BERKSHIRE HATHAWAY INC.

2006 ANNUAL REPORT

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Business Activities

Berkshire Hathaway Inc. is a holding company owning subsidiaries that engage in a number of diverse business activities including property and casualty insurance and reinsurance, utilities and energy, finance, manufacturing, services and retailing. Included in the group of subsidiaries that underwrite property and casualty insurance and reinsurance is GEICO, one of the four largest auto insurers in the United States and two of the largest reinsurers in the world, General Re and the Berkshire Hathaway Reinsurance Group. Other subsidiaries that underwrite property and casualty insurance include National Indemnity Company, Medical Protective Company, Applied Underwriters, U.S. Liability Insurance Company, Central States Indemnity Company, Kansas Bankers Surety, Cypress Insurance Company and several other subsidiaries referred to as the "Homestate Companies."

MidAmerican Energy Holdings Company ("MidAmerican") is an international energy holding company owning a wide variety of operating companies engaged in the generation, transmission and distribution of energy. Among MidAmerican's operating energy companies are Northern and Yorkshire Electric; MidAmerican Energy Company; Pacific Power and Rocky Mountain Power; and Kern River Gas Transmission Company and Northern Natural Gas. In addition, MidAmerican owns HomeServices of America, a real estate brokerage firm. Berkshire's finance and financial products businesses primarily engage in proprietary investing strategies *(BH Finance)*, commercial and consumer lending *(Berkshire Hathaway Credit Corporation* and *Clayton Homes)* and transportation equipment and furniture leasing *(XTRA* and *CORT)*. *Shaw Industries* is the world's largest manufacturer of tufted broadloom carpet. *McLane Company* is a wholesale distributor of groceries and nonfood items to convenience stores, wholesale clubs, mass merchandisers, quick service restaurants and others.

Numerous business activities are conducted through Berkshire's other manufacturing, services and retailing subsidiaries. *Benjamin Moore* is a formulator, manufacturer and retailer of architectural and industrial coatings. *Johns Manville* is a leading manufacturer of insulation and building products. *Acme Building Brands* is a manufacturer of face brick and concrete masonry products. *MiTek Inc.* produces steel connector products and engineering software for the building components market. *Fruit of the Loom, Russell, Garan, Fechheimer, H.H. Brown Shoe Group* and *Justin Brands* manufacture, license and distribute apparel and footwear under a variety of brand names. *FlightSafety International* provides training of aircraft and ship operators. *NetJets* provides fractional ownership programs for general aviation aircraft. *Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture* and *Jordan's Furniture* are retailers of home furnishings. *Borsheim's, Helzberg Diamond Shops* and *Ben Bridge Jeweler* are retailers of fine jewelry.

In addition, other manufacturing, service and retail businesses include: *Buffalo News*, a publisher of a daily and Sunday newspaper; *See's Candies*, a manufacturer and seller of boxed chocolates and other confectionery products; *Scott Fetzer*, a diversified manufacturer and distributor of commercial and industrial products, the principal products are sold under the *Kirby* and *Campbell Hausfeld* brand names; *Albecca*, a designer, manufacturer, and distributor of high-quality picture framing products; *CTB International*, a manufacturer of equipment for the livestock and agricultural industries; *International Dairy Queen*, a licensor and service provider to about 6,000 stores that offer prepared dairy treats and food; *The Pampered Chef*, the premier direct seller of kitchen tools in the U.S.; *Forest River*, a leading manufacturer of leisure vehicles in the U.S.; *Business Wire*, the leading global distributor of corporate news, multimedia and regulatory filings; and *Iscar Metalworking Companies*, an industry leader in the metal cutting tools business.

Operating decisions for the various Berkshire businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for Berkshire and its subsidiaries by Warren E. Buffett, in consultation with Charles T. Munger. Mr. Buffett is Chairman and Mr. Munger is Vice Chairman of Berkshire's Board of Directors.

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Note: The following table appears in the printed Annual Report on the facing page of the Chairman's Letter and is referred to in that letter.

Berkshire's Corporate Performance vs. the S&P 500

	Annual Percentage Change		
Year	in Per-Share Book Value of Berkshire (1)	in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	.7
1998	48.3	28.6	19.7
1999	.5	21.0	(20.5)
2000	6.5	(9.1)	15.6
2001	(6.2)	(11.9)	5.7
2002	10.0	(22.1)	32.1
2003	21.0	28.7	(7.7)
2004	10.5	10.9	(.4)
2005	6.4	4.9	1.5
2006	18.4	15.8	2.6
Compounded Annual Gain – 1965-2006	21.4%	10.4%	11.0
Overall Gain – 1964-2006	361,156%	6,479%	

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.:

Our gain in net worth during 2006 was $16.9 billion, which increased the per-share book value of both our Class A and Class B stock by 18.4%. Over the last 42 years (that is, since present management took over) book value has grown from $19 to $70,281, a rate of 21.4% compounded annually.*

We believe that $16.9 billion is a record for a one-year gain in net worth – more than has ever been booked by *any* American business, leaving aside boosts that have occurred because of mergers (e.g., AOL's purchase of Time Warner). Of course, Exxon Mobil and other companies earn far more than Berkshire, but their earnings largely go to dividends and/or repurchases, rather than to building net worth.

All that said, a confession about our 2006 gain is in order. Our most important business, insurance, benefited from a large dose of luck: Mother Nature, bless her heart, went on vacation. After hammering us with hurricanes in 2004 and 2005 – storms that caused us to lose a bundle on super-cat insurance – she just vanished. Last year, the red ink from this activity turned black – *very* black.

In addition, the great majority of our 73 businesses did outstandingly well in 2006. Let me focus for a moment on one of our largest operations, GEICO. What management accomplished there was simply extraordinary.

As I've told you before, Tony Nicely, GEICO's CEO, went to work at the company 45 years ago, two months after turning 18. He became CEO in 1992, and from then on the company's growth exploded. In addition, Tony has delivered staggering productivity gains in recent years. Between yearend 2003 and yearend 2006, the number of GEICO policies increased from 5.7 million to 8.1 million, a jump of 42%. Yet during that same period, the company's employees (measured on a fulltime-equivalent basis) *fell* 3.5%. So productivity grew 47%. And GEICO didn't start fat.

That remarkable gain has allowed GEICO to maintain its all-important position as a low-cost producer, even though it has dramatically increased advertising expenditures. Last year GEICO spent $631 million on ads, up from $238 million in 2003 (and up from $31 million in 1995, when Berkshire took control). Today, GEICO spends far more on ads than any of its competitors, even those much larger. We will continue to raise the bar.

Last year I told you that if you had a new son or grandson to be sure to name him Tony. But Don Keough, a Berkshire director, recently had a better idea. After reviewing GEICO's performance in 2006, he wrote me, "Forget births. Tell the shareholders to immediately change the names of their *present* children to Tony or Antoinette." Don signed his letter "Tony."

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Charlie Munger – my partner and Berkshire's vice chairman – and I run what has turned out to be a big business, one with 217,000 employees and annual revenues approaching $100 billion. We certainly didn't plan it that way. Charlie began as a lawyer, and I thought of myself as a security analyst. Sitting in those seats, we both grew skeptical about the ability of big entities of any type to function well. Size seems to make many organizations slow-thinking, resistant to change and smug. In Churchill's words: "We shape our buildings, and afterwards our buildings shape us." Here's a telling fact: Of the ten non-oil companies having the largest market capitalization in 1965 – titans such as General Motors, Sears, DuPont and Eastman Kodak – only one made the 2006 list.

***All per-share figures used in this report apply to Berkshire's A shares. Figures for the B shares are 1/30th of those shown for the A.

In fairness, we've seen plenty of successes as well, some truly outstanding. There are many giant-company managers whom I greatly admire; Ken Chenault of American Express, Jeff Immelt of G.E. and Dick Kovacevich of Wells Fargo come quickly to mind. But I don't think I could do the management job they do. And I know I wouldn't enjoy many of the duties that come with their positions – meetings, speeches, foreign travel, the charity circuit and governmental relations. For me, Ronald Reagan had it right: "It's probably true that hard work never killed anyone – but why take the chance?"

So I've taken the easy route, just sitting back and working through great managers who run their own shows. My only tasks are to cheer them on, sculpt and harden our corporate culture, and make major capital-allocation decisions. Our managers have returned this trust by working hard and effectively.

For their performance over the last 42 years – and particularly for 2006 – Charlie and I thank them.

Yardsticks

Charlie and I measure Berkshire's progress and evaluate its intrinsic value in a number of ways. No single criterion is effective in doing these jobs, and even an avalanche of statistics will not capture some factors that are important. For example, it's essential that we have managers much younger than I available to succeed me. Berkshire has never been in better shape in this regard – but I can't prove it to you with numbers.

There are two statistics, however, that are of real importance. The first is the amount of investments (including cash and cash-equivalents) that we own on a per-share basis. Arriving at this figure, we exclude investments held in our finance operation because these are largely offset by borrowings. Here's the record since present management acquired control of Berkshire:

Year	Per-Share Investments*
1965	$ 4
1975	159
1985	2,407
1995	21,817
2006	$80,636
Compound Growth Rate 1965-2006	27.5%
Compound Growth Rate 1995-2006	12.6%

*Net of minority interests

In our early years we put most of our retained earnings and insurance float into investments in marketable securities. Because of this emphasis, and because the securities we purchased generally did well, our growth rate in investments was for a long time quite high.

Over the years, however, we have focused more and more on the acquisition of operating businesses. Using our funds for these purchases has both slowed our growth in investments and accelerated our gains in pre-tax earnings from non-insurance businesses, the second yardstick we use. Here's how those earnings have looked:

Year	Pre-Tax Earnings Per Share*
1965	$ 4
1975	4
1985	52
1995	175
2006	$3,625
Compound Growth Rate 1965-2006	17.9%
Compound Growth Rate 1995-2006	31.7%

*Excluding purchase-accounting adjustments and net of minority interests

Last year we had a good increase in non-insurance earnings – 38%. Large gains from here on in, though, will come only if we are able to make major, *and sensible*, acquisitions. That will not be easy. We do, however, have one advantage: More and more, Berkshire has become "the buyer of choice" for business owners and managers. Initially, we were viewed that way only in the U.S. (and more often than not by private companies). We've long wanted, nonetheless, to extend Berkshire's appeal beyond U.S. borders. And last year, our globe-trotting finally got underway.

Acquisitions

We began 2006 by completing the three acquisitions pending at yearend 2005, spending about $6 billion for PacifiCorp, Business Wire and Applied Underwriters. All are performing very well.

The highlight of the year, however, was our July 5th acquisition of most of ISCAR, an Israeli company, and our new association with its chairman, Eitan Wertheimer, and CEO, Jacob Harpaz. The story here began on October 25, 2005, when I received a 1¼-page letter from Eitan, of whom I then knew nothing. The letter began, "I am writing to introduce you to ISCAR," and proceeded to describe a cutting-tool business carried on in 61 countries. Then Eitan wrote, "We have for some time considered the issues of generational transfer and ownership that are typical for large family enterprises, and have given much thought to ISCAR's future. Our conclusion is that Berkshire Hathaway would be the ideal home for ISCAR. We believe that ISCAR would continue to thrive as a part of your portfolio of businesses."

Overall, Eitan's letter made the quality of the company and the character of its management leap off the page. It also made me want to learn more, and in November, Eitan, Jacob and ISCAR's CFO, Danny Goldman, came to Omaha. A few hours with them convinced me that if we were to make a deal, we would be teaming up with extraordinarily talented managers who could be trusted to run the business after a sale with all of the energy and dedication that they had exhibited previously. However, having never bought a business based outside of the U.S. (though I had bought a number of foreign stocks), I needed to get educated on some tax and jurisdictional matters. With that task completed, Berkshire purchased 80% of ISCAR for $4 billion. The remaining 20% stays in the hands of the Wertheimer family, making it our valued partner.

ISCAR's products are small, consumable cutting tools that are used in conjunction with large and expensive machine tools. It's a business without magic except for that imparted by the people who run it. But Eitan, Jacob and their associates are true managerial magicians who constantly develop tools that make their customers' machines more productive. The result: ISCAR makes money because it enables its customers to make *more* money. There is no better recipe for continued success.

In September, Charlie and I, along with five Berkshire associates, visited ISCAR in Israel. We – and I mean every one of us – have never been more impressed with any operation. At ISCAR, as throughout Israel, brains and energy are ubiquitous. Berkshire shareholders are lucky to have joined with Eitan, Jacob, Danny and their talented associates.

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A few months later, Berkshire again became "the buyer of choice" in a deal brought to us by my friend, John Roach, of Fort Worth. John, many of you will remember, was Chairman of Justin Industries, which we bought in 2000. At that time John was helping John Justin, who was terminally ill, find a permanent home for his company. John Justin died soon after we bought Justin Industries, but it has since been run exactly as we promised him it would be.

Visiting me in November, John Roach brought along Paul Andrews, Jr., owner of about 80% of TTI, a Fort Worth distributor of electronic components. Over a 35-year period, Paul built TTI from $112,000 of sales to $1.3 billion. He is a remarkable entrepreneur and operator.

Paul, 64, loves running his business. But not long ago he happened to witness how disruptive the death of a founder can be both to a private company's employees and the owner's family. What starts out as disruptive, furthermore, often evolves into destructive. About a year ago, therefore, Paul began to think about selling TTI. His goal was to put his business in the hands of an owner he had carefully chosen, rather than allowing a trust officer or lawyer to conduct an auction after his death.

Paul rejected the idea of a "strategic" buyer, knowing that in the pursuit of "synergies," an owner of that type would be apt to dismantle what he had so carefully built, a move that would uproot hundreds of his associates (and perhaps wound TTI's business in the process). He also ruled out a private equity firm, which would very likely load the company with debt and then flip it as soon as possible.

That left Berkshire. Paul and I met on the morning of November 15th and made a deal before lunch. Later he wrote me: "After our meeting, I am confident that Berkshire is the right owner for TTI . . . I am proud of our past and excited about our future." And so are Charlie and I.

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We also made some "tuck-in" acquisitions during 2006 at Fruit of the Loom ("Fruit"), MiTek, CTB, Shaw and Clayton. Fruit made the largest purchases. First, it bought Russell Corp., a leading producer of athletic apparel and uniforms for about $1.2 billion (including assumed debt) and in December it agreed to buy the intimate apparel business of VF Corp. Together, these acquisitions add about $2.2 billion to Fruit's sales and bring with them about 23,000 employees.

Charlie and I love it when we can acquire businesses that can be placed under managers, such as John Holland at Fruit, who have already shown their stuff at Berkshire. MiTek, for example, has made 14 acquisitions since we purchased it in 2001, and Gene Toombs has delivered results from these deals far in excess of what he had predicted. In effect, we leverage the managerial talent already with us by these tuck-in deals. We will make many more.

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We continue, however, to need "elephants" in order for us to use Berkshire's flood of incoming cash. Charlie and I must therefore ignore the pursuit of mice and focus our acquisition efforts on much bigger game.

Our exemplar is the older man who crashed his grocery cart into that of a much younger fellow while both were shopping. The elderly man explained apologetically that he had lost track of his wife and was preoccupied searching for her. His new acquaintance said that by coincidence his wife had also wandered off and suggested that it might be more efficient if they jointly looked for the two women. Agreeing, the older man asked his new companion what his wife looked like. "She's a gorgeous blonde," the fellow answered, "with a body that would cause a bishop to go through a stained glass window, and she's wearing tight white shorts. How about yours?" The senior citizen wasted no words: "Forget her, we'll look for yours."

What *we* are looking for is described on page 25. If you have an acquisition candidate that fits, call me – day or night. And then watch me shatter a stained glass window.

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Now, let's examine the four major operating sectors of Berkshire. Lumping their financial figures together impedes analysis. So we'll look at them as four separate businesses, starting with the all–important insurance group.

Insurance

Next month marks the 40th anniversary of our entrance into the insurance business. It was on March 9, 1967, that Berkshire purchased National Indemnity and its companion company, National Fire & Marine, from Jack Ringwalt for $8.6 million.

Jack was a long-time friend of mine and an excellent, but somewhat eccentric, businessman. For about ten minutes every year he would get the urge to sell his company. But those moods – perhaps brought on by a tiff with regulators or an unfavorable jury verdict – quickly vanished.

In the mid-1960s, I asked investment banker Charlie Heider, a mutual friend of mine and Jack's, to alert me the next time Jack was "in heat." When Charlie's call came, I sped to meet Jack. We made a deal in a few minutes, with me waiving an audit, "due diligence" or anything else that would give Jack an opportunity to reconsider. We just shook hands, and that was that.

When we were due to close the purchase at Charlie's office, Jack was late. Finally arriving, he explained that he had been driving around looking for a parking meter with some unexpired time. That was a magic moment for me. I knew then that Jack was going to be my kind of manager.

When Berkshire purchased Jack's two insurers, they had "float" of $17 million. We've regularly offered a long explanation of float in earlier reports, which you can read on our website. Simply put, float is money we hold that is not ours but which we get to invest.

At the end of 2006, our float had grown to $50.9 billion, and we have since written a huge retroactive reinsurance contract with Equitas – which I will describe in the next section – that boosts float by another $7 billion. Much of the gain we've made has come through our acquisition of other insurers, but we've also had outstanding internal growth, particularly at Ajit Jain's amazing reinsurance operation. Naturally, I had no notion in 1967 that our float would develop as it has. There's much to be said for just putting one foot in front of the other every day.

The float from retroactive reinsurance contracts, of which we have many, automatically drifts down over time. Therefore, it will be difficult for us to increase float in the future unless we make new acquisitions in the insurance field. Whatever its size, however, the all-important *cost* of Berkshire's float over time is likely to be significantly below that of the industry, perhaps even falling to less than zero. Note the words "over time." There will be bad years periodically. You can be sure of that.

In 2006, though, everything went right in insurance – *really* right. Our managers – Tony Nicely (GEICO), Ajit Jain (B-H Reinsurance), Joe Brandon and Tad Montross (General Re), Don Wurster (National Indemnity Primary), Tom Nerney (U.S. Liability), Tim Kenesey (Medical Protective), Rod Eldred (Homestate Companies and Cypress), Sid Ferenc and Steve Menzies (Applied Underwriters), John Kizer (Central States) and Don Towle (Kansas Bankers Surety) – simply shot the lights out. When I recite their names, I feel as if I'm at Cooperstown, reading from the Hall of Fame roster. Of course, the overall insurance industry also had a terrific year in 2006. But our managers delivered results generally superior to those of their competitors.

Below is the tally on our underwriting and float for each major sector of insurance. Enjoy the view, because you won't soon see another like it.

	(in $ millions)			
	Underwriting Profit (Loss)		*Yearend Float*	
Insurance Operations	*2006*	*2005*	*2006*	*2005*
General Re	$ 526	$(334)	$22,827	$22,920
B-H Reinsurance	1,658	(1,069)	16,860	16,233
GEICO	1,314	1,221	7,171	6,692
Other Primary	340**	235*	4,029	3,442
Total	$3,838	$ 53	$50,887	$49,287

* Includes MedPro from June 30, 2005.

** Includes Applied Underwriters from May 19, 2006.

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In 2007, our results from the bread-and-butter lines of insurance will deteriorate, though I think they will remain satisfactory. The big unknown is super-cat insurance. Were the terrible hurricane seasons of 2004-05 aberrations? Or were they our planet's first warning that the climate of the 21st Century will differ materially from what we've seen in the past? If the answer to the second question is yes, 2006 will soon be perceived as a misleading period of calm preceding a series of devastating storms. These could rock the insurance industry. It's naïve to think of Katrina as anything close to a worst-case event.

Neither Ajit Jain, who manages our super-cat operation, nor I know what lies ahead. We do know that it would be a huge mistake to bet that evolving atmospheric changes are benign in their implications for insurers.

Don't think, however, that we have lost our taste for risk. We remain prepared to lose $6 billion in a single event, *if* we have been paid appropriately for assuming that risk. We are not willing, though, to take on even very small exposures at prices that don't reflect our evaluation of loss probabilities. Appropriate prices don't guarantee profits in any given year, but inappropriate prices most certainly guarantee eventual losses. Rates have recently fallen because a flood of capital has entered the super-cat field. We have therefore sharply reduced our wind exposures. Our behavior here parallels that which we employ in financial markets: Be fearful when others are greedy, and be greedy when others are fearful.

Lloyd's, Equitas and Retroactive Reinsurance

Last year – we are getting now to Equitas – Berkshire agreed to enter into a huge retroactive reinsurance contract, a policy that protects an insurer against losses that have already happened, but whose cost is not yet known. I'll give you details of the agreement shortly. But let's first take a journey through insurance history, following the route that led to our deal.

Our tale begins around 1688, when Edward Lloyd opened a small coffee house in London. Though no Starbucks, his shop was destined to achieve worldwide fame because of the commercial activities of its clientele – shipowners, merchants and venturesome British capitalists. As these parties sipped Edward's brew, they began to write contracts transferring the risk of a disaster at sea from the owners of ships and their cargo to the capitalists, who wagered that a given voyage would be completed without incident. These capitalists eventually became known as "underwriters at Lloyd's."

Though many people believe Lloyd's to be an insurance company, that is not the case. It is instead a *place* where many member-insurers transact business, just as they did centuries ago.

Over time, the underwriters solicited passive investors to join in syndicates. Additionally, the business broadened beyond marine risks into every imaginable form of insurance, including exotic coverages that spread the fame of Lloyd's far and wide. The underwriters left the coffee house, found grander quarters and formalized some rules of association. And those persons who passively backed the underwriters became known as "names."

Eventually, the names came to include many thousands of people from around the world, who joined expecting to pick up some extra change without effort or serious risk. True, prospective names were always solemnly told that they would have unlimited and everlasting liability for the consequences of their syndicate's underwriting – "down to the last cufflink," as the quaint description went. But that warning came to be viewed as perfunctory. Three hundred years of retained cufflinks acted as a powerful sedative to the names poised to sign up.

Then came asbestos. When its prospective costs were added to the tidal wave of environmental and product claims that surfaced in the 1980s, Lloyd's began to implode. Policies written decades earlier – and largely forgotten about – were developing huge losses. No one could intelligently estimate their total, but it was certain to be many tens of billions of dollars. The specter of unending and unlimited losses terrified existing names and scared away prospects. Many names opted for bankruptcy; some even chose suicide.

From these shambles, there came a desperate effort to resuscitate Lloyd's. In 1996, the powers that be at the institution allotted £11.1 billion to a new company, Equitas, and made it responsible for paying all claims on policies written before 1993. In effect, this plan pooled the misery of the many syndicates in trouble. Of course, the money allotted could prove to be insufficient – and if that happened, the names remained liable for the shortfall.

But the new plan, by concentrating all of the liabilities in one place, had the advantage of eliminating much of the costly intramural squabbling that went on among syndicates. Moreover, the pooling allowed claims evaluation, negotiation and litigation to be handled more intelligently than had been the case previously. Equitas embraced Ben Franklin's thinking: "We must all hang together, or assuredly we shall hang separately."

From the start, many people predicted Equitas would eventually fail. But as Ajit and I reviewed the facts in the spring of 2006 – 13 years after the last exposed policy had been written and after the payment of £11.3 billion in claims – we concluded that the patient was likely to survive. And so we decided to offer a huge reinsurance policy to Equitas.

Because plenty of imponderables continue to exist, Berkshire could not provide Equitas, and its 27,972 names, unlimited protection. But we said – and I'm simplifying – that if Equitas would give us $7.12 billion in cash and securities (this is the float I spoke about), we would pay all of its future claims and expenses up to $13.9 billion. That amount was $5.7 billion above what Equitas had recently guessed its ultimate liabilities to be. Thus the names received a huge – and almost certainly sufficient – amount of future protection against unpleasant surprises. Indeed the protection is so large that Equitas plans a cash payment to its thousands of names, an event few of them had ever dreamed possible.

And how will Berkshire fare? That depends on how much "known" claims will end up costing us, how many yet-to-be-presented claims will surface and what they will cost, how soon claim payments will be made and how much we earn on the cash we receive before it must be paid out. Ajit and I think the odds are in our favor. And should we be wrong, Berkshire can handle it.

Scott Moser, the CEO of Equitas, summarized the transaction neatly: "Names wanted to sleep easy at night, and we think we've just bought them the world's best mattress."

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Warning: It's time to eat your broccoli – I am now going to talk about accounting matters. I owe this to those Berkshire shareholders who love reading about debits and credits. I hope both of you find this discussion helpful. All others can skip this section; there will be no quiz.

Berkshire has done many retroactive transactions – in both number and amount a multiple of such policies entered into by any other insurer. We are the reinsurer of choice for these coverages because the obligations that are transferred to us – for example, lifetime indemnity and medical payments to be made to injured workers – may not be fully satisfied for 50 years or more. No other company can offer the certainty that Berkshire can, in terms of guaranteeing the full and fair settlement of these obligations. This fact is important to the original insurer, policyholders and regulators.

The accounting procedure for retroactive transactions is neither well known nor intuitive. The best way for shareholders to understand it, therefore, is for us to simply lay out the debits and credits. Charlie and I would like to see this done more often. We sometimes encounter accounting footnotes about important transactions that leave us baffled, and we go away suspicious that the reporting company wished it that way. (For example, try comprehending transactions "described" in the old 10-Ks of Enron, even after you *know* how the movie ended.)

So let us summarize our accounting for the Equitas transaction. The major debits will be to Cash and Investments, Reinsurance Recoverable, and Deferred Charges for Reinsurance Assumed ("DCRA"). The major credit will be to Reserve for Losses and Loss Adjustment Expense. No profit or loss will be recorded at the inception of the transaction, but underwriting losses will thereafter be incurred annually as the DCRA asset is amortized downward. The amount of the annual amortization charge will be primarily determined by how our end-of-the-year estimates as to the timing and amount of future loss payments compare to the estimates made at the beginning of the year. Eventually, when the last claim has been paid, the DCRA account will be reduced to zero. That day is 50 years or more away.

What's important to remember is that retroactive insurance contracts always produce underwriting losses for us. Whether these losses are worth experiencing depends on whether the cash we have received produces investment income that exceeds the losses. Recently our DCRA charges have annually delivered $300 million or so of underwriting losses, which have been more than offset by the income we have realized through use of the cash we received as a premium. Absent new retroactive contracts, the amount of the annual charge would normally decline over time. After the Equitas transaction, however, the annual DCRA cost will initially increase to about $450 million a year. This means that our other insurance operations must generate at least that much underwriting gain for our overall float to be cost-free. That amount is quite a hurdle but one that I believe we will clear in many, if not most, years.

Aren't you glad that I promised you there would be no quiz?

Manufacturing, Service and Retailing Operations

Our activities in this part of Berkshire cover the waterfront. Let's look, though, at a summary balance sheet and earnings statement for the entire group.

Balance Sheet 12/31/06 (in millions)

Assets		*Liabilities and Equity*	
Cash and equivalents	$ 1,543	Notes payable	$ 1,468
Accounts and notes receivable	3,793	Other current liabilities	6,635
Inventory	5,257	Total current liabilities	8,103
Other current assets	363		
Total current assets	10,956		
Goodwill and other intangibles	13,314	Deferred taxes	540
Fixed assets	8,934	Term debt and other liabilities	3,014
Other assets	1,168	Equity	22,715
	$34,372		$34,372

Earnings Statement (in millions)

	2006	2005	2004
Revenues	$52,660	$46,896	$44,142
Operating expenses (including depreciation of $823 in 2006, $699 in 2005 and $676 in 2004)	49,002	44,190	41,604
Interest expense	132	83	57
Pre-tax earnings	3,526*	2,623*	2,481*
Income taxes and minority interests	1,395	977	941
Net income	$ 2,131	$ 1,646	$ 1,540

*Does not include purchase-accounting adjustments.

This motley group, which sells products ranging from lollipops to motor homes, earned a pleasing 25% on average tangible net worth last year. It's noteworthy also that these operations used only minor financial leverage in achieving that return. Clearly we own some terrific businesses. We purchased many of them, however, at large premiums to net worth – a point reflected in the goodwill item shown on the balance sheet – and that fact reduces the earnings on our average *carrying* value to 10.8%.

Here are a few newsworthy items about companies in this sector:

- Bob Shaw, a remarkable entrepreneur who from a standing start built Shaw Industries into the country's largest carpet producer, elected last year, at age 75, to retire. To succeed him, Bob recommended Vance Bell, a 31-year veteran at Shaw, and Bob, as usual, made the right call. Weakness in housing has caused the carpet business to slow. Shaw, however, remains a powerhouse and a major contributor to Berkshire's earnings.

- MiTek, a manufacturer of connectors for roof trusses at the time we purchased it in 2001, is developing into a mini-conglomerate. At the rate it is growing, in fact, "mini" may soon be inappropriate. In purchasing MiTek for $420 million, we lent the company $200 million at 9% and bought $198 million of stock, priced at $10,000 per share. Additionally, 55 employees bought 2,200 shares for $22 million. Each employee paid *exactly* the same price that we did, in most cases borrowing money to do so.

  And are they ever glad they did! Five years later, MiTek's sales have tripled and the stock is valued at $71,699 per share. Despite its making 14 acquisitions, at a cost of $291 million, MiTek has paid off its debt to Berkshire and holds $35 million of cash. We celebrated the fifth anniversary of our purchase with a party in July. I told the group that it would be embarrassing if MiTek's stock price soared beyond that of Berkshire "A" shares. Don't be surprised, however, if that happens (though Charlie and I will try to make our shares a moving target).

- Not all of our businesses are destined to increase profits. When an industry's underlying economics are crumbling, talented management may slow the rate of decline. Eventually, though, eroding fundamentals will overwhelm managerial brilliance. (As a wise friend told me long ago, "If you want to get a reputation as a good businessman, be sure to get into a good business.") And fundamentals are definitely eroding in the newspaper industry, a trend that has caused the profits of our Buffalo News to decline. The skid will almost certainly continue.

  When Charlie and I were young, the newspaper business was as easy a way to make huge returns as existed in America. As one not-too-bright publisher famously said, "I owe my fortune to two great American institutions: monopoly and nepotism." No paper in a one-paper city, however bad the product or however inept the management, could avoid gushing profits.

  The industry's staggering returns could be simply explained. For most of the 20th Century, newspapers were the primary source of information for the American public. Whether the subject was sports, finance, or politics, newspapers reigned supreme. Just as important, their ads were the easiest way to find job opportunities or to learn the price of groceries at your town's supermarkets.

The great majority of families therefore felt the need for a paper every day, but understandably most didn't wish to pay for two. Advertisers preferred the paper with the most circulation, and readers tended to want the paper with the most ads and news pages. This circularity led to a law of the newspaper jungle: Survival of the Fattest.

Thus, when two or more papers existed in a major city (which was almost universally the case a century ago), the one that pulled ahead usually emerged as the stand-alone winner. After competition disappeared, the paper's pricing power in both advertising and circulation was unleashed. Typically, rates for both advertisers and readers would be raised annually – and the profits rolled in. For owners this was economic heaven. (Interestingly, though papers regularly – and often in a disapproving way – reported on the profitability of, say, the auto or steel industries, they never enlightened readers about their own Midas-like situation. Hmmm . . .)

As long ago as my 1991 letter to shareholders, I nonetheless asserted that this insulated world was changing, writing that "the media businesses . . . will prove considerably less marvelous than I, the industry, or lenders thought would be the case only a few years ago." Some publishers took umbrage at both this remark and other warnings from me that followed. Newspaper properties, moreover, continued to sell as if they were indestructible slot machines. In fact, many intelligent newspaper executives who regularly chronicled and analyzed important worldwide events were either blind or indifferent to what was going on under their noses.

Now, however, almost all newspaper owners realize that they are constantly losing ground in the battle for eyeballs. Simply put, if cable and satellite broadcasting, as well as the internet, had come along first, newspapers as we know them probably would never have existed.

In Berkshire's world, Stan Lipsey does a terrific job running the Buffalo News, and I am enormously proud of its editor, Margaret Sullivan. The News' penetration of its market is the highest among that of this country's large newspapers. We also do better financially than most metropolitan newspapers, even though Buffalo's population and business trends are not good. Nevertheless, this operation faces unrelenting pressures that will cause profit margins to slide.

True, we have the leading online news operation in Buffalo, and it will continue to attract more viewers and ads. However, the economic potential of a newspaper internet site – given the many alternative sources of information and entertainment that are free and only a click away – is at best a small fraction of that existing in the past for a print newspaper facing no competition.

For a local resident, ownership of a city's paper, like ownership of a sports team, still produces instant prominence. With it typically comes power and influence. These are ruboffs that appeal to many people with money. Beyond that, civic-minded, wealthy individuals may feel that local ownership will serve their community well. That's why Peter Kiewit bought the Omaha paper more than 40 years ago.

We are likely therefore to see non-economic individual buyers of newspapers emerge, just as we have seen such buyers acquire major sports franchises. Aspiring press lords should be careful, however: There's no rule that says a newspaper's revenues can't fall below its expenses and that losses can't mushroom. Fixed costs are high in the newspaper business, and that's bad news when unit volume heads south. As the importance of newspapers diminishes, moreover, the "psychic" value of possessing one will wane, whereas owning a sports franchise will likely retain its cachet.

Unless we face an irreversible cash drain, we will stick with the News, just as we've said that we would. (Read economic principle 11, on page 76.) Charlie and I love newspapers – we each read five a day – and believe that a free and energetic press is a key ingredient for maintaining a great democracy. We hope that some combination of print and online will ward off economic doomsday for newspapers, and we will work hard in Buffalo to develop a sustainable business model. I think we will be successful. But the days of lush profits from our newspaper are over.

- A *much* improved situation is emerging at NetJets, which sells and manages fractionally-owned aircraft. This company has never had a problem growing: Revenues from flight operations have increased 596% since our purchase in 1998. But profits had been erratic.

  Our move to Europe, which began in 1996, was particularly expensive. After five years of operation there, we had acquired only 80 customers. And by mid-year 2006 our cumulative pre-tax loss had risen to $212 million. But European demand has now exploded, with a net of 589 customers having been added in 2005-2006. Under Mark Booth's brilliant leadership, NetJets is now operating profitably in Europe, and we expect the positive trend to continue.

  Our U.S. operation also had a good year in 2006, which led to worldwide pre-tax earnings of $143 million at NetJets last year. We made this profit even though we suffered a loss of $19 million in the first quarter.

  Credit Rich Santulli, along with Mark, for this turnaround. Rich, like many of our managers, has no financial need to work. But you'd never know it. He's absolutely tireless – monitoring operations, making sales, and traveling the globe to constantly widen the already-enormous lead that NetJets enjoys over its competitors. Today, the value of the fleet we manage is far greater than that managed by our three largest competitors *combined*.

  There's a reason NetJets is the runaway leader: It offers the ultimate in safety and service. At Berkshire, and at a number of our subsidiaries, NetJets aircraft are an indispensable business tool. I also have a contract for personal use with NetJets and so do members of my family and most Berkshire directors. (None of us, I should add, gets a discount.) Once you've flown NetJets, returning to commercial flights is like going back to holding hands.

Regulated Utility Business

Berkshire has an 86.6% (fully diluted) interest in MidAmerican Energy Holdings, which owns a wide variety of utility operations. The largest of these are (1) Yorkshire Electricity and Northern Electric, whose 3.7 million electric customers make it the third largest distributor of electricity in the U.K.; (2) MidAmerican Energy, which serves 706,000 electric customers, primarily in Iowa; (3) Pacific Power and Rocky Mountain Power, serving about 1.7 million electric customers in six western states; and (4) Kern River and Northern Natural pipelines, which carry about 8% of the natural gas consumed in the U.S.

Our partners in ownership of MidAmerican are Walter Scott, and its two terrific managers, Dave Sokol and Greg Abel. It's unimportant how many votes each party has; we will make major moves only when we are unanimous in thinking them wise. Six years of working with Dave, Greg and Walter have underscored my original belief: Berkshire couldn't have better partners.

Somewhat incongruously, MidAmerican owns the second largest real estate brokerage firm in the U.S., HomeServices of America. This company operates through 20 locally-branded firms with 20,300 agents. Despite HomeServices' purchase of two operations last year, the company's overall volume fell 9% to $58 billion, and profits fell 50%.

The slowdown in residential real estate activity stems in part from the weakened lending practices of recent years. The "optional" contracts and "teaser" rates that have been popular have allowed borrowers to make payments in the early years of their mortgages that fall far short of covering normal interest costs. Naturally, there are few defaults when virtually nothing is required of a borrower. As a cynic has said, "A rolling loan gathers no loss." But payments *not* made add to principal, and borrowers who can't afford normal monthly payments early on are hit later with *above-normal* monthly obligations. This is the Scarlett O'Hara scenario: "I'll think about that tomorrow." For many home owners, "tomorrow" has now arrived. Consequently there is a huge overhang of offerings in several of HomeServices' markets.

Nevertheless, we will be seeking to purchase additional brokerage operations. A decade from now, HomeServices will almost certainly be much larger.

Here are some key figures on MidAmerican's operations:

	Earnings (in $ millions)	
	2006	2005
U.K. utilities	$ 338	$ 308
Iowa utility	348	288
Western utilities (acquired March 21, 2006)	356	N/A
Pipelines	376	309
HomeServices	74	148
Other (net)	226	115
Earnings before corporate interest and taxes	1,718	1,168
Interest, other than to Berkshire	(261)	(200)
Interest on Berkshire junior debt	(134)	(157)
Income tax	(407)	(248)
Net earnings	$ 916	$ 563
Earnings applicable to Berkshire*	$ 885	$ 523
Debt owed to others	16,946	10,296
Debt owed to Berkshire	1,055	1,289

*Includes interest earned by Berkshire (net of related income taxes) of $87 in 2006 and $102 in 2005.

Finance and Financial Products

You will be happy to hear – and I'm even happier – that this will be my last discussion of the losses at Gen Re's derivative operation. When we started to wind this business down early in 2002, we had 23,218 contracts outstanding. Now we have 197. Our cumulative pre-tax loss from this operation totals $409 million, but only $5 million occurred in 2006. Charlie says that if we had properly classified the $409 million on our 2001 balance sheet, it would have been labeled "Good Until Reached For." In any event, a Shakespearean thought – slightly modified – seems appropriate for the tombstone of this derivative business: "All's well that ends."

We've also wound up our investment in Value Capital. So earnings or losses from these two lines of business are making their final appearance in the table that annually appears in this section.

Clayton Homes remains an anomaly in the manufactured-housing industry, which last year recorded its lowest unit sales since 1962. Indeed, the industry's volume last year was only about one-third that of 1999. Outside of Clayton, I doubt if the industry, overall, made *any* money in 2006.

Yet Clayton earned $513 million pre-tax and paid Berkshire an additional $86 million as a fee for our obtaining the funds to finance Clayton's $10 billion portfolio of installment receivables. Berkshire's financial strength has clearly been of huge help to Clayton. But the driving force behind the company's success is Kevin Clayton. Kevin knows the business forward and backward, is a rational decision-maker and a joy to work with. Because of acquisitions, Clayton now employs 14,787 people, compared to 6,661 at the time of our purchase.

We have two leasing operations: CORT (furniture), run by Paul Arnold, and XTRA (truck trailers), run by Bill Franz. CORT's earnings improved significantly last year, and XTRA's remained at the high level attained in 2005. We continue to look for tuck-in acquisitions to be run by Paul or Bill, and also are open to ideas for new leasing opportunities.

Here's a breakdown of earnings in this sector:

	(in millions)			
	Pre-Tax Earnings		*Interest-Bearing Liabilities*	
	2006	*2005*	*2006*	*2005*
Trading – ordinary income	$ 274	$ 200	$ 600	$1,061
Gen Re Securities (loss)	(5)	(104)	1,204*	2,617*
Life and annuity operation	29	11	2,459	2,461
Value Capital (loss)	6	(33)	N/A	N/A
Leasing operations	182	173	261	370
Manufactured-housing finance (Clayton)	513	416	10,498	9,299
Other	158	159	N/A	N/A
Income before capital gains	1,157	822		
Trading – capital gains (losses)	938	(234)		
Total	$ 2,095	$ 588		

*Includes all liabilities

Investments

We show below our common stock investments. With two exceptions, those that had a market value of more than $700 million at the end of 2006 are itemized. We don't itemize the two securities referred to, which have a market value of $1.9 billion, because we continue to buy them. I could, of course, tell you their names. But then I would have to kill you.

			12/31/06	
Shares	*Company*	*Percentage of Company Owned*	*Cost**	*Market*
			(in millions)	
151,610,700	American Express Company	12.6	$ 1,287	$ 9,198
36,417,400	Anheuser-Busch Cos., Inc.	4.7	1,761	1,792
200,000,000	The Coca-Cola Company	8.6	1,299	9,650
17,938,100	Conoco Phillips	1.1	1,066	1,291
21,334,900	Johnson & Johnson	0.7	1,250	1,409
6,708,760	M&T Bank Corporation	6.1	103	820
48,000,000	Moody's Corporation	17.2	499	3,315
2,338,961,000	PetroChina "H" shares (or equivalents)	1.3	488	3,313
3,486,006	POSCO	4.0	572	1,158
100,000,000	The Procter & Gamble Company	3.2	940	6,427
229,707,000	Tesco	2.9	1,340	1,820
31,033,800	US Bancorp	1.8	969	1,123
17,072,192	USG Corp	19.0	536	936
19,944,300	Wal-Mart Stores, Inc.	0.5	942	921
1,727,765	The Washington Post Company	18.0	11	1,288
218,169,300	Wells Fargo & Company	6.5	3,697	7,758
1,724,200	White Mountains Insurance	16.0	369	999
	Others		5,866	8,315
	Total Common Stocks		$22,995	$61,533

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

We are delighted by the 2006 business performance of virtually all of our investees. Last year, we told you that our expectation was that these companies, in aggregate, would increase their earnings by 6% to 8% annually, a rate that would double their earnings every ten years or so. In 2006 American Express, Coca-Cola, Procter & Gamble and Wells Fargo, our largest holdings, increased per-share earnings by 18%, 9%, 8% and 11%. These are stellar results, and we thank their CEOs.

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We've come close to eliminating our direct foreign-exchange position, from which we realized about $186 million in pre-tax profits in 2006 (earnings that were included in the Finance and Financial Products table shown earlier). That brought our total gain since inception of this position in 2002 to $2.2 billion. Here's a breakdown by currency:

Total Gain (Loss) in Millions

Australian dollar	$247.1	Mexican peso	$106.1
British pound	287.2	New Zealand dollar	102.6
Canadian dollar	398.3	Singapore dollar	(2.6)
Chinese yuan	(12.7)	South Korean won	261.3
Euro	839.2	Swiss franc	9.6
Hong Kong dollar	(2.5)	Taiwan dollar	(45.3)
Japanese yen	1.9	Miscellaneous options	22.9

We've made large indirect currency profits as well, though I've never tallied the precise amount. For example, in 2002-2003 we spent about $82 million buying – of all things – Enron bonds, some of which were denominated in Euros. Already we've received distributions of $179 million from these bonds, and our remaining stake is worth $173 million. That means our overall gain is $270 million, part of which came from the appreciation of the Euro that took place after our bond purchase.

When we first began making foreign exchange purchases, interest-rate differentials between the U.S. and most foreign countries favored a direct currency position. But that spread turned negative in 2005. We therefore looked for other ways to gain foreign-currency exposure, such as the ownership of foreign equities or of U.S. stocks with major earnings abroad. The currency factor, we should emphasize, is not dominant in our selection of equities, but is merely one of many considerations.

As our U.S. trade problems worsen, the probability that the dollar will weaken over time continues to be high. I fervently believe in *real* trade – the more the better for both us and the world. We had about $1.44 trillion of this honest-to-God trade in 2006. But the U.S. also had $.76 trillion of *pseudo*-trade last year – imports for which we exchanged no goods or services. (Ponder, for a moment, how commentators would describe the situation if our imports were $.76 trillion – a full 6% of GDP – and we had *no* exports.) Making these purchases that weren't reciprocated by sales, the U.S. necessarily transferred ownership of its assets or IOUs to the rest of the world. Like a very wealthy but self-indulgent family, we peeled off a bit of what we owned in order to consume more than we produced.

The U.S. can do a lot of this because we are an extraordinarily rich country that has behaved responsibly in the past. The world is therefore willing to accept our bonds, real estate, stocks and businesses. And we have a vast store of these to hand over.

These transfers will have consequences, however. Already the prediction I made last year about one fall-out from our spending binge has come true: The "investment income" account of our country – positive in every previous year since *1915* – turned negative in 2006. Foreigners now earn more on their U.S. investments than we do on our investments abroad. In effect, we've used up our bank account and turned to our credit card. And, like everyone who gets in hock, the U.S. will now experience "reverse compounding" as we pay ever-increasing amounts of interest on interest.

I want to emphasize that even though our course is unwise, Americans will live better ten or twenty years from now than they do today. Per-capita wealth will increase. But our citizens will also be forced every year to ship a significant portion of their current production abroad merely to service the cost of our huge debtor position. It won't be pleasant to work part of each day to pay for the over-consumption of your ancestors. I believe that at some point in the future U.S. workers and voters will find this annual "tribute" so onerous that there will be a severe political backlash. How that will play out in markets is impossible to predict – but to expect a "soft landing" seems like wishful thinking.

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I should mention that all of the direct currency profits we have realized have come from forward contracts, which are derivatives, and that we have entered into other types of derivatives contracts as well. That may seem odd, since you know of our expensive experience in unwinding the derivatives book at Gen Re and also have heard me talk of the systemic problems that could result from the enormous growth in the use of derivatives. Why, you may wonder, are we fooling around with such potentially toxic material?

The answer is that derivatives, just like stocks and bonds, are sometimes wildly mispriced. For many years, accordingly, we have selectively written derivative contracts – few in number but sometimes for large dollar amounts. We currently have 62 contracts outstanding. I manage them personally, and they are free of counterparty credit risk. So far, these derivative contracts have worked out well for us, producing pre-tax profits in the hundreds of millions of dollars (above and beyond the gains I've itemized from forward foreign-exchange contracts). Though we will experience losses from time to time, we are likely to continue to earn – overall – significant profits from mispriced derivatives.

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I have told you that Berkshire has three outstanding candidates to replace me as CEO and that the Board knows exactly who should take over if I should die tonight. Each of the three is much younger than I. The directors believe it's important that my successor have the prospect of a long tenure.

Frankly, we are not as well-prepared on the investment side of our business. There's a history here: At one time, Charlie was my potential replacement for investing, and more recently Lou Simpson has filled that slot. Lou is a top-notch investor with an outstanding long-term record of managing GEICO's equity portfolio. But he is only six years younger than I. If I were to die soon, he would fill in magnificently for a short period. For the long-term, though, we need a different answer.

At our October board meeting, we discussed that subject fully. And we emerged with a plan, which I will carry out with the help of Charlie and Lou.

Under this plan, I intend to hire a younger man or woman with the potential to manage a very large portfolio, who we hope will succeed me as Berkshire's chief investment officer when the need for someone to do that arises. As part of the selection process, we may in fact take on several candidates.

Picking the right person(s) will not be an easy task. It's not hard, of course, to find smart people, among them individuals who have impressive investment records. But there is far more to successful long-term investing than brains and performance that has recently been good.

Over time, markets will do extraordinary, even bizarre, things. A single, big mistake could wipe out a long string of successes. We therefore need someone genetically programmed to recognize and avoid serious risks, *including those never before encountered*. Certain perils that lurk in investment strategies cannot be spotted by use of the models commonly employed today by financial institutions.

Temperament is also important. Independent thinking, emotional stability, and a keen understanding of both human and institutional behavior is vital to long-term investment success. I've seen a lot of very smart people who have lacked these virtues.

Finally, we have a special problem to consider: our ability to keep the person we hire. Being able to list Berkshire on a resume would materially enhance the marketability of an investment manager. We will need, therefore, to be sure we can retain our choice, even though he or she could leave and make much more money elsewhere.

There are surely people who fit what we need, but they may be hard to identify. In 1979, Jack Byrne and I felt we had found such a person in Lou Simpson. We then made an arrangement with him whereby he would be paid well for sustained overperformance. Under this deal, he has earned large amounts. Lou, however, could have left us long ago to manage far greater sums on more advantageous terms. If money alone had been the object, that's exactly what he would have done. But Lou never considered such a move. We need to find a younger person or two made of the same stuff.

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The good news: At 76, I feel terrific and, according to all measurable indicators, am in excellent health. It's amazing what Cherry Coke and hamburgers will do for a fellow.

Some Changes on Berkshire's Board

The composition of our board will change in two ways this spring. One change will involve the Chace family, which has been connected to Berkshire and its predecessor companies for more than a century. In 1929, the first Malcolm G. Chace played an important role in merging four New England textile operations into Berkshire Fine Spinning Associates. That company merged with Hathaway Manufacturing in 1955 to form Berkshire Hathaway, and Malcolm G. Chace, Jr. became its chairman.

Early in 1965, Malcolm arranged for Buffett Partnership Ltd. to buy a key block of Berkshire shares and welcomed us as the new controlling shareholder of the company. Malcolm continued as non-executive chairman until 1969. He was both a wonderful gentleman and helpful partner.

That description also fits his son, Malcolm "Kim" Chace, who succeeded his father on Berkshire's board in 1992. But last year Kim, now actively and successfully running a community bank that he founded in 1996, suggested that we find a younger person to replace him on our board. We have done so, and Kim will step down as a director at the annual meeting. I owe much to the Chaces and wish to thank Kim for his many years of service to Berkshire.

In selecting a new director, we were guided by our long-standing criteria, which are that board members be owner-oriented, business-savvy, interested and truly independent. I say "truly" because many directors who are now deemed independent by various authorities and observers are far from that, relying heavily as they do on directors' fees to maintain their standard of living. These payments, which come in many forms, often range between $150,000 and $250,000 annually, compensation that may approach or even exceed all other income of the "independent" director. And – surprise, surprise – director compensation has soared in recent years, pushed up by recommendations from corporate America's favorite consultant, Ratchet, Ratchet and Bingo. (The name may be phony, but the action it conveys is not.)

Charlie and I believe our four criteria are essential if directors are to do their job – which, by law, is to faithfully represent *owners*. Yet these criteria are usually ignored. Instead, consultants and CEOs seeking board candidates will often say, "We're looking for a woman," or "a Hispanic," or "someone from abroad," or what have you. It sometimes sounds as if the mission is to stock Noah's ark. Over the years I've been queried many times about potential directors and have yet to hear *anyone* ask, "Does he think like an intelligent owner?"

The questions I instead get would sound ridiculous to someone seeking candidates for, say, a football team, or an arbitration panel or a military command. In those cases, the selectors would look for people who had the specific talents and attitudes that were required for a specialized job. At Berkshire, we are in the specialized activity of running a business well, and therefore we seek *business* judgment.

That's exactly what we've found in Susan Decker, CFO of Yahoo!, who will join our board at the annual meeting. We are lucky to have her: She scores very high on our four criteria and additionally, at 44, is young – an attribute, as you may have noticed, that your Chairman has long lacked. We will seek more young directors in the future, but never by slighting the four qualities that we insist upon.

This and That

Berkshire will pay about \$4.4 billion in federal income tax on its 2006 earnings. In its last fiscal year the U.S. Government spent \$2.6 trillion, or about \$7 billion per day. Thus, for more than half of one day, Berkshire picked up the tab for *all* federal expenditures, ranging from Social Security and Medicare payments to the cost of our armed services. Had there been only 600 taxpayers like Berkshire, no one else in America would have needed to pay *any* federal income or payroll taxes.

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Our federal return last year, we should add, ran to 9,386 pages. To handle this filing, state and foreign tax returns, a myriad of SEC requirements, and all of the other matters involved in running Berkshire, we have gone all the way up to 19 employees at World Headquarters.

This crew occupies 9,708 square feet of space, and Charlie – at World Headquarters West in Los Angeles – uses another 655 square feet. Our home-office payroll, including benefits and counting both locations, totaled \$3,531,978 last year. We're careful when spending your money.

Corporate bigwigs often complain about government spending, criticizing bureaucrats who they say spend taxpayers' money differently from how they would if it were their own. But sometimes the financial behavior of executives will also vary based on whose wallet is getting depleted. Here's an illustrative tale from my days at Salomon. In the 1980s the company had a barber, Jimmy by name, who came in weekly to give free haircuts to the top brass. A manicurist was also on tap. Then, because of a cost-cutting drive, patrons were told to pay their own way. One top executive (not the CEO) who had previously visited Jimmy weekly went immediately to a once-every-three-weeks schedule.

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Every now and then Charlie and I catch on early to a tide-like trend, one brimming over with commercial promise. For example, though American Airlines (with its "miles") and American Express (with credit card points) are credited as being trailblazers in granting customers "rewards," Charlie and I were far ahead of them in spotting the appeal of this powerful idea. Excited by our insight, the two of us jumped into the reward business way back in 1970 by buying control of a trading stamp operation, Blue Chip Stamps. In that year, Blue Chip had sales of \$126 million, and its stamps papered California.

In 1970, indeed, about 60 *billion* of our stamps were licked by savers, pasted into books, and taken to Blue Chip redemption stores. Our catalog of rewards was 116 pages thick and chock full of tantalizing items. When I was told that even certain brothels and mortuaries gave stamps to their patrons, I felt I had finally found a sure thing.

Well, not quite. From the day Charlie and I stepped into the Blue Chip picture, the business went straight downhill. By 1980, sales had fallen to \$19.4 million. And, by 1990, sales were bumping along at \$1.5 million. No quitter, I redoubled my managerial efforts.

Sales then fell another 98%. Last year, in Berkshire's \$98 billion of revenues, all of \$25,920 (*no* zeros omitted) came from Blue Chip. Ever hopeful, Charlie and I soldier on.

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

I mentioned last year that in my service on 19 corporate boards (not counting Berkshire or other controlled companies), I have been the Typhoid Mary of compensation committees. At only one company was I assigned to comp committee duty, and then I was promptly outvoted on the most crucial decision that we faced. My ostracism has been peculiar, considering that I certainly haven't lacked experience in setting CEO pay. At Berkshire, after all, I am a one-man compensation committee who determines the salaries and incentives for the CEOs of around 40 significant operating businesses.

How much time does this aspect of my job take? Virtually none. How many CEOs have voluntarily left us for other jobs in our 42-year history? Precisely none.

Berkshire employs many different incentive arrangements, with their terms depending on such elements as the economic potential or capital intensity of a CEO's business. Whatever the compensation arrangement, though, I try to keep it both simple and fair.

When we use incentives – and these can be large – they are always tied to the operating results for which a given CEO has authority. We issue no lottery tickets that carry payoffs unrelated to business performance. If a CEO bats .300, he gets paid for being a .300 hitter, even if circumstances outside of his control cause Berkshire to perform poorly. And if he bats .150, he doesn't get a payoff just because the successes of others have enabled Berkshire to prosper mightily. An example: We now own $61 billion of equities at Berkshire, whose value can easily rise or fall by 10% in a given year. Why in the world should the pay of our operating executives be affected by such $6 billion swings, however important the gain or loss may be for shareholders?

You've read loads about CEOs who have received astronomical compensation for mediocre results. Much less well-advertised is the fact that America's CEOs also generally live the good life. Many, it should be emphasized, are exceptionally able, and almost all work far more than 40 hours a week. But they are usually treated like royalty in the process. (And we're certainly going to keep it that way at Berkshire. Though Charlie still favors sackcloth and ashes, I prefer to be spoiled rotten. Berkshire owns The Pampered Chef; our wonderful office group has made me The Pampered Chief.)

CEO perks at one company are quickly copied elsewhere. "All the other kids have one" may seem a thought too juvenile to use as a rationale in the boardroom. But consultants employ precisely this argument, phrased more elegantly of course, when they make recommendations to comp committees.

Irrational and excessive comp practices will not be materially changed by disclosure or by "independent" comp committee members. Indeed, I think it's likely that the reason I was rejected for service on so many comp committees was that I was regarded as *too* independent. Compensation reform will only occur if the largest institutional shareholders – it would only take a few – demand a *fresh* look at the whole system. The consultants' present drill of deftly selecting "peer" companies to compare with their clients will only perpetuate present excesses.

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Last year I arranged for the bulk of my Berkshire holdings to go to five charitable foundations, thus carrying out part of my lifelong plan to eventually use all of my shares for philanthropic purposes. Details of the commitments I made, as well as the rationale for them, are posted on our website, www.berkshirehathaway.com. Taxes, I should note, had nothing to do with my decision or its timing. My federal and state income taxes in 2006 were exactly what they would have been had I not made my first contributions last summer, and the same point will apply to my 2007 contributions.

In my will I've stipulated that the proceeds from all Berkshire shares I still own at death are to be used for philanthropic purposes within ten years after my estate is closed. Because my affairs are not complicated, it should take three years at most for this closing to occur. Adding this 13-year period to my expected lifespan of about 12 years (though, naturally, I'm aiming for more) means that proceeds from *all* of my Berkshire shares will likely be distributed for societal purposes over the next 25 years or so.

I've set this schedule because I want the money to be spent relatively promptly by people I *know* to be capable, vigorous and motivated. These managerial attributes sometimes wane as institutions – particularly those that are exempt from market forces – age. Today, there are terrific people in charge at the five foundations. So at my death, why should they not move with dispatch to judiciously spend the money that remains?

Those people favoring perpetual foundations argue that in the future there will most certainly be large and important societal problems that philanthropy will need to address. I agree. But there will then also be many super-rich individuals and families whose wealth will exceed that of today's Americans and to whom philanthropic organizations can make their case for funding. These funders can *then* judge firsthand which operations have both the vitality and the focus to best address the major societal problems that *then* exist. In this way, a market test of ideas and effectiveness can be applied. Some organizations will deserve major support while others will have outlived their usefulness. Even if the people above ground make their decisions imperfectly, they should be able to allocate funds more rationally than a decedent six feet under will have ordained decades earlier. Wills, of course, can always be rewritten, but it's very unlikely that my thinking will change in a material way.

A few shareholders have expressed concern that sales of Berkshire by the foundations receiving shares will depress the stock. These fears are unwarranted. The annual trading volume of many stocks exceeds 100% of the outstanding shares, but nevertheless these stocks usually sell at prices approximating their intrinsic value. Berkshire also tends to sell at an appropriate price, but with annual volume that is only 15% of shares outstanding. At most, sales by the foundations receiving my shares will add three percentage points to annual trading volume, which will still leave Berkshire with a turnover ratio that is the lowest around.

Overall, Berkshire's business performance will determine the price of our stock, and most of the time it will sell in a zone of reasonableness. It's important that the foundations receive appropriate prices as they periodically sell Berkshire shares, but it's also important that incoming shareholders don't overpay. (See economic principle 14 on page 77.) By both our policies and shareholder communications, Charlie and I will do our best to ensure that Berkshire sells at neither a large discount nor large premium to intrinsic value.

The existence of foundation ownership will in no way influence our board's decisions about dividends, repurchases, or the issuance of shares. We will follow exactly the same rule that has guided us in the past: What action will be likely to deliver the best result for shareholders over time?

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In last year's report I allegorically described the Gotrocks family – a clan that owned all of America's businesses and that counterproductively attempted to increase its investment returns by paying ever-greater commissions and fees to "helpers." Sad to say, the "family" continued its self-destructive ways in 2006.

In part the family persists in this folly because it harbors unrealistic expectations about obtainable returns. Sometimes these delusions are self-serving. For example, private pension plans can temporarily overstate their earnings, and public pension plans can defer the need for increased taxes, by using investment assumptions that are likely to be out of reach. Actuaries and auditors go along with these tactics, and it can be decades before the chickens come home to roost (at which point the CEO or public official who misled the world is apt to be gone).

Meanwhile, Wall Street's Pied Pipers of Performance will have encouraged the futile hopes of the family. The hapless Gotrocks will be assured that they *all* can achieve above-average investment performance – but only by paying ever-higher fees. Call this promise the adult version of Lake Woebegon.

In 2006, promises and fees hit new highs. A flood of money went from institutional investors to the 2-and-20 crowd. For those innocent of this arrangement, let me explain: It's a lopsided system whereby 2% of your *principal* is paid each year to the manager even if he accomplishes nothing – or, for that matter, loses you a bundle – and, additionally, 20% of your profit is paid to him if he succeeds, even if his success is due simply to a rising tide. For example, a manager who achieves a gross return of 10% in a year will keep 3.6 percentage points – two points off the top plus 20% of the residual 8 points – leaving only 6.4 percentage points for his investors. On a $3 billion fund, this 6.4% net "performance" will deliver the manager a cool $108 million. He will receive this bonanza even though an index fund might have returned 15% to investors in the same period and charged them only a token fee.

The inexorable math of this grotesque arrangement is certain to make the Gotrocks family poorer over time than it would have been had it never heard of these "hyper-helpers." Even so, the 2-and-20 action spreads. Its effects bring to mind the old adage: When someone with experience proposes a deal to someone with money, too often the fellow with money ends up with the experience, and the fellow with experience ends up with the money.

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Let me end this section by telling you about one of the good guys of Wall Street, my long-time friend Walter Schloss, who last year turned 90. From 1956 to 2002, Walter managed a remarkably successful investment partnership, from which he took not a dime unless his investors made money. My admiration for Walter, it should be noted, is not based on hindsight. A full fifty years ago, Walter was my sole recommendation to a St. Louis family who wanted an honest and able investment manager.

Walter did not go to business school, or for that matter, college. His office contained one file cabinet in 1956; the number mushroomed to four by 2002. Walter worked without a secretary, clerk or bookkeeper, his only associate being his son, Edwin, a graduate of the North Carolina School of the Arts. Walter and Edwin never came within a mile of inside information. Indeed, they used "outside" information only sparingly, generally selecting securities by certain simple statistical methods Walter learned while working for Ben Graham. When Walter and Edwin were asked in 1989 by *Outstanding Investors Digest*, "How would you summarize your approach?" Edwin replied, "We try to buy stocks cheap." So much for Modern Portfolio Theory, technical analysis, macroeconomic thoughts and complex algorithms.

Following a strategy that involved no real risk – defined as permanent loss of capital – Walter produced results over his 47 partnership years that dramatically surpassed those of the S&P 500. It's particularly noteworthy that he built this record by investing in about 1,000 securities, mostly of a lackluster type. A few big winners did not account for his success. It's safe to say that had millions of investment managers made trades by a) drawing stock names from a hat; b) purchasing these stocks in comparable amounts when Walter made a purchase; and then c) selling when Walter sold his pick, the *luckiest* of them would not have come close to equaling his record. There is simply *no* possibility that what Walter achieved over 47 years was due to chance.

I first publicly discussed Walter's remarkable record in 1984. At that time "efficient market theory" (EMT) was the centerpiece of investment instruction at most major business schools. This theory, as then most commonly taught, held that the price of any stock at any moment is not demonstrably mispriced, which means that no investor can be *expected* to overperform the stock market averages using only publicly-available information (though some will do so by luck). When I talked about Walter 23 years ago, his record forcefully contradicted this dogma.

And what did members of the academic community do when they were exposed to this new and important evidence? Unfortunately, they reacted in all-too-human fashion: Rather than opening their minds, they closed their eyes. To my knowledge *no* business school teaching EMT made any attempt to study Walter's performance and what it meant for the school's cherished theory.

Instead, the faculties of the schools went merrily on their way presenting EMT as having the certainty of scripture. Typically, a finance instructor who had the nerve to question EMT had about as much chance of major promotion as Galileo had of being named Pope.

Tens of thousands of students were therefore sent out into life believing that on every day the price of every stock was "right" (or, more accurately, not demonstrably wrong) and that attempts to evaluate businesses – that is, stocks – were useless. Walter meanwhile went on overperforming, his job made easier by the misguided instructions that had been given to those young minds. After all, if you are in the shipping business, it's helpful to have all of your potential competitors be taught that the earth is flat.

Maybe it was a good thing for his investors that Walter didn't go to college.

The Annual Meeting

Our meeting this year will be held on Saturday, May 5th. As always, the doors will open at the Qwest Center at 7 a.m., and a new Berkshire movie will be shown at 8:30. At 9:30 we will go directly to the question-and-answer period, which (with a break for lunch at the Qwest's stands) will last until 3:00. Then, after a short recess, Charlie and I will convene the annual meeting at 3:15. If you decide to leave during the day's question periods, please do so while *Charlie* is talking.

The best reason to exit, of course is to *shop*. We will help you do that by filling the 194,300 square foot hall that adjoins the meeting area with the products of Berkshire subsidiaries. Last year, the 24,000 people who came to the meeting did their part, and almost every location racked up record sales. But records are made to be broken, and I know you can do better.

This year we will again showcase a Clayton home (featuring Acme brick, Shaw carpet, Johns Manville insulation, MiTek fasteners, Carefree awnings and NFM furniture). You will find that the home, priced at $139,900, delivers excellent value. Last year, a helper at the Qwest bought one of two homes on display well before we opened the doors to shareholders. Flanking the Clayton home on the exhibition floor this year will be an RV and pontoon boat from Forest River.

GEICO will have a booth staffed by a number of its top counselors from around the country, all of them ready to supply you with auto insurance quotes. In most cases, GEICO will be able to give you a special shareholder discount (usually 8%). This special offer is permitted by 45 of the 50 jurisdictions in which we operate. (One supplemental point: The discount is not additive if you qualify for another, such as that given certain groups.) Bring the details of your existing insurance and check out whether we can save you money. For at least 50% of you, I believe we can. And while you're at it, sign up for the new GEICO credit card. It's the one I now use (sparingly, of course).

On Saturday, at the Omaha airport, we will have the usual array of aircraft from NetJets available for your inspection. Stop by the NetJets booth at the Qwest to learn about viewing these planes. Come to Omaha by bus; leave in your new plane. And take all the hair gel that you wish on board with you.

In the Bookworm's corner of our bazaar, there will be about 25 books and DVDs – all discounted – led again by *Poor Charlie's Almanack*. (One hapless soul last year asked Charlie what he should do if he didn't enjoy the book. Back came a Mungerism: "No problem – just give it to someone more intelligent.") We've added a few titles this year. Among them are *Seeking Wisdom: From Darwin to Munger* by Peter Bevelin, a long-time Swedish shareholder of Berkshire, and Fred Schwed's classic, *Where are the Customers' Yachts?* This book was first published in 1940 and is now in its 4th edition. The funniest book ever written about investing, it lightly delivers many truly important messages on the subject.

An attachment to the proxy material that is enclosed with this report explains how you can obtain the credential you will need for admission to the meeting and other events. As for plane, hotel and car reservations, we have again signed up American Express (800-799-6634) to give you special help. Carol Pedersen, who handles these matters, does a terrific job for us each year, and I thank her for it. Hotel rooms can be hard to find, but work with Carol and you will get one.

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. We initiated this special event at NFM ten years ago, and sales during the "Weekend" grew from $5.3 million in 1997 to $30 million in 2006. I get goose bumps just thinking about this volume.

To obtain the Berkshire discount, you must make your purchases between Thursday, May 3rd and Monday, May 7th inclusive, and 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. NFM is open from 10 a.m. to 9 p.m. Monday through Saturday, and 10 a.m.

to 6 p.m. on Sunday. On Saturday this year, from 5:30 p.m. to 8 p.m., NFM is having a special shareholder picnic featuring chicken and beef tacos (and hamburgers for traditionalists like me).

At a remodeled and expanded Borsheim's, we will again have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 10 p.m. on Friday, May 4th. The second, the main gala, will be held on Sunday, May 6th, from 9 a.m. to 4 p.m. On Saturday, we will be open until 6 p.m.

We will have huge crowds at Borsheim's throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, April 30th through Saturday, May 12th. During that period, please identify yourself as a shareholder by presenting your meeting credentials or a brokerage statement that shows you are a Berkshire holder.

On Sunday, in a tent outside of Borsheim's, a blindfolded Patrick Wolff, twice U.S. chess champion, will take on all comers – who will have their eyes wide open – in groups of six. Last year I carried on a conversation with Patrick while he played in this manner. Nearby, Norman Beck, a remarkable magician from Dallas, will bewilder onlookers. Additionally, we will have Bob Hamman and Sharon Osberg, two of the world's top bridge experts, available to play bridge with our shareholders on Sunday afternoon.

To add to the Sunday fun at Borsheim's, Ariel Hsing will play table tennis (ping-pong to the uninitiated) from 1 p.m. to 4 p.m. against anyone brave enough to take her on. Ariel, though only 11, is ranked number one among girls under 16 in the U.S. (and number 1 among both boys and girls under 12). The week I turned 75 I played Ariel, then 9 and barely tall enough to see across the table, thinking I would take it easy on her so as not to crush her young spirit. Instead she crushed me. I've since devised a plan that will give me a chance against her. At 1 p.m. on Sunday, I will initiate play with a *2-point* game against Ariel. If I somehow win the first point, I will then feign injury and claim victory. After this strenuous encounter wears Ariel down, our shareholders can then try their luck against her.

Gorat's will again be open exclusively for Berkshire shareholders on Sunday, May 6th, and will be serving from 4 p.m. until 10 p.m. Please remember that to come to Gorat's on that day, you must have a reservation. To make one, call 402-551-3733 on April 1st (*but not before*).

In the 2006-2007 school year, 35 university classes, including one from IBMEC in Brazil, will come to Omaha for sessions with me. I take almost all – in aggregate, more than 2,000 students – to lunch at Gorat's. And they love it. To learn why, come join us on Sunday.

We will again have a reception at 4 p.m. on Saturday afternoon for shareholders who have come from outside of North America. Every year our meeting draws many people from around the globe, and Charlie and I want to be sure we personally greet those who have come so far. Last year we enjoyed meeting more than 400 of you from many dozens of countries. Any shareholder who comes from other than the U.S. or Canada will be given a special credential and instructions for attending this function.

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Charlie and I are extraordinarily lucky. We were born in America; had terrific parents who saw that we got good educations; have enjoyed wonderful families and great health; and came equipped with a "business" gene that allows us to prosper in a manner hugely disproportionate to other people who contribute as much or more to our society's well-being. Moreover, we have long had jobs that we love, in which we are helped every day in countless ways by talented and cheerful associates. No wonder we tap-dance to work. But nothing is more fun for us than getting together with our shareholder-partners at Berkshire's annual meeting. So join us on May 5th at the Qwest for our annual Woodstock for Capitalists. We'll see you there.

February 28, 2007

Warren E. Buffett
Chairman of the Board

BERKSHIRE HATHAWAY INC.

ACQUISITION CRITERIA

We are eager to hear *from principals or their representatives* about businesses that meet all of the following criteria:

(1) Large purchases (at least $75 million of pre-tax earnings unless the business will fit into one of our existing units),
(2) Demonstrated consistent earning power (future projections are of *no* interest to us, nor are "turnaround" situations),
(3) Businesses earning good returns on equity while employing little or no debt,
(4) Management in place (we can't supply it),
(5) Simple businesses (if there's lots of technology, we won't understand it),
(6) An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

The larger the company, the greater will be our interest: We would like to make an acquisition in the $5-20 billion range. *We are not interested, however, in receiving suggestions about purchases we might make in the general stock market.*

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer — customarily within five minutes — as to whether we're interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give. *We don't participate in auctions.*

Charlie and I frequently get approached about acquisitions that don't come close to meeting our tests: We've found that if you advertise an interest in buying collies, a lot of people will call hoping to sell you their cocker spaniels. A line from a country song expresses our feeling about new ventures, turnarounds, or auction-like sales: "When the phone don't ring, you'll know it's me."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Berkshire Hathaway Inc.

We have audited the accompanying consolidated balance sheets of Berkshire Hathaway Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of earnings, cash flows and changes in shareholders' equity and comprehensive income for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the consolidated financial statements, as of December 31, 2006, the Company changed its accounting for pensions and other postretirement benefits to conform to Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
February 28, 2007

FORWARD-LOOKING STATEMENTS

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

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

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	December 31, 2006 (audited)	December 31, 2005 (audited)	Pro Forma * 2005 (unaudited)
ASSETS			
Insurance and Other:			
Cash and cash equivalents	$ 37,977	$ 40,471	$ 40,471
Investments:			
Fixed maturity securities	25,300	27,420	27,420
Equity securities	61,533	46,721	46,721
Other	905	1,003	1,003
Receivables	12,881	12,397	12,372
Inventories	5,257	4,143	4,143
Property, plant and equipment	9,303	7,500	7,500
Goodwill	25,678	22,693	22,693
Deferred charges reinsurance assumed	1,964	2,388	2,388
Other	6,538	4,937	4,937
	187,336	169,673	169,648
Utilities and Energy:			
Cash and cash equivalents	343	—	358
Property, plant and equipment	24,039	—	11,915
Goodwill	5,548	—	4,156
Other	6,560	—	3,764
Investments in MidAmerican Energy Holdings Company	—	4,125	—
	36,490	4,125	20,193
Finance and Financial Products:			
Cash and cash equivalents	5,423	4,189	4,189
Investments in fixed maturity securities	3,012	3,435	3,435
Loans and finance receivables	11,498	11,087	11,087
Goodwill	1,012	951	951
Other	3,666	4,865	4,865
	24,611	24,527	24,527
	$248,437	$198,325	$214,368

* *The Pro Forma Balance Sheet gives effect to the conversion on February 9, 2006 of MidAmerican Energy Holdings Company ("MidAmerican") non-voting cumulative convertible preferred stock into MidAmerican voting common stock as if such conversion had occurred on December 31, 2005. See Note 2 to the Consolidated Financial Statements for additional information.*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	December 31, 2006	December 31, 2005	Pro Forma * 2005
LIABILITIES AND SHAREHOLDERS' EQUITY	(audited)	(audited)	(unaudited)
Insurance and Other:			
Losses and loss adjustment expenses	$ 47,612	$ 48,034	$ 48,034
Unearned premiums	7,058	6,206	6,206
Life and health insurance benefits	3,600	3,202	3,202
Other policyholder liabilities	3,938	3,769	3,769
Accounts payable, accruals and other liabilities	10,255	8,699	8,699
Income taxes, principally deferred	18,460	12,252	13,649
Notes payable and other borrowings	3,698	3,583	3,583
	94,621	85,745	87,142
Utilities and Energy:			
Accounts payable, accruals and other liabilities	6,802	—	3,780
Notes payable and other borrowings	16,946	—	10,296
	23,748	—	14,076
Finance and Financial Products:			
Derivative contract liabilities	3,883	5,061	5,061
Accounts payable, accruals and other liabilities	3,543	4,351	4,351
Notes payable and other borrowings	11,961	10,868	10,868
	19,387	20,280	20,280
Total liabilities	137,756	106,025	121,498
Minority shareholders' interests	2,262	816	1,386
Shareholders' equity:			
Common stock:			
Class A, $5 par value; Class B, $0.1667 par value	8	8	8
Capital in excess of par value	26,522	26,399	26,399
Accumulated other comprehensive income	22,977	17,360	17,360
Retained earnings	58,912	47,717	47,717
Total shareholders' equity	108,419	91,484	91,484
	$248,437	$198,325	$214,368

* *The Pro Forma Balance Sheet gives effect to the conversion on February 9, 2006 of MidAmerican Energy Holdings Company ("MidAmerican") non-voting cumulative convertible preferred stock into MidAmerican voting common stock as if such conversion had occurred on December 31, 2005. See Note 2 to the Consolidated Financial Statements for additional information.*

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in millions except per share amounts)

	Year Ended December 31, 2006	2005	2004
Revenues:			
Insurance and Other:			
Insurance premiums earned	$23,964	$21,997	$21,085
Sales and service revenues	51,803	46,138	43,222
Interest, dividend and other investment income	4,382	3,487	2,816
Investment gains/losses	1,697	5,728	1,746
	81,846	77,350	68,869
Utilities and Energy:			
Operating revenues	10,301	—	—
Other	343	—	—
	10,644	—	—
Finance and Financial Products:			
Interest income	1,610	1,554	1,202
Investment gains/losses	114	468	(110)
Derivative gains/losses	824	(788)	1,835
Other	3,501	3,079	2,586
	6,049	4,313	5,513
	98,539	81,663	74,382
Costs and expenses:			
Insurance and Other:			
Insurance losses and loss adjustment expenses	13,068	15,482	13,462
Life and health insurance benefits	1,618	1,634	1,361
Insurance underwriting expenses	5,440	4,828	4,711
Cost of sales and services	42,416	38,288	35,882
Selling, general and administrative expenses	5,932	5,328	4,989
Interest expense	195	144	137
	68,669	65,704	60,542
Utilities and Energy:			
Cost of sales and operating expenses	8,189	—	—
Interest expense	979	—	—
	9,168	—	—
Finance and Financial Products:			
Interest expense	550	579	584
Other	3,374	3,112	2,557
	3,924	3,691	3,141
	81,761	69,395	63,683
Earnings before income taxes and equity in earnings of MidAmerican Energy Holdings Company	16,778	12,268	10,699
Equity in earnings of MidAmerican Energy Holdings Company	—	523	237
Earnings before income taxes and minority interests	16,778	12,791	10,936
Income taxes	5,505	4,159	3,569
Minority shareholders' interests	258	104	59
Net earnings	$11,015	$ 8,528	$ 7,308
Average common shares outstanding *	1,541,807	1,539,775	1,537,716
Net earnings per common share *	$ 7,144	$ 5,538	$ 4,753

* *Average shares outstanding include average Class A common shares and average Class B common shares determined on an equivalent Class A common stock basis. Net earnings per common share shown above represents net earnings per equivalent Class A common share. Net earnings per Class B common share is equal to one-thirtieth (1/30) of such amount or $238 per share for 2006, $185 per share for 2005 and $158 per share for 2004.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net earnings	$ 11,015	$ 8,528	$ 7,308
Adjustments to reconcile net earnings to operating cash flows:			
Investment gains	(1,811)	(6,196)	(1,636)
Depreciation	2,066	982	941
Changes in operating assets and liabilities before business acquisitions:			
Losses and loss adjustment expenses	(2,704)	2,086	(383)
Deferred charges reinsurance assumed	424	339	360
Unearned premiums	637	(239)	(52)
Receivables and originated loans	(59)	(1,849)	102
Derivative contract assets and liabilities	(563)	3,620	(367)
Income taxes	303	1,602	860
Other assets and liabilities	887	573	178
Net cash flows from operating activities	10,195	9,446	7,311
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(7,747)	(13,937)	(5,924)
Purchases of equity securities	(9,173)	(8,021)	(2,032)
Sales of securities with fixed maturities	1,818	3,243	4,560
Redemptions and maturities of securities with fixed maturities	10,313	7,142	5,637
Sales of equity securities	3,778	1,629	2,610
Purchases of loans and finance receivables	(365)	(1,987)	(6,314)
Principal collections on loans and finance receivables	985	911	2,736
Acquisitions of businesses, net of cash acquired	(10,132)	(2,387)	(414)
Purchases of property, plant and equipment	(4,571)	(2,195)	(1,278)
Other	1,017	1,761	734
Net cash flows from investing activities	(14,077)	(13,841)	315
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	1,280	5,628	1,668
Proceeds from borrowings of utilities and energy businesses	2,417	—	—
Proceeds from other borrowings	215	521	339
Repayments of borrowings of finance businesses	(244)	(319)	(1,267)
Repayments of borrowings of utilities and energy businesses	(516)	—	—
Repayments of other borrowings	(991)	(628)	(674)
Changes in short term borrowings	245	361	(388)
Other	201	65	166
Net cash flows from financing activities	2,607	5,628	(156)
Increase (decrease) in cash and cash equivalents	(1,275)	1,233	7,470
Cash and cash equivalents at beginning of year **	45,018	43,427	35,957
Cash and cash equivalents at end of year *	$43,743	$44,660	$43,427
** Cash and cash equivalents at end of year are comprised of the following:*			
Insurance and Other	*$37,977*	*$40,471*	*$40,020*
Utilities and Energy	*343*	—	—
Finance and Financial Products	*5,423*	*4,189*	*3,407*
	$43,743	*$44,660*	*$43,427*

*** The balance at beginning of 2006 includes $358 million related to MidAmerican.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2006	2005	2004
Class A & B Common Stock			
Balance at beginning and end of year	$ 8	$ 8	$ 8
Capital in Excess of Par Value			
Balance at beginning of year	$26,399	$26,268	$26,151
Exercise of stock options issued in connection with business acquisitions and SQUARZ warrant premiums	123	131	117
Balance at end of year	$26,522	$26,399	$26,268
Retained Earnings			
Balance at beginning of year	$47,717	$39,189	$31,881
Adoption of FTB 85-4-1	180	—	—
Net earnings	11,015	8,528	7,308
Balance at end of year	$58,912	$47,717	$39,189
Accumulated Other Comprehensive Income			
Unrealized appreciation of investments	$ 9,278	$ 2,081	$ 2,599
Applicable income taxes	(3,246)	(728)	(905)
Reclassification adjustment for appreciation included in net earnings	(1,646)	(6,261)	(1,569)
Applicable income taxes	576	2,191	549
Foreign currency translation adjustments	603	(359)	140
Applicable income taxes	1	(26)	134
Minimum pension liability adjustment	563	(62)	(38)
Applicable income taxes	(196)	38	3
Other, including minority interests	(13)	51	(34)
Other comprehensive income	5,920	(3,075)	879
Adoption of SFAS 158	(303)	—	—
Accumulated other comprehensive income at beginning of year	17,360	20,435	19,556
Accumulated other comprehensive income at end of year	$22,977	$17,360	$20,435
Comprehensive Income			
Net earnings	$11,015	$ 8,528	$ 7,308
Other comprehensive income	5,920	(3,075)	879
Total comprehensive income	$16,935	$ 5,453	$ 8,187

See accompanying Notes to Consolidated Financial Statements

(1) Significant accounting policies and practices

(a) Nature of operations and basis of consolidation

Berkshire Hathaway Inc. ("Berkshire" or "Company") is a holding company owning subsidiaries engaged in a number of diverse business activities, including property and casualty insurance and reinsurance, utilities and energy, finance, manufacturing, retailing and services. Further information regarding these businesses and Berkshire's reportable business segments is contained in Note 20. Berkshire consummated a number of business acquisitions over the past three years which are discussed in Note 3.

The accompanying Consolidated Financial Statements include the accounts of Berkshire consolidated with the accounts of all of its subsidiaries and affiliates in which Berkshire holds a controlling financial interest as of the financial statement date. Normally a controlling financial interest reflects ownership of a majority of the voting interests. Other factors considered in determining whether a controlling financial interest is held include whether Berkshire possesses the authority to purchase or sell assets or make other operating decisions that significantly affect the entity's results of operations and whether Berkshire bears a majority of the financial risks of the entity. Intercompany accounts and transactions have been eliminated. Certain amounts in prior year presentations have been reclassified to conform with the current year presentation.

(b) Use of estimates in preparation of financial statements

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. In particular, estimates of unpaid losses and loss adjustment expenses and related recoverables under reinsurance for property and casualty insurance are subject to considerable estimation error due to the inherent uncertainty in projecting ultimate claim amounts that can be reported and settled over a period of many years. In addition, estimates and assumptions associated with the amortization of deferred charges reinsurance assumed, the determination of fair value of certain invested assets and related impairments and the determination of goodwill impairments require considerable judgment by management. Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

(c) Cash equivalents

Cash equivalents consist of funds invested in U.S. Treasury Bills, money market accounts, and in other investments with a maturity of three months or less when purchased. Cash and cash equivalents exclude amounts where availability is restricted by loan agreements or other contractual provisions. Restricted amounts are included in other assets.

(d) Investments

Berkshire's management determines the appropriate classifications of investments in fixed maturity and equity securities at the acquisition date and re-evaluates the classifications at each balance sheet date. Berkshire's investments in fixed maturity and equity securities are primarily classified as available-for-sale, except for certain securities held by finance businesses which are classified as held-to-maturity.

Held-to-maturity investments are carried at amortized cost, reflecting Berkshire's intent and ability to hold the securities to maturity. Available-for-sale securities are stated at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income.

Investment gains and losses arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If in management's judgment a decline in the value of an investment below cost is other than temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in judging whether an impairment is other than temporary include: the financial condition, business prospects and creditworthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of the decline, and Berkshire's ability and intent to hold the investment until the fair value recovers.

Berkshire utilizes the equity method of accounting with respect to investments where it exercises significant influence, but not control, over the operating and financial policies of the investee. A voting interest of at least 20% and no greater than 50% is normally a prerequisite for utilizing the equity method. However, Berkshire may apply the equity method with less than 20% voting interests based upon the facts and circumstances including representation on the investee's Board of Directors, contractual veto or approval rights, participation in policy making processes and the existence or absence of other significant owners. Berkshire applies the equity method to investments in common stock and other investments when such other investments possess substantially identical subordinated interests to common stock.

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

(d) Investments (*Continued)*

In applying the equity method, investments are recorded at cost and subsequently increased or decreased by Berkshire's proportionate share of the net earnings or losses of the investee. Berkshire also records its proportionate share of other comprehensive income items of the investee as a component of its comprehensive income. Dividends or other equity distributions are recorded as a reduction of the investment. In the event that net losses of the investee have reduced the equity method investment to zero, additional net losses may be recorded if other investments in the investee are at-risk, even if Berkshire has not committed to provide financial support to the investee. Berkshire bases such additional equity method loss amounts, if any, on the change in its claim on the investee's book value.

(e) Loans and finance receivables

Loans and finance receivables consist of commercial and consumer loans originated or purchased by Berkshire's finance and financial products businesses. Loans and finance receivables are stated at amortized cost less allowances for uncollectible accounts based on Berkshire's ability and intent to hold such loans and receivables to maturity. Amortized cost represents acquisition cost, plus or minus origination and commitment costs paid or fees received, which together with acquisition premiums or discounts are deferred and amortized as yield adjustments over the life of the loan.

Allowances for estimated losses from uncollectible loans are recorded when it is probable that the counterparty will be unable to pay all amounts due according to the terms of the loan. Allowances are provided on aggregations of consumer loans with similar characteristics and terms based upon historical loss and recovery experience, delinquency rates and current economic conditions. Provisions for loan losses are included in the Consolidated Statements of Earnings.

(f) Derivatives

Derivative instruments include interest rate, currency, equity and credit swaps and options, interest rate caps and floors and futures and forward contracts.

Berkshire carries derivative contracts at estimated fair value classified as assets or liabilities in the accompanying Consolidated Balance Sheets. Such balances reflect reductions permitted under master netting agreements with counterparties. The fair values of these instruments generally represent the present value of estimated future cash flows under the contracts, which are a function of current underlying interest rates, currency rates, security values, related volatility, counterparty creditworthiness and duration of the contracts. Changes in these factors or a combination thereof may affect the fair value of these instruments.

The changes in fair value of derivative contracts that do not qualify as hedging instruments for financial reporting purposes are included in the Consolidated Statements of Earnings as derivative gains/losses.

Derivative contracts may provide for Berkshire or the counterparty to post collateral as security against the fair value of open or unsettled contracts. Cash collateral received from or paid to counterparties to secure derivative contract assets or liabilities is included in liabilities or assets of finance and financial products businesses in the Consolidated Balance Sheets. Securities received from counterparties as collateral are not recorded as assets and securities delivered to counterparties as collateral continue to be reflected as assets in the Consolidated Balance Sheets.

(g) Inventories

Inventories consist of manufactured goods and purchased goods acquired for resale. Manufactured inventory costs include raw materials, direct and indirect labor and factory overhead. Inventories are stated at the lower of cost or market. As of December 31, 2006, approximately 53% of the total inventory cost was determined using the last-in-first-out ("LIFO") method, 41% using the first-in-first-out ("FIFO") method, with the remainder using the specific identification method. With respect to inventories carried at LIFO cost, the aggregate difference in value between LIFO cost and cost determined under FIFO methods was $263 million and $237 million as of December 31, 2006 and 2005, respectively.

(h) Property, plant and equipment

Property, plant and equipment is recorded at cost. The cost of major additions and betterments are capitalized, while replacements, maintenance and repairs that do not improve or extend the useful lives of the related assets are expensed as incurred. Interest over the construction period is capitalized as a component of cost of constructed assets. In addition, the cost of constructed assets of certain domestic regulated utility and energy subsidiaries that are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71") includes the capitalization of the estimated cost of capital in addition to interest incurred during the construction period. Also see Note 1(n).

Depreciation is provided principally on the straight-line method over estimated useful lives. Depreciation of assets of certain regulated utility and energy subsidiaries is provided over recovery periods based on composite asset class lives as mandated by regulation.

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

(h) Property, plant and equipment (Continued)

Property, plant and equipment is evaluated for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable, or the assets meet the criteria of held for sale. Upon the occurrence of a triggering event, the asset is reviewed to assess whether the estimated undiscounted cash flows expected from the use of the asset plus residual value from the ultimate disposal exceeds the carrying value of the asset. If the carrying value exceeds the estimated recoverable amounts, the asset is written down to the estimated discounted present value of the expected future cash flows from using the asset. Impairment losses are reflected in the Consolidated Statements of Earnings, except with respect to impairments of assets of certain domestic regulated utility and energy subsidiaries where losses are offset by the establishment of a regulatory asset to the extent recovery in future rates is probable.

(i) Goodwill

Goodwill represents the difference between purchase cost and the fair value of net assets acquired in business acquisitions. Goodwill is tested for impairment using a variety of methods at least annually and impairments, if any, are charged to earnings. Key assumptions used in the testing include, but are not limited to, the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, the Company incorporates current market information as well as historical factors.

(j) Revenue recognition

Insurance premiums for prospective property/casualty insurance and reinsurance and health reinsurance policies are earned in proportion to the level of insurance protection provided. In most cases, premiums are recognized as revenues ratably over the term of the contract with unearned premiums computed on a monthly or daily pro rata basis. Premiums for retroactive reinsurance property/casualty policies are earned at the inception of the contracts. Premiums for life reinsurance contracts are earned when due.

Premiums earned are stated net of amounts ceded to reinsurers. Premiums are estimated with respect to certain reinsurance contracts written during the period where reports from ceding companies for the period are not contractually due until after the balance sheet date. For policies containing experience rating provisions, premiums are based upon estimated loss experience under the contract.

Sales revenues derive from the sales of manufactured products and goods acquired for resale. Revenues from sales are recognized upon passage of title to the customer, which generally coincides with customer pickup, product delivery or acceptance, depending on terms of the sales arrangement.

Service revenues derive primarily from pilot training and flight operations and flight management activities. Service revenues are recognized as the services are performed. Services provided pursuant to a contract are either recognized over the contract period, or upon completion of the elements specified in the contract, depending on the terms of the contract.

Interest income from investments in bonds and loans is earned under the constant yield method and includes accrual of interest due under terms of the bond or loan agreement as well as amortization of acquisition premiums and accruable discounts. In determining the constant yield for mortgage-backed securities, anticipated counterparty prepayments are estimated and evaluated periodically. Dividends from equity securities are earned on the ex-dividend date.

Operating revenue of utilities and energy businesses resulting from the distribution and sale of natural gas and electricity to customers is recognized when the service is rendered or the energy is delivered. Amounts recognized include unbilled as well as billed amounts. Rates charged are generally subject to Federal and state regulation or established under contractual arrangements. When preliminary rates are permitted to be billed prior to final approval by the applicable regulator, certain revenue collected may be subject to refund and a provision for estimated refunds is accrued.

Commission revenue from real estate brokerage transactions and related amounts due to agents which are included as components of operating revenues and expenses of utilities and energy businesses are recognized when a real estate transaction is closed.

(k) Losses and loss adjustment expenses

Liabilities for unpaid losses and loss adjustment expenses represent estimated claim and claim settlement costs of property/casualty insurance and reinsurance contracts with respect to losses that have occurred as of the balance sheet date. The liabilities for losses and loss adjustment expenses are recorded at the estimated ultimate payment amounts, except that amounts arising from certain workers' compensation reinsurance business are discounted as discussed below. Estimated ultimate payment amounts are based upon (1) individual case estimates, (2) reports of losses from policyholders and (3) estimates of incurred but not reported ("IBNR") losses.

Provisions for losses and loss adjustment expenses are reported in the accompanying Consolidated Statements of Earnings after deducting amounts recovered and estimates of amounts recoverable under reinsurance contracts. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify policyholders with respect to the underlying insurance and reinsurance contracts.

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

(k) Losses and loss adjustment expenses (Continued)

The estimated liabilities of workers' compensation claims assumed under certain reinsurance contracts are carried in the Consolidated Balance Sheets at discounted amounts. Discounted amounts are based upon an annual discount rate of 4.5% for claims arising prior to 2003 and 1% for claims arising after 2002, consistent with discount rates used under statutory accounting principles. The periodic discount accretion is included in the Consolidated Statements of Earnings as a component of losses and loss adjustment expenses.

(l) Deferred charges reinsurance assumed

The excess of estimated liabilities for claims and claim costs over the consideration received with respect to retroactive property and casualty reinsurance contracts that provide for indemnification of insurance risk is established as a deferred charge at inception of such contracts. The deferred charges are subsequently amortized using the interest method over the expected claim settlement periods. The periodic amortization charges are reflected in the accompanying Consolidated Statements of Earnings as losses and loss adjustment expenses.

Changes to the expected timing and estimated amount of loss payments produce changes in the unamortized deferred charge balance. Such changes in estimates are determined retrospectively and included in insurance losses and loss adjustment expense in the period of the change.

(m) Insurance premium acquisition costs

Costs that vary and are related to the issuance of insurance policies are deferred, subject to ultimate recoverability, and charged to underwriting expenses as the related premiums are earned. Acquisition costs consist of commissions, premium taxes, advertising and other underwriting costs. The recoverability of premium acquisition costs, generally, reflects anticipation of investment income. The unamortized balances of deferred premium acquisition costs are included in other assets and were $1,432 million and $1,287 million at December 31, 2006 and 2005, respectively.

(n) Regulated utilities and energy businesses

Certain domestic energy subsidiaries prepare their financial statements in accordance with SFAS No. 71, reflecting economic effects deriving from the ability to recover certain costs from customers and the requirement to return revenues to customers in the future through the regulated rate-setting process. Accordingly, certain costs are deferred as regulatory assets and obligations are accrued as regulatory liabilities, which will be amortized over various future periods. At December 31, 2006, MidAmerican had $1,827 million in regulatory assets and $1,839 million in regulatory liabilities, which are components of other assets and other liabilities of utilities and energy businesses.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders received by other regulated entities and the status of any pending or potential deregulation legislation. If future recovery of costs ceases to be probable, the amount no longer probable of recovery is charged to earnings.

Utilities and energy businesses recognize legal asset retirement obligations ("ARO"), mainly related to the decommissioning of nuclear generation assets and the final reclamation of leased coal mining property. The estimated fair value of a legal ARO is recognized as a liability when a reasonable estimate of the expected future cash flows can be made. This liability is added to the carrying amount of the associated asset, which is then depreciated over the remaining useful life of the asset. Subsequent to the initial recognition, the liability is periodically adjusted for revisions to assumptions used in determining the present value of the retirement obligation. The ARO as of December 31, 2006 was approximately $423 million and is reflected in other liabilities of utilities and energy businesses.

(p) Foreign currency

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

(q) Deferred income taxes

Deferred income taxes are calculated under the liability method. Deferred tax assets and liabilities are based on differences between the financial statement and tax basis of assets and liabilities at the enacted tax rates. Changes in deferred income tax assets and liabilities that are associated with components of other comprehensive income (primarily unrealized investment gains and losses) are charged or credited directly to other comprehensive income. Otherwise, changes in deferred income tax assets and liabilities are included as a component of income tax expense. Valuation allowances have been established for certain deferred tax assets where realization is not likely.

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

(r) Accounting pronouncements to be adopted in subsequent years

In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition of positions taken or expected to be taken in income tax returns. Only tax positions meeting a "more-likely-than-not" threshold of being sustained are recognized under FIN 48. FIN 48 also provides guidance on derecognition, classification of interest and penalties and accounting and disclosures for annual and interim financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of any changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of retained earnings in the period of adoption.

In September 2006, the FASB issued FASB Staff Position No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities" ("AUG AIR-1"). AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in which such maintenance costs are ratably recognized by accruing a liability in periods before the maintenance is performed. This pronouncement also retains three alternative methods for accounting for planned major maintenance activities including the direct expensing method, the built-in overhaul method and the deferral method. AUG AIR-1 is effective for fiscal years beginning after December 15, 2006.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting the highest and best use valuation concepts. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy of fair value measurements currently required under GAAP that distinguishes market data between observable independent market inputs and unobservable market assumptions. SFAS 157 further expands disclosures about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and may be adopted earlier but only if the adoption is in the first quarter of the fiscal year.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and may be adopted earlier but only if the adoption is in the first quarter of the fiscal year.

Berkshire is evaluating the impact that the adoption of these pronouncements will have on its consolidated financial position and currently does not anticipate that the adoption of these accounting pronouncements will have a material effect on its consolidated financial position.

(2) Investments in MidAmerican Energy Holdings Company

MidAmerican owns a combined regulated electric and natural gas utility company in the United States (MidAmerican Energy Company), a regulated electric utility company in the United States (PacifiCorp which was acquired March 21, 2006), two interstate natural gas pipeline companies in the United States (Kern River and Northern Natural Gas), two electricity distribution companies in the United Kingdom (Northern Electric and Yorkshire Electricity), a diversified portfolio of domestic and international electric power projects and the second largest residential real estate brokerage firm in the United States (HomeServices). This group of businesses is referred to as "MidAmerican" or the "utilities and energy businesses."

On February 9, 2006, Berkshire converted its non-voting preferred stock to common stock and upon conversion, owned approximately 83.4% (80.5% diluted) of the voting common stock interests. In conjunction with the acquisition of PacifiCorp, Berkshire acquired additional common stock of MidAmerican for $3.4 billion. Berkshire's ownership in MidAmerican as of December 31, 2006 was 87.8% (86.6% diluted). Accordingly, the 2006 Consolidated Financial Statements reflect the consolidation of the accounts of MidAmerican. MidAmerican's debt obligations are not guaranteed by Berkshire. However, Berkshire has made a commitment until February 28, 2011 that would allow MidAmerican to request up to $3.5 billion of capital to pay its debt obligations or to provide funding to its regulated subsidiaries.

During 2004 and 2005, Berkshire possessed the ability to exercise significant influence on the operations of MidAmerican through its investments in common and convertible preferred stock of MidAmerican, which together possessed 9.7% of the voting rights and 83.4% (80.5% diluted) of the economic rights of MidAmerican. The convertible preferred stock, although generally non-voting, was substantially an identical subordinate interest to a share of common stock and economically equivalent to common stock. Therefore, during that period, Berkshire accounted for its investments in MidAmerican pursuant to the equity method. An unaudited pro forma balance sheet as of December 31, 2005 is included on the face of the accompanying Consolidated Balance Sheets reflecting the consolidation of MidAmerican. Walter Scott, Jr., a member of Berkshire's Board of Directors, controlled approximately 86% of the voting interest in MidAmerican at December 31, 2005. As a result of Berkshire's conversion of its preferred stock to voting common stock, at December 31, 2006, Mr. Scott's voting interest has been reduced to 11%.

(2) Investments in MidAmerican Energy Holdings Company *(Continued)*

A condensed consolidated balance sheet as of December 31, 2005 and condensed statements of earnings for the years ending December 31, 2005 and 2004 of MidAmerican are as follows (in millions).

Assets		Liabilities and shareholders' equity	
Property, plant and equipment, net	$11,915	Debt, except debt owed to Berkshire	$10,296
Goodwill	4,156	Debt owed to Berkshire	1,289
Other assets	4,122	Other liabilities and minority interests	5,223
	$20,193		16,808
		Shareholders' equity	3,385
			$20,193

	2005	2004
Operating revenue and other income	$7,279	$6,727
Costs and expenses:		
Cost of sales and operating expenses	5,586	5,028
Interest expense – debt held by Berkshire	157	170
Other interest expense	717	713
	6,460	5,911
Earnings before taxes	819	816
Income taxes and minority interests	261	278
Earnings from continuing operations	558	538
Gain (loss) on discontinued operations	5	(368) *
Net earnings	$ 563	$ 170

* *On September 10, 2004, MidAmerican's management decided to cease operations of mineral extraction facilities installed near certain geothermal energy generation sites ("the Project") at which proprietary processes were used to extract zinc from geothermal brine and fluids. MidAmerican's management concluded that the Project could not become commercially viable. Consequently, a non-cash impairment charge of approximately $340 million, after tax, was recorded to write-down assets of the Project, rights to quantities of extractable minerals and allocated goodwill to estimated net realizable value.*

(3) Significant business acquisitions

Berkshire's long-held acquisition strategy is to purchase businesses with consistent earning power, good returns on equity and able and honest management at sensible prices. During the last three years, Berkshire acquired several businesses which are described in the following paragraphs.

On June 30, 2005, Berkshire acquired Medical Protective Corporation ("MedPro") from GE Insurance Solutions. MedPro is one of the nation's premier professional liability insurers for physicians, dentists and other primary health care providers. On August 31, 2005, Berkshire acquired Forest River, Inc., ("Forest River") a leading manufacturer of leisure vehicles in the U.S. Forest River manufactures a complete line of motorized and towable recreational vehicles, utility trailers, buses, boats and manufactured houses. Operating results of MedPro and Forest River are consolidated with Berkshire's results beginning as of July 1, 2005 and September 1, 2005, respectively. Inclusion of MedPro's and Forest River's results as of the beginning of 2004 would not have materially impacted Berkshire's consolidated results of operations as reported. Aggregate consideration paid for all business acquisitions completed during 2005, including smaller acquisitions directed by certain Berkshire subsidiaries, was $2.4 billion.

On February 28, 2006, Berkshire acquired Business Wire, a leading global distributor of corporate news, multimedia and regulatory filings. On March 21, 2006, PacifiCorp, a regulated electric utility providing service to customers in six Western states, was acquired for approximately $5.1 billion in cash. On May 19, 2006, Berkshire acquired 85% of Applied Underwriters ("Applied"), an industry leader in integrated workers' compensation solutions. Under certain conditions, existing minority shareholders of Applied may acquire up to an additional 4% interest in Applied from Berkshire.

On July 5, 2006, Berkshire acquired 80% of the Iscar Metalworking Companies ("IMC") for cash in a transaction that valued IMC at $5 billion. IMC, headquartered in Israel, is an industry leader in the metal cutting tools business through its Iscar, TaeguTec, Ingersoll and other IMC companies. IMC provides a comprehensive range of tools for the full scope of metalworking applications. IMC's products are manufactured through a global network of world-class, technologically advanced manufacturing facilities located in Israel, Korea, the United States, Brazil, China, Germany, India, Italy and Japan, and are sold through subsidiary offices and agents located in 61 major industrial countries worldwide. On August 2, 2006, Berkshire acquired Russell Corporation, a leading branded athletic apparel and sporting goods company for cash of approximately $600 million.

(3) Significant business acquisitions *(Continued)*

The results of operations for each of these businesses are included in Berkshire's consolidated results from the effective date of each acquisition. The following table sets forth certain unaudited pro forma consolidated earnings data for 2006 and 2005, as if each acquisition that was completed during 2005 and 2006 was consummated on the same terms at the beginning of each year. The earnings data for 2005 also reflects the pro forma consolidation of MidAmerican. Amounts are in millions, except per share amounts.

	2006	2005
Total revenues	$100,992	$95,836
Net earnings	11,107	8,624
Earnings per equivalent Class A common share	7,204	5,601

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for PacifiCorp and IMC (in millions).

	PacifiCorp	IMC
Property, plant and equipment	$10,051	$ 606
Goodwill	1,118	2,072
Other assets	3,087	1,988
Assets acquired	14,256	4,666
Accounts payable, accruals and other liabilities	4,969	263
Notes payable and other borrowings	4,167	153
Minority interests	—	248
Liabilities assumed and minority interests	9,136	664
Net assets acquired	$ 5,120	$ 4,002

In December 2006, Berkshire agreed to acquire TTI, Inc., a privately held electronic component distributor headquartered in Fort Worth, Texas. TTI, Inc. is the largest distributor specialist of passive, interconnect electromechanical components. The acquisition is expected to be completed in the first quarter of 2007.

(4) Loans and receivables

Receivables of insurance and other businesses are comprised of the following (in millions).

	December 31, 2006	December 31, 2005
Insurance premiums receivable	$ 4,418	$ 4,406
Reinsurance recoverables	2,961	2,990
Trade and other receivables	5,884	5,340
Allowances for uncollectible accounts	(382)	(339)
	$12,881	$12,397

Loans and finance receivables of finance and financial products businesses are comprised of the following (in millions).

	December 31, 2006	December 31, 2005
Consumer installment loans and finance receivables	$10,325	$ 9,792
Commercial loans and finance receivables	1,336	1,481
Allowances for uncollectible loans	(163)	(186)
	$11,498	$11,087

Allowances for uncollectible loans primarily relate to consumer installment loans. Provisions for consumer loan losses were $210 million in 2006 and $232 million in 2005. Loan charge-offs were $243 million in 2006 and $110 million in 2005. Consumer loan amounts are net of acquisition discounts of $484 million at December 31, 2006 and $579 million at December 31, 2005.

(5) Investments in fixed maturity securities

Investments in securities with fixed maturities as of December 31, 2006 and 2005 are shown below (in millions).

December 31, 2006	*Amortized Cost*	*Unrealized Gains*	*Unrealized Losses **	*Fair Value*
Insurance and other:				
U.S. Treasury, U.S. government corporations and agencies	$ 4,962	$ 12	$ (14)	$ 4,960
States, municipalities and political subdivisions	2,967	71	(15)	3,023
Foreign governments	8,444	51	(79)	8,416
Corporate bonds and redeemable preferred stocks	5,468	1,467	(17)	6,918
Mortgage-backed securities	1,955	35	(7)	1,983
	$23,796	$1,636	$ (132)	$25,300
Finance and financial products:				
Corporate bonds	$ 305	$ 70	$ —	$ 375
Mortgage-backed securities	1,134	32	(4)	1,162
	$ 1,439	$ 102	$ (4)	$ 1,537
Mortgage-backed securities, held-to-maturity	$ 1,475	$ 153	$ (1)	$ 1,627

* *Includes gross unrealized losses of $69 million related to securities that have been in an unrealized loss position for 12 months or more. Such losses are believed to be the result of general interest rate increases.*

December 31, 2005	*Amortized Cost*	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Insurance and other:				
U.S. Treasury, U.S. government corporations and agencies	$ 7,660	$ 13	$ (28)	$ 7,645
States, municipalities and political subdivisions	4,243	104	(14)	4,333
Foreign governments	6,884	105	(28)	6,961
Corporate bonds and redeemable preferred stocks	5,492	1,492	(15)	6,969
Mortgage-backed securities	1,472	45	(5)	1,512
	$25,751	$1,759	$ (90)	$27,420
Finance and financial products:				
U.S. Treasury and foreign governments	$ 114	$ —	$ —	$ 114
Corporate bonds	348	62	—	410
Mortgage-backed securities	1,425	44	(2)	1,467
	$ 1,887	$ 106	$ (2)	$ 1,991
Mortgage-backed securities, held-to-maturity	$ 1,444	$ 181	$ (1)	$ 1,624

The amortized cost and estimated fair values of securities with fixed maturities at December 31, 2006 are summarized below by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in millions.

	Due 2007	*Due 2008 – 2011*	*Due 2012 – 2016*	*Due after 2016*	*Mortgage-backed securities*	*Total*
Amortized cost	$8,314	$9,099	$2,575	$2,158	$4,564	$26,710
Fair value	8,493	9,531	2,713	2,955	4,772	28,464

(6) Investments in equity securities

Investments in equity securities are summarized below. Amounts are in millions.

	December 31, 2006	December 31, 2005
Cost	$28,353	$21,339
Gross unrealized gains	33,217	25,892
Gross unrealized losses	(37)	(510)
Fair value	$61,533	$46,721

(7) Investment gains (losses)

Investment gains (losses) are summarized below (in millions).

	2006	2005	2004
Fixed maturity securities —			
Gross gains from sales and other disposals	$ 279	$ 792	$ 883
Gross losses from sales and other disposals	(9)	(23)	(63)
Equity securities —			
Gross gains from sales and other disposals [1]	1,562	5,612	769
Gross losses from sales	(44)	(6)	(1)
Losses from other-than-temporary impairments	(142)	(114)	(19)
Life settlement contracts [2]	92	(82)	(207)
Other investments	73	17	274
	$1,811	$6,196	$1,636

Net gains (losses) are reflected in the Consolidated Statements of Earnings as follows.

	2006	2005	2004
Insurance and other	$1,697	$5,728	$1,746
Finance and financial products	114	468	(110)
	$1,811	$6,196	$1,636

(1) *Gross gains from sales and other disposals of equity securities during 2005 includes a $5.0 billion gain on the exchange of The Gillette Company common shares for common shares of The Procter and Gamble Company.*

(2) *The FASB issued Staff Position No. FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors" ("FTB 85-4-1") in 2006, which provides guidance on the initial and subsequent measurement, financial statement presentation and disclosures for third-party investors in life settlement contracts. Berkshire adopted FTB 85-4-1 as of January 1, 2006, and recorded an after-tax gain of $180 million which is reflected as an increase in retained earnings. Berkshire elected to use the investment method whereby the initial transaction price plus all subsequent direct external costs paid to keep the policy in force are capitalized. Death benefits received are applied against the capitalized costs and the difference is recorded in earnings. Previously, life settlement contracts were valued at the cash surrender value of the underlying insurance policy. During the second quarter of 2006, certain life settlement contracts were disposed of for proceeds of approximately $330 million. Investments in life settlement contracts as of December 31, 2006 were insignificant.*

(8) Goodwill

A reconciliation of the change in the carrying value of goodwill for 2006 and 2005 is as follows (in millions).

	2006	2005
Balance at beginning of year	$23,644	$23,012
Goodwill related to MidAmerican as of January 1, 2006	4,156	—
Acquisitions of businesses and other	4,438	632
Balance at end of year	$32,238	$23,644

The MidAmerican goodwill represents the consolidation of Berkshire's investment in MidAmerican as of January 1, 2006. The increase in goodwill from business acquisitions and other primarily relates to the acquisitions of PacifiCorp and IMC.

(9) Inventories

Inventories are comprised of the following (in millions):

	December 31, 2006	December 31, 2005
Raw materials	$ 700	$ 657
Work in progress and other	402	271
Finished manufactured goods	1,817	1,217
Purchased goods	2,338	1,998
	$ 5,257	$ 4,143

(10) Property, plant and equipment

Property, plant and equipment of insurance and other businesses is comprised of the following (in millions):

	Ranges of estimated useful life	December 31, 2006	December 31, 2005
Land	—	$ 548	$ 361
Buildings and improvements	3 – 40 years	3,203	2,623
Machinery and equipment	3 – 20 years	8,470	6,774
Furniture, fixtures and other	3 – 20 years	1,702	1,649
		13,923	11,407
Accumulated depreciation		(4,620)	(3,907)
		$ 9,303	$ 7,500

(10) Property, plant and equipment *(Continued)*

Property, plant and equipment of utilities and energy businesses is comprised of the following (in millions):

	Ranges of estimated useful life	December 31, 2006	Pro Forma December 31, 2005
Utility generation and distribution system	5-85 years	$27,687	$10,499
Interstate pipeline assets	3-67 years	5,329	5,322
Independent power plants and other assets	3-30 years	1,770	1,861
Construction in progress		1,969	847
		36,755	18,529
Accumulated depreciation and amortization		(12,716)	(6,614)
		$24,039	$11,915

The utility generation and distribution system and interstate pipeline assets are the regulated assets of public utility and natural gas pipeline subsidiaries. At December 31, 2006 and December 31, 2005, accumulated depreciation and amortization related to regulated assets was $11.9 billion and $5.7 billion, respectively. Substantially all of the construction in progress at December 31, 2006 and December 31, 2005 related to the construction of regulated assets.

(11) Derivatives

A summary of the fair value and gross notional value of open derivative contracts of finance and financial products businesses follows. Amounts are in millions.

	December 31, 2006			December 31, 2005		
	Assets	Liabilities	Notional Value	Assets	Liabilities	Notional Value
Credit default obligations	$ —	$ 952	$ 2,510	$ —	$ 1,609	$ 2,871
Equity options	16	2,463	21,396	35	1,592	14,488
Foreign currency forwards	—	23	1,057	12	243	13,760
Foreign currency options	40	36	1,094	117	241	2,072
Interest rate and foreign currency swaps	632	473	10,851	977	1,533	41,070
Interest rate options	13	13	3,085	164	347	12,033
	701	3,960		1,305	5,565	
Adjustment for counterparty netting	(77)	(77)		(504)	(504)	
Derivative contract assets and liabilities	$ 624	$ 3,883		$ 801	$ 5,061	

Berkshire utilizes derivatives in order to manage certain economic risks of its businesses as well as to assume specified amounts of market risk from others. The contracts summarized in the preceding table, with limited exceptions, are not designated as hedges for financial reporting purposes. Changes in the fair values of derivative assets and derivative liabilities that do not qualify as hedges are reported in the Consolidated Statements of Earnings as derivative gains/losses. Since January 2002, the operations of General Re Securities ("GRS") have been in run-off. As of December 31, 2006, substantially all of GRS's derivative risks (as measured by the gross notional value) that existed as of the commencement of the run-off have been liquidated.

Master netting agreements are utilized to manage counterparty credit risk, where gains and losses are netted across other contracts with that counterparty. In addition, Berkshire may receive cash or securities from counterparties as collateral. Likewise, Berkshire may be required to post cash or securities as collateral with counterparties under similar circumstances. At December 31, 2006, Berkshire held collateral with a fair value of $338 million, including cash of $314 million to secure open contract assets. At December 31, 2006, Berkshire had posted no collateral with counterparties as security on contract liabilities. Berkshire may be required to post collateral to cover derivative liabilities in the event of a downgrade of its credit rating below specified levels. Assuming non-performance by all counterparties on all contracts potentially subject to a credit loss, the maximum potential receivable loss, net of collateral held, at December 31, 2006 approximated $274 million.

Berkshire is also exposed to variations in the market prices of natural gas and electricity as a result of its regulated utility operations and uses derivative instruments, including forward purchases and sales, futures, swaps and options to manage these commodity price risks. Derivative instruments are recorded in the Consolidated Balance Sheets at fair value as either assets or liabilities unless they are designated as and qualify for normal purchases and normal sales exemptions under GAAP. The majority of these contracts are either probable of recovery in rates and therefore recorded as a regulatory net asset or liability or are accounted for as cash flow hedges and therefore recorded as accumulated other comprehensive income. Accordingly, amounts are generally not recognized in earnings until the contracts are settled.

(11) Derivatives *(Continued)*

Fair values and gross notional values of open derivative contracts of utilities and energy businesses as of December 31, 2006 follow (in millions).

	Assets	Liabilities	Notional Value
Energy derivatives	$ 467	$ 740	*
Interest rate and foreign currency swaps	17	149	$2,123
	$ 484	$ 889	

* *Notional values associated with commodity and weather-related derivatives are not presented due to the unique units of measure pertinent to such contracts. Notional values for commodity and weather contracts are not stated in terms of dollars.*

(12) Unpaid losses and loss adjustment expenses

The balances of unpaid losses and loss adjustment expenses are based upon estimates of the ultimate claim costs associated with property and casualty claim occurrences as of the balance sheet dates including estimates for incurred but not reported ("IBNR") claims. Considerable judgment is required to evaluate claims and establish estimated claim liabilities.

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

	2006	*2005*	*2004*
Unpaid losses and loss adjustment expenses:			
Gross liabilities at beginning of year	$48,034	$45,219	$45,393
Ceded losses and deferred charges at beginning of year	(5,200)	(5,132)	(5,684)
Net balance at beginning of year	42,834	40,087	39,709
Incurred losses recorded during the year:			
Current accident year	13,680	15,839	13,043
All prior accident years	(612)	(357)	419
Total incurred losses	13,068	15,482	13,462
Payments during the year with respect to:			
Current accident year	(5,510)	(5,514)	(4,746)
All prior accident years	(9,345)	(7,793)	(8,828)
Total payments	(14,855)	(13,307)	(13,574)
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	41,047	42,262	39,597
Ceded losses and deferred charges at end of year	4,833	5,200	5,132
Foreign currency translation adjustment	608	(728)	490
Acquisitions	1,124	1,300	—
Gross liabilities at end of year	$47,612	$48,034	$45,219

Incurred losses "all prior accident years" reflects the amount of estimation error charged or credited to earnings in each calendar year with respect to the liabilities established as of the beginning of that year. The beginning of the year net loss and loss adjustment expense liability was reduced by $1,071 million in 2006, $743 million in 2005 and $119 million in 2004. In both 2005 and 2006, the reductions in loss estimates for occurrences in prior years were primarily due to lower than expected frequencies and severities on reported and settled claims in the primary private passenger and commercial auto lines and lower than expected general liability losses. In 2006 and 2005, developed frequencies were generally more favorable than originally expected, particularly for liability coverages and claim severity increases were generally less than originally estimated. In addition, in 2006 prior years loss estimates were reduced for certain casualty reinsurance claims as a result of lower than expected losses reported during the year. Accident year loss estimates are regularly adjusted to consider emerging loss development patterns of prior years losses, whether favorable or unfavorable.

Prior accident years incurred losses also include amortization of deferred charges related to retroactive reinsurance contracts incepting prior to the beginning of the year. Amortization charges included in prior accident years losses were $358 million in 2006, $294 million in 2005 and $451 million in 2004. Certain workers' compensation reserves are discounted. Net discounted liabilities at December 31, 2006 and 2005 were $2,705 million and $2,434 million, respectively, reflecting net discounts of $2,793 million and $2,798 million, respectively. Periodic accretions of these discounts are also a component of prior years losses incurred. The accretion of discounted liabilities was approximately $101 million in 2006, $92 million in 2005 and $87 million in 2004.

Berkshire's insurance subsidiaries are exposed to environmental, asbestos and other latent injury claims arising from insurance and reinsurance contracts. Loss reserve estimates for environmental and asbestos exposures include case basis reserves and also reflect reserves for legal and other loss adjustment expenses and IBNR reserves. IBNR reserves are determined based upon Berkshire's historic general liability exposure base and policy language, previous environmental loss experience and the assessment of current trends of environmental law, environmental cleanup costs, asbestos liability law and judgmental settlements of asbestos liabilities.

The liabilities for environmental, asbestos and latent injury claims and claims expenses net of reinsurance recoverables were approximately $5.1 billion at December 31, 2006 and $5.4 billion at December 31, 2005. These liabilities include $3.8 billion at December 31, 2006 and $4.0 billion at December 31, 2005, of liabilities assumed under retroactive reinsurance contracts. Liabilities

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

arising from retroactive contracts with exposure to claims of this nature are generally subject to aggregate policy limits. Thus, Berkshire's exposure to environmental and latent injury claims under these contracts is, likewise, limited. Berkshire monitors evolving case law and its effect on environmental and latent injury claims. Changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could result in significant increases in these liabilities. Such development could be material to Berkshire's results of operations. It is not possible to reliably estimate the amount of additional net loss or the range of net loss that is reasonably possible.

(13) Notes payable and other borrowings

Notes payable and other borrowings of Berkshire and its subsidiaries are summarized below. Amounts are in millions.

	December 31, 2006	December 31, 2005
Insurance and other:		
Issued by parent company due 2007-2033	$ 894	$ 992
Issued by subsidiaries and guaranteed by Berkshire:		
Commercial paper and other short-term borrowings	1,355	1,381
Other debt due 2009-2035	240	315
Issued by subsidiaries and not guaranteed by Berkshire due 2007-2041	1,209	895
	$ 3,698	$ 3,583
Utilities and energy *:		
Issued by MidAmerican and its subsidiaries and not guaranteed by Berkshire:		
MidAmerican senior unsecured debt due 2007-2036	$ 4,479	$ 2,776
Operating subsidiary and project debt due 2007-2036	12,014	7,169
Other	453	351
	$16,946	$10,296
Finance and financial products:		
Issued by Berkshire Hathaway Finance Corporation and guaranteed by Berkshire:		
Notes due 2007	$ 700	$ 700
Notes due 2008	3,098	3,095
Notes due 2010	1,994	1,992
Notes due 2012-2015	3,039	3,038
Issued by other subsidiaries and guaranteed by Berkshire due 2007-2027	398	417
Issued by other subsidiaries and not guaranteed by Berkshire due 2007-2030	2,732	1,626
	$11,961	$10,868

* *Amounts as of December 31, 2005 are pro forma.*

Parent company debt includes several individual investment agreement borrowings under which Berkshire is required to periodically pay interest over the contract terms. The weighted average interest rate on amounts outstanding as of December 31, 2006 was 3.2%. Under certain conditions, principal amounts may be redeemed without premium prior to the contractual maturity date at the option of the counterparties. Parent company debt also includes $334 million principal amount of senior notes associated with SQUARZ securities issued in 2002. When issued, each SQUARZ security consisted of a 3% senior note due in November 2007 together with a warrant which expires in May 2007. The warrant permits each holder the right to purchase either 0.1116 shares of Class A common stock (effectively at $89,606 per share) or 3.3480 shares of Class B common stock (effectively at $2,987 per share) for $10,000. A warrant premium is payable to Berkshire at an annual rate of 3.75%.

Commercial paper and other short-term borrowings are utilized by certain subsidiaries as part of normal operations. Weighted average interest rates as of December 31, 2006 and 2005 were 5.4% and 4.4%, respectively. Berkshire subsidiaries have approximately $4.2 billion of available unused lines of credit and commercial paper capacity to support their short-term borrowing programs and provide additional liquidity.

Operating subsidiary and project debt of utilities and energy businesses represents amounts issued by subsidiaries of MidAmerican pursuant to separate project financing agreements. All or substantially all of the assets of certain utility subsidiaries are or may be pledged or encumbered to support or otherwise provide security. These borrowing arrangements generally contain various covenants including, but not limited to, leverage ratios, interest coverage ratios and debt service coverage ratios. As of December 31, 2006, MidAmerican and its subsidiaries were in compliance with all applicable covenants.

(13) Notes payable and other borrowings *(Continued)*

Berkshire Hathaway Finance Corporation ("BHFC"), a wholly-owned subsidiary of Berkshire, issued senior notes at various times during the three years ending December 31, 2005. The proceeds were used in the financing of manufactured housing loan originations and portfolio acquisitions of Clayton Homes. During the fourth quarter of 2006, Clayton Homes borrowed approximately $1.3 billion whereby all principal and interest collected under certain manufactured housing loan portfolios, together with any repurchased principal on such loans will be used to pay the principal and interest on these borrowings. The expected weighted average life of the borrowings is approximately eight years. The proceeds from these borrowings which are not guaranteed by Berkshire will be used to repay certain debt of BHFC.

Generally, Berkshire's guarantee of a subsidiary's debt obligation is an absolute, unconditional and irrevocable guarantee for the full and prompt payment when due of all present and future payment obligations of the issuer.

Principal payments expected during the next five years are as follows (in millions).

	2007	*2008*	*2009*	*2010*	*2011*
Insurance and other	$2,229	$ 13	$ 295	$ 61	$ 10
Utilities and energy	1,655	1,975	431	136	1,139
Finance and financial products	1,271	3,645	213	2,172	131
	$5,155	$5,633	$ 939	$2,369	$1,280

(14) Income taxes

The liability for income taxes as of December 31, 2006 and 2005 as reflected in the accompanying Consolidated Balance Sheets is as follows (in millions).

	2006	*2005*
Payable currently	$ 189	$ 258
Deferred	18,271	11,994
	$18,460	$12,252

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2006 and 2005 are shown below (in millions).

	2006	*2005*
Deferred tax liabilities:		
Investments – unrealized appreciation; basis differences	$14,520	$11,882
Deferred charges reinsurance assumed	687	828
Property, plant and equipment	4,775	1,202
Other	2,591	1,165
	22,573	15,077
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(681)	(867)
Unearned premiums	(443)	(403)
Accrued liabilities	(1,335)	(815)
Other	(1,843)	(998)
	(4,302)	(3,083)
Net deferred tax liability	$18,271	$11,994

Deferred income taxes have not been established with respect to undistributed earnings of certain foreign subsidiaries. Earnings expected to remain reinvested indefinitely was approximately $1,762 million as of December 31, 2006. Upon distribution as dividends or otherwise, such amounts would be subject to taxation in the United States as well as foreign countries. However, U.S. income tax liabilities could be offset, in whole or in part, by tax credits allowable from taxes paid to foreign jurisdictions. Determination of the potential net tax due is impracticable due to the complexities of hypothetical calculations involving uncertain timing and amounts of taxable income and the effects of multiple taxing jurisdictions.

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

	2006	*2005*	*2004*
Federal	$ 4,752	$ 3,736	$ 3,313
State	153	129	108
Foreign	600	294	148
	$ 5,505	$ 4,159	$ 3,569
Current	$ 5,030	$ 2,057	$ 3,746
Deferred	475	2,102	(177)
	$ 5,505	$ 4,159	$ 3,569

(14) Income taxes *(Continued)*

Berkshire and its subsidiaries' income tax returns are continuously under audit by Federal and various local and international taxing authorities. Berkshire's consolidated Federal income tax return liabilities have been settled with the Internal Revenue Service through 1998. Berkshire has received approximately $50 million in income tax refunds and interest with respect to certain issues in its Federal income tax returns dating back to 1988 that were litigated and for which a favorable ruling from the U.S. District Court was received in the fourth quarter of 2005. Berkshire does not currently believe that the impact of potential future audit adjustments will have a material effect on its Consolidated Financial Statements.

Charges for income taxes are reconciled to hypothetical amounts computed at the U.S. Federal statutory rate in the table shown below (in millions).

	2006	*2005*	*2004*
Earnings before income taxes	$16,778	$12,791	$10,936
Hypothetical amounts applicable to above computed at the Federal statutory rate	$ 5,872	$ 4,477	$ 3,828
Tax effects resulting from:			
Tax-exempt interest income	(44)	(65)	(59)
Dividends received deduction	(224)	(133)	(116)
Net earnings of MidAmerican	—	(183)	(83)
State income taxes, less Federal income tax benefit	99	84	70
Foreign rate differences	(45)	56	(41)
Other differences, net	(153)	(77)	(30)
Total income taxes	$ 5,505	$ 4,159	$ 3,569

(15) Dividend restrictions – Insurance subsidiaries

Payments of dividends by insurance subsidiaries are restricted by insurance statutes and regulations. Without prior regulatory approval, insurance subsidiaries may declare up to approximately $6.4 billion as ordinary dividends before the end of 2007.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $59 billion at December 31, 2006 and $52 billion at December 31, 2005.

Statutory surplus differs from the corresponding amount determined on the basis of GAAP. The major differences between statutory basis accounting and GAAP are that deferred charges reinsurance assumed, deferred policy acquisition costs, unrealized gains and losses on investments in fixed maturity securities and related deferred income taxes are recognized under GAAP but not for statutory reporting purposes. In addition, statutory accounting for goodwill of acquired businesses requires amortization of goodwill over 10 years, whereas under GAAP, goodwill is subject to periodic tests for impairment.

(16) Fair values of financial instruments

The estimated fair values of Berkshire's financial instruments as of December 31, 2006 and 2005 are as follows (in millions).

	Carrying Value		*Fair Value*	
	2006	*2005*	*2006*	*2005*
Insurance and other:				
Investments in fixed maturity securities	$25,300	$27,420	$25,300	$27,420
Investments in equity securities	61,533	46,721	61,533	46,721
Notes payable and other borrowings	3,698	3,583	3,815	3,653
Finance and financial products:				
Investments in fixed maturity securities	3,012	3,435	3,164	3,615
Derivative contract assets *(a)*	624	801	624	801
Loans and finance receivables	11,498	11,087	11,862	11,370
Notes payable and other borrowings	11,961	10,868	11,787	10,865
Derivative contract liabilities	3,883	5,061	3,883	5,061
Utilities and energy:				
Investments *(a)*	1,046	—	1,041	—
Derivative contract assets *(a)*	484	—	484	—
Notes payable and other borrowings	16,946	—	17,789	—
Derivative contract liabilities *(b)*	889	—	889	—

(a) Included in Other assets

(b) Included in Accounts payable, accruals and other liabilities

In determining fair value of financial instruments, Berkshire used quoted market prices when available. For instruments where quoted market prices were not available, independent pricing services or appraisals by Berkshire's management were used. Those

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

services and appraisals reflected the estimated present values utilizing current risk adjusted market rates of similar instruments. The carrying values of cash and cash equivalents, accounts receivable and payable, other accruals, securities sold under agreements to repurchase and other liabilities are deemed to be reasonable estimates of their fair values.

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

(17) Common stock

Changes in issued and outstanding Berkshire common stock during the three years ended December 31, 2006 are shown in the table below.

	Class A Common, $5 Par Value (1,650,000 shares authorized) Shares Issued and Outstanding	*Class B Common, $0.1667 Par Value (55,000,000 shares authorized) Shares Issued and Outstanding*
Balance December 31, 2003	1,282,979	7,609,543
Conversions of Class A common stock to Class B common stock and other	(14,196)	489,632
Balance December 31, 2004	1,268,783	8,099,175
Conversions of Class A common stock to Class B common stock and other	(7,863)	294,908
Balance December 31, 2005	1,260,920	8,394,083
Conversions of Class A common stock to Class B common stock and other	(143,352)	4,358,348
Balance December 31, 2006	1,117,568	12,752,431

Each share of Class B common stock has dividend and distribution rights equal to one-thirtieth (1/30) of such rights of a Class A share. Accordingly, on an equivalent Class A common stock basis there are 1,542,649 shares outstanding as of December 31, 2006 and 1,540,723 shares as of December 31, 2005.

Each share of Class A common stock is convertible, at the option of the holder, into thirty shares of Class B common stock. Class B common stock is not convertible into Class A common stock. On July 6, 2006, Berkshire's Chairman and CEO, Warren E. Buffett converted 124,998 shares of Class A common stock into 3,749,940 shares of Class B common stock. Each share of Class B common stock possesses voting rights equivalent to one-two-hundredth (1/200) of the voting rights of a share of Class A common stock. Class A and Class B common shares vote together as a single class.

(18) Pension plans

Several Berkshire subsidiaries individually sponsor defined benefit pension plans covering certain employees. Benefits under the plans are generally based on years of service and compensation, although benefits under certain plans are based on years of service and fixed benefit rates. The companies generally contribute to the plans amounts required to meet regulatory requirements plus additional amounts determined by management based on actuarial valuations. The measurement date for the pension plans is predominantly December 31.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires an employer to recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan. SFAS No. 158 also requires entities to recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that arise during the period, but are not recognized as components of net periodic benefit cost of the period pursuant to SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." Berkshire adopted the recognition and related disclosure provisions of SFAS No. 158 as of December 31, 2006. The incremental impact to the accompanying Consolidated Balance Sheet of such adoption is as follows (in millions).

	Before SFAS No. 158	Adjustments	After SFAS No. 158
Other assets [1]	$ 17,086	$ (322)	$ 16,764
Total assets	248,759	(322)	248,437
Accounts payable, accruals and other liabilities [2]	20,465	135	20,600
Income taxes, principally deferred	18,614	(154)	18,460
Total liabilities	137,775	(19)	137,756
Accumulated other comprehensive income	23,280	(303)	22,977
Total shareholders' equity	108,722	(303)	108,419
Total liabilities and shareholders' equity	248,759	(322)	248,437

(1) *Consists of $126 million related to Insurance and Other and ($448) million related to Utilities and Energy businesses.*

(2) *Consists of $30 million related to Insurance and Other and $105 million related to Utilities and Energy businesses.*

(18) Pension plans *(Continued)*

The components of net periodic pension expense for each of the three years ending December 31, 2006 are as follows (in millions).

	2006	2005	2004
Service cost	$ 199	$ 113	$ 109
Interest cost	390	190	189
Expected return on plan assets	(393)	(186)	(171)
Curtailment gain	—	—	(70)
Net amortization, deferral and other	67	9	13
Net pension expense	$ 263	$ 126	$ 70

In 2004, a Berkshire subsidiary amended its defined benefit plan to freeze benefits. Such an event is considered a curtailment and the curtailment gain included in the table above represents the elimination of projected plan benefits and the recognition of unamortized prior service costs and actuarial losses as of the amendment date.

The accumulated benefit obligation is the actuarial present value of benefits earned based on service and compensation prior to the valuation date. The projected benefit obligation is the actuarial present value of benefits earned based upon service and compensation prior to the valuation date and includes assumptions regarding future compensation levels when benefits are based on those amounts. Information regarding accumulated and projected benefit obligations is shown in the table that follows (in millions).

	2006	2005
Projected benefit obligation, beginning of year	$3,602	$3,293
Service cost	199	113
Interest cost	390	190
Benefits paid	(370)	(171)
Consolidation of MidAmerican	2,237	—
Business acquisitions	1,519	—
Actuarial loss and other	349	177
Projected benefit obligation, end of year	$7,926	$3,602
Accumulated benefit obligation, end of year	$7,056	$3,228

Benefit obligations under qualified U.S. defined benefit plans are funded through assets held in trusts and are not included as assets in Berkshire's Consolidated Financial Statements. Pension obligations under certain non-U.S. plans and non-qualified U.S. plans are unfunded. As of December 31, 2006, projected benefit obligations of non-qualified U.S. plans and non-U.S. plans which are not funded through assets held in trusts were $569 million. A reconciliation of the changes in plan assets and a summary of plan assets held as of December 31, 2006 and 2005 is presented in the table that follows (in millions).

	2006	2005
Plan assets at fair value, beginning of year	$3,101	$3,039
Employer contributions	228	104
Benefits paid	(370)	(171)
Actual return on plan assets	612	119
Consolidation of MidAmerican	2,238	—
Business acquisitions	967	—
Other and expenses	16	10
Plan assets at fair value, end of year	$6,792	$3,101

	2006	2005
Cash and equivalents	$ 818	$ 942
U.S. Government obligations	554	1,103
Mortgage-backed securities	602	259
Corporate obligations	963	382
Equity securities	3,440	391
Other	415	24
	$6,792	$3,101

Pension plan assets are generally invested with the long-term objective of earning sufficient amounts to cover expected benefit obligations, while assuming a prudent level of risk. There are no target investment allocation percentages with respect to individual or categories of investments. Allocations may change rapidly as a result of changing market conditions and investment opportunities. The expected rates of return on plan assets reflect Berkshire's subjective assessment of expected invested asset returns over a period of several years. Berkshire does not give significant consideration to past investment returns when establishing assumptions for expected long-term rates of returns on plan assets. Actual experience will differ from the assumed rates, in particular over quarterly or annual periods, as a result of market volatility and changes in the mix of assets.

The total net deficit status for plans (including unfunded plans) with accumulated benefit obligations in excess of plan assets was $836 million and $589 million as of December 31, 2006 and 2005, respectively. Expected contributions to defined benefit pension plans during 2007 are estimated to be $248 million.

(18) Pension plans *(Continued)*

Benefit payments over the next ten years, which reflect expected future service as appropriate, are expected to be paid as follows (in millions): 2007 - $390; 2008 - $399; 2009 - $411; 2010 - $414; 2011 - $432; and 2012 to 2016 - $2,456.

Weighted average interest rate assumptions used in determining projected benefit obligations were as follows. These rates are substantially the same as the weighted average rates used in determining the net periodic pension expense.

	2006	*2005*
Discount rate	5.7	5.7
Expected long-term rate of return on plan assets	6.9	6.4
Rate of compensation increase	4.4	4.4

Many Berkshire subsidiaries sponsor defined contribution retirement plans, such as 401(k) or profit sharing plans. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. Berkshire subsidiaries may match these contributions up to levels specified in the plans, and may make additional discretionary contributions as determined by management. The total expenses related to employer contributions for these plans were $498 million, $395 million and $338 million for the years ended December 31, 2006, 2005 and 2004, respectively.

(19) Supplemental cash flow information

A summary of supplemental cash flow information for each of the three years ending December 31, 2006 is presented in the following table (in millions).

	2006	*2005*	*2004*
Cash paid during the year for:			
Income taxes	$4,959	$2,695	$2,674
Interest of finance and financial products businesses	514	484	495
Interest of utilities and energy businesses	937	—	—
Interest of insurance and other businesses	195	149	146
Non-cash investing and financing activities:			
Liabilities assumed in connection with acquisitions of businesses	12,727	2,163	72
Fixed maturity securities sold offset by decrease in directly related repurchase agreements	460	4,693	2,075
Value of equity securities and warrants exchanged for equity securities	—	5,877	585

(20) Business segment data

Berkshire's reportable business segments are organized in a manner that reflects how management views those business activities. Certain businesses have been grouped together for segment reporting based upon similar products or product lines, marketing, selling and distribution characteristics, even though those business units are operated under separate local management. There are over 40 separate business units.

The tabular information that follows shows data of reportable segments reconciled to amounts reflected in the Consolidated Financial Statements. Intersegment transactions are not eliminated in instances where management considers those transactions in assessing the results of the respective segments. Furthermore, Berkshire management does not consider investment and derivative gains/losses or amortization of purchase accounting adjustments in assessing the performance of reporting units. Collectively, these items are included in reconciliations of segment amounts to consolidated amounts.

Business Identity	*Business Activity*
GEICO	Underwriting private passenger automobile insurance mainly by direct response methods
General Re	Underwriting excess-of-loss, quota-share and facultative reinsurance worldwide
Berkshire Hathaway Reinsurance Group	Underwriting excess-of-loss and quota-share reinsurance for property and casualty insurers and reinsurers
Berkshire Hathaway Primary Group	Underwriting multiple lines of property and casualty insurance policies for primarily commercial accounts
BH Finance, Clayton Homes, XTRA, CORT and other financial services ("Finance and financial products")	Proprietary investing, manufactured housing and related consumer financing, transportation equipment leasing, furniture leasing, life annuities and risk management products
McLane Company	Wholesale distribution of groceries and non-food items
MidAmerican	Regulated electric and gas utility, including power generation and distribution activities in the U.S. and internationally; domestic real estate brokerage
Shaw Industries	Manufacturing and distribution of carpet and floor coverings under a variety of brand names

(20) Business segment data

Other businesses not specifically identified with reportable business segments consist of a large, diverse group of manufacturing, service and retailing businesses.

Manufacturing	Acme Building Brands, Benjamin Moore, H.H. Brown Shoe Group, CTB, Fechheimer Brothers, Forest River, Fruit of the Loom, Garan, ISCAR, Johns Manville, Justin Brands, Larson-Juhl, MiTek, Russell and Scott Fetzer
Service	Buffalo News, Business Wire, FlightSafety, International Dairy Queen, Pampered Chef and NetJets
Retailing	Ben Bridge Jeweler, Borsheim's, Helzberg Diamond Shops, Jordan's Furniture, Nebraska Furniture Mart, See's, Star Furniture and R.C. Willey

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

Operating Businesses:	**Revenues**			**Earnings (loss) before taxes and minority interests**		
Insurance group:	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Premiums earned:						
GEICO	$11,055	$10,101	$ 8,915	$ 1,314	$ 1,221	$ 970
General Re	6,075	6,435	7,245	526	(334)	3
Berkshire Hathaway Reinsurance Group	4,976	3,963	3,714	1,658	(1,069)	417
Berkshire Hathaway Primary Group	1,858	1,498	1,211	340	235	161
Investment income	4,347	3,501	2,842	4,316	3,480	2,824
Total insurance group	28,311	25,498	23,927	8,154	3,533	4,375
Finance and financial products *	5,124	4,559	3,774	1,157	822	584
McLane Company	25,693	24,074	23,373	229	217	228
MidAmerican	10,644	—	—	1,476	—	—
Shaw Industries	5,834	5,723	5,174	594	485	466
Other businesses	21,133	17,099	15,595	2,703	1,921	1,787
	96,739	76,953	71,843	14,313	6,978	7,440
Reconciliation of segments to consolidated amount:						
Investment and derivative gains/losses *	2,635	5,494	3,496	2,635	5,494	3,489
Equity in earnings of MidAmerican	—	—	—	—	523	237
Interest expense, not allocated to segments	—	—	—	(76)	(72)	(92)
Eliminations and other	(835)	(784)	(957)	(94)	(132)	(138)
	$98,539	$81,663	$74,382	$16,778	$12,791	$10,936

* *Investment and derivative gains/losses exclude derivative losses of GRS of $86 million and $25 million in 2005 and 2004, respectively. The GRS derivative losses have been included in the results of the finance and financial products segment.*

Operating Businesses:	**Capital expenditures ***			**Depreciation of tangible assets**		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*
Insurance group	$ 65	$ 60	$ 52	$ 64	$ 62	$ 52
Finance and financial products	334	354	373	230	221	213
McLane Company	193	125	136	94	96	107
MidAmerican	2,423	—	—	949	—	—
Shaw Industries	189	209	125	134	113	99
Other businesses	1,367	1,447	592	595	490	470
	$4,571	$2,195	$1,278	$2,066	$ 982	$ 941

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

(20) Business segment data *(Continued)*

	Goodwill at year-end		Identifiable assets at year-end	
Operating Businesses:	*2006*	*2005*	*2006*	*2005*
Insurance group:				
GEICO	$ 1,370	$ 1,370	$ 18,544	$ 18,262
General Re	13,532	13,476	31,114	30,564
Berkshire Hathaway Reinsurance and Primary Groups	465	290	85,972	78,770
Total insurance group	15,367	15,136	135,630	127,596
Finance and financial products	1,012	951	23,599	23,573
McLane Company	158	158	2,986	2,803
MidAmerican	5,548	—	30,942	—
Shaw Industries	2,228	2,228	2,776	2,718
Other businesses	7,925	5,171	17,571	12,418
	$32,238	$23,644	213,504	169,108
Reconciliation of segments to consolidated amount:				
Corporate and other			2,695	1,448
Investments in MidAmerican Energy Holdings Company			—	4,125
Goodwill			32,238	23,644
			$248,437	$198,325

Insurance premiums written by geographic region (based upon the domicile of the insured or reinsured) are summarized below. Dollars are in millions.

	Property/Casualty			*Life/Health*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*
United States	$19,195	$16,228	$14,886	$1,073	$1,147	$1,040
Western Europe	2,576	2,643	3,533	628	578	361
All other	638	760	587	667	578	621
	$22,409	$19,631	$19,006	$2,368	$2,303	$2,022

Consolidated sales and service revenues in 2006, 2005 and 2004 were $51.8 billion, $46.1 billion and $43.2 billion, respectively. Over 90% of such amounts in each year were in the United States with the remainder primarily in Canada and Europe. In 2006, consolidated sales and service revenues included $9.6 billion of sales to Wal-Mart Stores, Inc. which were primarily related to McLane's wholesale distribution business.

Premiums written and earned by Berkshire's property/casualty and life/health insurance businesses are summarized below. Dollars are in millions.

	Property/Casualty			*Life/Health*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*
Premiums Written:						
Direct	$15,729	$13,582	$11,483			
Assumed	7,224	6,788	8,039	$2,476	$2,400	$2,775
Ceded	(544)	(739)	(516)	(108)	(97)	(753)
	$22,409	$19,631	$19,006	$2,368	$2,303	$2,022
Premiums Earned:						
Direct	$15,453	$13,287	$11,301			
Assumed	6,746	7,114	8,278	$2,471	$2,387	$2,769
Ceded	(599)	(699)	(509)	(107)	(92)	(754)
	$21,600	$19,702	$19,070	$2,364	$2,295	$2,015

(21) Contingencies and Commitments

Berkshire and its subsidiaries are parties in a variety of legal actions arising out of the normal course of business. In particular, such legal actions affect Berkshire's insurance and reinsurance businesses. Such litigation generally seeks to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by Berkshire subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. Berkshire does not believe that such normal and routine litigation will have a material effect on its financial condition or results of operations. Berkshire and certain of its subsidiaries are also involved in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines and penalties in substantial amounts and are described below.

a) Governmental Investigations

Berkshire, General Re Corporation ("General Re") and certain of Berkshire's insurance subsidiaries, including General Reinsurance Corporation ("General Reinsurance") and National Indemnity Company ("NICO") have been continuing to cooperate fully with the U.S. Securities and Exchange Commission ("SEC"), the U.S. Department of Justice, the U.S. Attorney for the Eastern District of Virginia and the New York State Attorney General ("NYAG") in their ongoing investigations of non-traditional products. General Re originally received subpoenas from the SEC and NYAG in January 2005. Berkshire, General Re, General Reinsurance and NICO have been providing information to the government relating to transactions between General Reinsurance or NICO (or their respective subsidiaries or affiliates) and other insurers in response to the January 2005 subpoenas and related requests and, in the case of General Reinsurance (or its subsidiaries or affiliates), in response to subpoenas from other U.S. Attorneys conducting investigations relating to certain of these transactions. In particular, Berkshire and General Re have been responding to requests from the government for information relating to certain transactions that may have been accounted for incorrectly by counterparties of General Reinsurance (or its subsidiaries or affiliates). Berkshire understands that the government is evaluating the actions of General Re and its subsidiaries, as well as those of their counterparties, to determine whether General Re or its subsidiaries conspired with others to misstate counterparty financial statements or aided and abetted such misstatements by the counterparties. The government has interviewed a number of current and former officers and employees of General Re and General Reinsurance as well as Berkshire's Chairman and CEO, Warren E. Buffett, in connection with these investigations.

In one case, a transaction initially effected with American International Group ("AIG") in late 2000 (the "AIG Transaction"), AIG has corrected its prior accounting for the transaction on the grounds, as stated in AIG's 2004 10-K, that the transaction was done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer to support reinsurance accounting. General Reinsurance has been named in related civil actions brought against AIG, as described below. As part of their ongoing investigations, governmental authorities have also inquired about the accounting by certain of Berkshire's insurance subsidiaries for certain assumed and ceded finite reinsurance transactions.

In June 2005, John Houldsworth, the former Chief Executive Officer of Cologne Reinsurance Company (Dublin) Limited ("CRD"), a subsidiary of General Re, and Richard Napier, a former Senior Vice President of General Re who had served as an account representative for the AIG account, each pleaded guilty to a federal criminal charge of conspiring with others to misstate certain AIG financial statements in connection with the AIG Transaction and entered into a partial settlement agreement with the SEC with respect to such matters. In addition, Ronald Ferguson, General Re's former Chief Executive Officer, Elizabeth Monrad, General Re's former Chief Financial Officer, Christopher Garand, a former General Reinsurance Senior Vice President and Robert Graham, a former General Reinsurance Senior Vice President and Assistant General Counsel -- are awaiting trial in the U.S. District Court for the District of Connecticut on charges of conspiracy to violate securities laws and to commit mail fraud, securities fraud, making false statements to the SEC and mail fraud in connection with the AIG Transaction. The trial is currently set for December 2007. Each has pleaded not guilty to all charges. Each of these individuals, who had previously received a "Wells" notice in 2005 from the SEC, is also the subject of an SEC enforcement action for allegedly aiding and abetting AIG's violations of the antifraud provisions and other provisions of the federal securities laws in connection with the AIG Transaction. The SEC case is presently stayed. Joseph Brandon, the Chief Executive Officer of General Re, also received a "Wells" notice from the SEC in 2005.

Various state insurance departments have issued subpoenas or otherwise requested that General Reinsurance, NICO and their affiliates provide documents and information relating to non-traditional products. The Office of the Connecticut Attorney General has also issued a subpoena to General Reinsurance for information relating to non-traditional products. General Reinsurance, NICO and their affiliates have been cooperating fully with these subpoenas and requests.

In November 2006, two subsidiaries of General Re, General Reinsurance UK Limited ("Gen Re UK") and Kolnische Ruckversicherungs-Gesellschaft AG ("Cologne Re"), entered into a settlement agreement with the Financial Services Authority ("FSA") with respect to the FSA's previously disclosed investigation of the role of these entities in certain transactions that were alleged to involve no or insufficient risk transfer to be treated for accounting and regulatory purposes as reinsurance. Pursuant to the settlement agreement, Gen Re UK paid the FSA a penalty of $2.3 million.

Cologne Re is also cooperating fully with requests for information and orders to produce documents from the German Federal Financial Supervisory Authority (the "BaFin") regarding the activities of Cologne Re relating to "finite reinsurance" and regarding transactions between Cologne Re or its subsidiaries, including CRD, and certain counterparties. In particular, Cologne Re is cooperating fully with a BaFin order to produce documents received on October 24, 2006. The order stated that it is part of the BaFin's continuing investigation into financial reinsurance agreements and that Cologne Re, and possibly one or more of its senior executives, is suspected of violating legal provisions in regard to such agreements.

In April 2005, the Australian Prudential Regulation Authority ("APRA") announced an investigation involving financial or finite reinsurance transactions by General Reinsurance Australia Limited ("GRA"), a subsidiary of General Reinsurance. An inspector was appointed by APRA under section 52 of the Insurance Act 1973 to conduct an investigation of GRA's financial or finite reinsurance business. GRA and General Reinsurance have cooperated fully with this investigation. The inspector has submitted its final investigative report to APRA.

CRD is also providing information to and cooperating fully with the Irish Financial Services Regulatory Authority in its inquiries regarding the activities of CRD. The Office of the Director of Corporate Enforcement in Ireland is conducting a preliminary evaluation in relation to CRD concerning, in particular, transactions between CRD and AIG. CRD is cooperating fully with this preliminary evaluation.

General Reinsurance is also providing information to and cooperating fully with the Office of the Superintendent of Financial Institutions Canada in its inquiries regarding the activities of General Re and its affiliates relating to "finite reinsurance."

Berkshire cannot at this time predict the outcome of these matters and is unable to estimate a range of possible loss and cannot predict whether or not the outcomes will have a material adverse effect on Berkshire's business or results of operations for at least the quarterly period when these matters are completed or otherwise resolved.

b) Civil Litigation

Litigation Related to ROA

General Reinsurance and several current and former employees, along with numerous other defendants, have been sued in thirteen federal lawsuits involving Reciprocal of America ("ROA") and related entities. Nine are putative class actions initiated by doctors, hospitals and lawyers that purchased insurance through ROA or certain of its Tennessee-based risk retention groups. ROA was a Virginia-based reciprocal insurer and reinsurer of physician, hospital and lawyer professional liability risks. These complaints seek compensatory, treble, and punitive damages in an amount plaintiffs contend is just and reasonable. General Reinsurance is also subject to actions brought by the Virginia Commissioner of Insurance, as Deputy Receiver of ROA, the Tennessee Commissioner of Insurance, as Receiver for purposes of liquidating three Tennessee risk retention groups, a state lawsuit filed by a Missouri-based hospital group that was removed to federal court and another state lawsuit filed by an Alabama doctor that was also removed to federal court. The first of these actions was filed in March 2003 and additional actions were filed in April 2003 through June 2006. In the action filed by the Virginia Commissioner of Insurance, the Commissioner asserts in several of its claims that the alleged damages are believed to exceed $200 million in the aggregate as against all defendants. All of these cases are collectively assigned to the U.S. District Court for the Western District of Tennessee for pretrial proceedings. General Reinsurance filed motions to dismiss all of the claims against it in these cases and, in June 2006, the court granted General Reinsurance's motion to dismiss the complaints of the Virginia and Tennessee receivers. The court granted the Tennessee receiver leave to amend her complaint, and the Tennessee receiver filed her amended complaint on August 7, 2006. General Reinsurance has filed a motion to dismiss the amended complaint in its entirety and awaits a ruling by the court. The Virginia receiver has moved for reconsideration of the dismissal and for leave to amend his complaint. General Reinsurance has filed its opposition to that motion and awaits a ruling by the court. In September 2006, the court also dismissed the complaint filed by the Missouri-based hospital group. The Missouri-based hospital group has filed a motion for reconsideration of the dismissal and for leave to file an amended complaint. General Reinsurance has filed its opposition to that motion and awaits a ruling by the court. The court has also not yet ruled on General Reinsurance's motions to dismiss the complaints of the other plaintiffs. The parties have commenced discovery.

In December 2006, General Reinsurance entered into settlement agreements with respect to two lawsuits filed in Alabama state courts that related to ROA and related entities, and these lawsuits have been dismissed.

Actions related to AIG

General Reinsurance is a defendant in In re American International Group Securities Litigation, Case No. 04-CV-8141-(LTS), United States District Court, Southern District of New York, a putative class action asserted on behalf of investors who purchased publicly-traded securities of AIG between October 1999 and March 2005. The complaint, originally filed in April 2005, asserts various claims against AIG and certain of its officers, directors, investment banks and other parties, including Messrs. Ferguson, Napier and Houldsworth (whom the Complaint defines, together with General Reinsurance, as the "General Re Defendants"). The Complaint alleges that the General Re Defendants violated Section 10(b) of the Securities Exchange Act and Rule 10b-5 in connection with the AIG Transaction. The Complaint seeks damages and other relief in unspecified amounts. General Reinsurance has answered the Complaint, denying liability and asserting various affirmative defenses. Document production has begun, but no other discovery has taken place. No trial date has been scheduled.

A member of the putative class in the litigation described in the preceding paragraph has asserted similar claims against General Re and Mr. Ferguson in a separate complaint, Florida State Board of Administration v. General Re Corporation, et al., Case No. 06-CV-3967, United States District Court, Southern District of New York. The claims against General Re and Mr. Ferguson closely resemble those asserted in the class action. The complaint does not specify the amount of damages sought. General Re has answered the Complaint, denying liability and asserting various affirmative defenses. No trial date has been established. The parties are coordinating discovery and other proceedings among this action, a similar action filed by the same plaintiff against AIG and others, the class action described in the preceding paragraph, and the shareholder derivative actions described in the next paragraph.

(21) Contingencies and Commitments *(Continued)*

On July 27, 2005, General Reinsurance received a Summons and a Verified and Amended Shareholder Derivative Complaint in In re American International Group, Inc. Derivative Litigation, Case No. 04-CV-08406, United States District Court, Southern District of New York. The complaint, brought by several alleged shareholders of AIG, seeks damages, injunctive and declaratory relief against various officers and directors of AIG as well as a variety of individuals and entities with whom AIG did business, relating to a wide variety of allegedly wrongful practices by AIG. The allegations relating to General Reinsurance focus on the AIG Transaction, and the complaint purports to assert causes of action in connection with that transaction for aiding and abetting other defendants' breaches of fiduciary duty and for unjust enrichment. The complaint does not specify the amount of damages or the nature of any other relief sought. In August 2005, General Reinsurance received a Summons and First Amended Consolidated Shareholders' Derivative Complaint in In re American International Group, Inc. Consolidated Derivative Litigation, Case No. 769-N, Delaware Chancery Court. The claims asserted in the Delaware complaint are substantially similar to those asserted in the New York derivative complaint, except that the Delaware complaint makes clear that the plaintiffs are asserting claims against both General Reinsurance and General Re. Proceedings in both the New York derivative suit and the Delaware derivative suit are stayed until March 14, 2007.

FAI/HIH Matter

In December 2003, the Liquidators of both FAI Insurance Limited ("FAI") and HIH Insurance Limited ("HIH") advised GRA and Cologne Re that they intended to assert claims arising from insurance transactions GRA entered into with FAI in May and June 1998. In August 2004, the Liquidators filed claims in the Supreme Court of New South Wales in order to avoid the expiration of a statute of limitations for certain plaintiffs. The focus of the Liquidators' allegations against GRA and Cologne Re are the 1998 transactions GRA entered into with FAI (which was acquired by HIH in 1999). The Liquidators contend, among other things, that GRA and Cologne Re engaged in deceptive conduct that assisted FAI in improperly accounting for such transactions as reinsurance, and that such deception led to HIH's acquisition of FAI and caused various losses to FAI and HIH. The Liquidator of HIH served its Complaint on GRA and Cologne Re in June 2006. The FAI Liquidator has until March 30, 2007 to serve his complaint on GRA and Cologne Re.

Insurance Brokerage Antitrust Litigation

Berkshire, General Re and General Reinsurance are defendants in this multi-district litigation, In Re: Insurance Brokerage Antitrust Litigation, MDL No. 1663 (D.N.J.), in which plaintiffs allege an industry-wide scheme on the part of commercial insurance brokers and insurance companies to defraud a purported class of insurance purchasers through bid-rigging and contingent commission arrangements. The plaintiffs claim that all defendants engaged in a pattern of racketeering activity, in violation of RICO, and that they conspired to restrain trade. They further allege that the broker defendants breached fiduciary duties to the plaintiffs, that the insurer defendants aided and abetted that breach, and that all defendants were unjustly enriched in the process. Plaintiffs seek treble damages in an unspecified amount, together with interest and attorneys fees and expenses. They also seek a declaratory judgment of wrongdoing as well as an injunction against future anticompetitive practices. In November 2006, General Re, General Reinsurance and Berkshire, together with the other defendants, filed motions to dismiss the complaint which are awaiting resolution.

Berkshire has established reserves for certain of the legal proceedings discussed above where it has concluded that the likelihood of an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. For other legal proceedings discussed above, either Berkshire has determined that an unfavorable outcome is reasonably possible but it is unable to estimate a range of possible losses or it is unable to predict the outcome of the matter. Management believes that any liability to the Company that may arise as a result of current pending civil litigation, including the matters discussed above, will not have a material effect on Berkshire's financial condition or results of operations.

c) Commitments

Berkshire subsidiaries lease certain manufacturing, warehouse, retail and office facilities as well as certain equipment. Total rent expense for all leases was $578 million, $432 million and $422 million in 2006, 2005 and 2004, respectively. Minimum rental payments for operating leases having initial or remaining non-cancelable terms in excess of one year are as follows. Amounts are in millions.

2007	*2008*	*2009*	*2010*	*2011*	*After 2011*	*Total*
$503	$420	$337	$255	$198	$601	$2,314

Several of Berkshire's subsidiaries have made long-term commitments to purchase goods and services used in their businesses. The most significant of these relate to NetJets' commitments to purchase up to 483 aircraft through 2015 and MidAmerican's commitments to purchase coal, electricity and natural gas. Commitments under all such subsidiary arrangements are approximately $6.4 billion in 2007, $3.4 billion in 2008, $3.0 billion in 2009, $2.8 billion in 2010, $2.1 billion in 2011 and $7.3 billion after 2011.

(22) Quarterly data

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

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2006				
Revenues	$22,763	$24,185	$25,360	$26,231
Net earnings *	2,313	2,347	2,772	3,583
Net earnings per equivalent Class A common share	1,501	1,522	1,797	2,323
2005				
Revenues	$17,634	$18,128	$20,533	$25,368
Net earnings *	1,363	1,449	586	5,130
Net earnings per equivalent Class A common share	886	941	381	3,330

* *Includes investment and derivative gains/losses, which, for any given period have no predictive value and variations in amount from period to period have no practical analytical value in view of the unrealized appreciation in Berkshire's investment portfolio. Net earnings in the third quarter of 2005 include a pre-tax underwriting loss of $3.0 billion ($1.95 billion after-tax) related to Hurricanes Katrina and Rita which struck the Gulf coast region of the United States. Net earnings in the fourth quarter of 2005 include a non-cash pre-tax gain of $5.0 billion ($3.25 billion after-tax) which arose from the exchange of Gillette common stock for Procter & Gamble common stock. After-tax investment and derivative gains/losses for the periods presented above are as follows (in millions):*

	1st Quarter	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Investment and derivative gains/losses – 2006	*$526*	*$294*	*$174*	*$ 715*
Investment and derivative gains/losses – 2005	*(77)*	*(160)*	*480*	*3,287*

BERKSHIRE HATHAWAY INC.
and Subsidiaries
Selected Financial Data for the Past Five Years
(dollars in millions except per share data)

	2006	2005	2004	2003	2002
Revenues:					
Insurance premiums earned	$23,964	$21,997	$21,085	$21,493	$19,182
Sales and service revenues	51,803	46,138	43,222	32,098	16,958
Revenues of utilities and energy businesses (1)	10,644	—	—	—	—
Interest, dividend and other investment income	4,382	3,487	2,816	3,098	2,943
Interest and other revenues of finance and financial products businesses	5,111	4,633	3,788	3,087	2,314
Investment and derivative gains/losses (2)	2,635	5,408	3,471	4,083	838
Total revenues	$98,539	$81,663	$74,382	$63,859	$42,235
Earnings:					
Net earnings (2) (3)	$11,015	$ 8,528	$ 7,308	$ 8,151	$ 4,286
Net earnings per share	$ 7,144	$ 5,538	$ 4,753	$ 5,309	$ 2,795
Year-end data:					
Total assets	$248,437	$198,325	$188,874	$180,559	$169,544
Notes payable and other borrowings of insurance and other non-finance businesses	3,698	3,583	3,450	4,182	4,775
Notes payable and other borrowings of utilities and energy businesses (1)	16,946	—	—	—	—
Notes payable and other borrowings of finance and financial products businesses	11,961	10,868	5,387	4,937	4,513
Shareholders' equity	108,419	91,484	85,900	77,596	64,037
Class A equivalent common shares outstanding, in thousands	1,543	1,541	1,539	1,537	1,535
Shareholders' equity per outstanding Class A equivalent common share	$ 70,281	$ 59,377	$ 55,824	$ 50,498	$ 41,727

(1) *On February 9, 2006, Berkshire Hathaway converted its non-voting preferred stock of MidAmerican Energy Holdings Company ("MidAmerican") to common stock and upon conversion, owned approximately 83.4% (80.5% diluted) of the voting common stock interests. Accordingly, the 2006 Consolidated Financial Statements reflect the consolidation of the accounts of MidAmerican. During the period between 2002 and 2005, Berkshire's investment in MidAmerican was accounted for pursuant to the equity method.*

(2) *The amount of investment and derivative gains and losses for any given period has no predictive value, and variations in amount from period to period have no practical analytical value in view of the unrealized appreciation in Berkshire's investment portfolio. After-tax investment and derivative gains were $1,709 million in 2006, $3,530 million in 2005, $2,259 million in 2004, $2,729 million in 2003 and $566 million in 2002. Investment gains in 2005 include a non-cash pre-tax gain of $5.0 billion ($3.25 billion after-tax) relating to the exchange of Gillette stock for Procter & Gamble stock.*

(3) *Net earnings for the year ending December 31, 2005 includes a pre-tax underwriting loss of $3.4 billion in connection with Hurricanes Katrina, Rita and Wilma that struck the Gulf coast and Southeast regions of the United States. Such loss reduced net earnings by approximately $2.2 billion and earnings per share by $1,446.*

Results of Operations

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

	2006	2005	2004
Insurance – underwriting	$ 2,485	$ 27	$1,008
Insurance – investment income	3,120	2,412	2,045
Utilities and energy	885	523	237
Manufacturing, service and retailing	2,131	1,646	1,540
Finance and financial products	732	514	373
Other	(47)	(124)	(154)
Investment and derivative gains/losses	1,709	3,530	2,259
Net earnings	$11,015	$8,528	$7,308

Berkshire's operating businesses are managed on an unusually decentralized basis. There are essentially no centralized or integrated business functions (such as sales, marketing, purchasing, legal or human resources) and there is minimal involvement by Berkshire's corporate headquarters in the day-to-day business activities of the operating businesses. Berkshire's corporate office management participates in and is ultimately responsible for significant capital allocation decisions, investment activities and the selection of the Chief Executive to head each of the operating businesses. The business segment data (Note 20 to the Consolidated Financial Statements) should be read in conjunction with this discussion.

Insurance — Underwriting

A summary follows of underwriting results from Berkshire's insurance businesses for the past three years. Amounts are in millions.

	2006	2005	2004
Underwriting gain (loss) attributable to:			
GEICO	$ 1,314	$ 1,221	$ 970
General Re	526	(334)	3
Berkshire Hathaway Reinsurance Group	1,658	(1,069)	417
Berkshire Hathaway Primary Group	340	235	161
Pre-tax underwriting gain	3,838	53	1,551
Income taxes and minority interests	1,353	26	543
Net underwriting gain	$ 2,485	$ 27	$ 1,008

Berkshire engages in both primary insurance and reinsurance of property and casualty risks. Through General Re, Berkshire also reinsures life and health risks. In primary insurance activities, Berkshire subsidiaries assume defined portions of the risks of loss from persons or organizations that are directly subject to the risks. In reinsurance activities, Berkshire subsidiaries assume defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities. Berkshire's principal insurance and reinsurance businesses are: (1) GEICO, one of the four largest auto insurers in the U.S., (2) General Re, (3) Berkshire Hathaway Reinsurance Group and (4) Berkshire Hathaway Primary Group.

On June 30, 2005, Berkshire acquired Medical Protective Corporation ("MedPro"), a provider of professional liability insurance to physicians, dentists and other healthcare providers. On May 19, 2006, Berkshire acquired 85% of Applied Underwriters, a provider of integrated workers' compensation solutions. Underwriting results for these businesses are included in the Berkshire Hathaway Primary Group results beginning on their respective acquisition dates.

Berkshire's management views insurance businesses as possessing two distinct operations – underwriting and investing. Underwriting decisions are the responsibility of the unit managers; investing, with limited exceptions at GEICO and General Re's international operations, is the responsibility of Berkshire's Chairman and CEO, Warren E. Buffett. Accordingly, Berkshire evaluates performance of underwriting operations without any allocation of investment income.

Periodic underwriting results can be affected significantly by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years. See the Critical Accounting Policies section of this discussion for information concerning the loss reserve estimation process. In addition, the timing and amount of catastrophe losses can produce significant volatility in periodic underwriting results. During the third quarter of 2005, Hurricanes Katrina and Rita struck the Gulf Coast region of the United States producing the largest catastrophe losses for any quarter in the history of the property/casualty insurance industry. In the fourth quarter of 2005, Hurricane Wilma struck the Southeast U.S. Estimated pre-tax losses from these events of $3.4 billion were recorded in 2005. In contrast, there were no major hurricanes in 2006.

Insurance — Underwriting *(Continued)*

A key marketing strategy followed by all of these businesses is the maintenance of extraordinary capital strength. Statutory surplus of Berkshire's insurance businesses was approximately $59 billion at December 31, 2006. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into insurance and reinsurance contracts specially designed to meet unique needs of insurance and reinsurance buyers. Additional information regarding Berkshire's insurance and reinsurance operations follows.

GEICO

GEICO provides primarily private passenger automobile coverages to insureds in 49 states and the District of Columbia. GEICO policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company via the Internet, over the telephone or through the mail. This is a significant element in GEICO's strategy to be a low-cost insurer. In addition, GEICO strives to provide excellent service to customers, with the goal of establishing long-term customer relationships.

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

	2006		2005		2004	
	Amount	%	Amount	%	Amount	%
Premiums written	$11,303		$10,285		$9,212	
Premiums earned	$11,055	100.0	$10,101	100.0	$8,915	100.0
Losses and loss adjustment expenses	7,749	70.1	7,128	70.6	6,360	71.3
Underwriting expenses	1,992	18.0	1,752	17.3	1,585	17.8
Total losses and expenses	9,741	88.1	8,880	87.9	7,945	89.1
Pre-tax underwriting gain	$ 1,314		$ 1,221*		$ 970	

* *Net of losses of $200 million from Hurricanes Katrina, Rita and Wilma.*

Premiums earned in 2006 and 2005 increased 9.4% and 13.3%, respectively, over the corresponding prior year amounts. The growth in premiums earned in 2006 for voluntary auto was 9.3% and reflects a 10.7% increase in policies-in-force during the past year. During 2006, policies-in-force increased 11.3% in the preferred risk markets and 8.6% in the standard and nonstandard markets. Voluntary auto new business sales in 2006 increased 8.8% compared to 2005. Voluntary auto policies-in-force at December 31, 2006 were 721,000 higher than at December 31, 2005. Premium rates have been reduced and underwriting guidelines have been adjusted in certain markets to better match price with the underlying risk resulting in relatively lower premiums per policy.

Losses and loss adjustment expenses in 2006 were $7,749 million, an increase of 8.7% over 2005. The loss ratio declined to 70.1% in 2006 compared to 70.6% in 2005 and 71.3% in 2004 primarily due to decreasing claim frequencies across all markets and most coverage types. In 2006, claims frequencies for physical damage coverages decreased in the two to five percent range from 2005 while frequencies for injury coverages decreased in the two to five percent range. Injury severity in 2006 increased in the two to five percent range over 2005 while physical damage severity increased in the four to seven percent range. Incurred losses from catastrophe events were approximately $54 million in 2006, $227 million in 2005 (primarily from the hurricanes in the third and fourth quarters) and $71 million in 2004.

Underwriting expenses in 2006 were $1,992 million, an increase of 13.7% over 2005, which increased 10.5% over 2004. The increase in expenses in 2006 reflected higher advertising costs as well as incremental underwriting and policy issuance costs associated with new business sales.

General Re

General Re conducts a reinsurance business offering property and casualty and life and health coverages to clients worldwide. In North America, property and casualty reinsurance is written on a direct basis through General Reinsurance Corporation. Internationally, property and casualty reinsurance is written on a direct basis through 95% owned Cologne Re (based in Germany) and other wholly-owned affiliates as well as through brokers with respect to Faraday in London. Life and health reinsurance is written for clients worldwide through Cologne Re. General Re's pre-tax underwriting results are summarized for the past three years in the following table. Amounts are in millions.

	Premiums written			Premiums earned			Pre-tax underwriting gain (loss)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Property/casualty:									
North American	$1,731	$1,988	$2,747	$1,799	$2,201	$3,012	$ 127	$ (307)	$ 11
International	1,850	1,864	2,091	1,912	1,939	2,218	246	(138)	(93)
Life/health	2,368	2,303	2,022	2,364	2,295	2,015	153	111	85
	$5,949	$6,155	$6,860	$6,075	$6,435	$7,245	$ 526	$ (334)*	$ 3

* *Includes losses of $685 million related to Hurricanes Katrina, Rita and Wilma.*

<u>Property/casualty</u>

Premiums written declined in 2006 from amounts written in 2005 which declined from amounts written in 2004. The declines in North America were attributable to significant reductions in finite risk business and to a lesser extent lower casualty treaty volume. International premiums written in 2006 were essentially unchanged from 2005. In local currencies, international premiums written increased 2% over 2005 primarily due to increased volume of property business at Faraday offset by a significant reduction in finite risk business. The overall comparative declines in written premiums in the past three years reflected continued underwriting discipline by rejecting transactions where pricing is deemed inadequate with respect to the risk.

Approximately half of the comparative declines in the North American premiums earned in 2006 and 2005 versus the previous year were attributable to policy cancellations and non-renewals exceeding new contracts as well as a slight impact from rate changes. The remainder of the comparative declines were primarily due to the significant decreases in finite risk business. In local currencies, 2006 international premiums earned declined 3.5% from 2005, which declined 12.3% compared with 2004. Similar to North America, the decline in premiums earned in the international segment over the past three years generally reflects reductions in premium volume due to the non-renewal of unprofitable business and the decrease in finite risk business.

The North American business produced an underwriting gain of $127 million in 2006 compared with an underwriting loss of $307 million in 2005 and an underwriting gain of $11 million in 2004. Underwriting results in 2006 included $348 million in underwriting gains from property business partially offset by $221 million in underwriting losses from casualty/workers' compensation business and includes legal and estimated settlement costs associated with the ongoing regulatory investigations of the finite risk business. The property business produced underwriting gains of $209 million for the 2006 accident year, and $139 million from favorable run-off of prior year property losses. The current accident year results benefited from a lack of catastrophe losses. The underwriting losses from casualty/workers' compensation business in 2006 included (1) $137 million in discount accretion and deferred charge amortization, (2) increases in prior years' workers' compensation reserves of $103 million arising from the continuing escalation of medical utilization and cost inflation and (3) increases in asbestos and environmental reserves of $58 million. These losses were somewhat offset by net decreases in prior years' reserves for other casualty coverages.

The 2005 underwriting loss included approximately $480 million in losses from three major hurricanes in 2005 (Katrina, Rita and Wilma). Otherwise, underwriting results for the 2005 accident year generally benefited from re-pricing efforts and improved coverage terms and conditions put into place over the preceding few years. Underwriting results in 2005 also included losses attributable to prior accident years consisting of net reserve increases on workers' compensation of $228 million, asbestos and environmental mass tort exposures of $102 million and $136 million in discount accretion on workers' compensation reserves and deferred charge amortization on retroactive reinsurance coverages. Offsetting these prior years' losses were $419 million in gains from net reserve decreases in other casualty lines and property lines.

The net underwriting gain of $11 million in 2004 consisted of current accident year gains of $166 million partially offset by $155 million in prior accident years' losses. The 2004 current accident year results benefited from a one-time reduction of $70 million in underwriting expenses from the curtailment of certain pension benefits. In 2004, prior accident years' losses included reserve increases on casualty and workers' compensation claims of $729 million and $110 million in discount accretion and deferred charge amortization offset by $307 million of reserve reductions for prior years' property losses (primarily in World Trade Center loss exposures) and $377 million of gains from contract commutations and settlements.

The International property/casualty businesses produced an underwriting gain of $246 million in 2006 compared with underwriting losses of $138 million and $93 million in 2005 and 2004, respectively. Underwriting results for 2006 benefited from $360 million of net gains in property and aviation lines of business and the lack of catastrophe losses. Partially offsetting these gains were $114 million in net losses in casualty business, including costs associated with the finite risk business regulatory investigations. Underwriting results for both 2005 and 2004 included catastrophe losses from the U.S. hurricanes of $205 million and $110 million, respectively. Additionally, 2005 results included $29 million in losses from windstorm Erwin. Underwriting results for each of the last three years benefited from favorable results of the aviation and non-catastrophe property businesses. The International property and casualty underwriting results included gains associated with prior accident years of $235 million in 2006 compared with gains of $108 million in 2005 and losses of $102 million in 2004. Prior years' losses in 2004 were primarily in motor excess, workers' compensation and other casualty lines and increases for operations placed in run-off.

<u>Life/health</u>

Premiums earned in 2006 increased 3.0% over 2005, which increased 13.9% over 2004. Adjusting for the effects of foreign currency, premiums earned increased 2.3% in 2006 and 14.2% in 2005. The increase in premiums earned in 2006 was primarily from European life business and in 2005 was primarily due to an increase in both North American and European life business.

The global life/health operations produced underwriting gains of $153 million in 2006, $111 million in 2005 and $85 million in 2004. Both the U.S. and international life/health operations were profitable in each of the past three years primarily due to favorable mortality; however, most of the gains were earned in the international life business. Additionally, included in the underwriting results for 2006, 2005 and 2004 were $31 million, $66 million and $46 million, respectively, of net losses attributable to reserve increases on certain U.S. health business in run-off.

Berkshire Hathaway Reinsurance Group

The Berkshire Hathaway Reinsurance Group ("BHRG") underwrites excess-of-loss reinsurance and quota share coverages for insurers and reinsurers worldwide. BHRG's business includes catastrophe excess-of-loss reinsurance and excess direct and facultative reinsurance for large or otherwise unusual discrete property risks referred to as individual risk. Retroactive reinsurance policies provide indemnification of losses and loss adjustment expenses with respect to past loss events. Other multi-line refers to other business written on both a quota-share and excess basis, participations in and contracts with Lloyd's syndicates, as well as aviation business and workers' compensation programs. The timing and amount of catastrophe losses can produce extraordinary volatility in the periodic underwriting results of the BHRG, and, in particular, in the catastrophe and individual risk business. The pre-tax probable maximum loss from a single event is currently estimated to be approximately $6 billion. BHRG's pre-tax underwriting results are summarized below. Amounts are in millions.

	Premiums earned			Pre-tax underwriting gain (loss)		
	2006	2005	2004	2006	2005	2004
Catastrophe and individual risk	$2,196	$1,663	$1,462	$1,588	$(1,178)	$ 385
Retroactive reinsurance	146	10	188	(173)	(214)	(412)
Other multi-line	2,634	2,290	2,064	243	323	444
	$4,976	$3,963	$3,714	$1,658	$(1,069)*	$ 417

* *Includes losses of $2.5 billion from Hurricanes Katrina, Rita and Wilma.*

Catastrophe and individual risk contracts may provide exceptionally large limits of indemnification, often several hundred million dollars and occasionally in excess of $1 billion, and cover catastrophe risks (such as hurricanes, earthquakes or other natural disasters) or other property risks (such as aviation and aerospace, commercial multi-peril or terrorism). Catastrophe and individual risk premiums written were approximately $2.4 billion in 2006, $1.8 billion in 2005 and $1.5 billion in 2004. The increase in volume in 2006 was principally attributable to improved rates in the U.S. and limited industry capacity for catastrophe reinsurance which led to more opportunities to write new business. The level of business written in future periods may vary significantly based upon market conditions and management's assessment of the adequacy of premium rates.

Pre-tax underwriting results in 2006 reflect no significant losses from catastrophe events and incurred losses of approximately $200 million attributable to prior years' events, primarily Hurricane Wilma which occurred in the fourth quarter of 2005. Underwriting results from catastrophe and individual risk business in 2005 included estimated losses of approximately $2.4 billion from Hurricanes Katrina, Rita and Wilma. In 2004, underwriting results from catastrophe and individual risk business included estimated catastrophe losses of $790 million from four hurricanes that struck the U.S. and Caribbean during the third quarter. The timing and magnitude of losses produce extraordinary volatility in periodic underwriting results of BHRG's catastrophe and individual risk business. BHRG generally does not cede catastrophe and individual risks to mitigate the volatility. Management accepts such potential volatility provided that the long-term prospect of achieving underwriting profits is reasonable.

Retroactive policies normally provide very large, but limited, indemnification of unpaid losses and loss adjustment expenses with respect to past loss events that are expected to be paid over long periods of time. The underwriting losses from retroactive reinsurance are primarily attributed to the amortization of deferred charges established on retroactive reinsurance contracts written in previous years. The deferred charges, which represent the difference between the premium and the estimated ultimate claim reserves, are amortized over the expected claim payment period using the interest method. The amortization charges are recorded as losses incurred and, therefore, generate underwriting losses. The level of amortization in a given period is based upon estimates of the timing and amount of future loss payments. To the extent there are changes in these estimates, deferred charge balances are adjusted on a retrospective basis via a cumulative adjustment.

Underwriting losses from retroactive reinsurance in 2006 are net of gains of approximately $145 million which primarily derived from contracts that were commuted or amended during the last half of 2006. Underwriting losses in 2005 from retroactive reinsurance are net of a gain of approximately $46 million related to the final settlement of remaining unpaid losses under a retroactive reinsurance agreement. In addition, estimates of unpaid losses were reviewed during the fourth quarter of 2005 which resulted in a net reduction of $75 million in loss reserves and the rates of deferred charge amortization on certain other contracts were decreased due to slower than expected loss payments. During 2004 the estimated timing of future loss payments with respect to one large contract was accelerated which produced an incremental amortization charge of approximately $100 million. Unamortized deferred charges at December 31, 2006 were approximately $1.74 billion compared to $2.13 billion at December 31, 2005. Management believes that these charges are reasonable with respect to the large amounts of float related to these policies. Float was approximately $6.5 billion at December 31, 2006.

Premiums earned from other multi-line reinsurance increased in 2006 as compared to 2005 due to the continued growth in workers' compensation programs. Increased premiums were earned in 2005 as compared to 2004 from new workers' compensation and ongoing aviation programs and were partially offset by declines in quota-share contracts. Underwriting results from other multi-line reinsurance in 2006 reflected favorable comparative underwriting results from property contracts which benefited from low catastrophe losses. These favorable comparative results were somewhat offset by a deterioration in underwriting results from aviation business. Underwriting results in 2005 included estimated losses of approximately $100 million from Hurricanes Katrina, Rita and Wilma, while results in 2004 included losses of approximately $175 million arising from the third quarter hurricanes affecting the U.S. and Caribbean. However, underwriting gains from aviation coverages and approximately $160 million in gains from the commutations of several reinsurance contracts during 2004 more than offset the losses arising from catastrophes.

Insurance — Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group (Continued)

In November 2006, BHRG and Equitas, a London based entity established to reinsure and manage the 1992 and prior years' non-life liabilities of the Names or Underwriters at Lloyd's of London, entered into an agreement for BHRG to provide potentially up to $7 billion of new excess reinsurance to Equitas. BHRG will also employ the current staff of Equitas and manage the run-off of Equitas' liabilities. The agreement is subject to the approval by certain regulatory authorities in the United States and the United Kingdom as well as various other conditions which must be obtained by March 31, 2007. Consideration payable to BHRG under the arrangement would initially consist of all of Equitas' assets less 100 million Pounds Sterling.

Berkshire Hathaway Primary Group

Berkshire's primary insurance group consists of a wide variety of smaller insurance businesses that principally write liability coverages for commercial accounts. These businesses include: National Indemnity Company's primary group operation ("NICO Primary Group"), a writer of motor vehicle and general liability coverages; U.S. Investment Corporation ("USIC"), whose subsidiaries underwrite specialty insurance coverages; a group of companies referred to internally as "Homestate" operations, providers of standard multi-line insurance; Central States Indemnity Company ("CSI"), a provider of credit and disability insurance to individuals nationwide through financial institutions; and MedPro and Applied Underwriters, which as previously noted were acquired in June 2005 and May 2006, respectively.

Collectively, Berkshire's primary insurance businesses produced earned premiums of $1,858 million in 2006, $1,498 million in 2005 and $1,211 million in 2004. The increase in premiums earned in 2006 was primarily attributable to the impact of the MedPro and Applied Underwriters acquisitions partially offset by a decline in volume of the NICO Primary Group. Premiums earned in the last half of 2005 by MedPro accounted for most of the increase in total premiums earned by the primary group in 2005 compared with 2004. Pre-tax underwriting gains as percentages of premiums earned were approximately 18% in 2006, 16% in 2005 and 13% in 2004. Underwriting gains in 2006 were achieved in all of the businesses. The underwriting gain in 2005 reflected a decrease in loss reserve estimates for pre-2005 loss events in the NICO Primary Group business, improved results of Homestate, USIC and CSI operations partially offset by losses incurred from increases in medical malpractice reserves.

Insurance — Investment Income

Following is a summary of the net investment income of Berkshire's insurance operations for the past three years. Amounts are in millions.

	2006	2005	2004
Investment income before taxes	$4,316	$3,480	$2,824
Income taxes and minority interests	1,196	1,068	779
Investment income after taxes and minority interests	$3,120	$2,412	$2,045

Investment income consists of interest and dividends earned on cash equivalents and fixed maturity and equity investments of Berkshire's insurance businesses. Pre-tax investment income earned in 2006 by Berkshire's insurance businesses increased $836 million (24%) over 2005, which increased $656 million (23%) over 2004. The increase in 2006 reflects higher short-term interest rates in the United States and increased dividends as compared to 2005. The increase in investment income in 2005 primarily reflects higher short-term interest rates in the United States as compared to 2004.

A summary of investments held in Berkshire's insurance businesses follows. Dollar amounts are in millions.

	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Cash and cash equivalents	$ 34,590	$ 38,814	$ 38,706
Equity securities	61,168	46,412	37,420
Fixed maturity securities	25,272	27,385	22,831
Other	812	918	2,059
	$121,842	$113,529	$101,016

Fixed maturity investments as of December 31, 2006 were as follows. Amounts are in millions.

	Amortized cost	Unrealized gains/losses	Fair value
U.S. Treasury, government corporations and agencies	$ 4,941	$ (2)	$ 4,939
States, municipalities and political subdivisions	2,967	56	3,023
Foreign governments	8,444	(28)	8,416
Corporate bonds and redeemable preferred stocks, investment grade	3,610	150	3,760
Corporate bonds and redeemable preferred stocks, non-investment grade	1,858	1,300	3,158
Mortgage-backed securities	1,948	28	1,976
	$23,768	$ 1,504	$25,272

Insurance — Investment Income *(Continued)*

All U.S. government obligations are rated AAA by the major rating agencies and 96% of all state, municipal and political subdivisions, foreign government obligations and mortgage-backed securities were rated AA or higher. Non-investment grade securities represent securities that are rated below BBB- or Baa3.

Invested assets derive from shareholder capital and reinvested earnings as well as net liabilities assumed under insurance contracts or "float." The major components of float are unpaid losses, unearned premiums and other liabilities to policyholders less premiums and reinsurance receivables, deferred charges assumed under retroactive reinsurance contracts and deferred policy acquisition costs. Float approximated $50.9 billion at December 31, 2006, $49.3 billion at December 31, 2005 and $46.1 billion at December 31, 2004. The cost of float, as represented by the ratio of pre-tax underwriting gain or loss to average float, was negative for the last three years, as Berkshire's insurance businesses generated pre-tax underwriting gains in each year.

Utilities and Energy ("MidAmerican")

Revenues and earnings from MidAmerican for each of the past three years are summarized below. Amounts are in millions.

	Revenues			Earnings		
	2006	2005	2004	2006	2005	2004
MidAmerican Energy Company	$ 3,519	$3,200	$2,731	$ 348	$ 288	$ 268
PacifiCorp	2,971	—	—	356	—	—
Natural gas pipelines	972	909	884	376	309	289
U.K. utilities	961	921	955	338	308	326
Real estate brokerage	1,724	1,894	1,777	74	148	130
Other	497	356	380	226	115	(406)
	$10,644	$7,280	$6,727			
Earnings before corporate interest and taxes				1,718	1,168	607
Interest, other than to Berkshire				(261)	(200)	(212)
Interest on Berkshire junior debt				(134)	(157)	(170)
Income tax				(407)	(248)	(55)
Net earnings				$ 916	$ 563	$ 170
Earnings applicable to Berkshire *				$ 885	$ 523*	$ 237*
Debt owed to others				16,946	10,296	10,528
Debt owed to Berkshire				1,055	1,289	1,478

* *Net of minority interests and includes interest earned by Berkshire (net of related income taxes). Also includes additional income tax charges of $49 million and $15 million in 2005 and 2004, respectively, related to Berkshire's accounting for MidAmerican under the equity method.*

Berkshire's 2005 and 2004 Consolidated Financial Statements reflect Berkshire's share of MidAmerican's net earnings as determined under the equity method. In 2006, MidAmerican's revenues and expenses are consolidated in Berkshire's financial statements. For comparative purposes, revenues and earnings of MidAmerican for 2005 and 2004 are provided in the table above. Revenues and earnings of the utilities and energy businesses are, to some extent, seasonal depending on weather-induced demand. Revenues from U.S. electricity sales are generally higher in the summer when air conditioning use is greatest and revenues from gas sales and pipelines are generally higher in the winter when heating needs are higher. Real estate brokerage revenues tend to be highest in the second and third quarters.

MidAmerican's revenues of $10,644 million in 2006 increased $3,364 million (46%) and earnings before corporate interest and taxes ("EBIT") of $1,718 million in 2006 increased $550 million (47%) as compared to 2005. The increases in revenues and EBIT were largely attributable to the acquisition of PacifiCorp on March 21, 2006. Revenues of MidAmerican Energy Company ("MEC") of $3,519 million increased $319 million (10%) as compared to 2005. Major factors giving rise to MEC's revenue increase were a change in strategy related to certain end use natural gas contracts that resulted in revenues and costs being recorded on a gross rather than net basis and higher wholesale electricity sales due to both price and volume increases. Somewhat offsetting these increases were lower natural gas sales due to mild temperatures in 2006. EBIT of MEC increased $60 million (21%) as compared to 2005. About ⅔ of the increase was due to improved margins on regulated electricity sales.

Revenues from natural gas pipelines of $972 million in 2006 increased $63 million (7%) and EBIT of $376 million in 2006 increased $67 million (22%) as compared to 2005. The comparative improvement in revenues and EBIT was primarily due to favorable market conditions resulting in higher demand and rates as well as additional transportation and storage services. EBIT of the U.K. utilities business of $338 million in 2006 increased $30 million (10%) as compared to 2005. The increase was due to an increase in regulated revenues as well as a favorable impact from the strengthening of the Pound Sterling versus the U.S. dollar.

Revenues from the real estate brokerage business of $1,724 million in 2006 decreased $170 million (9%) and EBIT of $74 million in 2006 decreased $74 million (50%) as compared to 2005. The declines were due to a significant reduction in the number of closed transactions due to the significant slowdown in U.S. residential real estate activity.

EBIT from other activities of $226 million in 2006 increased $111 million as compared to 2005. Most of this increase arose from a gain on the sale of a security that was received in connection with a bankruptcy claim award as well as from sales of other investments. In 2004, EBIT includes an impairment charge of $579 million related to the discontinuance of the operations of MidAmerican's mineral extraction facility.

Manufacturing, Service and Retailing

A comparison of revenues and pre-tax earnings between 2006, 2005 and 2004 for the manufacturing, service and retailing businesses follows. Amounts are in millions.

	Revenues			Earnings		
	2006	2005	2004	2006	2005	2004
McLane Company	$25,693	$24,074	$23,373	$ 229	$ 217	$ 228
Shaw Industries	5,834	5,723	5,174	594	485	466
Other manufacturing	11,988	9,260	8,152	1,756	1,335	1,160
Other service *	5,811	4,728	4,507	658	329	412
Retailing	3,334	3,111	2,936	289	257	215
	$52,660	$46,896	$44,142			
Pre-tax earnings				$3,526	$2,623	$2,481
Income taxes and minority interests				1,395	977	941
				$2,131	$1,646	$1,540

* *In 2004, Berkshire adopted the provisions of EITF 00-21 ("Accounting for Revenue Arrangements with Multiple Deliverables"). As a result, for consolidated reporting purposes, the method of recognizing revenue related to NetJets' fractional aircraft sales was changed. Management continues to evaluate the results of NetJets under the prior revenue recognition criteria and thus has shown revenues and pre-tax earnings for the other services businesses using the prior revenue recognition method. Revenues shown in this table are greater than the amounts reported in Berkshire's consolidated financial statements by $781 million in 2006, $704 million in 2005 and $902 million in 2004. Pre-tax earnings included in this table for 2006, 2005 and 2004 exceed the amounts included in the consolidated financial statements by $79 million, $63 million and $74 million, respectively.*

McLane Company

McLane Company, Inc., ("McLane") is a distributor of grocery and food products to retailers, convenience stores and restaurants. McLane's business is marked by high sales volume and very low profit margins. McLane's revenues in 2006 increased $1,619 million (7%) as compared to 2005, which increased $701 million (3%) as compared to 2004. The comparative revenue increases in both 2006 and 2005 were due to increased grocery business partially offset by comparative reductions in restaurant food service revenues primarily due to the loss of a large customer in mid-2005.

Pre-tax earnings in 2006 increased $12 million over 2005 which reflects the increase in sales volume. Pre-tax earnings in 2006 were negatively affected by a comparative 0.13% reduction in gross margin percentage which was primarily attributable to increased competition in the grocery business. The impact from the decline in gross margin in 2006 was largely offset by comparatively lower operating expenses that were primarily attributable to lower insurance costs. About ⅓ of McLane's annual revenues are to Wal-Mart. A curtailment of purchasing by Wal-Mart could have a material adverse impact on revenues and earnings of McLane.

Shaw Industries

Shaw Industries ("Shaw") is the world's largest manufacturer of tufted broadloom carpets and is a full-service flooring company. Shaw's revenues of $5,834 million in 2006 increased $111 million (2%) and pre-tax earnings of $594 million in 2006 increased $109 million (22%) as compared to 2005. The increase in revenues reflected a 7% increase in average selling price for carpet, partially offset by a 6% reduction in square yards sold. The comparative decline in 2006 square yards sold versus 2005 accelerated during the third and fourth quarters, which is attributed to a slowing of single-family housing construction and the acceleration of customer purchases during the second half of 2005 in anticipation of price increases. The increase in earnings was primarily generated in the first six months of the year and was mainly attributable to a reduction in manufacturing cost per unit deriving from the integration of carpet backing and nylon-fiber manufacturing operations acquired by Shaw in the fourth quarter of 2005. These two acquisitions allow Shaw to internally produce most of its carpet backing needs and to secure a more stable raw material source. As a result of the continued slowdown in housing construction activity, the decline in volume is expected to continue at least during the first half of 2007.

Revenues of $5,723 million in 2005 increased $549 million (11%) and pre-tax earnings of $485 million in 2005 increased $19 million (4%) as compared to 2004. Despite increases in selling prices, operating margins in 2005 were adversely affected by repeated increases in petroleum-based raw material costs. Consequently, increases in production costs outpaced increases in selling prices. In addition, product sample costs pertaining to the introduction of new products increased approximately $29 million in 2005 as compared to 2004.

Other manufacturing

Berkshire's other manufacturing businesses include a wide array of businesses. Included in this group are several manufacturers of building products (Acme Building Brands, Benjamin Moore, Johns Manville and MiTek) and apparel (Fruit of the Loom, Garan, Russell Corporation, Fechheimers, Justin Brands and the H.H. Brown Shoe Group). Also included in this group are Forest River, a leading manufacturer of leisure vehicles that was acquired on August 31, 2005 and the Iscar Metalworking Companies ("IMC"), an industry leader in the metal cutting tools business with operations worldwide that was acquired on July 5, 2006. Additionally, there are numerous other manufacturers of consumer and commercial products in this diverse group.

Manufacturing, Service and Retailing *(Continued)*

<u>Other manufacturing</u> *(Continued)*

Revenues from this group of manufacturing businesses of $11,988 million in 2006 increased $2,728 million (29%) and pre-tax earnings of $1,756 million in 2006 increased $421 million (32%) as compared to 2005. The acquisitions of Forest River in August 2005, IMC in July 2006 and Russell Corporation in August 2006 account for a substantial portion of these increases. Revenues from other manufacturing businesses of $9,260 million in 2005 increased $1,108 million (14%) and pre-tax earnings increased $175 million (15%) as compared to 2004. The aforementioned acquisition of Forest River accounted for a significant portion of the increase. Additionally, the building products group of businesses reported significant increases in revenues and pre-tax earnings in both 2006 and 2005 as compared to the prior year. However, due to the continued slowdown in housing construction activity in the United States, earnings of the building products businesses are expected to be negatively impacted in 2007 as compared to 2006.

<u>Other service</u>

Berkshire's other service businesses include NetJets, the world's leading provider of fractional ownership programs for general aviation aircraft and FlightSafety, a provider of high technology training to operators of aircraft and ships. Among other businesses included in this group are Pampered Chef, a direct seller of high quality kitchen tools; International Dairy Queen, a licensor and service provider to about 6,000 stores that offer prepared dairy treats and food; the Buffalo News, a publisher of a daily and Sunday newspaper; and Business Wire, a leading distributor of corporate news, multimedia and regulatory filings.

Revenues from the service businesses of $5,811 million in 2006 increased $1,083 million (23%) and pre-tax earnings of $658 million in 2006 increased $329 million (100%) as compared to 2005. The largest portion of these increases arose from greatly improved comparative operating results at NetJets where revenues increased $759 million over 2005. NetJets generated pre-tax earnings of $143 million in 2006 as compared to a pre-tax loss of $80 million in 2005 reflecting a 23% increase in flight operations and management service revenues and increased fractional aircraft sales. In 2006, occupied flight hours increased 19% and average hourly rates increased as well. The number of aircraft managed within the NetJets program over the past twelve months increased 13%. The improvement in operating results at NetJets also reflected a substantial decline in subcontracted flights that are necessary to meet peak customer demand, which resulted in a $77 million improvement in pre-tax earnings. Comparative results in 2006 also benefited from the inclusion of Business Wire which was acquired in February 2006 as well as comparative increases in revenues and earnings for FlightSafety.

Revenues from other service businesses of $4,728 million in 2005 increased $221 million (5%) and pre-tax earnings of $329 million in 2005 declined $83 million (20%) as compared to 2004. NetJets incurred a pre-tax loss of about $80 million in 2005 compared to pre-tax earnings of about $10 million in 2004. Several factors contributed to the loss in 2005. Throughout 2005, NetJets experienced unusually high shortages of available aircraft due to increases in owner demand outpacing increases in capacity. Consequently, NetJets subcontracted additional aircraft capacity through charter services. The costs associated with subcontracted flights were not fully recoverable from clients and caused an incremental cost of approximately $85 million in 2005. NetJets has added aircraft to the core fleet and has developed strategies to address capacity issues and restore profitability as the results in 2006 reflect. NetJets also recorded a special charge of $20 million in the fourth quarter of 2005 for prior periods' compensation related to a new labor contract with its pilots and flight attendants.

<u>Retailing</u>

Berkshire's retailing operations consist of several home furnishings (Nebraska Furniture Mart, R.C. Willey, Star Furniture and Jordan's) and jewelry (Borsheim's, Helzbergs and Ben Bridge) retailers. Also included in this group is See's Candies. Revenues from this group of businesses of $3,334 million in 2006 increased $223 million (7%) and pre-tax earnings of $289 million increased $32 million (12%) as compared to 2005. Revenues of the home furnishings businesses were $2,144 million in 2006 and $1,958 million in 2005 and jewelry revenues were $815 million in 2006 and $801 million in 2005. Home furnishings revenues in 2006 included sales from two new R.C. Willey stores of $77 million. In addition, same store home furnishings sales in 2006 increased approximately 6% compared to 2005. A significant portion of the increase in pre-tax earnings was due to See's Candies which reported an increase of approximately $27 million.

Revenues from the retailing group of $3,111 million in 2005 increased $175 million (6%) and pre-tax earnings of $257 million in 2005 increased $42 million (20%) in 2005 as compared to 2004. Same store sales as well as new stores opened at R.C. Willey and Jordan's and increased earnings at See's contributed to these favorable comparative results.

Finance and Financial Products

A summary of revenues and pre-tax earnings from Berkshire's finance and financial products businesses follows. Amounts are in millions.

	Revenues			Earnings		
	2006	2005	2004	2006	2005	2004
Manufactured housing and finance	$3,570	$3,175	$2,024	$ 513	$ 416	$ 192
Furniture/transportation equipment leasing	880	856	789	182	173	92
Other	674	528	961	462	233	300
	$5,124	$4,559	$3,774			
Pre-tax earnings				1,157	822	584
Income taxes and minority interests				425	308	211
				$ 732	$ 514	$ 373

Revenues and pre-tax earnings from manufactured housing and finance activities (Clayton Homes) increased 12% and 23%, respectively, as compared to 2005. In 2006, manufactured home sales increased $302 million as compared to 2005 which

Finance and Financial Products *(Continued)*

was primarily due to slightly increased sales of higher priced homes and an increase in total units sold. However, unit sales during the second half of 2006 declined as compared to the second half of 2005. Interest income from installment loans in 2006 increased $104 million as compared to 2005 due to higher average installment loan balances primarily from loan portfolio acquisitions during 2005. The balance of installment loans has stabilized after significant increases in recent years. Absent major new loan portfolio acquisitions or significant increases in loan originations, installment loan balances are expected to gradually decline as loan portfolios acquired in 2004 and 2005 are repaid. Consequently, the rate of growth in interest income may decline over the next year and amounts may eventually decline in comparison with amounts earned in 2006.

The increase in revenues in 2005 as compared to 2004 from Clayton Homes was primarily attributable to increased sales of manufactured homes of $491 million and increased interest income of $583 million from higher installment loan balances. Installment loan balances at the end of 2005 increased approximately $8.5 billion since Berkshire's acquisition of Clayton Homes in 2003, reflecting the impact of several loan portfolio acquisitions as well as loan originations. Pre-tax earnings from Clayton Homes of $416 million in 2005, increased $224 million (117%) as compared to 2004. The significant increase in pre-tax earnings was primarily due to higher interest income from the loan portfolios acquired during 2004 and 2005, partially offset by higher interest expenses.

Pre-tax earnings from other finance activities of $462 million, increased $229 million as compared to 2005. Other finance activities include the General Re derivatives business, which has completed a major portion of its run-off, and Berkshire's earnings from its investment in Value Capital, a partnership that was substantially liquidated as of June 30, 2006. These two activities generated breakeven results in 2006 compared to pre-tax losses of $137 million in 2005. Other pre-tax earnings for 2006 also include a fee of $67 million in connection with an Equity Commitment Agreement that Berkshire entered into with USG Corporation ("USG"). Under the Equity Commitment Agreement, Berkshire agreed to purchase no less than 6.5 million and up to 44.9 million additional shares of USG common stock to facilitate an equity rights offering.

Investment and Derivative Gains/Losses

A summary of investment and derivative gains and losses follows. Amounts are in millions.

	2006	2005	2004
Investment gains/losses from -			
Sales and other disposals of investments -			
Insurance and other	$1,782	$5,831	$1,527
Finance and financial products	6	544	61
Other-than-temporary impairments	(142)	(114)	(19)
Life settlement contracts	92	(82)	(207)
Other	73	17	267
	1,811	6,196	1,629
Derivative gains/losses from -			
Foreign currency forward contracts	186	(955)	1,839
Other	638	253	21
	824	(702)	1,860
Gains/losses before income taxes and minority interests	2,635	5,494	3,489
Income taxes and minority interests	926	1,964	1,230
Net gains/losses	$1,709	$3,530	$2,259

Investment gains or losses are recognized upon the sales of investments or as otherwise required under GAAP. The timing of realized gains or losses from sales can have a material effect on periodic earnings. However, such gains or losses usually have little, if any, impact on total shareholders' equity because most equity and fixed maturity investments are carried at fair value, with the unrealized gain or loss included as a component of other comprehensive income. Other-than-temporary impairment losses represent the adjustment of cost to fair value when, as required by GAAP, management concludes that an investment's decline in value below cost is other than temporary. The impairment loss represents a non-cash charge to earnings.

For many years, Berkshire held an investment in common stock of The Gillette Company ("Gillette"). On October 1, 2005, The Procter & Gamble Company ("PG") completed its acquisition of Gillette and issued 0.975 shares of its common stock for each outstanding share of Gillette common stock. Berkshire recognized a non-cash pre-tax investment gain of approximately $5 billion upon the exchange of the Gillette shares for PG shares. Berkshire's management does not regard the gain that was recorded, as required by GAAP, as meaningful. Berkshire intends to hold the shares of PG just as it held the Gillette shares. The gain recognized for financial reporting purposes is deferred for income tax purposes. The transaction essentially had no effect on Berkshire's consolidated shareholders' equity because the gain included in earnings in the fourth quarter of 2005 was accompanied by a corresponding reduction of unrealized investment gains included in accumulated other comprehensive income.

In 2004 and 2005, life settlement investments were carried at the cash surrender value pursuant to FASB Technical Bulletin ("FTB") 85-4 "Accounting for Purchases of Life Insurance." The excess of the cash paid to purchase these contracts over the cash surrender value at the date of purchase was recognized as a loss immediately and periodic maintenance costs, such as premiums necessary to keep the underlying policies in force, were charged to earnings. Effective January 1, 2006, Berkshire adopted the new accounting pronouncement FTB 85-4-1 and elected to use the investment method, whereby the aforementioned costs were capitalized. The cumulative effect of the accounting change which increased the carrying value of the contracts owned as of the adoption date was recorded, net of applicable income tax, as an increase to retained earnings of $180 million. In 2006, Berkshire disposed of most of the life settlement contracts. The excess of the proceeds over the carrying value of the contracts disposed of represents most of the gain from these contracts in 2006.

Derivative gains and losses from foreign currency forward contracts arise as the value of the U.S. dollar changes against certain foreign currencies. Small changes in certain foreign currency exchange rates produce material changes in the fair value of these contracts and consequently can produce volatility in reported earnings. The notional values of open foreign currency forward contracts were approximately $1 billion and $14 billion as of December 31, 2006 and 2005, respectively. During 2005, the value of most foreign currencies decreased relative to the U.S. dollar and these contracts produced losses. Conversely, the value of many foreign currencies rose relative to the U.S. dollar in 2004, and Berkshire's contract positions produced significant gains.

Over the past three years, Berkshire has also entered into several other derivative contracts pertaining to credit default risks of other entities as well as equity price risk associated with major equity indices. Such contracts are carried at estimated fair value and the change in estimated fair value is included in earnings in the period of the change. Other derivative contract gains in 2006 derived primarily from credit default contracts. Management attributes the gains to tightening of interest rate spreads and market perceptions that the creditworthiness of many of the underlying credit issuers has improved.

Financial Condition

Berkshire's balance sheet continues to reflect significant liquidity and a strong capital base. Consolidated shareholders' equity at December 31, 2006 was $108.4 billion. Consolidated cash and invested assets, excluding assets of finance and financial products businesses, was approximately $126.1 billion at December 31, 2006 (including cash and cash equivalents of $38.3 billion) and $115.6 billion at December 31, 2005 (including cash and cash equivalents of $40.5 billion). Berkshire's invested assets are held predominantly in its insurance businesses. Berkshire believes that it currently maintains sufficient liquidity to cover its contractual obligations and provide for contingent liquidity.

During 2006, Berkshire made several business acquisitions for aggregate cash consideration of $10.1 billion. See Note 3 to the Consolidated Financial Statements for more information concerning these acquisitions. Berkshire maintains a large amount of capital in its insurance subsidiaries for strategic purposes and in support of reserves for unpaid losses. In the United States, in particular, dividend payments by insurance companies are subject to prior approval by state regulators. For the year ending December 31, 2006, Berkshire's insurance subsidiaries paid dividends of $7.1 billion.

Capital expenditures of the utilities and energy businesses were $2.4 billion in 2006. Capital expenditures, construction and other development costs for the year ending December 31, 2007 are forecasted to be approximately $3.0 billion. MidAmerican expects to fund these capital expenditures with cash flows from operations and the issuance of debt. MidAmerican utilizes debt to finance the construction of long-lived regulated electric and gas utility assets, including power plants, transmission and distribution assets and natural gas pipelines and may also issue debt to finance operations. Certain borrowings of its regulated utility subsidiaries are secured by the assets of those subsidiaries. As of December 31, 2006, outstanding debt of MidAmerican maturing in 2007 and 2008 was $3.6 billion, with an additional $1.7 billion due before 2012. During 2006, Berkshire made a five year commitment to provide up to $3.5 billion of additional capital to MidAmerican to permit the repayment of its debt obligations or to fund its regulated utility subsidiaries. Berkshire has not and does not intend to guarantee the repayment of debt by MidAmerican or any of its subsidiaries.

Berkshire's consolidated notes payable and other borrowings of insurance and other businesses, was $3.7 billion at December 31, 2006 and $3.6 billion at December 31, 2005. As of December 31, 2006, outstanding borrowings include parent company borrowings of $612 million that mature in 2007, including senior notes issued as part of the SQUARZ securities in 2002. The outstanding SQUARZ securities consist of $334 million principal amount of senior notes due in November 2007 and outstanding warrants that expire in May 2007 to purchase 3,716 Class A equivalent shares of Berkshire common stock. A warrant premium is payable to Berkshire at an annual rate of 3.75% and interest is payable to note holders at a rate of 3.00%. Each warrant provides the holder the right to purchase either 0.1116 shares of Class A or 3.348 shares of Class B stock for $10,000. Short-term borrowings consist primarily of commercial paper and bank loans of NetJets, which are used in the ordinary course of business. The full and timely payment of such borrowings is guaranteed by Berkshire.

Assets of the finance and financial products businesses were $24.6 billion as of December 31, 2006 and $24.5 billion as of December 31, 2005, consisting primarily of loans and finance receivables, fixed maturity securities and cash and cash equivalents. Liabilities were $19.4 billion as of December 31, 2006 and $20.3 billion as of December 31, 2005 and include notes and other borrowings of $12.0 billion at December 31, 2006 and $10.9 billion at December 31, 2005. Notes payable include $8.85 billion par amount of medium-term notes issued by Berkshire Hathaway Finance Corporation ("BHFC"). The notes mature at various dates beginning in 2007 ($700 million) through 2015. The proceeds from these notes were used to finance originated and acquired loans of Clayton Homes. Full and timely payment of principal and interest on the notes issued by BHFC is guaranteed by Berkshire. In addition, during the fourth quarter of 2006, Clayton Homes borrowed $1.3 billion under non-public pass-through arrangements having an expected weighted average life of approximately eight years. Such borrowings are secured by portfolios of manufactured housing loans and are not guaranteed by Berkshire. The proceeds from these borrowings will be used to repay certain debt of BHFC.

Contractual Obligations

Berkshire and its subsidiaries are parties to contracts associated with ongoing business and financing activities, which will result in cash payments to counterparties in future periods. Notes payable are reflected in the Consolidated Financial Statements along with accrued but unpaid interest as of the balance sheet date. In addition, Berkshire is obligated to pay interest under debt obligations for periods subsequent to the balance sheet date. Although certain principal balances may be prepaid in advance of the maturity date, thus reducing future interest obligations, it is assumed that no principal prepayments will occur for purposes of this disclosure. Further, while short-term borrowings and repurchase agreements are currently expected to be renewed as they mature, such amounts are not assumed to renew for purposes of this disclosure.

Berkshire and subsidiaries are also parties to long-term contracts to acquire goods or services in the future, which are not currently reflected in the financial statements. Such obligations, including future minimum rentals under operating leases, will be reflected in future periods as the goods are delivered or services provided. Amounts due as of the balance sheet date for purchases where the goods and services have been received and a liability incurred are not included to the extent that such amounts are due within one year of the balance sheet date.

Contractual obligations for unpaid losses and loss adjustment expenses arising under property and casualty insurance contracts are estimates. The timing and amount of such payments are contingent upon the ultimate outcome of claim settlements that will occur over many years. The amounts presented in the following table have been estimated based upon past claim settlement activities. The timing and amount of such payments are subject to significant estimation error. The factors affecting the ultimate amount of claims are discussed in the following section regarding Berkshire's critical accounting policies. Accordingly, the actual timing and amount of payments may differ materially from the amounts shown in the table.

A summary of long-term contractual obligations as of December 31, 2006 follows. Amounts represent estimates of gross undiscounted amounts payable over time. In addition, certain losses and loss adjustment expenses for property and casualty loss reserves are ceded to others under reinsurance contracts and therefore are recoverable. Such recoverables are not reflected in the table. Amounts are in millions.

		Estimated payments due by period			
	Total	2007	2008-2009	2010-2011	After 2011
Notes payable and other borrowings [1]	$ 51,189	$ 6,794	$ 9,125	$ 5,765	$29,505
Operating leases	2,314	503	757	453	601
Purchase obligations [2]	25,017	6,441	6,436	4,848	7,292
Unpaid losses and loss expenses [3]	50,405	11,679	13,156	7,291	18,279
Other long-term policyholder liabilities	4,050	130	178	336	3,406
Other [4]	11,797	1,072	983	1,133	8,609
Total	$144,772	$26,619	$30,635	$19,826	$67,692

(1) *Includes interest.*
(2) *Principally relates to NetJets' aircraft purchases and MidAmerican purchases of coal, electricity and natural gas.*
(3) *Before reserve discounts of $2,793 million.*
(4) *Principally annuity reserves, employee benefits and derivative contract liabilities.*

Critical Accounting Policies

Certain accounting policies require management to make estimates and judgments concerning transactions that will be settled several years in the future. Amounts recognized in the financial statements from such estimates are necessarily based on numerous assumptions involving varying and potentially significant degrees of judgment and uncertainty. Accordingly, the amounts currently reflected in the financial statements will likely increase or decrease in the future as additional information becomes available.

Property and casualty losses

A summary of Berkshire's consolidated liabilities for unpaid property and casualty losses is presented in the table below. Except for certain workers' compensation reserves, liabilities for unpaid property and casualty losses (referred to in this section as "gross unpaid losses") are reflected in the Consolidated Balance Sheets without discounting for time value, regardless of the length of the claim-tail. Amounts are in millions.

	Gross unpaid losses		Net unpaid losses*	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
GEICO	$ 6,095	$ 5,578	$ 5,814	$ 5,285
General Re	20,444	21,524	18,361	20,429
BHRG	16,832	17,202	14,255	14,577
Berkshire Hathaway Primary Group	4,241	3,730	3,741	3,271
Total	$47,612	$48,034	$42,171	$43,562

* *Net of reinsurance recoverable and deferred charges reinsurance assumed and before foreign currency translation effects.*

***Property and casualty losses** (Continued)*

Berkshire records liabilities for unpaid losses and loss adjustment expenses under property and casualty insurance and reinsurance contracts based upon estimates of the ultimate amounts payable under the contracts with respect to losses occurring on or before the balance sheet date. Depending on the type of loss being estimated, the timing and amount of loss payments are subject to a great degree of variability and are contingent, among other things, upon the timing of the claim reporting from insureds and cedants and the determination and payment of the ultimate loss amount through the loss adjustment process. A variety of techniques are used to establish and review the liabilities for unpaid losses recorded as of the balance sheet date. While techniques may vary, significant judgments and assumptions are necessary in projecting the ultimate amount payable in the future with respect to loss events that have occurred. As a result, uncertainties are imbedded in and permeate the actuarial loss reserving techniques and processes for all of Berkshire's property and casualty insurance and reinsurance businesses.

As of any balance sheet date, claims that have occurred have not all been reported, and if reported may not have been settled. Loss and loss adjustment expense reserves include provisions for those claims that have been reported (referred to as "case reserves") and for those claims that have not been reported, referred to as incurred but not yet reported ("IBNR") reserves. The time period between the occurrence date and payment date of a loss is referred to as the "claim-tail." Property claims usually have fairly short claim-tails and, absent litigation, are reported and settled within no more than a few years after occurrence. Casualty losses usually have very long claim-tails, occasionally extending for decades. Casualty claims are more susceptible to litigation and can be significantly affected by changing contract interpretations and the legal environment which contributes to the extended claim-tails.

Receivables recorded with respect to insurance losses ceded to other reinsurers under reinsurance contracts are estimated in a manner similar to liabilities for insurance losses and, therefore, are also subject to estimation error. In addition to the factors cited above, reinsurance recoverables may ultimately prove to be uncollectible if the reinsurer is unable to perform under the contract. Reinsurance contracts do not relieve the ceding company of its obligations to indemnify its own policyholders.

Each of Berkshire's insurance businesses utilize loss reserving techniques that are believed to best fit the business. Additional information regarding reserves established by each of the significant businesses (GEICO, General Re and BHRG) follows.

<u>GEICO</u>

GEICO's gross unpaid losses and loss adjustment expense reserves as of December 31, 2006 were $6,095 million and net of reinsurance recoverables were $5,814 million. As of December 31, 2006, gross reserves included $4,315 million of reported average, case and case development reserves and $1,780 million of IBNR reserves.

GEICO predominantly writes private passenger auto insurance which has a relatively short claim-tail. Accordingly, the risk of estimation error is thought to be much less at GEICO than for either General Re or BHRG. The key assumptions affecting GEICO's reserves include projections of ultimate claim counts ("frequency") and average loss per claim ("severity"), which includes loss adjustment expenses.

GEICO's reserving methodologies produce reserve estimates based upon the individual claims (or a "ground-up" approach), which in the aggregate yields a point estimate of the ultimate losses and loss adjustment expenses. Ranges of loss estimates are not determined in the aggregate. A detailed discussion of the process and significant factors considered in establishing reserves follows.

Actuaries establish and evaluate unpaid loss reserves using recognized standard statistical loss development methods and techniques. The significant reserve components (and percentage of gross reserves) are: (1) average reserves (20%), (2) case and case development reserves (50%), and (3) IBNR reserves (30%). Each component of loss reserves is affected by the expected frequency and average severity of claims. Such amounts are analyzed using statistical techniques on historical claims data and adjusted when appropriate to reflect perceived changes in loss patterns. Data is analyzed by policy coverage, rated state, reporting date and occurrence date, among other factors. A brief discussion of each component follows.

Average reserve amounts are established for reported auto damage claims and new liability claims prior to the development of an individual case reserve. The average reserves are established as a reasonable estimate for incurred claims for which claims adjusters have insufficient time and information to make a specific claim estimate. It also includes a large number of minor physical damage claims that are paid within a reasonably short time after being reported. Average reserve amounts are driven by the estimated average severity per claim and the number of new claims opened. The average severity per claim amount is developed by projecting the ultimate severity for each accident quarter and weighting with both reported claims and estimated unreported claims.

Claims adjusters generally establish individual liability claim case loss and loss adjustment expense reserve estimates as soon as the specific facts and merits of each claim can be evaluated. Case reserves represent the amounts that in the judgment of the adjusters are reasonably expected to be paid in the future to completely settle the claim, including expenses. Individual case reserves are revised as more information becomes known.

For most liability coverages, case reserves alone are an insufficient measure of the ultimate cost due in part to the longer claim-tail, the greater chance of protracted litigation and the incompleteness of facts available at the time the case reserve is established. Therefore, additional case development reserve estimates are established, usually as a percentage of the case reserve. As of December 31, 2006, case development reserves averaged approximately 20% of total established case reserves. In general, case development factors are selected by a retrospective analysis of the overall adequacy of historical case reserves. Case development factors are reviewed and revised periodically.

Property and casualty losses *(Continued)*

<u>*GEICO*</u> *(Continued)*

For unreported claims, IBNR reserve estimates are calculated by first projecting the ultimate number of claims expected (reported and unreported) for each significant coverage by using historical quarterly and monthly claim counts, to develop age-to-age projections of the ultimate counts by accident quarter. Reported claims are subtracted from the ultimate claim projections to produce an estimate of the number of unreported claims. The number of unreported claims is multiplied by an estimate of the average cost per unreported claim to produce the IBNR reserve amount. Actuarial techniques are difficult to apply reliably in certain situations, such as to new legal precedents, class action suits or recent catastrophes. Consequently, supplemental IBNR reserves for these types of events may be established through the collaborative effort of actuarial, claims and other management.

For each of its major coverages, GEICO tests the adequacy of the total loss reserves using one or more actuarial projections based on claim closure models, paid loss triangles and incurred loss triangles. Each type of projection analyzes loss occurrence data for claims occurring in a given period and projects the ultimate cost.

In 2006, claim frequencies were generally lower than expected and severity increases were generally not as great as originally projected. Loss reserve estimates recorded at the end of 2005 developed downward by approximately $410 million when reevaluated at December 31, 2006 producing a corresponding increase to pre-tax earnings in 2006. These downward reserve developments represented approximately 4% of earned premiums in 2006 and approximately 7% of the prior year-end reserve amount. Reserving assumptions at December 31, 2006 were modified appropriately to reflect the most recent frequency and severity results. Future reserve development will depend on whether frequency and severity turn out to be more or less than anticipated. Within the automobile line of business the reserves with the most uncertainty are for automobile liability, due to the longer claim-tails for most of these coverages. Approximately 90% of GEICO's reserves as of December 31, 2006 were for automobile liability, of which bodily injury ("BI") coverage accounted for nearly 60% of the automobile liability reserves. Management believes it is reasonably possible that the average BI severity will change by at least one percentage point from the severity used. If actual BI severity changes one percentage point from what was used in establishing the reserves, the reserves would develop up or down by approximately $90 million resulting in a corresponding decrease or increase in pre-tax earnings. Many of the same economic forces that would likely cause BI severity to be different from expected would likely also cause severities for other injury coverages to differ in the same direction.

GEICO's exposure to highly uncertain losses is believed to be limited to certain commercial excess umbrella policies written during a period from 1981 to 1984. Remaining reserves associated with such exposure are currently a relatively insignificant component of GEICO's total reserves (less than 3%) and there is little, if any, apparent asbestos or environmental liability exposure. Related claim activity over the past year was insignificant.

<u>*General Re and BHRG*</u>

General Re's and BHRG's property and casualty loss reserves derive primarily from assumed reinsurance. Additional uncertainties unique to loss reserving processes for reinsurance are described below. The nature, extent, timing and perceived reliability of information received from ceding companies varies widely depending on the type of coverage, the contractual reporting terms (which are affected by market conditions and practices) and other factors. Due to the lack of standardization of the terms and conditions of reinsurance contracts, the wide variability of coverage needs of individual clients and the tendency for those needs to change rapidly in response to market conditions, the ongoing economic impact of such uncertainties, in and of themselves, cannot be reliably measured.

The nature and extent of loss information provided under many facultative, per occurrence excess contracts or retroactive contracts where company personnel work closely with the ceding company in settling individual claims may not differ significantly from the information received under a primary insurance contract. Loss information from aggregate excess of loss contracts, including catastrophe losses and quota-share treaties, is often less detailed. Occasionally such information is reported in summary format rather than on an individual claim basis. Loss data is provided through periodic reports and may include the amount of ceded losses paid where reimbursement is sought as well as case loss reserve estimates. Ceding companies infrequently provide IBNR estimates to reinsurers.

Each of Berkshire's reinsurance businesses has established practices to identify and gather needed information from clients. These practices include, for example, comparison of expected premiums to reported premiums to help identify delinquent client periodic reports, and claim reviews to facilitate loss reporting and identify inaccurate or incomplete claim reporting. These practices are periodically evaluated and changed as conditions, risk factors, and unanticipated areas of exposures are identified.

The timing of claim reporting to reinsurers is delayed in comparison with primary insurance. In some instances there are multiple reinsurers assuming and ceding parts of an underlying risk causing multiple contractual intermediaries between General Re or BHRG and the primary insured. In these instances, the delays in reporting can be compounded. The relative impact of reporting delays on the reinsurer varies depending on the type of coverage, contractual reporting terms and other factors. Contracts covering casualty losses on a per occurrence excess basis may experience longer delays in reporting due to the length of the claim-tail as regards to the underlying claim. In addition, ceding companies may not report claims to the reinsurer until it becomes reasonably possible that the reinsurer will be affected, usually determined as a function of its estimate of the claim amount as a percentage of the reinsurance contract retention. On the other hand, the timing of reporting large per occurrence excess property losses or property catastrophe losses may not vary significantly from primary insurance.

***Property and casualty losses** (Continued)*

General Re and BHRG (Continued)

Under contracts where periodic premium and claims reports are required from ceding companies, such reports are generally required at quarterly intervals which in the U.S. range from 30 to 90 days after the end of the accounting period. In continental Europe, reinsurance reporting practices vary. Fewer clients report premiums, losses, and case reserves on a quarterly basis. In certain countries, clients report on an annual basis and generally not until 90 to 180 days after the end of the annual period. Estimates of premiums and losses are accrued based on expected results supplemented when necessary for estimates of significant known events occurring in the interim. To monitor the timing and receipt of information due, client reporting requirements are tracked. When clients miss reporting deadlines, the clients are contacted.

Premium and loss data is provided through at least one intermediary (the primary insurer), so there is a greater risk that the loss data provided is incomplete, inaccurate or outside the coverage terms. Information provided by ceding companies is reviewed for completeness and compliance with the contract terms. Reinsurance contracts generally allow for Berkshire's reinsurance subsidiaries to have access to the cedant's books and records as regards to the subject business and provide them the ability to conduct audits to determine the accuracy and completeness of information. Such audits are conducted when management deems it appropriate.

In the regular course of business, disputes with clients may arise concerning whether certain claims are covered under the reinsurance policies. Most disputes are resolved by the claims departments by discussing coverage aspects with the appropriate client personnel or independent outside counsel review and determination. If disputes cannot be resolved, contracts generally specify whether arbitration, litigation, or alternative dispute resolution will be invoked. There are no coverage disputes at this time for which an adverse resolution would likely have a material impact on Berkshire's results of operations or financial condition.

In summary, the scope, number and potential variability of assumptions required in estimating ultimate losses from reinsurance contracts of General Re and BHRG are more uncertain than primary property and casualty insurers due to the factors previously discussed. Additional information concerning General Re and BHRG follows.

General Re

General Re's gross and net unpaid losses and loss adjustment expenses and gross reserves by major line of businesses as of December 31, 2006 are summarized below. Amounts are in millions.

Type		Line of business	
Reported case reserves	$11,074	Workers' compensation [1]	$ 3,206
IBNR reserves	9,370	Professional liability [2]	1,832
Gross reserves	20,444	Mass tort–asbestos/environmental	1,853
Ceded reserves and deferred charges	(2,083)	Auto liability	2,902
Net reserves	$18,361	Other casualty [3]	4,129
		Other general liability	3,588
		Property	2,934
		Total	$20,444

[1] *Net of discounts of $2,761 million.*

[2] *Includes directors and officers and errors and omissions coverage.*

[3] *Includes medical malpractice and umbrella coverage.*

General Re's process of establishing loss reserve estimates is based upon a ground-up approach, beginning with case estimates and supplemented by additional case reserves ("ACRs") and IBNR reserves. Critical judgments in the establishment of these loss reserves may involve the establishment of ACRs by claim examiners, the expectation of ultimate loss ratios which drive IBNR reserve amounts and the case reserve reporting trends compared to the expected loss reporting patterns. Recorded reserve amounts are subject to "tail risk" where reported losses develop beyond the maximum expected loss emergence pattern time period.

The company does not routinely determine loss reserve ranges because it believes that the techniques necessary have not sufficiently developed and the myriad of assumptions required render such resulting ranges to be unreliable. In addition, counts of claims or average amounts per claim are not utilized because clients do not consistently provide reliable data in sufficient detail.

Upon notification of a reinsurance claim from a ceding company, claim examiners make independent evaluations of loss amounts. In some cases, examiners' estimates differ from amounts reported by ceding companies. If the examiners' estimates are significantly greater than the ceding company's estimates, the claims are further investigated. If deemed appropriate, ACRs are established above the amount reported by the ceding company. As of December 31, 2006, ACRs of $3.4 billion before discounts were concentrated in workers' compensation and to a lesser extent in professional liability reserves. Examiners also periodically conduct claim reviews at client companies and case reserves are often increased as a result. In 2006, claim examiners conducted about 450 claim reviews.

Actuaries classify all loss and premium data into segments ("reserve cells") primarily based on product (e.g., treaty, facultative, and program) and line of business (e.g., auto liability, property, etc.). For each reserve cell, losses are aggregated by accident year and analyzed over time. Depending on client reporting practices, some losses and premiums are aggregated by policy year. These loss aggregations are internally called loss triangles, which serve as the primary basis for IBNR reserve calculations. Over 300 reserve cells are reviewed for North American business and approximately 900 reserve cells are reviewed with respect to international business.

Loss triangles are used to determine the expected case loss emergence patterns for most coverages and, in conjunction with expected loss ratios by accident year, are further used to determine IBNR reserves. Additional calculations form the basis for estimating the expected loss emergence pattern. The determination of the expected loss emergence pattern is not strictly a mechanical process. In instances where the historical loss data is insufficient, estimation formulas are used along with reliance on other loss triangles and judgment. Factors affecting loss development triangles include but are not limited to the following: changing client claims practices, changes in claim examiners' use of ACRs or the frequency of client company claim reviews, changes in policy terms and coverage (such as client loss retention levels and occurrence and aggregate policy limits), changes in loss trends and changes in legal trends that result in unanticipated losses, as well as other sources of statistical variability. These items influence the selection of the expected loss emergence patterns.

Expected loss ratios are selected by reserve cell, by accident year, based upon reviewing forecasted losses and indicated ultimate loss ratios predicted from aggregated pricing statistics. Indicated ultimate loss ratios are calculated using the selected loss emergence pattern, reported losses and earned premium. If the selected emergence pattern is not accurate, then the indicated ultimate loss ratios will not be accurate and this can affect the selected loss ratios and hence the IBNR reserve. As with selected loss emergence patterns, selecting expected loss ratios is not a strictly mechanical process and judgment is used in the analysis of indicated ultimate loss ratios and department pricing loss ratios.

IBNR reserves are estimated by reserve cell, by accident year, using the expected loss emergence patterns and the expected loss ratios. The expected loss emergence patterns and expected loss ratios are the critical IBNR reserving assumptions and are updated annually. Once the annual IBNR reserves are determined, actuaries calculate expected case loss emergence for the upcoming calendar year. This calculation does not involve new assumptions and uses the prior year-end expected loss emergence patterns and expected loss ratios. The expected losses are then allocated into interim estimates that are compared to actual reported losses in the subsequent year. This comparison provides a test of the adequacy of prior year-end IBNR reserves and forms the basis for possibly changing IBNR reserve assumptions during the course of the year.

In 2006, reported losses for North American workers' compensation risks (primarily pre-2002 occurrences) exceeded expectations. Claims data continued to show increased costs of long-term medical care and prescription drug costs and increased medical care utilization by claimants. These developments produced changes in expectations for future development of reported claims and resulted in increases in nominal ACRs. For prior years' workers' compensation losses, reported claims exceeded expected claims in 2006 by $19 million. These developments further precipitated a $132 million net increase in nominal IBNR reserve estimates for unreported occurrences. After deducting $33 million for the change in net reserve discounts during the year, workers' compensation losses from prior years' reduced pre-tax earnings in 2006 by $118 million. To illustrate the sensitivity of changes in expected loss emergence patterns and expected loss ratios for General Re's significant excess of loss workers' compensation reserve cells, an increase of ten points in the tail of the expected emergence pattern and an increase of ten percent in the expected loss ratios would produce a net increase in nominal IBNR reserves of approximately $548 million and $278 million on a discounted basis as of December 31, 2006. The increase in discounted reserves would produce a corresponding decrease in pre-tax earnings. Management believes it is reasonably possible for the tail of the expected loss emergence patterns and expected loss ratios to increase at these rates.

Other casualty and general liability reported losses (excluding mass tort losses) were favorable in 2006 relative to expectations after several years of relatively higher reported losses. Casualty losses tend to be long-tail and it should not be assumed that favorable loss experience in a single year (2006) means that loss reserve amounts currently established will continue to develop favorably. For General Re's significant other casualty and general liability reserve cells (including medical malpractice, umbrella, auto and general liability), an increase of five points in the tails of the expected emergence patterns and an increase of five percent in expected loss ratios would produce a net increase in nominal IBNR reserves and a corresponding reduction in pre-tax earnings of approximately $550 million. Management believes it is reasonably possible for the tail of the expected loss emergence patterns and expected loss ratios to increase at these rates in any of the aforementioned reserve cells. However, given the diversification in worldwide business, more likely outcomes are believed to be less than $550 million.

Property losses were lower than expected (including losses related to the World Trade Center) but the nature of property loss experience tends to be more volatile because of the effect of catastrophes and large individual property losses. In response to favorable claim developments and another year of information, estimated remaining World Trade Center losses were reduced by $62 million in 2006, producing a corresponding increase in pre-tax earnings.

In certain reserve cells within excess directors and officers and errors and omissions ("D&O and E&O") coverages, IBNR reserves are based on estimated ultimate losses without consideration of expected emergence patterns. These cells often involve a spike in loss activity arising from recent industry developments making it difficult to select an expected loss emergence pattern. For example, the recent wave of corporate scandals has caused an increase in reported losses. For General Re's large D&O and E&O reserve cells an increase of ten points in the tail of the expected emergence pattern (for those cells where emergence patterns are considered) and an increase of ten percent in the expected loss ratios would produce a net increase in nominal IBNR reserves and a corresponding reduction in pre-tax earnings of approximately $133 million. Management believes it is reasonably possible for the tail of the expected loss emergence patterns and expected loss ratios to increase at these rates.

Overall industry-wide loss experience data and informed judgment are used when internal loss data is of limited reliability, such as in setting the estimates for mass tort, asbestos and hazardous waste (collectively, "mass tort") claims. Unpaid mass tort reserves at December 31, 2006 were approximately $1.9 billion gross and $1.2 billion net of reinsurance. Such reserves were approximately $1.8 billion gross and $1.3 billion net of reinsurance as of December 31, 2005. Claims paid attributable to such losses were about $97 million in 2006. In 2006, reserves for mass tort claims were increased in response to continued reports of losses and the increased uncertainty of how, when and how much these types of losses will develop over time. In 2006, IBNR reserve estimates for asbestos and environmental claims were increased by $58 million, which decreased pre-tax earnings by $58 million. In addition to the previously described methodologies, General Re considers "survival ratios" based on net claim payments in recent years versus net unpaid losses as a rough guide to reserve adequacy. The survival ratio was approximately 13 years as of December 31, 2006. The insurance industry's comparable survival ratio for asbestos and pollution reserves was approximately nine years. Estimating mass tort losses is very difficult due to the changing legal environment. Although such reserves are believed to be adequate, significant reserve increases may be required in the future if new exposures or claimants are identified, new claims are reported or new theories of liability emerge.

BHRG

BHRG's unpaid losses and loss adjustment expenses as of December 31, 2006 are summarized as follows. Amounts are in millions.

	Property	Casualty	Total
Reported case reserves	$ 2,385	$ 2,244	$ 4,629
IBNR reserves	1,082	3,067	4,149
Retroactive	—	8,054	8,054
Gross reserves	$ 3,467	$13,365	16,832
Deferred charges and ceded reserves			(2,577)
Net reserves			$14,255

In general, the methodologies used to establish loss reserves vary widely and encompass many of the common methodologies employed in the actuarial field today. Certain traditional methodologies such as paid and incurred loss development techniques, incurred and paid loss Bornhuetter-Ferguson techniques and frequency and severity techniques are utilized. Additional judgments must also be employed to consider changes in contract conditions and terms as well as the incidence of litigation or legal and regulatory change.

As of December 31, 2006, BHRG's gross loss reserves related to retroactive reinsurance policies were attributed to casualty losses. Retroactive policies include excess-of-loss contracts, in which losses (relating to loss events occurring before a specified date on or before the contract date) above a contractual retention are indemnified or contracts that indemnify all losses paid by the counterparty after the policy effective date. Retroactive losses paid in 2006 were $858 million, essentially all of which pertained to pre-2006 contracts. The classification "reported case reserves" has no practical analytical value with respect to retroactive policies since the amount is often derived from reports in bulk from ceding companies, who may have inconsistent definitions of "case reserves." Reserves are reviewed and established in the aggregate by contract including provisions for IBNR reserves.

In establishing retroactive reinsurance reserves, historical aggregate loss payment patterns are analyzed and projected into the future under various scenarios. The claim-tail is expected to be very long for many policies and may last several decades. Management assigns judgmental probability factors to these aggregate loss payment scenarios and an expectancy outcome is determined. Management monitors claim payment activity and reviews ceding company reports or other information concerning the underlying losses. Since the claim-tail is expected to be very long for such contracts, management reassesses expected ultimate losses as significant events related to the underlying losses are reported or revealed during the monitoring and review process. During 2006, retroactive reserves developed downward by approximately $235 million, due primarily to commutations of contracts where final loss payments were less than the recorded reserves.

BHRG's liabilities for environmental, asbestos, and latent injury losses and loss adjustment expenses are presently concentrated within retroactive reinsurance contracts. Reserves for such losses were approximately $3.8 billion at December 31, 2006 and $4.0 billion at December 31, 2005. Losses paid in 2006 were approximately $300 million. BHRG, as a reinsurer, does not regularly receive reliable information regarding numbers of asbestos, environmental and latent injury claims from ceding companies on a consistent basis, particularly with respect to multi-line treaty or aggregate excess of loss policies. Periodically, a ground-up analysis of the underlying loss data of the reinsured is conducted to make an estimate of ultimate reinsured losses. When detailed loss information is unavailable, estimates can only be developed by applying recent industry trends and projections to aggregate client data. Judgments in these areas necessarily include the stability of the legal and regulatory environment under which these claims will be adjudicated. The increasing number of bankruptcies of asbestos manufacturers has adversely impacted trends in recent years. Potential legal reform and legislation could also have a significant impact on establishing loss reserves for mass tort claims in the future.

The maximum losses payable by BHRG under retroactive policies are not expected to exceed approximately $10.8 billion as of December 31, 2006. Absent significant judicial or legislative changes affecting asbestos, environmental or latent injury exposures, management believes it unlikely that unpaid losses as of December 31, 2006 ($8.1 billion) will develop upward to the maximum loss payable or downward by more than 15%.

A significant number of recent reinsurance contracts are expected to have a low frequency of claim occurrence combined with a potential for high severity of claims. These include losses from catastrophes, terrorism, and aviation risks under catastrophe and individual risk contracts. Loss reserves related to catastrophe and individual risk contracts decreased from approximately $3.5 billion at year end 2005 to approximately $2.2 billion at year end 2006. The decrease in reserves reflected loss payments in 2006 of approximately $1.7 billion that were primarily attributable to the major hurricanes that occurred in 2005.

Partially offsetting the effect of the loss payments were increases in loss reserves on pre-2006 events of approximately $200 million that produced a corresponding charge to pre-tax earnings in 2006. The reserve increases were primarily due to higher than expected reported losses on Hurricane Wilma which occurred in the fourth quarter of 2005. Reserving techniques for catastrophe and individual risk contracts generally rely more on a per-policy assessment of the ultimate cost associated with the individual loss event rather than with an analysis of the historical development patterns of past losses. Catastrophe loss reserves are provided when it is probable that an insured loss has occurred and the amount can be reasonably estimated. Absent litigation affecting the interpretation of coverage terms, the expected claim-tail is relatively short and thus the estimation error in the initial reserve estimates usually emerges within 24 months after the loss event.

Other reinsurance reserve amounts are generally based upon loss estimates reported by ceding companies and IBNR reserves that are primarily a function of reported losses from ceding companies and anticipated loss ratios established on an individual contract basis, supplemented by management's judgment of the impact on each contract of major catastrophe events as they become known. Anticipated loss ratios are based upon management's judgment considering the type of business covered, analysis of each ceding company's loss history and evaluation of that portion of the underlying contracts underwritten by each ceding company, which are in turn ceded to BHRG. A range of reserve amounts as a result of changes in underlying assumptions is not prepared.

Other Critical Accounting Policies

Berkshire records as assets deferred charges with respect to liabilities assumed under retroactive reinsurance contracts. At the inception of these contracts, the deferred charges represent the difference between the consideration received and the estimated ultimate liability for unpaid losses. Deferred charges are amortized using the interest method over an estimate of the ultimate claim payment period and are reflected in earnings as a component of losses and loss expenses. The deferred charge balances are adjusted periodically to reflect new projections of the amount and timing of loss payments. Adjustments to these assumptions are applied retrospectively from the inception of the contract. Unamortized deferred charges were $2.0 billion at December 31, 2006. Significant changes in the amount and payment timing of estimated unpaid losses may have a significant effect on unamortized deferred charges and the amount of periodic amortization.

Berkshire's Consolidated Balance Sheet as of December 31, 2006 includes goodwill of acquired businesses of approximately $32.2 billion. A significant amount of judgment is required in performing goodwill impairment tests. Such tests include periodically determining or reviewing the estimated fair value of Berkshire's reporting units. There are several methods of estimating a reporting unit's fair value, including market quotations, asset and liability fair values and other valuation techniques, such as discounted projected future net earnings and multiples of earnings. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then individual assets, including identifiable intangible assets, and liabilities of the reporting unit are estimated at fair value. The excess of the estimated fair value of the reporting unit over the estimated fair value of net assets would establish the implied value of goodwill. The excess of the recorded amount of goodwill over the implied value is then charged to earnings as an impairment loss.

Berkshire's consolidated financial position reflects very significant amounts of invested assets. A substantial portion of these assets are carried at fair values based upon current market quotations and, when not available, based upon fair value pricing models. Certain of Berkshire's fixed maturity securities are not actively traded in the financial markets. Further, Berkshire's finance businesses maintain significant balances of finance receivables, which are carried at amortized cost. Considerable judgment is required in determining the assumptions used in certain valuation models, including interest rate, loan prepayment speed, credit risk and liquidity risk assumptions. Significant changes in these assumptions can have a significant effect on carrying values.

Information concerning recently issued accounting pronouncements which are not yet effective is included in Note 1(r) to the Consolidated Financial Statements. Berkshire does not expect that the adoption of any of the recently issued accounting pronouncements will have a material effect on its financial condition.

Market Risk Disclosures

Berkshire's Consolidated Balance Sheets include a substantial amount of assets and liabilities whose fair values are subject to market risks. Berkshire's significant market risks are primarily associated with interest rates, equity prices, foreign currency exchange rates and commodity prices. The following sections address the significant market risks associated with Berkshire's business activities.

Interest Rate Risk

Berkshire's management prefers to invest in equity securities or to acquire entire businesses based upon the principles discussed in the following section on equity price risk. When unable to do so, management may alternatively invest in bonds, loans or other interest rate sensitive instruments. Berkshire's strategy is to acquire securities that are attractively priced in relation to the perceived credit risk. Management recognizes and accepts that losses may occur. Further, Berkshire strives to maintain the highest credit ratings so that the cost of debt is minimized. Berkshire utilizes derivative products, such as interest rate swaps, to manage interest rate risks on a limited basis.

The fair values of Berkshire's fixed maturity investments and notes payable and other borrowings will fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions. Fixed interest rate investments may be more sensitive to interest rate changes than variable rate investments.

Interest Rate Risk *(Continued)*

The following table summarizes the estimated effects of hypothetical increases and decreases in interest rates on assets and liabilities that are subject to interest rate risk. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. The hypothetical changes in market interest rates do not reflect what could be deemed best or worst case scenarios. Variations in market interest rates could produce significant changes in the timing of repayments due to prepayment options available. For these reasons, actual results might differ from those reflected in the table. Dollars are in millions.

		Estimated Fair Value after Hypothetical Change in Interest Rates (bp=basis points)			
Insurance and other businesses	Fair Value	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
December 31, 2006					
Investments in fixed maturity securities	$25,300	$25,939	$24,663	$24,079	$23,558
Notes payable and other borrowings	3,815	3,872	3,765	3,720	3,679
December 31, 2005					
Investments in fixed maturity securities	$27,420	$28,199	$26,655	$25,942	$25,327
Notes payable and other borrowings	3,653	3,693	3,616	3,584	3,553
Finance and financial products businesses *					
December 31, 2006					
Investments in fixed maturity securities and loans and finance receivables	$14,987	$15,994	$13,986	$13,062	$12,224
Notes payable and other borrowings **	11,949	12,363	11,525	11,152	10,805
December 31, 2005					
Investments in fixed maturity securities and loans and finance receivables	$14,817	$15,508	$14,068	$13,358	$12,699
Notes payable and other borrowings **	11,476	11,902	11,004	10,607	10,239
Utilities and energy businesses					
December 31, 2006					
Notes payable and other borrowings	$17,789	$19,256	$16,548	$15,486	$14,569

* *Excludes General Re Securities.*

** *Includes securities sold under agreements to repurchase and effects of interest rate swaps.*

Equity Price Risk

Strategically, Berkshire strives to invest in businesses that possess excellent economics, with able and honest management and at sensible prices. Berkshire's management prefers to invest a meaningful amount in each investee. Accordingly, Berkshire's equity investments are generally concentrated in relatively few investees. At December 31, 2006, 54% of the total fair value of equity investments was concentrated in four investees.

Berkshire's preferred strategy is to hold equity investments for very long periods of time. Thus, Berkshire's management is not troubled by short-term equity price volatility with respect to its investments provided that the underlying business, economic and management characteristics of the investees remain favorable. Berkshire strives to maintain above average levels of shareholder capital to provide a margin of safety against short-term equity price volatility.

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

The table which follows summarizes Berkshire's equity price risk as of December 31, 2006 and 2005 and shows the effects of a hypothetical 30% increase and a 30% decrease in market prices as of those dates. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the aforementioned concentrations existing in Berkshire's equity investment portfolio. Dollars are in millions.

	Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
As of December 31, 2006	$61,533	30% increase	$79,993	11.0
		30% decrease	43,073	(11.0)
As of December 31, 2005	$46,721	30% increase	$60,737	9.9
		30% decrease	32,705	(9.9)

Equity Price Risk *(Continued)*

Berkshire is also subject to equity price risk with respect to certain long duration equity index option contracts. Berkshire's maximum exposure with respect to such contracts was approximately $21 billion and $14 billion at December 31, 2006 and 2005, respectively. These contracts generally expire 15 to 20 years from inception and they may not be settled before their respective expiration dates. The contracts have been written on four major equity indexes including three that are foreign. While Berkshire's ultimate potential loss with respect to these contracts is directly correlated to the movement of the underlying stock index between contract inception date and expiration, the change in fair value from current changes in the indices do not produce a proportional change in the estimated fair value of the contracts. Other factors (such as expected future interest rates, dividend rates and the remaining duration of the contract as well as the general market assumptions) affect the estimates of fair value reflected in the financial statements. Thus, if the underlying indices declined 30% immediately, and absent changes in other factors, Berkshire estimates that it could incur a non-cash pre-tax loss of approximately $2 billion from the change in the estimated fair value of open contracts as of December 31, 2006.

Foreign Currency Risk

Market risks associated with changes in foreign currency exchange rates are currently concentrated in a portfolio of long duration equity index option contracts on foreign equity indexes. In 2005, Berkshire also had significant exposure to foreign currency risk from a portfolio of short duration forward contracts. The aggregate notional value of forward contracts was approximately $1 billion as of December 31, 2006 compared to approximately $13.8 billion as of December 31, 2005.

The following table summarizes the outstanding derivatives contracts as of December 31, 2006 and 2005 with foreign currency risk and shows the estimated changes in values of the contracts assuming changes in the underlying exchange rates applied immediately and uniformly across all currencies. The changes in value do not necessarily reflect the best or worst case scenarios and actual results may differ. Dollars are in millions.

	Fair Value assets (liabilities)	Estimated Fair Value Assuming a Hypothetical Percentage Increase (Decrease) in the Value of Foreign Currencies Versus the U.S. Dollar (20%)	(10%)	(1%)	1%	10%	20%
December 31, 2006	$(2,041)	$(1,819)	$(1,936)	$(2,031)	$(2,051)	$(2,131)	$(2,200)
December 31, 2005	(1,603)	(3,789)	(2,752)	(1,724)	(1,481)	(305)	1,198

Commodity Price Risk

Berkshire, through its ownership of MidAmerican, is subject to commodity risk. Exposures include variations in the price of wholesale electricity that is purchased and sold, fuel costs to generate electricity, and natural gas supply for regulated retail gas customers. Electricity and natural gas prices are subject to wide price swings as demand responds to, among many other items, changing weather, limited storage, transmission and transportation constraints, and lack of alternative supplies from other areas. To mitigate a portion of the risk, MidAmerican uses derivative instruments, including forwards, futures, options, swaps and other over-the-counter agreements, to effectively secure future supply or sell future production at fixed prices. The settled cost of these contracts is generally recovered from customers in regulated rates. Accordingly, the net unrealized gains and losses associated with interim price movements on such contracts are recorded as regulatory assets or liabilities. Financial results may be negatively impacted if the costs of wholesale electricity, fuel and or natural gas are higher than what is permitted to be recovered in rates. MidAmerican also uses futures, options and swap agreements to economically hedge gas and electric commodity prices for physical delivery to non-regulated customers. MidAmerican does not engage in a material amount of proprietary trading activities.

The table that follows summarizes Berkshire's commodity risk on energy derivative contracts as of December 31, 2006 and shows the effects of a hypothetical 10% increase and a 10% decrease in forward market prices by the expected volumes for these contracts as of that date. The selected hypothetical change does not reflect what could be considered the best or worst case scenarios. Dollars are in millions.

	Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Price
As of December 31, 2006	$ (273)	10% increase	$ (220)
		10% decrease	$ (326)

Management's Report on Internal Control Over Financial Reporting

Management of Berkshire Hathaway Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, we used the criteria set forth in the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears below.

Berkshire Hathaway Inc.
February 26, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Berkshire Hathaway Inc.

We have audited management's assessment, included in the accompanying, Management's Reports on Internal Control Over Financial Reporting, that Berkshire Hathaway Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements with an explanatory paragraph relating to the change in the Company's accounting for pension and other postretirement benefits to conform to Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
February 28, 2007

In June 1996, Berkshire's Chairman, Warren E. Buffett, issued a booklet entitled **"An Owner's Manual"** to Berkshire's Class A and Class B shareholders. The purpose of the manual was to explain Berkshire's broad economic principles of operation. An updated version is reproduced on this and the following four pages.

OWNER-RELATED BUSINESS PRINCIPLES

At the time of the Blue Chip merger in 1983, I set down 13 owner-related business principles that I thought would help new shareholders understand our managerial approach. As is appropriate for "principles," all 13 remain alive and well today, and they are stated here in italics.

1. *Although our form is corporate, our attitude is partnership. Charlie Munger and I think of our shareholders as owner-partners, and of ourselves as managing partners. (Because of the size of our shareholdings we are also, for better or worse, controlling partners.) We do not view the company itself as the ultimate owner of our business assets but instead view the company as a conduit through which our shareholders own the assets.*

   Charlie and I hope that you do not think of yourself as merely owning a piece of paper whose price wiggles around daily and that is a candidate for sale when some economic or political event makes you nervous. We hope you instead visualize yourself as a part owner of a business that you expect to stay with indefinitely, much as you might if you owned a farm or apartment house in partnership with members of your family. For our part, we do not view Berkshire shareholders as faceless members of an ever-shifting crowd, but rather as co-venturers who have entrusted their funds to us for what may well turn out to be the remainder of their lives.

   The evidence suggests that most Berkshire shareholders have indeed embraced this long-term partnership concept. The annual percentage turnover in Berkshire's shares is a small fraction of that occurring in the stocks of other major American corporations, even when the shares I own are excluded from the calculation.

   In effect, our shareholders behave in respect to their Berkshire stock much as Berkshire itself behaves in respect to companies in which it has an investment. As owners of, say, Coca-Cola or American Express shares, we think of Berkshire as being a non-managing partner in two extraordinary businesses, in which we measure our success by the long-term progress of the companies rather than by the month-to-month movements of their stocks. In fact, we would not care in the least if several years went by in which there was no trading, or quotation of prices, in the stocks of those companies. If we have good long-term expectations, short-term price changes are meaningless for us except to the extent they offer us an opportunity to increase our ownership at an attractive price.

2. *In line with Berkshire's owner-orientation, most of our directors have a major portion of their net worth invested in the company. We eat our own cooking.*

   Charlie's family has 90% or more of its net worth in Berkshire shares; I have about 99%. In addition, many of my relatives — my sisters and cousins, for example — keep a huge portion of their net worth in Berkshire stock.

   Charlie and I feel totally comfortable with this eggs-in-one-basket situation because Berkshire itself owns a wide variety of truly extraordinary businesses. Indeed, we believe that Berkshire is close to being unique in the quality and diversity of the businesses in which it owns either a controlling interest or a minority interest of significance.

   Charlie and I cannot promise you results. But we can guarantee that your financial fortunes will move in lockstep with ours for whatever period of time you elect to be our partner. We have no interest in large salaries or options or other means of gaining an "edge" over you. We want to make money only when our partners do and in exactly the same proportion. Moreover, when I do something dumb, I want you to be able to derive some solace from the fact that my financial suffering is proportional to yours.

3. *Our long-term economic goal (subject to some qualifications mentioned later) is to maximize Berkshire's average annual rate of gain in intrinsic business value on a per-share basis. We do not measure the economic significance or performance of Berkshire by its size; we measure by per-share progress. We are certain that the rate of per-share progress will diminish in the future — a greatly enlarged capital base will see to that. But we will be disappointed if our rate does not exceed that of the average large American corporation.*

4. *Our preference would be to reach our goal by directly owning a diversified group of businesses that generate cash and consistently earn above-average returns on capital. Our second choice is to own parts of similar businesses, attained primarily through purchases of marketable common stocks by our insurance subsidiaries. The price and availability of businesses and the need for insurance capital determine any given year's capital allocation.*

In recent years we have made a number of acquisitions. Though there will be dry years, we expect to make many more in the decades to come, and our hope is that they will be large. If these purchases approach the quality of those we have made in the past, Berkshire will be well served.

The challenge for us is to generate ideas as rapidly as we generate cash. In this respect, a depressed stock market is likely to present us with significant advantages. For one thing, it tends to reduce the prices at which entire companies become available for purchase. Second, a depressed market makes it easier for our insurance companies to buy small pieces of wonderful businesses — including additional pieces of businesses we already own — at attractive prices. And third, some of those same wonderful businesses, such as Coca-Cola, are consistent buyers of their own shares, which means that they, and we, gain from the cheaper prices at which they can buy.

Overall, Berkshire and its long-term shareholders benefit from a sinking stock market much as a regular purchaser of food benefits from declining food prices. So when the market plummets — as it will from time to time — neither panic nor mourn. It's good news for Berkshire.

5. *Because of our two-pronged approach to business ownership and because of the limitations of conventional accounting, consolidated reported earnings may reveal relatively little about our true economic performance. Charlie and I, both as owners and managers, virtually ignore such consolidated numbers. However, we will also report to you the earnings of each major business we control, numbers we consider of great importance. These figures, along with other information we will supply about the individual businesses, should generally aid you in making judgments about them.*

To state things simply, we try to give you in the annual report the numbers and other information that really matter. Charlie and I pay a great deal of attention to how well our businesses are doing, and we also work to understand the environment in which each business is operating. For example, is one of our businesses enjoying an industry tailwind or is it facing a headwind? Charlie and I need to know exactly which situation prevails and to adjust our expectations accordingly. We will also pass along our conclusions to you.

Over time, the large majority of our businesses have exceeded our expectations. But sometimes we have disappointments, and we will try to be as candid in informing you about those as we are in describing the happier experiences. When we use unconventional measures to chart our progress — for instance, you will be reading in our annual reports about insurance "float" — we will try to explain these concepts and why we regard them as important. In other words, we believe in telling you how we think so that you can evaluate not only Berkshire's businesses but also assess our approach to management and capital allocation.

6. *Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase $2 of earnings that is not reportable by us under standard accounting principles than to purchase $1 of earnings that is reportable. This is precisely the choice that often faces us since entire businesses (whose earnings will be fully reportable) frequently sell for double the pro-rata price of small portions (whose earnings will be largely unreportable). In aggregate and over time, we expect the unreported earnings to be fully reflected in our intrinsic business value through capital gains.*

We have found over time that the undistributed earnings of our investees, in aggregate, have been fully as beneficial to Berkshire as if they had been distributed to us (and therefore had been included in the earnings we officially report). This pleasant result has occurred because most of our investees are engaged in truly outstanding businesses that can often employ incremental capital to great advantage, either by putting it to work in their businesses or by repurchasing their shares. Obviously, every capital decision that our investees have made has not benefitted us as shareholders, but overall we have garnered far more than a dollar of value for each dollar they have retained. We consequently regard look-through earnings as realistically portraying our yearly gain from operations.

7. *We use debt sparingly and, when we do borrow, we attempt to structure our loans on a long-term fixed-rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, lenders and the many equity holders who have committed unusually large portions of their net worth to our care. (As one of the Indianapolis "500" winners said: "To finish first, you must first finish.")*

The financial calculus that Charlie and I employ would never permit our trading a good night's sleep for a shot at a few extra percentage points of return. I've never believed in risking what my family and friends have and need in order to pursue what they don't have and don't need.

Besides, Berkshire has access to two low-cost, non-perilous sources of leverage that allow us to safely own far more assets than our equity capital alone would permit: deferred taxes and "float," the funds of others that our insurance business holds because it receives premiums before needing to pay out losses. Both of these funding sources have grown rapidly and now total about $69 billion.

Better yet, this funding to date has often been cost-free. Deferred tax liabilities bear no interest. And as long as we can break even in our insurance underwriting the cost of the float developed from that operation is zero. Neither item, of course, is equity; these are real liabilities. But they are liabilities without covenants or due dates attached to them. In effect, they give us the benefit of debt — an ability to have more assets working for us — but saddle us with none of its drawbacks.

Of course, there is no guarantee that we can obtain our float in the future at no cost. But we feel our chances of attaining that goal are as good as those of anyone in the insurance business. Not only have we reached the goal in the past (despite a number of important mistakes by your Chairman), our 1996 acquisition of GEICO, materially improved our prospects for getting there in the future.

8. *A managerial "wish list" will not be filled at shareholder expense. We will not diversify by purchasing entire businesses at control prices that ignore long-term economic consequences to our shareholders. We will only do with your money what we would do with our own, weighing fully the values you can obtain by diversifying your own portfolios through direct purchases in the stock market.*

Charlie and I are interested only in acquisitions that we believe will raise the *per-share* intrinsic value of Berkshire's stock. The size of our paychecks or our offices will never be related to the size of Berkshire's balance sheet.

9. *We feel noble intentions should be checked periodically against results. We test the wisdom of retaining earnings by assessing whether retention, over time, delivers shareholders at least $1 of market value for each $1 retained. To date, this test has been met. We will continue to apply it on a five-year rolling basis. As our net worth grows, it is more difficult to use retained earnings wisely.*

We continue to pass the test, but the challenges of doing so have grown more difficult. If we reach the point that we can't create extra value by retaining earnings, we will pay them out and let our shareholders deploy the funds.

10. *We will issue common stock only when we receive as much in business value as we give. This rule applies to all forms of issuance — not only mergers or public stock offerings, but stock-for-debt swaps, stock options, and convertible securities as well. We will not sell small portions of your company — and that is what the issuance of shares amounts to — on a basis inconsistent with the value of the entire enterprise.*

When we sold the Class B shares in 1996, we stated that Berkshire stock was not undervalued — and some people found that shocking. That reaction was not well-founded. Shock should have registered instead had we issued shares when our stock *was* undervalued. Managements that say or imply during a public offering that their stock is undervalued are usually being economical with the truth or uneconomical with their existing shareholders' money: Owners unfairly lose if their managers deliberately sell assets for 80¢ that in fact are worth $1. We didn't commit that kind of crime in our offering of Class B shares and we never will. (We did <u>not</u>, however, say at the time of the sale that our stock was overvalued, though many media have reported that we did.)

11. *You should be fully aware of one attitude Charlie and I share that hurts our financial performance: Regardless of price, we have no interest at all in selling any good businesses that Berkshire owns. We are also very reluctant to sell sub-par businesses as long as we expect them to generate at least some cash and as long as we feel good about their managers and labor relations. We hope not to repeat the capital-allocation mistakes that led us into such sub-par businesses. And we react with great caution to suggestions that our poor businesses can be restored to satisfactory profitability by major capital expenditures. (The projections will be dazzling and the advocates sincere, but, in the end, major additional investment in a terrible industry usually is about as rewarding as struggling in quicksand.) Nevertheless, gin rummy managerial behavior (discard your least promising business at each turn) is not our style. We would rather have our overall results penalized a bit than engage in that kind of behavior.*

We continue to avoid gin rummy behavior. True, we closed our textile business in the mid-1980's after 20 years of struggling with it, but only because we felt it was doomed to run never-ending operating losses. We have not, however, given thought to selling operations that would command very fancy prices nor have we dumped our laggards, though we focus hard on curing the problems that cause them to lag.

12. *We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less. Moreover, as a company with a major communications business, it would be inexcusable for us to apply lesser standards of accuracy, balance and incisiveness when reporting on ourselves than we would expect our news people to apply when reporting on others. We also believe candor benefits us as managers: The CEO who misleads others in public may eventually mislead himself in private.*

At Berkshire you will find no "big bath" accounting maneuvers or restructurings nor any "smoothing" of quarterly or annual results. We will always tell you how many strokes we have taken on each hole and never play around with the scorecard. When the numbers are a very rough "guesstimate," as they necessarily must be in insurance reserving, we will try to be both consistent and conservative in our approach.

We will be communicating with you in several ways. Through the annual report, I try to give all shareholders as much value-defining information as can be conveyed in a document kept to reasonable length. We also try to convey a liberal quantity of condensed but important information in the quarterly reports we post on the internet, though I don't write those (one recital a year is enough). Still another important occasion for communication is our Annual Meeting, at which Charlie and I are delighted to spend five hours or more answering questions about Berkshire. But there is one way we *can't* communicate: on a one-on-one basis. That isn't feasible given Berkshire's many thousands of owners.

In all of our communications, we try to make sure that no single shareholder gets an edge: We do not follow the usual practice of giving earnings "guidance" or other information of value to analysts or large shareholders. Our goal is to have all of our owners updated at the same time.

13. *Despite our policy of candor, we will discuss our activities in marketable securities only to the extent legally required. Good investment ideas are rare, valuable and subject to competitive appropriation just as good product or business acquisition ideas are. Therefore we normally will not talk about our investment ideas. This ban extends even to securities we have sold (because we may purchase them again) and to stocks we are incorrectly rumored to be buying. If we deny those reports but say "no comment" on other occasions, the no-comments become confirmation.*

Though we continue to be unwilling to talk about specific stocks, we freely discuss our business and investment philosophy. I benefitted enormously from the intellectual generosity of Ben Graham, the greatest teacher in the history of finance, and I believe it appropriate to pass along what I learned from him, even if that creates new and able investment competitors for Berkshire just as Ben's teachings did for him.

TWO ADDED PRINCIPLES

14. *To the extent possible, we would like each Berkshire shareholder to record a gain or loss in market value during his period of ownership that is proportional to the gain or loss in per-share intrinsic value recorded by the company during that holding period. For this to come about, the relationship between the intrinsic value and the market price of a Berkshire share would need to remain constant, and by our preferences at 1-to-1. As that implies, we would rather see Berkshire's stock price at a **fair** level than a **high** level. Obviously, Charlie and I can't control Berkshire's price. But by our policies and communications, we can encourage informed, rational behavior by owners that, in turn, will tend to produce a stock price that is also rational. Our it's-as-bad-to-be-overvalued-as-to-be-undervalued approach may disappoint some shareholders. We believe, however, that it affords Berkshire the best prospect of attracting long-term investors who seek to profit from the progress of the company rather than from the investment mistakes of their partners.*

15. *We regularly compare the gain in Berkshire's per-share book value to the performance of the S&P 500. Over time, we hope to outpace this yardstick. Otherwise, why do our investors need us? The measurement, however, has certain shortcomings that are described in the next section. Moreover, it now is less meaningful on a year-to-year basis than was formerly the case. That is because our equity holdings, whose value tends to move with the S&P 500, are a far smaller portion of our net worth than they were in earlier years. Additionally, gains in the S&P stocks are counted in full in calculating that index, whereas gains in Berkshire's equity holdings are counted at 65% because of the federal tax we incur. We, therefore, expect to outperform the S&P in lackluster years for the stock market and underperform when the market has a strong year.*

INTRINSIC VALUE

Now let's focus on a term that I mentioned earlier and that you will encounter in future annual reports.

Intrinsic value is an all-important concept that offers the only logical approach to evaluating the relative attractiveness of investments and businesses. Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life.

The calculation of intrinsic value, though, is not so simple. As our definition suggests, intrinsic value is an estimate rather than a precise figure, and it is additionally an estimate that must be changed if interest rates move or forecasts of future cash flows are revised. Two people looking at the same set of facts, moreover — and this would apply even to Charlie and me — will almost inevitably come up with at least slightly different intrinsic value figures. That is one reason we never give you our estimates of intrinsic value. What our annual reports do supply, though, are the facts that we ourselves use to calculate this value.

Meanwhile, we regularly report our per-share book value, an easily calculable number, though one of limited use. The limitations do not arise from our holdings of marketable securities, which are carried on our books at their current prices. Rather the inadequacies of book value have to do with the companies we control, whose values as stated on our books may be far different from their intrinsic values.

The disparity can go in either direction. For example, in 1964 we could state with certitude that Berkshire's per-share book value was $19.46. However, that figure considerably overstated the company's intrinsic value, since all of the company's resources were tied up in a sub-profitable textile business. Our textile assets had neither going-concern nor liquidation values equal to their carrying values. Today, however, Berkshire's situation is reversed: Now, our book value *far* understates Berkshire's intrinsic value, a point true because many of the businesses we control are worth much more than their carrying value.

Inadequate though they are in telling the story, we give you Berkshire's book-value figures because they today serve as a rough, albeit significantly understated, tracking measure for Berkshire's intrinsic value. In other words, the percentage change in book value in any given year is likely to be reasonably close to that year's change in intrinsic value.

You can gain some insight into the differences between book value and intrinsic value by looking at one form of investment, a college education. Think of the education's cost as its "book value." If this cost is to be accurate, it should include the earnings that were foregone by the student because he chose college rather than a job.

For this exercise, we will ignore the important non-economic benefits of an education and focus strictly on its economic value. First, we must estimate the earnings that the graduate will receive over his lifetime and subtract from that figure an estimate of what he would have earned had he lacked his education. That gives us an excess earnings figure, which must then be discounted, at an appropriate interest rate, back to graduation day. The dollar result equals the intrinsic economic value of the education.

Some graduates will find that the book value of their education exceeds its intrinsic value, which means that whoever paid for the education didn't get his money's worth. In other cases, the intrinsic value of an education will far exceed its book value, a result that proves capital was wisely deployed. In all cases, what is clear is that book value is meaningless as an indicator of intrinsic value.

THE MANAGING OF BERKSHIRE

I think it's appropriate that I conclude with a discussion of Berkshire's management, today and in the future. As our first owner-related principle tells you, Charlie and I are the managing partners of Berkshire. But we subcontract all of the heavy lifting in this business to the managers of our subsidiaries. In fact, we delegate almost to the point of abdication: Though Berkshire has about 217,000 employees, only 19 of these are at headquarters.

Charlie and I mainly attend to capital allocation and the care and feeding of our key managers. Most of these managers are happiest when they are left alone to run their businesses, and that is customarily just how we leave them. That puts them in charge of all operating decisions and of dispatching the excess cash they generate to headquarters. By sending it to us, they don't get diverted by the various enticements that would come their way were they responsible for deploying the cash their businesses throw off. Furthermore, Charlie and I are exposed to a much wider range of possibilities for investing these funds than any of our managers could find in his or her own industry.

Most of our managers are independently wealthy, and it's therefore up to us to create a climate that encourages them to choose working with Berkshire over golfing or fishing. This leaves us needing to treat them fairly and in the manner that we would wish to be treated if our positions were reversed.

As for the allocation of capital, that's an activity both Charlie and I enjoy and in which we have acquired some useful experience. In a general sense, grey hair doesn't hurt on this playing field: You don't need good hand-eye coordination or well-toned muscles to push money around (thank heavens). As long as our minds continue to function effectively, Charlie and I can keep on doing our jobs pretty much as we have in the past.

On my death, Berkshire's ownership picture will change but not in a disruptive way: None of my stock will have to be sold to take care of the cash bequests I have made or for taxes. Other assets of mine will take care of these requirements. All Berkshire shares will be left to foundations that will likely receive the stock in roughly equal installments over a dozen or so years.

At my death, the Buffett family will not be involved in managing the business but, as very substantial shareholders, will help in picking and overseeing the managers who do. Just who those managers will be, of course, depends on the date of my death. But I can anticipate what the management structure will be: Essentially my job will be split into two parts, with one executive becoming responsible for investments and another, who will be CEO, for operations. If the acquisition of new businesses is in prospect, the two will cooperate in making the decisions needed, subject, of course, to board approval. We will continue to have an extraordinarily shareholder-minded board, one whose interests are solidly aligned with yours.

Were we to need the management structure I have just described on an immediate basis, our directors know who I would recommend for both posts. All candidates currently work for Berkshire and are people in whom I have total confidence.

I will continue to keep the directors posted on the succession issue. Since Berkshire stock will make up virtually my entire estate and will account for a similar portion of the assets of various foundations for a considerable period after my death, you can be sure that the directors and I have thought through the succession question carefully and that we are well prepared. You can be equally sure that the principles we have employed to date in running Berkshire will continue to guide the managers who succeed me and that our unusually strong and well-defined culture will remain intact.

Lest we end on a morbid note, I also want to assure you that I have never felt better. I love running Berkshire, and if enjoying life promotes longevity, Methuselah's record is in jeopardy.

Warren E. Buffett
Chairman

BERKSHIRE HATHAWAY INC.

COMMON STOCK

General

Berkshire has two classes of common stock designated Class A Common Stock and Class B Common Stock. Each share of Class A Common Stock is convertible, at the option of the holder, into 30 shares of Class B Common Stock. Shares of Class B Common Stock are not convertible into shares of Class A Common Stock.

Stock Transfer Agent

Wells Fargo Bank, N.A., P. O. Box 64854, St. Paul, MN 55164-0854 serves as Transfer Agent and Registrar for the Company's common stock. Correspondence may be directed to Wells Fargo at the address indicated or at wellsfargo.com/shareownerservices. Telephone inquiries should be directed to the Shareowner Relations Department at 1-877-602-7411 between 7:00 A.M. and 7:00 P.M. Central Time. Certificates for re-issue or transfer should be directed to the Transfer Department at the address indicated.

Shareholders of record wishing to convert Class A Common Stock into Class B Common Stock may contact Wells Fargo in writing. Along with the underlying stock certificate, shareholders should provide Wells Fargo with specific written instructions regarding the number of shares to be converted and the manner in which the Class B shares are to be registered. We recommend that you use certified or registered mail when delivering the stock certificates and written instructions.

If Class A shares are held in "street name," shareholders wishing to convert all or a portion of their holding should contact their broker or bank nominee. It will be necessary for the nominee to make the request for conversion.

Shareholders

Berkshire had approximately 5,100 record holders of its Class A Common Stock and 14,000 record holders of its Class B Common Stock at February 15, 2007. Record owners included nominees holding at least 500,000 shares of Class A Common Stock and 12,500,000 shares of Class B Common Stock on behalf of beneficial-but-not-of-record owners.

Price Range of Common Stock

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

	2006				2005			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$90,600	$86,200	$3,013	$2,860	$92,000	$84,500	$3,067	$2,805
Second Quarter	93,100	85,400	3,099	2,839	88,900	82,000	2,948	2,733
Third Quarter	97,100	89,400	3,238	2,978	85,450	78,800	2,848	2,612
Fourth Quarter	114,500	95,200	3,825	3,165	91,200	82,100	3,032	2,728

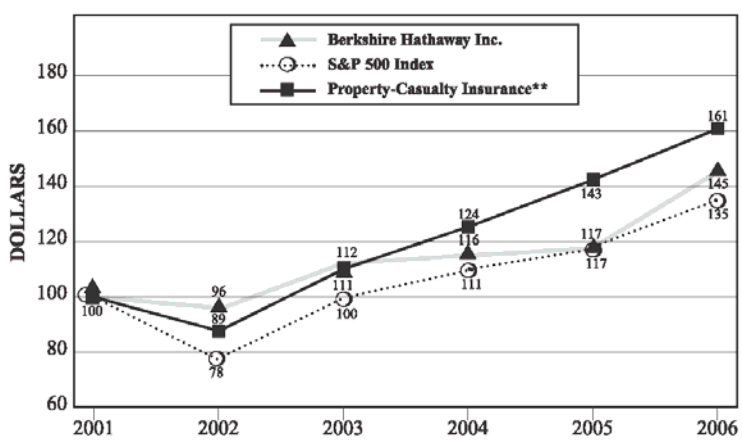
Dividends

Berkshire has not declared a cash dividend since 1967.

Stock Performance Graph

The following chart compares the subsequent value of $100 invested in Berkshire common stock on December 31, 2001 with a similar investment in the Standard and Poor's 500 Stock Index and in the Standard and Poor's Property - Casualty Insurance Index.**

Comparison of Five Year Cumulative Return*



* *Cumulative return for the Standard and Poor's indices based on reinvestment of dividends.*

** *It would be difficult to develop a peer group of companies similar to Berkshire. The Corporation owns subsidiaries engaged in a number of diverse business activities of which the most important is the property and casualty insurance business and, accordingly, management has used the Standard and Poor's Property - Casualty Insurance Index for comparative purposes.*

BERKSHIRE HATHAWAY INC.

OPERATING COMPANIES

Company	Employees	Company	Employees
Acme Building Brands	2,892	**Justin Brands**	974
Adalet [(1)]	179	**Kansas Bankers Surety Company**	18
Altaquip [(1)]	338	**Kern River Gas Transmission Company** [(2)]	160
Applied Underwriters, Inc.	421	**Kingston** [(1)]	226
Ben Bridge Jeweler	761	**Kirby** [(1)]	708
Benjamin Moore	2,860	**Larson-Juhl**	1,817
Berkshire Hathaway Homestate Companies	668	**McLane Company**	15,880
Berkshire Hathaway Reinsurance Division	27	**Medical Protective Corporation**	373
Borsheim's Jewelry	209	**Meriam Instrument** [(1)]	67
The Buffalo News	877	**MidAmerican Energy Company** [(2)]	3,131
Business Wire	492	**MidAmerican Energy Holdings Company** [(2)]	738
CalEnergy [(2)]	430	**MiTek Inc.**	1,736
Campbell Hausfeld [(1)]	683	**National Indemnity Companies**	836
Carefree of Colorado [(1)]	255	**Nebraska Furniture Mart**	2,408
Central States Indemnity Co.	336	**NetJets**	6,542
Clayton Homes, Inc.	14,787	**Northern Natural Gas** [(2)]	935
Cleveland Wood Products [(1)]	82	**Northern and Yorkshire Electric** [(2)]	2,409
CORT Business Services	2,448	**Northland** [(1)]	146
CTB International	1,231	**PacifiCorp** [(2)]	3,162
Dairy Queen	2,336	**Pacific Power** [(2)]	1,152
Douglas/Quikut [(1)]	74	**The Pampered Chef**	825
Fechheimer Brothers	930	**Precision Steel Warehouse**	202
FlightSafety International	4,004	**Rocky Mountain Power** [(2)]	2,141
Forest River, Inc.	5,177	**Russell Corporation**	14,105
France [(1)]	153	**Other Scott Fetzer Companies** [(1)]	123
Fruit of the Loom	24,026	**See's Candies**	3,000
Garan	3,895	**Shaw Industries**	31,469
GEICO	20,098	**Stahl** [(1)]	375
General Re Corporation	2,815	**Star Furniture**	727
H. H. Brown Shoe Group	1,234	**United Consumer Finance Company** [(1)]	239
Halex [(1)]	113	**United States Liability Insurance Group**	445
Helzberg's Diamond Shops	2,139	**Wayne Water Systems** [(1)]	153
HomeServices of America [(2)]	3,554	**Wesco Financial Corp.**	13
Iscar	6,518	**Western Enterprises** [(1)]	393
Johns Manville	7,885	**R. C. Willey Home Furnishings**	2,950
Jordan's Furniture	1,186	**World Book** [(1)]	197
		XTRA	643
		Operating Companies total	217,531
		Corporate Office	19
			217,550

(1) A Scott Fetzer Company
(2) A MidAmerican Energy Holdings Company

NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE MATTERS

As a listed Company with the New York Stock Exchange ("NYSE"), Berkshire is subject to certain Corporate Governance standards as required by the NYSE and/or the Securities and Exchange Commission ("SEC"). Among other requirements, Berkshire's CEO, as required by Section 303A.12(a) of the NYSE Listing Company Manual, must certify to the NYSE each year whether or not he is aware of any violations by the Company of NYSE Corporate Governance listing standards as of the date of the certification. On May 15, 2006, Berkshire's CEO Warren E. Buffett, submitted such a certification to the NYSE which stated that he was not aware of any violation by Berkshire of the NYSE Corporate Governance listing standards.

On March 15, 2006, Berkshire filed its 2005 Form 10-K with the SEC and on March 1, 2007, Berkshire filed its 2006 Form 10-K with the SEC. The Form 10-K's included as Exhibits 31.1 and 31.2 the required CEO and CFO Sarbanes-Oxley Act Section 302 certifications.

BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT,
Chairman and CEO of Berkshire

CHARLES T. MUNGER,
Vice Chairman of Berkshire

HOWARD G. BUFFETT,
President of Buffett Farms and BioImages, a photography and publishing company.

MALCOLM G. CHACE,
Chairman of the Board of Directors of BankRI, a community bank located in the State of Rhode Island.

WILLIAM H. GATES III,
Chairman of the Board of Directors of Microsoft Corp, a software company.

DAVID S. GOTTESMAN,
Senior Managing Director of First Manhattan Company, an investment advisory firm.

CHARLOTTE GUYMAN,
Chairman of the Finance Committee of the Board of Directors of UW Medicine, an academic medical center.

DONALD R. KEOUGH,
Chairman of Allen and Company Incorporated, an investment banking firm.

THOMAS S. MURPHY,
Former Chairman of the Board and CEO of Capital Cities/ABC.

RONALD L. OLSON,
Partner of the law firm of Munger, Tolles & Olson LLP.

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

OFFICERS

WARREN E. BUFFETT, *Chairman and CEO*

CHARLES T. MUNGER, *Vice Chairman*

MARC D. HAMBURG, *Vice President, Treasurer*

DANIEL J. JAKSICH, *Controller*

FORREST N. KRUTTER, *Secretary*

REBECCA K. AMICK,
Director of Internal Auditing

MARK D. MILLARD,
Director of Financial Assets

JO ELLEN RIECK,
Director of Taxes

Letters from Annual Reports (1977 through 2006), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at berkshirehathaway.com. Berkshire's 2007 quarterly reports are scheduled to be posted on the Internet on May 4, August 3 and November 2. Berkshire's 2007 Annual Report is scheduled to be posted on the Internet on February 29, 2008.