky over short periods. If 1,000 managers make a market prediction at the beginning of a year, it's very likely that the calls of at least one will be correct for nine consecutive years. Of course, 1,000 monkeys would be just as likely to produce a seemingly all-wise prophet. But there *would* remain a difference: The lucky monkey would not find people standing in line to invest with him.

Finally, there are three connected realities that cause investing success to breed failure. First, a good record quickly attracts a torrent of money. Second, huge sums invariably act as an anchor on investment performance: What is easy with millions, struggles with billions (sob!). Third, most managers will nevertheless seek new money because of their *personal* equation – namely, the more funds they have under management, the more their fees.

These three points are hardly new ground for me: In January 1966, when I was managing $44 *million*, I wrote my limited partners: "I feel substantially greater size is more likely to harm future results than to help them. This might not be true for my own personal results, but it is likely to be true for your results. Therefore, . . . I intend to admit no additional partners to BPL. I have notified Susie that if we have any more children, it is up to her to find some other partnership for them."

The bottom line: When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds.

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

If a statue is ever erected to honor the person who has done the most for American investors, the hands-down choice should be Jack Bogle. For decades, Jack has urged investors to invest in ultra-low-cost index funds. In his crusade, he amassed only a tiny percentage of the wealth that has typically flowed to managers who have promised their investors large rewards while delivering them nothing – or, as in our bet, *less* than nothing – of added value.

In his early years, Jack was frequently mocked by the investment-management industry. Today, however, he has the satisfaction of knowing that he helped millions of investors realize far better returns on their savings than they otherwise would have earned. He is a hero to them and to me.

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

Over the years, I've often been asked for investment advice, and in the process of answering I've learned a good deal about human behavior. My regular recommendation has been a low-cost S&P 500 index fund. To their credit, my friends who possess only modest means have usually followed my suggestion.

I believe, however, that *none* of the mega-rich individuals, institutions or pension funds has followed that same advice when I've given it to them. Instead, these investors politely thank me for my thoughts and depart to listen to the siren song of a high-fee manager or, in the case of many institutions, to seek out another breed of hyper-helper called a consultant.

That professional, however, faces a problem. Can you imagine an investment consultant telling clients, year after year, to keep adding to an index fund replicating the S&P 500? That would be career suicide. Large fees flow to these hyper-helpers, however, if they recommend small managerial shifts every year or so. That advice is often delivered in esoteric gibberish that explains why fashionable investment "styles" or current economic trends make the shift appropriate.

The wealthy are accustomed to feeling that it is their lot in life to get the best food, schooling, entertainment, housing, plastic surgery, sports ticket, you name it. Their money, they feel, should buy them something superior compared to what the masses receive.

In many aspects of life, indeed, wealth does command top-grade products or services. For that reason, the financial "elites" – wealthy individuals, pension funds, college endowments and the like – have great trouble meekly signing up for a financial product or service that is available as well to people investing only a few thousand dollars. This reluctance of the rich normally prevails even though the product at issue is –on an expectancy basis – clearly the best choice. My calculation, admittedly very rough, is that the search by the elite for superior investment advice has caused it, in aggregate, to waste more than $100 billion over the past decade. Figure it out: Even a 1% fee on a few trillion dollars adds up. Of course, not every investor who put money in hedge funds ten years ago lagged S&P returns. But I believe my calculation of the aggregate shortfall is conservative.

Much of the financial damage befell pension funds for public employees. Many of these funds are woefully underfunded, in part because they have suffered a double whammy: poor investment performance accompanied by huge fees. The resulting shortfalls in their assets will for decades have to be made up by local taxpayers.

Human behavior won't change. Wealthy individuals, pension funds, endowments and the like will continue to feel they deserve something "extra" in investment advice. Those advisors who cleverly play to this expectation will get very rich. This year the magic potion may be hedge funds, next year something else. The likely result from this parade of promises is predicted in an adage: "When a person with money meets a person with experience, the one with experience ends up with the money and the one with money leaves with experience."

Long ago, a brother-in-law of mine, Homer Rogers, was a commission agent working in the Omaha stockyards. I asked him how he induced a farmer or rancher to hire him to handle the sale of their hogs or cattle to the buyers from the big four packers (Swift, Cudahy, Wilson and Armour). After all, hogs were hogs and the buyers were experts who knew to the penny how much any animal was worth. How then, I asked Homer, could any sales agent get a better result than any other?

Homer gave me a pitying look and said: "Warren, it's not how you sell 'em, it's how you tell 'em." What worked in the stockyards continues to work in Wall Street.

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And, finally, let me offer an olive branch to Wall Streeters, many of them good friends of mine. Berkshire *love*s to pay fees – even outrageous fees – to investment bankers who bring us acquisitions. Moreover, we have paid substantial sums for over-performance to our two in-house investment managers – and we hope to make even larger payments to them in the future.

To get biblical (Ephesians 3:18), I know the height and the depth and the length and the breadth of the energy flowing from that simple four-letter word – fees – when it is spoken to Wall Street. And when that energy delivers value to Berkshire, I will cheerfully write a big check.

The Annual Meeting

Last year we partnered with Yahoo to air the first-ever webcast of our annual meeting. Thanks to Andy Serwer and his Yahoo crew, the production was a success in all respects, registering 1.1 million unique visits in real-time viewing and 11.5 million more in replays (many of those, to be sure, called up by viewers interested in only certain segments of the webcast).

Berkshire's thank-you mail for initiating the webcast included many notes from three constituencies: the elderly who find travel difficult; the thrifty who find it expensive to travel to Omaha; and those who cannot attend a Saturday meeting for religious reasons.

The webcast cut attendance at last year's meeting to about 37,000 people (we can't get a precise count), which was down about 10%. Nevertheless, both Berkshire's subsidiaries and Omaha hotels and restaurants racked up huge sales. Nebraska Furniture Mart's sales broke their 2015 record volume by 3%, with the Omaha store recording one-week volume of $45.5 million.

Our Berkshire exhibitors at CenturyLink were open from noon until 5 p.m. on Friday and drew a crowd of 12,000 bargain-hunting shareholders. We will repeat those Friday shopping hours this year on May 5th. Bring money.

The annual meeting falls on May 6th and will again be webcast by Yahoo, whose web address is https://finance.yahoo.com/brklivestream. The webcast will go live at 9 a.m. Central Daylight Time. Yahoo will interview directors, managers, stockholders and celebrities before the meeting and during the lunch break. Both those interviews and meeting will be translated simultaneously into Mandarin.

For those attending the meeting in person, the doors at the CenturyLink will open at 7:00 a.m. on Saturday to facilitate shopping prior to our shareholder movie, which begins at 8:30. The question-and-answer period will start at 9:30 and run until 3:30, with a one-hour lunch break at noon. Finally, at 3:45 we will begin the formal shareholder meeting. It will run an hour or so. That is somewhat longer than usual because three proxy items are to be presented by their proponents, who will be given a reasonable amount of time to state their case.

On Saturday morning, we will have our sixth International Newspaper Tossing Challenge. Our target will again be the porch of a Clayton Home, located precisely 35 feet from the throwing line. When I was a teenager – in my one brief flirtation with honest labor – I delivered about 500,000 papers. So I think I'm pretty good at this game. Challenge me! Humiliate me! Knock me down a peg! The papers will run 36 to 42 pages, and you must fold them yourself (no rubber bands allowed). The competition will begin about 7:45, and I'll take on ten or so competitors selected a few minutes earlier by my assistant, Deb Bosanek.

Your venue for shopping will be the 194,300-square-foot hall that adjoins the meeting and in which products from dozens of our subsidiaries will be for sale. Say hello to the many Berkshire managers who will be captaining their exhibits. And be sure to view the terrific BNSF railroad layout that salutes all of our companies. Your children (and you!) will be enchanted with it.

Brooks, our running-shoe company, will again have a special commemorative shoe to offer at the meeting. After you purchase a pair, wear them on Sunday at our fourth annual "Berkshire 5K," an 8 a.m. race starting at the CenturyLink. Full details for participating will be included in the Visitor's Guide that will be sent to you with your meeting credentials. Entrants in the race will find themselves running alongside many of Berkshire's managers, directors and associates. (Charlie and I, however, will sleep in; the fudge and peanut brittle we eat throughout the Saturday meeting takes its toll.) Participation in the 5K grows every year. Help us set another record.

A GEICO booth in the shopping area will be staffed by a number of the company's top counselors from around the country. At last year's meeting, we set a record for policy sales, up 21% from 2015. I predict we will be up again this year.

So stop by for a quote. In most cases, GEICO will be able to give you a shareholder discount (usually 8%). This special offer is permitted by 44 of the 51 jurisdictions in which we operate. (One supplemental point: The discount is not additive if you qualify for another discount, such as that available to certain groups.) Bring the details of your existing insurance and check out our price. We can save many of you real money. Spend the savings on other Berkshire products.

Be sure to visit the Bookworm. This Omaha-based retailer will carry about 35 books and DVDs, among them a couple of new titles. The best book I read last year was *Shoe Dog*, by Nike's Phil Knight. Phil is a very wise, intelligent and competitive fellow who is also a gifted storyteller. The Bookworm will have piles of *Shoe Dog* as well as several investment classics by Jack Bogle.

The Bookworm will once again offer our history of the highlights (and lowlights) of Berkshire's first 50 years. Non-attendees of the meeting can find the book on eBay. Just type in: *Berkshire Hathaway Inc. Celebrating 50 years of a Profitable Partnership* (2nd Edition).

An attachment to the proxy material that is enclosed with this report explains how you can obtain the credential you will need for admission to both the meeting and other events. Keep in mind that airlines have sometimes jacked up prices for the Berkshire weekend – though I must admit I have developed some tolerance, bordering on enthusiasm, for that practice now that Berkshire has made large investments in America's four major carriers. Nevertheless, if you are coming from far away, compare the cost of flying to Kansas City vs. Omaha. The drive between the two cities is about $2^1/_2$ hours, and it may be that Kansas City can save you significant money. The savings for a couple could run to $1,000 or more. Spend that money with us.

At Nebraska Furniture Mart, located on a 77-acre site on 72nd Street between Dodge and Pacific, we will again be having "Berkshire Weekend" discount pricing. To obtain the Berkshire discount at NFM, you must make your purchases between Tuesday, May 2nd and Monday, May 8th inclusive, and must also present your meeting credential. The period's special pricing will even apply to the products of several prestigious manufacturers that normally have ironclad rules against discounting but which, in the spirit of our shareholder weekend, have made an exception for you. We appreciate their cooperation. During "Berkshire Weekend," NFM will be open from 10 a.m. to 9 p.m. Monday through Friday, 10 a.m. to 9:30 p.m. on Saturday and 10 a.m. to 8 p.m. on Sunday. From 5:30 p.m. to 8 p.m. on Saturday, NFM is hosting a picnic to which you are all invited.

This year we have good news for shareholders in the Kansas City and Dallas metro markets who can't attend the meeting or perhaps prefer the webcast. From May 2nd through May 8th, shareholders who present meeting credentials or other evidence of their Berkshire ownership (such as brokerage statements) to their local NFM store will receive the same discounts enjoyed by those visiting the Omaha store.

At Borsheims, we will again have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 9 p.m. on Friday, May 5th. The second, the main gala, will be held on Sunday, May 7th, from 9 a.m. to 4 p.m. On Saturday, we will remain open until 6 p.m. Remember, the more you buy, the more you save (or so my daughter tells me when we visit the store).

We will have huge crowds at Borsheims throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, May 1st through Saturday, May 13th. During that period, please identify yourself as a shareholder either by presenting your meeting credential or a brokerage statement showing you own our stock.

On Sunday, in the mall outside of Borsheims, Norman Beck, a remarkable magician and motivational speaker from Dallas, will bewilder onlookers. On the upper level, we will have Bob Hamman and Sharon Osberg, two of the world's top bridge experts, available to play with our shareholders on Sunday afternoon. If they suggest wagering on the game, change the subject. I will join them at some point and hope Ajit, Charlie and Bill Gates will do so also.

My friend, Ariel Hsing, will be in the mall as well on Sunday, taking on challengers at table tennis. I met Ariel when she was nine, and even then I was unable to score a point against her. Ariel represented the United States in the 2012 Olympics. Now, she's a senior at Princeton (after interning last summer at JPMorgan Chase). If you don't mind embarrassing yourself, test your skills against her, beginning at 1 p.m. Bill Gates did pretty well playing Ariel last year, so he may be ready to again challenge her. (My advice: Bet on Ariel.)

Gorat's will be open exclusively for Berkshire shareholders on Sunday, May 7th, serving from 1 p.m. until 10 p.m. To make a reservation at Gorat's, call 402-551-3733 on April 3rd (*but not before*). Show you are a sophisticated diner by ordering the T-bone with hash browns.

We will have the same three financial journalists lead the question-and-answer period at the meeting, asking Charlie and me questions that shareholders have submitted to them by e-mail. The journalists and their e-mail addresses are: Carol Loomis, the preeminent business journalist of her time, who may be e-mailed at loomisbrk@gmail.com; Becky Quick, of CNBC, at BerkshireQuestions@cnbc.com; and Andrew Ross Sorkin, of the New York Times, at arsorkin@nytimes.com.

From the questions submitted, each journalist will choose the six he or she decides are the most interesting and important to shareholders. The journalists have told me your question has the best chance of being selected if you keep it concise, avoid sending it in at the last moment, make it Berkshire-related and include no more than two questions in any e-mail you send them. (In your e-mail, let the journalist know if you would like your name mentioned if your question is asked.)

An accompanying set of questions will be asked by three analysts who follow Berkshire. This year the insurance specialist will be Jay Gelb of Barclays. Questions that deal with our non-insurance operations will come from Jonathan Brandt of Ruane, Cunniff & Goldfarb and Gregg Warren of Morningstar. Since what we will be conducting is a *shareholders'* meeting, our hope is that the analysts and journalists will ask questions that add to our owners' understanding and knowledge of their investment.

Neither Charlie nor I will get so much as a clue about the questions headed our way. Some will be tough, for sure, and that's the way we like it. Multi-part questions aren't allowed; we want to give as many questioners as possible a shot at us. Our goal is for you to leave the meeting knowing more about Berkshire than when you came and for you to have a good time while in Omaha.

All told, we expect at least 54 questions, which will allow for six from each analyst and journalist and for 18 from the audience. The questioners from the audience will be chosen by means of 11 drawings that will take place at 8:15 a.m. on the morning of the annual meeting. Each of the 11 microphones installed in the arena and main overflow room will host, so to speak, a drawing.

While I'm on the subject of our owners' gaining knowledge, let me remind you that Charlie and I believe all shareholders should simultaneously have access to new information that Berkshire releases and, if possible, should also have adequate time to digest and analyze it before any trading takes place. That's why we try to issue financial data late on Fridays or early on Saturdays and why our annual meeting is always held on a Saturday (a day that also eases traffic and parking problems).

We do not follow the common practice of talking one-on-one with large institutional investors or analysts, treating them instead as we do all other shareholders. There is no one more important to us than the shareholder of limited means who trusts us with a substantial portion of his or her savings. As I run the company day-to-day – and as I write this letter – that is the shareholder whose image is in my mind.

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For good reason, I regularly extol the accomplishments of our operating managers. They are truly All-Stars who run their businesses as if they were the only asset owned by their families. I also believe the mindset of our managers to be as shareholder-oriented as can be found in the universe of large publicly-owned companies. Most of our managers have no financial need to work. The joy of hitting business "home runs" means as much to them as their paycheck.

Equally important, however, are the men and women who work with me at our corporate office. This team efficiently deals with a multitude of SEC and other regulatory requirements, files a 30,450-page Federal income tax return, oversees the filing of 3,580 state tax returns, responds to countless shareholder and media inquiries, gets out the annual report, prepares for the country's largest annual meeting, coordinates the Board's activities, fact-checks this letter – and the list goes on and on.

They handle all of these business tasks cheerfully and with unbelievable efficiency, making my life easy and pleasant. Their efforts go beyond activities strictly related to Berkshire: Last year, for example, they dealt with the 40 universities (selected from 200 applicants) who sent students to Omaha for a Q&A day with me. They also handle all kinds of requests that I receive, arrange my travel, and even get me hamburgers and French fries (smothered in Heinz ketchup, of course) for lunch. In addition, they cheerfully pitch in to help Carrie Sova – our talented ringmaster at the annual meeting – deliver an interesting and entertaining weekend for our shareholders. They are proud to work for Berkshire, and I am proud of them.

I'm a lucky guy, very fortunate in being surrounded by this excellent staff, a team of highly-talented operating managers and a boardroom of very wise and experienced directors. Come to Omaha – the cradle of capitalism – on May 6^{th} and meet the Berkshire Bunch. All of us look forward to seeing you.

February 25, 2017

Warren E. Buffett
Chairman of the Board